फा. सं. ऐरा/20010/एम.वाई.टी.पी./एम.आई.ए.- मंगलुरू/सीपी-I/2020-21/
F. No. AERA/20010/MYTP/MIA-MANGALURU/CP-I/2020-21

आदेश संख्या 38/2022-23/
Order No. 38/2022-23

भारतीय विमानपत्तन आर्थिक विनियामक प्राधिकरण
AIRPORTS ECONOMIC REGULATORY AUTHORITY OF INDIA

मंगलुरू अंतरराष्ट्रीय हवाईअड्डा (आई.एक्स.ई.) के लिए प्रथम नियंत्रण अवधि (01.04.2021 – 31.03.2026) के लिए वैमानिक टैरिफ निर्धारित करने के मामले में

IN THE MATTER OF DETERMINATION OF AERONAUTICAL TARIFF FOR MANGALURU INTERNATIONAL AIRPORT (IXE) FOR THE FIRST CONTROL PERIOD (01.04.2021 - 31.03.2026)

जारी करने की तारीख : 12.01.2023
Date of Issue: 12.01.2023

ऐरा भवन /AERA Building
प्रशासनिक कॉम्पलेक्स / Administrative Complex
सफदरजंग हवाईअड्डा /Safdarjung Airport
नई दिल्ली /New Delhi - 110003

LIST OF ABBREVIATIONS

Abbreviation	Full Form
AAI	Airports Authority of India
AAICLAS	AAI Cargo Logistics and Allied Services
ACI	Airport Council International
AERA / Authority	Airports Economic Regulatory Authority of India
AERA Act	Airports Economic Regulatory Authority of India Act, 2008
AEL	Adani Enterprises Limited
AFS	Air Freight Station
Airport Operator (AO)	Mangaluru International Airport Limited
ANS	Air Navigation Services
ARR	Aggregate Revenue Requirement
Asset Allocation Report	Study on allocation of assets between Aeronautical and Non-aeronautical assets for Mangaluru International Airport Limited
ATC	Air Traffic Control
ATM	Aircraft Traffic Movement
ATF	Aviation Turbine Fuel
AOCC	Airport Operations Control Centre
AUCC	Airport Users Consultative Committee
BCAS	Bureau of Civil Aviation Security
BDDS	Bomb Detection and Disposal Squad
BIAL	Bangalore International Airport Limited
BOQ	Bill of Quantities
CA	Concession Agreement
CAG	Comptroller and Auditor General of India
CAGR	Compounded Annual Growth Rate
CAPEX	Capital Expenditure
CAR	Civil Aviation Regulations
CFT	Crash Fire Tender
CHQ	Corporate Headquarters
CIAL	Cochin International Airport Limited
CISF	Central Industrial Security Force
CNS	Communication, Navigation and Surveillance
COD	Commercial Operation Date
CSR	Corporate Social Responsibility
CTM	Cargo Transfer Manifest
CUTE	Common User Terminal Equipment
CWIP	Capital Works in Progress
DGCA	Directorate General of Civil Aviation
DIAL	Delhi International Airport Limited

Abbreviation	Full Form
EGM	Export General Manifest
FA	Financing Allowance
FIDS	Flight Information Display System
FRoR	Fair Rate of Return
GHA	Ground Handling Agency
GHIAL	GMR Hyderabad International Airport Limited
GoI	Government of India
GST	Goods and Services Tax
IATA	International Air Transport Association
ICT	Integrated Cargo Terminal
IDC	Interest During Construction
IGM	Import General Manifest
IOCL	Indian Oil Corporation Limited
KL	Kilo Litres
KLD	Kilo Litres per day
KGWA	Karnataka Ground Water Authority
LDA	Landing Distance Available
MIA	Mangaluru International Airport
MoCA	Ministry of Civil Aviation
MoU	Memorandum of Understanding
MPPA	Million Passengers per Annum
MTOW	Maximum Take-off Weight
MYTP	Multi-Year Tariff Proposal
MIAL	Mumbai International Airport Limited
NAR	Non-aeronautical revenue
OMCs	Oil Marketing Companies
PCN	Pavement Classification Number
PMC	Project Management Consultancy
PPP	Public Private Partnership
PSF	Passenger Service Fee
PTB	Passenger Terminal Building
PV	Present Value
RESA	Runway End Safety Area
RAB	Regulatory Asset Base
RFP	Request for Proposal
RHQ	Regional Headquarters
RWH	Rainwater Harvesting
SITC	Supply, Installation, Testing & Commissioning
Sq.m.	Square Metre

Abbreviation	Full Form
STP	Sewage Treatment Plant
TSP	Terminal, Storage and Processing
TT	Tank Truck
UDF	User Development Fees
WPI	Wholesale Price Index
YPP	Yield per Passenger

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1. INTRODUCTION

1.1. Background

1.1.1. Mangaluru International Airport (MIA) situated about 15 km Northeast of Mangaluru City on top of a 100-metre-high hill, is an International Airport serving this coastal city and surrounding region. It is one of the two International Airports in Karnataka state, the other being Kempegowda International Airport, Bangaluru and was inaugurated on December 25, 1951 with the name as Bajpe Aerodrome. Since its establishment it has witnessed sustained growth in the past seven decades in terms of airport related services.

1.1.2. MIA is the first airport in Karnataka to have two runways. It is located on hilltop with two tabletop runways namely, 09/27 and 06/24, out of which only 06/24 is currently used for Commercial flights. The other runaway i.e., 09/27 being shorter in length is not used. The operation of international flights started in 2006 and MIA offers several flights to major cities in the Middle East, apart from multiple daily flights to all major cities in south and west part of India.

1.1.3. MIA is currently operated and managed by Mangaluru International Airport Limited (Airport Operator), a private company incorporated as a wholly owned subsidiary of Adani Enterprises Limited (AEL). Subsequently, Adani Airport Holdings Ltd (AAHL) acquired 49% shareholding in the Mangaluru International Airport Limited and therefore the Shareholding pattern of AEL has changed to 51%. The current shareholding pattern of the Airport Operator is shown in the table below:

Table 1: Shareholding pattern of the Airport Operator

S.no.	Name of Shareholder	% Shareholding
1	Adani Enterprises Limited (AEL)	51%
2	Adani Airport Holding Limited (AAHL)	49%
	TOTAL	**100%**

1.1.4. MIA is a tabletop, land constrained airport with only 236.35 hectares (583.77 acres) of land available for airport development which is further split in four parts. Apart from the limited quantum of total land area of airport, due to non-contiguous nature of airport land and steep variations in topography of the airport site, the net usable contiguous land available for airport development is reduced further. Moreover, as per Annex IV of Schedule A of the Concession Agreement (refer Chapter 18 of this Tariff Order), out of the 236.35 hectares (583.77 acres) of airport. Site area of 7.03 hectares (17.37 acres) is Carved Out Asset and is retained by AAI with itself.

1.1.5. Technical and Terminal Building details of MIA submitted by the Airport Operator are provided in the table below:

Table 2: Technical and Terminal Building details of MIA submitted by the Airport Operator

Particulars	Details
Total airport area	583.77 acres
Total covered area of Terminal Building including other operational buildings	Existing area - 37,322 Sq.m.
Passenger Capacity	Existing 2 MPPA
Main Runway orientation and length (currently in use for all commercial flights)	Runway 06/24, dimension 2450m x 45m Category 4

Particulars	Details
Apron	15 nos. stands (Code C compliant 11 nos. on Terminal side + 4 nos. on old apron for international cargo use).
Taxiway	Parallel Taxi track construction is on-going
Boarding Bridges	4 Numbers
Security Gates	Domestic - 2 and International - 2

1.2. Profile of Mangaluru International Airport (MIA)

1.2.1. MIA was ranked the 25th busiest airport in India in the FY 2017-18 with its highest passenger traffic of 2.26 MPPA. It was 29th busiest airport for the FY 2019-20 (pre-COVID period) and 31st busiest airport for FY 2020-21[1], among the top 50 busiest airports in India by the passengers handled. The passenger traffic recorded for the FY 2021-22 was 1.01 MPPA. The domestic passengers for FY 2019-20 were 1.31 MPPA (70% of total passenger traffic) and international passengers for FY 2019-20 were 0.57 MPPA (30% of total passenger traffic).

1.2.2. MIA was declared as a "Major Airport" as per the clause 2(i) AERA Act, 2008 in the FY 2016-17 based on the actual passenger traffic throughput (i.e., in excess of one and half million) achieved in the FY 2015-16.

1.2.3. However, the amendment to the AERA Act 2008 came into existence in FY 2019-20, wherein the passenger throughput limit was amended from 'one and a half million' to 'three and a half million' passengers, whereby MIA became a non- Major Airport.

1.2.4. Further, in the same FY 2019-20, MIA was notified as a "Major Airport" by the Ministry of Civil Aviation vide Order No. S.O. 206 (E) dated January 10, 2020. As a result, MIA continues to be a Major Airport since FY 2016-17.

Development of MIA through PPP mode

1.2.5. The Airports Authority of India (AAI) entered into a Concession Agreement with Mangaluru International Airport Limited (Airport Operator) on February 14, 2020 for the Operation, Development, Maintenance and Management of Mangaluru International Airport for a period of 50 years from the Commercial Operation Date (COD) i.e., October 31, 2020 in accordance with the terms and conditions mentioned in the Concession Agreement. In consideration for the grant of such concession, the Airport Operator shall pay the AAI a monthly concession fee during the concession period, namely, specified amount of 'Per Passenger' fee for both domestic and international passengers (refer to Para 18.4.2 of Annexure 4 in Chapter 18 for the relevant clause of the Concession Agreement).

1.2.6. However as per the terms of the Concession Agreement, only the AAI through the designated GoI agencies shall be authorised to undertake the 'reserved services' at the airport, namely, CNS/ATM services, Security services, Meteorological services, Mandatory health services, Customs control, Immigration services, Quarantine services and any other services as may be notified by GoI (refer to Para 18.4.2 of Annexure 4 of Chapter 18).

1.2.7. The expansion of existing Terminal Building on its western side, initiated by AAI in FY 2018-19 and handed over to the Airport Operator as part of the terms of Concession Agreement Terms, is in progress at Mangaluru International Airport. The expansion is expected to add approximately 10,142 Sq.m. to the existing area of 37,322 Sq.m. (which includes the total covered area of

[1] *As per data on top 50 busiest airports for FY 2019-20 and FY 2020-21 published by AAI*

Terminal Building and other operational buildings) and is expected to increase the capacity of passengers from current 2 MPPA to approx. 3 MPPA. Similarly, the construction of Parallel Taxi Track initiated by AAI and handed over to Airport Operator as part of the terms of Concession Agreement Terms is expected to enhance peak hour runway capacity and operational safety. The relevant extract of the Schedule T and Schedule U of the Concession Agreement have been detailed in Para 18.4.3 of Annexure 4 of Chapter 18.

1.3. Cargo Operations

1.3.1. Currently the Cargo facility at Mangaluru International Airport is operated by AAI Cargo Logistics and Allied Services (AAICLAS), a wholly owned subsidiary of AAI. Total carved out area for AAICLAS facility is 15,598.48 Sq.m. The current capacity handled by AAICLAS is 3,521 tons, utilising 4,600 Sqm, currently out of the above-mentioned carved out area. Details of the total carved out area are given in Annexure IV of Schedule A to the Concession Agreement (refer to para 18.4.4 of Annexure 4 of Chapter 18). Hence, under the Concession Agreement it is retained by AAI and not transferred to the Airport Operator.

1.3.2. However, Clause 19.4.1. of Concession Agreement mentions about the obligations of the Airport Operator for upgrading, developing, operating and maintaining the Cargo Facilities in accordance with the provisions of the Concession Agreement, Applicable Laws, Permits and Good Industry Practices (refer to Para 18.4.5 of Annexure 4 of Chapter 18).

1.3.3. Pursuant to the terms of the Concession Agreement and in order to cater to the growing demands at the Mangaluru International Airport, the Airport Operator has planned to develop a new ICT area, having an area of approximately 1,890 Sq.m. with an annual capacity of 9,000 tons in the initial phase.

1.4. Ground handling operations

1.4.1. The Clause 19.2 of the Concession Agreement mentions the Airport Operator's obligations towards provision of infrastructure required for ground handling services at the Mangaluru International Airport and the extract of the relevant Clause has been provided in Para 18.4.6 of Annexure 4 of Chapter 18.

1.4.2. Further, subject to the provisions of the Concession Agreement the Airport Operator has the right to grant License to any entity for providing Ground Handling Services at Mangaluru International Airport on such terms and conditions as mentioned in the License Agreement between by the Airport Operator and the potential service providers.

1.4.3. Pursuant to above terms of the Concession Agreement the Airport Operator has engaged GSEC Bird Airport Services Private Limited and Air India SATS Airport Services Pvt. Limited for provision of such Ground Handling services at Mangaluru International Airport.

1.5. Fuel Facility Operations

1.5.1. The Clause 19.3. of the Concession Agreement mentions the Airport Operator's obligations towards providing aircraft fueling services, which has been provided in Para 18.4.7 of Annexure 4 of Chapter 18.

1.5.2. Currently, the Indian Oil Corporation Ltd (IOCL) is the sole service provider, providing Aviation Turbine Fuel (ATF) fuel facility at Mangaluru International Airport. The other Oil Marketing Companies (OMCs) providing services at the Airport namely, HPCL and Shell-MRPL have their facilities located outside Airport site area. The Airport Operator has planned to commence the Fuel facility operations by initially purchasing the existing assets of IOCL and subsequently build new assets to provide "Open access" fuel facility at the Airport for aircrafts.

2. TARIFF DETERMINATION OF MANGALURU INTERNATIONAL AIRPORT

2.1. Introduction

2.1.1. AERA was established by the Government of India vide notification No. GSR 317(E) dated May 12, 2009. The functions of AERA, in respect of Major Airports, are specified in section 13(1) of The Airports Economic Regulatory Authority of India Act, 2008 ('AERA Act' or 'the Act') read with AERA (Amendment) Act 2019 and 2021, which are as below:

a) To determine the tariff for Aeronautical services taking into consideration –

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

ii. the service provided, its quality and other relevant factors.

iii. the cost for improving efficiency.

iv. economic and viable operation of Major Airports.

v. revenue received from services other than the Aeronautical services.

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

vii. any other factor which may be relevant for the purpose of the Act.

b) To determine the amount of the development fees in respect of Major Airports.

c) To determine the amount of the passengers' service fee levied under Rule 88 of the Aircraft Rules, 1937 made under the Aircraft Act, 1934.

d) To monitor 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.

e) To call for any such information as may be necessary to determine the tariff for Aeronautical services; and

f) To perform such other functions relating to tariff, as may be entrusted to it by the Central Government or as may be necessary to carry out the provisions of the Act, 2008.

2.1.2. As per the AERA Act, 2008 the following are stipulated as Aeronautical services:

i. Aeronautical services provided by the Airport Operators.

ii. Cargo, Ground Handling and Fuel Supply Services; and

iii. Air Navigation Services.

2.1.3. AAI shall be handling the Air Navigation Systems (ANS) at Mangaluru International Airport. Tariff for ANS is presently regulated by the Ministry of Civil Aviation. All the assets, expenses and revenues pertaining to ANS are considered separately by the Ministry while determining tariff for ANS services. Further, the tariff for ANS services is determined at the Central level by the Ministry of Civil Aviation to ensure uniformity across the Airports in the Country. Hence, AERA determines tariff for Aeronautical services of the Airport Operator, by excluding the assets, expenses and revenues from ANS.

2.2. Authority's Orders applied in tariff determination in this Tariff Order

2.2.1. Detailed Guidelines laying down information requirements, periodicity and procedure for Tariff determination have been issued by the Authority. The details of Orders and Guidelines issued in this regard are as under:

i. Order No. 13 dated 12.01.2011 (Regulatory philosophy and approach in Economic Regulation of Airport Operators) and Direction No. 5 dated 28.02.2011 (Terms and conditions for determination of tariff for Airport Operators); and

ii. Order No. 05 dated 02.08.2010 ((Regulatory philosophy and approach in Economic Regulation of the services provided for Cargo facility, Ground Handling and Supply of Fuel to aircrafts); Order No. 12 dated 10.01.2011,

iii. Direction 4/2010-11 dated 10.1.2011 on "Terms and Conditions for Determination of Tariff for Services Provided for Cargo Facility, Ground Handling and Supply of Fuel to the Aircraft Guidelines, 2011"

iv. Direction 5/ 2010-11 dated 28.02.2011 on "Terms and Conditions for determination of Tariff for Airport Operators Guidelines, 2011".

v. Order No. 07/2016-17 dated 13.06.2016 (Normative Approach to Building Blocks in Economic Regulation of Major Airports).

vi. Order No. 14/2016-17 dated 23.01.2017 (Aligning certain aspects of AERA's regulatory approach with the provisions of the National Civil Aviation Policy – 2016).

vii. Order No. 20/2016-17 dated 31.03.2017 (Allowing concession to RCS flights under Regional Connectivity Scheme (RCS)).

viii. Order No. 35/2017-18 dated 12.01.2018 and Amendment No. 01 to Order No. 35/2017-18 dated 09.04.2018 (In the matter of determination of useful life of Airport assets).

ix. Order No. 42/2018-19 dated 05.03.2019 (Determination of FRoR to be provided on the cost of Land incurred by various Airport Operators in India).

2.3. Background to tariff determination process of Mangaluru International Airport

2.3.1. MIA was declared as a "Major Airport" as per the clause 2(i) of AERA Act, 2008 in the FY 2016-17 based on the actual passenger traffic throughput (i.e., in excess of one and half million) achieved in the FY 2015-16.

2.3.2. The Authority had intimated AAI vide its letter dated July 19, 2018, to submit the Multi Year Tariff Proposal (MYTP) for the Period from April 1, 2018 to March 31, 2023 along with the actual figures for FYs 2016-17 and 2017-18. Subsequently, the Authority noted that AAI has floated RFP dated December 14, 2018, to concession out the Operation, Management and Development of MIA.

2.3.3. As a result, the Authority felt it would be prudent to give an opportunity to the new Airport Operator (to be selected by AAI through the RFP) to file its MYTP and that MIA may continue with the existing tariff as applicable for non-Major Airport until such time that the new tariff is determined by the Authority. Therefore, the tariff rate card of non-Major Airport (particularly UDF charges) has been applicable for MIA with effect from FY 2016-17.

2.3.4. Subsequent to the amendment of the AERA Act 2008 in the FY 2019-20, the annual passenger throughput limit was amended from 'one and a half million' to 'three and a half million' passengers, whereby MIA became a non- Major Airport. However, in the same FY 2019-20, MIA was notified as a "Major Airport" by the Ministry of Civil Aviation vide Order No. S.O. 206 (E) dated January 10, 2020. As a result, MIA continues to be a Major Airport since FY 2016-17

2.3.5. AAI and the Airport Operator had entered into a Concession Agreement on February 14, 2020, for the

the Operations, Management and Development of Mangaluru International Airport for a period of 50 years from the Commercial Operation Date (COD) i.e., October 31, 2020.

2.3.6. As per the Concession Agreement between AAI and the Airport Operator (clause 28.11.3), the Estimated Deemed Initial RAB as on March 31, 2018, was determined to be ₹ 71 Crores. Further, it is stated in the Concession Agreement that the amount which was due and payable by the Concessionaire to AAI, subject to reconciliation, true up and final determination by AERA. *The extract of the relevant clauses 28.11.3, 28.11.4 and 28.11.5 from the Concession Agreement have been provided in Para 18.4.8 of Annexure 4 under Chapter 18.*

2.3.7. In compliance with the above terms in the Concession Agreement, AAI and the Airport Operator have submitted MYTP to the Authority for the following period:

- Submission by AAI for true up of the period from FY 2016-17 up to COD.
- Submission by the Airport Operator for true up of the period from COD up to March 31, 2021.

Tariff determination for Pre- COD and Post-COD period

i. Pre-COD period

2.3.8. AAI had submitted initial true up for the pre-COD period from April 1, 2016 to October 30, 2020 vide letter dated September 13, 2021. The Authority based on its preliminary scrutiny of the true up figures submitted by AAI, observed various discrepancies and upon enquiry, AAI provided information from time to time till February 2022 and submitted a revised true up statement on February 14, 2022. The Authority noted variances between the assets transferred by AAI as on COD and that recorded by the Airport Operator. In order to resolve such differences, the Authority intervened and convened a meeting on March 24, 2022 with AAI and the Airport Operator for a joint reconciliation of the assets handed over by AAI and taken over by the Airport Operator. Subsequent to this meeting, AAI and the Airport Operator submitted a Joint Asset Reconciliation statement on March 31, 2022 of the assets handed over by AAI on October 30, 2021 and taken over by the Airport Operator as on COD. The same has been discussed in detail in the Asset Allocation report (refer Appendix 1 to Chapter 19 of this Tariff Order). AAI also submitted a revised true up statement for the pre-COD period on March 31, 2022 incorporating the revised RAB jointly reconciled with the Airport Operator. Further, AAI has revised the true up statement and submitted the same on July 3, 2022. The sequential timeline of the above events has been presented in the table below:

Table 3: MYTP and True up submission of AAI and Airport Operator

Event	Date
Submission of original MYTP by AO	May 31, 2021
Submission of original true up by AAI	September 13, 2021
Submission of revised MYTP by AO	December 10, 2021
Submission of revised true up by AAI	February 14, 2022
Meeting convened by the Authority with AAI and Airport Operator for joint reconciliation of assets transferred as on COD	March 24, 2022
Submission of Joint Asset Reconciliation statement by AAI and Airport Operator	March 31, 2022
Submission of revised true up by AAI incorporating the revised RAB as on COD jointly reconciled with the Airport Operator	March 31, 2022

Event	Date
Submission of revised true up by AAI with changes to Operation and Maintenance expenses claimed for the pre-COD period	July 3, 2022

ii. Post COD period

2.3.9. The tariff determination for the post-COD period has been considered for the Airport Operator under the following categories:

- True up of the period from COD till March 31, 2021
- Tariff determination for the First Control Period i.e., from April 1, 2021 to March 31, 2026.

2.3.10. As the Mangaluru International Airport was taken over and operated by the Airport Operator from the COD i.e., October 31, 2020, the Authority had considered to true up the necessary building blocks of the Airport Operator for the five-month period commencing from October 31, 2020 up to March 31, 2021. Accordingly, the Authority had considered the First Control Period of five years for the Airport Operator i.e., Mangaluru International Airport from April 1, 2021 to March 31, 2026.

2.3.11. The Airport Operator had submitted an initial MYTP on May 31, 2021 and a revised MYTP (after incorporating changes to certain building blocks) on December 10, 2021, for the First Control Period. The document is available on the AERA's website along with the Tariff Order.

2.3.12. The Authority had appointed an Independent Consultant, M/s R. Subramanian and Company LLP to assess the MYTP submitted by the Airport Operator for the First Control period. Accordingly, M/s R. Subramanian and Company LLP had assisted the Authority in examining true up submission of AAI and the Airport Operator for the pre and post COD period respectively, the MYTP of Airport Operator, including verifying the data from various supporting documents such as audited financials and Fixed Asset Register (FAR), examining the building blocks in tariff determination, and ensuring that the treatment given to it is consistent with the Authority's methodology and approach.

2.3.13. The Authority notes that clause 5.7.1 of Direction 5/ 2010-11 pertaining to Terms and Conditions for determination of Tariff for Airport Operators Guidelines, 2011 states that " *For any service provided by the Airport Operator for (i) ground handling services relating to aircraft, passengers and cargo at an airport; (ii) the cargo facility at an airport and (iii) supplying fuel to the aircraft at an airport, the Authority shall follow the regulatory approach and process for tariff determination as mentioned in the Direction No. 4/ 2010-11 on Terms and Conditions for determination of Tariff for services provided for Cargo facility, Ground Handling and Supply of Fuel to the Aircraft Guidelines, 2011*".

Further, clause 1.2 of the Direction No.4/ 2010-11 states that "*these Guidelines shall apply to Service Provider(s) for (i) the Cargo facility at a Major Airport, (ii) ground handling relating to aircraft, passengers and cargo at a major airport and for (iii) supplying fuel to the aircraft at a major airport: Provided that Airport Operator providing the Regulated Service(s) as defined herein shall be excluded from the application of these Guidelines.*

Taking cognizance of the above provisions laid out under Direction 5/ 2010-11 and Direction 4/ 2010-11 and the fact that the Airport Operator is providing the services on cargo facility and supplying fuel to the aircraft, the Authority has examined the Assets, Expenses and Revenues pertaining to Cargo and Fuel farm of the AO separately under the relevant chapters in this Tariff Order, for the purpose of determining Aggregate Revenue Requirement of the Airport Operator.

2.3.14. After examination of revised MYTP and other details submitted by the AO, Authority issued Consultation Paper No. 7/2022-23 dated August 5, 2022. Following the release of the Consultation Paper, the Authority had convened a meeting of stakeholders on August 22, 2022. The minutes of the meeting are available on AERA's website.

2.3.15. The Authority also invited formal comments from all stakeholders on the issues and proposals presented in its Consultation Paper No. 7/2022-23 dated August 5, 2022.

2.3.16. The following stakeholders have provided their comments on the Consultation Paper No. 7/2022-23 which are available on AERA's website:

i. Mangaluru International Airport Limited (AO)
ii. Airports Authority of India (AAI)
iii. Federation of Indian Airlines (FIA)
iv. Delhi International Airport Limited (DIAL)
v. Bangalore International Airport Limited (BIAL)
vi. Association of Private Airport Operators (APAO)
vii. International Air Transport Association (IATA)
viii. Kanara Chamber of Commerce & Industry (KCCI)
ix. Hindustan Petroleum Corporation Limited (HPCL)

Table 4: Regulatory building blocks with names of Stakeholders who commented on each building block

Component impacting tariff determination of the First Control Period	Name of the Stakeholder who has provided comments
Process of Tariff Determination	FIA
True up of Pre-COD Period	AAI, FIA, IATA
True up of period from COD till March 31, 2021	AO, APAO, FIA, AAI
Traffic for the First Control Period	AO, FIA, DIAL
Regulatory Asset Base and Depreciation for the First Control Period	AO, AAI, KCCI, APAO, IATA, FIA
Fair Rate of Return for the First Control Period	FIA, AO, DIAL, APAO
Inflation for the First Control Period	AO, BIAL, APAO, DIAL
Operation and Maintenance Expenses for the First Control Period	AO, APAO, BIAL, FIA, IATA
Non-aeronautical revenue for the First Control Period	AO, FIA
Taxation for the First Control Period	AO
Quality of service for the First Control Period	No comments
ARR for the First Control Period	AO, BIAL, APAO, FIA, HPCL

2.3.17. No inputs were received from MoCA as part of the consultation process.

2.3.18. The counter comments from AO and AAI on the comments from other Stakeholders were received on September 12, 2022 and September 16, 2022 respectively. Thus, the Stakeholders' Consultation process concluded on the receipt of counter comment from AAI on September 16, 2022. The stakeholders' comments and counter comments are available on AERA's website.

2.3.19. The Authority has examined the various comments and observations of stakeholders along with submissions made by the Airport Operator and AAI to finalize its decisions pertaining to various regulatory building blocks, based on which this Tariff Order is being issued.

2.4. Stakeholder's comments on the process of determination of tariff for the First Control Period

2.4.1. During the stakeholder's consultation process, the Authority has received comments/ views from the stakeholders in response to the proposals of the Authority in the Consultation Paper 07/2022-23 with respect to the process of determination of tariff for the First Control Period. The comments from stakeholders are presented below:

2.4.2. FIA has submitted the following regarding revenues from Air Navigation services:

"as per section 2 of Airport Economic Regulatory Authority of India Act, 2008 (AERA Act), under sub-section (a), "aeronautical services means any services provided-

i. For navigation, surveillance and supportive communication thereto for air traffic management.

It is submitted that considering the above provisions of the AERA Act, revenue from Air Navigation Services, should form part of aeronautical revenues and accordingly AERA should take into account of the corresponding revenue and revise the tariff card."

Airport Operators' responses to stakeholders' comments on the process of determination of tariff for the First Control Period

2.4.3. MIA has responded to FIA's comments as under:

"no capital and operational expenditure related to ANS services (except those mandated under Concession Agreement (CA)) have been included in the tariff proposal.

As per CA, Schedule Q CNS/ATM Agreement, similar to other PPP Airports, the services of ANS are retained by AAI and the same are not under the purview of MIA. Since the services are provided by AAI, the rate of ANS services cannot be made part of tariff card of MIA."

2.5. Authority's analysis on stakeholders' comments on the process of determination of tariff for the First Control Period

2.5.1. The Authority noted the comments of FIA and the response of the AO thereon and states that the tariff for ANS is presently regulated by the Ministry of Civil Aviation for all the airports. All the assets, expenses and revenues pertaining to ANS are considered separately by the Ministry while determining tariff for ANS services. Further, the tariff for ANS services is determined at the Central level by the Ministry of Civil Aviation to ensure uniformity across the Airports in the Country. Hence, AERA determines tariff for Aeronautical services of the Airport Operator, by excluding the assets, expenses, and revenues from ANS.

2.6. Studies commissioned by the Authority

2.6.1. The Authority commissioned the following studies through its Independent Consultant for the purpose of tariff determination and the resultant recommendations have been used in this Tariff Order:

i. Study on allocation of Assets between Aeronautical and Non-Aeronautical Assets

ii. Study on efficient Operation and Maintenance Expenses

2.7. Construct of the Tariff Order

2.7.1. This Tariff Order has been developed in the order of the events as explained in para 2.3. Chapter-wise details have been summarized as follows:

i. The background of the Authority's tariff determination process is explained in this Chapter and in Chapter 3, wherein the framework for determination of tariff is discussed.

ii. Chapter 4 lists out the submissions of AAI for true up of the Pre- COD period which is from FY 2016-17 to October 30, 2020 and Chapter 5 lists out submission of the Airport Operator for true up of the period from October 31, 2020 (COD) up to March 31, 2021. This is followed by the Authority's examination and proposals on the specific issues regarding the true up for the Period FY 2016-17 to March 31, 2021 (Pre and Post COD).

These chapters also discuss the assessment and the outcome of the studies conducted by the Authority regarding asset allocation ratios between aeronautical and non-aeronautical assets and efficient cost segregation between aeronautical and non-aeronautical operating expenses. The summary of these reports is given under Annexures to this Tariff Order and the reports have been appended separately to the Tariff Order.

This is followed by the Authority's analysis on the specific issues regarding true up of the Pre-COD Period and for the period from COD till March 31, 2021 as part of the tariff determination for the First Control Period as already mentioned in the Consultation Paper No. 7/ 2022-23 dated August 5, 2022. The same is followed by comments from various stakeholders along with counter comments from AAI and the Airport Operator and followed by Authority's Analysis and Final Decision on the subject matter.

iii. Chapters 6 - 8 discuss AO's submissions and the Authority's examination of AO's submissions along with its proposals with respect to various building blocks pertaining to the First Control Period viz., Traffic, Capital Expenditure, Depreciation and RAB, Fair Rate of Return, along with Authority's analysis regarding the same as set out in Consultation Paper No. 7/ 2022-23 dated August 5, 2022. Thereafter, comments of AO and other stakeholders, counter comments of AO on other stakeholders' comments, Authority's examination and final decisions are set out

iv. Chapters 9-13 discuss AO's submissions and the Authority's examination of AO's submissions along with its proposals with respect to various building blocks pertaining to the First Control Period viz., Inflation, Operation and Maintenance Expenses, Non-Aeronautical Revenue, Taxation and Quality of Service along with Authority's analysis regarding the same as set out in Consultation Paper No. 7/ 2022-23 dated August 5, 2022. Thereafter, comments of AO and other stakeholders, counter comments of AO on other stakeholders' comments, Authority's examination and final decisions are set out.

v. Chapter 14 presents the Aggregate Revenue Requirement as determined by the Authority based on the various proposals of the Authority and adjustments considered by the Authority for the First Control Period. This is followed by comments of AO and other stakeholders. Thereafter, the Authority's analysis and Final Decisions are set out.

vi. Chapter 15 summarizes the key issues arising from Concession of MIA and impact of COVID-19 pandemic.

vii. Chapter 16 summarises Authority's decisions on all the matters relating to the tariff computations and Chapter 17 is the Final Tariff Order issued by the Authority for the First Control Period of

Mangaluru International Airport.

viii. Chapter 18 contains the following Annexures:

- Annexure 1 - Tariff Rate Card pertaining to Mangaluru International Airport, for First Control Period as approved by the Authority, Effective from February 1, 2023 to March 31, 2026.
- Annexure 2 – Summary of study on allocation of assets between Aeronautical and Non-aeronautical assets.
- Annexure 3 - Summary of study on efficient Operation and Maintenance expenses
- Annexure 4 – Clauses of the Concession Agreement entered between AAI and Airport Operator
- Annexure 5 – Project wise details of Capital expenditure submitted by the AO in the revised MYTP as on December 10, 2021

ix. Chapter 19 contains the following Appendices.

- Appendix I - Study on Allocation of assets between Aeronautical and Non-Aeronautical Assets
- Appendix II - Study on efficient Operation and Maintenance Expenses
- Appendix III – Schematic Design Report from KITCO on Design Consultancy services for Airside Improvement Works at Mangaluru International Airport submitted by the Airport Operator
- Appendix IV – Brief Note on independent study on allocation of Corporate costs submitted by the Airport Operator

3. FRAMEWORK FOR TARIFF DETERMINATION FOR THE FIRST CONTROL PERIOD FOR MANGALURU INTERNATIONAL AIRPORT

3.1. Methodology

3.1.1. The Methodology adopted by the Authority to determine Aggregate Revenue Requirement (ARR) is based on AERA Act, 2008 read with AERA (Amendment) Act 2019 and 2021, the AERA (Terms and Conditions for determination of Tariff for Airport Operators) Guidelines, 2011 and further Guidelines issued by AERA from time to time.

3.1.2. As per the guidelines, the Authority has adopted the Hybrid-Till mechanism for tariff determination for the First Control Period wherein, 30% of the Non-aeronautical revenues is to be used for cross-subsidising the Aeronautical charges. The Authority has considered the same methodology in the analysis of true up submission of the Pre and Post COD Period.

3.1.3. The ARR under hybrid till for the Control Period (ARR) shall be expressed as under:

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

Where,

- t is the tariff year in the control period, ranging from 1 to 5
- ARR_t is the Aggregate Revenue Requirement for tariff year 't'
- FRoR is the Fair Rate of Return for the Control Period
- RAB_t is the Aeronautical Regulatory Asset Base for tariff year 't'
- D_t is the Depreciation corresponding to the Regulatory Asset Base for tariff year 't'
- O_t is the Aeronautical Operation and Maintenance expenditure for the tariff year 't'
- T_t is the Aeronautical taxation expense for the tariff year 't'
- *s* is the cross-subsidy factor for revenue from services other than Aeronautical services. Under the Hybrid Till methodology followed by the Authority, $s = 30\%$.
- NAR_t is the Non-aeronautical revenue in tariff year 't'.

3.1.4. Based on ARR, Yield per passenger (Y) is calculated as per the formula given below:

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

- Where, PV (ARR_t) is the Present Value of ARR for all the tariff years. All cash flows are assumed to occur at the end of the year. The Authority has considered discounting cash flows, one year from the start of the Control Period.
- VE_t is the passenger traffic in year 't'.

3.1.5. All the figures presented in this Tariff Order have been rounded off up to two decimals.

3.2. Revenues from Air Navigation Services (ANS)

3.2.1 The Airport Operator shall be performing Aeronautical services like landing, parking, ground handling, cargo and fuel farm supply services at Mangaluru International Airport and has submitted revenue projections for the same in the First Control Period in its MYTP. However, AAI shall be handling the Air Navigation Systems (ANS) at Mangaluru International Airport and hence the MYTP submitted by Airport Operator does not consider revenues, expenditure, and assets on account of ANS.

3.2.2 Tariff for ANS is presently regulated by the Ministry of Civil Aviation. All the assets, expenses and revenues pertaining to ANS are considered separately by the Ministry while determining tariff for ANS services. Further, the tariff for ANS services is determined at the Central level by the Ministry of Civil Aviation to ensure uniformity across the Airports in the Country. Hence, AERA determines tariff for Aeronautical services of the Airport Operator, by excluding the assets, expenses and revenues from ANS.

4. TRUE UP OF AAI FOR THE PERIOD FROM FY 2017 TILL COD

4.1 Background

4.1.1 AAI had entered into a Concession Agreement dated February 14, 2020, with Mangaluru International Airport Limited (the 'Concessionaire') for the Operations, Management and Development of Mangaluru International Airport for a period of 50 years from the COD, i.e. October 31, 2020.

4.1.2 As per the Concession Agreement between AAI and the Airport Operator (clause 28.11.3), the amount which was due and payable by the Concessionaire to AAI, is subject to reconciliation, true up and final determination by AERA.

4.1.3 Pursuant to the above Concession Agreement, AAI had submitted True up workings for the period April 1, 2016 up to October 30, 2020

4.1.4 The true up workings submitted by AAI covered the following building blocks:

i. Regulatory Asset Base

ii. Fair Rate of Return

iii. Aeronautical Depreciation

iv. Aeronautical Operation and Maintenance Expenses

v. Non-aeronautical Revenue

vi. Aeronautical Taxes

4.1.5 The Authority has analysed the AAI's true up submission in detail. Analysis of the Authority, has been organized as follows:

i. Recorded AAI's submissions for true up under different Regulatory building blocks.

ii. Provided Authority's examination through its Independent Consultant of each regulatory building block and put forth its proposals as per the Consultation Paper No.7/ 2022-23 dated August 5, 2022.

iii. Detailed the Stakeholders' comments on different regulatory building blocks during the Consultation stage and AAI's response to the Stakeholders' comments.

iv. Provided the Authority's analysis and decisions after reviewing stakeholders' comments and AAI's responses regarding different regulatory building blocks.

4.1.6 AERA had not issued any Tariff Order for Mangaluru International Airport for the Pre-COD Period, however, the Authority had considered the following documents for determining True up for the Pre-COD Period:

i. Audited Financial results of AAI for the Pre-COD Period

ii. AERA Guidelines and Orders and

iii. Authority's decisions on the Regulatory building blocks as per previously issued Tariff Orders of other similar airports.

4.2 AAI's submission of True up for the Pre-COD Period (from FY 2016-17 to COD)

4.2.1 As mentioned in Para No. 2.3.8 of this Tariff Order, AAI had submitted a revised True Up submission on July 3, 2022. The details of the same have been provided below:

Table 5: Submission of True up of Pre-COD Period by AAI for the period from FY 2016-17 to October 30, 2020

(₹ Crores)

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 (till Oct 30, 2020)	Total
Opening RAB	73.58	104.51	99.18	114.15	133.50	
Closing RAB	104.51	99.18	114.15	133.50	129.86	
Average Regulatory Asset Base (RAB)	89.05	101.85	106.67	123.83	131.68	
Fair Rate of Return (FRoR)	14%	14%	14%	14%	14%	
Return on Average RAB	12.47	14.26	14.93	17.34	18.43	**77.43**
Depreciation	9.06	9.30	8.23	9.35	6.09	**42.02**
Operating Expenditure	39.29	52.38	52.65	64.48	28.54	**237.33**
Return on Land	0.48	0.48	0.48	0.48	0.48	**2.38**
Unamortised portion of Land - Balance of Land Value	0.00	0.00	0.00	0.00	3.94	**3.94**
Corporate Tax	0.00	0.00	0.00	0.00	43.14	**43.14**
Less: Deductions for Non-aeronautical Revenues	(4.58)	(4.99)	(5.60)	(5.21)	(1.38)	**(21.75)**
Total Gross ARR	**56.71**	**71.42**	**70.69**	**86.42**	**99.24**	**384.49**
Revenue earned from Aeronautical Services	**52.68**	**62.98**	**60.08**	**48.85**	**3.76**	**228.34**
(Excess) / Shortfall	**4.03**	**8.44**	**10.61**	**37.57**	**95.49**	**156.14**
PV Factor	**1.69**	**1.48**	**1.30**	**1.14**	**1**	
PV of (Excess) / Shortfall	**6.81**	**12.51**	**13.79**	**42.83**	**95.49**	**171.43**

4.3 Authority's examination of True up submitted by AAI for the period from FY 2016-17 to October 30, 2020

The Authority while examining the pre-COD submission of AAI had taken the cognizance of the relevant provisions of the Concession Agreement, which may be read as under:

4.3.1 Deemed Initial RAB

4.3.1.1 The extract of the Concession Agreement with respect to determination of "Deemed Initial RAB" has been provided hereunder:

Clause 28.11.3 states that:

a) *"It is agreed by the Parties that the Concessionaire shall be liable to pay to the Authority an amount equivalent to the investments made by the Authority in the Aeronautical assets as of the COD and considered by the Regulator as part of the Regulatory Asset Base, subject to requisite reconciliation, true-up and final determination by the Regulator of the quantum of such investment **("Deemed Initial RAB")**.*

b) *The estimated depreciated value of investments made by the Authority in the Aeronautical assets at the Airport as on March 31, 2018, is Rs. 71,00,00,000 (Rupees Seventy-One Crore) **("Estimated Deemed Initial RAB")**. It is agreed by the Parties that the Estimated Deemed Initial RAB shall be due and payable by the Concessionaire to the Authority within 90 (ninety) days of COD."*

Clause 28.11.4 states that:

"Pursuant to the payment of the Estimated Deemed Initial RAB, and upon the reconciliation, true-up and final determination by the Regulator of the quantum of the investment under 28.11.3(a), any surplus or deficit in the Estimated Deemed Initial RAB with respect to the Deemed Initial RAB shall be adjusted as part of the Balancing Payment that becomes due and payable as per Clause 31.4 after the expiry of 15 (fifteen) days from such final determination by the Regulator, with due adjustment for the following ("Adjusted Deemed Initial RAB""):

(a) reduced to the extent of over-recoveries, if any, of Aeronautical Revenues by the Authority until the COD, that the Regulator would provide for as a downward adjustment while determining Aeronautical Charges for the next Control Period; or

(b) increased to the extent of under-recoveries, if any, of Aeronautical Revenues by the Authority until the COD, that the Regulator would provide for as an upward adjustment while determining Aeronautical Charges for the next Control Period.

The amount(s) to be paid by the Authority or Concessionaire shall be the present value of Adjusted Deemed Initial RAB calculated using the fair rate of return as determined by the Regulator for the time period from the COD to the date of actual payment of the Adjusted Deemed Initial RAB."

Clause 28.11.5 states that:

"Upon reimbursement of such amount by the Concessionaire to the Authority, the Deemed Initial RAB will, in addition to the investments made by the Concessionaire, be considered for the purpose of determination of Aeronautical Charges by the Regulator.

(a) The Authority undertakes to make any required supporting submissions to the Regulator towards such consideration and determination by the Regulator.

(b) The Parties shall submit to and request the Regulator to separately identify the Deemed Initial RAB in future determinations of Aeronautical Charges with regard to consideration of depreciation, required returns, etc."

4.3.1.2 Taking cognizance of the above clauses in the Concession Agreement, the Authority had determined the Deemed Initial RAB as on COD and the same is shown in Table 10 of this Tariff Order.

4.3.1.3 The Authority had reviewed the RAB submitted by AAI for True up of the Pre-COD Period (FY 2016-17 till FY 2020-21 (up to October 30, 2020)), which is as follows:

Table 6: RAB submitted by AAI as part of true up of the Pre-COD period

(₹ Crores)

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 (up to COD)	Total
Opening RAB (1)	73.58#	104.51	99.18	114.15	133.50	NA
Additions (2)	40.00	4.78	23.78	29.03	2.69	100.28
Deletions (3)	(0.01)	(0.81)	(0.58)	(0.34)	(0.24)	(1.98)
Depreciation (4)	(9.06)	(9.30)	(8.23)	(9.34)	(6.09)	(42.02)
Closing RAB = (1) +(2)-(3)-(4)	104.51	99.18	114.15	133.50	129.86	NA

 # The opening RAB as on April 1, 2016 was provided by AAI as part of its True Up submission and the same was cross checked with the FAR by AERA's Consultant.

4.3.1.4 Further the Authority as part of its review noted the following with respect to the RAB submitted by AAI:

a. The RAB submitted by AAI as on October 30, 2020, was based on the extract of its audited trial balance.

b. The RAB as of October 30, 2020, submitted by AAI included Financing Allowance of ₹ 2.52 Crores. Since AAI has not disclosed any borrowings in the True up submission, the Authority proposed not to allow the same for the determination of RAB.

c. Certain assets related to ANS activities of ₹ 1.21 crores (such as ATC Tower) had been included in the RAB as per AAI's submission. Since AERA does not determine the regulatory tariff for ANS-related activities, the ANS related assets had been excluded from the Adjusted RAB (as also explained in para 3.5.4 of the *Asset Allocation report*.

4.3.1.5 **Reclassification of assets transferred by AAI to Airport Operator**

The Authority had conducted an independent study on allocation of assets for the period FY 2016-17 till FY 2020-21 and used the outcome of the study to true up the RAB as on pre-COD (October 30, 2020) for AAI.

The Authority had considered the opening RAB submitted by AAI, Capital additions and corresponding depreciation based on the results of the Asset Allocation report (refer Annexure 2 for the Summary of the report) and Appendix 1 for the detailed report on *Study on allocation of assets between Aeronautical and Non-aeronautical assets for Mangaluru International Airport*.

The asset allocation study reviewed the various asset categories and developed a basis for segregation of various assets into Aeronautical, Non-aeronautical and Common. Based on the same, the Authority had reclassified some portion of assets submitted by AAI for true up of the Pre-COD Period, which had been detailed hereunder:

(i) Terminal buildings and related works:

Details of asset: Expansion of Terminal Building in Lower Ground Floor and other areas

Allocation proposed by AAI: Aeronautical

Observation: The assets pertaining to the expansion of the terminal building in the lower ground floor and other related works have been considered as Aeronautical assets by AAI. However, as these are within the Terminal Building, wherein both Aeronautical and Non-aeronautical activities are carried out, the same is reclassified as Common asset and segregated in the ratio of the Terminal Building (92:8). The Authority had also identified an asset, viz., covering for car park pertaining to Non-aeronautical activities, which had been classified as Aeronautical by AAI. The Authority has reclassified this asset as Non-aeronautical.

Allocation proposed by the Authority: Common / Non-aeronautical

Impact: Reclassifying these assets from Aeronautical to Common/ Non-aeronautical reduced the RAB to the extent of ₹ 0.19 Crores.

Reference: Para 4.5.1.2 of the *Asset Allocation report*.

(ii) Staff Quarters:

Details of Asset: Construction of quarters and other assets around the quarters

Allocation proposed by AAI: Aeronautical

Observation: The construction of staff quarters and other assets in and around the Quarters have been classified as Aeronautical assets by AAI. As these assets are used by both Aeronautical and ANS staff, these were reclassified by the Authority as Common assets and had been reallocated in the ratio of the occupancy of the staff quarters between Aeronautical and ANS (77.21: 22.79).

Allocation proposed by the Authority: Common

Impact: Reclassifying these assets from Aeronautical to Common reduced RAB to the extent of ₹ 0.09 Crores.

Reference: Para 4.5.1.3 of the *Asset Allocation report.*

(iii) Plumbing and Electrical works for Airport:

Details of Asset: Assets related to Augmentation of water supply, pumping and building for sub-station

Allocation proposed by AAI: Aeronautical

Observation: The assets pertaining to supply of water, including drilling of borewells, rainwater harvesting and building for sub-station had been considered as Aeronautical assets by AAI. However, since these assets cater to the need of both Aeronautical and Non-aeronautical activities, these assets are reclassified as Common assets and had been reallocated in the ratio of the Terminal Building (92:8).

Allocation proposed by the Authority: Common

Impact: Reclassifying these assets from Aeronautical to Common reduced RAB to the extent of ₹ 0.01 Crores.

Reference: Para 4.5.1.4 of the *Asset Allocation report.*

(iv) Artwork:

Details of Asset: Artwork within the Airport

Allocation proposed by AAI: Aeronautical

Observation: Artwork related assets had been classified as Aeronautical assets by AAI. However, since these assets are for the common use within the terminal building, they have been reclassified as Common assets and have been reallocated in the ratio of the Terminal Building (92:8).

Allocation proposed by the Authority: Common

Impact: Reclassifying these assets from Aeronautical to Common decreased RAB to the extent of ₹ 0.06 Crores.

Reference: Para 4.5.1.5 of the *Asset Allocation report.*

(v) Equipment for utilities:

Details of Asset: Assets related to sub-station, including earthing and wiring, generators, rainwater harvesting and water supply

Allocation proposed by AAI: Aeronautical

Observation: The equipment related to sub-station, including earthing and wiring, generators, rainwater harvesting and water supply had been considered as Aeronautical assets by AAI. However, since these assets cater to the need of both Aeronautical and Non-aeronautical activities, these assets had been reclassified as Common assets and have been reallocated in the ratio of the Terminal Building (92:8).

Allocation proposed by the Authority: Common

Impact: Reclassifying these assets from Aeronautical to Common reduced RAB to the extent of ₹ 0.27 Crores.

Reference: Para 4.5.1.6 of the *Asset Allocation report.*

(vi) CCTV:

Details of Asset: CCTV cameras and storage system

Allocation proposed by AAI: Aeronautical

Observation: The assets pertaining to the installation of CCTV cameras across the airport, including those at entry, exit, parking and expansion of its storage medium had been considered as Aeronautical assets by AAI. In the absence of specific identification as to the location of the assets, the Authority found it prudent to consider such assets as Common assets and had segregated these in the ratio of the Terminal Building (92:8).

Allocation proposed by the Authority: Common

Impact: Reclassifying these assets from Aeronautical to Common reduced RAB to the extent of ₹ 0.11 Crores.

Reference: Para 4.5.1.7 of the *Asset Allocation report.*

(vii) Air Conditioning:

Details of Asset: Air Conditioning at terminal building and other areas

Allocation proposed by AAI: Aeronautical

Observation: Replacement of air conditioners had been classified as Aeronautical assets by AAI. As these assets are used for servicing both Aeronautical and Non-aeronautical activities within the Terminal Building, these were reclassified as Common assets and had been reallocated in the ratio of the Terminal Building (92:8).

Allocation proposed by the Authority: Common

Impact: Reclassifying these assets from Aeronautical to Common reduced RAB to the extent of ₹ 0.02 Crores.

Reference: Para 4.5.1.8 of the *Asset Allocation report.*

(viii) Other assets:

Details of Asset: Other miscellaneous assets of buildings, furniture, office appliances and plant and equipment

Allocation proposed by AAI: Aeronautical

Observation: Certain miscellaneous assets (such as streetlights, furniture, computers etc.) had been classified as Aeronautical assets by AAI. However, since these assets are for the common use, they had been reclassified as Common assets and had been reallocated in the ratio of the Terminal Building (92:8) or in the ratio of the Employee Head Count (89.60:10.40) depending on the nature of such individual assets.

Allocation proposed by the Authority: Common

Impact: Reclassifying these assets from Aeronautical to Common decreased the RAB to the extent of ₹ 0.03 Crores.

Reference: Para 4.5.1.9 of the *Asset Allocation report.*

4.3.1.6 Subsequent to the above reclassifications, the adjusted RAB has been derived by the Authority as under:

Table 7: Adjusted RAB derived by the Authority post reclassifications at Consultation stage

(₹ Crores)

Particulars		Ref.	Amount
RAB as on October 30, 2020, as submitted by AAI	**A**	**Table 5**	**129.86**
Financing allowance	B	4.3.1.4 (b)	(2.52)
ANS assets excluded from RAB	C	4.3.1.4.(c)	(1.21)
Reclassification adjustments:			
Terminal building	D	4.3.1.5 (i)	(0.19)
Staff Quarters	E	4.3.1.5 (ii)	(0.09)
Plumbing and Electrical works for Airport	F	4.3.1.5 (iii)	(0.01)
Artwork	G	4.3.1.5 (iv)	(0.06)
Equipment for utilities	H	4.3.1.5 (v)	(0.27)
CCTV	I	4.3.1.5 (vi)	(0.11)
Air Conditioner	J	4.3.1.5 (vii)	(0.02)
Other assets	K	4.3.1.5 (viii)	(0.03)
Total reclassification Sum (D:K)	L		**(0.78)**
Adjusted RAB post reclassifications as on October 30, 2020 [(A- (B+C+L)]			**125.35**

4.3.1.7 **Revision of Terminal Building ratio:** The Authority noted that AAI, in its submission of True up for the period up to October 30, 2020 had considered the ratio of Non-aeronautical area as 10.42% of the total terminal building area. On further analysis, the Authority noted that AAI had excluded 8,959 Sq.m. of the lower ground floor in its computation of the total Terminal Building area. Including this lower ground floor area resulted in a revised five-year average Terminal Building ratio of 93.33:6.67 (Aeronautical: Non-aeronautical area). It is noted that the Airport Operator has already considered the lower ground floor area in its computation of total terminal building area. The Authority was of the view that MIA being a small airport with a passenger throughput of less than 10 MPPA, its Terminal Building ratio should be 92:8 (Aeronautical: Non-aeronautical), in line with the IMG report, which had recommended that the Non-aeronautical area within the terminal building for airports having passenger traffic less than 10 MPPA to be in the range of 8% to 12% of the total terminal area. The application of the above revised ratio (92:8) for segregating the common assets of AAI within the Terminal Building had resulted in an increase in closing RAB as on October 31, 2020, by ₹ 0.92 crores. The same had been explained in para 4.5.3.2 of the *Asset Allocation report*.

4.3.1.8 **Changes in Employee Headcount ratio:** The Authority proposed to consider the five-year average Employee Head Count Ratio of AAI, i.e. 89.60:10.40 (Aeronautical: Non-aeronautical) for the purpose of allocation of assets during the period from FY 2016-17 up to COD, as the Authority considered the same to be a reasonable basis for allocation of assets. This had resulted in the increase in RAB by ₹ 0.003 Crores and had been explained in para 4.5.4 of the *Asset Allocation report*.

4.3.1.9 The Adjusted RAB derived by the Authority post the above adjustments to Terminal Building ratio and Employee Headcount ratio is as follows:

Table 8: Adjusted RAB derived by the Authority post adjustments on allocation ratios at Consultation stage

(₹ Crores)

Particulars		Ref.	Amount
Adjusted RAB post reclassifications as on October 30, 2020	A	Table 7	**125.35**
Impact of revision in the Terminal Building ratio	B	4.3.1.7	0.92
Impact of revision in the Employee Head Count ratio	C	4.3.1.8	0.003
Adjusted RAB post adjustments to allocation ratios as on October 30, 2020 (D= A+B+C)	**D**		**126.27**

4.3.1.10 **Adjusted RAB (year-wise) of AAI derived by the Authority**

The Authority had derived year-wise adjusted RAB for the pre-COD period as shown in the table below:

Table 9: Year-wise impact of re-classifications and other adjustments on RAB

(₹ Crores)

Particulars	Ref.	Up to 31 Mar 16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21*	Total
Opening RAB (A)		73.58#	74.21	101.42	96.00	110.78	129.80	NA
Additions (B)	Table 6	-	40.00	4.78	23.78	29.03	2.69	100.28
Financing allowance and assets related to ANS activities excluded from RAB (C)		(0.35)	(3.56)	(0.03)	(0.36)	(0.28)	(0.07)	(4.65)
Deletions (D)	Table 6	-	(0.01)	(0.81)	(0.58)	(0.34)	(0.24)	(1.98)
Depreciation as per AAI (E)		-	(9.06)	(9.30)	(8.23)	(9.34)	(6.09)	(42.02)
Depreciation impact on financing allowance and assets related to ANS activities excluded from RAB (F)		-	0.04	0.18	0.25	0.28	0.17	0.92
Sub-total (G)		**73.23**	**101.62**	**96.24**	**110.86**	**130.13**	**126.26**	
Reclassification adjustments								
Reclassification impact (other than depreciation) (H)		0.98	(0.12)	(0.18)	(0.07)	(0.33)	(0.01)	0.27
Depreciation impact on reclassification of assets (I)		-	(0.08)	(0.06)	(0.01)	-	0.02	(0.13)
Total reclassification impact (J = H + I)		**0.98**	**(0.20)**	**(0.24)**	**(0.08)**	**(0.33)**	**0.01**	**0.14**
Closing RAB (G + J)		**74.21**	**101.42**	**96.00**	**110.78**	**129.80**	**126.27**	**NA**

* up to October 30, 2020
# Refer Table 6

4.3.1.11 Determination of Deemed Initial RAB

Based on the outcome of the independent study conducted by the Independent Consultant appointed by AERA on allocation of assets for MIA, the Authority had determined the Deemed Initial RAB which is as follows:

Table 10: Determination of Deemed Initial RAB by the Authority at Consultation stage

(₹ Crores)

Particulars	Ref.	RAB
Total assets of AAI as on October 30, 2020 (Net block) as per True up submission	Table 7	129.86
Adjustments (Financing Allowance and ANS assets excluded from RAB)		(3.73)
Reclassification of assets	Table 9	0.14
Total assets of AAI as on October 30, 2020 (Net block), after reclassification and other adjustments		126.27
Less assets retained by AAI		(0.63)
Net assets transferred by AAI to the Airport Operator as on October 31, 2020 (Deemed Initial RAB)*		**125.64**

* *Reference: Table 15 of the Study on Allocation of assets between Aeronautical and Non-aeronautical assets for MIA.*

4.4 True up of RAB for the period FY 2016-17 up to COD

4.4.1 Authority's examination for true up of RAB at Consultation stage

The Authority had derived the Opening, Closing and Average RAB of AAI for the period from FY 2016-17 to October 30, 2020, after giving effect to the above adjustments and the same is as follows:

Table 11: Adjusted RAB of AAI considered by the Authority for True up of Pre-COD Period at Consultation stage

(₹ Crores)

Particulars	Ref.	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 (till Oct 30, 2020)
Opening RAB (A)	Table 9	74.21	101.42	96.00	110.78	129.80
Closing RAB (B)		101.42	96.00	110.78	129.80	126.27
Average Regulatory Asset Base (RAB) = (A+B)/2		**87.82**	**98.71**	**103.39**	**120.29**	**128.04**

4.5 True up of Depreciation

4.5.1 Authority's examination for true up of Depreciation at Consultation stage

4.5.1.1 The Authority noted that while submitting the True up for the Pre-COD period for the Mangaluru International Airport, AAI had taken cognizance of the rates of depreciation approved by the Authority in previous tariff orders (Order No. 35 dated January 12, 2018 and Amendment No. 01 to Order No. 35 on 'Determination of Useful Life on Airport Assets'). Accordingly, the rates of depreciation approved by AERA had been applied by AAI for MIA from FY 2018-19 onwards. For the FY 2016-17 and FY 2017-18, AAI had computed depreciation as per its Accounting Policy. The Authority considered the same to be reasonable.

4.5.1.2 For the additions to RAB, AAI had calculated the depreciation during year of capitalization based on number of days, the asset was put to use. The Authority proposed to consider the same.

4.5.1.3 The Authority had computed depreciation for the Pre-COD period, after making necessary adjustments to the assets excluded from RAB and the same is presented as follows:

Table 12: Depreciation considered by the Authority for True up of Pre-COD Period at Consultation stage

(₹ Crores)

Particulars	Ref.	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 (till Oct 30, 2020)	Total
Depreciation as submitted by AAI (A)	Table 5	9.06	9.30	8.23	9.34	6.09	**42.02**
Depreciation impact on financing allowance and assets related to ANS activities excluded from RAB (B)	Table 9	(0.04)	(0.18)	(0.25)	(0.28)	(0.17)	**(0.92)**
Depreciation impact on reclassification of assets (C)		0.08	0.06	0.01	-	(0.02)	**0.13**
Depreciation* considered by the Authority after reclassification and other adjustments = Sum (A: C)		9.10	9.18	7.99	9.06	5.90	**41.23**

** Reference: Table 11 of the Study on Allocation of assets between Aeronautical and Non-aeronautical assets for MIA.*

Stakeholders' comments on True up of Capital Expenditure and Depreciation for the period from FY 2016-17 up to COD

4.5.2 During the stakeholder's consultation process, the Authority has received comments/ views from the stakeholders in response to the proposals of the Authority in the Consultation Paper 07/2022-23 with respect to True up of Capital expenditure and Depreciation for the period from FY 2016-17 up to COD. The comments from stakeholders are presented below:

AAI' comments on True up of Capital Expenditure and Depreciation for the period from FY 2016-17 up to COD

4.5.3 AAI has commented the following on Disallowance of Financing Allowance from RAB i.e. ₹ 2.89 crores.

i. *Direction 5 (Ref. No. 05/2010-11 – Terms and Conditions for Determination of Tariff for Airport Operators Guidelines, 2011) of AERA which entails the methodology of aeronautical tariff determination allows Airport operators to be eligible for Financing Allowance as a return on the value invested in construction phase of an asset including the Equity portion, before the Asset is put to use.*

ii. *Paragraph 5.2.7 of the Guidelines details the computation of Financing Allowance on the work in Progress Asset. Thus, Para 5.2.7 of the guidelines demonstrates the Authorities intention to allow Financing Allowance on the Work in Progress towards Capital Expenditure incurred which is* *funded by Equity/Internal accruals and is capitalized as part of Commissioned assets for RAB Computation.*

iii. *The guidelines also permit, Interest During Construction (IDC) on the debt portion of the capital borrowings, further The AERA guidelines 05/2010-11, use the word as "Financing Allowance" (which in general parlance is notional in nature) rather than "Finance charge" (Which relates to Actual Expenditure), hence the intention appears to be incentivizing the operator to use funds from equity/internal accruals rather than borrowing debt. The above intention can be seen from the regulators past decisions which are listed below:*

- *CIAL TCP Order: Vide para 4.4.52 of CIAL order for third control period, for true up of SCP, AERA noted that, in the tariff order for the SCP, it was decided that FA would be trued up based on the final capex. In its MYTP submission, CIAL had proposed an addition of Rs. 11.9 crores in FY 2021 only as Financing Allowance for true up of SCP. Accordingly, AERA recomputed FA based on actual WIP capitalized and allowed for inclusion in the RAB.*
- *BIAL TCP Order: Vide para 3.3.78 of BIAL Order for the third control period, AERA has agreed to allow the financing allowance for the second control period*
- *Financing allowance was approved and given by AERA in the First and Second Control period for BIAL.*

iv. *The AERA Act requires AERA to consider "timely investment in improvement of airport facilities"; and "economic and viable operation of major airports". The statement of objects and reasons of the AERA Act requires Authority to encourage investment in airport facilities, create a level playing field and foster healthy competition. The Airports Infrastructure Policy of 1997 and NCAP 2016 also emphasize the need to provide a commercial orientation and encourage private sector participation in the airport sector.*

v. *Financing allowance computation is fully in compliance with Direction 5, affirmed by Authority in its various Orders in the past.*

vi. *Based on the above submissions, AAI submits that non-consideration of Financing allowance is unjust and violating AERA's own guidelines Further, allowing Financing allowance for private airports and not for AAI airports vitiates the principle of laying a level playing field for all airports – public or private in India and AAI airports would unjustly be denied of revenues that they are entitled to.*

vii. *AAI therefore requests AERA to reconsider the financing allowance of Rs. 2.89 crores, depreciation thereon and return on RAB accordingly for true up submitted by AAI.*

Other Stakeholders' comments on True up of Capital Expenditure and Depreciation for the period from FY 2016-17 up to COD

4.5.4 FIA has commented the following:

"We recommend that no adjustment of RAB should be provided in favor of AAI for period after the COD i.e., October 31,2020, post which the operational control of the Mangaluru Airport is transferred to MIA."

4.5.5 IATA has commented the following:

"The new operator is taking over the airport and remunerating AAI for past costs and future share of the profits made by the new airport operator. In this case, should the true-up costs claimed by AAI be already covered or inclusive within the per passenger fee?"

AAI's responses to Stakeholders' comments on True up of Capital Expenditure and Depreciation for the period from FY 2016-17 up to COD

4.5.6 AAI submits that there is nothing that favors AAI before or after the COD, and adjustments to the submission are as per the Direction 05/2011-12 and concession agreement. The settlement process between AAI and AO is as per the concession agreement clause 28.11.4, abstract of the same is as follows:

"Pursuant to the Payment of the Estimated Deemed Initial RAB and upon the reconciliation, true-up and final determination by the Regulator of the quantum of the investment under 28.11.3(a), any surplus or deficit in the Estimated Deemed Initial RAB with respect to the Deemed initial RAB shall be adjusted as a part of the Balancing payment that becomes due and payable as per Clause 31.4 after the expiry of 15 (fifteen) days from such final determination by the Regulator, with due adjustment for the following ("Adjusted Deemed Initial RAB"):

(a) reduced to the extent of over-recoveries, if any, of the Aeronautical Revenues by the Authority until the COD, that the Regulator would provide for as a downward adjustment while determining Aeronautical Charges for the next control Period: or

(b) increased to the extent of under-recoveries, if any, of Aeronautical Revenues by the Authority until the COD, that the Regulator would provide for as an upward adjustment while determining Aeronautical Charges for the next control Period.

The amount(s) to be paid by the Authority or Concessionaire shall be the present value of Adjusted Deemed Initial RAB calculated using the fair rate of return as determined by the Regulator for the time period from the COD to the date of actual payment of the Adjusted Deemed Initial RAB."

Hence it is requested that the amount of RAB/True-up may be paid as per the Concession Agreement.

Further it is stated that as per Schedule-Q (CNS/ATM agreement Schedule 1 of Concession Agreement) - AAI Equipment and Concessionaire Equipment, Para-I Building for navigational AIDs/Radar Installations would become Concessionaire Equipment. Hence, the amount of ANS assets handed over to the Concessionaire as considered by AERA in CP may be reimbursed to AAI.

AAI noted that discount factor considered by the Authority post 31st Mar 2021 up to 31st Mar 2022 (as per table 22 of the CP) is at rate of 12.21% .i.e., FRoR of the AO, however AAI submits that as per the Request for Proposal (RFP) the return of RAB until settled will be paid by the AO, considering the AAI's asset is yet to be settled, During the COD to Settlement period, FRoR of AAI should be adopted.

4.5.7 It would be factually incorrect to state that the AO is remunerating AAI for past costs.

AAI submits that it has claimed true up and return on RAB up to COD which it was eligible as Airport operator. Further, reference is made to AERA guidelines 05/2010-11 (Terms and Conditions for Determination of Tariff for Airport Operators Guidelines, 2011) where shortfall/excess of one Control period is adjusted against the subsequent control period, which could result in fall or increase in tariff.

AAI clarifies there is no share of profit that is to be paid by AO to AAI, as stated by IATA, as per the Concession Agreement, AO is required to pay Concession Fees for leasing of the Airport to AO for a period of fifty years.

Authority analysis on True up of Capital Expenditure and Depreciation for the period from FY 2016-17 up to COD

4.5.8 The Authority has noted the comments of AAI on Financing Allowance and has provided its detailed views in para 7.6.2 of this Tariff Order. In view of the same, the Authority finds no reason to deviate from the proposal made by it regarding Financing Allowance in Consultation Paper No. 07/2022-23.

4.5.9 The Authority has noted the comments of FIA and the response of AAI and it is of the view that there is no adjustment of RAB after the COD. The present value of the "Adjusted Deemed Initial RAB" has been derived by the Authority in accordance with the provision of the Concession Agreement (clause 28.11.4). The Authority decides to consider the same in the Tariff Order for the First Control Period of MIA.

4.5.10 The Authority has noted the comments of AAI on the ANS assets handed over to the Concessionaire as part of the CA and decides to include the same in the determination of the Deemed Initial RAB transferred to the AO as on COD.

4.5.11 The Authority has noted the comments of IATA on the per passenger fee and is of the view that the response of AAI addresses the issues raised by IATA.

4.5.12 Based on the above factors, the Deemed Initial RAB derived by the Authority, which it decides to consider for determination of tariff of MIA for the First Control Period, is as follows:

Table 13: Deemed Initial RAB decided by the Authority

(₹ Crores)

Particulars	**Ref.**	**RAB**
Total assets of AAI as on October 30, 2020 (Net block) as per True up submission	Table 7	129.86
Adjustments (Financing Allowance and ANS assets excluded from RAB)		(3.73)
Reclassification of assets	Table 9	0.14
Total assets of AAI as on October 30, 2020 (Net block), after reclassification and other adjustments		126.27
Less assets retained by AAI		(0.63)
Add: Buildings for navigational aids/ radar installations (reclassified) #		1.78
Net assets transferred by AAI to the Airport Operator as on October 31, 2020 (Deemed Initial RAB)		**127.42**

 # Part I to Schedule I of Schedule Q (CNS/ ATM Agreement) of the Concession Agreement states about Concessionaire Equipment which includes "Buildings for navigational aids/ radar installations" (serial no. 21 to Part I of Schedule Q). The Authority notes that the building/ civil structure of the Airport Operator used for ANS activities should be treated as part of RAB of the Airport Operator, in line with the approach followed by the Authority for other PPP airports. The Authority has derived the value of the building/ civil structure used for ANS activities as on COD as ₹ 1.78 crores.

4.6 True up of Fair Rate of Return

4.6.1 Authority's examination for true up of Fair Rate of Return at Consultation stage

4.6.1.1 The Authority noted that AAI had not availed any debt during the Pre-COD period. Also, AAI had claimed 14% as Fair Rate of Return on equity, as part of its True up submission for the Pre-COD period.

4.6.1.2 The Authority further noted that AAI had claimed the return on Average RAB @ 14% (mentioned above) for the entire FY 2020-21, instead of the period up to COD. Hence, the Authority had re-computed Return on Average RAB for the FY 2020-21 for the period only up to COD, which is for a period of 7 months commencing from April 1, 2020 up to October 30, 2020.

Stakeholders' comments on True up of FRoR for the period from FY 2016-17 up to COD

4.6.2 During the stakeholder's consultation process, the Authority has received comments/ views from the stakeholders in response to the proposals of the Authority in the Consultation Paper 07/2022-23 with respect to True up of FRoR for the period from FY 2016-17 up to COD. The comments from stakeholders are presented below:

AAI's comments on True up of FRoR for the period from FY 2016-17 up to COD

4.6.3 No comments were received from the AAI for True up of FRoR for the period from FY 2016-17 up to COD.

Other Stakeholders' comments on True up of FRoR for the period from FY 2016-17 up to COD

4.6.4 FIA has commented the following:

"No Fair Rate of Return (FRoR) to airport operators should be provided as such fixed/ assured return favors the service provider/airport operators, which creates an imbalance against the airlines, which are already suffering from huge losses and bear the adverse financial impact through higher tariffs. Due to such fixed/assured returns, Airport Operators have no incentive to look for productivity improvement or ways of increasing efficiencies, take steps to reduce costs, as they are fully covered for all costs plus their hefty returns. Such a scenario breeds inefficiencies and higher costs, which are ultimately borne by airlines.

We observe that Fair Rate of Return of 14% provided to AAI is higher than comparison to the same being given to the present airport operator i.e. MIA/ Mangaluru International Airport Limited i.e. @ 12.21%. Without prejudice to (a) above, there appears no rationale to provide higher return to AAI in comparison to MIA and accordingly AERA may reduce the FRoR suitably."

AAI's responses to Other Stakeholders' comments on True up of FRoR for the period from FY 2016-17 up to COD

4.6.5 *FIA has compared the future FRoR of the Airport Operator (AO) with FRoR of AAI, however FRoR may not be comparable due to capital mix of the operator. Correct comparative would be comparing the equity return of AO which is 15.18% as against the AAI Equity return of 14%.*

Authority Analysis of True up of FRoR for the period from FY 2016-17 up to COD

4.6.6 The Authority notes FIA's comment on not providing any return on the assets or reducing it and the response of AAI thereon. The Authority is of the view that an airport is a long-term asset and in such long-term projects, investors desire a stable return on equity. Therefore, the Authority finds that it is not pragmatic or fair to reduce or not to provide any FRoR on the assets of the Airport Operator. Further, as there was no debt availed by AAI and the AO during the pre-COD period and the period from COD till March 31, 2021, the Authority decides to consider the FRoR as 14%.

4.6.7 The Authority notes AAI's comments on PPP airport availing 15.18% as the return on Equity as against AAI's airports, wherein such return is 14%. The Authority would like to state that AAI should bear in mind that in case of AAI airports the actual debt equity ratio is used for determining FRoR, while in case of PPP airports, a notional debt equity ratio of 48:52 is used. Were AAI to opt for the same proposition as that of PPP airports, FRoR for AAI will be lower than 14% and even lower than FRoR allowed for the AO (12.21%).

4.7 True up of Aeronautical Operation and Maintenance (O&M) expenses

4.7.1 Authority's examination for true up of Operation and Maintenance (O&M) expenses at Consultation stage

4.7.1.1 The component wise break up of Aeronautical Operation and Maintenance expenses submitted by AAI for the Pre-COD period is as follows:

Table 14: O&M expenses submitted by AAI for True up of Pre-COD Period

(₹ Crores)

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 up to October 30, 2020	Total
Employee Benefit	11.86	17.06	20.88	21.91	11.50	83.20
Administrative & Other Expenses (including CHQ/ RHQ expenses)	12.92	14.97	11.70	12.45	4.64	56.67
Operating Expenses	8.43	11.80	12.26	13.01	6.15	51.65
Repairs & Maintenance	6.08	8.55	7.80	17.00	6.27	45.70
Finance Cost	0.00	0.00	0.00	0.11	0.00	0.11
Total	**39.29**	**52.38**	**52.64**	**64.48**	**28.55**	**237.33**

4.7.1.2 **Reallocation of common O&M expenses by the Authority**

The Authority had commissioned an independent study through the Consultant appointed by AERA to determine efficient Aeronautical Operation and Maintenance costs for the period FY 2016-17 till FY 2020-21 (up to COD) and used the outcome of the study to true up the O&M expenses for the pre-COD period for AAI.

The common O&M expenses had been segregated by AAI between Aeronautical and Non-aeronautical expenses based on a suitable ratio. This ratio had been determined based on the underlying proportion of their expected utilisation for Aeronautical and Non-aeronautical services and activities at the Airport.

The Authority had analysed the submission made by AAI on allocation of Common expenses into Aeronautical and Non-aeronautical on a case-to-case basis and applied appropriate re-classification and re-allocation of the expenses, wherever it noted any discrepancies in the allocation of expenses by AAI *(refer Table 7 for basis for allocation of O&M expenses of AAI as per the Study on Efficient Operation and Maintenance Expenses for Mangaluru International Airport)*. Accordingly, the following common expenses have been re-allocated by the Authority by using appropriate ratios such as Employee Head Count ratio, Terminal Building ratio, Gross Fixed Assets ratio and Electricity ratio *(Refer para 4.5.1 to para 4.5.4 of the Study report on Efficient Operation and Maintenance Expenses for Mangaluru International Airport regarding the ratios used by the Authority for allocation of common expenses.)*

a) Employee benefit expenses

b) Administrative and other expenses

c) Operating expenses

d) Repairs and Maintenance expenses

The re-allocation of each of the above expenses had been explained in the following paragraphs.

a) Employee Benefit expenses

Observation: The Authority noted that in the case of AAI, the costs directly pertaining to ANS employees have been excluded from the O&M expenses, but the ANS employees are considered in the allocation of Common expenses. Accordingly, the Authority had considered the common expenses allocated to ANS employees as deemed Non-aeronautical employees and had re-worked the Employee Head Count ratio as shown in *para 4.5.3.2 and Table 10 of the Study on Efficient Operation and Maintenance Expenses for Mangaluru International Airport*.

Impact: The impact of the reallocation of Employee Benefit expenses based on revised Employee Headcount ratio resulted in reduction of the aforementioned expenses by ₹ 6.96 Crores for the Pre-COD period.

Reference: Para 4.6.2 of the Study on Efficient Operation and Maintenance Expenses for Mangaluru International Airport.

b) Administrative and other expenses

Observation: The Authority noted that the Administrative and other expenses submitted by AAI included certain expenses such as tender, rent and rates and taxes which directly relate to the airport premises and certain expenses such as meeting and seminar expenses which are relatable to employees. AAI had allocated the entire Administrative and other expenses in the Employee Head Count ratio. However, the Authority proposed to re-allocate the components of the Administrative and other expenses related to the entire airport in the ratio of Gross Fixed Assets and that pertaining to employees in the ratio of Employee Head Count.

Impact: The impact of the reallocation resulted in reduction of Administrative and other expenses by ₹ 0.36 Crores for the Pre- COD period.

Reference: Para 4.6.3 of the Study on Efficient Operation and Maintenance Expenses for Mangaluru International Airport.

c) Operating expenses

Observation: The Authority noted that expenses such as license fees are relatable to the airport premises, upkeep expenses are relatable to the terminal building and vehicle fuel are relatable to all employees. AAI had considered the above expenses as Aeronautical. The Authority proposed to reallocate such expenses in the ratio of Gross Fixed Assets / Terminal Building/ Employee Head Count ratio depending on the nature of each expense.

Impact: The impact of the reallocation resulted in reduction of Operating expenses by ₹ 0.82 Crores for the Pre- COD period.

Reference: Para 4.6.4 of the Study on Efficient Operation and Maintenance Expenses for Mangaluru International Airport.

d) Repairs and Maintenance expenses

Observation: The Authority noted that certain repair expenses such as repairs for vehicles are relatable to employees, expenses such as electrical installation are relatable to the terminal building and certain other expenses which are relatable to the airport premises. AAI had considered such expenses as Aeronautical. The Authority proposed to reallocate such expenses in the ratio of Gross Fixed Assets / Terminal Building/ Employee Head Count ratio depending on the nature of each expense, subject to the allowable limit of 6% of opening RAB (net block) of each FY.

Impact: The impact of the reallocation resulted in reduction of Repairs and Maintenance expenses by ₹ 2.35 Crores for the period FY 2016-17 till COD.

Reference: Para 4.6.5 of the Study on Efficient Operation and Maintenance Expenses for Mangaluru International Airport.

Impact of the above re-allocation of O&M expenses have been summarised in the following table:

Table 15: Impact of re-allocation of O&M expenses submitted by AAI for True up of Pre-COD Period at Consultation stage

(₹ Crores)

O&M expenses	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 (till Oct 30, 2020)	Total
Employee benefit expenses	0.93	1.37	1.48	2.11	1.07	**6.96**
Administrative and other expenses (incl. CHQ/ RHQ expenses)	0.05	0.09	0.09	0.08	0.05	**0.36**
Operating expenses	0.09	0.15	0.21	0.23	0.14	**0.82**
Repairs and maintenance	0.33	0.46	0.45	0.84	0.27	**2.35**
Total	**1.40**	**2.07**	**2.23**	**3.26**	**1.53**	**10.49**

4.7.1.3 Based on the above reclassification and change in allocation ratio, the Authority had proposed the following revised Aeronautical O&M expenses (prior to rationalisation) for the Pre-COD period:

Table 16: Aeronautical O&M expenses of AAI for the Pre-COD period post reclassification and re-allocation at Consultation stage

(₹ Crores)

O&M expenses*	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 (till Oct 30, 2020)	Total
Employee benefit expenses	10.93	15.68	19.40	19.80	10.43	**76.24**
Administrative and other expenses (incl. CHQ/ RHQ expenses)	12.87	14.87	11.61	12.37	4.59	**56.31**
Operating expenses	8.34	11.66	12.05	12.78	6.00	**50.83**
Repairs and Maintenance	5.75	8.09	7.35	16.16	6.00	**43.35**
Finance cost	0.00	0.00	0.00	0.11	0.00	**0.11**
Total	**37.89**	**50.30**	**50.41**	**61.22**	**27.02**	**226.84**

** Reference Table 14 and Table 15 of this Tariff Order*

4.7.1.4 **Rationalisation of Aeronautical O&M expenses**

Based on the Internal benchmarking analysis performed for O&M expenses through the *Study on Efficient Operation and Maintenance Expenses for Mangaluru International Airport*, the Authority proposed to rationalise the following expenses for the period FY 2017 to FY 2021 (up to October 30, 2020).

a. CHQ/ RHQ expense allocation (included under Administrative and other expenses)

b. Repairs and Maintenance expenses

a. CHQ/ RHQ expense allocation (included under Administrative and other expenses)

- The Authority reviewed the basis adopted by AAI for allocation of CHQ and RHQ expenses to Mangaluru International Airport and other airports and noted the following:
  - All expenses incurred by CHQ and RHQ (like staff costs, Admin and Gen. expenses, Repairs and Maintenance, utilities, outsourcing expenses etc.) had been allocated to all the AAI airports, in the ratio of revenues earned by each Airport.
  - Expenses such as legal costs, interest/ penalties are related to some specific airports. However, these had been allocated to the common pool and apportioned to all the AAI airports.

  The Authority was of the view that the above process followed by AAI for allocating the expenses is not transparent and necessitates adoption of a scientific/ rational approach for justifiable allocation of expenses to the Airports. Towards this objective, the Authority has examined the major expense components of CHQ and RHQ for the FY 2016-17, FY 2017-18, FY 2018-19, FY 2019-20 and FY 2020-21 submitted by AAI in November 2021and December 2021 and has proposed the following views on allocation of CHQ/ RHQ expenses:

i. Pay and Allowances of CHQ and RHQ:

- AAI had considered pay and allowances of Commercial department at CHQ and RHQ as Aeronautical expenses, whereas such expenses are Non-aeronautical in nature.
- AAI had excluded pay and allowances of employees involved in ATM, CNS and Cargo departments at CHQ and RHQ while working out the allocation to the airport. However, no exclusion has been done for support services of the departments relating to HR, Finance, Civil, Terminal Management (Housekeeping), etc.
- Manpower of CHQ and RHQ also provide services to Non-aeronautical activities, ATC, and CNS cadres at respective airports. Hence, pay and allowances need to be adjusted accordingly.

Considering all the facts and figures as stated above, the Authority was of the view that 20% of pay and allowances of CHQ and RHQ is to be excluded towards the following:

- Support services to ANS, Cargo and Commercial at CHQ, RHQ and Airports
- Officials of Commercial Directorate

Balance 80% of pay and allowances of CHQ and RHQ can be allocated to Airports.

ii. Administration & General Expenses of CHQ and RHQ:

- AAI has incurred Legal & Arbitration Expenses at both CHQ and RHQ level. The Authority was of the view that this expense should be analysed and distributed to stations on a case-to-case basis. As the above details have not been provided by AAI, the same had not been allocated to the stations. Further, the Authority was of the view that considering the present scenario where the COVID-19 pandemic has significantly impacted the Aviation sector, it is imperative for the Airport Operators to rationalise their costs and plan the operations in an efficient manner.
- AAI has paid interest/penalties to Government of India at both CHQ and RHQ levels. The Authority was of the view that the stakeholders should not be burdened with interest/penalties paid to Government of India, due to various lapses/delays on the part of the Airport Operator. Hence, such expenses had not been allocated to the airports.

Based on the above methodology, the Authority had derived the revised CHQ and RHQ expenses for the Pre-COD period, which was proposed to be allocated to Mangaluru International Airport, as part of True up of the Pre-COD period.

Table 17: Adjusted CHQ/ RHQ – Admin and Gen expenses proposed by the Authority as part of True up of O&M expenses at Consultation stage

(₹ Crores)

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 up to October 30, 2020	Total
CHQ/ RHQ – Admin & General expenses (allocation done by AAI) – **A**	11.82	12.63	9.54	10.92	3.84	**48.75**
Revised allocation of CHQ/ RHQ expenses by the Authority – **B**	9.88	10.06	6.89	9.02	1.93	**37.78**
Variance **(A-B)**	**1.94**	**2.57**	**2.65**	**1.90**	**1.91**	**10.97**

Reference: Para 6.2 of the Study on Efficient Operation and Maintenance Expenses for Mangaluru International Airport.

The Authority was of the view that the users should pay only for the services availed by them. Further, in line with section 13 of the AERA Act, 2008 the Authority has a scope of determining tariff in respect of Aeronautical services provided/ capital expenditure incurred only by that particular airport. This view is also consistent with ICAO's principle of 'Cost-relatedness'. Based on the above principles, the Authority had tried to rationalise the CHQ/ RHQ expenses being allocated to Mangaluru International Airport. The Authority felt that the allocation of CHQ & RHQ expenses by AAI on the basis of revenue is non-transparent and an inefficient method, as it brings large variation in such expenses Year on Year, due to change in revenue and is against the basic principle of cost relatedness in tariff determination. Further, as the revenue from these airports goes up due to higher tariffs, it further leads to higher allocation of CHQ/RHQ expenses with chain of cascading effect. The Authority, therefore, expected AAI to examine these issues in detail and devise an effective and efficient method for allocation of CHQ & RHQ expenses on priority.

Further, the Authority felt that AAI should exploit the potential of its non-traffic avenues fully so that 30% of the same, by cross subsidisation can be used to cover Aeronautical expenses.

b. Repairs and Maintenance expenses

- The Authority noted that Repairs and Maintenance expenses submitted by AAI for True up of the Pre-COD period are in the range of 8% for each tariff year and 14% in the FY 2019-20, which is on account of incurrence of one-time expense towards construction of storm water drains around the airport premises for ₹ 6.75 crores in the FY 2019-20.
- The Authority was of the view that during the period FY 2016-17 to FY 2019-20, Mangaluru International Airport has made significant capital expenditure of ₹ 136 Crores. These newly constructed and installed assets are generally covered under warranty clauses and hence, their Repairs and Maintenance expenses are expected to be minimal. Accordingly, the Authority proposed to consider the Repairs and maintenance expenses for the Pre-COD period to the extent of 6% of the opening RAB (net block) of each tariff year (as shown in Table 9).
- Further, the Authority noted that the one-time expense incurred towards construction of storm

water drain around the airport premises for ₹ 6.75 crores relates to a specific one-time project and hence, is an allowable expense, over and above the allowable expense of 6% of opening RAB (net block) of FY 2019-20.

Reference: Para 6.3 of the Study on Efficient Operation and Maintenance Expenses for Mangaluru International Airport.

Table 18: Adjusted Repairs and Maintenance expense proposed by the Authority for True up of the Pre-COD period at Consultation stage

(₹ Crores)

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 (till Oct 30, 2020)	Total
Aeronautical repairs and maintenance expenses (post re-allocation of expenses as per Table *16*)	5.75	8.09	7.35	16.16	6.00	**43.35**
Repairs and maintenance expenses proposed to be allowed as per Study	4.45	6.09	5.76	13.40	4.54*	**34.24**
Amount proposed not to be allowed by the Authority	**1.30**	**2.00**	**1.59**	**2.76**	**1.46**	**9.11**

** Repairs and Maintenance expenses for FY 2020-21 has been derived proportionately for the period up to COD.*

4.7.1.5 Based on the above analysis, the Authority proposed to consider the following Aeronautical O&M expenses for True up of the Pre-COD period.

Table 19: Aeronautical O&M expenses proposed to be considered by the Authority for True up of the Pre-COD period at Consultation stage

(₹ Crores)

Particulars	Ref.	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 (till Oct 30, 2020)	Total
A. Reallocated O&M expenses of AAI							
Employee benefit expenses	Table 16	10.93	15.68	19.40	19.80	10.43	**76.24**
Administrative and other expenses (incl. CHQ/ RHQ expenses)		12.87	14.87	11.61	12.37	4.59	**56.31**
Operating expenses		8.34	11.66	12.05	12.78	6.00	**50.83**
Repairs and maintenance expenses		5.75	8.09	7.35	16.16	6.00	**43.35**
Finance cost		0.00	0.00	0.00	0.11	0.00	**0.11**
Total		**37.89**	**50.30**	**50.41**	**61.22**	**27.02**	**226.84**
B. Rationalisation of O&M expenses (not considered by the Authority)							
Employee benefit expenses		-	-	-	-	-	-

Particulars	Ref.	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 (till Oct 30, 2020)	Total
Administrative and other expenses, including CHQ/ RHQ expenses	Table 17	1.94	2.57	2.65	1.90	1.91	**10.97**
Operating expenses		-	-	-	-	-	-
Repairs and maintenance expenses	Table 18	1.30	2.00	1.59	2.76	1.46	**9.11**
Finance cost		-	-	-	-	-	-
Total		**3.24**	**4.57**	**4.24**	**4.66**	**3.37**	**20.08**
C. O&M expenses of AAI proposed to be considered by the Authority for true up of Pre-COD period (A-B)							
Employee benefit expenses		10.93	15.68	19.40	19.80	10.43	**76.24**
Administrative and other expenses		10.93	12.30	8.96	10.47	2.68	**45.34**
Operating expenses		8.34	11.66	12.05	12.78	6.00	**50.83**
Repairs and maintenance expenses		4.45	6.09	5.76	13.40	4.54	**34.24**
Finance cost		0.00	0.00	0.00	0.11	0.00	**0.11**
Total		**34.65**	**45.73**	**46.17**	**56.56**	**23.65**	**206.76**

Stakeholders' comments on True up of Operation and Maintenance expenses for the period from FY 2016-17 up to COD

4.7.2 During the stakeholder's consultation process, the Authority has received comments/ views from the stakeholders in response to the proposals of the Authority in the Consultation Paper 07/2022-23 with respect to True up of Operation & Maintenance expenses for the period from FY 2016-17 up to COD. The comments from stakeholders are presented below:

AAI' comments on True up of Operation and Maintenance expenses for the period from FY 2016-17 up to COD

4.7.3 AAI has commented the following:

Deemed Employee Head Count considered by the Authority

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

The Authority has also taken cognizant of the following: Authority in the CP noted that "The Study evaluated the basis for computing the Employee Head Count ratio as submitted by AAI and observed the classification to be generally appropriate and in line with the approach of the Authority in other airports"

Employees relating to HR and A/c's are common resources that that are allocated to all the divisions and treating common employee to only Non-Aero (instead of ANS) may be incorrect approach. AAI submits to the Authority to revisit the allocation.

4.7.4 **Allocation of Expenditure based on Gross value**

"AAI had extensively performed review and excluded the portion of Non-Aero Expenditure while submitting the Opex Cost, further disallowance of expenditure based on GAV results in arbitrary disallowance.

AAI submits that the disallowance of Advertisement Tender and Arbitration Expenditure based on the gross value of the asset may not be accurate representative of the cost driver, further considering AAI has already excluded the relevant cost towards non-Aero, further adjustments are not warranted.

AAI submits to the Authority that Civil R&M relates to the maintenance of the Airports and does not benefit non-Aero and does not increase of Non-Aero Facility or capacity, hence allocation of R&M towards Non-Aero may not be inappropriate."

4.7.5 **Disallowance of CHQ and RHQ cost**

"AAI noted the concern raised by the Authority does not contribute to significant disallowance however the authority has disallowed 50% during the Covid period and 23% of the overall expenditure incurred.

AAI submits to the Authority that it has robust internal controls systems, and each order are processed diligently considering cost as prime factor, further AAI also submits that cost incurred are scrutinized by AAI employees, its books are subject to CAG Audit which are subsequently placed in the parliament. AAI reiterates that cost are genuinely incurred by the AAI and AAI also submits that it is underway in performing and submitting independent study on CHQ/RHQ cost allocation for all Airports."

4.7.6 **Capping of R&M Cost**

"Disallowing actual expenditure incurred towards R&M defeats the purpose of performing true up. Further discourages the Airport operator to spend on the R&M to maintain the quality standard and enhance the customer experience.

AAI reiterate that the expenditure towards Repairs and Maintenance has been incurred, further AAI follows rigorous process of awarding contracts.

The approach adopted by the Authority appears to not factored parity while dealing with issues, AAI submits that that while allocating cost towards Non-Aero share of expenditure the Authority has considered Gross value of Assets (GVA) and while capping the expenditure on R&M, Net block of Asset has been considered.

AAI also submits most of the R&M cost relates to manpower cost which minimum wages are applicable hence such expenditure cannot be capped. AAI desires to restrict the R&M to certain extent however considering the age, terrain, and safety of the passengers such cost can be only restricted and cannot be capped, hence AAI submit to AERA not to cap actual expenditure."

Other Stakeholders' comments on True up of Operation and Maintenance expenses for the period from FY 2016-17 up to COD

4.7.7 No comments were received from other stakeholders on True up of Operation and Maintenance expenses for the period from FY 2016-17 up to COD.

Authority Analysis of True up of Operation and Maintenance expenses for the period from FY 2016-17 up to COD

4.7.8 **Deemed Employee Head Count considered by Authority**

The Authority has noted AAI's comments on deemed Employee Headcount considered by the Authority. The Authority would like to emphasize that after a detailed examination it has excluded the salaries of employees providing services to ANS, as Authority has determined tariff of Aeronautical services (excluding ANS). This has been sufficiently explained in para no. 4.5.3.2 in *the Study on Efficient Operation and Maintenance expenses for Mangaluru International Airport"* and para No. 4.7.1.2 (a) of this Tariff Order.

4.7.9 **Allocation of Expenditure based on Gross Value**

The Authority has examined the comments of AAI on the Gross Fixed Assets ratio and re-allocation of certain expenses based on this ratio.

The Authority has explained in detail the rationale for using the Gross Fixed Assets ratio and the other ratios such as Terminal Building ratio, Employee headcount ratio etc in detail in its report on *"Study on Efficient Operation and Maintenance expenses for Mangaluru International Airport"*.

Based on the nature and purpose of the expenses such as Advertisement Tender, Repairs & Maintenance expenses etc have been apportioned using appropriate ratios such as Gross Fixed Assets/ Employee Headcount ratio/ Terminal Building ratio. The Authority had re-allocated such expenses based on merit, by applying appropriate ratios and in line with the approach followed by it for all other Major Airports. In view of the above factors, the Authority decides not to change its view in respect of the re-allocation of expenses proposed by it at the Consultation Stage (refer Para No. 4.7.1.2 (b) of this Tariff Order).

4.7.10 **CHQ/ RHQ expense allocation**

The Authority notes that AAI has submitted that it has robust internal controls systems and each order is processed diligently considering cost as prime factor. Further, it has submitted that the cost incurred are scrutinized by AAI employees and its books are audited by CAG. However, the Authority would like to state that CAG audits the accounting process and procedure followed by AAI and does not look into efficiency and rationale of the expenses.

However, based on its detailed analysis the Authority is of the view that the process followed by AAI for allocation of CHQ/ RHQ expenses is inefficient and non-transparent. It also appears that the computations are not policy based and without much forethought.

The Authority notes that AAI is undertaking a study for allocation of CHQ & RHQ expenses. The Authority expects that AAI should determine the efficient baseline costs through a thorough study, providing a detailed framework for allocation of various operating cost into aeronautical and non-aeronautical activities.

4.7.11 **Capping of R&M cost**

The Authority reviewed the comments of AAI on Repairs & Maintenance (R&M) and states that, as per the Independent Study conducted on Efficient O&M expenses of MIA, Repairs & Maintenance expenses of MIA were found to be inefficient and hence, the Study proposed rationalization of R&M expenses by restricting the same to 6% of Opening RAB. Based on the same, the expenses were adjusted downward and the revised amount was considered for true up at the Consultation stage as per para no. 4.7.1.4 (b) of this Tariff Order.

Further, the Authority would like to point out that it has proposed this practice consistently in the past for other similar airports, in order to rationalize the inefficiency identified in Repairs & Maintenance expenses.

Furthermore, it is pertinent to note that the Authority had considered the one-time expense incurred towards construction of storm water drain around the airport premises for ₹ 6.75 Crores, over and above the allowable expense of 6% of opening RAB (net block) of FY 2019-20.

The Authority also notes the comments of AAI that the R&M cost relates to manpower cost, on which minimum wages are applicable. However, the Authority would like to mention that R&M costs incurred by AAI through Annual Maintenance Contract (AMC) is a composite cost, which includes both the cost of manpower and the materials.

Also, the Authority has given its detailed justification for rationalizing the R&M costs of the Airport, in para 10.5.8 of this Tariff Order considering the existing asset base of the Airport (which has the blend of old and new assets). Based on the above factors, the Authority is of the view that its proposal already stated at the Consultation stage as per Para No. 4.7.1.4 (b) of this Tariff Order is reasonable and justified and hence, sees no reason to change the same.

4.8 True up of Return on Land

4.8.1 Authority's examination for true up of Return on Land at Consultation stage

4.8.1.1 The Authority noted that AAI has claimed return on land for ₹ 2.38 crores as part of its true up submission for the Pre-COD Period. The Authority had drawn reference to the following clauses prescribed in its Order No. 42/ 2018-19 dated March 5, 2019, regarding determination of FRoR on the Cost of Land:

- As per para 4.1.1 of the aforementioned order, the Authority decides that in case the land is provided to the airport free of cost, no return shall be given on the land.
- As per para 4.1.2, the Authority states that return on land shall be provided on the cost if (provided it is not free of cost) it is used for aeronautical purposes only.
- As per clause 4.1.8. of the aforementioned order, return on land may be allowed on a prospective basis only.

4.8.1.2 As return on land should be sought prospectively and not retrospectively (as per clause 4.1.8 of the aforementioned Order), the Authority was of the opinion that return on land will not be included in the true up calculation. Hence, the Authority proposed not to allow Return on Land claimed by AAI as part of True up of the Pre-COD period.

Stakeholders' comments on True up of Return on Land for the period from FY 2016-17 up to COD

4.8.2 During the stakeholder's consultation process, the Authority has received comments/ views from the stakeholders in response to the proposals of the Authority in the Consultation Paper 07/2022-23 with respect to True up of Return on Land for the period from FY 2016-17 up to COD. The comments from stakeholders are presented below:

AAI' comments on True up of Return on Land for the period from FY 2016-17 up to COD

4.8.3 AAI has commented the following:

"AAI being the landowner is entitled to return on land from 1st April 2022 as per Order No. 42/ 2018-19 dated March 5, 2019, since the Airport has been transferred to MIA, AAI submits to the Authority

the entitlement of the return on land shall be given to AAI."

Authority Analysis of True up of Return on Land for the period from FY 2016-17 up to COD

4.8.4 The Authority notes the comments of AAI on disallowance of the Return on Land and is of the view that the Order No. 42/ 2018-19 dated April 1, 2022 envisages return on land over a period of thirty years and it does not contemplate providing cumulative return on land as proposed by AAI in its submission for true up of Pre-COD period. The same has been explained in detail in para no. 4.8.1.2 in this Tariff Order.

4.9 True up of Unamortized value of Land

4.9.1 Authority's examination for true up of Unamortized value of Land at Consultation stage

4.9.1.1 The Authority noted that AAI had invested in the Land of Mangaluru International Airport for ₹ 4.05 crores during the period FY 2003-04 to FY 2009-10. This includes cost of land acquired for Secondary Runway (₹ 0.50 crores) and cost incurred (₹ 3.51 crores) towards improvement of the land at Northeast corner of NITB, which includes Grading, Concrete and Stone pitching of the land area. AAI had claimed the balance cost of Land (which is ₹ 3.94 crores) after deducting EMIs towards principal cost of Land (computed as per the methodology prescribed under Order No.42/ 2018-19 dated March 5, 2019) for the Pre-COD period. The Authority noted that the Land has not been transferred by AAI to the Airport Operator. The Authority highlighted the following clauses in the Order No. 42/ 2018-19 dated March 5, 2019:

"4.1.4 In case land is purchased by the airport operating company either from private parties or from government, the compensation shall be in the form of equated annual instalments computed at actual cost of debt or SBI base rate plus 2% whichever is lower over a period of thirty years.

4.1.8 This order of the Authority will take effect from the next control period."

4.9.1.2 From the perusal of the above Order, it is evident that the benefit of compensation is available to the Airport Operator (AAI)

(i) over a period of thirty years; and

(ii) from the Control Period subsequent to the date of the Order i.e. March 5, 2019.

Further, the Order envisages return on land over a period of thirty years and it does not contemplate providing cumulative return on land as proposed by AAI in its submission for true up of Pre-COD period. Hence, the Authority proposes not to consider the amortization of the balance cost of Land claimed by AAI (₹ 3.94 crores), as part of its true up submission for the pre-COD period.

4.10 True up of Non-aeronautical revenue

4.10.1 Authority's examination for true up of Non-aeronautical revenue at Consultation stage

4.10.1.1 AAI has submitted the actual Non-aeronautical revenue for the Pre-COD period for MIA as follows:

Table 20: Non-aeronautical revenue submitted by AAI for the Pre-COD period

(₹ Crores)

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 (till Oct 30, 2020)	Total
Revenue from Trading Concessions						
Restaurant / Snack Bar	2.25	2.23	2.03	1.86	0.11	8.48

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 (till Oct 30, 2020)	Total
T.R. Stall	3.39	3.94	6.14	6.41	0.18	20.07
Hoarding & Display	0.00	0.00	0.00	0.00	0.00	0.00
Other Trading Concessions	0.05	0.04	0.04	0.04	0.00	0.17
Rent and other revenues						
Rent & Space	1.52	1.65	2.06	2.47	1.56	9.26
Land rent & Lease	0.20	0.06	0.02	0.03	0.02	0.33
Building Residential	1.04	0.84	1.04	0.65	0.41	3.98
Building Non-Residential	0.00	0.12	0.00	0.00	0.00	0.12
Duty Free Shops	3.17	3.36	2.93	2.93	0.07	12.46
Miscellaneous	0.00	0.00	0.00	0.00	0.00	0.00
Car Rentals	2.15	2.91	2.40	1.27	0.04	8.77
Car Parking	0.00	0.00	0.00	0.00	0.00	0.00
Admission Tickets	0.25	0.12	0.15	0.12	0.05	0.67
Profit on Sale of Fixed Assets	0.03	0.00	0.22	0.14	-0.02	0.36
Other Misc. Income	1.22	1.38	1.62	1.44	2.18	7.84
Total	**15.26**	**16.64**	**18.65**	**17.36**	**4.60**	**72.51**

4.10.1.2 The Authority reviewed the Non-aeronautical revenue submitted by AAI with the Audited figures for the Financial Years (FY 2017 up to COD) and proposes to consider the Non-aeronautical revenue as per Table 20 for True up of the Pre-COD period.

Stakeholders' comments on True up of Non-aeronautical revenue for the period from FY 2016-17 up to COD

4.10.2 No comments were received from the Stakeholders on true up of Non-aeronautical revenue for the period from FY 2016-17 up to COD.

Authority Analysis of True up of Non-aeronautical revenue for the period from FY 2016-17 up to COD

4.10.3 The Authority notes that there are no stakeholder's comments regarding True up of Non-aeronautical revenue for the period from FY 2016-17 up to COD. Hence, it decides to consider the Non-aeronautical revenue as per Table 20 for True up of the Pre-COD period.

4.11 True up of Aeronautical Revenue

4.11.1. Authority's examination for true up of Aeronautical revenue at Consultation stage

4.11.1.1. AAI had submitted the actual Aeronautical revenue for the Pre-COD period for MIA as follows:

Table 21: Aeronautical revenue submitted by AAI for the Pre-COD period

(₹ Crores)

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 (till Oct 30, 2020)	Total
Landing charges						
Landing Domestic	3.50	5.65	5.01	4.77	0.60	19.53

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 (till Oct 30, 2020)	Total
Landing International	6.43	6.67	6.08	4.80	0.34	24.33
Parking charges						
Parking Domestic	0.02	0.01	0.02	0.02	0.01	0.08
Parking International	0.07	0.10	0.09	0.09	0.17	0.53
PSF and UDF charges						
PSF Domestic	5.87	7.20	9.35	7.76	0.43	30.61
PSF International	1.40	2.16	0.01	0.00	0.00	3.57
UDF Domestic	6.31	9.43	9.49	8.24	0.51	33.98
UDF International	25.55	26.14	24.74	19.59	0.94	96.96
Other revenue						
Extension of Watch Hours	0.00	0.00	0.00	0.00	0.29	0.29
CUTE charges	1.49	2.15	2.17	1.88	0.10	7.80
Throughput Revenue	0.67	0.86	0.77	0.48	0.00	2.77
Royalty from Ground Handling Agency	0.87	2.24	1.80	0.76	0.15	5.82
Cargo Revenue	0.32	0.00	0.00	0.00	0.00	0.32
Concession Fees from AAICLAS (30% share)	0.00	0.23	0.35	0.33	0.13	1.04
Land lease to Ground Handling Agency	0.10	0.06	0.09	0.06	0.04	0.35
Land lease to Oil companies	0.08	0.07	0.10	0.08	0.04	0.37
Total	**52.68**	**62.98**	**60.08**	**48.85**	**3.76**	**228.34**

4.11.1.2. The Authority reviewed the Aeronautical revenue submitted by AAI with the Audited figures for the Financial Years (FY 2017 up to COD) and proposed to consider the Aeronautical revenue as per Table 21 for True up of the Pre-COD period. The Authority notes the actual Aeronautical revenue achieved by AAI for the period FY 2016-17 till COD is based on the actual traffic data available in AAI's website.

Stakeholders' comments on True up of Aeronautical revenue for the period from FY 2016-17 up to COD

4.11.2. No comments were received from the Stakeholders on true up of Aeronautical revenue for the period from FY 2016-17 up to COD.

Authority Analysis of True up of Aeronautical revenue for the period from FY 2016-17 up to COD

4.11.3. The Authority notes that there are no stakeholder's comments regarding True up of Aeronautical revenue for the period from FY 2016-17 up to COD. Hence, it decides to consider Aeronautical revenue as per Table 21 for True up of the Pre-COD period.

4.12 True up of Taxation

4.12.1 Authority's examination for true up of Taxation at Consultation stage

4.12.1.1 AAI had submitted taxation for the Pre-COD period as follows:

Table 22: Taxation submitted by AAI for the Pre-COD period

(₹ Crores)

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 (till Oct 30, 2020)
Revenue (A)					
Aeronautical Revenue	52.68	62.98	60.08	48.85	3.76
Return on Land	0.46	0.45	0.45	0.45	0.45
Total (A)	**53.14**	**63.44**	**60.53**	**49.30**	**4.20**
Shortfall/ under recovery proposed to be collected (Refer Table 5)					**171.43**
Expenses (B)					
O&M expenses (Refer Table 14)	**39.29**	**52.38**	**52.64**	**64.48**	**28.55**
Depreciation (as per Income Tax Act, 1961)	33.99	36.36	36.62	42.85	23.81
Total (B)	**73.28**	**88.73**	**89.26**	**107.32**	**52.36**
Profit /Loss (A-B)	**(20.14)**	**(25.30)**	**(28.73)**	**(58.03)**	**(48.15)**
Shortfall/ under recovery proposed to be collected (C)					**171.43**
Tax Rates (D)	34.61%	34.61%	34.94%	25.17%	25.17%
Tax (C*D)	**0.00**	**0.00**	**0.00**	**0.00**	**43.14**

4.12.1.2 The Authority noted that AAI has computed tax of ₹ 43.14 crores on the shortfall amount (difference between Target Revenue and Actual Aeronautical revenue) of ₹ 171.43 crores, which is present value of the shortfall of the Pre-COD period, that is proposed to be collected from the Airport Operator.

4.12.1.3 However, the Authority was of the view that AAI should set off its prior period losses incurred in the Pre-COD period against the Shortfall amount that is proposed to be collected from the Airport Operator.

4.12.1.4 The Authority had re-computed taxation amount based on its analysis of O&M expenses, RAB and the same is presented in the table below:

Table 23: Taxation proposed to be considered by the Authority for the Pre-COD period at Consultation stage

(₹ Crores)

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 (till Oct 30, 2020)	Total
Revenue (A)						
Aeronautical Revenue (refer Table *21*)	52.68	62.98	60.08	48.85	3.76	228.34
Return on Land	0.00	0.00	0.00	0.00	0.00	0.00
Total (A)	**52.68**	**62.98**	**60.08**	**48.85**	**3.76**	**228.34**
Shortfall/ under recovery proposed to be collected **(B)** - (refer Table 24)					**81.14**	**81.14**
Expenses (C)						
O&M expenses (refer Table 19)	34.65	45.73	46.17	56.56	23.65	**206.76**
Depreciation (as per Income Tax Act, 1961)	33.99	36.36	36.62	42.85	23.81	**173.62**

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 (till Oct 30, 2020)	Total
Total (C)	68.64	82.09	82.79	99.41	47.46	**380.38**
Profit /Loss D= (A-C)	**(15.96)**	**(19.11)**	**(22.71)**	**(50.56)**	**(43.70)**	**(152.04)**
Set off of prior period loss* (B-D)						**(70.90)**
Tax Rates	34.61%	34.61%	34.94%	25.17%	25.17%	25.17%
Tax	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**

** The set off of prior period loss had been computed only for the purpose of determining taxes. The net loss of ₹ 70.90 crores will not be considered for true up for the Pre-COD period.*

4.12.1.5 The Authority proposed to consider tax as per Table 23 for True up of Pre-COD period. Also, the Authority has adjusted the losses incurred by AAI (₹ 152.04 crores as per Table 23) in the previous Financial Years against the Shortfall amount of ₹ 81.14 crores derived by the Authority (as per Table 24), which was proposed to be collected by AAI from the Airport Operator.

Stakeholders' comments on True up of Taxation for the period from FY 2016-17 up to COD

4.12.2 No comments were received from the Stakeholders on true up of Taxation for the period from FY 2016-17 up to COD.

Authority Analysis of True up of Taxation for the period from FY 2016-17 up to COD

4.12.3 The Authority has noticed that there are no stakeholder's comments regarding True up of Taxation for the period from FY 2016-17 up to COD. Hence, it decides to consider Taxation as per Table 23 for True up of Pre-COD period.

4.13 True up of Aggregate Revenue Requirement (ARR) for the Pre-COD period

4.13.1 Authority's examination for true up of ARR at Consultation stage

4.13.1.1 Based on its analysis of the various building blocks, the Authority had determined the ARR and Shortfall (Under recovery) for True up of the Pre-COD period and same is presented in the table below:

Table 24: ARR and Under-recovery proposed to be considered by the Authority for the Pre-COD period at Consultation stage

(₹ Crores)

Particulars	Ref.	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 (till Oct 30, 2020)	Total
Average RAB (Refer Table 11)		87.82	98.71	103.39	120.29	128.04	
Fair Rate of Return (FRoR)		14%	14%	14%	14%	14%	
Return on Average RAB @14%	A	12.29	13.82	14.47	16.84	10.46*	**67.89**
Depreciation (refer Table 12)	B	9.10	9.18	7.99	9.06	5.90	**41.23**
Operating Expenditure (Table 19)	C	34.65	45.73	46.17	56.56	23.65	**206.76**
Return on Land	D	0.00	0.00	0.00	0.00	0.00	**0.00**
Unamortised portion of Land - Balance of Land Value	E	0.00	0.00	0.00	0.00	0.00	**0.00**

Particulars	Ref.	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 (till Oct 30, 2020)	Total
Corporate Tax (Refer Table 23)	F	0.00	0.00	0.00	0.00	0.00	**0.00**
ARR (Sum A: F)	G	56.04	68.73	68.63	82.46	40.01	**315.87**
Non-aeronautical revenue (NAR) (Refer Table 20)	H	15.26	16.64	18.65	17.36	4.60	**72.51**
Less: 30% of NAR	I	(4.58)	(4.99)	(5.60)	(5.21)	(1.38)	**(21.75)**
Net ARR (G-I)	J	51.46	63.74	63.03	77.25	38.63	**294.12**
Revenue earned from Aeronautical Services (refer Table 21)	K	52.68	62.98	60.08	48.85	3.76	**228.34**
(Over recovery) / Under recovery (J-K)	L	(1.22)	0.76	2.95	28.40	34.87	**65.76**
Discount factor (@ 14%) as on October 30, 2020	M	1.60	1.40	1.23	1.08	1.00	
PV of (Over recovery) / Under recovery as on October 30, 2020 (L*M)	N	(1.95)	1.07	3.63	30.73	34.87	**68.35**
Discount factor @ 14% as on March 31, 2021	O						1.0579
PV of (Over recovery) / Under recovery as on March 31, 2021 (N*O)	P						**72.31**
Discount factor @ 12.21% as on March 31, 2022**	Q						1.1221
PV of (Over recovery) / Under recovery as on March 31, 2022 (P*Q)							**81.14**

**Proportionate return on RAB had been computed for the FY 2020-21, for the period up to COD.*

*** PV factor has been derived for the FYs from FY 2016-17 till COD, by assuming the discount factor as 1 for the FY 2021-22.*

Stakeholders' comments on True up of ARR for the period from FY 2016-17 up to COD

4.13.2 No comments were received from the Stakeholders on true up of ARR for the period from FY 2016-17 up to COD.

Authority Analysis of True up of ARR for the period from FY 2016-17 up to COD

4.13.3 The Authority has noticed that there are no stakeholder's comments regarding True up of ARR for the period from FY 2016-17 up to COD. Hence, it decides to consider ARR as per Table 24 for True up of the Pre-COD period.

4.14 Adjusted Deemed Initial RAB

Clause 28.11.4 of the CA states the following with respect to Adjusted Deemed Initial RAB:

"Pursuant to the payment of the Estimated Deemed Initial RAB, and upon the reconciliation, true-up and final determination by the Regulator of the quantum of the investment under 28.11.3(a), any surplus or deficit in the Estimated Deemed Initial RAB with respect to the Deemed Initial RAB shall be adjusted as part of the Balancing Payment that becomes due and payable as per Clause 31.4 after the expiry of 15 (fifteen) days from such final determination by the Regulator, with due adjustment for the following ("Adjusted Deemed Initial RAB"):

(a) *reduced to the extent of over-recoveries, if any, of Aeronautical Revenues by the Authority until the COD, that the Regulator would provide for as a downward adjustment while determining Aeronautical Charges for the next Control Period; or*

(b) *increased to the extent of under-recoveries, if any, of Aeronautical Revenues by the Authority until the COD, that the Regulator would provide for as an upward adjustment while determining Aeronautical Charges for the next Control Period.*

The amount(s) to be paid by the Authority or Concessionaire shall be the present value of Adjusted Deemed Initial RAB calculated using the fair rate of return as determined by the Regulator for the time period from the COD to the date of actual payment of the Adjusted Deemed Initial RAB."

The Authority has derived the Adjusted Deemed Initial RAB as on COD which is as follows:

Table 25: Determination of Adjusted Deemed Initial RAB as on COD by the Authority

(₹ Crores)

Particulars	Ref.	Amount
A. Deemed Initial RAB	Table 13	127.42
B. Less: Estimated Deemed Initial RAB	Clause 28.11.3 (b) of CA	(71.00)
C. A-B		56.42
D. Add: PV of Under-recovery of AAI as on COD	Table 24	68.35
E. Adjusted Deemed Initial RAB as on COD = (C+D)		**124.77**

4.14.1. In accordance with the provisions of clause 28.11.4 of the CA, AERA has computed the Adjusted Deemed Initial RAB as on COD i.e. ₹ 124.77 crores (shown in Table 25) and derived the future value of such Adjusted Deemed Initial RAB by applying the compounding factor of FRoR and assuming a future expected date of payment by the Concessionaire (Airport Operator) to the Airports Authority of India as follows:

i. The Authority has assumed future expected date of payment of Adjusted Deemed Initial RAB as January 31, 2023, based on the assumption that the Tariff Order for Mangaluru International Airport (wherein the Deemed Initial RAB is finally determined by the Regulator) is issued around January 15, 2023.

ii. The Authority has applied a compounding factor to determine future value of the Under-recovery as on COD by applying:

- FRoR @ 14% from COD up to March 31, 2021 and
- FRoR @ 12.21% from April 1, 2021 up to January 31, 2023 (based on the FRoR determined by AERA for the First Control Period for Mangaluru International Airport, as discussed under Chapter 8 of this Tariff Order).

iii. The Adjusted Deemed Initial RAB computed as on COD, March 31, 2021, March 31, 2022 and January 31, 2023 has been presented in the table below:

Table 26: Determination of Adjusted Deemed Initial RAB as on COD, March 31, 2021, March 31, 2022 *and future expected date of payment*

(₹ Crores)

Particulars	As on COD	Mar 31, 2021*	Mar 31, 2022#	Jan 31, 2023#
Adjusted Deemed Initial RAB	**124.77**	**132.00**	**148.12**	**163.28**

* *Compounding for the period from COD up to March 31, 2021 has been done using FRoR of 14%.*

Compounding for period beyond March 31, 2021 has been done using FRoR of 12.21%, determined by AERA for MIA for the First Control Period.

4.14.2. It is likely that the actual date of payment is different from January 31, 2023 as presented in the above table. In that scenario, following formula may be used for determining the Adjusted Deemed Initial RAB on a particular payment date:

$$\textbf{\textit{Adjusted Deemed Initial RAB}} = A \times (1 + r \times \frac{t}{365})$$

where,	A	=	Adjusted Deemed Initial RAB computed as on March 31, 2022
	r	=	FRoR for First Control Period, computed as 12.21% (refer Chapter 8).
	t	=	Number of days elapsed between actual date of payment and March 31, 2022

The projection of Adjusted Deemed Initial RAB on a particular payment date is illustrated through the following example:

Assuming that the actual date of payment is February 6, 2023, then

A = ₹ 148.12 crores

r = 12.21% or 0.1221

t = 312 days (Number of days between March 31, 2022 and February 6, 2023)

The Adjusted Deemed Initial RAB based on the above example is:

₹ 148.12 x (1+0.1221*312/ 365) = ₹ 163.58 Crores.

4.14.3. The Authority notes AAI's comments on the discount factor (14%) to be applied to be applied while computing Adjusted Deemed Initial RAB (refer para 4.5.6 of this Tariff Order). The Authority would like to clarify that it has computed the compounding factor by applying the appropriate FRoR determined by it across the various time periods, in order to estimate the value of Adjusted Deemed Initial RAB as on March 31, 2022.

4.14.4. The Authority decides to consider Under recovery of ₹ 81.14 crores (as per Table 24) for True up of AAI for the Pre-COD period and readjust the same in the ARR computation of MIA for the First Control Period. The under-recovery has arisen mainly on account of the following factors:

- Reduction in traffic due to COVID-19 pandemic in FY 2020-21.
- Lower Aeronautical revenues on account of application of tariff rates of non-Major Airport (which is less as compared to other similar airports) since FY 2016-17.

4.15 Authority's decisions regarding true up for the period from FY 2016-17 up to COD

Based on the material before it and its examination, the Authority decides the following with respect to True up of the Pre-COD period for Mangaluru International Airport:

4.15.1 To consider true up of RAB for the pre-COD period as per Table 11.

4.15.2 To consider true up of depreciation for the pre-COD period as per Table 12.

4.15.3 To consider Deemed Initial RAB as on October 31, 2020, as ₹ 127.42 crores as per Table 13.

4.15.4 To consider true up of Aeronautical O&M expenses for the pre-COD period as per Table 19.

4.15.5 To consider true up of Non-aeronautical revenue for the pre-COD period as per Table 20.

4.15.6 To consider true up of Aeronautical revenue for the pre-COD period as per Table 21.

4.15.7 To consider true up of Aeronautical Taxation for the pre-COD period as per Table 23.

4.15.8 To consider true up of FRoR @14% for the pre-COD period.

4.15.9 To consider Adjusted Deemed Initial RAB as per Table 26 or based on formula provided in paragraph 4.14.2, as appropriate for actual date of payment.

4.15.10 To consider Under recovery of ₹ 81.14 crores for True up of AAI for the Pre-COD period as per Table 24 and readjust the same in the ARR for the First Control Period.

5. TRUE UP OF AIRPORT OPERATOR FOR THE PERIOD FROM COD TILL MARCH 31, 2021

5.1 Background

5.1.1 AAI had entered into a Concession Agreement dated February 14, 2020, with Mangaluru International Airport Limited (the 'Concessionaire') for the Operations, Development and Management of Mangaluru International Airport for a period of 50 years from the COD, i.e. October 31, 2020. As per the Concession Agreement between AAI and the Airport Operator (clause 28.11.3), the amount which was due and payable by the Concessionaire to AAI, is subject to subject to reconciliation, true up and final determination by AERA.

5.1.2 Pursuant to the above Concession Agreement, the Airport Operator had submitted True up workings for the period from COD up to March 31, 2021.

5.1.3 The true up workings submitted by the Airport Operator covered the following building blocks:

i. Regulatory Asset Base

ii. Fair Rate of Return

iii. Aeronautical Depreciation

iv. Aeronautical Operation and Maintenance Expenses

v. Non-aeronautical Revenue

vi. Aeronautical Taxes

5.1.4 The Authority had examined the Airport Operator's true up submission in detail and had performed the following analysis:

i. Recorded Airport Operator's submissions for True up under different Regulatory building blocks.

ii. Provided the Authority's examination and proposals regarding the True up calculation of each regulatory block of the Airport Operator.

5.1.5 As AERA had not issued any Tariff Order for Mangaluru International Airport for the Pre-COD Period, the Authority had considered the following documents for determining True up for the period from COD up to March 31, 2021

i. Audited Financial results of the Airport Operator for the FY 2020-21.

ii. AERA Guidelines and Orders and

iii. Authority's decisions on the Regulatory building blocks as per previously issued Tariff Orders of other similar airports.

5.2 Airport Operator's submission of True up for the period from COD till March 31, 2021

5.2.1 The Airport Operator had submitted true up for the period from COD till March 31, 2021 as follows:

Table 27: True Up submitted by the Airport Operator from COD till March 31, 2021

(₹ Crores)

Particulars	Amount
Average RAB	110.46
FRoR on Average RAB (@ 14.86% for 5 months) (A)	6.81
Operating expenses (B)*	26.59
Depreciation (C)	7.26

Particulars	Amount
Tax (D)	0.00
Gross ARR (Sum A:D) = (E)	40.68
Non-aeronautical Revenue	4.26
Less: 30% of Non-aeronautical revenue (F)	(1.30)
Net ARR (E-F) = G	39.38
Actual Aero Revenues earned (H)	11.28
Shortfall/ under-recovery (G-H)	28.10
PV of Under-recovery	**29.76**

** The Airport Operator had submitted subsequently bank charges of ₹ 0.41 crores to be considered as part of O&M expenses. The Authority had considered the same in its examination of true up of O&M expenses for the period from COD up to March 31, 2021.*

5.3 Authority's examination of True up submitted by Airport Operator for the period from COD till March 31, 2021

5.4 True up of RAB

5.4.1 Authority's examination of True up of RAB at Consultation stage

5.4.1.1 The Authority proposed to consider the True up submission made by AAI up to October 30, 2020 as the basis for determining the value of assets as on COD for the Airport Operator.

5.4.1.2 Based on the adjusted RAB of AAI for the Pre-COD period, the Authority had derived the adjusted RAB of the Airport Operator as on COD as ₹ 125.64 crores (Refer Table 10).

5.4.1.3 The Authority noted that the Airport Operator has included following additional items in RAB amounting to ₹ 16.89 crores during the period COD till March 31, 2021:

Table 28: Additional items included in the RAB by the AO from COD till March 31, 2021

(₹ Crores)

Details	Amount
Software	0.08
Computers	0.44
Intangible asset	16.37
Total	**16.89**

5.4.1.4 **Reclassification of assets of the Airport Operator**

The Authority had conducted an independent study on allocation of assets for the period FY 2016-17 till FY 2020-21 and used the outcome of the study to true up the RAB for the post COD period i.e.as on March 31, 2021 for the AO.

The Authority had considered the adjusted RAB of the Airport Operator as on COD (which is ₹ 125.64 crores), Capital additions and corresponding depreciation based on the results of the Asset Allocation report (refer Annexure 2 for the Summary of the report and Appendix 1 for the detailed report on *Study on allocation of assets between Aeronautical and Non-aeronautical assets for Mangaluru International Airport)*.

The asset allocation study reviewed the various asset categories and developed a basis for segregation of various assets into Aeronautical, Non-aeronautical and Common assets. Based on the same, the Authority had reclassified some portion of assets submitted by the AO for true up of the period from COD till March 31, 2021 which has been detailed hereunder:

i. **Computers and Software**

Details of Asset: Desktops, Laptops and Software

Allocation proposed by Airport Operator: Common

Observation: The assets pertaining to Computers and Software have been classified as Common assets by the Airport Operator and have been allocated in the ratio of Terminal Building as had been determined by the Airport Operator (95:5). However, since these assets are for the use of employees of the Airport Operator, the same had been reallocated in the ratio of Employee Head Count of the Airport Operator (94.44:5.56).

Allocation proposed by the Authority: Employee Head Count Ratio

Impact: Reclassifying these assets from Aeronautical to Common decreased the RAB to the extent of ₹ 0.003 Crores.

Reference: Para 4.9.1.1 of the *Asset Allocation report.*

ii. **Intangible asset**

Details of Asset: Salary cost and consulting fees incurred by Adani-group entities prior to COD on costs related to planning for takeover and management of Mangaluru International Airport Limited.

Allocation proposed by Airport Operator: Common

Observation: It is determined from Clause 5.1.1 of the Concession Agreement that the capitalisation of Intangible asset and its allocation is not a subject matter, to be considered as part of the Consultation process. Accordingly, the Intangible asset had been excluded from the Adjusted RAB computed by the Study as of March 31, 2021. Further, the Authority noted that as per clause 6.5.3 of the Concession Agreement, the senior management staff of AAI of the rank of deputy General Manager and above (Senior Personnel) shall remain deputed at the Airport for a period not exceeding 3 months from the COD and that their costs will be borne by AAI. Hence, considering that Senior Personnel of AAI were deputed at the Airport for a period of 3 months from the COD, the Authority proposes not to consider the salary costs and consulting fees shown by the AO as Intangible assets.

Allocation proposed by the Authority: Exclude Intangible asset from RAB.

Impact: Excluding Intangible asset from Common assets decreased the RAB to the extent of ₹ 16.37 Crores.

Reference: Para 4.9.1.2 of the *Asset Allocation report*

iii. **Impact of differential Employee Head Count ratio as per the Study on Allocation of assets between Aeronautical and Non-aeronautical assets for MIA**

As mentioned in para 4.9.3.1 of the *Asset Allocation report,* the Employee Head Count ratio used for reallocation of assets for AAI is 89.60:10.40 (Aeronautical: Non-aeronautical), while the ratio proposed for reallocation of assets for the Airport Operator is 94.44:5.56. The impact of this difference on the value of RAB transferred by AAI to the Airport Operator is an upward adjustment of ₹ 0.01 Crores.

iv. **Concessionaire Equipment as per Schedule 1 to Schedule Q (CNS/ ATM Agreement) of the Concession Agreement between AAI and AO**

Part 1 to Schedule 1 of Schedule Q (CNS/ ATM Agreement) of the Concession Agreement states about Concessionaire Equipment which includes "Buildings for navigational aids/ radar installations" (serial no. 21 to Part I of Schedule Q to the CA). The Authority noted that the building/ civil structure of the AO used for ANS activities should be treated as part of RAB of the AO, in line with the approach followed by the Authority for other PPP airports. The Authority had derived the net value of the building/ civil structure used for ANS activities as on COD as ₹ 1.78 crores and included the same for deriving the adjusted RAB of the AO as on March 31, 2021, which is shown in Table 29.

5.5 True up of Depreciation

5.5.1 Authority's examination of True up of Depreciation at Consultation stage

5.5.1.1 For the purposes of True up submission, the Airport Operator had calculated depreciation for the period from COD up to March 31, 2021, based on their determination of remaining useful life.

5.5.1.2 The Authority had proposed to consider the same rates of depreciation as applied by AAI for the period up to COD, on the assets transferred by AAI to the Airport Operator for the period from COD to March 31, 2021. Further, the assets added by the Airport Operator had been depreciated based on the useful life prescribed under Order No. 35/ 2017-18 dated January 12, 2018, of AERA.

5.5.1.3 Depreciation had not been computed on the Intangible asset as the same is excluded from the RAB.

5.5.1.4 Accordingly, the depreciation on Aeronautical assets of ₹ 7.26 Crores as submitted by the Airport Operator had been revised by the Authority (post reclassification and other adjustments) to ₹ 4.26 Crores, thereby resulting in a reduction in depreciation of ₹ 3.00 Crores.

5.5.1.5 The Authority had computed depreciation for the period of 5 months from COD to March 31, 2021, on the net value of the building/ civil structure of the AO used for ANS activities (as explained in para 5.4.1.4 (iv)) as ₹0.02 crores. The total depreciation for the period from COD to March 31, 2021, amounted to ₹ 4.28 crores.

5.5.1.6 The Average RAB and Depreciation determined by the Authority for the period from COD till March 31, 2021, post reclassifications and other adjustments are as follows:

Table 29: Average RAB considered by the Authority from COD till March 31, 2021 at Consultation stage

(₹ Crores)

Particulars		Ref.	Amount
Adjusted RAB as on October 31, 2020 transferred to Mangaluru International Airport Limited	A		**125.64**
Additions to RAB from COD to March 31, 2021 as per Airport Operator's True up submission	B		16.89
Sub-total (A + B)	C		**142.53**
Reclassifications on asset additions			
Computers and Software – reclassification	D	5.4.1.4 (i)	(0.003)
Exclusion of Intangible asset	E	5.4.1.4 (ii)	(16.37)
Impact of differential Employee Head Count ratio	F	5.4.1.4 (iii)	0.01

Particulars		Ref.	Amount
Inclusion of Building/ Civil structure used for ANS activities	G	5.4.1.4 (iv)	1.78
Total reclassifications on asset additions Sum (D: G)	**H**		**(14.58)**
Adjusted RAB post reclassifications and adjustments (C + H)	I		**127.95**
Depreciation for the period from COD to March 31, 2021	J	5.5.1.5	(4.28)
Adjusted RAB as on March 31, 2021, i.e., opening RAB for First Control Period (I + J)*	K		**123.67**
Average RAB = (A+K)/2	L		**124.66**

** Reference: Table 17 of the Study on Allocation of assets between Aeronautical and Non-aeronautical assets for MIA.*

Stakeholders' comments on True up of Capital Expenditure and Depreciation for the period from COD till March 31, 2021

5.5.2 During the stakeholder's consultation process, the Authority has received comments/ views from the stakeholders in response to the proposals of the Authority in the Consultation Paper 07/2022-23 with respect to True up of Capital expenditure and Depreciation for the period from COD till March 31, 2021. The comments from stakeholders are presented below:

Airport Operator's comments on True up of Capital Expenditure and Depreciation for the period from COD till March 31, 2021

5.5.3 The AO has referred to AERA's proposal as per 5.3.1.4 (ii) page 53 of Consultation Paper relating to Intangible Assets (Pre-COD expenditure), as detailed in para 5.4.1.4 (ii) of this Tariff Order. The AO has commented the following:

5.5.4 *Extract from Study on Allocation of assets Between Aeronautical and Non-Aeronautical Assets*

3.5.3. The following clause in the Concession Agreement may be read with respect to the Intangible assets submitted by the Airport Operator as part of the RAB: Clause 5.1.1. of the Concession Agreement states that "Subject to and on the terms and conditions of this Agreement, the Concessionaire shall, at its own cost and expense. procure finance for and undertake the operations. management and development of the Airport. in accordance with the provisions of the Applicable Permits, Applicable Laws, this Agreement and observe, fulfil, comply with and perform all its obligations set out in this Agreement or arising hereunder." The aforesaid clause does not specifically provide for Intangible asset, or expenditure which constitutes salary and consulting costs incurred prior to COD, to be included in the RAB. Therefore, it is determined from the Concession Agreement that the capitalization of Intangible asset and its allocation may not be a subject matter to be considered as part of the Study report. Accordingly, the Intangible asset have been excluded from the Adjusted RAB computed by the Study as of March 31, 2021 (refer Annexure 1 - 'Analysis of Intangible Asset Capitalized by Airport Operator').

5.5.5 *Adani Enterprises Limited (AEL) was announced the successful bidder for Mangaluru Airport in Feb-2019. As the Concession agreement was a part of the Bid, AEL was aware of its obligations and responsibilities under the Concession Agreement and activities that were required to be done to achieve the successful Commercial Operations Date (COD). This process was akin to Operational Readiness and Airport Transfer (ORAT) activity which is done when green field facility is commissioned at the Airport.*

5.5.6 *We had earlier submitted to the Authority that various clauses in the Concession agreement mandated* *certain activities/obligations to be performed by the Airport Operator prior to COD so that the transition from AAI to AO is smooth. These activities covered many areas like operational readiness, familiarization & training, Trial programs, Airport facility assessment, Capability building & human resource management, observation period, financial closure etc. Being an operating Airport, these were important from the perspective of Airport users and passengers as well. It appears from the CP that the same has not been taken cognizance of by the Authority. Hence, we are reproducing the relevant provisions of the CA for your ready reference:*

Extract of relevant clauses from the Concession Agreement

- **Clause 16.5 Observation Period prior to COD:** *There was a requirement to have 60 days of observation period before COD whereby Concessionaire's team was to work along with AAI's team to understand the Airport operations.*
- In order to have a dedicated Airport team to be ready for participation in Observation period Concessionaire is required to hire personnel well before the time.
- Further **As per Clause 5.8 of the CA**, Concessionaire is obligated to have trained personnel employed all the time. Before taking over the Airport, the AO is required to hire people who are trained to take care of safe operations of the Airport.
- As per **Clause 4.1.3 of the CA**, as a condition precedent; Concessionaire needs to fulfill activities as shown in table below:

Particulars	**Details**
Submission of PBG within 120 days of signing of CA.	Submission of PBG requires engagement with various Banks, lenders and financial institution. This also requires dedicated finance team to work with various financial institutions.
Procure all the applicable permits	All the necessary applicable permits need to be obtained which encompass all the functions of the Airport: - Operational like CTO, Fire NOCs, Clearance of BoD Financial – GST / PAN / TAN Engineering & Maintenance – Travelators, Weights & Measures, Single Line, HR Compliances – Shops & Establishment / ESI / PSF / CLRA Security – Clearance of Aviation Security Program In order to process and obtain the necessary applicable permits adequate manpower had to be onboarded well before the CoD so that necessary applications are made timely, and approvals are obtained.
List of construction works to be undertaken in the first seven concession years	In order to provide list of construction works, Master planning needed to be undertaken which required engagement of master planner, designer, architects, town planners etc. Further under **clause 5.12 of the CA Obligations** relating to aesthetic quality of the Airport it is stated that "The Concessionaire shall engage professional architects and town planners of repute for ensuring that the design of the Airport meets the aforesaid aesthetic standards"
Execution of the escrow agreement as per Schedule M	This requires engagement with banks, lenders, financial institutions to perform the necessary documentation.

- **Clause 6.4.5 Works in Progress: -** Concessionaire is obligated to pay CWIP amounts to AAI. "The Parties shall constitute a committee comprising representatives of the Concessionaire, Authority and each of the counterparties under such contracts, which committee shall be responsible for: (a) facilitating any discussions and/or interactions amongst AAI, the Concessionaire and the counterparties under such contracts, including in respect of any modifications to the works, and (b) coordinating, facilitating, and monitoring the progress of such works-in-progress." In order to assess, the works in progress both physical and financials, necessary teams were engaged from master planning, designing, asset health check, vendor management and financial experts.

- **Clause 10.2 Lease, Access, and Right of Way**: Concessionaire is allowed to take necessary surveys, investigations etc of the property prior to COD to assess various risks associated with the site. This activity required engagement of various experts and agencies.
- **Clause 10.3 Procurement of the Site:** Both AAI and Concessionaire need to undertake joint inspection of site, inventory of buildings, structures, roads works etc. This required dedicated finance, operations and engineering & maintenance team in place to do the joint inspection and asset health check.
- **Clause 15.1 / 26.1 Commercial Operation Date / Financial Close:** In order to achieve COD, financial close is a mandatory requirement. To make financial projections necessary studies were required to be undertaken like traffic study, revenue potential study, capex planning based on master planning, estimation of capex, operating cost estimation, engagement of financial consultant, financial modelling etc. This required engagement of consultants and also in-house corporate finance team.
- **Clause 18.17 Maintenance Program :** On or before COD, Concessionaire needs to submit detailed Maintenance Program which shall include: (a) preventive maintenance schedule; (b) arrangements and procedures for carrying out urgent repairs; (c) criteria to be adopted for deciding maintenance needs; (d) intervals and procedures for carrying out inspection of all elements of the Airport; (e) intervals at which the Concessionaire shall carry out periodic maintenance; (f) arrangements and procedures for carrying out safety related measures; and (g) intervals for major maintenance works and the scope thereof.

  In order to prepare the Maintenance Program a dedicated Engineer's team involvement was required. Further this required investigation and detailed health study of the existing assets. The detailed study was conducted by engagement of both in-house team and expert consultants.
- **Clause 28.1 Collection of Fees by the Concessionaire:** On and from COD and till the Transfer Date, the Concessionaire has the sole and exclusive right to demand, collect and appropriate Fees from the Users for the provision of the Aeronautical Services and Non- Aeronautical Services, including the airlines and passengers, in accordance with the provisions of the Regulatory Framework.

  In order to collect the fees from COD onwards necessary IT infrastructure was required to be set up which included SAP, AODB, AOCC, Billing Systems, Passenger Data Collection System. In addition, it required Engagement of Finance team, assessment of existing IT Infrastructure, engagement of IT experts and experts who understood the regulatory framework.
- **Clause 28.8 Display of Aeronautical Charges:** Website was required to be ready and necessary aeronautical charges needed to be provided on the website. This required creation of websites, domains, engaging IT experts, domain experts, experts from regulatory framework etc.
- **Clause 30.3 Insurances:** No later than 30 (thirty) days prior to commencement of the Concession Period, the Concessionaire shall by notice furnish to the Authority, in reasonable detail, information in respect of the insurances that it proposes to take. This required engagement of insurance agents, risk measurement, assessment of asset value, risk mitigation plan etc.

Various other requirements under the CA which entailed onboarding of personnel/consultants:

- *Operational SOPs*

- *Clause 23 - Readiness of Performance Measurement Plan*
- *Schedule H - to obtain ACI Membership as shown below*
- *Schedule I - Submission of Aerodrome Emergency Plan prior to COD*
- *18.15.4 Establishing Airport Safety Management Unit (ASMU)*
- *Formation of various committees - JCC for CNS ATM, MoU, Capex, Right of Way*
- *Aeronautical Information Services Apron Management Unit*

5.5.7 *The reason mentioned by the Authority in the CP, that the senior management staff of AAI of the rank of deputy General Manager and above (Senior Personnel) shall remain deputed at the Airport for a period not exceeding 3 months from the COD and that their costs will be borne by AAI is not relevant to the current issue. The intangible assets are expenses which were incurred before the COD as a preparation for the successful transition from AAI to Private Airport Operator. It is not related to the manpower expenses after CoD, nor is any amount of AAI salary expenses included in this. Further, clause 5.1.1 of the CA provides that all the obligations mentioned in the Concession Agreement are to be performed by the Concessionaire. Hence, the activities listed above prior to COD could have been carried out by the AO only with the help of its own employees and services of the various professional experts and not by the senior personnel of AAI. Once again, we would like to reiterate that the activities performed prior to COD were similar to Operational Readiness and Airport Transfer (ORAT) activity which is done when any green field facility is commissioned.*

5.5.8 *With respect to the comments of the Authority that there is no provision in the CA which specifically permits these expenditures to be capitalized, we would humbly submit that the CA specifically provides for restrictions on some expenditure not to be considered as pass-through for example monthly concession fees. There is no clause in the CA which restrains the expenses incurred before COD to be sought as pass-through, as there is no ambiguity that these expenditures are part of the audited financial statements and are genuine, legitimate and were essential for smooth airport functioning on transition.*

5.5.9 *Though the Airport was operational before COD, the expenses incurred by MIA before COD are pre-operative in nature and should be allowed as RAB either by way of it is capitalization and allocation to various assets or capitalized as separate asset as Intangible.*

5.5.10 *We would also like to submit that in the case of Delhi International Airport Ltd. (DIAL) the Authority allowed certain expenditure incurred by DIAL as expenses even though the same was capitalized as* ***Intangible Assets*** *by DIAL. Extract from DIAL Second Control Period order no. 40/2015-16 dated 10th December 2015 is given hereunder:*

"6.26.8. Additionally, the Authority had noted that DIAL had capitalized VRS expenses in its books towards intangible assets. However, the Authority had decided to expense out the VRS payments made by DIAL to AAI, as these costs are more in the nature of costs associated with staff matters under the concession agreements and do not build any additional assets."

5.5.11 *The Authority in case of Bengaluru International Airport Limited (BIAL) has approved cost of Rs. 46 Crs for* ***ORAT*** *during tariff determination of third control period (refer page no. 252 of Order No. 11/2021-22 for BIAL Third Control Period).*

5.5.12 *From the foregoing submissions, the Authority would appreciate that without having proper manpower and professional support it would not have been possible to achieve transition of airport from AAI to AO as mandated under the CA. These activities were required to be performed prior to COD. Hence, the expenditure incurred by the AO to achieve successful COD are essential, genuine, and legitimate. Accordingly, we request the Authority to at least take into account the expenditure incurred by us under* *this head. post issue of LOA by AAI till COD i.e. Rs.15.51 crores against Rs. 17.23 Cr claimed by us. In case the Authority believes that the same cannot be allowed to be capitalized as intangibles for the purpose of arriving at RAB, we request the Authority to allow the same as expenses in the FY20-21 for calculation of ARR. Not considering this expenditure for calculation of ARR would be tantamount to penalizing the AO for a successful COD with smooth transition in an operating Airport.*

5.5.13 *Extract from Study on Allocation of assets*

6.5.3. The Non-aeronautical area in the terminal building is considered as 8% as against 10% and 5% proposed by AAI and the Airport Operator respectively based on the IMG norms. The Terminal Building ratio considered for the purpose of the Study is 92:8 (Aeronautical: Non-Aeronautical)"

5.5.14 *AERA has applied Terminal Ratio of 92:8 based on IMG Norms (Norms and Standards for Capacity of Airport Terminal) on the opening RAB which is carried forward from AAI to MIA.*

5.5.15 *It is observed that as per The AERA Guidelines, 5.2.1 (vi) all the assets which are part of the terminal building shall be considered as part of RAB. Therefore, terminal building as a whole should be considered as RAB / Aeronautical asset and not required to be allocated into Aero and Non-Aero. For quick reference the relevant clause from the guidelines is reproduced as follows as "Notwithstanding the principles mentioned under points (i) to (v) above, assets with fixed locations inside terminal buildings shall be considered within the scope of RAB"*

5.5.16 *Notwithstanding the above, it is submitted that norms of IMG report are not applicable to PPP airports, as per clause no. G of IMG Report (page 241 of the said report). reproduced below:*

"In case of airports developed through Public Private Partnerships the project authorities may adopt a case-by-case approach with respect to norms relating to unit area and unit costs. Based on the judicious consideration of international best practices and financial viability, the norms may be specified in each case prior to inviting bids for private participation."

5.5.17 *No norms with respect to unit area and costs were mentioned in the bidding documents and Concession Agreement of Mangaluru Airport. Therefore, we request AERA not to apply IMG norms in case of Mangaluru Airport.*

5.5.18 *Under the Shared-Till model, 30% of Non-Aeronautical Revenues are accounted for cross subsidizing the ARR. Therefore, there is no need to apply the allocation ratio whereby, capital and operating expenditure is reduced. This act as a dual burden for the Airport Operator. Since the tariff guidelines do not provide for applying the allocation ratio, this anomaly is required to be corrected, failing which Airport Operator will be at disadvantage at all the times*

5.5.19 *In view of the foregoing, we request the Authority to apply the Terminal Building Ratio, wherever it is factored in CP, as 100% Aeronautical which is in line with the Guidelines of 2011.*

5.5.20 *Without prejudice to the above, it is to be noted that terminal building is built with certain length, breadth and height considering the passenger throughput and service level requirements. The structure of terminal includes façade, ceiling, columns etc. which have no relation with leasable floor area. The commercial activities like retail. food and beverage, etc. require limited works where the cost is much lower than the cost required to build the terminal building. For example, the height of the terminal building at MIA ranges between 12 to 15 meters whereas the retail areas have height of around 2 to 3 meters only. Hence, it is not logical to allocate the terminal building cost based on floor area. MIA is of the view that allocation should, at best, be based on cost of the floor plate instead of allocating entire terminal cost based on square meter area basis.*

Other Stakeholders' comments on True up of Capital Expenditure and Depreciation for the period from COD till March 31, 2021

5.5.21 APAO has commented the following:

"As per the terms of the concession agreement, the senior management staff of AAI of the rank of deputy General Manager and above were to remain deputed at the Airport for a period not exceeding 3 months from the Commercial Operation Date (COD) and that their costs had to be borne by AAI. Authority has used this as the argument as the basis for not allowing Intangible Assets for the purpose of tariff determination. The fact is that intangible assets are expenses which were incurred by Adani Group entities before the COD for the seamless transition from AAI to the Private Airport Operator. Our view is that all the activities which were carried out by the Airport Operator (AO) prior to COD could have been done either by the AO employees or domain experts services availed by MIA. Senior personnel of AAI had no role in this transition as they were responsible for carrying out their respective roles assigned to them by AAI. Further Concession Agreement also provides for fulfillment of various obligations to be performed by the Concessionaire at CoD. So, MIA was bound to perform these activities and there was need to incur costs for the same.

As we know AAI is contemplating the next round of bidding of the regional Airports. Clarity on this matter will be of immense importance to the prospective bidders. We expect AERA to play a vital role in clarifying its stand on the matter which will also give assurance to the interested bidders that the obligations under the Concession Agreement are paramount and need to be adhered to.

We understand that Intangible assets have been capitalized in the books of Airport Operator. It would be AERA's prerogative to allow these expense as either Capital Expenditure or Operating Expenditure."

5.5.22 FIA has commented the following:

"We recommend that no adjustment of RAB should be provided in favor of AAI for period after the COD i.e., October 31,2020, post which the operational control of the Mangaluru Airport is transferred to MIA."

5.5.23 IATA has commented the following:

"The new operator is taking over the airport and renumerating AAI for past costs and future share of the profits made by the new airport operator. In this case, should the true-up costs claimed by AAI be already covered or inclusive within the per passenger fee?"

AO's responses to other Stakeholders' comments on True up of Capital Expenditure and Depreciation for the period from COD till March 31, 2021

5.5.24 There is no adjustment of RAB after the COD. Calculations done by AERA in para 4.14.1 to 4.14.4 of this Tariff Order are in order to give effect to provisions of the Concession agreement which mandates the present value of the "Adjusted Deemed Initial RAB" has to be paid by AO to AAI. Relevant clause of the Concession agreement is reproduced below:

"The amount(s) to be paid by the Authority or Concessionaire shall be the present value of Adjusted Deemed Initial RAB calculated using the fair rate of return as determined by the Regulator for the time period from the COD to the date of actual payment of the Adjusted Deemed Initial RAB."

5.5.25 It is to be noted that payments of (i) true-up is related to period before the take over and (ii) the per passenger fees is for the period from COD onwards. These payments are governed by the Concession Agreement signed between AAI and MIA. As per AERA Act section 13 (a) (vi) the Authority needs to take into consideration the Concession Agreement while determining the tariffs. For quick reference the relevant extract from AERA Act is as: Section 13 (a) (vi) the concession offered by the Central

Government in any agreement or memorandum of understanding or otherwise;

Also, it is to be noted that AAI is not a shareholder in MIA. Hence, they are not entitled for any share of profits. MIA is obligated to follow the Concession Agreement and it expect the same is to be honored by the Authority.

Authority's analysis on True up of Capital Expenditure and Depreciation for the period from COD till March 31, 2021

5.5.26 The Authority has examined the comments raised by the AO and APAO regarding the inclusion of Intangible assets for the purpose of tariff determination, and has provided its views as given hereunder:

- The Authority has studied the provisions of the Concession Agreement and based on those the decisions have been taken on merit in this Tariff Order.
- There is no provision in the Concession Agreement to consider these costs incurred by the AO prior to COD. It would not be appropriate to draw a comparison with Operational Readiness and Airport Transfer (ORAT) activity, which is a widely accepted practice for operationalizing greenfield airports and for which specific provisions and scope of inclusion is defined in the respective airports' Concession Agreement.
- The specific Intangible expenses in case of DIAL for capitalized VRS costs, as per *Order no. 40/2015-16 dated 10th December 2015*, pertains to an expense specifically addressed in its concession agreement and incurred during the post COD period of operation of the airport by DIAL. Hence, it is not relevant for the purpose of consideration of Intangible Assets, referred to in this Tariff Order.
- Further, the purpose of AAI deputing its Senior Personnel prior to COD and their continuation at the airport for the period of 3 months after COD is primarily to ensure that the relevant knowledge and experience of the operation and management of Mangaluru International Airport is transferred to the AO. Therefore, the deputation of such staff is very relevant towards the objective of smooth transition of the airport from AAI to AO, and fulfilment of the terms of the CA.
- Furthermore, the Authority notes that as per clause 15.1.2 of the Concession Agreement, the Concessionaire is mandated to achieve COD within 180 days from the date of the Concession Agreement.
- In summary, AAI deputed its staff and management personnel to the Airport during the transition period, including prior to the COD. Additionally, Adani Group also had to depute its own manpower from other group entities. The Authority has accordingly decided to consider salary expenses pertaining to such Adani Group entities for the period of six months prior to COD, i.e. from May 1, 2020 to October 31, 2020, for the purpose of tariff determination.
- Further, on detailed examination of the costs (department-wise) of manpower deputed by the Adani Group for the above-mentioned period of 6 months, the Authority notes that the manpower deputed for certain functions such as Commercial and Legal ought to be excluded. Further, the Authority has rationalized the headcount submitted by the AO for certain other functions such as Cargo, Master Planning, IT, Operations, Security, Techno Commercial, etc. to derive the allowable Intangible asset, as shown in the Table 30 below.
- The proportion of such Adani group expenses allocable towards Mangaluru International Airport has been determined in the proportion of Initial RAB of MIA to the total RAB of all 3 airports (Mangaluru, Lucknow and Ahmedabad), as submitted by AAI at the time of the Letter of Award.

- The Authority has decided that the bid expenses incurred prior to the date of Letter of Award of Mangaluru Airport and expenses incurred between the date of Concession Agreement and COD (other than that specifically considered above), as submitted by the Airport Operator would not be considered for tariff determination.

- Further, the Authority notes that salary expenses (₹ 0.92 crores) were incurred by Mangaluru International Airport Limited during the observation period of 60 days (Sep 2020 and Oct 2020) as per clause 16.5 of the Concession Agreement, wherein the new Concessionaire's team had to work along with AAI's team to understand the Airport operations. The aforementioned costs have been considered in the tariff determination process.

- Based on the above, the total costs pertaining to Salary expenses prior to COD, as allowable for the purpose of true up of Mangaluru International Airport is determined as follows:

Table 30: Intangible asset decided by the Authority for the First Control Period

(₹ Crores)

Entity	Period	Total	% allowable	Amount decided towards Intangible asset
Adani Group	May 1-Oct 31, 2020	10.53	18.70%*	1.97
MIA	Sep 1-Oct 31, 2020	0.92	100%	0.92
Total				**2.89**

** Note: The allowable % (18.7%) has been derived based on the ratio of assets (Initial RAB + CWIP) of Mangaluru Airport on the total assets (Initial RAB + CWIP) of all three Airport SPVs (i.e. Ahmedabad, Lucknow and Mangaluru) as on COD.*

5.5.27 The Authority based on the above analysis and considering all the necessary clauses of the Concession Agreement, (including achievement of COD within 6 months from the date of CA), wherein a new Concessionaire has to perform, with involvement of Senior executives, certain pre-COD functions such as operational readiness, familiarization & training, Trial programs, Airport facility assessment, Capability building & human resource management, observation period, etc., decides to allow ₹ 2.89 Crores of Intangible asset (as determined in the table above) as part of the O&M expenses.

5.5.28 The Authority has considered such expense, as part of O&M expenses, only for the period of 6 months prior to COD, in order to facilitate smooth transition of the Airport from one airport operator (AAI) to another (new Concessionaire).

5.5.29 The Authority has examined the AO's comments with respect to the fixed locations inside terminal buildings. It is noted that the area identified for Non-aeronautical activities are based on the scope for commercial exploitation and there are no specific restrictions stipulating that the area allocated for a particular non-aeronautical activity must be at a particular location (except on account of consideration of safety and security). Accordingly, the area used for Non-aeronautical activities cannot be considered as fixed locations.

5.5.30 The Authority has considered the AO's comments on the Terminal Building ratio. The Authority is of the view that in the absence of any specific unit area and costs being mentioned in the Concession Agreement, the norms as per the IMG norms are the most appropriate basis for the purpose of tariff determination and the same has been considered for the purpose of true-up.

5.5.31 Further, the Authority would like to state that for similar airports such as Trichy, Varanasi, Raipur, Amritsar and Calicut Airport (which is a table-top airport), the Authority had determined Terminal Building ratio generally of 92:8 or 90:10, depending upon the size, scale and topography of the Airport. This is the uniform approach followed by the Authority since FY 2009-10. Hence, the Terminal Building ratio of 92:8 considered for MIA is appropriate.

5.5.32 The Authority noted the AO's comments on Shared-Till model. As per paragraph 5.2.1.(b)(i) of AERA Guidelines, *"The assets that substantially provide amenities / facilities/ services that are not related to, or not normally provided at an airport, may be excluded from the scope of RAB".* The demarcation between Aeronautical and Non-aeronautical activities have been defined in the AERA Guidelines. On the same basis, AERA undertakes determination of tariff across all Major Airports.

5.5.33 The Authority has examined the comments of AO regarding the Terminal Building ratio. The ceiling height are part of the overall plan of the terminal building considering various factors, while the height used for commercial activities are based on the specific requirements of those vendors and not based on any other restriction. Further, the area used for commercial activities are leased based on the floor area only and hence the allocation of terminal building area based on the floor area utilized for Non-aeronautical activities is the appropriate basis for allocation of common assets and the related common expenses.

Further, AERA does not agree with the argument of the AO that in the Terminal Building, all the assets should be considered as Aeronautical. If that is so, the AO should forgo the 70% Non-aeronautical revenue, which the AO would be enjoying from the Non-aeronautical assets.

5.5.34 The Authority has noted the comments of FIA and the response of the AO and it is of the view that there is no adjustment of RAB after the COD. The present value of the "Adjusted Deemed Initial RAB" has been derived by the Authority in accordance with the provision of the Concession Agreement (clause 28.11.4). The Authority decides to consider the same in the Tariff Order for the First Control Period of MIA.

5.5.35 The Authority has noted the comments of IATA on the per passenger fee and is of the view that the response of the AO adequately addresses the issues raised by IATA.

5.5.36 Based on the above analysis, the Average RAB decided by the Authority for true up of the period from COD till March 31, 2021 is as follows:

Table 31: Average RAB decided by the Authority from COD till March 31, 2021

(₹ Crores)

Particulars		Ref.	Amount
Adjusted RAB as on October 31, 2020 transferred to Mangaluru International Airport Limited	A	Table 13	**127.42**
Additions to RAB from COD to March 31, 2021 as per Airport Operator's True up submission	B		16.89
Sub-total (A + B)	C		**144.31**
Reclassifications on asset additions			
Computers and Software – reclassification	D	5.4.1.4 (i)	(0.003)
Exclusion of Intangible asset	E	5.4.1.4 (ii)	(16.37)
Impact of differential Employee Head Count ratio	F	5.4.1.4 (iii)	0.01
Total reclassifications on asset additions Sum (D: F)	G		**(16.36)**
Adjusted RAB post reclassifications and adjustments (C + G)	H		**127.95**

Particulars		Ref.	Amount
Depreciation for the period from COD to March 31, 2021	I	5.5.1.5	(4.28)
Adjusted RAB as on March 31, 2021, i.e., opening RAB for First Control Period (H+I)*	J		**123.67**
Average RAB = (A+J)/2	K		**125.55**

5.6 True up of FRoR

5.6.1 Authority's examination of True up of FRoR at Consultation stage

5.6.1.1 The AO had submitted FRoR as 14.9% for true up of the period from COD till March 31, 2021. However, the Authority proposed to consider FRoR @ 14% as against 14.9% considered by the Airport Operator, as there had been no borrowings availed by Airport Operator for the period from COD till March 31, 2021 and in line with the Authority's proposal for true up of AAI from FY 2017 to FY 2020 (up to October 30, 2020) and also as approved for other similar airports. From the next Control Period for the AO, AERA would consider FRoR, in line with other PPP airports.

Stakeholders' comments on True up of FRoR for the period from COD till March 31, 2021

5.6.2 During the stakeholder's consultation process, the Authority has received comments/ views from the stakeholders in response to the proposals of the Authority in the Consultation Paper 07/2022-23 with respect to True up of FRoR for the period from COD till March 31, 2021. The comments from stakeholders are presented below:

Airport Operator's comments on True up of FRoR for the period from COD till March 31, 2021

5.6.3 No comments were provided by Airport Operator for True up of FRoR for the First Control Period.

Other Stakeholders' comments on True up of FRoR for the period from COD till March 31, 2021

5.6.4 FIA has commented the following:

"No Fair Rate of Return (FRoR) to airport operators should be provided as such fixed/ assured return favors the service provider/airport operators, which creates an imbalance against the airlines, which are already suffering from huge losses and bear the adverse financial impact through higher tariffs. Due to such fixed/assured returns, Airport Operators have no incentive to look for productivity improvement or ways of increasing efficiencies, take steps to reduce costs, as they are fully covered for all costs plus their hefty returns. Such a scenario breeds inefficiencies and higher costs, which are ultimately borne by airlines.

We observe that Fair Rate of Return of 14% provided to AAI is higher than comparison to the same being given to the present airport operator i.e. MIA/ Mangaluru International Airport Limited i.e. @ 12.21%. Without prejudice to (a) above, there appears no rationale to provide higher return to AAI in comparison to MIA and accordingly AERA may reduce the FRoR suitably."

Airport Operator's responses to Other Stakeholders' comments on True up of FRoR for the period from COD till March 31, 2021

5.6.5 As far as issue of airport charges leading to higher costs for airlines is concerned, we would like to state that the airport charges form 6-8% of the total operational cost of Airlines (based on the study of annual reports/financials available in public domain of listed Indian airlines such as Indigo, SpiceJet etc.). Hence, contribution of Airport Charges to the Airline cost structure is very limited and of lower significance as compared to other higher-impact costs such as fuel, aircraft leases, aircraft maintenance costs, salaries etc.

5.6.6 In respect to FRoR, we would like to clarify that Authority has allowed FRoR of 14% to AAI for true up purpose and also allowed FRoR of 14% to AO for true up of 5 months from COD to March-2021, as no debt was raised by AAI or AO during the relevant period. For FCP, Authority has allowed FRoR of 12.21%. However, MIA is seeking FRoR of 14.9% based on cost of equity of 17.49% as determined by the independent study done for MIA and cost of debt of 12% as per actuals. If Airport Operators are not given suitable returns on their investment, the development and upgradation of such infrastructure facilities will not be up to the mark as expected by the Governments, Aviation Industry and Users.

5.6.7 As far as efficiency is concerned, Airport operator has done analysis of all expenses, capital or operational, and has projected the expenses after factoring necessary efficiencies like vendor consolidation, bundling of procurement etc.

Authority Analysis of True up of FRoR for the period from COD till March 31, 2021

5.6.8 The Authority notes FIA's comment on not providing any return on the assets or reducing it and the response of AO and AAI thereon. The Authority is of the view that an airport is a long-term asset and in such long-term projects, investors desire a stable return on equity. Therefore, the Authority finds that it is not pragmatic or fair to reduce or not to provide any return on the assets of the Airport Operator. Further, as there was no debt availed by AAI and the AO during the pre-COD period and the period from COD till March 31, 2021, the Authority decides to consider the FRoR as 14%.

5.7 True up of Aeronautical O&M expenses

5.7.1 Authority's examination of True up of O&M expenses at Consultation stage

5.7.1.1 The component-wise break up of Aeronautical Operation and Maintenance expenses submitted by the Airport Operator for the period from COD till March 31, 2021 is as follows:

Table 32: O&M expenses submitted by Airport Operator for the period from COD till March 31, 2021

(₹ Crores)

Particulars	Amount
Manpower expenses	9.83
Utility expenses	3.93
IT expenses	1.67
Security expenses	0.86
Allocation of Corporate expenses	2.20
Administration and General expenses	2.00
Insurance expenses	0.31
Repairs and maintenance expenses	3.40
Other expenses	2.39
Bank charges	0.41
Total	**27.00**

5.7.1.2 **Reallocation of O&M expenses**

The Authority had conducted an independent study to determine efficient Aeronautical Operation and Maintenance costs for the period FY 2016-17 till FY 2020-21 and used the outcome of the study to true up the O&M expenses for the period from COD till March 31, 2021 for the AO.

The common O&M expenses have been segregated by Airport operator between Aeronautical and Non-aeronautical expenses based on a suitable ratio. This ratio has been determined based on the underlying proportion of their expected utilisation for Aeronautical and Non-aeronautical services and activities at the Airport.

The Authority had analysed the submission made by the Airport Operator on allocation of Common expenses into Aeronautical and Non-aeronautical on a case-to-case basis and applied appropriate re-classification and re-allocation of the expenses, wherever it noted any discrepancies in the allocation of expenses by the Airport Operator *(refer Table 21 for basis for allocation of O&M expenses of Airport Operator as per the Study on Efficient Operation and Maintenance Expenses for Mangaluru International Airport)*. Accordingly, the following common expenses had been re-allocated by the Authority by using appropriate ratios such as Terminal Building ratio, Gross Fixed Assets ratio, Employee Head Count ratio and Electricity ratio *(Refer para 4.10.1 to para 4.10.4 of the Study report on Efficient Operation and Maintenance Expenses for Mangaluru International Airport regarding the ratios used by the Authority for allocation of common expenses.)*

i. Manpower expenses

ii. Utilities

i. Manpower expenses

Manpower expenses - AAI

Observation: The Authority noted that pursuant to Clause 6.5 of the Concession Agreement read with Clause 28.4.3 entered into between AAI and Mangaluru International Airport Limited, the cost of AAI employees deputed at the Mangaluru International Airport shall be eligible for pass-through in the determination of Aeronautical charges. The Authority noted that the Airport Operator had considered the Manpower expenses as 100% Aeronautical. However, the Authority proposed to re-allocate the same in the ratio of Employee Head Count of AAI employees (98.84:1.16), resulting in a downward adjustment of ₹ 0.07 Crores.

Impact: The impact of the re-allocation resulted in reduction of Manpower expenses by ₹ 0.07 Crores for the period from COD till March 31, 2021.

Reference: Para 4.11.2 of the Study on Efficient Operation and Maintenance Expenses for Mangaluru International Airport.

Manpower expenses – Airport Operator

Observation: The Authority noted that the Airport Operator has apportioned its Manpower expenses in the Employee Head Count ratio of 97:3, instead of actual Employee Head Count ratio of 94.44:5.56 (refer para 4.10.3.1 and Table 20 of the *Study on Efficient Operation and Maintenance Expenses for Mangaluru International Airport*). The Authority proposed to re-allocate the same in the ratio of Employee Head Count of the Airport Operator (94.44:5.56), resulting in a downward adjustment of ₹ 0.09 Crores.

Impact: The impact of the re-allocation resulted in reduction of Manpower expenses by ₹ 0.09 Crores for the period from COD till March 31, 2021.

Reference: Para 4.11.3 of the Study on Efficient Operation and Maintenance Expenses for Mangaluru International Airport.

ii. Utilities

Observation: The Utility expenses had been considered by the Airport Operator as Aeronautical since the expenses are net-off recoveries from Concessionaires. The Authority proposes to consider 1% of the net Utility expenses as costs towards other common areas.

Impact: The impact of the reallocation resulted in reduction of Utility expenses by ₹ 0.04 Crores for the period from COD till March 31, 2021.

Reference: Para 4.11.4 of the Study on Efficient Operation and Maintenance Expenses for Mangaluru International Airport.

5.7.1.3 The impact on the Aeronautical O&M expenses of the Airport Operator on account of the proposed reallocation of expenses is as follows:

Table 33: Impact of proposed reallocation of Airport Operator's Aeronautical O&M expenses

(₹ Crores)

O&M expenses	**October 31, 2020 to March 31, 2021**
Manpower expenses	0.16
Utility expenses	0.04
Total	**0.20**

5.7.1.4 Based on the above adjustments and reclassification, the revised Aeronautical O&M expenses for the period from COD to March 31, 2021 as summarized in the table below:

Table 34: Reallocated Aeronautical O&M expenses of the Airport Operator for the period from COD to March 31, 2021

(₹ Crores)

Particulars	**October 31, 2020 to March 31, 2021**
Manpower expenses	9.67
Utility expenses	3.89
IT expenses	1.67
Security expenses	0.86
Allocation of Corporate expenses	2.20
Administration and General expenses	2.00
Insurance expenses	0.31
Repairs and Maintenance expenses	3.40
Bank charges	0.41
Other expenses	2.39
Total	**26.80**

5.7.1.5 **Rationalisation of O&M expenses**

Based on the Internal benchmarking analysis performed for O&M expenses through *the Study on Efficient Operation and Maintenance Expenses for Mangaluru International Airport*, the Authority proposed to rationalise the following expenses for the period from COD till March 31, 2021.

a. <u>Manpower expenses – Airport Operator</u>

- The Authority noted that the reallocated Manpower expenses of the Airport Operator (₹ 9.67 crores shown in Table 34) includes the following:
  - i. Salary Cost of AAI employees - ₹ 6.33 crores
  - ii. Salary cost of AO employees (27 employees) - ₹ 3.34 crores.
- The Authority noted that there were about 107 Select employees of AAI, who were already

deployed at the Airport. As these employees are expected to continue serving the Airport until the Deemed Deputation Period (which is 3 years from COD), the deployment of 27 employees by the AO for the period from COD till March 31, 2021, over and above the AAI employees, seems to be on the higher side. The Authority had rationalised the Manpower expenses of AO on the following basis:

i. Salary costs of Legal department is excluded from the determination of Aeronautical charges as per Clause 28.3.8 of the Concession agreement. Hence, the same is considered as Non-aeronautical costs.

ii. Headcount of departments such as Operations, HR have been rationalised (by reducing the Headcount by 2 employees each) based on the Select employees of AAI available and also considering the existing level of size, scale and related operations at the Airport.

The Manpower costs of AO derived by the Authority is as follows:

Table 35: Manpower costs of AO derived by the Authority for True up from COD till March 31, 2021

(₹ Crores)

Particulars	Amount
A. Total reallocated Manpower costs of AO for the period from COD till March 31, 2021	9.67
B. *Less:* Costs rationalised by the Authority	0.62
C. Adjusted Manpower costs of AO for the period from COD till March 31, 2021	**9.05**

b. Repairs and Maintenance

- The Authority noted that the Repairs and maintenance expenses submitted by the Airport Operator (₹ 3.40 crores) is higher than 6% opening net block of RAB, as approved for other similar Airports such as Calicut International Airport. The Authority proposed to rationalise the Repairs and Maintenance expenses to the extent of 6% of the opening Net block as on October 31, 2020. The same is presented below:

Table 36: Repairs and Maintenance expenses of the Airport Operator considered by the Authority for True up from COD till March 31, 2021

(₹ Crores)

Particulars	Ref.	Amount
Aeronautical Repairs and maintenance expenses proposed by the Airport Operator	A	3.40
Opening RAB as on COD (refer Table 29)	B	125.64
Repairs and maintenance as % of RAB (C = (A*12/5)/B)	C	6.77%
Repairs and maintenance expenses proposed to be allowed by the Authority (B*6%*5/12)	D	**3.14**
Amount proposed not to be allowed by the Authority	(A-D)	**0.26**

5.7.1.6 Based on the above analysis, the Authority had derived the O&M expenses that it proposed to consider for True up for the Airport Operator from COD till March 31, 2021 and the same is as follows:

Table 37: Adjusted Aeronautical O&M expenses proposed to be considered by the Authority for True up from COD till March 31, 2021 at Consultation stage

(₹ Crores)

Particulars	Ref.	Amount
Reallocated O&M expenses of the Airport Operator = (A)		
Manpower expenses	Table 34	9.67
Utility expenses		3.89
IT expenses		1.67
Security expenses		0.86
Allocation of Corporate expenses		2.20
Administration and General expenses		2.00
Insurance expenses		0.31
Repairs and Maintenance expenses		3.40
Bank charges		0.41
Other expenses		2.39
Total		**26.80**
Rationalisation of O&M expenses (not considered by the Authority) = (B)		
Manpower expenses	Table 35	0.62
Utility expenses		-
IT expenses		-
Security expenses		-
Allocation of Corporate expenses		-
Administration and General expenses		-
Insurance expenses		-
Repairs and Maintenance expenses	Table 36	0.26
Bank charges		-
Other expenses		-
Total		**0.88**
Adjusted Aeronautical O&M expenses proposed by the Authority for True up = (A-B)		
Manpower expenses		9.05
Utility expenses		3.89
IT expenses		1.67
Security expenses		0.86
Allocation of Corporate expenses		2.20
Administration and General expenses		2.00
Insurance expenses		0.31
Repairs and Maintenance expenses		3.14
Bank charges		0.41

Particulars	Ref.	Amount
Other expenses		2.39
Total		**25.92**

Stakeholders' comments on true up of Operation & Maintenance expenses for the period from COD till March 31, 2021

5.7.2 During the stakeholder's consultation process, the Authority has received comments/ views from the stakeholders in response to the proposals of the Authority in the Consultation Paper 07/2022-23 with respect to true up of Operation & Maintenance expenses for the period from COD till March 31, 2021. The comments from stakeholders are presented below:

Airport Operator's comments on true up of Operation & Maintenance expenses for the period from COD till March 31, 2021

5.7.3 MIA has submitted the following comments with respect to rationalization of O&M expenses (refer para no. 5.7.1.5 of this Tariff Order:

"The reason mentioned by the Authority for rationalization of manpower is that 27 employees by the AO seems to be ***on the higher side****. However, the Authority has not provided any basis on which it has arrived at this conclusion.*

We would like to refer to the Study on Efficient Operation and Maintenance Costs provided as Appendix II to the CP, where no such reasoning or remark is provided. The study has no observation that employees of AO seem to be higher.

We would like to submit that the Hon'ble Supreme Court vide its judgement dated 11th July 2022 in respect to tariff appeals of First Control Period of DIAL and Mumbai International Airport Limited has recognized the importance of employees from both AAI and DIAL to work in tandem in the transition phase. Relevant extract of para 65 of the judgement is reproduced below:

"The principle of economic efficiency incorporated in SSA only means that there should be no extra cost included which does not affect the efficiency of the system. It can hardly be said that the system could have worked in the relevant year without the AAI manpower. No doubt it was a transition phase which required both sets of manpower to work in tandem towards the efficiency levels. The relevant aspect is that as and when AAI started pulling out their manpower, DIAL supplemented the manpower. That manpower supplemented may be less or more is not relevant. In the year in question, the presence of both sets of manpower was necessary for the efficient functioning and the manpower of DIAL was in the learning process. This learning curve cannot be excluded on the ground of not being relatable to economic efficiency. It can hardly be called duplication of work even though it may in some sense add to the value of HRAB but that is a natural corollary. The parties to the contract were quite conscious of this ramification as they knew the methodology which would be adopted for the takeover of the airport."

Regarding the Authority's proposal to treat legal employees as Non-Aero *in view of the CA's clause 28.3.8, we would like to place the following facts:*

Clause 5.1.2 of the CA is reproduced below,

The Concessionaire shall comply with all Applicable Laws and Applicable Permits (including renewals as required) in the performance of its obligations under this Agreement.

In house legal team helps is vetting all the RFPs/RFQs issued by AO. They also help in complying all the laws, regulations, and guidelines etc. applicable to AO. Further, replying to various notices *issued by statutory bodies, contractors etc. is done by employees of legal department. It is also to be noted that in house legal team is not eligible to appear on behalf of MIA in any court of law as they are not members of the Bar Council of India.*

It is to be noted that the Authority has treated cost of employees under Legal department as non-Aero which is not in line with the letter and spirit of the Concession Agreement. The work of in-house Legal department is mainly related to Aero. Till COD and thereafter also, legal department had to play a huge in role in complying with the terms of the Concession Agreement and applicable laws for operational readiness of the Airport. Further, the Airport Operator has given the rights of Non-Aeronautical Services to a Master Service Provider and therefore, the majority work being carried out by the Legal department is only related to Aeronautical Services. It may also be noted that cost of Legal Employees cannot be treated as Legal Services.

There is a restriction on advocates from taking up other employments. It means that an advocate can be either a counsel or an employee. In-house legal department employee cannot provide legal services of arguing a case in court of law. They can merely check the legal side of the documents for the better understanding of the management who are not qualified in law.

It is also requested to take a note that as per CA "costs incurred by the Concessionaire with regards to legal services, shall not be considered by the Regulator for the purpose of determining the Aeronautical Charges". As is clear, CA does not restrict Regulator to allow pass through of costs incurred by the AO with respect to the employees of in-house legal department. The costs incurred with respect to legal services like litigation matters costs have been barred from perspective of pass-through in tariff.

We request the Authority to allow the cost of legal employees, the amount which has been actually incurred and paid, during the period from COD till 31st March 2021 without any adjustment.

***Regarding the Authority's proposal to reduce HR manpower from 3 to 1** we would like to place the following facts:*

As per Clause 5.1.2 of the CA, AO is required to reimburse AAI Manpower salaries on monthly basis.

Also, as per clause 6.5, AO is required to make offer to AAI employees within 90 days of COD. In order to perform these mandatory activities, 2 Manpower are exclusively required for the following activity:-

- *Reconciliation of monthly Salary statement*
- *Attendance of AAI manpower on manual basis*
- *Co-ordination for AAI employee joining formalities, Handling complaints, industrial relations, managing grievance procedures and facilitating counseling*
- *Engaging with AAI employees, Understanding the current skills*
- *Organizing town halls.*
- *Working out suitable compensation package*
- *Understanding the non-tangible benefits available to AAI employees, studying how the same can be factored in compensation package.*
- *Preparation of offer letters*
- *Rolling out joining offers for over 107 employees within time bound manner.*

Further MIA being a separate entity has to fulfill various statutory obligations relating to PF, ESI, TDS, labor laws etc.

It was necessary to hire 3 employees, as the tasks to be performed by them are either exclusive to Adani group or required to fulfill necessary compliances. We request the Authority to allow the employee cost, the amount which has been actually incurred and paid, during the period from COD till 31st March 2021 without any adjustment.

Regarding the Authority's proposal to reduce Operation manpower from 4 to 2 we would like to place the following facts:

As per Clause 6.5.3 the senior management staff of AAI of the rank of DGM and above would not be available after 3 months from COD.

As per requirement of CA, MIA made offer to AAI select employee. However, nobody accepted the offer.

It was necessary for MIA to plan hiring and training for various roles. Operation being critical and sensitive function for overall functioning of the Airport in efficient and safe manner, MIA hired one person each as Head of Operation, Terminal Duty Manager, Duty officer protocol and Facility Management.

We request the Authority to allow the employee cost, the amount which has been actually incurred and paid, during the period from COD till 31st March 2021 without any adjustment.

In respect to R&M Expenses:

AERA restricted R&M expenses to 6% of the opening RAB without any basis. R&M expenses depend on various factors like age of the existing assets, frequency of the use of assets (single/double/triple shift), local geographic and weather conditions.

RAB is a depreciating building block. RAB amount depreciates each year based on depreciation rate applied. In case R&M is computed as percentage of the RAB, it results in reduction of R&M amount. Whereas in actuals, as the asset gets older the R&M expenditure increases to maintain the efficiency of the operations. This was also explained by AAI during the stakeholder consultation in the presentation provided on 22nd August 2022.

We have submitted during our presentation at the stakeholders' consultation meeting that majority of fixed assets for Mangaluru Airport was created by AAI during year 2001-2010 (approx. Rs.270 Crore out of total gross fixed assets of around Rs.400 Crores) and balance during FY 2011-20. This clearly demonstrates that the Fixed Assets at the Airport are very old, which requires and justifies higher repairs & maintenance cost to achieve efficiency. Despite this, disallowing the repairs & maintenance cost, according to us, is not correct.

We request Authority to approve the actual R&M expenses as per the audited financials. The list of R&M expenditures for FY21 is appended here with as Annexure 1.1.

Clause 28.1 of the CA is as follows:

On and from COD and till the Transfer Date, the Concessionaire has the sole and exclusive right to demand, collect and appropriate Fees from the Users for the provision of the Aeronautical Services and Non-Aeronautical Services, including the airlines and passengers, in accordance with the provisions of the Regulatory Framework and this Agreement including the terms set out in ***Schedule R (Memorandum of Understanding), provided that the Concessionaire may determine and*** *collect Fees at such lower rates as may be agreed with the Users or any category of Users in accordance with the Applicable Laws and Applicable Permits.*

"Regulatory Framework" means the framework adopted by the Regulator as per the Applicable Laws, including the AERA Act and Airports Economic Regulatory Authority (Terms and Conditions for Determination of Tariff for Airport Operators) Guidelines, 2011;

The approach considered by AERA is not as per AERA Guidelines 2011. AERA guideline does not provide any capping of R&M expenses at 6%. We would like to place before the Authority that restricting the R&M expenses may lead to compromises in the safe operations as AO will be constrained to incur expenses beyond what is allowed.

Further, it is observed that while AERA has considered 6% of Net Block in FY22 to FY24, and for FY25 and FY26 AERA has considered the expenses as per AO filing which were based on different assumptions and were lower than the amount arrived as per percentage of Net Block. Notwithstanding our comments given above on restricting the R&M expenses, we submit that if a principle is applied that should be adhered consistently irrespective whether the value is higher or lower, rather than cherry picking.

In the light of the foregoing, we request AERA that R&M expenses should be trued up based on actuals, without any capping.

In order to understand the issue highlighted in point 1.3.7.2 above, about ever-increasing Gap between the projected R&M vs notional R&M based on 6% of Opening Net RAB, the example given below may be referred to."

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Opening Net Block	100	95	90	85	80	75	70	65	60	55
Dep Rate	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Dep on Gross Block	5	5	5	5	5	5	5	5	5	5
Closing Net Block	95	90	85	80	75	70	65	60	55	50
6% of R&M Exp on Opening Net RAB (as suggested by AERA) (A)	6.00	5.70	5.40	5.10	4.80	4.50	4.20	3.90	3.60	3.30
Projected R&M Cost based on age of asset (B)	6.00	6.00	7.00	7.00	8.00	8.00	9.00	9.00	10.00	10.00
Difference (A - B)	-	(0.30)	(1.60)	(1.90)	(3.20)	(3.50)	(4.80)	(5.10)	(6.40)	(6.70)

Other Stakeholders' comments on true up of Operation & Maintenance expenses for the period from COD till March 31, 2021

5.7.4 No comments have been provided by any other stakeholder on true up of Operation & Maintenance expenses for the period from COD till March 31, 2021.

Authority's analysis on true up of Operation & Maintenance expenses for the period from COD till March 31, 2021

5.7.5 The Authority has examined the comments provided by the AO on the **manpower deployed by the AO** for the period from COD till March 31, 2021 and provides its views as under:

- The Authority is aware of the Hon'ble Supreme Court's judgement dated 11th July 2022 with respect to tariff appeals of First Control Period of DIAL and Mumbai International Airport Limited. AERA emphasizes to the AO that it should make sure that during the deemed deputation period both, AAI and MIA employees work together to the most efficient standards and the AO makes complete utilisation of the AAI employees. AERA is not bound to agree to the data on Employee Headcount that the AO may furnish in its MYTP. The Authority has considered the principles laid out in its AERA Act, 2008, AERA Guidelines 2011 and ICAO principles and has allowed only the efficient and essential O&M expenses that are reasonable for the operating the Mangaluru Airport. The Authority by doing so, has taken care of the interest of the airport users as well.

- The Authority notes that in-house legal team is needed for performing duties such as vetting of RFPs/RFQs issued by AO, complying with the laws, regulations, and guidelines etc. and has decided to consider the In-house Legal staff as Common and apportion the same to Aeronautical activities based on an appropriate ratio (as against its earlier proposal of treating the cost of inhouse Legal employees as "Non-aeronautical" at the Consultation stage).
- With respect to the headcount on HR and Operations, the Authority decides to maintain its stand as stated at the Consultation stage, as the Authority is convinced that the employee headcount had been rationalized, keeping in view the operational requirements of the Airport and in line with the principles laid out in the AERA Guidelines (as explained in the above para).

The Authority has noted the comments of the AO on **Repairs and Maintenance (R&M) expenses** and has the following views:

i. The Authority has rationalised the R&M expenses, based on the recommendations of its Independent Study on the Efficient O&M expenses of Mangaluru International Airport, in accordance with the practice consistently followed by the Authority for all the other airports. Further, the Authority notes that the impact on account of rationalisation of the R&M expenses of the AO for the period from COD till March 31, 2021 is insignificant. Hence, the Authority decides to maintain its stand as stated by it at the Consultation stage with respect to limiting R&M expenses to 6% of the Opening Net block of Aeronautical Assets or as claimed by the AO, whichever is less.

ii. Further, the Authority would like to state that the AERA Guidelines emphasizes about improving the efficiency of operations, as well as economic and viable operations of the Airport. The Authority is of the view that the AO has misinterpreted the context of the Guidelines, which is not appropriate.

iii. It is further for the information of the AO, that airport tariffs are determined by AERA on airport-wise as provided in the AERA Act, 2008, AERA Guidelines and ICAO principles taking into consideration airport-specific relevant factors such as CAPEX required, efficiency, cost relatedness, traffic, etc. AO should understand that it is not practical to have each and every detail in the Guidelines, because those may vary from airport to airport. The principles followed by AERA for tariff determination across all Major Airports have worked well over the years and MIA is no exception.

iv. Based on the above analysis, the Authority has determined the Operation and Maintenance expenses which it decides to consider for the period from COD till March 31, 2021, as presented in the following table:

Table 38: Manpower costs of AO decided by the Authority for True up from COD till March 31, 2021

(₹ Crores)

Particulars	Amount
Total reallocated Manpower costs of AO for the period from COD till March 31, 2021 (refer Table 35)	9.67
Less: Costs rationalised by the Authority (after considering in-house legal costs)	0.52
Adjusted Manpower costs of AO for the period from COD till March 31, 2021	**9.15**

Table 39: Aeronautical O&M expenses decided to be considered by the Authority for True up from COD till March 31, 2021

(₹ Crores)

Particulars	Ref.	Amount
Reallocated O&M expenses of the Airport Operator = (A)		
Manpower expenses	Table 34	9.67
Utility expenses		3.89
IT expenses		1.67
Security expenses		0.86
Allocation of Corporate expenses		2.20
Administration and General expenses		2.00
Insurance expenses		0.31
Repairs and Maintenance expenses		3.40
Bank charges		0.41
Other expenses		2.39
Intangible asset	Table 30	2.89
Total		**29.69**
Rationalisation of O&M expenses (not considered by the Authority) = (B)		
Manpower expenses	Table 38	0.52
Utility expenses		-
IT expenses		-
Security expenses		-
Allocation of Corporate expenses		-
Administration and General expenses		-
Insurance expenses		-
Repairs and Maintenance expenses	Table 36	0.26
Bank charges		-
Other expenses		-
Total		**0.78**
Adjusted Aeronautical O&M expenses decided by the Authority for True up = (A-B)		
Manpower expenses		9.15
Utility expenses		3.89
IT expenses		1.67
Security expenses		0.86
Allocation of Corporate expenses		2.20

Particulars	Ref.	Amount
Administration and General expenses		2.00
Insurance expenses		0.31
Repairs and Maintenance expenses		3.14
Bank charges		0.41
Other expenses		2.39
Intangible asset		2.89
Total		**28.91**

5.8 True up of Non-aeronautical revenue (NAR)

5.8.1 Authority's examination of True up of NAR at Consultation stage

5.8.1.1 The Airport Operator had submitted the following components of NAR for the period from COD till March 31, 2021. The Authority had noted as part of its review that certain categories of Aeronautical revenue (such as CUTE counter charges, Airport Security Fee, Charges for Vehicle permit for Airside operations etc. of ₹ 0.39 crores) had been incorrectly shown under NAR. The Authority had reclassified the same and is presented in the Table below:

Table 40: NAR reclassified and proposed to be considered by the Authority for True up from COD till March 31, 2021 at Consultation stage

(₹ Crores)

Particulars	NAR submitted by the AO	NAR reclassified by the Authority	NAR considered by the Authority
Food & beverages	0.26	-	0.26
Retail	0.11	-	0.11
Duty free	0.43	-	0.43
Advertising	0.23	-	0.23
Car parking	0.48	-	0.48
Lounge	0.08	-	0.08
Building rent	1.25	-	1.25
Other income	1.43	(0.39)	1.04
Total	**4.26**	**(0.39)**	**3.88**

5.8.1.2 The Authority proposed to consider NAR for the period from COD till March 31, 2021 as per Table 40.

Stakeholders' comments on true up of Non-aeronautical revenue for the period from COD till March 31, 2021

5.8.2 No comments were received from the Stakeholders on true up of Non-aeronautical revenue for the period from COD till March 31, 2021.

Authority's analysis on true up of Non-aeronautical revenue for the period from COD till March 31, 2021

5.8.3 The Authority noted that there are no stakeholder's comments regarding Non-aeronautical revenue for the period from COD till March 31, 2021. Hence, it decides to consider NAR for the period from COD till March 31, 2021 as per Table 40.

5.9 True up of Aeronautical Revenue

5.9.1 Authority's examination of True up of Aeronautical Revenue at Consultation stage

5.9.1.1 The Airport Operator had submitted the following components of Aeronautical Revenue for the period from COD till March 31, 2021. As mentioned in para 5.8.1.1, the Authority had reclassified categories of revenue (such as CUTE counter charges, Airport Security Fee, Charges for Vehicle permit for Airside operations etc. of ₹ 0.39 crores) incorrectly shown under NAR to Aeronautical Revenue. The same is presented in the Table below:

Table 41: Aeronautical Revenue reclassified and proposed to be considered by the Authority for True up from COD till March 31, 2021 at Consultation stage

(₹ Crores)

Particulars	Aeronautical Revenue submitted by AO	Aeronautical Revenue reclassified by the Authority	Aeronautical Revenue considered by the Authority
Landing revenue	2.90		2.90
Parking & Housing revenue	0.04		0.04
Ground Handling charges	0.27	0.02	0.29
Passenger UDF revenue	7.62	0.00	7.62
CUTE Revenue	0.45	0.37	0.82
Total	**11.28**	**0.39**	**11.66**

5.9.1.2 The Authority proposed to consider Aeronautical Revenue for the period from COD till March 31, 2021 as per Table 41.

Stakeholders' comments on true up of Aeronautical revenue for the period from COD till March 31, 2021

5.9.2 No comments were received from the Stakeholders on true up of Aeronautical revenue for the period from COD till March 31, 2021.

Authority's analysis on true up of Aeronautical revenue for the period from COD till March 31, 2021

5.9.3 The Authority has noticed that there are no stakeholder's comments regarding Aeronautical revenue for the period from COD till March 31, 2021. Hence, it decides to consider Aeronautical revenue for the period from COD till March 31, 2021 as per Table 41.

5.10 True up of ARR of Airport Operator

5.10.1 Authority's examination of True up of ARR at Consultation stage

5.10.1.1 Based on its analysis of the various building blocks, the Authority had determined the ARR and Shortfall (Under recovery) for True up of the Pre-COD period and same is presented in the table below:

Table 42: ARR and Shortfall proposed to be considered by the Authority from COD till March 31, 2021 at Consultation stage

(₹ Crores)

Particulars	Ref.	Amount
Average RAB (refer Table 29)		124.66
FRoR on Average RAB (@ 14% for 151 days)	A	7.22

Particulars	Ref.	Amount
Operating expenses (Refer Table 37)	B	25.92
Depreciation (refer Table 29)	C	4.28
Tax	D	0
ARR (Sum A:D)	E	37.42
Non-aeronautical revenue (refer Table 40)		3.88
Less: 30% of Non-aeronautical revenue	F	1.16
Net ARR (E-F)	G	36.26
Actual Aeronautical Revenue (refer Table 41)	H	11.66
Shortfall/ under-recovery (G-H)	I	24.60
Discount factor (@ 12.21%) as on March 31, 2022*	J	1.1221
PV of Under-recovery as on March 31, 2022= I*J		**27.60**

** PV factor has been derived for FY 2020-21 (as on March 31, 2021) by assuming the discount factor as 1 for the FY 2021-22.*

5.10.1.2 The Authority proposed to consider Under recovery of ₹ 27.60 crores for True up of Airport Operator for the period from COD up to March 31, 2021 and readjust the same in the ARR computation of MIA for the First Control Period.

Stakeholders' comments on true up of ARR for the period from COD till March 31, 2021

5.10.2 No comments were received from the Stakeholders on true up of ARR for the period from COD till March 31, 2021.

Authority's analysis on true up of ARR for the period from COD till March 31, 2021

5.10.3 The Authority has noticed that there are no stakeholder's comments regarding ARR for the period from COD till March 31, 2021. Based on the above analysis, the Authority has determined the ARR for the period from COD till March 31, 2021, which it decides to consider for determination of tariff for the First Control Period:

Table 43: ARR and Shortfall decided by the Authority from COD till March 31, 2021

(₹ Crores)

Particulars	Ref.	Amount
Average RAB (refer Table 31)		125.55
FRoR on Average RAB (@ 14% for 151 days)	A	7.27
Operating expenses (Refer Table 39)	B	28.91
Depreciation (refer Table 31)	C	4.28
Tax	D	0
ARR (Sum A:D)	E	40.46
Non-aeronautical revenue (refer Table 40)		3.88
Less: 30% of Non-aeronautical revenue	F	1.16
Net ARR (E-F)	G	39.30
Actual Aeronautical Revenue (refer Table 41)	H	11.66
Shortfall/ under-recovery (G-H)	I	27.64
Discount factor (@ 12.21%) as on March 31, 2022*	J	1.1221
PV of Under-recovery as on March 31, 2022= I*J		**31.01**

** PV factor has been derived for FY 2020-21 (as on March 31, 2021) by assuming the discount factor as 1 for* *the FY 2021-22.*

Note: *The variance between the Under-recovery shown in the Tariff Order (₹ 31.01 crores) and that shown in the Consultation Paper No.7/ 2022-23 dated August 5, 2022 (₹ 27.60 crores) is on account increase in O&M expenses by ₹ 2.99 crores, due to inclusion of expenses incurred by AO (6 months prior to COD) of ₹ 2.89 crores and consideration of costs of legal employees of ₹ 0.10 crores.*

5.11 Authority's decisions regarding True up for the period from COD till March 31, 2021

Based on the material before it and its examination, the Authority decides the following with respect to True up of the period from COD till March 31, 2021 for Mangaluru International Airport:

5.11.1 To consider true up of RAB and depreciation for the period from COD till March 31, 2021 as per Table 31.

5.11.2 To consider true up of FRoR for the period from COD till March 31, 2021 @ 14%.

5.11.3 To consider true up of Aeronautical O&M expenses for the period from COD till March 31, 2021 as per Table 39.

5.11.4 To consider true up of Non-aeronautical revenue for the period from COD till March 31, 2021 as per Table 40.

5.11.5 To consider true up of Aeronautical revenue for the period from COD till March 31, 2021 as per Table 41.

5.11.6 To consider Under recovery of ₹ 31.01 crores for True up of Airport Operator, as on March 31, 2022 as per Table 43 for the period from COD till March 31, 2021 and readjust the same in the ARR for the First Control Period.

6. TRAFFIC PROJECTIONS FOR THE FIRST CONTROL PERIOD

6.1. Mangaluru International Airport's submission regarding Traffic projections for the First Control Period

6.1.1. The historical passenger traffic[2] and ATM at the Airport has been shown in the table below:

Table 44: Historical passenger and ATM traffic at Mangaluru Airport

Year	Domestic Passengers	International Passengers	Total Passenger traffic	Domestic ATM	International ATM	Total ATM
2010-11	5,91,029	2,54,671	8,45,700	6,926	2,505	9,431
2011-12	6,28,801	2,64,622	8,93,423	6,811	2,552	9,363
2012-13	7,64,338	2,79,048	10,43,386	7,264	2,642	9,906
2013-14	8,41,376	4,42,291	12,83,667	8,607	4,169	12,776
2014-15	8,29,367	4,77,716	13,07,083	8,406	3,095	11,501
2015-16	10,07,391	6,66,860	16,74,251	9,337	4,468	13,805
2016-17	1,026,897	707,913	1,734,810	10,294	5,111	15,405
2017-18	1,500,002	769,947	2,269,949	14,383	5,253	19,636
2018-19	1,518,411	722,253	2,240,664	14,597	4,768	19,365
2019-20	1,305,068	571,226	1,876,294	11,903	3,782	15,685
2020-21	462,411	152,434	614,845	5,539	1,125	6,664

6.1.2. The traffic growth (%) as submitted by MIA for the First Control Period are as follows:

Table 45: Traffic and growth (%) Y-o-Y proposed by MIA

Year	Passenger			ATM		
	Domestic	International	Combined	Domestic	International	Combined
			Traffic			
2021-22	8,00,000	3,30,000	11,30,000	6,995	2,178	9,173
2022-23	12,30,000	5,00,000	17,30,000	10,537	3,295	13,832
2023-24	15,37,500	7,02,500	22,40,000	12,911	4,622	17,533
2024-25	18,45,000	8,81,638	27,26,638	15,192	5,791	20,983
2025-26	21,77,100	10,62,373	32,39,472	17,585	6,967	24,552
Total	**75,89,600**	**34,76,511**	**1,10,66,110**	**63,220**	**22,853**	**86,073**
			Growth rates			
2021-22*	73.01%	116.49 %	83.79%	26.29%	93.60%	37.65%
2022-23	53.75%	51.52%	53.10%	50.64%	51.29%	50.79%
2023-24	25.00%	40.50%	29.48%	22.53%	40.27%	26.76%
2024-25	20.00%	25.50%	21.72%	17.67%	25.29%	19.68%
2025-26	18.00%	20.50%	18.81%	15.75%	20.31%	17.01%

** Growth rates are computed based on FY 2020-21.*

6.1.3. MIA had engaged an independent agency – CAPA India in August 2020 for assessing passenger traffic,

[2] Source: Traffic News from AAI website

aircraft movement and cargo traffic for Mangaluru Airport. Based on its analysis, CAPA India had provided high, medium and low estimate scenarios of projected traffic for the First Control Period. The traffic projections submitted by MIA in Table 45 is adopted from CAPA India's 'high scenario'.

6.1.4. The passenger traffic and ATM projected above had been adjusted by the Airport Operator to account for billable domestic ATMs (other than those covered under the Regional Connectivity scheme (RCS) scheme initiated by the Government) billable passenger traffic (excluding certain categories of passengers such as infants for whom UDF charges are not leviable). The adjusted passenger traffic and ATM submitted by MIA are as follows:

Table 46: Traffic growth rates (Y-o-Y) submitted by MIA, after adjustment of exempt traffic

Year	Passenger			ATM		
	Domestic	**International**	**Combined**	**Domestic**	**International**	**Combined**
			Growth rates			
2021-22	69.55%	112.16%	80.11%	-24.23%	93.60%	-4.34%
2022-23	53.75%	51.52%	53.10%	63.21%	51.29%	59.12%
2023-24	25.00%	40.50%	29.48%	31.94%	40.27%	34.66%
2024-25	20.00%	25.50%	21.72%	17.67%	25.29%	20.25%
2025-26	18.00%	20.50%	18.81%	15.75%	20.31%	17.36%
			Traffic			
2021-22	7,84,000	3,23,400	11,07,400	4,197	2,178	6,375
2022-23	12,05,400	4,90,000	16,95,400	6,850	3,295	10,144
2023-24	15,06,750	6,88,450	21,95,200	9,038	4,622	13,660
2024-25	18,08,100	8,64,005	26,72,105	10,635	5,791	16,426
2025-26	21,33,558	10,41,126	31,74,684	12,310	6,967	19,277
Total	**74,37,808**	**34,06,981**	**1,08,44,789**	**43,030**	**22,853**	**65,882**

6.1.5. MIA had submitted that the cargo facility is likely to be commissioned at the Airport by October 1, 2022, with annual cargo handling capacity of 9,000 tons. MIA had submitted the cargo volume proposed to be handled for the First Control Period in the table below:

Table 47: Cargo traffic proposed by MIA for the First Control Period

Volume (MT)	**FY 2021-22**	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**	**Total**
Domestic cargo	-	720	1,740	2,104	2,545	**7,109**
International cargo	-	1,681	4,060	4,908	5,938	**16,587**
Total cargo	-	2,401	5,800	7,012	8,483	**23,696**

6.2. Authority's examination regarding Mangaluru International Airport's submission of Traffic for the First Control Period at Consultation stage

6.2.1. The Authority noted that CAPA India, appointed as a consultant by the Airport Operator, had derived traffic forecast based on Regression forecast methodology, developed through econometric analysis of historical data combined with projections of key demand drivers as given below:

- Projections of GDP (Urban area and State level) and population were derived to assess domestic and international passenger forecasts.
- The aircraft movement forecasts for the Airport were derived based on average number of passenger

movements per aircraft movement (based on historical data). Further, the data on type of aircraft and load factors achieved have been used to derive aircraft movements.

- For cargo forecasts, the historical data was not used, as freight volumes follow a volatile growth pattern. As the cargo base at Mangaluru is low, CAPA India has identified other comparable airports for predicting the domestic and international cargo traffic growth.

6.2.2. The Authority noted that Mangaluru International Airport had assumed the 'high scenario' estimates of traffic forecasts submitted by CAPA India for projecting passenger traffic, ATM and cargo (both domestic and international).

6.2.3. The Authority noted that the Airport Operator had considered only billable ATM, after excluding ATM traffic covered under the RCS scheme. However, the Authority was of the view that RCS scheme is promoted by the GoI with the objective of making regional air connectivity affordable by supporting airline operators through concessions offered by Central Government, State Government and the Airport Operators. As this scheme is promoted to encourage small aircrafts, the flights operating under this scheme are not eligible to be claimed as a passthrough/ exemption. Hence, the Authority had considered the total traffic projections (passenger and ATM) of Mangaluru International Airport, which is a consistent approach being followed in this regard in line with all Major Airports.

Similarly, Government of India had allowed exemption of UDF to certain categories of passengers through Order No. AIC 14/ 2019 read with AIC 20/ 2019. The AO cannot claim any passthrough regarding UDF on such categories and this is followed by AERA across at all Major Airports.

6.2.4. As part of its examination of traffic forecast submitted by the Airport Operator, the Authority had calculated Compounded Annual Growth Rate, or CAGR, for passenger traffic and ATM from FY 2010-11 to FY 2019-20 (10-year CAGR), FY 2015-16 to FY 2019-20 (5-year CAGR) and FY 2017-18 to FY 2019-20 (3-year CAGR), FY 2010-11 to FY 2018-19 (9-year CAGR).

6.2.5. The 10-year, 5-year and 3-year CAGRs have been computed for the respective periods up to FY 2019-20, as FY 2020-21 being an exceptional event year, may not provide an appropriate basis for arriving at CAGR. However, the computation of 9-year CAGR is based on the periods FY 2010-11 to FY 2018-19, in order to remove certain extraneous events of FY 2019-20 as detailed in para 6.2.7 below. The table below provides the details of the CAGR for passenger traffic and ATM:

Table 48: CAGR for passenger traffic and ATM

Particulars	10-year CAGR	5-year CAGR	3-year CAGR	9-year CAGR*
Passengers:				
Domestic	8.24%	5.31%	-4.53%	11.05%
International	8.41%	-3.05%	-9.47%	12.28%
Total Passenger Traffic	8.30%	2.30%	-6.15%	11.43%
ATM:				
Domestic	5.56%	4.98%	-6.11%	8.64%
International	4.21%	-3.28%	-10.37%	7.41%
Total ATM	5.22%	2.59%	-7.22%	8.32%

* *For the period FY 2010-11 to FY 2018-19*

6.2.6. The Authority had noted that there is a variation in traffic and volatility in data, which causes the CAGR for 5-year and 3-year period to be inappropriate for future traffic projections.

6.2.7. The Authority noted that there had been a decrease in the traffic particularly in the FY 2019-20, which is a pre-COVID year, due to the following reasons such as:

- The closure of operations by Jet Airways with no replacement of those slots from other airlines.
- The opening of Kannur airport, about 165 kilometers from MIA, resulting in diversion of certain northern Kerala traffic to the Kannur airport.

6.2.8. It was observed that there was a de-growth of 64.57% and 73.31% in domestic passenger traffic and international passenger traffic respectively for FY 2020-21 (compared to FY 2019-20), due to the adverse impact of COVID-19 pandemic on the domestic and international travels. Similarly, it was observed that there was a de-growth of 53.47% and 70.25%, respectively in domestic ATM and international ATM for FY 2020-21 (compared to FY 2019-20).

Computation of traffic forecasts by the Authority, considering the impact of COVID-19 pandemic

The traffic forecasts have been computed by the Authority, after taking into account the analysis by the following agencies regarding the impact of COVID-19 pandemic on the Aviation sector, apart from the study report provided by CAPA India for Mangaluru International Airport.

6.2.9. **Airports Council International (ACI)**

ACI in its report on February 24, 2022 had projected the following air passenger traffic outlook:

- *Over 2021, the crisis is forecast to have removed 5.4 billion passengers compared to the projected baseline (the pre-COVID-19 forecast for 2021), representing a loss of 55% of global passenger traffic. This represents less than half of what it was in 2019, with traffic for 2021 totaling only 4.4 billion (48.3%) of the 9.2 billion passengers served two years ago.*
- *Domestic traffic continued to drive recovery, reaching close to 3.4 billion passengers corresponding to 63.4% of 2019 levels. International passenger traffic volume lagged significantly behind domestic traffic recovery in 2021 and is estimated to total only 1.05 billion passengers for the year, or 27.8% of the 2019 level.*
- *Domestic traffic volume is projected to recover faster in 2022 than international passenger traffic, reaching a total of 4.46 billion passengers in 2022, or 84% of 2019 volume. While some improvements are expected, especially in the second half of 2022, international passenger volume is forecast to be only slightly above 2 billion passengers for the year, corresponding to 53.8% of 2019 volume.*

6.2.10. **International Air Transport Association (IATA)**

IATA in its report as on March 1, 2022 had reported the following air passenger traffic projection:

- *The International Air Transport Association (IATA) expects overall traveller numbers to reach 4.0 billion in 2024 (counting multi-sector connecting trips as one passenger), exceeding pre-COVID-19 levels (103% of the 2019 total).*
- *In 2021, **international traveller numbers** were 27% of 2019 levels. This is expected to improve to 69% in 2022, 82% in 2023, 92% in 2024 and 101% in 2025.*
- *In 2021, **domestic traveller numbers** were 61% of 2019 levels. This is expected to improve to 93% in 2022, 103% in 2023, 111% in 2024 and 118% in 2025.*

Conclusion on traffic forecasts based on the above assumptions

6.2.11. Considering the extraordinary adverse impact of COVID-19 pandemic on domestic and international air travel, the Authority had taken into consideration the forecasted data published by ACI and IATA cited in para 6.2.9 and 6.2.10 for arriving at the revised traffic projections.

6.2.12. The Authority noted that the domestic traffic (PAX and ATM) of MIA for the month of April 2022 and May 2022 had already surpassed the pre-COVID levels of April 2019 and May 2019, as shown in the table below:

Table 49: PAX and ATM of April & May 22 vis-à-vis April & May 2019

Particulars	Apr-19	Apr-22	% of April 19 traffic	May-19	May-22	% May 19 traffic
Domestic PAX (in Nos.)	95,717	1,06,783	112%	1,13,011	1,20,598	107%
International PAX (in Nos.)	54,668	40,797	75%	52,701	47,621	90 %
Domestic ATM (in Nos.)	860	827	96%	929	955	103%
International ATM (in Nos.)	316	309	98%	335	334	100%

6.2.13. Considering the positive outlook of the GDP growth predicted by the GoI and relatively better revival of the domestic aviation market, the Authority was of the view that domestic passenger traffic and ATM will revert to pre-Covid levels (of FY 2019-20) by FY 2022-23.

6.2.14. Further, considering the predictions done by the above agencies (as cited in para 6.2.9 and 6.2.10), the Authority was of the view that international passenger traffic and ATM will revert to pre COVID-19 levels (of FY 2019-20) by FY 2023-24.

6.2.15. The Authority noted that the traffic forecasts provided by the Airport Operator (based on CAPA India Study report) corresponds to the above views of the Authority that the domestic and international passenger traffic will reach pre-COVID levels of FY 2019-20 by FY 2022-23 and FY 2023-24, respectively.

6.2.16. The Authority had noted the actual passenger traffic and ATM data for FY 2021-22 from AAI's website (as shown in the table below) and had considered the same for estimating traffic for the First Control Period:

Table 50: Passenger traffic and ATM for the period April 21 to March 22

Particulars	Domestic	International	Total
Actual traffic data from April 21 to March 22			
PAX	7,69,652	2,43,801	10,13,453
ATM	7,933	2,047	9,980

6.2.17. The Authority reviewed the CAGR (10-year, 9-year, 5-year and 3-year) derived by it as per Table 48. However, considering the positive outlook provided by the Expert Agencies and the GoI's recent decision to resume commercial flights, the Authority proposed to consider the passenger traffic and ATM proposed by the Airport Operator for the last three (3) tariff years (FY 2023-24 and FY 2025-26).

6.2.18. The Authority reviewed the physical progress of the construction of Cargo Terminal through its independent Consultant and is of the view that the Cargo Terminal will become operational only in the FY 2023-24 (as also explained in Chapter 7). Accordingly, the Authority had shifted the cargo traffic projections of FY 2022-23 to FY 2023-24 and so on till FY 2025-26.

6.2.19. Based on the above analysis, the traffic growth rates and the corresponding traffic for passengers and ATM as considered by the Authority for the First Control Period are given in the table below:

Table 51: Traffic proposed to be considered by the Authority for the First Control Period at Consultation stage

Domestic Passengers (Lacs)	FY 2019-20	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Domestic PAX submitted by MIA	13.05	8.00	12.30	15.37	18.45	21.77	**75.89**
Domestic PAX proposed by the Authority		7.69	13.05	15.37	18.45	21.77	**76.33**
MIA's submission as a % of FY 2019-20 traffic		61%	94%	118%	141%	167%	
Proposed traffic as per Authority as a % of FY 2019-20 traffic		59%	100%	118%	141%	167%	
International Passengers (Lacs)	**FY 2019-20**	**FY 2021-22**	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**	**Total**
International PAX submitted by MIA	5.71	3.30	5.00	7.03	8.82	10.62	**34.77**
International PAX proposed by the Authority		2.44	5.00	7.03	8.82	10.62	**33.91**
MIA's submission as a % of FY 2019-20 traffic		58%	88%	123%	154%	186%	
Proposed traffic as per Authority as a % of FY 2019-20 traffic		43%	88%	123%	154%	186%	
Total passengers (Lacs)	**FY 2019-20**	**FY 2021-22**	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**	**Total**
Total PAX as per MIA's submission	18.76	11.30	17.30	22.40	27.27	32.39	**110.66**
Total PAX (Domestic and International) proposed by the Authority		10.13	18.05	22.40	27.27	32.39	**110.24**
Proposed total PAX as per MIA's submission as a % of FY 2019-20 traffic		60%	92%	119%	145%	173%	
Proposed total PAX as per Authority as a % of FY 2019-20 traffic		54%	96%	119%	145%	173%	
Domestic ATM (in '000)	**FY 2019-20**	**FY 2021-22**	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**	**Total**
Domestic ATM submitted by MIA	11.90	6.96	10.54	12.91	15.19	17.59	**63.19**
Domestic ATM proposed by the Authority		7.93	11.90	12.91	15.19	17.59	**65.52**
MIA's submission as a % of FY 2019-20 total ATM		58%	89%	108%	128%	148%	
Proposed ATM traffic as per Authority as a % of FY 2019-20 ATM		67%	100%	108%	128%	148%	

International ATM (in '000)	**FY 2019-20**	**FY 2021-22**	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**	**Total**
International ATM submitted by MIA	3.78	2.18	3.29	4.62	5.79	6.97	**22.85**
International ATM proposed by the Authority		2.05	3.29	4.62	5.79	6.97	**22.72**
MIA's submission as a % of FY 2019-20 ATM		58%	87%	122%	153%	184%	
Proposed ATM traffic as per Authority as a % of FY 2019-20 ATM		54%	87%	122%	153%	184%	
Total ATM ('000)	**FY 2019-20**	**FY 2021-22**	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**	**Total**
Total ATM (Domestic and International) as per MIA's submission	15.68	9.14	13.83	17.53	20.98	24.56	**86.04**
Total ATM (Domestic and International) proposed by the Authority		9.98	15.19	17.53	20.98	24.56	**88.24**
MIA's submission as a % of FY 2019-20 total ATM		58%	88%	112%	134%	157%	
Proposed total ATM as per Authority as a % of FY 2019-20 ATM		64%	97%	112%	134%	157%	
Cargo traffic (in MT) *	**FY 2019-20**	**FY 2021-22**	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**	**Total**
Domestic cargo submitted by MIA		-	720	1,740	2,104	2,545	**7,109**
Domestic cargo proposed by the Authority		-	-	720	1,740	2,104	**4,564**
International cargo submitted by MIA		-	1,681	4,060	4,908	5,938	**16,587**
International cargo proposed by the Authority		-	-	1,681	4,060	4,908	**10,649**
Total cargo submitted by MIA		-	**2,401**	**5,800**	**7,012**	**8,483**	**23,696**
Total cargo proposed by the Authority		-	-	**2,401**	**5,800**	**7,012**	**15,213**

** As stated in para 6.2.18, the Authority has shifted the cargo traffic projections of FY 2022-23 to FY 2023-24 and so on till FY 2025-26.*

6.2.20. Based on the traffic proposed for the First Control Period (as shown in Table 51), the Authority had rationalised CAPEX submitted by the AO for the First Control Period for MIA.

6.3. Stakeholders' comments on traffic forecasts for the First Control Period

6.3.1. During the stakeholders' consultation process, the Authority had received comments/ views from various stakeholders in response to the proposals of the Authority in the Consultation Paper no. 07/2022-23 with respect to traffic forecasts for First Control Period. The comments by stakeholders are presented below:

AO's comments on traffic forecasts for the First Control Period

6.3.2. The AO has commented on AERA's proposal relating to Exempted Traffic as per para 6.2.3 of this Tariff Order which is as follows:

"We would like to reproduce the relevant extract from the MYTP submission as follows

4.8. Further it is to be noted that IXE, Mangaluru handles large volumes of ATM which are less than 80-seater capacity, some of which are under RCS category. Based on historical trend, less than 80-seater capacity and RCS category ATMs accounts for approx. 40% and 2% of domestic ATMs respectively.

4.9. MIA appreciate the RCS scheme initiated by government to boost the regional connectively whereby no landing charges are charged to Airlines and also no UDF is charged to the departing passenger. Secondly ATMs having less than 80-seater capacity are also exempted from landing charges. Lastly, there are certain categories of passengers which are exempted from user charges being infant, transit etc.

4.10. Therefore, while calculating the revised aeronautical charges, the ATM and Passenger traffic is suitably adjusted to account for only billable ATMs and billable Passengers."

We would like to emphasis on point 4.8 of the MYTP submission where it is mentioned that only 2% of the domestic ATMs are in the category of RCS. However, there are approx. 40% domestic ATMs which are in the category of less than 80-seater which are exempted from landing charges.

Similarly, there are certain categories of passengers which are exempt from UDF charges.

It is to be noted that AO has done adjustment in ATMs to calculate only the billable ATMs. The adjustment is necessitated to project the correct Aeronautical revenues.

We would like to draw the attention of Authority on the Tariff order for Bangalore Airport for Third Control Period order no. 11/2021-22 dated para 4.5.9 onwards.

In the Bangalore Tariff order, AERA has accepted the contention that transit passengers are exempted from UDF and the percentage share of transit passenger assumed by Bangalore seems reasonable.

We request Authority to take cognizance of the fact that at MIA there is sizable quantum of ATMs of less than 80-seater which are exempted from landing charges. Accordingly, MIA has prepared its ATP after considering only billable ATMs. If we account for ATMs which are not billable, the same will result in an under recovery of ARR and there will be mismatch between projected ARR and projected revenue."

Other Stakeholder's comments on traffic forecasts for the First Control Period

6.3.3. AAI has commented the following:

"As per the information available in AAI website, there has been no RCS operations at Mangalore Airport since inception of RCS Scheme (24 July 2017). The copy of RCS routes as per AAI website as on 12 July 2022 is enclosed (https://www.aai.aero/en/rcs-udan)"

6.3.4. FIA has commented the following:

"We agree with the proposal of AERA of not excluding ATM traffic covered under the RCS scheme. Accordingly, for the said reason, we request AERA that billable ATM/ passengers as proposed by MIA in their tariff card (i.e., reduction over the traffic computed by AERA) should not be accepted"

6.3.5. DIAL has commented the following:

In this regard we would like to highlight that this approach of AERA is not in line with expected principle of Regulatory which ensures timely and complete recovery of approved ARR. This approach of AERA will result into reduction in UDF and consequently not allowing Airport Operator to timely recover its approved ARR. Further, shortfall in ARR recovery will also carry opportunity cost which also is not in public interest."

6.4. AO's responses to stakeholders' comments on traffic forecasts for the First Control Period

6.4.1. AO has responded to FIA's and DIAL's comments as under:

"It is submitted as per current and likely future mix of ATMs. only 2% of the domestic ATMs at Mangaluru Airport are in the category of RCS. However, 40% of domestic ATMs are in the category of less than 80-seater which are exempted from landing charges as per GoI/MoCA guidelines. Similarly, there are certain categories of passengers which are exempt from payment of UDF charges. It is to be noted that AO has done adjustment in ATMs/Passengers to calculate only the billable ATMs/ Passengers as the same is necessitated to project the correct aeronautical revenues.

In this regard we would like to highlight that this approach of AERA is not in line with expected principle of regulatory framework which ensures timely and complete recovery of approved ARR by matching the expected revenue with ARR. If the exempted revenues are not taken into account by AERA, the same will result in lower recovery from landing charges and UDF and consequently lead to mismatch of ARR and revenue from day one. This will be absolutely incorrect on the face of it. Hence, we request AERA not to be misled in taking to account revenues which are not leviable ab-initio."

6.5. Authority's analysis on Stakeholders' comments regarding traffic forecasts for the First Control Period

6.5.1. The Authority has carefully noted the comments of the AO, AAI, DIAL, FIA and response of AO on the comments of the other stakeholders and has the following views:

- The Authority has examined the comments of the AO on billable ATM and notes that no revenue will be earned by the AO from the Exempt ATM (i.e flights with less than 80-seater capacity that are exempt from landing charges) However, the Authority once again reiterates that RCS scheme is promoted by the GoI with the objective of making regional air connectivity affordable by supporting airline operators through concessions offered by Central Government, State Government and the Airport Operators. As this scheme is promoted to encourage small aircrafts, therefore the flights operating under this scheme are not eligible to be claimed as a passthrough/ exemption. The Authority notes that, as per AO, out of the total exempted traffic (being flights with less than 80-seater capacity around 30% of the total domestic ATM), only 2% constitutes flights operating under the RCS scheme and the balance pertains to non-RCS flights.
- The Authority also reviewed the data on Domestic ATMs furnished by AAI for Mangaluru International Airport for the period FY 2016-17 to FY 2019-20 and notes that less than 80-seater flights constitute about 31% to 40% of the total domestic ATMs, as shown in the table below:

Table 52: Composition of less than 80-seater flights in MIA during FY 2016-17 to FY 2019-20

	Domestic ATMs			
Year	Less Than 80- Seater	More than 80-seater	Total	% less than 80 seater
2016-17	2957	4891	7848	38%
2017-18	3507	6460	9967	35%
2018-19	3943	5873	9816	40%
2019-20	3579	7839	11418	31%

- Based on the above factors, the Authority has decided to consider billable traffic after excluding ATMs that pertain to less than 80-seater capacity flights which fall under non-RCS category and being exempted from landing charges. The actual traffic will be trued up by the Authority at the time of determination of tariff for the next Control Period for MIA.

- The exempted traffic considered by the Authority for determining billable traffic for the First Control Period for MIA is as follows:

Table 53: Exempt traffic considered by the Authority for determining billable traffic for the First Control Period for MIA

Particulars	FY 21-22*	FY 22-23	FY 23-24	FY 24-25	FY 25-26
Exempt Domestic ATM considered by the Authority	37%	33%	28%	28%	28%

** Actual data has been considered for FY 2021-22.*

- Accordingly, the Authority has considered the traffic estimates for ATM for the First Control Period after excluding exempt traffic as shown in the above table.

6.5.2. The Authority has reviewed the construction schedule submitted by the AO as part of the stakeholders' comments with respect to completion of Cargo Facility and based on the same, it decides to consider capitalisation of Cargo Terminal by April 1, 2023. Accordingly, the Authority has considered the revised Cargo volumes submitted by the AO as part of its stakeholders' comments while determining the cargo traffic for the First Control Period for MIA, which is shown in Table 54.

6.5.3. Based on the above factors, the Authority has determined the Traffic Forecasts, which it decides to consider for determination of tariff for the First Control Period for MIA, which is as follows:

Table 54: Traffic decided by the Authority for the First Control Period for MIA

Domestic Passengers (Lacs)	**FY 2019-20**	**FY 2021-22**	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**	**Total**
Domestic PAX submitted by MIA	13.05	8.00	12.30	15.37	18.45	21.77	**75.89**
Domestic PAX decided by the Authority		7.69	13.05	15.37	18.45	21.77	**76.33**
MIA's submission as a % of FY 2019-20 traffic		61%	94%	118%	141%	167%	
Traffic as per Authority as a % of FY 2019-20 traffic		59%	100%	118%	141%	167%	
International Passengers (Lacs)	**FY 2019-20**	**FY 2021-22**	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**	**Total**
International PAX submitted by MIA	5.71	3.30	5.00	7.03	8.82	10.62	**34.77**
International PAX decided by the Authority		2.44	5.00	7.03	8.82	10.62	**33.91**
MIA's submission as a % of FY 2019-20 traffic		58%	88%	123%	154%	186%	
Traffic as per Authority as a % of FY 2019-20 traffic		43%	88%	123%	154%	186%	
Total passengers (Lacs)	**FY 2019-20**	**FY 2021-22**	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**	**Total**
Total PAX as per MIA's submission	18.76	11.30	17.30	22.40	27.27	32.39	**110.66**
Total PAX (Domestic and International) decided by the Authority		10.13	18.05	22.40	27.27	32.39	**110.24**

Total PAX as per MIA's submission as a % of FY 2019-20 traffic		60%	92%	119%	145%	173%	
Total PAX as per Authority as a % of FY 2019-20 traffic		54%	96%	119%	145%	173%	
Domestic ATM (in '000)	**FY 2019-20**	**FY 2021-22**	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**	**Total**
Domestic ATM submitted by MIA (billable)	7.84	4.20	6.85	9.04	10.64	12.31	**43.03**
Domestic ATM decided by the Authority (billable)*		4.92	7.97	9.30	10.94	12.66	**45.79**
MIA's submission as a % of FY 2019-20 total ATM		54%	87%	115%	136%	157%	
ATM traffic as per Authority as a % of FY 2019-20 ATM		63%	102%	119%	140%	161%	
International ATM (in '000)	**FY 2019-20**	**FY 2021-22**	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**	**Total**
International ATM submitted by MIA	3.78	2.18	3.29	4.62	5.79	6.97	**22.85**
International ATM decided by the Authority		2.05	3.29	4.62	5.79	6.97	**22.72**
MIA's submission as a % of FY 2019-20 ATM		58%	87%	122%	153%	184%	
ATM traffic as per Authority as a % of FY 2019-20 ATM		54%	87%	122%	153%	184%	
Total ATM ('000)	**FY 2019-20**	**FY 2021-22**	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**	**Total**
Total ATM (Domestic and International) as per MIA's submission	11.62	6.38	10.14	13.66	16.43	19.28	**65.89**
Total ATM (Domestic and International) decided by the Authority		6.97	11.26	13.92	16.73	19.63	**68.51**
MIA's submission as a % of FY 2019-20 total ATM		55%	87%	118%	141%	166%	
Total ATM as per Authority as a % of FY 2019-20 ATM		60%	97%	120%	144%	169%	
Cargo traffic (in MT) **	**FY 2019-20**	**FY 2021-22**	**FY 2022-23**	**FY 2023-24**	**FY 2024-25**	**FY 2025-26**	**Total**
Domestic cargo submitted by MIA		-	-	1,740	2,104	2,545	**6,389**
Domestic cargo decided by the Authority		-	-	1,740	2,104	2,545	**6,389**
International cargo submitted by MIA		-	-	4,060	4,908	5,938	**14,906**
International cargo decided by the Authority		-	-	4,060	4,908	5,938	**14,906**
Total cargo submitted by MIA		-	-	**5,800**	**7,012**	**8,483**	**21,295**
Total cargo proposed by the Authority		-	-	**5,800**	**7,012**	**8,483**	**21,295**

** The Authority has computed Billable ATM as explained in para 6.5.1and Table 53, in this Tariff Order.*

*** As stated in para 6.5.2, the Authority has considered the revised Cargo volumes, based on the construction schedule of the Cargo facility submitted by the AO as part of its stakeholders' comments.*

6.6. Authority's decisions regarding Traffic for the First Control Period

Based on the available facts and analysis thereupon, the Authority decides the following with regard to traffic forecast for the First Control Period:

6.6.1. To consider the ATM, Passenger traffic and Cargo traffic for the First Control Period for Mangaluru International Airport as per Table 54.

6.6.2. To true up the traffic volume (ATM, Passengers and Cargo) on the basis of actual traffic in the First Control Period while determining tariffs for the Second Control Period.

7. CAPITAL EXPENDITURE (CAPEX), DEPRECIATION AND REGULATORY ASSET BASE (RAB) FOR THE FIRST CONTROL PERIOD

7.1. Background

7.1.1. RAB is an essential element in the process of tariff determination. The return to be provided on the RAB constitutes a considerable portion of the Aggregate Revenue Requirement for an Airport Operator. To encourage the participation of the private sector in airport development and operations, investors must be fairly compensated for the capital outlays involved. At the same time, to safeguard the interests of the airport users, it must be ensured that the capital additions are efficient, their needs justified, and the return on investment provided solely on the assets related to the core operations (i.e., Aeronautical services) of the airport.

7.1.2. The Authority noted that as part of the Concession Agreement (CA), the AO had proposed to plan and develop MIA in a phased manner during the Concession period, as well as cater to the annual passenger throughput capacity (domestic and international) and annual cargo handling capacity, along with ancillary facilities as per its demand projections. Further, development of the airport included construction and procurement of various assets as described in Schedule B to the CA such as:

- Runways, taxiways, apron, aircraft parking bays, air traffic control tower, Cargo facilities, Parking, flight kitchens, MRO facilities, warehousing facilities, airline offices, administrative offices and associated facilities.
- Construction and procurement of Terminal Building and facilities and
- Construction of required approach roads.

7.1.3. The Authority also noted that the AO is mandated to develop an integrated terminal building which is efficiently planned, flexible for phase-wise development, sustainable and economical, as stipulated in Schedule B of Annex I of the CA. Further, as per clause 23.7.1 of the CA, the AO should participate in the user survey of ASQ undertaken by ACI, conducted every quarter and ensure that the Airport achieves and maintains a rating of at least 4.5 out of 5.0 and/ or shall appear within top 20 percentile of all airports, in its category in the World in such survey within five (5) years from the COD and maintain the same throughout the rest of the Concession Period.

7.1.4. The Independent Consultant appointed by the Authority had performed an in-depth analysis of the submissions made by the Airport Operator towards Aeronautical Capital Additions, Depreciation and RAB. In this respect, the Independent Consultant had performed the following functions:

i. Conducted Site visit on December 13, 2021 and December 14, 2021 to witness the physical progress of the projects.

ii. Sought and verified various technical and study reports of the Consultant appointed by the AO, Drawings and Plans, BOQs, Cost estimates and break-up, Detailed justification and explanation, Deviation statement, Demand vs Requirement statement, Copies of Letter of Intent (LOI), Letter of Award (LOA), Purchase Orders and Work Orders, etc., provided by the Airport Operator and

iii. Sought documentary evidence and verified the process of approval of capital addition projects including competitive bidding process for award of various work orders to the contractors for such projects.

Based on the review of documents as stated above, the Authority had rationalized the capital additions projects based on the essentiality, necessity for Airport operations, submitted by the Airport Operator by shifting the capitalisation of some of the projects within the First Control Period and deferring certain others to the next Control Period.

7.1.5. While doing so, the Authority observed that the assessment of expansion/ modification plan of the Airport and its phasing is a technical matter, which requires analysis by the domain expert. In this regard, the Authority had also relied upon the assessment of Independent Engineers and their roles and responsibility as stated under Schedule L of the Concession Agreement and in the MYTP submission made by the AO. The relevant Clauses of the Concession Agreement relating to the appointment, duties, functions, remuneration etc. are mentioned in para 18.4.12 and para 18.4.13 under Chapter 18 of this Tariff Order. The Authority noted that there is provision available in the Concession Agreement (Clause 24.1.7) for passthrough of the remuneration and other expenses paid to the Independent Engineer to ensure providing efficient, justified and reasonable CAPEX for the Airport.

7.1.6. In the background of the facts stated above, the Authority had examined the entire CAPEX plan in detail including CWIP projects and the New CAPEX for Mangaluru Airport, considering the historical traffic trends and future traffic estimates such that only essential, reasonable and efficient CAPEX is considered as part of RAB for the First Control Period with a view to encourage the investors and maintain a balanced approach between the sustainable operations of the Airport Operator and the interest of the airport users. Further, the Authority took cognizance of the fact that, if any excessive CAPEX is allowed in this Control Period, it would be against the regulatory framework, as tariff would have no link to the services/ facilities created at the Airport and the resultant high aeronautical charges would be unfair to the ultimate users.

7.1.7. Towards this objective, the Authority had examined in detail the Aeronautical Capital Expenditure and RAB submitted by the Airport Operator and had presented its views in the following sequence:

i. Aeronautical Capital expenditure proposed for First Control Period
   - Capital Additions initiated by AAI during the pre-COD period and transferred to AO as part of the Concession Agreement.
   - New Capital additions proposed by the AO

ii. Aeronautical Depreciation for the First Control Period

iii. Regulatory Asset Base for the First Control Period

7.1.8. While analysing the MYTP regarding capitalization of Aeronautical Expenditure for the First Control Period, the Authority had considered the lower traffic caused by the COVID-19 pandemic and the resultant stress on the financials of all the stakeholders of civil aviation sector. In this background, the Authority had sought and examined the Airport Operator's submission based on the following details / criteria:

- Nature of the expenditure
- Necessity / requirement of the expenditure
- Business plan and Master plan for all projects
- Number of PAX both at present and projected for the First Control period
- Terminal Capacity both at present and projected for the First Control period
- Other short-term and long-term plans of the Airport Operator
- Sustainability of the airport operations
- Passenger consideration

- Safety and security of the airport
- Process of approval and sanction for various work orders / purchase orders
- Site visit conducted through the Authority's Independent Consultant to witness the physical progress (between December 13, 2021 to December 14, 2021).

Based on the above, the Authority had rationalised the capital expenditure for all the projects and accordingly proposed capital additions for the First Control Period.

7.2. Mangaluru International Airport's submission of Capital Expenditure (CAPEX), Depreciation and RAB for the First Control Period

7.2.1. Mangaluru International Airport submitted Aeronautical Capital Expenditure of ₹ 881.67 Crores in the revised MYTP dated December 10, 2021, for the First Control period as given below:

Table 55: Asset-wise Aeronautical Capital Expenditure submitted by the Airport Operator for the First Control Period

(₹ Crores)

Asset Category	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26	Total
Runway, Taxiway & Apron	22.37	224.12	0.92	0.56	8.46	**256.43**
Runway Recarpeting	-	89.60	-	-	-	**89.60**
Terminal Building	113.28	100.12	7.38	4.52	-	**225.30**
Cargo	0.00	19.53	-	-	-	**19.53**
Fuel	10.00	12.73	-	-	-	**22.73**
Security Equipment	-	3.73	4.10	2.51	-	**10.34**
Plant & Machinery	19.45	18.06	7.11	4.36	22.54	**71.52**
Roads	17.03	-	-	-	47.52	**64.55**
Boundary walls	12.67	-	-	-	2.17	**14.84**
Information Technology	13.30	3.82	4.19	2.57	-	**23.88**
Other Buildings	17.42	0.27	0.29	0.18	29.34	**47.49**
Total	**225.51**	**471.97**	**23.99**	**4.71**	**110.03**	**846.22**
Add: Financing Allowance (FA)	19.47	9.41	0.61	3.29	2.68	**35.45**
Total Aero CAPEX including FA	**244.98**	**481.38**	**24.60**	**17.99**	**112.71**	**881.67**

7.2.2. The Authority as part of its examination of the Aeronautical Capital Expenditure submitted by the Airport Operator for the First Control Period, had raised queries and sought clarification on the essentiality of the capital expenditure and enquired for necessary documents such as project cost estimates, Technical Consultant's report, design, drawings, plans, inspection report issued by various authorities etc., substantiating the capital expenditure proposed by the Airport Operator in the MYTP. The aforementioned documents and clarifications were provided in a phased manner by the AO.

Upon review of all the necessary details and documents, the Authority had convened a meeting on April 26, 2022 with the representatives of the Airport Operator along with AERA's Consultant to obtain clarification regarding its queries on the ongoing and new projects proposed by the Airport Operator.

In response to the Authority's queries on the essentiality of certain capital expenditure projects and the basis for estimation of project costs, the Airport Operator had submitted a revised CAPEX schedule along with the justification for revision of project costs/ re-scheduling of CAPEX on May 7, 2022.

7.2.3. A comparison of Aeronautical Capital Expenditure submitted by the Airport Operator during three different time periods, namely, the original MYTP as on May 31, 2021, followed by revised MYTP on December 10, 2021 and finally, the revised CAPEX schedule submitted on May 7, 2022, is shown as follows:

Table 56: Comparison of Asset-wise Aeronautical Capital Expenditure submitted by the Airport Operator during different time periods for the First Control Period

(₹ Crores)

Asset Category	CAPEX as per Initial MYTP as on May 31, 2021	CAPEX as per Revised MYTP as on December 10, 2021	Revised Capex submission as on May 7, 2022
Runway, Taxiway & Apron	237.54	256.43	187.52
Runway Recarpeting and Center lighting	--	89.60	90.64
Terminal Building (Aero)	227.35	225.30	209.19
Cargo facility	21.67	19.53	23.36
Fuel facility	22.24	22.73	27.83
Security Equipment	11.66	10.34	3.19
Plant & Machinery	78.68	71.52	63.77
Roads	76.01	64.55	41.12
Boundary walls	12.79	14.84	10.55
Information Technology	21.81	23.88	22.40
Other Buildings	75.57	47.49	29.24
Total Project Cost	**785.31**	**846.22**	**708.81**
Add: Cost of PMC, Design, Contingencies, Preliminary & pre-operatives, Insurance, Labour cess, Site preparation, Statutory approvals, etc	--	--	75.98
Add: Financing Allowance (FA) / IDC	27.85	35.45	58.62
Aero Capex (including PMC, Design, Contingencies, etc and FA / IDC)	**813.16**	**881.67**	**843.41**

The Aeronautical Capital Addition projects submitted by Mangaluru International Airport for the First Control Period have been divided into the following categories:

A. Capital Addition projects initiated by AAI in the Pre-COD Period and mandated to be executed by the Airport Operator as per the terms of the Concession Agreement along with Enabling Capital Projects integral to operationalize the mandated projects.

   - Capital projects mentioned in 'A' above consist of projects initiated by AAI during the Pre-COD period and subsequently handed over to the Airport Operator as part of the Concession Agreement

(Schedule T and U of the Concession Agreement) and certain enabling projects such as Plant and Machinery items and Information Technology works integral to execution of the expansion of Terminal Building. Schedules T and U of the Concession Agreement provide a list of works proposed by AAI in execution stage and / or planning stage and the Airport Operator is obligated to complete those works proposed by AAI.

- Clause 6.4.5 of the Concession Agreement relating to the Airport Operator's obligation regarding CWIP handed over by AAI as on COD and as set forth in Schedule T, has been provided in Para 18.4.10 of Annexure 4 under Chapter 18 of this Tariff Order.
- Clause 4.1.3. (h) of the Concession Agreement relating to the Airport Operator's obligation regarding Conditions Precedent required to be satisfied within 180 days of the agreement relating to works proposed by AAI and as set forth in Schedule U, has been provided in Para 18.4.11 of Annexure 4 under Chapter 18 of this Tariff Order.

B. New Capital Expenditure projected by the Airport Operator for the First Control Period.

- The Intangible Assets proposed by the Airport Operator have not been considered for capitalisation of Aeronautical Capital Expenditure for the First Control period in accordance with the methodology proposed in Clause 3.5.3. of the Asset Allocation Report (Refer Appendix I to this Tariff Order).

7.3. Authority's examination of Capital Expenditure (CAPEX), Depreciation and RAB for the First Control Period at Consultation stage

7.3.1. The Authority had analysed the Aeronautical Capital expenditure proposed for the First Control Period in the following sequence for evaluation:

i. CWIP projects initiated in the Pre-COD period by AAI and handed over to the AO as part of the CA along with Enabling Capital Projects integral to operationalize the mandated projects.

ii. New Capital Expenditure projected by the Airport Operator for the First Control Period

The Authority had noted that MIA while its MYTP submission on May 31, 2021, Dec 10, 2021 and May 7, 2022 has revised CAPEX for the First Control Period. Out of total Aeronautical CAPEX submitted by AO as on May 7, 2022, 36% pertains to CWIP projects taken over from AAI and the balance 64% pertains to the new CAPEX proposed by the AO for the First Control Period. While analysing the MYTP of MIA regarding Capital Expenditure for the First Control Period, the Authority had taken into consideration the traffic as per Table 51 which has been rationalised based on various factors including the impact of COVID 19 pandemic and has appropriately rationalised CAPEX which had been explained in the following paragraphs

7.3.2. The capital additions stated in A and B above have been explained project-wise in the same sequence in the table below. For the ease of reference, the project wise details of Aeronautical Capital Expenditure submitted by the Airport Operator in its MYTP on December 10, 2021 has been shown in Annexure 5 under Chapter 18 and the revised CAPEX schedule submitted on May 7, 2022 is shown as follows:

Table 57: Project wise revised Capital Expenditure submitted by the Airport Operator for the First Control Period on May 7, 2022

(₹ Crores)

S. No	Capital Expenditure Project	Financial Year of Commissioning	Project cost	Financing allowance (FA)	Total CAPEX (incl. FA)
A.	**Projects initiated in Pre-COD Period and mandated to be executed in First Control Period along with Enabling Capital Projects integral to completion of the mandated Projects**				
A1.	**Runways, Taxiway & Aprons**				
	Joint Filling work at Runway / taxiway	2022-23	1.25	-	1.25
	Construction of Link Parallel taxi track (Phase II) and Grading of basic strip at south side	2022-23	126.00	-	126.00
	Runways, Taxiway – Financing Allowance and IDC		-	12.20	12.20
	Total – Runways, Taxiways & Apron		**127.25**	**12.20**	**139.45**
A2.	**Terminal Building Expansion**				
	Expansion / modification of Existing Terminal Building on its western side (arrival side)	2021-22	24.16	-	24.16
		2022-23	85.67	-	85.67
	Post Award Project Management Consultancy for supervision of Expansion / Modification of Existing Integrated Terminal Building	2022-23	3.45	-	3.45
	Buildings- Financial Allowance and IDC		-	13.30	13.30
	Cost of Terminal Building expansion including post award PMC – A2. (i)		**113.28**	**13.30**	**126.58**
	Plant and Machinery (enabling capital projects)				
	Expansion of Baggage Conveyor	2022-23	7.86	-	7.86
	Substation equipment	2022-23	2.03	-	2.03
	Lift & Travellator	2022-23	1.58	-	1.58
	PA system	2022-23	0.90	-	0.90
	Engineering Consultancy	2022-23	0.83	-	0.83
	VDGS	2022-23	1.98	-	1.98
	Expansion of Passenger Boarding Bridge	2022-23	7.41	-	7.41
	Plant & Machinery – Financial Allowance and IDC	2022-23	-	0.48	0.48
	Cost of Plant and Machinery (enabling capital projects) – A2. (ii)		**22.58**	**0.48**	**23.06**
	Information Technology (IT) works (enabling capital projects)				
	Work related to IT for NITB	2022-23	9.86	-	9.86
	Facelift work for NITB	2022-23	0.16	-	0.16
	Aluminium Roof Gutter for NITB	2022-23	0.02	-	0.02
	SITC of RC CCTV	2022-23	1.21	-	1.21
	Flight Information Display System	2022-23	1.31	-	1.31
	Network & Pen Tablet	2022-23	0.01	-	0.01

S. No	Capital Expenditure Project	Financial Year of Commissioning	Project cost	Financing allowance (FA)	Total CAPEX (incl. FA)
	Supply of Bullet Proof Helmet	2022-23	0.02	-	0.02
	Electrical Materials	2022-23	0.71	-	0.71
	Information Technology (IT) works – Financing allowance and IDC		-	0.59	0.59
	Cost of Information Technology (IT) works (enabling capital projects) – A2. (iii)		**13.30**	**0.59**	**13.89**
	Total – Terminal Building Expansion including costs = A2. ((i) + (ii) + (iii))		**149.16**	**14.37**	**163.53**
A3.	**Roads**				
	Widening and strengthening of existing perimeter road	2022-23	4.36	0.15	4.51
	Total – Roads		**4.36**	**0.15**	**4.51**
Total CAPEX initiated in the Pre-COD Period and mandated to be executed in the First Control Period along with Enabling Capital Projects (A)			**280.77**	**26.72**	**307.49**
B. New Capital expenditure projected for the First Control Period					
B1.	**Runways, Taxiway & Aprons**				
	Runway recarpeting and Centre-lighting	2023-24	90.64	-	90.64
	Construction of New taxiway	2023-24	36.47	-	36.47
	Construction of new portion RESA	2023-24	7.85	-	7.85
	Apron improvement works	2022-23	1.62	-	1.62
		2025-26	5.39	-	5.39
	Miscellaneous Airside improvement works	2022-23	2.14	-	2.14
		2023-24	2.14	-	2.14
		2024-25	1.39	-	1.39
		2025-26	3.27	-	3.27
	Runways, Taxiways & Aprons – Financing Allowance and IDC		-	20.04	20.04
	Total – Runways, Taxiways & Apron		**150.91**	**20.04**	**170.95**
B2.	**Terminal Building**				
	Modification / Expansion of existing Terminal Building	2022-23	79.88	-	79.88
	Miscellaneous works / interiors / finishes / kerbside of existing Terminal	2022-23	6.05	-	102.37
		2023-24	6.05	-	7.38
		2024-25	3.93	-	4.52
	Terminal Building- Financing Allowance and IDC		-	3.64	3.64
	Total – Terminal Building		**95.91**	**3.64**	**99.55**
B3.	**Cargo Assets**				
	Cargo Buildings	2022-23	18.90	-	18.90
	Cargo equipment	2022-23	4.45	-	4.45
	Cargo Assets- Financing Allowance and IDC		-	0.14	0.14
	Total – Cargo Assets		**23.36**	**0.14**	**23.50**
B4.	**Fuel Facility**				

S. No	Capital Expenditure Project	Financial Year of Commissioning	Project cost	Financing allowance (FA)	Total CAPEX (incl. FA)
	Purchase of assets of existing Oil Marketing Companies (OMC)	2022-23	10.00	-	10.00
	Building of new assets for Open Access Fuel Facility operations	2022-23	17.83	-	17.83
	Total – Fuel Facility		**27.83**	**-**	**27.83**
B5.	**Security equipment**				
	Equipment for ARFF – runway mechanical sweeper, rubber removal and other equipment	2022-23	1.20	-	1.20
		2023-24	1.20	-	1.20
		2024-25	0.78	-	0.78
	Total – Security equipment		**3.19**	**-**	**3.19**
B6.	**Plant and Machinery**				
	Trans installation of Navaid systems	2022-23	1.98	-	1.98
	Bomb Detection and Disposal Equipment (BDDS)	2022-23	4.03	-	4.03
		2023-24	4.03	-	4.03
		2024-25	2.62	-	2.62
	Electrical Sub-station equipment	2025-26	4.63	-	4.63
	Triturator	2025-26	6.06	-	6.06
	Water tank, STP and storage tank, Pump house Building	2025-26	5.45	-	5.45
	Various other miscellaneous projects	2022-23	4.39	-	4.39
		2023-24	2.49	-	2.49
		2024-25	1.62	-	1.62
		2025-26	3.88	-	3.88
	Plant and Machinery- Financing Allowance and IDC		-	2.37	2.37
	Total – Plant & Machinery		**41.19**	**2.37**	**43.56**
B7.	**Roads**				
	Vehicle Access roadway and allied features	2025-26	20.95	-	20.95
	Road entry and exit works	2022-23	2.85	-	2.85
	Miscellaneous Enabling works	2025-26	12.96	-	12.96
	Roads- Financing Allowance and IDC		-	2.77	2.77
	Total – Roads		**36.76**	**2.77**	**39.53**
B8.	**Boundary walls**				
	Construction of property boundary wall of 11 kms	2022-23	2.87	-	2.87
		2023-24	2.87	-	2.87
		2024-25	1.86	-	1.86
	Airside Operational Boundary wall	2025-26	2.95	-	2.95
	Boundary Walls- Financing Allowance and IDC		-	0.20	0.20
	Total – Boundary walls		**10.55**	**0.20**	**10.75**
B9.	**Information Technology (IT)**				
	IT Infrastructure, AOCC and various other systems	2022-23	3.43	-	3.43
		2023-24	3.43	-	3.43
		2024-25	2.23	-	2.23
	Information Technologies- Financing Allowance and IDC		-	1.24	1.24

S. No	Capital Expenditure Project	Financial Year of Commissioning	Project cost	Financing allowance (FA)	Total CAPEX (incl. FA)
	Total – Information Technology		**9.10**	**1.24**	**10.34**
B10.	**Other Associated Works**				
	Storm water		-	-	-
	Water disposal and supply	2022-23	5.70	-	5.70
	Miscellaneous works – others	2022 23	0.24		0.24
		2023-24	0.24	-	0.24
		2024-25	0.16	-	0.16
		2025-26	9.22	-	9.22
	Airside security gate	2025-26	4.15	-	4.15
	Rainwater Harvesting	2025-26	9.53	-	9.53
	Water tank (airside)		-	-	-
	Other Buildings- Financing Allowance and IDC		-	1.50	1.50
	Total – Other Buildings		**29.24**	**1.50**	**30.74**
Total Project Cost of New Capital Expenditure Projects			**428.04**	**31.90**	**459.94**
Add: Cost towards Proportionate Technical Services like PMC & Design, Preliminaries, Insurances / Statutory Approvals, Contingencies, Pre-Operatives, etc claimed on the above New Capital Expenditure Projects			75.98	-	75.98
Total of New Capital expenditure projected for the First Control Period (B)			**504.02**	**31.90**	**535.92**
GRAND TOTAL (A+B)			**784.73**	**58.62**	**843.41**

7.3.3. The Authority noted that the Airport Operator conducted its first Airport User Consultation Committee (AUCC) Meeting on May 28, 2021 with all the stakeholders and discussed about Capital Expenditure proposed to be undertaken during the First Control Period of FY 2021-22 to FY 2025- 26. The meeting was attended by various airport stakeholders such as International Air Traffic Association (IATA), Federation of Indian Airlines (FIA), Indigo, SpiceJet, Go Air, Air India, AAI, CISF, Association of Private Airport Operators (APAO), Federation of Indian Chambers of Commerce and Industry (FICCI), Karnataka Chamber of Commerce and Industry (KCCI) and Customs. As per the 'minutes' of the meeting, the Authority observed that the Airport Operator had broadly discussed the following points with the stakeholders:

i. Historical, current and future growth forecast of Passenger traffic at MIA as well as the existing facilities.

ii. Details of on-going expansion activities initiated by AAI and transitioned to the Airport Operator as per the agreed terms of the Concession Agreement and the current progress of such projects.

iii. Detailed presentation and justification for the new capital expenditure planned by the Airport Operator with reference to the existing challenges in MIA pertaining to its location, topography, weather conditions, limited availability of land, etc.

iv. Master plan for the Airport covering 50 years of the Concession period and planned to be executed in six phases with Phase 1 and 2 being undertaken in the First Control period.

The Authority also noted that various observations were made by some of the stakeholders relating to the aspects of normative costing, cost estimates projected for the capex projects, evaluation of EMAS option for design of RESA, mitigation strategy and measures planned for handling wildlife threat / bird menace on account of construction of new rainwater harvesting ponds, issues relating to cargo processes, tariff mechanism due to ongoing and newly planned projects, importance of including runway recarpeting and centre lighting project during the First Control period, deferment of Fuel farm open access to next control period and improving security equipment / infrastructure at the airport including handling of drone attacks. The Airport Operator had addressed all the above observations of the stakeholders after which a presentation was made by Indigo Airlines wherein, they had requested for various enhancements / improvements at MIA including but not limited to Parallel taxiway, more parking bay, sheltered parking for ground staff, more travellators, boarding pass re-printing machines, ramp style walkalators, self-bag drop facility, fuel storage facility, cargo operations facility, etc. The Airport Operator responded by assuring Indigo Airlines and other stakeholders that some of the requirements were already part of their development plan for MIA and others would be considered during the next phase of development of MIA.

7.3.4. The Authority's examination of the Capital Expenditure projected for the First Control Period has been explained in detail in the ensuing paragraphs:

A. Projects initiated during Pre-COD Period and mandated to be executed in the First Control Period along with Enabling Projects integral to completion of such mandated projects.

The Authority noted that there are capital projects initiated by AAI during the Pre-COD period and subsequently handed over to the Airport Operator as part of the Concession Agreement (Schedule T and U of the Concession Agreement). Project-wise capital additions under Category 'A', have been explained as follows:

Table 58: Project wise revised Capital Expenditure submitted by the Airport Operator for the First Control Period for projects under 'Category A'

(₹ Crores)

S. No	Capital Expenditure Project	Financial Year of Commissioning	Project cost	Financing allowance (FA)	Total Capex (incl. FA)
A.	**Projects initiated in Pre-COD Period and mandated to be executed in First Control Period along with Enabling Capital Projects integral to completion of the mandated Projects**				
A1.	**Runways, Taxiway & Aprons**				
	Joint Filling work at Runway / taxiway	2022-23	1.25	-	1.25
	Construction of Link Parallel taxi track (Phase II) and Grading of basic strip at south side	2022-23	126.00	-	126.00
	Runways, Taxiway – Financing Allowance and IDC		-	12.20	12.20
	Total – Runways, Taxiways & Apron		**127.25**	**12.20**	**139.45**
A2.	**Terminal Building Expansion**				
	Expansion / modification of Existing Terminal Building on its western side (arrival side)	2021-22	24.16	-	24.16
		2022-23	85.67	-	85.67
	Post Award Project Management Consultancy for supervision of Expansion / Modification of Existing Integrated Terminal Building	2022-23	3.45	-	3.45

S. No	Capital Expenditure Project	Financial Year of Commissioning	Project cost	Financing allowance (FA)	Total Capex (incl. FA)
	Buildings- Financial Allowance and IDC		-	13.30	13.30
	Cost of Terminal Building expansion including post award PMC – A2. (i)		**113.28**	**13.30**	**126.58**
	Plant and Machinery (enabling capital projects)				
	Expansion of Baggage Conveyor	2022-23	7.86	-	7.86
	Substation equipment	2022-23	2.03	-	2.03
	Lift & Travellator	2022-23	1.58	-	1.58
	PA system	2022-23	0.90	-	0.90
	Engineering Consultancy	2022-23	0.83	-	0.83
	VDGS	2022-23	1.98	-	1.98
	Expansion of Passenger Boarding Bridge	2022-23	7.41	-	7.41
	Plant & Machinery – Financial Allowance and IDC	2022-23	-	0.48	0.48
	Cost of Plant and Machinery (enabling capital projects) – A2. (ii)		**22.58**	**0.48**	**23.06**
	Information Technology (IT) works (enabling capital projects)				
	Work related to IT for NITB	2022-23	9.86	-	9.86
	Facelift work for NITB	2022-23	0.16	-	0.16
	Aluminium Roof Gutter for NITB	2022-23	0.02	-	0.02
	SITC of RC CCTV	2022-23	1.21	-	1.21
	Flight Information Display System	2022-23	1.31	-	1.31
	Network & Pen Tablet	2022-23	0.01	-	0.01
	Supply of Bullet Proof Helmet	2022-23	0.02	-	0.02
	Electrical Materials	2022-23	0.71	-	0.71
	Information Technology (IT) works – Financing allowance and IDC		-	0.59	0.59
	Cost of Information Technology (IT) works (enabling capital projects) – A2. (iii)		**13.30**	**0.59**	**13.89**
	Total – Terminal Building Expansion including enabling capital projects = (A2. (i) + (ii) + (iii))		**149.16**	**14.37**	**163.53**
A3.	**Roads**				
	Widening and strengthening of existing perimeter road	2022-23	4.36	0.15	4.51
	Total – Roads		**4.36**	**0.15**	**4.51**
Total Capex initiated in the Pre-COD Period and mandated to be executed in the First Control Period along with Enabling Capital Projects (A)			**280.77**	**26.72**	**307.49**

A1: Runway, Taxiway and Apron – (i) Construction of Link Parallel taxi track (Phase II) and Grading of basic strip at south side and (ii) Joint Filling works at Runway / Taxiway

a. In respect of Construction of Link Parallel taxi track, the Authority noted that this Project is part of CWIP taken over by the Airport Operator (AO) from AAI under Schedule T of the Concession Agreement between AAI and Airport Operator and thus it is binding on the AO to execute it as part of the terms agreed in the Concession Agreement. Further, the Authority noted that AAI had granted Administrative Approval and Expenditure Sanction (A/A & E/S) for this project in June 2016 (i.e., FY 2016-17) amounting to ₹ 106.40 Crores, which included costs of Civil, Electrical works, Contingencies, Taxes etc. and subsequently, awarded the Contract for ₹ 97.71 Crores in February 2017, which is currently under progress.

b. Considering the background that this project was initiated by AAI in FY 2016-17 and subsequently handed over to the Airport Operator as a fallout of the Concession Agreement, the Authority felt that applying normative approach on such projects may not be appropriate. As the Airport has been concessioned out for 50 years, therefore, applying normative approach may not be prudent for such projects. The Authority, therefore, proposed to consider the inflation-adjusted Contract cost, as the basis for deriving the Aero CAPEX costs allowable for this project.

c. The Authority had applied WPI inflation on the Contract cost of ₹ 97.71 Crores from FY 2017-18 up to FY 2020-21 considering FY 2016-17 as the base year (as it was the year in which the Contract was awarded by AAI) and same had been shown in the table below:

Table 59: WPI Inflation adjusted Contract cost for Construction of Parallel taxi Track Project

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
WPI *	**100.00**	**102.96**	**107.35**	**109.14**	**110.57**	**124.91**
AAI awarded Contract Cost (₹ in Crores)	97.71	100.60	104.89	106.64	108.04	122.05

* *Source:* Office of The Economic Adviser, Government of India (https://eaindustry.nic.in)

d. Further, the Authority observed from the detailed BOQ and Deviation Statement submitted by the Airport Operator for the period up to March 2022 that an amount of ₹ 4.71 Crores had already been incurred towards escalation costs and an additional amount of ₹ 2 Crores is anticipated to be incurred by the Airport Operator towards escalation for completion of this project. The Authority proposed to include the total escalation costs of ₹ 6.71 Crores to the inflation adjusted Contract cost of ₹ 122.05 Crores derived by it, thus resulting in the total estimated project cost of ₹ 128.76 Crores.

e. As a result, the Authority noted that the total CAPEX submitted by the Airport Operator (₹ 126 Cores) for this project is within a reasonable range of the inflation adjusted contract cost of ₹ 128.76 Crores derived by it and hence, proposed to allow ₹ 126 Crores for this project.

f. In respect of Joint filling works which is related to the Construction of Parallel Taxi Track, the Authority noted that, the AO had claimed ₹ 1.25 Crores for this project which is also part of AAI handover under Schedule T of the Concession Agreement. As explained above, the Authority proposed to allow the same.

g. The Authority reviewed the progress of the work through its Independent Consultant and noted that approximately 80% of the work had been completed. Therefore, the Authority was of the view that the entire work may be completed by November 2022 and proposed to consider capitalisation of the above projects amounting to ₹ 127.25 Crores in the FY 2022-23.

A2: Expansion and modification of existing Terminal Building:

a. The existing Terminal Building area is of 37,322 Sq.m including other operational buildings and after the expansion of the Terminal building by 10,142 Sq.m, the total area will be 47,464 Sq.m which will correspondingly increase the passenger capacity of the Terminal Building from 2 MPPA to 3 MPPA. The AO had submitted total estimated cost of ₹ 149.16 Crores (refer A2 in Table 58) for this project on the western side (i.e., arrivals side) of the Terminal Building. Further, the project costs included the post award project management consultancy cost and certain enabling capital projects integral to execution of the expansion of Terminal Building such as Plant and machinery and works pertaining to Information Technology.

b. The Authority noted that this project is part of CWIP taken over by the Airport Operator (AO) from AAI under Schedule T of the Concession Agreement between AAI and the Airport Operator and thus it is binding on the AO to execute it as part of the terms agreed in the Concession Agreement.

c. Further, the Authority noted that AAI had sanctioned ₹132.24 crores for this project in FY 2016-17, which includes the cost of Civil, Electrical, enabling works of Plant and Machinery, and IT, Engineering design, Consultancy, Contingencies, Taxes etc. The Authority noted that the designed capacity of the Airport at the time of initiation of this project by AAI was for 2 MPPA and the expected passenger capacity of the Airport upon execution of this project was 3MPPA, with the ability to handle higher Peak Hour Passengers (PHP) i.e., from existing 730 PHP to the expected level of 1,038 PHP and also to overcome the heavy congestion that was being experienced in the arrival area and on flyover on the city side.

d. However, based on sanctioned costs, AAI had issued contract only for Civil and Internal Electrical works in April 2018. Subsequent to the handover, the AO had awarded contracts for various enabling Electrical & Mechanical projects and had also planned to award contracts for certain IT related works in future. Thus, the contracts had been awarded by the two Airport Operators (AAI and the Airport Operator) under different time period.

e. Considering the peculiar kind of the situation where the Airport had been handed over to the Airport Operator during the middle of the Control Period, as a fallout of the Concession Agreement, the Authority felt that applying normative approach on such projects for rationalizing the costs may not ensure consistency in the evaluation of costs and hence, may not be a prudent approach. Further, as AAI and the Airport Operator had awarded contracts in a phased manner, the Authority proposed to consider the inflation adjusted sanctioned costs (as it includes all the related works) as the basis for deriving the allowable project cost for the First Control Period.

f. The Authority had applied WPI inflation on the sanctioned cost of ₹ 132.24 Crores from FY 2017-18 (as the A/A & E/S was granted in FY 2016-17) up to FY 2020-21. As a result, the Authority derived the inflation adjusted sanctioned cost of ₹ 165.18 Crores as shown below:

Table 60: WPI Inflation adjusted Sanctioned Cost for Expansion of Terminal Building Project

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
WPI *	**100.00**	**102.96**	**107.35**	**109.14**	**110.57**	**124.91**
AAI awarded AAES Cost (₹ in Crores)	132.24	136.15	141.96	144.33	146.22	165.18

* *Source:* Office of The Economic Adviser, Government of India (https://eaindustry.nic.in)

g. The Authority noted that the total estimated cost of this project submitted by the AO i.e., ₹ 149.16 Crores is within a reasonable range of the inflation adjusted sanctioned costs derived by the Authority and hence it proposed to allow the same.

h. The Authority further reviewed the progress of the work through its Independent Consultant and noted that only 60% of the work has been completed, as there had been some delays in the execution of work due to COVID-19 pandemic. Further, during the visit by the Authority's Independent Consultant, the Airport Operator had provided a revised timeline of FY 2022-23 for capitalization of this project. The Authority was of the view that the entire work may be completed by FY 2022-23 and proposed to consider the capitalisation of this project in the FY 2022-23.

i. The Authority would also like to emphasize that it has applied the normative guidelines while assessing the costs of the new CAPEX projects submitted by the Airport Operator and the same has been explained in the subsequent sections.

j. Further, the Authority noted that the total CAPEX has been allocated to Aeronautical services by the Airport Operator in the Terminal Building ratio of 95:5 which the Authority proposes to re-allocate in the revised Terminal Building ratio of 92:8 for the following assets in line with the Asset Allocation Report and the Inter-Ministerial Group (IMG) norms and as approved for other similar PPP Airports:

  - Terminal Building including Post award PMC cost (refer A2 in Table 58 above) - ₹ 113.28 crores revised to ₹ 109.59 Crores
  - Lift and Travellator forming part of enabling capital addition projects under Plant and machinery (refer A2 in Table 58 above) - ₹ 1.58 Crores revised to ₹ 1.53 Crores.

  However, the Authority proposed to reallocate all the other capital items of the enabling projects included under Plant and machinery and Information Technology works as 100% Aeronautical, in line with the *Asset Allocation Report* and as approved for other PPP airports.

k. Accordingly, the Authority had derived Aero CAPEX of the cost of expansion of Terminal Building including cost of enabling capital projects, as ₹ 147.23 Crores and the same is shown in the table below:

Table 61: Aeronautical CAPEX proposed by Authority for Expansion of Terminal Building Project at Consultation stage

(₹ in Crores)

Particulars	CWIP project submitted by AO	CAPEX Proposed by Authority
Terminal Building Project including Post award PMC cost	113.28	109.59

Particulars	CWIP project submitted by AO	CAPEX Proposed by Authority
Lift & travellator	1.58	1.53
All other items of Enabling Capital addition projects, included in Plant and Machinery and Information Technology works	34.30	36.11
Total	**149.16**	**147.23**

A3: **Roads:** The Airport Operator had submitted ₹ 4.36 Crores towards the work on widening and strengthening of the existing perimeter road to be completed by FY 2022-23. The Authority noted that this Project is also part of the CWIP taken over by the Airport Operator from AAI under Schedule T of the Concession Agreement and thus it is binding on the Airport Operator to execute it as part of the terms agreed in the Concession Agreement. The Authority further, observed that AAI had already issued a contract for this project in November 2018, which is currently under progress. Also, the Authority noted that this amount has been claimed by the Airport Operator based on Terminal Building ratio of 95:5 allocated by them. However, the Authority proposed to revise and re-allocate the amount as 100% Aeronautical, as the roads are on the airside and in line with its classification of assets stipulated in the *Asset Allocation Report (refer Appendix I to this Tariff Order)*. Therefore, the Authority proposed to allow the estimated cost of ₹ 4.59 Crores for this project and consider its capitalization in the FY 2022-23.

Financing Allowance on CWIP projects

7.3.5. The Airport Operator had initially claimed Financing allowance of ₹ 9.45 Crores for AAI handed-over projects in its MYTP submitted on December 10, 2021 which had been calculated on the average Capital Work in Progress (CWIP) of the entire project funds (funded out of debt and equity), at the rate of 12% (which is cost of debt). As against this, the Airport Operator in its revised CAPEX submission dated May 7, 2022 has claimed both Financing allowance and Interest During Construction (IDC) amounting to ₹ 26.72 Crores, on the average Capital Work in Progress (CWIP). In this respect, the Authority noted that the Financing allowance has been calculated on 35% equity portion and IDC on 65% debt portion of the entire project funds, with the cost of debt being considered as 12% for both.

In this respect, the Authority noted that the Airport Operator had initially confirmed regarding the amount of Financing allowance claimed by them on Aeronautical CAPEX in the MYTP submitted on December 10, 2021 vide email dated January 25, 2022. Subsequently, the Airport Operator had revised their claim vide another email dated April 11, 2022 and sought both Financing allowance on equity funding and Interest During Construction (IDC) on debt funding. Based on the same, the Airport Operator had claimed both Financing allowance and IDC as part the revised Capex submission made on May 7, 2022.

However, the Authority was of the view that Mangaluru International Airport being one of the oldest Airports in India, would not be eligible for Financing allowance, as it is only a notional allowance and is different from the actual investment incurred by airport operators which includes interest during construction, amongst other things. Therefore, the provision of financing allowance on the average capital work in progress would lead to a difference between the projected capitalisation and actual cost incurred, especially when the airport operator funds the projects through a mix of equity and debt.

Further, the Authority noted that in case of greenfield developments, the Airport Operator would have to wait for a considerable length of time before getting the return on the large capital outlay incurred by it as these projects take longer durations to commission and operationalise. It was with this consideration that the Authority had earlier provided financing allowance in the initial stages to such greenfield Airports. The Authority noted that Mangaluru International Airport is a brownfield Airport and has lower construction and traffic risk for new construction at the Airport and Financing Allowance has never been provided in case of other Airports such as DIAL, MIAL and KIAL. Thus, the locked-up equity in the CWIP assets cannot be given the assured return of cost of debt.

In respect of IDC, the Authority was inclined to allow the same and accordingly, the Authority has considered IDC to be provided on the debt portion of the total value of proposed aeronautical capital expenditure (as shown in Table 63 below) based on the notional gearing ratio (debt-equity ratio of 48:52) followed for other PPP airports and cost of debt @ 9% (refer Table 85 of Chapter 8) for the First Control Period. Considering the same, the Authority had arrived at an amount of ₹ 12.05 Crores and proposed to allow the same as against ₹ 26.72 Crores claimed by the Airport Operator for the First Control Period.

7.3.6. The value of CWIP projects as per Schedule T of the CA, the Sanctioned costs, CWIP invoice up to Pre-COD and the Estimated Cost claimed by the Airport Operator for such projects in the revised CAPEX schedule submitted as on May 7, 2022 have been tabulated as follows:

Table 62: Value of CWIP Projects as per Schedule T, Sanctioned Cost, CWIP invoice and cost claimed by the AO in revised CAPEX schedule

(₹ Crores)

Particulars	CWIP projects – Awarded Value as per Schedule T (A)	CWIP project – Sanctioned Cost (B)	CWIP Invoice Value	Claimed by AO in revised CAPEX schedule (D)	Variance (E = D-B)
Construction of Link Parallel Taxi Track (Phase-II) and Grading of Basic Strip at South Side	97.71	106.40	83.15	126.00	19.60
Joint filling work (based on Contract awarded by AAI to the vendor)	-	-	-	1.25	1.25
Expansion of Terminal Building including Post award PMC charges (Col B – Sanctioned Cost includes ₹ 5 Crores for Airport systems & IT works – shown separately below)	98.22	127.24	56.44	113.28	(13.96)
Airport Systems & IT works – as per Sanctioned Cost for Terminal Building expansion – shown in Col (B) // Enabling capital addition projects relating to P&M items and IT works as per AO in Col (D)	-	5.00	-	35.88	30.88
Perimeter Road widening and strengthening (based on Contract already awarded by AAI to the vendor)	4.59	-	0.27	4.36	4.36
Total Value	**200.52**	**238.64**	**146.93**	**280.77**	**42.13**
Add: IDC / Financing allowance claimed by AO	-	-	-	26.72	26.72
Grand Total	**200.52**	**238.64**	**146.93**	**307.49**	**68.85**

7.3.7. The Authority noted that the costs of CWIP projects have increased from the Sanctioned costs of

₹ 238.64 Crores (as shown in Table 62) to ₹ 307.49 Crores due to the following factors:

i. increase in the costs of CWIP project relating to Construction of Parallel Taxi Track.

ii. inclusion of enabling capital addition projects, such as Plant and Machinery items and IT works that are integral to the completion of the Terminal Building expansion project, by the Airport Operator and

iii. IDC / Financing allowance of ₹ 26.72 Crores claimed by the Airport Operator.

7.3.8. Based on the above proposals by the Authority, the revised Summary of Capital Expenditure Projects initiated in the pre-COD period by AAI and transferred to AO and proposed to be considered by the Authority is as follows:

Table 63: Summary of Capital Expenditure Projects initiated in Pre-COD by AAI and proposed by the Authority for the First Control Period at Consultation stage

(₹ Crores)

Reference		Project Group	Description of the Project	Year of Capitalisation		Submitted by Mangaluru International Airport (1)	Proposed by the Authority (2)	Difference (3) = (2)-(1)
				Submitted by Mangaluru International Airport	Proposed by Authority			
A. Projects initiated in Pre-COD Period and mandated to be executed in First Control Period along with Enabling Capital Addition Projects integral to completion of the mandated projects								
A.	A1	Capital Addition projects initiated by AAI in Pre-Control Period and being executed in First Control Period along with Enabling Capital Projects integral to such mandated projects	Runways, Taxiway & Apron	2022-23 2022-23	2022-23 2022-23	1.25 126.00	1.25 126.00	- -
	A2		**Expansion and Modification of Existing Terminal Building including Enabling Capital Projects integral to completion of Expansion project**					-
			Terminal Building expansion including post award PMC	2021-22	2022-23	113.28	109.59	(3.69)
			Plant and machinery items (enabling capital project)					
			Expansion of Baggage Conveyor	2022-23	2022-23	7.86	8.27	0.41
			Substation equipment	2022-23	2022-23	2.03	2.14	0.11
			Lift & Travellator	2022-23	2022-23	1.58	1.53	(0.05)
			PA system	2022-23	2022-23	0.90	0.95	0.05
			Engineering Consultancy	2022-23	2022-23	0.83	0.87	0.04
			VDGS	2022-23	2022-23	1.98	2.08	0.10
			Expansion of Passenger Boarding Bridge	2022-23	2022-23	7.41	7.80	0.39
			Information Technology (IT) works (enabling capital projects)					
			Work related to IT for NITB	2022-23	2022-23	9.86	10.38	0.52
			Facelift work for NITB	2022-23	2022-23	0.16	0.17	0.01

Reference		Project Group	Description of the Project	Year of Capitalisation		Submitted by Mangaluru International Airport (1)	Proposed by the Authority (2)	Difference (3) = (2)-(1)
				Submitted by Mangaluru International Airport	Proposed by Authority			
			Aluminium Roof Gutter for NITB	2022-23	2022-23	0.02	0.02	-
			SITC of RC CCTV	2022-23	2022-23	1.21	1.27	0.06
			Flight Information Display System	2022-23	2022-23	1.31	1.38	0.07
			Network & Pen Tablet	2022-23	2022-23	0.01	0.01	-
			Supply of Bullet Proof Helmet	2022-23	2022-23	0.02	0.02	-
			Electrical Materials	2022-23	2022-23	0.71	0.75	0.04
	A3		Roads – widening and strengthening of existing perimeter road	2022-23	2022-23	4.36	4.59	0.23
			Financing Allowance / IDC – AAI initiated Capital Addition Projects			26.72	12.05	(14.67)
			Total – AAI initiated projects including enabling capital addition projects and IDC – A			**307.49**	**291.12**	**(16.37)**

CWIP projects of ₹ 291.12 Crores considered.

7.3.9. The Authority examined the New Capital Expenditure projects submitted by the Airport operator for the First Control Period, which had been explained Project-wise in the subsequent paragraphs:

B. New Capital Expenditure projects submitted by the Airport operator for the First Control Period

- The Authority noted that the Airport Operator is mandated to plan and develop Phase I of the Airport in the manner set out in the Concession Agreement as well as cater to the annual passenger throughput capacity (domestic and international) and annual cargo handling capacity, along with ancillary facilities as per its demand projections (as mentioned in para 7.1.2 of this Tariff Order). In this background, the Authority had examined the new capital expenditure projects submitted by the Airport Operator and had rationalized it based on traffic forecasts, present and future designed capacity of the Airport and also with the perspective of keeping the tariff rates at a reasonable level.
- The Authority noted that the Airport Operator had applied the Terminal Building ratio of 95:5 for all the capital additions for determining the aeronautical portion, except the following assets which have been treated as 100% aeronautical.

  i. Runways, Taxiways and Apron works

  ii. Cargo assets and

  iii. Fuel farm facility assets

- The Authority was of the view that except for the following assets which are commonly used for both aeronautical and non-aeronautical activities, the other assets should be treated as 100% aeronautical.

Further, the below mentioned common assets have been re-allocated by the Authority in the revised Terminal Building ratio of 92:8 in line with the *Asset Allocation Report (Refer Appendix I to this* Tariff Order*)*.

i. Water tank/Sub-station/STP works at landside shown under 'Plant and machinery' and

ii. Water disposal and supply shown under 'Other buildings'

- Project-wise capital additions under Category 'B', have been explained as follows:

Table 64: Project wise revised Capital Expenditure submitted by the Airport Operator for the First Control Period as on May 7, 2022 for projects under 'Category B'

(₹ Crores)

S. No	Capital Expenditure Project	Financial Year of Commissioning	Project cost	Financing allowance (FA)	Total Capex (incl. FA)
B. New Capital expenditure projected for the First Control Period					
B1.	**Runways, Taxiway & Aprons**				
	Runway recarpeting and Centre-lighting	2023-24	90.64	-	90.64
	Construction of New taxiway	2023-24	36.47	-	36.47
	Construction of new portion RESA	2023-24	7.85	-	7.85
	Apron improvement works	2022-23	1.62	-	1.62
		2025-26	5.39	-	5.39
	Miscellaneous Airside improvement works	2022-23	2.14	-	2.14
		2023-24	2.14	-	2.14
		2024-25	1.39	-	1.39
		2025-26	3.27	-	3.27
	Runways, Taxiways & Aprons – Financing Allowance and IDC		-	20.04	20.04
	Total – Runways, Taxiways & Apron		**150.91**	**20.04**	**170.95**
B2.	**Terminal Building**				
	Modification / Expansion of existing Terminal Building	2022-23	79.88	-	79.88
	Miscellaneous works / interiors / finishes / kerbside of existing Terminal	2022-23	6.05	-	6.05
		2023-24	6.05	-	6.05
		2024-25	3.93	-	3.93
	Terminal Building- Financing Allowance and IDC		-	3.64	3.64
	Total – Terminal Building		**95.91**	**3.64**	**99.55**
B3.	**Cargo Assets**				
	Cargo Buildings	2022-23	18.90	-	18.90
	Cargo equipment	2022-23	4.45	-	4.45
	Cargo Assets- Financing Allowance and IDC		-	0.14	0.14
	Total – Cargo Assets		**23.36**	**0.14**	**23.50**
B4.	**Fuel Facility**				
	Purchase of assets of existing Oil Marketing Companies (OMC)	2022-23	10.00	-	10.00

S. No	Capital Expenditure Project	Financial Year of Commissioning	Project cost	Financing allowance (FA)	Total Capex (incl. FA)
	Building of new assets for Open Access Fuel Facility operations	2022-23	17.83	-	17.83
	Total – Fuel Facility		**27.83**	-	**27.83**
B5.	**Security equipment**				
	Equipment for ARFF – runway mechanical sweeper, rubber removal and other equipment	2022-23	1.20	-	1.20
		2023-24	1.20	-	1.20
		2024-25	0.78	-	0.78
	Total – Security equipment		**3.19**	-	**3.19**
B6.	**Plant and Machinery**				
	Shifting of Navaid systems	2022-23	1.98	-	1.98
	Bomb Detection and Disposal Equipment (BDDS)	2022-23	4.03	-	4.03
		2023-24	4.03	-	4.03
		2024-25	2.62	-	2.62
	Electrical Sub-station equipment	2025-26	4.63	-	4.63
	Triturator	2025-26	6.06	-	6.06
	Water tank, STP and storage tank, Pump house Building	2025-26	5.45	-	5.45
	Various other miscellaneous projects	2022-23	4.39	-	4.39
		2023-24	2.49	-	2.49
		2024-25	1.62	-	1.62
		2025-26	3.88	-	3.88
	Plant and Machinery- Financing Allowance and IDC		-	2.37	2.37
	Total – Plant & Machinery		**41.19**	**2.37**	**43.56**
B7.	**Roads**				
	Vehicle Access roadway and allied features	2025-26	20.95	-	20.95
	Road entry and exit works	2022-23	2.85	-	2.85
	Miscellaneous Enabling works	2025-26	12.96	-	12.96
	Roads- Financing Allowance and IDC		-	2.77	2.77
	Total – Roads		**36.76**	**2.77**	**39.53**
B8.	**Boundary walls**				
	Construction of property boundary wall of 11 kms	2022-23	2.87	-	2.87
		2023-24	2.87	-	2.87
		2024-25	1.86	-	1.86
	Airside Operational Boundary wall	2025-26	2.95	-	2.95
	Boundary Walls- Financing Allowance and IDC		-	0.20	0.20
	Total – Boundary walls		**10.55**	**0.20**	**10.75**
B9.	**Information Technology (IT)**				
	IT Infrastructure, AOCC and various other systems	2022-23	3.43	-	3.43
		2023-24	3.43	-	3.43
		2024-25	2.23	-	2.23
	Information Technologies- Financing Allowance and IDC		-	1.24	1.24
	Total – Information Technology		**9.10**	**1.24**	**10.34**

S. No	Capital Expenditure Project	Financial Year of Commissioning	Project cost	Financing allowance (FA)	Total Capex (incl. FA)
B10.	**Other Associated Works**				
	Storm water		-	-	-
	Water disposal and supply	2022-23	5.70	-	5.70
	Miscellaneous works – others	2022-23	0.24	-	0.24
		2023-24	0.24	-	0.24
		2024-25	0.16	-	0.16
		2025-26	9.22	-	9.22
	Airside security gate	2025-26	4.15	-	4.15
	Rainwater Harvesting	2025-26	9.53	-	9.53
	Water tank (airside)		-	-	-
	Other Buildings- Financing Allowance and IDC		-	1.50	1.50
	Total – Other Buildings		**29.24**	**1.50**	**30.74**
Total Project Cost of New Capital Expenditure Projects			**428.04**	**31.90**	**459.94**
Add: Cost towards Proportionate Technical Services like PMC & Design, Preliminaries, Insurances / Statutory Approvals, Contingencies, Pre-Operatives, etc claimed on the above New Capital Expenditure Projects			75.98	-	75.98
Total of New Capital expenditure projected for the First Control Period (B)			**504.02**	**31.90**	**535.92**

The Authority's analysis on the above projects is given project-wise in the following paras:

B1: Runways, Taxiway and Apron – The work towards Runway, Taxiway and Apron along with its status of completion are as follows:

a. **Installation of Centre lighting and Runway recarpeting** had been projected by the Airport Operator for a revised cost estimate of ₹ 90.64 Crores in FY 2023-24, as against ₹ 80.60 Crores submitted by the AO in the MYTP.

The Authority noted that MIA is a table-top airport surrounded by deep valley on all sides and the Runway 06-24 (built in FY 2005-06) currently is a concrete runway with a rigid pavement and has slope issues at multiple sections. Further, it was highlighted in the DGCA's Special Inspection report published in December 2021 that the transverse slope is less than 1% and not the same throughout the length of the runway and hence does not meet the regulatory requirements.

The Authority also noted that, MIA experiences very heavy rainfall (average of 3,800 – 4,100 mm per annum) during the year and due to this unique topographical and climatic conditions, the Pilots have cited difficulty in sighting the Center line of the Runway (painted marking) during rain and heavy fog. Hence, based on the request of the airport users, namely, Pilots and Airlines, the Airport Operator had planned for Centre lighting as an additional safety measure at MIA. However, the Airport Operator had submitted based on Consultant's study report (refer Appendix III of this Tariff Order) that this project work cannot be carried out on the existing rigid pavement without damaging the condition and strength of the Runway 06-24. Therefore, to implement the Centre lighting work in a safe and hassle-free manner and improve the transverse slope to 1.4%, the AO had proposed to provide a Flexible (bituminous) overlay with 4 layers of recarpeting, with 2 layers each measuring 75mm thickness and 2 others measuring 50mm thickness. The projected 4 layers are expected to cover the essential requirement of 250 mm thickness at the center of the runway with at least 125 mm remaining at the edge of the runway and shall result in an increase in the PCN value.

The Authority obtained and reviewed the Consultant's (KITCO) study report (which is annexed as Appendix III to this Tariff Order), detailed BOQ and necessary explanation along with a detailed note provided by the Airport Operator.

The Authority examined the revised cost estimate of ₹ 90.64 and noted that the same includes ₹ 65.18 Crores towards 4 layers of recarpeting and ₹ 25.12 Crores towards Center lighting work (including airfield ground lighting and civil work). The total cost estimate had increased from earlier ₹ 80.60 Crores to ₹ 90.64 Crores primarily due to the increase in the number of layers of recarpeting from 2 to 4. However, the cost of Center lighting remained the same.

Based on the above analysis and considering the regulatory and safety requirements, the Authority proposed to allow the revised cost estimate of ₹ 90.64 Crores for this project and consider capitalisation of the same in the FY 2023-24.

b. **Construction of New Taxiways** had been proposed by the Airport Operator for a revised cost estimate of ₹ 36.47 Crores in FY 2023-24 as compared with its earlier estimate of ₹ 57.54 Crores (excluding technical services, PMC and design cost) submitted as part of its MYTP on December 10, 2021.

The Authority noted that the Airport Operator had planned to construct: i) Two taxiways each on East side and West side and ii) Taxiway – Code C along with west apron after demolition of existing pavement. The Airport Operator had submitted that it has planned for 2 new taxiways on each side namely, one for staging and the other one for take-off in order to improve the runway capacity and also since they had not planned for any Rapid Entry Taxiways (RET) during the First Control Period. Airport Operator had further explained that Construction of Taxiway – Code C is required for aircraft to approach west apron and for segregation of the arriving and departing aircrafts. This new Code C taxiway is expected to mainly enhance the operational flexibility and allow for better aircraft sequencing.

The Authority reviewed the justification and detailed BOQ furnished by the Airport Operator through its Independent Consultant. Although one taxiway on each side can suffice for the time being, however, to avoid closure of runway as well as escalation of costs, the Authority proposed to approve the construction of 4 taxiways (two at each end).

Further, the Authority compared the per Sq.m. estimated cost submitted by the Airport Operator for Main Pavement and Shoulders (after excluding the cost of Earthwork and Airfield Ground lighting (AGL)) with the Inflation adjusted Normative cost of ₹ 5,287per Sq.m, which has been derived by the Authority as shown in the table below:

Table 65: WPI Inflation adjusted Normative cost (per Sq.m.) for Construction of Taxiway Project at Consultation stage

Particulars	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22
WPI *	100.00	101.73	104.74	109.21	111.03	112.49	127.07
Per Sq.m. Cost (in ₹)	4,700	4,781	4,923	5,133	5,218	5,287	5,972

* *Source:* Office of The Economic Adviser, Government of India (https://eaindustry.nic.in)

The Authority, vide its Order no. 07/2016-17 issued on June 13, 2016 had prescribed an overall cost ceiling of ₹ 4,700 Per Sq.m. for construction of Runway / Taxiway. Since the work on new Taxiway projected by the Airport Operator would be carried out over the first 3 FYs of the First Control Period, the Authority had proposed to calculate inflation adjusted normative cost up to FY 2021-22 (using WPI inflation index) to address the time value of money. Based on the same, the Authority had derived the revised normative cost of ₹ 5,972 per Sq.m.

The Authority noted that the per Sq.m. cost of main pavement (flexible pavement), claimed by the Airport Operator amounts to ₹ 5,025 and this cost is within above inflation adjusted normative cost derived by the Authority. Hence, the Authority proposed to allow the total estimated cost of ₹ 36.47 crores submitted by the Airport Operator for this project, to be capitalized in the FY 2023-24.

c. **Construction of new portion Runway End Safety Area (RESA)** had been projected by the Airport Operator for a revised cost estimate of ₹ 7.85 Crores in the FY 2023-24 as against the earlier estimate of ₹ 17.16 Crores submitted as part of its MYTP.

The Authority noted that the length of the main Runway 06/24 is 2,449m and the landing threshold of RWY 06 is displaced by 120 m to the east leading to a reduced Landing Distance Available (LDA) of 2,329 m. The Runway beyond the threshold 06 is used as a Taxiway for leaving aircraft which has landed on RWY 24 and as take-off run surface for RWY 06. Further, the RESA at Runway end 24 is not compliant with ICAO Annex 14 and Civil Aviation Regulations (CAR) and this is leading to Runway excursion as, the landing aircraft on Runway 24 must 'overrun' the dedicated end of Runway 24 to leave the Runway via Taxiway F. This has also been highlighted in the Special Inspection Report issued by DGCA in December 2021 and even earlier during inspection in July 2019. Hence, in order to comply with the above and to implement the recommended 240 x 90m sized RESA on both runway ends, the Airport Operator had planned for – i) Relocation of threshold RWY 24, by 70m after extending the Runway, to the east and associated works, including demolition of existing pavement, ii) Retainment of threshold RWY 06, with relocation of connecting taxiway to address the issue stated above and iii) RESA compliance of 240m X 90m on both RWY 06 & 24 ends.

The Authority reviewed the detailed note with justification, Consultant's report (refer Appendix III of this Tariff Order) furnished by the Airport Operator for this project and is of the view that this project is mandatorily required for compliance with the prescribed safety norms. Further, the Authority compared the average Per Sq.m. estimated cost of ₹ 5,205 submitted by the Airport Operator for Runway Pavement, Runway Shoulders and Runway Blast pads (after excluding the cost of Earthwork and Airfield and Ground lighting (AGL) with the Inflation adjusted Normative cost of ₹ 5,972 and found the same to be within the Inflation adjusted Normative cost. Hence, the Authority proposed to consider the estimated cost of ₹7.85 crores submitted by the Airport Operator for this project. The Authority reviewed progress of this work through its Independent Consultant and noted that technical assessment study is in progress and there is some delay in the execution of work due to COVID-19 Pandemic. Post visit by the Independent Consultant, the date of completion of this project has been revised to November 2023 by the Airport Operator. The Authority proposed to consider the capitalisation of this project in the FY 2023-24.

d. **Apron improvement works** have been projected to be capitalized by the Airport Operator for ₹ 1.62 Crores in FY 2022-23 and ₹ 5.39 Crores in FY 2025-26 totaling to ₹ 7.01 Crores.

The Authority noted that the current Ground Support Equipment (GSE) area is inadequate and Hard Standing area, which is a safety requirement is presently not existing and in order to comply with the same, the Airport Operator had planned certain improvement works. Considering that this project work is essential for ensuring the safety of airside vehicle movement without any conflict with Apron operations, the Authority was inclined to allow the same.

In this respect, the Authority reviewed the detailed BOQ submitted by Airport Operator through its Independent Consultant and observed that the estimated cost only works out to ₹ 6.89 Crores as against ₹ 7.01 crores claimed by the Airport Operator in its revised CAPEX submission. Based on the same, the Authority proposed to consider the overall amount of ₹ 6.89 Crores for this project. The Authority reviewed the progress through its Independent Consultant and noted that the project will be initiated only after the study report is obtained from the Consultant appointed by the Airport Operator. Therefore, the Authority proposed to shift the capitalization of ₹ 1.62 Crores to FY 2023-24 and consider ₹ 5.27 Crores in FY 2025-26.

e. **Miscellaneous Airside improvement works** for an estimated cost of ₹ 8.94 Crores has been submitted by the Airport Operator.

The Authority reviewed the detailed break-up of items provided by the Airport Operator and observed that some of the miscellaneous items mentioned in the list are forming part of Schedule U of the Concession Agreement amounting to approximately ₹4.53 crores and hence mandated to be carried out by the Airport Operator as part of the terms of the Concession Agreement.

The balance CAPEX of approximately ₹4.41 Crores had been proposed towards certain new Capital items by the Airport Operator, such as Bomb cooling pit, other infrastructure for GHA – office, paved area, demolition of various existing structures and buildings, EV charging of airside vehicles, etc. In this respect, the Authority observed that, bomb cooling pit is already available at the airport as it is mandatory for obtaining DGCA license and certain other CAPEX such as demolition of existing structures, infra for GHA – office etc., are not required currently and also not properly justified. Hence, the Authority proposed not to consider the same during the current Control Period.

Based on the above, the Authority proposed to consider the CAPEX amount of ₹ 4.53 Crores (mandated as per Schedule U) distributed equally over 3 FYs of the First Control period, i.e., ₹ 1.51 Crores each in FY 2022-23, FY 2023-24 and FY 2024-25.

B2: Terminal Building – The work towards modification of existing Terminal Building is as follows:

a. **Modification of existing Terminal Building** for ₹ 79.88 Crores had been projected by the Airport Operator for capitalisation in the FY 2022-23.

This project had been proposed by Airport Operator in addition to the ongoing expansion project, primarily to enhance passenger facilitation and to ensure smoother passenger flow, as the passenger traffic is expected to reach pre-COVID level in FY 2023-24 and grow further by FY 2025-26. The Authority noted that the Airport Operator had claimed the estimated cost towards – In line baggage system, Security screening, Civil and interior modification and additional IT works in line with certain requirements stipulated for development of the Terminal Building as per Annexure II of Schedule A and Annexure I of Schedule B of the Concession Agreement.

In this respect, the Authority examined the clauses mentioned in Annexure II of Schedule A and Annexure I of Schedule B which stipulate development of the Terminal Building that is efficient (which allows for direct and efficient means of passenger and baggage flow for all passengers arriving and departing at the airport), flexible for phase wise development, sustainable, economical and has facilities such as Inline X-Ray based baggage system, CUPPS, CUSS, Check-in concourses, self-baggage drop system etc. The Authority also verified the Consultant's report, Drawings, detailed BOQ and justification provided by the Airport Operator for this project and had the following views:

i. The PAX traffic of MIA grew from 0.85 MPPA in FY 2010-11 to 2.2 MPPA in FY 2018-19 (its highest number over the years). Based on such growth, AAI had initiated the expansion and modification of Terminal Building project which would help increase the Passenger capacity from 2 MPPA to 3 MPPA. This project was handed over by AAI to the Airport Operator as part of terms of Concession Agreement and was already in progress. Further, as already explained in Para 7.3.4 (A2), the Authority had proposed to allow in full, the CAPEX projected for the project on expansion of Terminal Building, which had been handed over to the Airport Operator by AAI as part of the Concession Agreement.

ii. The Authority observed that the Passenger traffic had considerably slowed down due to COVID-19 (1.01 MPPA in FY 2021-22) and traffic growth had been projected by the Airport Operator to reach pre-COVID level during FY 2023-24 and cross 3 MPPA only by the end of the Control period. Based on the same, the Authority felt that the current Terminal Building expansion project, which was already in progress would sufficiently address the growth in the passenger traffic projected during the First Control period.

iii. The Authority also observed that the current expansion project met most of the requirements stipulated under Schedule A and B of the Concession Agreement for the development of Terminal Building.

iv. The Authority noted that MIA has achieved an Airport Service Quality (ASQ) rating of 4.87 to 4.91 out of 5, during the first 3 quarters of FY 2021-22 which was higher than the target rating of 4.5 stipulated in the Concession Agreement.

v. Further, the Authority took cognizance of the fact that this was the first Tariff Order being determined for MIA and if, any excessive CAPEX was allowed in this Control Period which was not properly justified, it may result in levy of exorbitant tariffs for the First Control period.

Based on the above analysis, the Authority proposed not to consider the estimated cost of ₹ 79.88 Crores for this Control Period. However, if the Airport Operator executes modification of Terminal Building considering it of absolute necessity for efficient operations at the Airport, the same shall be considered by the Authority on actual incurrence basis subject to efficiency and reasonableness of the project, at the time of true up of the next Control period.

b. **Miscellaneous works / interiors / finishes / kerbside** works related to existing Terminal Building expansion for ₹ 16.04 Crores had been proposed by the Airport Operator for capitalisation in FY 2022-23, FY 2023-24 and FY 2024-25.

The Authority reviewed the detailed project note, item wise list with cost break-up and explanation provided by the Airport Operator through its Independent Consultant and was of the view that the works mentioned in the item wise CAPEX list were not essential for passenger movement facilitation or safety or security but mostly to enhance ambience of the Airport. Therefore, the Authority proposed not to consider this CAPEX in the First Control Period.

However, if any work or project relating to safety and security aspect of the airport is carried out by the Airport Operator the same would be considered based on actual CAPEX incurred by the Airport Operator at the time of true up of the Second Control period.

B3: Cargo Terminal Building and Equipment – The work towards Cargo Terminal Building and Equipment and the status of its completion is as follows:

a. **Cargo Terminal Building-** The AO had projected development of a new Integrated Cargo Terminal Building at a revised estimated cost of ₹ 18.90 Crores to be capitalized in FY 2022-23 as against ₹ 14.46 Crores submitted in their revised MYTP dated December 10, 2021 (refer Annexure 5 of this Tariff Order)

The Authority noted that as per Clause 19.4 of the Concession Agreement the AO was mandated to develop a new Cargo Terminal Complex since the current Cargo facility is retained by AAICLAS (a subsidiary of AAI) in the Carved-out area, i.e., ear-marked for AAICLAS as per Annexure IV of Schedule A to the Concession Agreement (refer Para 18.4.5 of Annexure 4 in Chapter 18 of this Tariff Order). Hence the Airport Operator had planned for construction of a new Integrated Cargo Terminal in the south-western part of the Airport, near the existing Passenger Terminal, to handle both domestic and international cargo operations in FY 2022-23. The Authority also noted that the Airport Operator had conducted the Cargo AUCC Meeting with all the stakeholders on May 28, 2021.

Considering this background, the Authority examined the Cargo traffic volume for the past five (5) years and observed that the Airport Operator had projected the development of new Cargo Terminal Building in order to reach the pre-COVID level by FY 2023-24 and handle the Cargo operations in a smooth and efficient manner as mandated by the terms of the Concession Agreement. The cargo traffic volume for the past five (5) years is given in the table below:

Table 66: Cargo Traffic Volume of MIA for the past 5 FYs

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21
Cargo Traffic (in MT)	1,242	2,527	3,287	4,605	2,186

The Authority examined the revised cost estimate of ₹ 18.90 Crores submitted by the AO (as against ₹ 14.46 Crores submitted earlier) and noted that the increase in cost estimate is primarily on account of increase in the built-up area of the Cargo building from 1,890 Sq.m to approx. 2,600 Sq.m based on final design received from consultants, change in specification for structure and increased cost of various materials like, steel, enforcement, cement, etc.

Further, the Authority noted that the Airport Operator had undertaken competitive bidding for this project and issued the Letter of Intent (LOI) to the selected vendor for the total costs of ₹ 18.90 Crores However, considering the delay in construction work, the project was expected to be completed only in FY 2023-24. Based on the above factors, the Authority proposed to consider the costs ₹ 18.90 Crores for capitalisation of this asset in the FY 2023-24.

b. **Cargo Equipment** for ₹ 4.45 Crores had been projected by the Airport Operator for capitalization in FY 2022-23. The Authority noted that this equipment was integral to the development and operation of Cargo Terminal Building and hence proposed to capitalize the same along with the Cargo Terminal Building in FY 2023-24.

B4: Fuel Facility – The work towards Fuel facility and the status of its completion is as follows:

a. **Purchase of assets of existing Oil Marketing Company** (OMC), namely, IOCL had been proposed by the Airport Operator for ₹ 10.00 Crores in FY 2022-23.

The Authority noted that Clause 19.3. of the Concession Agreement mentions about the Airport Operator's obligations towards providing aircraft fueling services and hence, Airport Operator was obligated to provide the same (refer Para 18.4.7 of Annexure 4 in Chapter 18 of this Tariff Order). In this respect, the Authority also noted that the Airport Operator had conducted the Fuel Farm AUCC Meeting with all the stakeholders on May 28, 2021.

Currently, the Indian Oil Corporation Ltd (IOCL) is the sole ATF fuel facility provider at Mangaluru International Airport, located in eastern part of Airport (Old Airport) on land area of 1,250 Sq.m. with storage capacity of approx. 500 KL as compared to the required through put demand of around 4,200 KL per month for the Airport during the Pre-COVID period. The other Oil Marketing Companies (OMCs) present at the Airport namely, HPCL and Shell-MRPL have their facilities located outside Airport site area. Therefore, the Airport Operator had planned to commence the Fuel facility operations by initially purchasing the existing assets of IOCL and subsequently build new assets to provide Open access fuel facility for the aircrafts.

Considering this background, the Authority examined the MoU entered between Airport Operator and IOCL and noted that assets worth ₹ 3.61 Crores have been purchased from IOCL and another ₹ 6 crores had been projected by Airport Operator for purchase of 6 numbers of refuellers thereby totalling to ₹10.00 crores.

The list of assets (duly depreciated) being purchased by the Airport Operator from IOCL have been given in the table below:

Table 67: Details of Assets purchased from IOCL by the Airport Operator

(₹ Crores)

Particulars	**Amount**
Tanks and Accessories	1.31
Pumps and Compressors	0.00
Fire Fighting System and accessories	0.25
Road, Building, Sheds, driveway	1.81
Furniture & Fixtures, Office Equipment	0.02
Electrification & DG Set	0.14
Station Vehicle	0.08
Total	**3.61**

The Authority upon review of all the above and considering that the MoU had been signed between the parties (towards the end of FY 2021-22), proposed to allow the CAPEX of ₹ 10.00 crores, submitted by the Airport Operator in the FY 2022-23.

b. **Building of new assets** i.e., development of an integrated fuel farm facility for a revised cost estimate of ₹17.83 Crores (as against ₹ 12.73 Crores submitted in the revised MYTP dated December 10, 2021) in the FY 2022-23.

The Authority noted that apart from the above purchase of assets of existing OMC, the Airport Operator had also planned in the long term, to develop an integrated Fuel farm facility to consolidate the fuel operations in a single location and provide open access fuel facility operations, as mandated by Clause 19.3 of the Concession Agreement.

Further, the Airport Operator had submitted in support of its claim that the current facility of IOCL, which is the only facility available inside the airport, has tankage of just 470 KL and only 1 point for Tank Truck (TT) decantation and this facility may not be sufficient to handle the volume of whole airport. Hence, the Airport Operator had planned for additional storage of 500 KL along with 5-bay gantry which was expected to cater to the whole airport's current and future requirements.

The Authority examined the revised cost estimate of ₹17.83 Crores (as against ₹ 12.73 Crores earlier) and noted that the increase in cost estimate is primarily due to increase in the cost of various materials like, steel, enforcement, cement, etc. Further, the Authority noted that the Airport Operator had undertaken competitive bidding for this project and issued the Letter of Award (LOA) to the selected vendor for total cost of ₹ 17.14 Crores. However, considering the delays in the progress of work due to COVID-19 pandemic and the fact that ATM traffic is expected to reach pre-COVID level only by FY 2023-24, the Authority proposed to consider capitalisation of this project for ₹ 17.14 Crores in the FY 2023-24.

B5: Security equipment – the work towards Security equipment and the status of its completion is as follows:

a. **Various equipment for Airport Rescue and Firefighting (ARFF)** costing ₹ 3.19 Crores had been projected for capitalization by the Airport Operator in FY 2022-23, FY 2023-24 and FY 2024-25.

The Authority reviewed the detailed break-up of the list of equipment submitted by the Airport Operator and noted that these CAPEX items are essential for ensuring proper security at the Airport and hence the Authority proposed to allow the same in the FYs as claimed by the Airport Operator.

B6: Plant and machinery – the work towards Plant and machinery and the status of its completion is as follows:

a. **Infrastructure cost of Trans-installation of Navaids** due to runway improvement works had been proposed by the Airport Operator for ₹ 1.98 Crores with the capitalisation in FY 2022-23.

The Authority noted that the Airport Operator had projected this CAPEX towards infrastructure cost of trans-installation of Navaids for runway improvement works and hence, it's a mandatory requirement. The Authority reviewed the progress of this work and noted that there is delay in initiating the work and hence, proposed to shift the capitalisation of this project to the next FY i.e., FY 2023-24.

b. **Bomb Detection and Disposal Squad (BDDS)** cost had been estimated by the Airport Operator for ₹ 10.69 Crores distributed over 3 FYs, i.e., ₹ 4.03 Crores each in FY 2022-23 and FY 2023-24 apart from ₹ 2.62 Crores in FY 2024-25.

The Authority noted that the inspection report issued by BCAS in February 2022 states that the State Police BDDS, Mangalore, did not have a disposal team and the staffs were not provided with any BDDS equipment, to which the AO had submitted an action-taken report in early March 2022 and projected the CAPEX for ₹ 10.69 crores towards purchase of various BDDS equipment.
Considering the safety and security requirements, the Authority proposed to allow this CAPEX in the FYs as submitted by the Airport Operator.

c. **Electrical Substation equipment (airside)** for ₹ 4.63 Crores had been estimated by the Airport Operator for capitalisation in FY 2025-26.

The Airport Operator had submitted that currently the certified utilization is approx. 2,000 KVA as against the available capacity of 2,250 KVA from two connections, namely, HT 181 and HT 79. However, the Airport Operator had projected a further, demand of approx. 1,000 KVA towards upgrading of CCR, AGL and Perimeter lighting and also for the upcoming New Cargo Terminal and hence there is a need for an additional Sub-station.

The Authority reviewed the detailed justification provided by the Airport Operator but observed that the Airport Operator had not submitted any BOQ or Cost break-up, detailed plan etc., for the same. Hence, the Authority proposed to allow only 50% of the above estimated cost towards this capital expenditure in this Control Period. Further, the Airport Operator had considered this asset as Common and apportioned it to Aeronautical services in the Terminal Building ratio of 95:5. However, the Authority was of the view that as this asset is on the Airside, the same should be considered as 100% aeronautical.

d. **Triturator**- for ₹ 6.06 Crores had been estimated by the Airport Operator for capitalisation in FY 2025-26 towards treatment of liquid waste from aircraft. AO had proposed such projects to be executed in the last FY of the Control Period. The Authority felt that this project may or may not be commissioned in the First Control Period and proposed to shift the CAPEX proposed by the AO in the last tariff year of this Control Period to the next Control Period. However, if this project is initiated in this Control Period, the same may be trued up on actual incurrence basis.

e. **Water tank, Substation, STP** projects for ₹ 5.25 Crores had been proposed by the Airport Operator for capitalization in FY 2025-26.

   The Authority had reviewed the detailed BOQ, Demand vs Requirement Statement and explanation provided by the Airport Operator for Water tanks and STP projects. The Airport Operator had submitted that, currently there are two water tanks at MIA and based on consumption pattern, the existing storage capacity of water tanks is close to 1 days' requirement. However, considering the projected growth in passengers during the First Control period, the Airport Operator had planned for additional water tanks in order to increase the water storage capacity to 3 days' requirement.

   Further, in respect of Sewage Treatment Plant (STP), there was already one functioning with 150 Kilo Litres per Day (KLD) capacity and another with 500 KLD capacity is under construction along with the expansion of the Terminal Building. The Authority considers the same to be sufficient to handle the growth in passenger traffic. Based on the above, the Authority proposed to allow 50% of the estimated cost for the First Control period.

   Also, the Authority noted that the CAPEX had been allocated to Aeronautical services in the Terminal Building ratio of 95:5 which the Authority proposed to re-allocate in the revised Terminal Building ratio of 92:8 in line with the *Asset Allocation Report (refer Appendix I of this Tariff Order)* and the Inter-Ministerial Group (IMG) norms and as approved for other similar Airports and hence the CAPEX allowed was revised to ₹ 2.64 Crores in FY 2025-26.

f. **Miscellaneous items** of Plant and machinery had been proposed by the Airport Operator for an overall cost estimate of ₹ 12.39 Crores spread over 4 FYs, i.e., from FY 2022-23 to FY 2025-26.

   The Authority had reviewed the item wise list provided by the Airport Operator for the projected amount of ₹12.39 crores and observed that it included various Plant and machinery items for police outpost, site development for STP, solid waste facility, landscaping and irrigation system, fuel station, grass cutting machine, repairs of existing electrical substation, chemical suit, PPE, washroom fittings, etc. The Authority was of the opinion that certain items appear to be Operational in nature (such as repairs of existing electrical substation) and there are redundancies in the capital items (such as site development for STP, solid waste facility which may be included under STP as well) proposed by the Airport Operator. Hence, the Authority proposed not to consider the same during this Control period.

B7: Roads – the work towards improvement of Roads is as follows:

a. **Road entry and exit - improvement works** for ₹ 2.85 Crores has been proposed by the AO in its revised CAPEX schedule for capitalisation in FY 2022-23, as against ₹ 12.67 Crores proposed by it in the MYTP submitted on December 10, 2021 (refer Annexure 5).

   The Authority examined the BOQ and explanation provided by the Airport Operator for this project and observed that the present road connecting Old Terminal Building and eastern part of the Airport to Bajpe Town is frequently used by important airport stakeholders, namely, ATC, CNS, NATS, CSF, Fuel farm browsers, AAICLAS Cargo, Coast Guards etc., but has only 2 lanes without shoulder and is not in good condition. Therefore, the Airport Operator had projected this cost during the First Control period towards widening, strengthening and reconstruction of this important road to improve the connectivity and services to this area which forms part of the Airport property. On the above considerations, the Authority had proposed to allow this CAPEX in FY 2022-23, as submitted by the Airport Operator.

b. **Vehicle access roadway and related works** for ₹ 20.95 Crores has been proposed by the Airport Operator for capitalisation in FY 2025-26 in its revised CAPEX schedule (refer Table 64– B7) towards demolishing, grading, drainage, construction of at-grade roads and landscaping, as against ₹ 32.44 Crores proposed by it in its MYTP submission on December 10, 2021 (refer Annexure 5).

   The Authority examined the BOQ, drawings and explanation provided by the Airport Operator for this project. The AO had submitted that the present entry road is steep and on the uphill, coming from northeast corner whereas the exit road is on the western corner containing easier downward slopes. Also, currently the passengers going to 'Departure' area have to come through the entry road and travel down to the 'Arrival' area and car park before departing and this is causing some congestion in vehicular movement traffic. Therefore, in order to reduce vehicular congestion, the Airport Operator had planned to convert the existing exit road on the western side into two-way vehicular traffic road and utilise the present 'entry' road on north-eastern side exclusively for Cargo vehicle entry.

   The Authority upon review of all the details and explanation provided by Airport Operator, understands that this project had been planned primarily to de-congest the vehicular traffic. However, in the current Pandemic scenario, the passenger traffic is less and expected to reach pre-COVID levels only by end of the First Control Period. Hence, considering the slow growth in passenger traffic, the Authority proposed not to consider this project for the First Control Period.

c. **Miscellaneous road works** involving earth work, construction of temporary roads, retaining walls, temporary barricading, sign boards, light Pole, removal & relocation of Existing utilities, shifting of trees, etc., for ₹ 12.96 Crores had been proposed by the Airport Operator for capitalisation in FY 2025-26.

   The Authority examined the BOQ and explanation provided by the Airport Operator for this project and noted that this forms an integral part for completion of the Vehicular access roadway works project. Hence, the Authority proposed not to consider this CAPEX in the First Control Period in line with its proposal mentioned above for the Vehicular access roadway works.

B8: Construction of Boundary walls – the work towards Construction of boundary walls is as follows:

a. **Construction of Boundary wall** for ₹ 7.60 Crores had been proposed by the Airport Operator for capitalisation in FYs 2022-23, 2023-24 and 2024-25.

The Authority understands from the submission of the Airport Operator that this project included replacement of small sections of the wall (11 km length wall) since frequent falling-down of certain vulnerable sections of the boundary wall had been noticed, due to the topology of the Airport and inherent weather conditions. However, the Authority observes that there is an existing Property Boundary Wall at the airport and the projected expense is mostly in the nature of repairs and maintenance and hence was of the view that same may be considered under Operational expenses. The Authority, therefore, proposed to exclude this capital expenditure from RAB.

b. **Airside operational boundary wall** for ₹ 2.95 Crores had been proposed by the Airport Operator in its revised CAPEX schedule for capitalisation in FY 2025-26 (refer Table 64 – B8), as against ₹ 2.17 Crores proposed by the Airport Operator in its MYTP submission (refer Annexure 5).

   The Authority examined the details submitted by the Airport Operator and noted that this project had been undertaken by the Airport Operator to improve operational efficiency, as certain sections of the Operational Boundary wall need to be rebuilt for the security of the Airport. The Authority, therefore, proposed to allow this CAPEX in the FY 2025-26 for ₹ 2.17 Crores, submitted by the AO as part of its MYTP on December 10, 2021. Further, the Airport Operator has considered this asset as Common and apportioned it to Aeronautical services in the Terminal Building ratio of 95:5. However, the Authority was of the view that as this asset is on the Airside, the same should be considered as 100% aeronautical. Accordingly, the Authority had derived the CAPEX as ₹ 2.29 Crores for capitalisation in the FY 2025-26.

B9: Information Technology works – the work towards Information Technology is as follows:

a. **IT Infrastructure, AOCC and various other items** had been projected by the Airport Operator for total cost estimate of ₹ 9.10 Crores distributed over 3 FYs, namely, ₹ 3.43 Crores each in FY 2022-23 and FY 2023-24 apart from ₹ 2.23 Crores in FY 2024-25.

   The Authority had reviewed the detailed list provided by the AO for the projected amount of ₹ 9.10 crores and noted that the list includes:

   (i) IT Infra related items namely, SAP license, Laptops, CXO dashboard, PAX Wi-Fi system etc. and

   (ii) AOCC and Automation related items, namely, Installation & Commissioning of AOCC, Command Post, Voice Infra, Data Center, Printers, Scanners etc.

   The Authority was of the view that this project may be taken up by the Airport Operator in a phased manner such that the essential CAPEX is implemented in this Control Period. The Authority, therefore, proposed to allow 50% of the amount claimed by the AO for the First Control Period to be capitalised over the 3 FYs such as FY 2022-23 to FY 2024-25.

B10: Other Associated Works – the work towards other associated works is as follows:

a. **Storm water drain** – the Authority observed that the Airport Operator has withdrawn this CAPEX in the revised CAPEX schedule submitted on May 7, 2022 and is in agreement with the same.

b. **Water disposal and supply works** for ₹ 5.70 Crores had been claimed by the Airport Operator for capitalisation in the FY 2022-23.

   The Authority examined the explanation and supporting documents provided by the Airport Operator for estimating the cost of ₹ 5.70 crores towards Water supply and disposal scheme and observed that, MIA does not possess a direct or dedicated water supply system for its daily usage and has been managing with various borewells, whose operations are also being restricted by the local Govt authority, namely, KGWA (Karnataka Ground Water Authority).

The Airport Operator has further, explained that MIA had maximum peak water demand of 2 lac litres per day and is currently facing water scarcity during December - May months and hence dependent on water brought in by water-tankers i.e., the external sources. In order to have dedicated water supply from the perennial river flowing near the airport, the AO had projected CAPEX for a Pump house and dedicated water supply line to the Terminal Building inside the airport premises. On the above considerations, the Authority proposed to allow this CAPEX in FY 2022-23 for this project.

Further, the Authority noted that the CAPEX had been allocated to Aeronautical services in the Terminal Building ratio of 95:5 which the Authority proposed to re-allocate in the revised Terminal Building ratio of 92:8 in line with the *Asset Allocation Report* and the Inter-Ministerial Group (IMG) norms and as approved for other similar Airports and hence the CAPEX allowed is revised to ₹ 5.52 Crores in FY 2022-23.

c. **Airside Security gate** had been projected by the Airport Operator for ₹ 4.15 Crores in the FY 2025-26.

   The Authority examined the detailed BOQ and necessary explanation from the Airport Operator for this project and understands that the current Airside Gates come in the footprint of proposed airport development and therefore, the Airport Operator had planned to build these gates at a new location with required upgrades, as this is part of safety requirement. Upon such review, the Authority felt that the estimated cost of ₹ 4.15 Crores for this project is on the higher side and it proposes to allow ₹ 0.50 Crores for capitalization of this project in the FY 2025-26.

d. **Rainwater Harvesting (RWH)** for ₹ 9.53 Crores has been projected by the Airport Operator in the FY 2025-26.

   The Authority reviewed the BOQ and explanation provided by the AO for the estimated amount of ₹ 9.53 crores and observed that the Airport Operator had projected the cost for 2 RWH ponds, i.e., one each in Airside and Landside in order to comply with the Government's initiative on Environment sustainability and also handle the challenges faced in water conservation due to inherent topography of the airport. The Authority appreciated the energy, efficiency and environmentally friendly projects and is also cognizant of the fact that the AO is mandated by the CA (Annex I to Schedule B) to integrate sustainable strategies into the planning and architecture of the Terminal Building (such as exploring renewable energy production like solar panels, landscaping with green strategies like RWH etc.). However, the Authority was of the view that this project may be implemented by the Airport Operator in a phased manner, such that one RWH pond is constructed in this Control Period. On the above considerations, the Authority proposed to consider only 50% of the amount claimed by the Airport Operator for this project in the FY 2025-26.

e. **Water Tank** – the Authority observed that the Airport Operator had withdrawn this CAPEX in the revised CAPEX schedule submitted on May 7, 2022 and was in agreement with the same.

f. **Miscellaneous works** had been proposed by the Airport Operator for a total cost estimate of ₹ 9.86 Crores to be capitalized over 4 FYs, i.e., ₹ 0.24 Crores each in FY 2022-23 and FY 2023-24 apart from ₹ 0.16 Crores in FY 2024-25 and the major portion of ₹ 9.22 Crores in FY 2025-26.

The Authority had reviewed the detailed cost break-up provided by the Airport Operator for the above estimated amount of ₹ 9.86 Crores and noted that it includes items such as Nursery plot, into plane facility, laying of pipes, cables etc. for all utilities, hazardous waste storage, eating place, etc. The Authority was of the opinion that some of the Capital items included under this project are redundant, such as Into Plane facility may had been included under the project on Fuel Facility and hazardous waste storage under STP etc. Further, these capital items were also not sufficiently justified in terms of essentiality for this Control period. Hence, the Authority proposed not to consider the same during this Control period.

7.3.10. **Cost claimed towards technical services, PMC, Preliminaries and Pre-operatives, Contingencies, Statutory approvals, Labour cess, Site-preparation, Insurance etc.,**

The Authority observed that the Airport Operator had claimed ₹ 75.98 Crores towards Technical services, PMC, Pre-operatives, Contingencies etc., distributed across all the CAPEX items submitted in the revised CAPEX schedule. Broadly, this cost had been claimed under the following sub-heads such as:

a) Consultancy charges of ₹ 4.02 Crores towards Concept Land use planning and Master planning

b) Cost of Independent Engineer appointed by AAI for three (3) years and projected by Airport Operator for five (5) years amounting to ₹ 7.89 Crores and

c) Cost of technical services, PMC, Pre-operatives, Contingencies, Statutory approvals, Insurance etc. computed @ 15% of the revised Aero CAPEX for new projects submitted by the Airport Operator amounting to ₹ 64.07 Crores.

The Authority upon review of relevant documents had the following views:

i. The cost of Concept Land use planning & Master planning ₹ 4.02 Crores already awarded by the Airport Operator - As per Clause 12.2 of the Concession Agreement, all the construction and development of the Airport should be in conformity with Master Plan and the Airport Operator is required to update the Master Plan every five (5) years or earlier as the case may be. The Airport Operator had conducted the land use planning and Master Planning through engagement of renowned Airport consultants. However, the Authority had proposed to include the aforementioned cost of Land use planning and Master Planning of ₹ 4.02 Crores under the overall cost of technical services, PMC, Pre-operatives, Contingencies, Statutory approvals, Insurance etc. specified under S.no. (iii) below.

ii. The cost of Independent Engineer appointed by AAI - As per Clause 24 of the Concession Agreement, Independent Engineer had to be appointed by AAI and remuneration shall be paid by AAI which in turn shall be reimbursed by the Airport Operator to AAI such Independent Engineer is required to be engaged throughout the period of the Concession Agreement. Further, as per Clause 24.3.1 of the Concession Agreement, this cost has to be considered as a pass-through by the Regulator. Clause 24.3.1 states that:

"The remuneration, cost and expenses of the Independent Engineer shall be paid by the Authority, and all such remuneration, cost and expenses shall be reimbursed by the Concessionaire to the Authority within 15 (fifteen) days of receiving a statement of expenditure from the Authority. Any amounts paid to the Independent Engineer shall be considered for a pass-through for the determination of the Aeronautical Charges by the Regulator".

The relevant Clauses of the CA pertaining to appointment, duties of the Independent Engineer as well as their 'Role and functions' under Schedule L are provided in paras 18.4.12 and 18.4.13

under Chapter 18 of this Tariff Order.

The Authority noted that AAI had appointed Engineering Projects India Limited as the Independent Engineer from date of COD with the responsibility of reviewing the projects being carried out by the Airport Operator on site and submitting necessary reports to the Airport Operator. The Authority had convened a meeting with the Independent Engineer to review the work performed by them.

The Authority also noted that as per Clause 24 and Schedule K, AAI is required to appoint the Independent Engineer initially for a period of 3 years and thereafter for every 3 years. AAI had executed the contract with the Independent Engineer for which a fee of ₹ 7.89 Crores had been projected for the First Control period by the Airport Operator.

The Authority proposed to allow the cost of ₹ 7.89 Crores towards Independent Engineer's consultancy charges and consider the same while determining the Aggregate Revenue Requirement (ARR) of Mangaluru International Airport for the First Control Period.

iii. Apart from the above mandated costs, the Airport Operator had projected approximately 15% of the Aero CAPEX amount for new projects submitted by the AO as part of the revised CAPEX Schedule as on May 7, 2022, towards PMC & Design - 5%, Pre-operatives - 3.3%, Contingencies - 4%, Insurance/Statutory approvals/labour cess/site preparation etc., - 3% amounting to ₹ 64.07 Crores.

In this respect, the Authority noted that for other PPP airports such as HIAL, BIAL, DIAL etc, the above-mentioned costs had been considered in the past in the range of 8% - 11% of the project costs. The Authority was of the view that 15% claimed by the Airport Operator is on the higher side, as compared to other PPP Airports and hence not justified. Accordingly, the Authority proposed to consider the aforementioned costs (inclusive of the Consultant's cost for Concept planning and Master planning as mentioned in S.no. (i) above) to the extent 8% of the Aero costs of the CAPEX allowed by the Authority in respect of new projects proposed by the AO for the current Control Period. The Authority had thus derived the amount proposed to be allowed towards the aforementioned costs as ₹ 19.24 Crores (i.e., 8% of the Aero costs of the CAPEX allowed for this Control Period).

iv. Based on all the above, the Authority noted that the total amount proposed to be considered towards aforementioned costs is ₹ 27.13 Crores i.e., ₹ 19.24 Crores towards 8% of allowable Aero New Capex and ₹ 7.89 Crores towards Independent Engineer's charges (included in computation of ARR) as against ₹ 75.98 Crores claimed by the Airport Operator. The downward adjustment in such costs is mainly on account of applying 8% on the 'allowable' Aero New Capex as against 15% claimed by AO and the reduction in Aero New Capex considered by the Authority due to deferring/ disallowance of some projects such as Rainwater Harvesting, Triturator, Miscellaneous works under Other Buildings, as well as rationalization of certain others during the First Control Period such as Terminal Building modification, Miscellaneous works relating to interiors and finishes, Vehicular access roadways, Airside Security gate, etc.

7.3.11. The Authority proposed to reduce 1% of the project cost from the ARR / target revenue as re-adjustment in case any particular capital project is not completed/capitalised as per the approved capitalisation schedule. It is further proposed that if the delay in completion of the project is beyond the timeline given in the capitalisation schedule, due to any reason beyond the control of the Airport Operator or its contracting agency and is properly justified, the same would be considered by the Authority while truing up the actual cost at the time of determination of tariff for the Second Control Period. The re-adjustment in the ARR/ Target Revenue is to protect the interest of the stakeholders who are paying for services provided by the AO and is also encouragement for MIA to commission/ capitalize the proposed assets as per the approved CAPEX plan/ schedule.

7.3.12. The Airport Operator had initially claimed Financing allowance of ₹ 26.00 Crores (for new CAPEX projects) in their MYTP dated December 10, 2021 which had been calculated on the average Capital Work in Progress (CWIP) of the entire project funds (funded out of debt and equity), at the rate of 12% (which is cost of debt). As against this, the Airport Operator in the revised CAPEX submission dated May 7, 2022 has claimed both Financing allowance and Interest During Construction (IDC) for an amount of ₹ 31.90 Crores, on the average Capital Work in Progress (CWIP). In this respect, the Authority notes that the Financing allowance has been calculated on 35% equity portion and IDC on 65% debt portion of the entire project funds, with the cost of debt being considered as 12% for both.

As already explained in para 7.3.5 the Authority proposed not to consider Financing allowance but allow IDC on the debt portion of the total value of proposed aeronautical capital expenditure (as shown in Table 68 below) based on the notional gearing considered (debt-equity ratio of 48:52) and cost of debt @ 9%, for the First Control Period. Considering the same, the Authority had arrived at an amount of ₹ 11.20 Crores and proposed to allow the same as against ₹ 31.90 Crores claimed by the Airport Operator for the First Control Period.

7.3.13. The Authority noted that as per terms of the Concession Agreement, the Airport Operator was required to make payment of Estimated Deemed Initial RAB, Initial Non-Aeronautical Investment and CWIP to AAI. In this respect, AAI had initially raised an Invoice for RAB and CWIP inclusive of Goods and Services Tax (GST) but the same was contested by the Airport operator that GST was not applicable on RAB and CWIP amount. This was based on various opinions obtained from independent tax consultants by the Airport Operator. Subsequently, AAI also obtained legal opinion and based on the same, requested the Airport Operator to provide necessary indemnity bond which would indemnify AAI in case of any future liability on account of such GST amount on RAB and CWIP invoices. Airport Operator submitted the necessary indemnity bonds and accordingly, AAI raised revised invoices after excluding GST, which were paid by the Airport Operator.

The Authority further noted that, till date the Airport Operator had not paid any amount relating to GST to AAI. If in future, AAI is required to bear the GST, then based on indemnity bond, the same will be recovered by AAI from Airport Operator. As the GST amount had not been paid by the Airport Operator, the Authority had not considered the same as part of RAB for the First Control Period.

7.3.14. In respect of stamp duty and registration charges on the CA, the Authority noted that as per the terms of the CA, the Airport operator is required to pay the applicable duty and charges and has applied to the State Authority for assessment of the stamp duty amount. However, the Authority noted that Airport Operator had not paid the amount, as the assessment order had not been received from State Authority. Hence, the Authority had not considered the same as part of RAB for the First Control Period.

7.3.15. The Authority further noted that within a span of 6 months (between submission of revised MYTP by AO on Dec 10, 2021 and revised CAPEX schedule as on May 7, 2022), there had been several changes to the CAPEX projects, wherein some projects have been dropped and the value of some projects had increased. Many capital projects were shown as new capital expenditure, whereas major part of the same already exist at the Airport, including procurement. The trend of revisions to the capital projects and projecting factually incorrect capital projections, inconclusive design reports does not instill confidence in the Authority about the near-term and long-term project planning process.

7.3.16. Based on the above proposals, the summary of New Capital Expenditure projects proposed by the

Authority for the First Control Period is as follows:

Table 68: Summary of New Capital Expenditure projects proposed by the Authority for the First Control Period at Consultation stage

(₹ Crores)

Reference		Project Group	Description of the Project	Year of Capitalisation		Submitted by MIA (1)	Proposed by the Authority (2)	Difference (3) = (2)-(1)
				Submitted by MIA	Proposed by Authority			
B. New Capital expenditure proposed for the First Control Period								
B.	B1.	New Capital expenditure proposed for the First Control Period	**Runways, Taxiway and Apron**					
			Runway recarpeting and Centre-lighting	2023-24	2023-24	90.64	90.64	-
			Construction of new taxiway	2023-24	2023-24	36.47	36.47	-
			Construction of new portion RESA	2023-24	2023-24	7.85	7.85	-
			Apron improvement works	2022-23 2025-26	2023-24 2025-26	1.62 5.39	1.62 5.27	- (0.12)
			Miscellaneous Airside improvement works	2022-23 2023-24 2024-25 2025-26	2022-23 2023-24 2024-25 2025-26	2.14 2.14 1.39 3.27	1.51 1.51 1.51 0.00	(0.63) (0.63) 0.12 (3.27)
	B2.		**Terminal Building**					
			Modification / Expansion of existing Terminal Building	2022-23	-	79.88	-	(79.88)
			Miscellaneous works / interiors / finishes / kerbside of existing Terminal	2022-23 2023-24 2024-25	- - -	6.05 6.05 3.93	- - -	(6.05) (6.05) (3.93)
	B3.		**Cargo assets**					
			Cargo Building	2022-23	2023-24	18.90	18.90	-
			Cargo equipment	2022-23	2023-24	4.45	4.45	-
	B4.		**Fuel Facility**					
			Purchase of assets of existing Oil Marketing Companies (OMC)	2022-23	2022-23	10.00	10.00	-
			Building of new assets for Open Access Fuel Facility operations	2022-23	2023-24	17.83	17.14	(0.69)
	B5.		**Security equipment**					
			Equipment for ARFF – runway mechanical sweeper, rubber removal and other equipment	2022-23 2023-24 2024-25	2022-23 2023-24 2024-25	1.20 1.20 0.78	1.27 1.27 0.82	0.07 0.07 0.04
	B6.		**Plant and Machinery**					
			Trans-installation of Navaids	2022-23	2023-24	1.98	2.08	0.10

Reference	Project Group	Description of the Project	Year of Capitalisation		Submitted by MIA (1)	Proposed by the Authority (2)	Difference (3) = (2)-(1)
			Submitted by MIA	Proposed by Authority			
		Bomb Detection and Disposal Equipment (BDDS)	2022-23 2023-24 2024-25	2022-23 2023-24 2024-25	4.03 4.03 2.62	4.25 4.25 2.76	0.22 0.22 0.14
		Electrical Sub-station equipment	2025-26	2025-26	4.63	2.44	(2.19)
		Triturator	2025-26	-	6.06	-	(6.06)
		Water tank, STP and storage tank, Pump house Building	2025-26	2025-26	5.45	2.64	(2.81)
		Various Other – Miscellaneous items	2022-23 2023-24 2024-25 2025-26		4.39 2.49 1.62 3.88	- - - -	(4.39) (2.49) (1.62) (3.88)
B7.		**Roads**					
		Vehicle Access roadway and allied works	2025-26	-	20.95	-	(20.95)
		Road entry and exit – improvement works	2022-23	2022-23	2.85	3.00	0.15
		Miscellaneous enabling works	2025-26	-	12.96	-	(12.96)
B8.		**Boundary Wall**					
		Construction of property boundary wall of 11 kms	2022-23 2023-24 2024-25	- - -	2.87 2.87 1.86	- - -	(2.87) (2.87) (1.86)
		Operational boundary wall	2025-26	2025-26	2.95	2.29	(0.66)
B9.		**Information Technology Works**					
		IT Infrastructure, AOCC, Command Post and various other systems	2022-23 2023-24 2024-25	2022-23 2023-24 2024-25	3.43 3.43 2.23	1.81 1.81 1.17	(1.62) (1.62) (1.06)
B10.		**Other Associated works**					
		Storm water	-	-	-	-	-
		Water disposal and supply	2022-23	2022-23	5.70	5.52	(0.18)
		Airside Security gate	2025-26	2025-26	4.15	0.50	(3.65)
		Rainwater harvesting	2025-26	2025-26	9.53	5.01	(4.52)
		Water tank	-	-	-	-	-
		Miscellaneous works – others	2022-23 2023-24 2024-25 2025-26	- - - -	0.24 0.24 0.16 9.22	- - - -	(0.24) (0.24) (0.16) (9.22)
		Total Project Cost			**428.04**	**239.76**	**(188.28)**
		Add: Cost towards Proportionate Technical Services like PMC & Design			75.98	19.24	**(56.74)**

Reference		Project Group	Description of the Project	Year of Capitalisation		Submitted by MIA (1)	Proposed by the Authority (2)	Difference (3) = (2)-(1)
				Submitted by MIA	Proposed by Authority			
			Preliminaries, Insurances / Statutory Approvals, Labour cess, Site-preparation, Contingencies, Pre-Operatives, etc claimed on the above New Capital Expenditure Projects*.					
			Financing Allowance / IDC – New Capital Expenditure Proposed			31.90	11.20	**(20.70)**
			Total – New Capital Expenditure proposed including IDC (B)			**535.92**	**270.20**	**(265.72)**

* Refer Para 7.3.10 (iii) and (iv).

7.3.17. In accordance with above, the Authority proposed the Total Aeronautical Capital Expenditure for the First Control Period as per the table below:

Table 69: Total Aeronautical Capital Expenditure (project wise) proposed by the Authority for Mangaluru International Airport for the First Control Period at Consultation stage

(₹ Crores)

Reference		Project Group	Description of the Project	Year of Capitalisation		Submitted by MIA (1)	Proposed by the Authority (2)	Difference (3) = (2)-(1)
				Submitted by MIA	Proposed by Authority			
A. Projects initiated in Pre-COD Period and proposed to be executed in First Control Period along with Enabling Capital Addition Projects integral to completion of the mandated projects								
A.	A1	Capital Addition projects initiated by AAI in Pre-Control Period and being executed in First Control Period along with Enabling Capital	Runways, Taxiway & Apron	2022-23 2022-23	2022-23 2022-23	1.25 126.00	1.25 126.00	- -
	A2		**Expansion and Modification of Existing Terminal Building including Enabling Capital Projects integral to completion of Expansion project**					
			Terminal Building expansion including post award PMC	2021-22	2022-23	113.28	109.59	(3.69)
			Plant and machinery items (enabling capital project)					
			Expansion of Baggage Conveyor	2022-23	2022-23	7.86	8.27	0.41
			Substation equipment	2022-23	2022-23	2.03	2.14	0.11
			Lift & Travellator	2022-23	2022-23	1.58	1.53	(0.05)
			PA system	2022-23	2022-23	0.90	0.95	0.05

Reference		Project Group	Description of the Project	Year of Capitalisation		Submitted by MIA (1)	Proposed by the Authority (2)	Difference (3) = (2)-(1)
				Submitted by MIA	Proposed by Authority			
		Projects integral to such mandated projects	Engineering Consultancy	2022-23	2022-23	0.83	0.87	0.04
			VDGS	2022-23	2022-23	1.98	2.08	0.10
			Expansion of Passenger Boarding Bridge	2022-23	2022-23	7.41	7.80	0.39
			Information Technology (IT) works (enabling capital projects)					
			Work related to IT for NITB	2022-23	2022-23	9.86	10.38	0.52
			Facelift work for NITB	2022-23	2022-23	0.16	0.17	0.01
			Aluminium Roof Gutter for NITB	2022-23	2022-23	0.02	0.02	-
			SITC of RC CCTV	2022-23	2022-23	1.21	1.27	0.06
			Flight Information Display System	2022-23	2022-23	1.31	1.38	0.05
			Network & Pen Tablet	2022-23	2022-23	0.01	0.01	-
			Supply of Bullet Proof Helmet	2022-23	2022-23	0.02	0.02	-
			Electrical Materials,	2022-23	2022-23	0.71	0.75	0.04
	A3		Roads – widening and strengthening of existing perimeter road	2022-23	2022-23	4.36	4.59	0.23
			Financing Allowance / IDC – AAI initiated Capital Addition Projects			26.72	12.05	(14.67)
			Total – AAI initiated projects including enabling capital addition projects and IDC - A			**307.49**	**291.12**	**(16.37)**
B. New Capital expenditure proposed for the First Control Period								
B.	B1.	New Capital expenditure proposed for the First Control Period	**Runways, Taxiway and Apron**					
			Centre-lighting	2023-24	2023-24	90.64	90.64	-
			Construction of new taxiway	2023-24	2023-24	36.47	36.47	-
			Construction of new portion RESA	2023-24	2023-24	7.85	7.85	-
			Apron improvement works	2022-23 2025-26	2023-24 2025-26	1.62 5.39	1.62 5.27	- (0.12)
			Miscellaneous Airside improvement works	2022-23 2023-24 2024-25 2025-26	2022-23 2023-24 2024-25 2025-26	2.14 2.14 1.39 3.27	1.51 1.51 1.51 0.00	(0.63) (0.63) 0.12 (3.27)
	B2.		**Terminal Building**					
			Modification / Expansion of existing Terminal Building	2022-23	-	79.88	-	(79.88)

Reference	Project Group	Description of the Project	Year of Capitalisation		Submitted by MIA (1)	Proposed by the Authority (2)	Difference (3) = (2)-(1)
			Submitted by MIA	Proposed by Authority			
		Miscellaneous works / interiors / finishes / kerbside of existing Terminal	2022-23 2023-24 2024-25	- - -	6.05 6.05 3.93	- - -	(6.05) (6.05) (3.93)
B3.		**Cargo assets**					
		Cargo Building	2022-23	2023-24	18.90	18.90	-
		Cargo equipment	2022-23	2023-24	4.45	4.45	-
B4.		**Fuel Facility**					
		Purchase of assets of existing Oil Marketing Companies (OMC)	2022-23	2022-23	10.00	10.00	-
		Building of new assets for Open Access Fuel Facility operations	2022-23	2023-24	17.83	17.14	(0.69)
B5.		**Security equipment**					
		Equipment for ARFF – runway mechanical sweeper, rubber removal and other equipment	2022-23 2023-24 2024-25	2022-23 2023-24 2024-25	1.20 1.20 0.78	1.27 1.27 0.82	0.07 0.07 0.04
B6.		**Plant and Machinery**					
		Trans installation of Navaids	2022-23	2023-24	1.98	2.08	0.10
		Bomb Detection and Disposal Equipment (BDDS)	2022-23 2023-24 2024-25	2022-23 2023-24 2024-25	4.03 4.03 2.62	4.25 4.25 2.76	0.22 0.22 0.14
		Electrical Sub-station equipment	2025-26	2025-26	4.63	2.44	(2.19)
		Triturator	2025-26	-	6.06	-	(6.06)
		Water tank, STP and storage tank, Pump house Building	2025-26	2025-26	5.45	2.64	(2.81)
		Various Other – Miscellaneous items	2022-23 2023-24 2024-25 2025-26	- - - -	4.39 2.49 1.62 3.88	- - - -	(4.39) (2.49) (1.62) (3.88)
B7.		**Roads**					
		Vehicle Access roadway and allied works	2025-26	-	20.95	-	(20.95)
		Road entry and exit – improvement works	2022-23	2022-23	2.85	3.00	0.15
		Miscellaneous enabling works	2025-26	-	12.96	-	(12.96)
B8.		**Boundary Wall**					
		Construction of property boundary wall of 11 kms	2022-23 2023-24 2024-25	- - -	2.87 2.87 1.86	- - -	(2.87) (2.87) (1.86)

Reference	Project Group	Description of the Project	Year of Capitalisation		Submitted by MIA (1)	Proposed by the Authority (2)	Difference (3) = (2)-(1)
			Submitted by MIA	Proposed by Authority			
		Operational boundary wall	2025-26	2025-26	2.95	2.29	(0.66)
B9.		**Information Technology Works**					
		IT Infrastructure, AOCC, Command Post and various other systems	2022-23 2023-24 2024-25	2022-23 2023-24 2024-25	3.43 3.43 2.23	1.81 1.81 1.17	(1.62) (1.62) (1.06)
B10.		**Other Associated Works**					
		Storm water	-	-	-	-	-
		Water disposal and supply	2022-23	2022-23	5.70	5.52	(0.18)
		Airside Security gate	2025-26	2025-26	4.15	0.50	(3.65)
		Rainwater harvesting	2025-26	2025-26	9.53	5.01	(4.52)
		Water tank	-	-	-	-	-
		Miscellaneous works – others	2022-23 2023-24 2024-25 2025-26	- - - -	0.24 0.24 0.16 9.22	- - - -	(0.24) (0.24) (0.16) (9.22)
		Total Project Cost			**428.04**	**239.76**	**(188.28)**
		Add: Cost towards Proportionate Technical Services like PMC & Design, Preliminaries, Insurances / Statutory Approvals, labour cess, Site preparation, Contingencies, Pre-Operatives, etc claimed on the above New Capital Expenditure Projects			75.98	19.24	(56.74)
		Financing Allowance / IDC – New Capital Expenditure Proposed			31.90	11.20	(20.70)
		Total – New Capital Expenditure proposed including IDC (B)			**535.92**	**270.20**	**(265.72)**
	Grand Total – AAI hand-over projects and New Capital Expenditure for the First Control Period (A) + (B)				**843.41**	**561.32**	**(282.09)**

Year-wise Capitalization of Assets is as follows (₹ *Crores*):

FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	TOTAL
-	321.98	211.81	7.06	20.47	561.32

7.3.18. The Authority proposed to consider capitalisation of Aeronautical Expenditure for Mangaluru

International Airport for the First Control Period as ₹ 561.32 Crores.

Depreciation for the First Control Period

The Airport Operator's submission of Depreciation for Mangaluru International Airport for the First Control Period

7.3.19. The Airport Operator follows the policy of determining the rates of depreciation based on the 'useful life' of different asset classes. While submitting the Multi-Year Tariff Proposal for the First Control Period for MIA, the Airport Operator had taken cognizance of the rates of depreciation approved by the Authority in its order vide Order No. 35 dated January 12, 2018, and Amendment No. 01 to Order No. 35 / 2017-18 on 'Determination of Useful Life on Airport Assets'. However, the Airport Operator had considered different rates for certain asset classes based on the recommendations of the "Technical Study report of useful life of assets" submitted by an Independent Expert (Kanti Karamsey & Co., Govt. Registered Valuers) engaged by the Airport Operator in May 2021 and the same are as per the table given below -:

Table 70: Depreciation rates determined by the Airport Operator for the First Control Period

Asset Class	Depreciation as per AO's submission
Terminal Building	4.00%
Runway, Taxiway and Apron	5.00%
Cargo Building	4.00%
Cargo Equipment	13.33%
Boundary wall	20.00%
Computer Servers, networks, etc.	33.33%
Computer End-user devices	33.33%
Security equipment	13.33%
Plant and Machinery	13.33%
Other buildings	3.33%
Access road	10.00%
Fuel farm facility assets	13.33%
Furniture & fixtures	14.29%
Vehicles	20.00%
Office Equipment	20.00%

7.3.20. Depreciation has been computed separately on opening block of assets and on the proposed additions.

7.3.21. For the additions to RAB, the Airport Operator had calculated the depreciation during year of capitalisation on 50% of the asset value (assuming that the asset is capitalised in the middle of the financial year).

7.3.22. The depreciation amount submitted by the Airport Operator for the First Control Period had been presented in the table below.

Table 71: Depreciation submitted by the Airport Operator for Mangaluru International Airport for the First Control Period

(₹ Crores)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Terminal Buildings	5.65	10.05	12.24	12.48	12.55	**52.98**
Runways/Taxiway/ Apron	1.16	8.77	15.52	15.56	15.80	**56.81**

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Cargo Building	0.00	0.29	0.58	0.58	0.58	**2.04**
Cargo Equipment	0.00	0.34	0.68	0.68	0.68	**2.39**
Boundary wall	1.27	2.53	2.53	2.54	2.77	**11.65**
Software	0.15	0.15	0.07	-	-	**0.37**
IT Equipment	2.29	5.18	6.52	7.64	2.58	**24.21**
Security equipment	-	0.25	0.77	1.21	1.38	**3.61**
Plant and Machinery	8.73	10.54	11.23	11.70	12.61	**54.81**
Other buildings	0.29	0.58	0.60	0.62	1.14	**3.23**
Access road	0.85	1.70	1.72	1.81	4.32	**10.41**
Fuel	0.67	2.18	3.03	3.03	3.03	**11.94**
Furniture & fixtures	0.19	0.19	0.17	0.15	0.12	**0.81**
Vehicles	1.48	1.29	1.28	0.10	-	**4.15**
Office Equipment	0.07	0.01	0.01	0.00	-	**0.09**
TOTAL	**22.79**	**44.07**	**56.96**	**58.12**	**57.57**	**239.51**

Authority's examination regarding Depreciation for the First Control Period

7.3.23. The Authority noted that Opening RAB has been revised from ₹ 125.64 Crores (submitted by the Airport Operator) to ₹ 123.67 Crores based on adjustments made to the RAB and mentioned as per the *Table* 29 of this Tariff Order. The Authority Further, notes that on account of revision to the Opening RAB, the depreciation for the First Control period will also be revised accordingly.

7.3.24. The Authority duly examined the recommendations of the Technical Study Report on 'useful life of assets' submitted by the Airport Operator and observed that the expert appointed by the Airport Operator has prescribed the useful lives of assets component wise after technical assessment.

7.3.25. The Authority noted the methodology adopted by the Valuer to evaluate the useful lives of assets is as follows:

- *"Physical inspection of some of the assets*
- *Detailed discussions with the Projects, Finance & Engineering and Maintenance team of MIA and the General Manager (Engineering – Civil) of Airports Authority of India pertaining to usage of the assets.*
- *Guidance for determination of Useful Life given in Depreciation under Companies Act, 2013 Schedule 2, Airports Economic Regulatory Authority of India ("AERA"), Marshall & Swift Valuation Service (MVS) and American Society of Appraisers (ASA)*
- *Our understanding and experience as qualified engineers "*

7.3.26. The Authority had observed the recommendations given in the study report for adopting shorter useful life and noted the following:

- The Independent Expert appointed by the Airport Operator has considered the various components of the Terminal Building such as False Ceiling, Sanitation works, Glass façade, Flooring works etc. for assessing the useful life of the Terminal Building. The Expert had calculated the contribution of each of the components to the overall structure of the Terminal Building along with the estimated useful life of such components wherein shorter useful lives have been adopted for False Ceiling, Sanitation works, Glass façade and Flooring works due to frequent renovation works in the building, weather conditions, wear and tear, etc., and arrived at the weighted average useful life of the entire structure of Terminal Building as approximately 25 years Further, the Authority noted that the

Airport Operator had adopted the same shorter useful life of 25 years for the projected capital expenditure on construction of new Cargo Terminal Building.

- Similarly, the Independent Expert had recommended shorter useful life for Runways, Taxiways and Apron based on the useful life followed by various international regulators and associations.
- Further, in respect of Plant and machinery items, as per the technical report, these items are broadly used at Mangaluru International Airport for 24 hours per day as the Airport is working all three shifts and hence, as prescribed under the Companies Act 2013, Schedule II for assets used during the year for double shift or triple shift, the Expert had recommended to adopt useful life of 7.5 years instead of 15 years. The Authority also noted that the Airport Operator has adopted the same shorter useful life of 7.5 years for Cargo and Security Equipment.
- The Airport Operator had adopted shorter useful life of 3 years for Flight Information Display System (FIDS) and AOCC Equipment (included under the category of 'Information and Technology equipment') in its MYTP submission.

7.3.27. Apart from the above, the Authority noted that in respect of Fuel Farm facility, the Airport Operator had adopted 'weighted average' useful life of 7.5 years. Since the major portion of the assets are in the nature of Plant and Machinery the Airport Operator had estimated the useful life of the Fuel facility as 7.5 years and adopted higher depreciation of 13.33% for the entire capital expenditure projected for this facility.

7.3.28. The Authority on perusal of all the above, had summarized its view as under:

Asset class - Building: The Expert had recommended shorter life for False Ceiling, Sanitation works, Glass façade and Flooring works which appear to be integral part of the Airport Terminal Building. Authority's Order No.35 does not provide for reducing the life of assets under Asset class -Buildings. The Authority observed that various components mentioned above are also an integral part of the Terminal Building and should be added to the Terminal Building cost by applying the same rate of depreciation as that of buildings. While the technical report provided by the Airport Operator had determined the shorter life to be adopted, it has not provided sufficient rationale for adopting such shorter useful life. Since these assets are all part of the building, the Authority was of the view that the same rate applicable to building should be applied to these assets and no reduction in life of these assets are called for. Further, the Authority noted that adequate maintenance expenditure is allowed to enable the Airport Operator to maintain the assets in good working condition during its entire life. The Authority had issued Order No.35 as part of its normative approach to various Building Blocks in Economic regulation of Major Airports where it has stated that, "The Authority has been of the considered view, that it would be preferable to have as far as practicable, a broad year to year consistency in what Depreciation is charged by the companies as certified by the relevant statutory auditors and what the Authority would take into account in its process of tariff determination. Issue of a notification will ensure this objective." In view of all the above, the Authority was not inclined to deviate from ensuring this objective and therefore proposes not to consider the shorter useful life of 25 years claimed by the Airport Operator for both the Terminal Building and newly projected Cargo terminal building.

Asset Class -Runways, Taxiways and Aprons: The Expert had recommended adopting a shorter life of 20 years based on useful life followed by certain international associations and regulators, like, Federation Aviation Administration -US Department of Transportation, Civil Aviation Authority – UK, Australian Airports Association – Australia etc., which the Authority felt does not provide proper justification for adopting a shorter useful life. Therefore, the Authority found no reason to reduce the life of the Runway which enhances the burden of Airport users by increasing the tariff.

Other Asset Classes: Order No.35 provides for specific determination of life through technical evaluation for specific assets other than those listed in the Order based on specific requirement of the Airport. The Authority found that none of the asset in these classes where a shorter life has been adopted as specific assets are based on specific requirement of the Airport. Therefore, the Authority found no merit in reducing the life of such asset for tariff purposes.

FIDS and AOCC Equipment – The Authority noted that Paragraph 4.1 of Amendment No. 01 to order No.35 prescribes useful life of 6 years for these assets and hence the Authority proposed to consider depreciation of 16.67% instead of 33.33% claimed by the Airport Operator.

Fuel farm facility – The Authority examined the list of items forming part of Fuel facility including assets planned to be purchased from IOCL and observed that there are assets belonging to different asset category, namely Buildings, Roads, Plant and Machinery, Vehicles etc., and based on the same, proposes not to consider the weighted average useful life of 7.5 years claimed by the Airport Operator. Instead, the Authority proposed to adopt the specific depreciation rate prescribed as per Order No.35 for such asset category in line with depreciation rates adopted for similar facility at other airports.

7.3.29. Based on all the above, the Authority had proposed the following useful life for all the assets of Mangaluru International Airport during the First Control Period:

Table 72: Useful Life proposed by the Authority for all the assets in the First Control Period at Consultation stage

Asset Class	Useful life submitted by the Airport Operator	Useful life proposed by the Authority as per Order No. 35/ 2017-18
Terminal Building	25	30
Runway, Taxiway and Apron	20	30
Cargo Building	25	30
Cargo Equipment	7.5	15
Boundary wall	5	5
Computer Servers, networks, etc. / Software	3	3
Computer End-user devices / IT equipment	3	3
IT equipment – FIDS	3	6
IT equipment – AOCC	3	6
Security equipment	7.5	15
Plant and Machinery	7.5	15
Other buildings	30	30
Access road	10	10
Furniture & fixtures	7	7
Vehicles	5	8
Office Equipment	5	5
Fuel farm facility assets		
(i) Plant and machinery items	7.5	15
(ii) Roads	7.5	10
(iii) Buildings	7.5	30
(iv) Furniture & fixtures	7.5	7
(v) Vehicles	7.5	8
(vi) Refuellers	7.5	15

Table 73: Depreciation proposed by the Authority for assets forming part of Fuel facility for Mangaluru International Airport at Consultation stage

(₹ Crores)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Depreciation claimed by Airport Operator	0.67	2.18	3.03	3.03	3.03	**11.94**
Depreciation Proposed by Authority	-	0.41	1.43	2.04	2.04	**5.93**

7.3.30. Considering the above changes in depreciation rates, revision in the value of opening gross block of assets and proposed capital expenditure, the Authority proposed the following depreciation for the First Control Period.

Table 74: Depreciation proposed by the Authority for Mangaluru International Airport for the First Control Period at Consultation stage

(₹ Crores)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Terminal Buildings	2.45	4.33	6.23	6.23	6.23	**25.47**
Runways/Taxiway/ Apron	1.20	3.44	8.27	10.90	11.02	**34.83**
Building used for ANS activities	0.07	0.07	0.07	0.07	0.07	**0.34**
Cargo Building	-	-	0.36	0.72	0.72	**1.81**
Cargo Equipment	-	-	0.15	0.31	0.31	**0.77**
Boundary wall	0.37	0.37	0.36	0.36	0.53	**1.99**
Software	0.15	0.15	0.11	-	-	**0.40**
IT equipment - Others	0.03	2.32	4.62	4.84	3.37	**15.17**
IT equipment – FIDS	-	0.08	0.16	0.16	0.16	**0.56**
IT equipment - AOCC	-	0.16	0.49	0.66	0.66	**1.96**
Security equipment	-	0.05	0.14	0.22	0.25	**0.66**
Plant and Machinery	3.93	4.71	5.59	5.82	5.77	**25.82**
Other buildings	-	0.10	0.21	0.21	0.31	**0.83**
Access road	-	0.41	0.82	0.82	0.82	**2.86**
Furniture & fixtures	0.19	0.19	0.18	0.17	0.15	**0.87**
Vehicles	1.44	1.43	1.28	0.80	0.76	**5.71**
Office equipment	0.02	0.00	0.00	0.00	0.00	**0.03**
Fuel facility						
i. Fuel facility Admin building	-	-	0.08	0.17	0.17	**0.42**
ii. Roads	-	0.09	0.34	0.51	0.51	**1.45**
iii. P&M and equipment	-	0.31	0.99	1.36	1.36	**4.01**
iv. Furniture & Fixtures	-	0.00	0.00	0.00	0.00	**0.01**
v. Vehicles	-	0.01	0.01	0.01	0.01	**0.04**
TOTAL	**9.84**	**18.21**	**30.47**	**34.33**	**33.17**	**126.02**

7.3.31. The depreciation claimed by the Airport Operator in comparison with that proposed by the Authority for each FY is shown in the table below:

Table 75: Depreciation claimed by the Airport Operator vis-à-vis proposed by the Authority for the First Control Period at Consultation stage

(₹ Crores)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Depreciation claimed by the Airport Operator	22.79	44.07	56.96	58.12	57.57	**239.51**
Less: Adjustments made by the Authority on account of change in useful life and revision in asset addition.	(12.95)	(25.86)	(26.94)	(26.49)	(24.40)	**(113.49)**
Depreciation proposed by the Authority	9.84	18.21	30.47	34.33	33.17	**126.02**

The Authority proposed to consider depreciation for Mangaluru International Airport for the First Control Period as ₹ 126.02 Crores.

Regulatory Asset Base (RAB) for the First Control Period

Mangaluru International Airport's submission of RAB for the First Control Period

7.3.32. Mangaluru International Airport has submitted RAB for the First Control Period as follows:

Table 76: RAB proposed by the Airport Operator for Mangaluru International Airport for the First Control Period

(₹ Crores)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Opening RAB	111.15	333.34	718.65	686.29	646.16	
Additions	244.98	429.38	24.60	17.99	112.71	**829.67**
Disposal/Transfers	-	-	-	-	-	
Depreciation	22.79	44.07	56.96	58.12	57.57	**239.51**
Closing RAB	**333.34**	**718.65**	**686.29**	**646.16**	**701.31**	
Average RAB	222.25	526.00	702.47	666.23	673.74	

Authority's examination of RAB for the First Control Period

7.3.33. Combining all its propositions, RAB proposed to be considered by the Authority for determination of Aeronautical tariff for the First Control Period is as follows:

Table 77: RAB proposed by the Authority for Mangaluru International Airport for the First Control Period at Consultation stage

(₹ Crores)

Particulars	Ref.	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Opening RAB (1)	Table 29	123.67	113.82	417.58	598.91	571.64	
Capital Additions (2)	Table 69	0.00	321.98	211.81	7.06	20.47	**561.32**
Disposal/Transfers (3)	-	-	-	-	-	-	

Particulars	Ref.	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Depreciation (4)	Table 74	9.84	18.21	30.47	34.33	33.17	**126.02**
Closing RAB (5) = [(1) +(2) – (3) – (4)]		**113.82**	**417.58**	**598.91**	**571.64**	**558.93**	
Average RAB = [(1) + (5)]/2		118.74	265.69	508.24	585.27	565.29	

7.3.34. The Authority proposed to consider RAB for the Mangaluru International Airport for the First Control Period as detailed in Table 77.

7.4. Stakeholders' comments on Capital Expenditure (CAPEX), Depreciation and RAB for the First Control Period

7.4.1. During the stakeholders' consultation process, the Authority has received comments/ views from various stakeholders in response to the proposals of the Authority in the Consultation Paper no. 07/2022-23 with respect to Capital Expenditure, Regulatory Asset Base and Depreciation for the First Control Period. The comments by stakeholders are presented below:

AO's comments on Capital Expenditure, RAB and Depreciation for the First Control Period

AO has commented the following with respect to AERA's views on Cargo Terminal Building as stated in para 6.2.18 of this Tariff Order:

7.4.2. *In MYTP under Chapter 12, we had submitted that the Cargo facility will commence operation by October-2022. As acknowledged by Authority that EPC contract has been awarded. We would like to submit the construction program of the Cargo facility as agreed with EPC vendor. The construction is going on at full scale with the planned date of commissioning of the facility by December 2022. Please refer to the synopsis of construction schedule given below:*

Activities	*Start Date*	*End Date*
Construction of RCC Super Structure	*June 2022*	*Sep 2022*
Construction of Masonry and Enclosure	*Aug 2022*	*Nov 2022*
Pre-Fab Structure civil works	*Jun 2022*	*Aug 2022*
Fabrication and Erection work for Pre-Fab Structure and Stru Planning	*Jun 2022*	*Sep 2022*
Finishes	*Oct 2022*	*Nov 2022*
MEP & IT Works	*Sep 2022*	*Nov 2022*
Testing & Commissioning – Final Handing Over	*Oct 2022*	*Nov 2022*

"The Authority has considered the year of capitalization of Cargo facility in FY23-24 and has shifted all the projections (including Cargo volumes) submitted by AO by 1 year. It is to be noted that while submitting MYTP we have assumed 1st October 2022 as the tentative date of commissioning, and we have accordingly projected Cargo volume and other assumptions for 6 months for the financial year FY22-23. However, the Authority has shifted all the submissions on as is where is basis to next financial year FY23-24. In effect, the Authority has considered 1st Oct 2023 as the date of commissioning and 6 months of volume for FY23-24.

We request Authority to consider capitalization of Cargo facility from 1st April 2023 and accordingly make necessary adjustment in all the assumptions including volumes."

With respect to the above, revised cargo volumes and O&M expenses as per MIA projections are in

Table below.

Particulars	*FY22*	*FY23*	*FY24*	*FY25*	*FY26*
Volume in Tons	-	-	*5,800*	*7,012*	*8,482*
- Domestic	-	-	*1,740*	*2,104*	*2,545*
- International	-	-	*4,060*	*4,908*	*5,938*
Total O&M (Rs Crs.)	-	-	***3.68***	***4.48***	***5.52***

7.4.3. The AO has commented about AERA's views relating to Financing Allowance on CWIP projects (refer para 7.3.5 of this Tariff Order)

- *The AERA Act requires AERA to consider "timely investment in improvement of airport facilities" and "economic and viable operation of major airports ".*
- *Further Clause 5 of The AERA Guidelines (which entails the methodology of aeronautical tariff determination) allows Airport operators to be eligible for Financing Allowance as a return on the value invested in construction phase of an asset including the equity portion, before the asset is put to use. This is a legitimate expectation of investors.*
- *Thus, Clause 5 provides an explicit, detailed elaboration of Financing Allowance. Manner and formulae of computation and addition of the "commissioned assets" into RAB including the financing allowance are elucidated in detail with examples. For your kind reference the relevant extracts from The AERA Guidelines are reproduced below: Financing allowance is computed on the Work in Progress balance based on capital expenditure incurred which is funded by equity/Internal accruals and is capitalized as part of commissioned assets for RAB computation. In the case of MIA, financing allowance is computed on the equity portion and interest during construction (IDC) is computed on the debt portion of the capital spend.*
- *The regulatory principles laid down by AERA by means of guidelines provide a fundamental foundation of the regulatory clarity to the stakeholders on the manner in which different components of costs and revenues are treated. AERA is requested to allow financing allowance on equity as per The AERA Guidelines.*
- *AERA has recognized the notional concept at various places in the Consultation Paper whereas, while discussing the financing allowance it has disallowed being notional in nature.*
- *We therefore request that financing allowance should be allowed which is as per existing guidelines issued by the Authority.*

7.4.4. AO has commented the following with respect to AERA's views relating to Miscellaneous Airside improvement works of ₹ 8.94 Crores, detailed in Para No. 7.3.9 B1 (e).

In respect to the specific assets highlighted by the Authority the need and justification is and those items which have not been approved is given along with the status on even date in below table -

S No	*Airside - Miscellaneous*	*₹ Crs.*	*MIA's Submission*	*Status*
1	*Bomb Cooling Pit*	*1.93*	*Reference is invited to page no. 37 of AUCC presentation of 31st May 2021, where the need for the relocation of the Bomb Cooling Pit was explained. Current Bomb Cooling pit is located close to Commercial Apron of the Terminal and therefore needs to be relocated*	*Planning stage*

S No	Airside - Miscellaneous	₹ Crs.	MIA's Submission	Status
			at safe distance from other airport facilities. Demolition of existing bomb cooling pit and new construction on the south side of the runway is proposed along with access, circulation, and site development of about 114 sq.m. As per regulations no object should be within 100m of Bomb cooling pit. This is a basic Requirement for relocation of existing bomb cooling pit. *The facility is planned during FY23-24 and it is under planning stage at the moment.*	
2	*Other Infrastructure for GHA - Office, paved area, canopy etc.*	*1.20*	*While the business for Ground Handling is outsourced to GH Agency, it is responsibility of Airport Operator to provide basic infrastructure at the Airport for example paved area, necessary soil correction, proper access to BMA area. The project is essential for operations of the Airports.*	*Planning Stage. Please refer Annexure **2.2** as enclosed*
3	*Demolition of various existing structures / building*	*0.91*	*In order to execute various activities as envisaged under the Master Plan demolition of many old structures which have completed their life and some structures which are in dangerous condition from safety perspective. e.g. old ARFF deteriorated structure. Old Terminal Building is essential.*	*Planning stage*
4	*EV charging for airside vehicles*	*0.20*	*To reduce the carbon emission, it was decided to convert Airside as well as landside diesel Vehicle to Electric Vehicles (EV). Under this initiative we have mobilized two EVs and also provided charging station.*	*Work is partially completed. Please refer Annexure **2.4** as enclosed*
5	*Extension of existing MT workshop*	*0.17*	*The covered portion of MT workshop is very small & limited. During monsoon it is very difficult to handle the CFT Repairs in MT Works shop. It is essential to undertake the extension of roof structure for MT works shop*	*Completed WO/PO are available. Please refer Annexure **2.5.1** and **2.5.2** as enclosed*
	Total	***4.41***		

We hereby request Authority to allow true-up in the next control period on actual incurrence basis of these works listed above.

7.4.5. AO has commented on AERA's view relating to Fuel Farm facility as detailed in Para No.7.3.9 B4, which is as follows:

Construction Milestone Status *– The overall augmentation work is at advanced stage and details of* *same are appended in the table below -*

S. No.	*Description of works*	*Percentage of Completion*	*Planned date of completion*	*Status*
1	*Under Ground Tank*	*100%*	*10-Jun-22*	*Completed*
2	*Above Ground Tanks (2 Nos - 250kl)*			
2.1	*Tank – 5*	*60%*	*15-Sep-22*	*In Progress*
2.2	*Tank – 4*	*75%*	*15-Oct-22*	*In Progress*
3	*Retaining Wall*	*90%*	*31-Aug-22*	*In Progress*
4	*Boundary Wall*	*80%*	*10-Sep-22*	*In Progress*
5	*Driver Amenity (Civil Work-Sub Structure & Support Structure)*	*15%*	*05-Oct-22*	*In Progress*
6	*Gantry (Loading & Unloading Area):-*	*30%*	*17-Sep-22*	*In Progress*
7	*Pump House:*	*15%*	*23-Sep-22*	*In Progress*
8	*Pipeline Fabrication And Erection*	*10%*	*03-Sep-22*	*In Progress*
9	*Testing & Commissioning Works*	*-*	*30-Nov-22*	

As evident from the table above, the likely date of completion of whole project is November 2022. Subsequent to the completion of project work and till commencement of Open Access, following activities are to be completed: -

- *Testing & commissioning of various equipment*
- *Necessary regulatory approvals*
- *MIA has already placed purchase order for procurement of new bowsers and for the immediate commissioning of Fuel Farm. MIA has also signed an agreement for taking bowsers from existing Oil Marketing Companies on short lease.*

The above three activities will take approximate two months.

Therefore, MIA is set to commission Open Access Fuel Farm in February 2023.

7.4.6. *The Authority has considered the year of capitalization of Fuel farm facility in FY23-24 and it has shifted all the projections (including throughput volumes) submitted by AO by 1 year. It is to be noted that while submitting MYTP we have assumed 1st July 2022 as the tentative date of commissioning, and we have accordingly projected fuel throughput volume for 9 months for the financial year FY22-23. However, the Authority has shifted all the submissions on as is where is basis to next financial year FY23-24. In effect, the Authority has considered 1st Jul 2023 as the date of commissioning and 9 months of volume for FY23-24.*

We request Authority to consider capitalization of Fuel Farm facility on 1st April 2023 and accordingly make necessary adjustments in all the assumptions including volumes. Also, we request Authority to provide the true-up for the fuel throughput volumes which is currently not mentioned in the CP.

With respect to the above, revised fuel throughput volumes and O&M expenses as per our projections are in below table –

Particulars	***FY22***	***FY23***	***FY24***	***FY25***	***FY26***
Fuel throughput (KL)	-	-	***55,817***	***66,743***	***77,638***
Total O&M (Rs Crs.)	-	-	***4.79***	***5.48***	***6.34***

7.4.7. AO has commented on AERA's view relating to Electrical Substation equipment (airside) as detailed in Para No. 7.3.9 B6 (c), which is as follows:

- *The existing terminal building has a substation of capacity of 1,450 KVA approved demand vs 1,250 KVA (HT 181 Connection 33 KV / 415 V) is the certified consumption which is @ 86% level of utilization. Further capacity creation is not possible due to its present condition of its neck-to-neck capacity, equipment's & space availability in substation building.*
- *The terminal expansion will have a. total load 800 KVA expected demand vs 700 KVA (HT Additional Demand on 33 KV / 415 V) expected certified consumption which is @ 87% level of utilization. Even here further capacity creation is not possible due to its present condition of its neck-to-neck capacity, equipment's & space availability in substation building.*
- *MIA is upgrading the CCR, AGL and Perimeter lighting which will require additional connection of 500 KVA with recorded consumption of 383 KVA (HT 79 Connection 11 KV / 415 V). Further MIA is planning to set up a New Cargo Terminal at west side Near NITB and the expected additional demand is of 452 KVA.*
- *Overall, existing connections are at saturation (2250 KVA / 2000 KVA) – HT 181 and (500 KVA / 400 KVA) HT 79. Based on demand requirement we need an overall connection of 3,250 KVA. Hence, MIA has proposed capex for 1,000 KVA / Expected Consumption of 875 KVA.*
- *The cost proposed by AO of Rs. 4.63 Crs is for the total establishment. The Authority has approved the cost for 50% capacity which will not meet the demand/requirement. As explained above we need to build the capacity to cater to the required demand, otherwise it will hamper the safe & efficient operations at the Airport and utilization of assets in the airport to optimum capacity.*

At the time of final submission of Capex in May 2022, the detailed BoQ was not available as the project was envisaged to be executed in later years of control period. Subsequently, MIA has obtained detailed quotation from a reputed vendor as provided in Annexure 3.

In light of the above, we request the Authority to consider the full amount of the capex.

7.4.8. AO has commented on AERA's view relating to Water tank as per 7.3.9 B6 (e) on page 98 of CP, which is as follows

- *Currently MIA has two water tanks (one for Raw Water & one for Filter Water tank) each having capacity of approx. 1.0 Lac liters. As on date MIA has overall per day consumption of approx. 1.5 Lacs to 2.0 lacs liters. Based on current consumption pattern the existing storage capacity of water tank is close to 1 day.*
- *The traffic is going to increase from 2 mppa to 3 mppa as also endorsed by AERA in CP. The relevant extract from CP is reproduced below as follows.*
- *"6.2.13. Considering the positive outlook of the GDP growth predicted by the GoI and relatively better revival of the domestic aviation market, the Authority is of the view that domestic passenger traffic and ATM will revert to pre-Covid levels (of FY 2019-20) by FY 2022-23.*
- *6.2.14. Further, considering the predictions done by the above agencies (as cited in para 6.2.9 and 6.2.10), the Authority is of the view that international passenger traffic and ATM will revert to pre COVID-19 levels (of FY 2019-20) by FY 2023-24.*
- *6.2.15. The Authority notes that the traffic forecasts provided by the Airport Operator (based on CAPA India Study report) corresponds to the above views of the Authority that the domestic and international passenger traffic will reach pre COVID levels of FY 2019-20 by FY 2022-23 and FY*

2023-24, respectively."

- *In line with traffic, the demand for water will increase from 2 lacs litres per day to 3.5 lacs litres per day. The existing facilities are enough for 1 day storage requirement only and with the proposed 50% capex as per AERA the storage capacity with increased demand will remain 1 day only.*
- *Authority would agree to the fact that as a business continuity plan, we need to have a minimum storage capacity for at least 3 to 5 days capacity. Hence, it was proposed in this control period. It is also reiterated that during summer months this airport depends on tankers to meet the demand. The project is essential to meet the requirements of the airport and its users.*
- *Therefore, we request the Authority to allow the capex on actual incurrence basis and provide necessary true-up at the time of tariff determination of next control period.*

7.4.9. AO has commented on AERA's views relating to Miscellaneous items of Plant and machinery of ₹ 12.39 Crs as detailed in Para No. 7.3.9 B6 f, which is as follows:

In respect to the specific assets highlighted by the Authority the need and justification is reproduced in below table:

S. No	Project name	₹ Crs.	MIA's Submission	Status
1	Police Outpost	2.50	Mangaluru Airport is categorized as sensitive airport. This region has a history of communal disputes on various matters. MIA has to rely on the Bajpe Police Station which is 7 KM away from Airport for any kind of the untoward incidents like fake passport cases, visa fraud, Immigration violations, human trafficking and smuggling cases and any Security threats. It is proposed to have a police outpost at the city side which will be in charge of controlling and monitoring the traffic inside and immediately outside the airport, bringing much needed relief to the flyers. Refer Annexure 4 the minutes of Aerodrome Committee Meeting dated 04/07/2019 (before COD)	Planning stage
2	Landscaping & Irrigation systems	1.37	As per Concession Agreement, Annex I Schedule B Development of the Airport, sustainable strategies should be integrated into the planning and architecture of the terminal. Renewable energy production, such as, solar panels should be explored. Landscaping along with green strategies, such as rainwater harvesting should be employed. It should have minimum GRIHA -4 rating. The facility is planned during FY23-24 and it is under planning stage at the moment.	Planning stage
3	Repair of existing electrical sub-station	1.00	Sub-station Electrical Panels are of old model. The manufacturer has stopped manufacturing these panels. Further no spears are available, and these	Some of the work is completed. *Please refer*

S. No	Project name	₹ Crs.	MIA's Submission	Status
4	Power reticulation from existing sub-station to new infrastructures	1.00	panels have become obsolete. To avoid any accident or safety issue it very essential to change these Panels & equipment's in existing sub-station.	*Annexure 5.3 as enclosed*
5	Ring main for Localizer and DVOR	1.00	DVOR & Localizer are vital equipment for airport operation and to avoid any stoppage in their function & to create redundancy it is essential to provide Ring Main (additional electrical supply cable).	Planning stage
6	Access & Circulation Area/ Site Development for STP, Solid waste facility & other utility structures	1.45	Existing STP is in very bad condition. As per KSPCB it is to be rectified immediately & also Solid waste facility to be created – This is a compliance requirement and essential.	Solid waste facility & refurbishment of STP Completed. Other utility structures are in planning stage. *Please refer Annexure 5.6.1 and 5.6.2 as enclosed*
7	Fuel Station.	0.74	Mangaluru Airport being away from the city, needs the facility of Fueling Station at landside for cars of all visitors & staff, as well as for taxis and buses. A Fuel Station dispensing petrol, diesel, gas shall be developed at a plot measuring 900 sqm located west of existing Terminal on main exit road.	Planning stage
8	Grass Cutting Machine	0.71	At any point of time MIA requires two machines to be operational to maintain the grass/vegetation as per the regulatory requirement. MIA currently has two sets of equipment which are old (purchased in Sep-2016 and March-2017) and therefore another set of equipment is required as a back-up in case of any break down	Procurement planned in FY23-24
9	Security Cabin at landside	0.50	Due to adverse weather condition and topography of the airport and the splitting structure of the airport i.e. old and new airports, we need to provide security cabins for the men deployed at strategic security points of outer periphery of the airport. such as Entry, Exist, MSSR Radar Station, Outside ATC, Old Terminal Building. Currently we have only one security cabin which is also in a bad condition.	Planning stage. *Please refer photo of existing condition of security cabin as Annexure 5.9*
10	Chemical suit	0.30	Protection from Hazardous chemical during Chemical spills. It is necessary requirement for ARFF functioning.	Purchase requisition raised

S. No	Project name	₹ Crs.	MIA's Submission	Status
11	Inflatable Tent	0.25	Shelters for carrying out Initial casualty stabilization after triage before transportation of casualties to higher medical facilities resulting from Aircraft accident. It is necessary requirement for ARFF functioning.	Purchase requisition raised
12	PPE	0.21	This is required for protection from heat and fire during firefighting operation for the ARFF personnel	Completed. *Please refer Annexure 5.12 as enclosed*
13	Various items from Rs 1 lacs to Rs 20 lacs	1.36	The list includes various requirement for ARFF functioning. Fire Extinguisher, Queue Managers, Reciprocating/oscillating saw, Novac spare cylinders, Smoke Extractor, Hose Binding Machine, Automated External Defibrillator, Distress Signal Unit, High jet washing unit, Prying Tools, Washing Machine for PPE wash, Full Faced Respirator, Helmet Mounted Torch with attachments, Fire Resisting Blankets	Partially Completed *Please refer Annexure 5.13.1, 5.13.2 and 5.13.3 as enclosed*
	Total	**12.39**		

Therefore, we request the Authority to allow the capex on actual incurrence basis and provide necessary true-up at the time of tariff determination of next control period.

7.4.10. AO has commented on AERA's views relating to Vehicle access roadway and related works and Miscellaneous road works as per para No. 7.3.9 B7 (b) and (c), which is as follows:

- *AERA's observation that traffic will reach pre-COVID level by end of First Control Period is not correct. In the traffic section clause 6.2.13 to 6.2.15, AERA has projected pre COVID traffic in case of domestic passengers will be achieved in FY23 and for that of international passengers will be achieved in FY24. With traffic expected to reach pre-COVD level by next year, it will be difficult to manage vehicular traffic causing inconvenience to passengers. For sake of convenience relevant extract from traffic section from CP is reproduced below:*
- *"6.2.13. Considering the positive outlook of the GDP growth predicted by the GoI and relatively better revival of the domestic aviation market, the Authority is of the view that domestic passenger traffic and ATM will revert to pre-Covid levels (of FY 2019-20) by FY 2022-23.*
- *6.2.14. Further, considering the predictions done by the above agencies (as cited in para 6.2.9 and 6.2.10), the Authority is of the view that international passenger traffic and ATM will revert to pre COVID-19 levels (of FY 2019-20) by FY 2023-24.*
- *6.2.15. The Authority notes that the traffic forecasts provided by the Airport Operator (based on CAPA India Study report) corresponds to the above views of the Authority that the domestic and international passenger traffic will reach pre-COVID levels of FY 2019-20 by FY 2022-23 and FY 2023-24, respectively."*
- *Separately, we would like to submit that the project proposed is within the Airport boundary as*

depicted in the picture provided below.

- *The present circulation system on the arrival kerb and parking is 5 meters and 6 meters wide road in front of the terminal, which is causing huge congestion during the peak hours. With the increase in traffic there would be chaos on the kerb side and handling traffic would be a nightmare. To avoid the same, it has been proposed to revamp the entire circulation keeping in view of the development of the Airport*
- *Further, without re-aligning the roadway system, we would not be in a position to comply with some of the parameters of schedule H of the Concession Agreement.*
- *Since the traffic is expected to reach Pre COVID by FY23 and FY24 for domestic and international respectively, the requirement of the project is immediate to cater to the expected demand and to decongest vehicular movement, pedestrian safety, minimal traffic repetition and synergy between parking and terminal forecourt.*
- *During the stakeholder consultation the representative from Kanara Chamber of Commerce and Industry (KCCI) has voiced its concern about the traffic congestion at the Airport and the urgent need to plan the traffic flow holistically.*
- *We request the Authority to allow the capex for miscellaneous road works to avoid any serious situation at the entrance of the airport in case of any emergency.*

7.4.11. AO has commented on AERA's views relating to Information Technology works (as detailed in Para No. 7.3.9 B9), which is as follows:

- *IT being an integral part of any operations, the redundancy of the IT systems and user devices are most important. It is not possible for any Airport operator to delay establishing IT infrastructure and associated activities. As a prudent operator, we have already awarded Purchase orders worth of ₹ 5.97 Crs out of ₹ 9.10 Crs.*
- *While AERA has agreed with the essentiality of the project, however it has only allowed 50% of the amount. It is to be noted that MIA has already issued POs / committed more than the 50% amount as on date (the listing of the same is provided below). As the projects proposed are for the entire control period and IT infrastructure being a back-bone of the Aviation ecosystem the projects proposed by MIA are essential in nature. Keeping in view the Vision of MOCA we may have to take up additional projects than what we have projected to keep the asset abreast with other airports.*
- *Due to peculiar nature of the projects, these cannot be executed in a phased manner.*
- *Listing of all the PO's related to IT works are shown as follows:*

PO Title	***Amount (₹ Crs)***	***Description***	***Annexure reference***
SAP License	*0.22*	*This is used for SAP employee user standard software services, SAP professional user and SAP HANA license every year.*	*Annexure 6.1 - SAP License - 5700306802 - Rs 0.22 Cr*
Laptop	*0.19*	*End user device provided for employees who are on boarded into the roles of the company*	*Annexure 6.2.1 - Laptop - 4500337008 - Rs 0.17 Cr*
			Annexure 6.2.2 - Laptop - 4500337009 - Rs 0.01 Cr
			Annexure 6.2.3 - Laptop - 4500337010 - Rs 0.01 Cr

PO Title	Amount (₹ Crs)	Description	Annexure reference
Meet & greet	0.15	It is a platform which helps in customer engagement and meters and greeters.	Annexure 6.3.1 - Meet and Greet - 5700301120 - Rs 0.06 Cr
			Annexure 6.3.2 - Meet and Greet - 5700302528 - Rs 0.09 Cr
CXO Dashboard	0.12	CXO dashboard is digital platform provides head of department with one touch information and MIS data. Provides insight to all areas of operation in the airports.	Annexure 6.4 - CXO Dashboard - 5700299058 - Rs 0.12 Cr
Hygiene switches	0.91	This is part of operational stability activity for IT to upgrade the switches.	Annexure 6.5 - Hygiene switches - 4500338924 - Rs 0.05 Cr
Pax Wi-fi	2.27	To provide PAX wi-fi services inside the terminal	Annexure 6.6.1 - Pax Wifi - 4500340482 - Rs 0.06 Cr
			Annexure 6.6.2 - Pax Wifi - 4500340272 - Rs 0.53 Cr
			Annexure 6.6.3 - Pax Wifi - 5700303837 - Rs 0.64 Cr
			Annexure 6.6.4 - Pax Wifi - 4500341051 - Rs 0.16 Cr
			Annexure 6.6.5 - Pax Wifi - 5700304701 - Rs 0.01 Cr
			Annexure 6.6.6 - Pax Wifi - 4500340074 - Rs 0.87 Cr
Discovery & Assessment	0.27	Assessment done on people, process and technology with service partners	Annexure 6.7 - Discovery & Assessment - 5700298177 - Rs 0.27 Cr
Installation & commissioning (AOCC)	0.40	Airport operation control center	Annexure 6.8.1 - Installation & commissioning (AOCC)-4500340829 - Rs 0.29 Cr
			Annexure 6.8.2 - Installation & commissioning (AOCC) - 5700304464 - Rs 0.10 Cr
Command Post	0.31	Mobile command center at ARFF	Annexure 6.9 - Command Post - 4500340438 - Rs 0.31 Cr
Voice Infra (IP Phone) & Recording	1.06	VOIP infrastructure to be provided in the airport	Annexure 6.10 - Voice Infra (IP Phone) & Recording - 4900000515 - Rs 1.06 Cr
ACFT Vehicle installation	0.06	Instrument installed on the Aircraft fire tender vehicle	Annexure 6.11.1 - ACFT Vehicle installation - 5700305234 - Rs 0.02 Cr
			Annexure 6.11.2 - ACFT Vehicle installation - 4500341374 - Rs 0.03 Cr
			Annexure 6.11.3 - ACFT Vehicle installation - 5700305238 - Rs 0.01 Cr
Total	**5.97**		

7.4.12. AO has commented on AERA's views relating to Airside Security Gates as per Para No.7.3.9 B10 (c), which is as follows:

- *The Authority has accepted the need for the airside gates. However, the Authority has approved ₹ 0.5 Crs only as against the requirement of ₹ 4.15 Crs requested by the AO. The Authority has not provided specification as was submitted as part of unit rate Analysis previously: - the details of the inclusions /*
    - *RCC Framed structure Floor Ht of 3.5 (in m)*
    - *Electrical Systems*
    - *Fire Fighting Works like sprinklers*
    - *Automatic Fire Alarm System*
    - *VRV/VRF System including indoor /outdoor units, piping*
    - *IP based CCTV System (for indoors)*
    - *Motorized Steel Gate upto 5m width*
    - *Mechanical Tyre killer*
    - *RCC Work in M-30 Grade for footings and pedestals*
    - *Tensile fabric roofing*
    - *Structural Steel framework made out of rolled sections including base plates conforming to IS : 2062*
- *The overall cost per airside gate for a structure after considering all the above items is computed to be approx. ₹ 2 Crs. and we have planned 2 Airside Gates. The same was shared with the consultant appointed by AERA on 05th April 2022 as a part of Master Database folder.*
- *We hereby request Authority to consider the capex proposed by AO after considering all the above inclusions.*

7.4.13. AO has commented the following with respect to AERA's views on Rainwater Harvesting (RWH) as stated in Para No. 7.3.9 B10 (d) in this Tariff Order:

- *In respect to the terminal modification, we had submitted a detailed response vide letter dated 07th May 2022 justifying the need for rainwater harvesting at the Airport. Ministry of Environment & Forests (MoEF) has recommended that rainwater harvesting structures to be provided at the Airport and necessary documents were submitted in response. In addition, Karnataka Ground Water Authority (KGWA) has also recommended that steps should be taken for recharging ground water and rain harvesting is a part of those steps. We would be under non-compliance with these authorities if the necessary structures as proposed are not constructed as the plans have already been shared with the local authorities.*
- *During the stakeholder consultation, representative from KCCI also stressed upon the sustainability solutions.*
- *We are thankful to the Authority for appreciating the sustainable solutions being proposed by AO. However, we request the Authority to allow true-up on actual incurrence basis for the rainwater harvesting system.*

7.4.14. AO has commented the following with respect to AERA's views on Miscellaneous works of ₹ 9.86 Crs as stated in Para No. 7.3.9 B10 (f) in this Tariff Order:

- *In respect to the specific assets highlighted by the Authority the need and justification is reproduced* *below:*

S No	Project name	₹ Crs.	MIA'S Submission	Status
1	Nursery Plot	2.94	It is development of Old DVOR Plot outside airport boundary for Nursery and Solar Farm. As per CA we need to integrate the sustainability within the overall Development plan. The relevant clause is as follows: - *Sustainable strategies should be integrated into the planning and architecture of the terminal. Renewable energy production, such as, solar panels should be explored. Landscaping along with green strategies, such as rainwater harvesting should be employed. It should have minimum GRIHA -4 rating.* The facility is proposed during FY24-26 and it is under planning stage at the moment.	Planning stage
2	Distribution network for All Utilities (laying of Pipes, Cable, Duct Bank etc)	2.90	As per Master Plan and as explained in the AUCC held on 28th May 2021, there are various utilities planned during the control period like Water Tanks with pump house, sub-station building, Triturator etc. which are approved separately by the Authority. Distribution network is an enabling activity to connect these utilities to various usage area. The amount is calculated as 25% of the total utilities cost proposed.	Enabling cost for various approved projects
3	Into Plane Facility	1.59	In-to Plane Facility building is a small 200 sq mtr building with parking space for dispensers / refuelers. The building is used by coordinator, drivers, operators, cleaners and officers who are operating the dispensers / refuelers. It is not convenient to park dispensers / refuelers at fuel farm facility which is at remote location. Parking at remote location will be inconvenient and will lead to higher carbon emission due to long distance movement. Currently this facility is not available at the Airport airside. Hence MIA has planned to build the facility. This facility is not part of the Fuel Farm facility as assumed by the Authority. The facility is proposed during FY24-25 and it is under planning stage at the moment.	Planning stage
4	Eating place	0.63	There is no eating place at the Airside. During the lunch and dinner, people working at the Airside eat food in open which attract birds. A small eating room is planned so that people can eat in closed and safe environment.	Planning stage

S No	Project name	₹ Crs.	MIA'S Submission	Status
			The project is essential to avoid bird menace. The facility is planned during FY24-25 and it is under planning stage at the moment.	
5	Hazardous Waste Storage	0.39	Hazardous waste storage facility has been envisaged in the master planning to provide safe storage and disposal facility for the hazardous wastes like bio medical waste such as used PPE kits, medical wastes etc; used oils of machines & vehicles, batteries. The availability of such a facility become more significant in pandemic situation like COVID etc. & maintaining the compliance to the KSPCB requirements.	Planning stage
6	Furniture, trolley canopy, tensa tops etc.	0.67	For passenger facilitation furniture, tensa tops, cooling fans, AED cabinets etc have been procured.	Completed. *Please refer Annexure 7.6.1 to 7.6.6 as enclosed*
7	Green initiatives & KSPCB requirement - enviro display and monitoring	0.30	It is a requirement from KSPCB to monitor and display the pollution level at the Airport site. Necessary display screens are installed.	Partially Completed. *Please refer Annexure 7.7 as enclosed*
	Total	**9.42**		
	Total cost after indexation	**10.40**		

- *As explained in the table above, all the projects are distinct in nature and cannot be clubbed with any other project. Therefore, these projects are not redundant.*
- *We request the Authority to allow true-up on actual incurrence basis.*

7.4.15. AO has commented the following with respect to AERA's views on cost claimed towards technical services, PMC, Preliminaries and Pre-operatives, Contingencies, Statutory approvals, Labour cess, Site-preparation, Insurance etc. as stated in para 7.3.10 in this Tariff Order:

- *It is to be noted that Mangaluru airport is a tabletop, land constrained Airport with only 236.35 hectares of land available for airport development. Apart from the limited quantum of total land area of airport, due to non-contiguous nature of airport land and steep variations in topography of the airport site, execution of various capital works is more challenging and requires more manhours for finalization of various designs and estimates.*
- *Further it is not correct to compare costs of Mangaluru airport having passenger handling capacity of 2-3 million where capital expenditure planned is only to the tune of Rs. 800 Crs, with much bigger PPP projects like DIAL, BIAL with passenger handling capacity of 30 mn to 70 mn as quantum of works in those projects are much larger ranging from Rs. 5,000 Crs to Rs 10,000 Crs. Large Airports enjoy economy of scale and their soft cost in terms of percentage tends to decrease as compared to airports of lower size.*
- *Soft costs like PMC, Technical Services, Consultancies, pre-operative, contingency etc. are*

inelastic in nature for smaller projects. Substantial portion of cost tends to be fixed in nature. Some of the fixed cost which are committed or shall be incurred by MIA are below:

Details	**Nature of Service**	**₹ Cr.**
Technical Consultancies	Master Planning, Consultancy services for Traffic Planning, Design Consultancy for Landside Facilities i.e. Drainage, Utility and Transport Infrastructure, Quantity Survey and Cost Consultancy Services, Design Management Consultancy Services, Design Consultancy Services for Airside Improvement Works, Engineering Consultancy Service for ATF Fuel storage Farm and Hydrant Fuel System. Consultancy for Airport Signage and Wayfinding, Reconfiguration, Modification & Refurbishment of the Existing Terminal & Fore Court. **(PO copies for ~ ₹ 11.5 Cr are attached as Annexure 8.1 to 8.9)**	13.53
Salaries for Project Team to be capitalized	Salaries of project team on rolls of Company. The avg cost per month is ₹ 18 lacs (annual cost of ₹ 2.16 Crs). Cost for 5 years with annual escalation of 10% is projected. Manpower composition includes Lead Projects, Lead Architects, Lead Interior, Lead Master Planner, Procurement & Contract Admin, Operational Health & Safety, and support staff Also, there is support from head office construction team which has allocation cost of approx. ₹ 10 lacs per quarter.	14.50
Total (A)		**28.03**
In the CP, the Authority has proposed the new projects (other than CWIP projects) worth Rs. 239.76 Cr (cost without considering Cost towards Proportionate Technical Services like PMC & Design, Preliminaries, Insurances / Statutory Approvals, Labour cess, Site preparation, Contingencies, Pre-Operatives, etc and Interest During Construction and Financing Allowance) **(B)**		239.76
Implied percentage of proposed projects (A/B*100)		**~11.70%**

- *As an example of the fixed costs, it would be observed that the cost for Independent Engineer (IE) for Ahmedabad Airport is Rs. 3.40 Crs p.a. which caters to traffic of more than 11 mppa as against the Mangaluru Airport IE cost of Rs. 1.58 Crs p.a. which serves traffic of 2 mppa only. The traffic for Ahmedabad Airport is more than 5 times as compared to Mangaluru Airport whereas the cost for IE for Ahmedabad is only 2 times than that of Mangaluru Airport.*
- *Apart from above fixed costs (working to 11.70%), there are additional variable costs relating to PMC, Contingencies, Statutory Approvals, Labour cess, insurances, site preparation etc.*
- *With the above additions of variable costs to the fixed costs as brought out above, the overall cost will be more than 20% on the base project costs of Rs. 239.76 Crs.*
- *We would like to submit some examples from various AERA orders / consultation papers / other information etc. in table below -*

AERA Order / Consultation paper	**Project cost**	**Inclusions**	**Remarks**
Kolkata Airport third control period order no. NO. 43/2021-22 dated 15 March 2022 Page No. 295.	Overall Project cost project Rs. 123 Crs	**Inclusions 12% costs of** various cost including Consultancy, Operational Charge, Consultancy	PMC, Pre-Operatives are to be added separately
Lucknow Airport second control period order no. 37/2017-18 dated 16th February 2018 page no. and	Overall project cost of Rs. 1,383 inclusive of various items like PMC cost for 6.9%,	Overall cost of various items is Rs. 188 Crs on base cost of Rs. 1,195 (Rs. 1,383 Crs less Rs 188 Crs). **Implied ratio of 15.8%**	Pre-Operatives are to be added separately

AERA Order / Consultation paper	Project cost	Inclusions	Remarks
AAI AAES for Lucknow Airport	Contingency 3%, escalation 6.5%		

- *We therefore request the Authority to allow the cost of 16% as requested by the Airport Operator subject to true-up on actual incurrence basis in the next control period.*

7.4.16. AO has commented the following on AERA's views relating to re-adjustment in ARR in case any particular capital project is not completed/capitalised as per the approved capitalisation schedule as stated in para no. 7.3.11 in this Tariff Order.

- *The Authority has proposed to disincentivize the AO by reducing 1% of the project cost in case of delay in implementation of the project. Such a proposal puts MIA in double jeopardy because any delay in completion of project implies denial of return on such asset and depreciation and added to it will be this reduction in cost. It is abundantly clear that it is in the interest of MIA to complete the project as per schedule, however there could be delays due to various un-certainties, especially in present situation. There may be shortage of manpower, funds, force majeure, and unforeseen event, for any reason including but not limited to the scarcity of raw material, finished goods and manpower due to after effect of Covid-19. One of the principles for tariff fixation stipulates, incentive for undertaking investment in timely manner. Instead of providing incentive for timely completion of project the Authority is proposing a disincentive due to delay.*
- *We request the Authority not to include this proposal in the Order.*

7.4.17. AO has commented the following on AERA's views relating to Financing Allowance and Interest During Construction as stated in Para No. 7.3.12 in this Tariff Order:

- *Clause 5 of The AERA Guidelines (which entails the methodology of aeronautical tariff determination) allows Airport operators to be eligible for Financing Allowance as a return on the value invested in construction phase of an asset including the equity portion, before the asset is put to use. This is a legitimate expectation of investors.*
- *Thus, Clause 5 provides an explicit, detailed elaboration of Financing Allowance. Manner and formulae of computation and addition of the "commissioned assets" into RAB including the financing allowance are elucidated in detail with examples. For your kind reference the relevant extracts from The AERA Guidelines are reproduced below:*
- *Financing allowance is computed on the Work in Progress balance based on capital expenditure incurred which is funded by equity/Internal accruals and is capitalized as part of commissioned assets for RAB computation. In the case of MIA, financing allowance is computed on the equity portion and interest during construction (IDC) is computed on the debt portion of the capital spend.*
- *The regulatory principles laid down by AERA by means of guidelines provide a fundamental foundation of the regulatory clarity to the stakeholders on the manner in which different components of costs and revenues are treated. AERA is requested to allow financing allowance on equity as per The AERA Guidelines.*
- *AERA has recognized the notional concept at various places in the CP whereas, while discussing the financing allowance it has disallowed being notional in nature.*
- *We therefore request that financing allowance should be allowed which is as per existing guidelines issued by the Authority.*
- *We request authority to provide necessary true-up of IDC at the time of tariff determination of next*

control period.

7.4.18. AO has commented the following with respect to AERA's views relating to GST amount on RAB and CWIP invoices as states in para no. 7.3.13 in this Tariff Order:

- *As mentioned by the Authority, the GST payment has not been made till date. Hence, the same is not considered as part of the RAB for the first control period. It is to be noted that we have more than three years left in the First Control Period. It may be a possibility that a decision in this may come during the current CP and we may be required to make payment to AAI under the indemnity bond.*
- *Therefore, we request Authority to provide true-up of these statuary payments, during the tariff determination of the next control period, on actual incurrence basis.*

7.4.19. AO has commented the following with respect to AERA's views relating to Stamp Duty and Registration Charges as stated in para no. 7.3.14 in this Tariff Order:

- *As mentioned by the Authority, the payment has not been made till date. Hence, the same is not considered as part of the RAB for the first control period. It is to be noted that we have more than three years left in First Control Period. It is highly likely that payment of stamp duty will be made during this control period. Please refer Clause 44.17 of Concession Agreement stated as hereunder "Stamp duty and registration charges shall be payable by the Concessionaire on the execution or delivery of this Agreement. "*
- *Therefore, we request Authority to provide true-up of these statutory payments, during the tariff determination of the next control period, on actual incurrence basis.*

7.4.20. AO has commented the following with respect to AERA's views relating to CAPEX, as detailed in para no. 7.3.15 in this Tariff Order:

- *We are thankful to the Authority for accepting our revision as necessitated during the period.*
- *The cost estimates made at the time of MYTP May-2021 was based on the situation at that point of time. The revision in Dec-2021 was necessitated due to recommendation from safety assessment report for Kozhikode Airport issued in August 2021 which was applicable to IXE too. In order to comply with safety requirements, we needed to include the project of runway recarpeting and center lighting. The project was discussed in the AUCC held in May-2021 but was not part of the immediate capex plan.*
- *As inflation had increased significantly in last few quarters and there was unprecedent increase in rates of the raw material, for example bitumen prices increased by over 30%, steel prices increased by over 50% during the period (tabled below). This has led to actual award of contract significantly higher than estimates, for example Cargo and Fuel Farm facility. This has led to second revision of capex in May-2022.*
- *Due to unavoidable and uncontrollable circumstances, MIA felt the need to revise the Capex proposal during the review. It is pertinent to mention as provided on Table 46 of CP, the Capex amount proposed in the MYTP originally was Rs. 813 Crs and final version is Rs. 843 Crs. The overall difference is less than 4%. This reflects that MIA has re-engineered and rationalized the capex program even after factoring the significant increase in rates of materials and labour, under the able guidance of the Authority.*

7.4.21. AO has commented the following with respect to AERA's proposal no. 7.4.1 in the Consultation Paper

No. 7/ 2022-23 relating to Terminal Building ratio:

- *AERA has applied Terminal Ratio of 92:8 based on IMG Norms (Norms and Standards for Capacity of Airport Terminal) on the opening RAB which is carried forward from AAI to MIA.*
- *It is observed that as per The AERA Guidelines, 5.2.1 (vi) all the assets which are part of the terminal building shall be considered as part of RAB. Therefore, terminal building as a whole should be considered as RAB / Aeronautical asset and not required to be allocated into Aero and Non-Aero. For quick reference the relevant clause from the guidelines is reproduced as follows as "Notwithstanding the principles mentioned under points (i) to (v) above, assets with fixed locations inside terminal buildings shall be considered within the scope of RAB"*
- *Notwithstanding the above, it is submitted that norms of IMG report are not applicable to PPP airports, as per clause no. G of IMG Report (page 241 of the said report). reproduced below:*
- *"In case of airports developed through Public Private Partnerships the project authorities may adopt a case-by-case approach with respect to norms relating to unit area and unit costs. Based on the judicious consideration of international best practices and financial viability, the norms may be specified in each case prior to inviting bids for private participation."*
- *No norms with respect to unit area and costs were mentioned in the bidding documents and Concession Agreement of Mangaluru Airport. Therefore, we request AERA not to apply IMG norms in case of Mangaluru Airport.*
- *Under the Shared-Till model, 30% of Non-Aeronautical Revenues are accounted for cross subsidizing the ARR. Therefore, there is no need to apply the allocation ratio whereby, capital and operating expenditure is reduced. This act as a dual burden for the Airport Operator. Since the tariff guidelines do not provide for applying the allocation ratio, this anomaly is required to be corrected, failing which Airport Operator will be at disadvantage at all the times*
- *In view of the foregoing, we request the Authority to apply the Terminal Building Ratio, wherever it is factored in CP, as 100% Aeronautical which is in line with the Guidelines of 2011.*
- *Without prejudice to the above, it is to be noted that terminal building is built with certain length, breadth and height considering the passenger throughput and service level requirements. The structure of terminal includes façade, ceiling, columns etc. which have no relation with leasable floor area. The commercial activities like retail. food and beverage, etc. require limited works where the cost is much lower than the cost required to build the terminal building. For example, the height of the terminal building at MIA ranges between 12 to 15 meters whereas the retail areas have height of around 2 to 3 meters only. Hence, it is not logical to allocate the terminal building cost based on floor area. MIA is of the view that allocation should, at best, be based on cost of the floor plate instead of allocating entire terminal cost based on square meter area basis.*

7.4.22. The AO has commented the following with respect to point 7.8 in the MYTP submitted by the AO, which is reproduced below:

"*One of the major non-compliance issues in IXE airfield is inadequate clearance on southern side from centreline of runway 06/24. Due to the narrow landform of the airport site at this location, required separation of 200 m from the runway centreline to airside perimeter road / airport boundary wall is not available. To rectify this non-compliance, land needs to be made available through land acquisition, and large quantity of filling needs to be done from the valley below upto the airfield level which is supported by a retaining structure to create airfield platform to provide required separation distance.*"

Under the Perspective Plan provided in the Concession Agreement (refer Annex II (Schedule A) to

Concession Agreement), it is mentioned that AAI had initiated discussion with local state authorities for the purchase of approx. 36 Acres of land. After privatization, MIA has actively carried forward those discussions with the state authorities for purchase of land.

MIA acknowledges that land acquisition is time consuming. It involves multiple stakeholders, various processes and procedures which have variability on the timing of the purchase of land. Considering these factors, MIA has not considered the land acquisition cost and necessary construction works as part of the capital expenditure in this MYTP. Therefore, MIA request the AERA to consider the necessary true-ups for the same in the next control period, to provide for eligible return on land acquisition cost and associated construction works, along with carrying cost, in case it gets fructified during the First Control Period. MIA will keep AERA informed on the developments of the matter from time to time.

We observed that there is no mention of the same in the Consultation Paper. We request Authority to take cognizance of the facts submitted and to allow for necessary true-ups on the basis of actual incurrence in the next control period.

Other Stakeholder's comments on Capital Expenditure (CAPEX), Depreciation and Regulatory Asset Base for the First Control Period

7.4.23. KCCI has commented the following:

<u>Vehicle access roadway and allied works</u>

"We have witnessed traffic congestion at the arrivals and departure area of the Airport. The traffic is unmanageable and could lead to serious accidents. We are delighted that MIA has recognized this problem and has proactively proposed to revamp the traffic circulation in the Airport forecourt. We fully support the vision and plan for MIA.

We hereby request AERA to endorse MIA's proposal to take up this important project and help in debottlenecking the concern areas."

<u>Sustainability projects proposed like Rainwater Harvesting, Water Storage etc.</u>

"We are a responsible industry body and always add our voice to the project related to sustainability and conservation of mother nature.

Mangaluru Airport is table-top Airport with limited avenues for water supply. MIA has proposed projects like Rainwater Harvesting, Water Storage etc. We appreciate the action proposed by MIA. We request AERA to kindly allow the proposal without any restrictions"

7.4.24. APAO has commented the following:

<u>Cost claimed towards technical services, PMC, Preliminaries and Pre-operatives, Contingencies, Statutory approvals, Labor cess, Site-preparation, Insurance etc</u>

"AERA has allowed 8% of capex costs as cost claimed towards technical services, PMC, Preliminaries and Pre-operatives, Contingencies, Statutory approvals, Labour cess, Site- preparation, Insurance etc. as against 15% proposed by the airport operator.

Above reduction has been done on basis of costs allowed by AERA in the past while determining tariff of other PPP airports. Each airport has different infrastructure needs based on their location, traffic handling capacity, passenger mix, local culture. Authority itself has allowed these costs in the range from 8% to 11% which clearly establishes the fact the cost will vary depending on the needs of each airport. Based on their unique positioning, MIA has determined these costs as 15% of total capex costs. We request the Authority to approve the same while determining the tariff of MIA."

7.4.25. AAI has commented the following:

Notional Terminal building Ratio

"The Authority appears to have relied on the study conducted IMG report issued in 2009 which is recommendatory in nature, and should not be enforced on the Airport Operator, further such higher % of non-aeronautical are only desired and attempted for, however the ground reality of non-aeronautical business is dependent on multiple factors such as demand, customer behavior, spending pattern, per capita income of the region, etc.,

AAI submits that the Mangalore Airport was constructed much before the IMG reports was published hence such report should not be given retrospective effect. Further, the Airports operator's primary business is to provide infrastructure and facility to its passenger and non-aeronautical business is incidental to the business.

The Authority has also taken cognizant in the CP however has ignored while fixing the TB Ratio:

As per the joint measurement by AAI and MIA, terminal building area was noted to be 37,322 Sq. M however AAI has considered only 27, 946 (excluding un-utilized area).

Authority in the CP noted that "Non-Aeronautical area for FY 2020-21 is significantly lower on account of foreclosure of contracts and vacation of commercial space by the concessionaires due to the COVID-19 pandemic"

AAI submits that such standardization approach of the Authority may be detrimental to the trade and the Airport operator as it has direct impact on the return for the operator, further the Authority has ignored the effect of covid which resulted in foreclosure of non-Aeronautical contracts.

AAI requests AERA to consider Non-Aero Space based on the actual utilization."

7.4.26. IATA has commented the following:

"AAI has indicated that during the COVID-19 crisis, some areas previously occupied for non-aero activities are now empty and hence should be allocated as aeronautical area. We request that AERA rejects this suggestion as not all areas can be repurposed for aero activities and might not be needed by aeronautical services."

"Improvement in CAPEX program governance is needed to ensure that only critical and demand driven infrastructure are accepted with support from the airline community. Ongoing monitoring of CAPEX items against the agreed business case following capitalization is needed, as well as confirmation of the airport operator delivering on the agreed benefits/objectives"

7.4.27. FIA has commented the following:

- *"The entire ecosystem needs to be operationally efficient, which can be brought about, amongst other things by capital expenditure efficiency studies, which AERA is requested to conduct"*
- *Para 7.3.4, A1 (b), A2 (e):*

"We request that AERA applies the normative norms for the capex projects as mentioned under AERA Order No. 7/2016-17 dated 13 June 2016 in order to keep the overall cost control and efficiencies in capex projects"

- *Para 7.3.15*

"We observe that AERA has remarked on the trend of multiple revisions to the capital projects and projection of factually incorrect capital projects, inconclusive design reports which reflects near and long-term planning of capital projects by MIA. In this regard, AERA should undertake an independent

study on Efficient Capex at Mangaluru International Airport."

- *Para 7.3.9. (B4)(a) & Para 7.3.9. (B4)(a):*

"It is mentioned that the through put demand for the Airport during the Pre- COVID period was of around 4,200 KL per month (i.e., approx. 140 KL per day). However, since the IOCL ATF fuel facility already has a storage capacity of approx.500 KL, can it please be clarified the reason to build additional storage capacity of 500 KL within the First Control period, as even if the pre COVID-19 volumes are doubled per day to 280 KL per day during the First Control Period, the current storage facility is more than sufficient to cater to this demand during the First Control Period. It is requested that the same may be kindly reviewed and the need for expansion in the storage capacity, which has been proposed to be capitalized at Rs. 17.14 Crores be please put on hold until the next control period.

Accordingly, the proposal of the Airport operator in its MYTP for the revised pricing for Fuel Infrastructure Cost, Aircraft Defueling and Re-fueling of defueled products may kindly not be accepted."

- *Para 7.3.29:*

"While FIA acknowledges the depreciation rate applied by AERA in accordance with AERA Order No. 35/2017-18 the 'Useful Life of Airport Assets', FIA requests that it is pertinent to note that useful life of assets at various international airports like London Heathrow, Sydney airport and Amsterdam airport indicated that terminal buildings have useful life of as long as sixty (60) years and aprons have it for as long as ninety-nine (99) years. FIA submits that the useful life of terminal building for Kannur and Cochin airports have been considered sixty (60) years by AERA and accordingly AERA should prescribe sixty (60) years for the 'Building' including 'Terminal Building as' is practiced by some of the developed aviation ecosystem"

"In order to support the airlines to continue and sustain its operations, it is requested that all non-essential capital expenditure proposed by Airport operator be put on hold/ deferred, unless deemed critical from a safety or security compliance perspective. Further, in case Airport operator wants to make capital expenditure, then it should be at no additional expense to the airlines until the project is completed and put to use by the airlines. Similarly, if any proposed Capex projects can be deferred from the First Control Period to the Second Control Period, same is requested to be considered by the AERA.

We recommend that an adjustment of 1% or higher of the project cost from the ARR, as deemed fit, is made by AERA for capital expenditure projects is/are not completed/capitalized as per the approved capitalization schedule other than those affected solely by the adverse impact of COVID-19. Such adjustments can be made by AERA during the tariff determination for the Second Control Period."

7.5. AO's responses to stakeholders' comments on Capital Expenditure (CAPEX), Depreciation and Regulatory Asset Base for the First Control Period

7.5.1. AO has responded to KCCI's comments as under:

Vehicle access roadway and allied works

Refer to AO's comments on Vehicle access roadway and allied works, as stated in para no. 7.4.10 in this Tariff Order.

Sustainability projects proposed like Rainwater Harvesting, Water Storage etc.

Refer to AO's comments on Rainwater Harvesting, Water Storage etc., as stated in para no. 7.4.13 in *this Tariff Order.*

7.5.2. AO has responded to APAO's comments as under:

Refer to AO's comments on soft costs such as Cost claimed towards technical services, PMC, Preliminaries and Pre-operatives, Contingencies, Statutory approvals, Labor cess, Site-preparation, Insurance etc, as stated in para no. 7.4.15 in this Tariff Order.

7.5.3. AO has responded to IATA's comments as under:

"MIA doesn't agree with the above views of IATA. Design and size of the terminal building has nothing to do with non aeronautical area occupied by the concessionaires. In our view, terminal building is 100% aeronautical asset as provided under the AERA Guidelines. It is to be noted that terminal building is built with certain length, breadth and height considering the passenger throughput and service level requirements.

"MIA conducted Airport User Consultation Committee (AUCC) Meeting on May 28, 2021, with all the stakeholders including airline community. Detailed presentation with justification and benefits for the new capital expenditure projects taking into account the existing challenges in MIA pertaining to its location, topography, weather conditions, limited availability of land, etc. was given.

Airport Operator has submitted only the efficient costs that are necessary and critical for the safety, security and convenience of the passengers. Same has been duly reviewed and rationalized, by the Authority and Independent consultant appointed by the Authority, in various heads of operational and capital expenditure."

7.5.4. AO has responded to FIA's comments as under:

"Airport Operator conducted its first Airport User Consultation Committee (AUCC) Meeting on May 28, 2021, with all the stakeholders and discussed the Capital Expenditure proposed to be undertaken during the First Control Period of FY 2021- 22 to FY 2025-26 in detail. The meeting was attended by various airport stakeholders such as IATA, FIA, Indigo, SpiceJet, Go Air, Air India, AAI, CISF etc. MIA had given a detailed presentation and justification for the new capital expenditure planned by the Airport Operator taking into account the existing challenges in MIA pertaining to its location, topography, weather conditions, limited availability of land, etc.

Further, the Authority as part of its examination of the Aeronautical Capital Expenditure submitted by the Airport Operator had raised queries and sought clarification on the essentiality of the capital expenditure and had been provided the necessary documents such as project cost estimates, technical Consultant's report, design, drawings, plans, inspection report issued by various authorities etc., substantiating the capital expenditure proposed by the Airport Operator in the MYTP.

The Authority convened meetings with the representatives of the Airport Operator along with AERA's consultant to obtain clarification regarding its queries on the ongoing and new projects proposed by the Airport Operator and reviewed all the necessary details and documents.

Airport Operator had submitted a revised CAPEX schedule along with the justification for revision of project costs to the Authority. Costs of various major projects related to Runway, Taxiway and Apron was reduced from Rs 256 Crs to Rs 188 Crs, Terminal Building from Rs 225 Crs to Rs 209 Crs, Roads from Rs 65 Crs to Rs 41 Crs based on Authority's review on the essentiality of certain capital expenditure and the basis for estimation of project costs

Given the above steps taken by the Airport Operator and Authority, we feel there is no need to do another separate study on efficiency of capex.

Para 7.3.4, A1 (b), A2 (e):

"The Authority has applied the normative guidelines while assessing the costs of the new Capex projects submitted by the Airport Operator. For e.g. while the approving the cost of 4 new taxiways, Authority compared the per Sq.m. estimated cost submitted by the Airport Operator for Main Pavement and Shoulders (after excluding the cost of Earthwork, Airfield Ground lighting and other exclusions) with the Inflation adjusted Normative cost of Rs 5,287 per Sq.m, which has been derived by the Authority for FY21. The cost per sq mtr. claimed by the Airport Operator amounts to Rs. 5,025 and this cost is within above inflation adjusted normative cost derived by the Authority.

Similarly, the costs for all new capex projects have been proposed taking into consideration the normative guidelines wherever applicable.

However, for the projects which were handed over by AAI to AO as fallout of the concession agreement, Authority has not found it appropriate to apply normative approach. The Authority has proposed to consider the inflation-adjusted Contract cost, as the basis for deriving the allowable Aeronautical Capex costs for these projects. We agree with the stand taken by the Authority in this matter."

Para 7.3.15

"In the previous paragraphs, we have already detailed the steps taken by the Airport Operator and the Authority, basis which the capital projects and cost estimates have been arrived at.

We would like to re-iterate what was mentioned in the minutes of the AUCC conducted on 28th May 2021, that the Master Plan exercise has gone through rigorous exercise. MIA is proposing only those projects which are critically required for safety, security, operations, and customer experience. Our proposed approach for projects to be undertaken is in line with sentiments expressed by the FIA representative during the AUCC.

Kindly refer section 3.18 of our detailed response submitted to AERA. Due to unavoidable and uncontrollable circumstances, MIA felt the need to revise the Capex proposal during the review. It is pertinent to mention as provided on Table 46 of CP, the Capex amount proposed in the MYTP originally was Rs. 813 Crs and final version is Rs. 843 Crs. The overall difference is less than 4%. This reflects that MIA has re-engineered and rationalized the capex program. Further, we would like to point out that the Authority has not stated that 'capital projects" were factually incorrect rather the comment of Authority was in reference to "capital projections" in the CP.

Hence, we reiterate our views that there is no need to undertake another separate study on Efficient Capex at Mangaluru International Airport.

The comment from the stakeholder reflects that stakeholder is doubting the detailed examination of capex conducted by the independent regulator in fair and transparent manner."

Para 7.3.9. (B4)(a) & Para 7.3.9. (B4)(a):

"Currently requirement of whole airport is around 150 KL, and total storage is a 470 KL. Thus, the total storage is equivalent to just 3 days of throughput. As per industry practice, the open access Fuel Farm should have storage equivalent to 8-10 days of throughput. Furthermore, being table-top Airport and away from the city it becomes more important that the Airport should have sufficient resources available as a business continuity plan.

With anticipated growth at IXE during this control period, 3 day's coverage will further come down. Moreover, during the routine tank cleaning/inspection activity (which is in line with DGCA's requirement), the facility will be left with just one operational storage tank, and it will not be possible to operate a 24x7 Open Access Fuel Farm with just one tank.

The existing IOCL facility is within Airport premises, whereas other facilities are outside and at distance from the Airport. MIA is proposing to takeover only IOCL facility. This facility is handling only IOCL's volume which is only 15-20% of whole airport's volume. Thus, considering whole airport requirement, the current facility has serious bottlenecks in terms of product receipt capacity, as there is provision of only decanting one Tank Truck at time. This is grossly inadequate.

To remove all these bottlenecks, MIA is building an additional storage of 500 KL and putting up a 5-bay Tank Truck gantry. This is bare minimum upgradation work, which is required to enable facility to cater the airport's demand for the whole control period in a safe and reliable manner."

"It is to be noted that MIA is only undertaking capital expenditure which is necessary for safety, security and convenience of airport users and same has been proposed by AERA in RAB or actual incurrence basis.

As per AERA regulatory framework, return is given only when assets are capitalized. There is no additional expense to the airlines until the project is completed and put to use. Enough consideration has been given to ensure that projects not required in First Control Period are deferred to next control period to avoid putting any undue burden on airport users.

Regarding the Authority proposal to disincentivize the AO by reducing 1% of the project cost in case of delay in implementation of the project, it is to be noted that it is in the interest of MIA to complete the project as per schedule as delay in completion implies denial of return on such asset and depreciation. However, there could be delays due to various un-certainties, especially in present situation. There may be shortage of manpower, funds, force majeure, and unforeseen event, for any reason including but not limited to the scarcity of raw material, finished goods and manpower due to after effect of Covid-19. One of the principles for tariff fixation stipulates, incentive for undertaking investment in timely manner. Instead of providing incentive for timely completion of project the Authority is proposing a disincentive due to delay."

<u>Para 7.3.29: 'Useful Life of Airport Assets'</u>

AERA Order No. 35/2017-18 the 'Useful Life of Airport Assets' carries a note on the useful lives of buildings as follows:

"Useful life of Terminal Building (including VIP terminal, Bus Terminal, Haj Terminal) is either 30 years or 60 years as evaluated by the Airport Operator."

Further it is to be noted that the Concession Agreement is valid for 50 years. Therefore, the life of any asset cannot be more than the life of the Concession Agreement.

In MIA's estimation, the useful life should be 25 years as substantiated by the technical study conducted by an independent expert. Given the MIA estimation, the Authority has considered it to be 30 years in line with other Airports.

7.6. Authority's analysis on Stakeholders' comments on Capital Expenditure (CAPEX), Depreciation and Regulatory Asset Base for the First Control Period

7.6.1. The Authority reviewed the AO's comments on the planned completion of construction and commissioning of the new Cargo Terminal.

The Authority notes that the AO had originally planned for commissioning of the new Cargo facility by October 2022 (i.e., as per the MYTP submission), which timeline was subsequently shifted to December 2022. Based on the same, AO has now requested the Authority to consider Capitalisation from April 01, 2023.

The Authority has reviewed the construction schedule submitted by the AO as part of the stakeholders' comments (refer para 7.4.2 of this Tariff Order) and based on the same, it decides to consider capitalisation of Cargo Terminal by April 1, 2023.

7.6.2. The Authority has carefully examined the comments of AO on financing allowance. The Authority states the following:

a) The Authority considered that providing return on capital expenditure from the very beginning of construction will significantly lower the risks for an airport operator and may require revisiting the return on equity allowed to airport operators as the investment in the asset class will then be equated to risk free rate of return.

b) Further, provision of Financing Allowance will disincentivize the Airport Operators from ensuring timely completion of projects and delivery of services to the users. Therefore, the Authority is of the view that a return should be provided only when the assets are made available to the airport users except in the case of certain costs like IDC that will have to be incurred in case debt is used for funding of projects.

c) Furthermore, the future returns from the project should generate adequate returns to cover the cost of equity during the construction stage. The AO is adequately compensated for the risks associated with the equity investments in a construction project once the project is capitalized by means of a reasonable cost of equity.

d) Developments at greenfield airports inherently take longer durations to commission and operationalize. Thus, airport operators would have to wait for a considerable duration before getting returns on large capital projects. Keeping this in view, the Authority had earlier provisioned for financing allowance in initial stages to such greenfield airports. It may be further noted that the Authority has never provided financing allowance in the case of brownfield airports in its any of the Tariff Orders. Further, financing allowance for greenfield airports of BIAL, HIAL, CIAL etc. was allowed only for the initial stages of their development, after which such allowance was permitted only on the debt portion of the proposed capital expenditure.

e) It is pertinent to note that in case of a greenfield airport, investment in regulatory blocks by the Airport Operator would not make the airport facilities available to the passengers. Brownfield and Greenfield airports can't be equated on this issue. In greenfield airports, the tariff is not applicable and no revenue is available to the Airport Operator till the aeronautical services have been created and put to use. However, in the case of brownfield airports, where the AO brings in additional investments, the airport facilities are mobilized and enabled to other functional parts of the airport, which remains functional and the AO keeps on enjoying the charges from the users. In the case of MIA, since new projects have included mobilization of existing operations, the said Airport is ought to be considered as a brownfield airport, which in the opinion of the Authority would not be eligible for financing allowance on the equity portion of newly funded capital projects.

f) Financing Allowance is a notional allowance and different from interest during construction. Therefore, the provision of Financing Allowance on the entire capital work in progress would lead to a difference between the projected capitalization and actual cost incurred, especially when the Airport Operator funds the projects through a mix of equity and debt. Further, the Authority opines that Financing allowance should be provided only on the debt borrowings availed for execution of a project.

g) AERA Guidelines, 2011 does not specifically state that Financing Allowance is to be provided on both equity and debt portion of the capital expenditure. The proviso to Section 13 (1) (a) states that "different tariff structures may be determined for different airports having regard to all or any of the above considerations specified at sub-clauses (i) to (vii) of Section 13 (1) (a)".

Based on the above, the Authority is of the view that there is no reason to deviate from the proposal made by it regarding Financing Allowance in Consultation Paper No. 07/2022-23. Therefore, the Authority sees no merit in the AO's contention.

7.6.3. The Authority has carefully examined the AO's comments relating to Miscellaneous Airside improvement works of ₹ 8.94 Crores (refer para 7.3.9 B1 (e) in this Tariff Order).

The Authority states that it's proposal of shifting the capitalization of a portion of the Miscellaneous Airside improvement works (for ₹ 4.41 Crores) to the next Control Period was based on an independent analysis of the details of the projects, their essentiality and project plans assessed by the Independent Consultant appointed by the Authority.

The Authority reviewed the status of the capital items submitted by the AO as part of its stakeholders' comments (refer para 7.4.4 of this Tariff Order) and notes that for some of the items, the AO has mentioned that the project is under planning stage, the completion of which cannot be envisaged at this stage. However, the Authority noted that some items such as:

- Bomb cooling pit – the work has been planned in FY 2023-24,
- EV charging station for airside vehicles- Service Order No. 5700312225 dated July 16, 2022 has been issued and the work is partially completed.
- Extension of existing MT workshop- Service Order No. 5700305195 dated February 11, 2022 and Service Order No. 5700307143 dated March 28, 2022 has been issued.

Based on the above factors, the Authority decides to consider capitalisation of the above 3 projects amounting to ₹ 2.30 crores in the First Control Period.

7.6.4. The Authority carefully examined the AO's comments on the planned commencement of Fuel farm open access facility.

The Authority notes that the AO had originally planned for commissioning of the new Fuel facility by July 2022 (i.e., as per the MYTP submission), which timeline was subsequently shifted to November 2022. The AO has now requested the Authority to consider Capitalisation from April 01, 2023.

The Authority has reviewed the construction schedule submitted by the AO as part of the stakeholders' comments (refer Para No. 7.4.5 of this Tariff Order) and based on the same, it decides to consider capitalisation of Fuel Farm facility by April 1, 2023.

7.6.5. The Authority reviewed the comments of AO along with the information provided by the AO on the quotation obtained from the vendor (Sterling and Wilson) towards Supply, Erection, Testing, Commissioning of 1000 KVA, 11/0.415 KV Substation at Mangaluru International Airport dated June 14, 2022 for ₹ 4.45 crores. Based on the above factors, the Authority now decides to consider the total CAPEX of ₹ 4.45 crores towards Electrical Substation Equipment (airside).

7.6.6. The Authority reviewed AO's comments relating to Water tank, Substation and STP projects and notes that, 50% of the projected cost allowed by the Authority as per the Consultation paper No. 07/2022-23, is towards essential CAPEX, such as, additional water tank and substation. However, as already stated in the Tariff Order, the Authority feels that the existing STP apart from the STP under construction (along with the Terminal Building expansion), are sufficient to handle the projected growth in traffic volume and hence, not considered during the First Control Period.

Based on the above, the Authority would like to reiterate that the capital expenditure proposed for the project in the Tariff Order is sufficient considering the essential requirement of the AO and there is no reason to deviate the proposal made at the Consultation stage.

7.6.7. The Authority has examined AO's, KCCI's comments and information provided with respect to the various Miscellaneous items of Plant and machinery.

The Authority on review of the status of the specific assets provided by the AO (refer Para No. 7.4.9 of this Tariff Order) notes that some of the assets are under planning stage, the completion of which cannot be envisaged at this stage. However, it also notes that the work towards assets such as those related to electrical substation, site development for STP, solid waste facility & other utility structures, chemical suit, inflatable tent, PPE, various items required for ARFF activities (amounting to ₹ 5.57 crores) are under progress/ completed and decides to consider the same for capitalization in the First Control Period.

7.6.8. The Authority has examined the AO's and KCCI's comments on Vehicle access roadway, related works and Miscellaneous road works (refer Para No. 7.3.9 B7 (b) and (c) of this Tariff Order) and states that as there is congestion during the peak hours, the Authority decides to consider these projects. However, it is observed that AO has planned to capitalize the project in FY 2025-26, which may not happen in this Control Period, based on the site visit conducted by the Authority through its Independent Consultant. Hence, these projects will be allowed on actual incurrence basis, if they are capitalized in this Control Period, subject to reasonability and efficiency.

7.6.9. The Authority carefully considered AO's comments and information provided in the annexure on Information Technology works.

The Authority has reviewed the Purchase Orders (POs) issued by the AO on Information Technology related works for ₹ 5.97 crores and decides to consider the same for capitalization in the current Control Period.

7.6.10. The Authority has carefully considered the AO's comments on the Airside Security Gates and it now decides to consider ₹ 1 crore (₹ 0.50 crore per Security Gate). The Authority feels the same is reasonable and justified for the aforementioned project. Further, the Authority is of the view that the AO should ensure implementation of safety security measures such as Fire Fighting Works like sprinklers, Automatic Fire Alarm System, IP based CCTV System (for indoors) etc., stated by the AO, as part of the stakeholders' comments.

7.6.11. The Authority has carefully examined the AO's and KCCI's comments amount towards construction of RWH ponds and provides its views as follows:

The Authority notes the Airport Operator has projected the cost for 2 RWH ponds, i.e., one each in Airside and Landside in order to comply with the Government's initiative on Environment sustainability and also handle the challenges faced in water conservation due to inherent topography of the airport.

Based on the above factors, the Authority decides to consider construction of RWH pond on the landside of the airport, after the AO obtains necessary approvals from the Statutory bodies on the safety aspects, and subject to the Authority's assessment of the reasonableness and efficiency of the CAPEX at the time of true up of the next Control Period.

7.6.12. The Authority has considered the AO's comments and information provided on Miscellaneous works and states that the Authority's proposal of shifting the capitalization of the Miscellaneous works to the next Control Period is based on a thorough independent analysis of the essentiality of project plan and other details, by the Authority's Independent Consultant.

7.6.13. The Authority has carefully examined the comments of AO, APAO and information provided on soft costs by the AO and would like to state that, the Authority had already undertaken a detailed analysis of the Costs claimed by AO towards Technical services, PMC, Contingencies, etc., through the Authority's

Consultant and based on the same, proposed 8% of allowable Aero CAPEX in the Consultation Paper No. 7/ 2022-23.

The Authority clarifies that the 8% allowed on Aero CAPEX is in addition to the cost of Independent Engineer (whose roles and responsibilities has been defined in Clause 24.1, 24.2 and Schedule L of the Concession Agreement) which has been considered while determining ARR of MIA for the First Control Period.

Further, the Authority is of the view that benchmarking the cost with other PPP airports such as HIAL, BIAL, DIAL, etc. is more appropriate than comparing with Kolkata Airport (AAI airport) and Lucknow Airport. Moreover, the Authority notes that the AO has considered operational charges for Kolkata Airport while calculating the PMC costs as 12%. However, by excluding the operational charges (as the same is not part of the soft costs), the PMC costs works out to only 7%. Further, in case of Lucknow Airport, the construction of Terminal Building – T3 was not executed in the Second Control Period and the same had been handed over as part of the Concession Agreement to the new Concessionaire. Further, the Authority notes that the AO has considered escalation of 6.5% as part of PMC costs for Lucknow Airport. However, the Authority would like to state that for cost escalation, WPI adjusted rates are derived separately by the Authority.

The Authority has also taken into consideration the need for rationalization of CAPEX at MIA considering the adverse impact of the COVID-19 pandemic on traffic growth, Aeronautical revenues and profitability, while deciding on the allowable cost.

After considering all the above factors, the Authority does not see any merit in the AO's comments and decides not to change its proposal already stated by it at the Consultation stage as per Para No. 7.3.10 in this Tariff Order.

7.6.14. The Authority has taken note of AO's comments regarding the re-adjustment (reduction) of 1% of non-completed project costs in the ARR/target revenue.

The Authority has drawn inference from other PPP airports, regarding a trend amongst airport operators, where capital projects are proposed in one Control Period and the same is postponed to the next Control Period. The Authority is of the view that such a practice is not in the interest of airport users as they start paying higher tariffs in anticipation of enhanced services against the proposed capital expenditure, which is eventually postponed to next Control period by the AO.

The Authority notes that the AO has done due diligence while proposing the capitalisation schedule upon which tariffs are determined in the First Control Period. Thus, the contention of AO to not readjust ARR if projects are not completed, is not justified. Accordingly, the Authority decides to readjust (reduce) 1% of the uncapitalised project cost from ARR/target revenue during true-up exercise of the Second Control Period, if any particular project is not capitalised as per the CAPEX schedule approved in the tariff order.

As already stated in the para 7.3.11 in the Tariff Order, the Authority clarifies that in case there is delay in completion of the project beyond the approved timeline given in the tariff order due to any reason beyond the control of AO or its contracting agencies and is justified, the same would be considered by the Authority at the time of tariff determination of the Second Control Period.

Further, the Authority would like to state that the airport users pay a considerable price to avail services at the airport and any delay beyond its extended date of completion of the projects would result in the Airport Operator getting an undue advantage at the expense of the airport user as the Airport Operator would be able to recover the cost of investments without the investments happening in the first place or the investment not culminating in asset capitalisation. The Authority has considered this rationale consistently in past for other similar airports, to provide for an adjustment cost to the extent of 1% of the uncapitalised project cost while determining RAB in the case of delay in capitalisation of the project beyond the stipulated dates.

The Authority considers that such a provision would ensure that efficiency standards are maintained by the Airport Operator and would dis-incentivise AO from allowing the project getting delayed beyond the committed timelines for implementation of the project thereby ensuring efficiency in the cost incurrence. The same is a balancing exercise which ensures that the Airport Operator meets the commitment to complete the Project as per the schedule mentioned in the Tariff Order (Refer Table 78).

7.6.15. The Authority has carefully examined the comments of AO on financing allowance and true up of IDC at the time of tariff determination for the next Control Period. The Authority has provided its detailed comments on the Financing Allowance under para 7.6.2 and the same may be referred to. The Authority hereby clarifies that the IDC on the debt portion of the total value of the proposed Aeronautical CAPEX, will be considered at the time of true up of the First Control Period, while determining tariff of the next Control Period, based on actual capitalization of the assets, submitted by the AO for the First Control Period.

7.6.16. The Authority has examined the comments of the AO relating to GST amount on RAB and CWIP invoices. The Authority decides to consider the statutory payments relating to GST amount on RAB and CWIP invoices, on actual incurrence basis, at the time of true up of the First Control Period, while determining tariff of the next Control Period.

Further, the Authority notes that the Airport Operator would be eligible to claim GST Input Tax Credits on procurement of certain movable property. The Authority expects that the Airport Operator would properly account for such credits in its submissions in accordance with Chapter V of The Central Goods and Services Tax Act, 2017 at the time of true up of the RAB for the Second Control Period. The Authority may examine the accounting of input tax credits and make necessary adjustments in this regard at the time of determination of tariffs for the Second Control Period.

7.6.17. The Authority has examined the comments of the AO on the statutory payments relating to stamp duty and registration charges as per the relevant provision under the Concession Agreement and the requirement for the same, based on actual incurrence by the AO, during true up of the First Control Period, while determining tariff of the next Control Period. The Authority decides to consider the same.

7.6.18. The Authority has carefully considered the AO's comments regarding rationalisation of the capital expenditure. However, such frequent revisions by the AO in the CAPEX from the revised MYTP submitted on December 10, 2021 till the issuance of the Consultation Paper (approximately 8 months), does not instill enough confidence in the Authority on the projections/ estimates of the CAPEX by the AO. In conclusion, the Authority expects AO to submit realistic, well planned and reasonable capital expenditure forecast for the future Control Periods.

Further, AO needs to strengthen its planning and designing wing to have the proper link between the CAPEX proposed vis-à-vis the capacity required, considering all the relevant factors such as passenger traffic. Further, the efforts should be made to plan and execute the projects, particularly, the Terminal building on a modular basis, wheresoever required, as per the provisions of Concession Agreement and in the interests of all the stakeholders.

7.6.19. The Authority has examined the AO's comments with respect to the fixed locations inside terminal buildings. It is noted that the area identified for Non-aeronautical activities are based on the scope for commercial exploitation and there are no specific restrictions stipulating that the area allocated for a particular non-aeronautical activity must be at a particular location (except on account of consideration of safety and security). Accordingly, the area used for Non-aeronautical activities cannot be considered as fixed locations.

In the absence of any specific unit area and costs being mentioned in the Concession Agreement, the norms as per the IMG recommendations are the most appropriate basis for the purpose of tariff determination and the same has been considered for the purpose of true-up.

Further, the Authority would like to state that for similar airports such as Trichy, Varanasi, Raipur, Amritsar and Calicut Airport (which is a table-top airport), the Authority had determined Terminal Building ratio of 92:8 or 90:10, depending upon the size, scale and topography of the Airport. This is the uniform approach followed by the Authority since FY 2009-10. Hence, the Terminal Building ratio of 92:8 considered for MIA is appropriate.

The Authority noted the AO's comments on Shared-Till model. As per paragraph 5.2.1.(b)(i) of AERA Guidelines, *"The assets that substantially provide amenities / facilities/ services that are not related to, or not normally provided at an airport, may be excluded from the scope of RAB"*. The demarcation between Aeronautical and Non-aeronautical activities has been clearly defined in the AERA Guidelines. On the same basis, AERA undertakes determination of tariff across all Major Airports.

The Authority has examined the comments of AO regarding the structure of the Terminal Building, its height etc. The Authority is of the view that the ceiling height are part of the overall plan of the terminal building considering various factors, while the height used for commercial activities are based on the specific requirements of those vendors and not based on any other restriction. Further, the area used for commercial activities are leased based on the floor area only and hence the allocation of terminal building area based on the floor area utilized for Non-aeronautical activities is the appropriate basis for allocation of common assets and the related common expenses.

Further, AERA does not agree with the argument of the AO that in the Terminal Building, all the assets should be considered as Aeronautical. If that is so, the AO should forgo the 70% Non-aeronautical revenue, which the AO would be enjoying from the Non-aeronautical assets.

7.6.20. The Authority has noted the comments of the AO on acquisition of land (refer para 7.4.22 in this Tariff Order). Based on the developments on acquisition on land submitted by the AO, the cost of acquisition and other factors, the Authority will determine the return on land, in accordance with its Guidelines (Order No. 42/ 2018-19 dated March 5, 2019 "in the matter of Determination of Fair Rate of Return (FRoR) to be provided on Cost of Land incurred by various Airport Operators in India", at the time of determination of tariff for the next Control Period

7.6.21. The Authority has noted the comments of AAI on Terminal Building ratio. The Authority feels that there should be continued efforts by AO to increase the efficiency in the operation of airports in generating of Non-aeronautical revenue. The Authority therefore, decides to consider the ratio of Terminal building as 92:8 (Aeronautical: Non-aeronautical), in line with the Independent study on *Allocation of assets between Aeronautical and Non-aeronautical assets for Mangaluru International Airport Limited*, the IMG, IATA norms and as followed in other similar airports.

AERA contends that merely accepting the ratios provided by Airport Operator would not bring in efficiencies in the airport operations and further AERA is mandated to consider such factors, as detailed above on IMG recommendations, IATA norms and that followed in other similar airports. This exercise is undertaken by AERA across all Major Airports, during tariff determination.

7.6.22. The Authority has noted the comments of IATA and the response of AO on Terminal Building ratio. The Authority is of the view that Terminal Building is a common asset and hence it has been apportioned in to Aeronautical and Non-aeronautical activities based on an appropriate ratio as per the Independent

Study conducted by the Authority on Allocation of Assets into Aeronautical and Non-aeronautical activities for MIA and as per the IMG norms. The Authority finds the above apportionment of Terminal Building area as appropriate.

7.6.23. The Authority has examined the comments of FIA on conducting an independent study on the efficient capital expenditure in the First Control Period and the response of the AO. In this regard, the Authority believes that the requirement of an independent study on the efficient capital expenditure will depend upon the size, scale, complexity of the Airport. Further, the Authority would like to emphasize that an independent study was conducted in the recent past to study the allocation of assets and efficient capital expenditure for bigger PPP Airports. Furthermore, the Authority has examined in depth the CAPEX proposals submitted by the AO for the First Control Period, sought clarifications on the essentiality and the reasonableness of the proposed CAPEX and has considered only such capital expenditure that are essential from safety/ security/ operational requirements or necessitated by the terms of the Concession Agreement.

However, AERA may commission an independent study, if required, for assessing the efficiency of the capital expenditure for the future Control Periods for MIA.

Also, Clause 24.1, 24.2 and Schedule L of the Concession Agreement defines the Roles and Functions of the Independent Engineer which includes review, inspection, monitoring of the construction works and determining cost of such works/ services and their reasonableness. Thus, the Independent Engineer has been appointed to review the capital projects at MIA in accordance with the above-mentioned terms of the Concession Agreement.

Also, the Authority decides to reduce 1% of the project cost from the ARR / target revenue as re-adjustment in case any particular capital project is not completed/capitalised as per the approved capitalisation schedule

7.6.24. The Authority has noted the comments of FIA and the response of the AO on application of normative guidelines for assessing capital expenditure projects of MIA.

The normative cost was not applied for the projects handed over by AAI to the AO as part of the Concession Agreement, as the Authority felt that applying normative approach on such projects may not be appropriate, as detailed in para no. 7.3.4 A2 (d) and (e) in this Tariff Order and hence it had considered the inflation-adjusted Contract cost, as the basis for deriving the Aero CAPEX costs allowable for such projects. However, the Authority has applied normative cost guidelines, where applicable, while assessing the new Capital Expenditure projects proposed by the AO for the First Control Period for Mangaluru International Airport.

7.6.25. The Authority has reviewed the comments of FIA and the response of AO thereon regarding Fuel Farm facility and provides its views as follows:

- The AO had proposed to develop an integrated Fuel farm facility to consolidate the fuel operations in a single location and provide open access fuel facility operations, as mandated by Clause 19.3 of the Concession Agreement.
- In the background that MIA is a table-top airport and it is at some distance from the city, there is an requirement of having sufficient fuel throughput and considering the expected growth in ATM in the First Control Period, there is a need to develop the Fuel Farm facility.
- The Authority also notes that the AO has awarded contract to the selected vendor for total cost of ₹ 17.14 Crores (refer para no. 7.3.9 B4 (b) of this Tariff Order).

Considering the operational requirement of maintaining fuel throughput and the mandatory requirement under the Concession Agreement, the Authority decides to consider the Fuel Farm facility proposed by the AO. Therefore, the Authority would like to maintain the proposal as considered at the Consultation stage.

7.6.26. The Authority has examined the comments of FIA on the useful life of the Terminal Building and the response of the AO. As per Order No. 35/2017-18 dated 12 January 2018, the Authority has given the option to airport operators to decide the useful life for terminal buildings as either 30 years or 60 years. The AO, based on its assessment, has submitted the useful life for terminal building as 25 years, which the Authority has revised to 30 years, in line with its consideration of useful life of the Terminal Building of other similar airports and as per the requirement of the aforementioned Order No. 35/ 2017-18.

7.6.27. The Authority also notes FIA's comment on imposing 1% or higher re-adjustment of ARR/ Target Revenue on delayed capital additions in the First Control Period. The Authority decides to consider imposing 1% re-adjustment of ARR/ Target Revenue on delayed capital additions in the First Control Period, as also stated in para no. 7.6.14 in this Tariff Order.

7.6.28. The Authority has reviewed the comments from IATA on improvement in CAPEX program governance and on-going monitoring of CAPEX items and the response of the AO. The Authority has examined in depth the CAPEX proposals submitted by the AO for the First Control Period, sought clarification on the essentiality and the reasonableness of the proposed CAPEX and has considered only such capital expenditure that are essential from safety/ security/ operational requirements or necessitated by the terms of the Concession Agreement.

The Authority has drawn the inference from the AERA Guidelines, 2011and the terms of the Concession Agreement for determining the necessary CAPEX for the First Control Period of MIA.

Further, as mentioned earlier, an Independent Engineer has been appointed as per Clause 24.1, 24.2 and Schedule L of the Concession whose responsibilities include review, inspection, monitoring of the construction works and determining cost of such works/ services and their reasonableness.

7.6.29. The Authority notes that the Airport Operator would be eligible to claim GST Input Tax Credits on procurement of certain movable property. The Authority expects that the Airport Operator would properly account for such credits in its submissions in accordance with Chapter V of The Central Goods and Services Tax Act, 2017 at the time of true up of the RAB for the Second Control Period. The Authority may examine the accounting of input tax credits and make necessary adjustments in this regard at the time of determination of tariffs for the Second Control Period.

7.6.30. Based on the above factors, the Authority has determined the revised capital expenditure, depreciation and RAB which it decides to consider for the First Control Period of MIA, which is as follows:

Table 78: Total Aeronautical Capital Expenditure (project wise) decided by the Authority for Mangaluru International Airport for the First Control Period

(₹ Crores)

Reference		Project Group	Description of the Project	Year of Capitalisation		Submitted by MIA (1)	Proposed by the Authority (2)	Difference (3) = (2)-(1)
				Submitted by MIA	Proposed by Authority			
A. Projects initiated in Pre-COD Period and proposed to be executed in First Control Period along with Enabling Capital Addition Projects integral to completion of the mandated projects								
A.	A1	Capital Addition projects	Runways, Taxiway & Apron	2022-23 2022-23	2022-23 2022-23	1.25 126.00	1.25 126.00	- -

Reference		Project Group	Description of the Project	Year of Capitalisation		Submitted by MIA (1)	Proposed by the Authority (2)	Difference (3) = (2)-(1)
				Submitted by MIA	Proposed by Authority			
	A2	initiated by AAI in Pre-Control Period and being executed in First Control Period along with Enabling Capital Projects integral to such mandated projects	**Expansion and Modification of Existing Terminal Building including Enabling Capital Projects integral to completion of Expansion project**					
			Terminal Building expansion including post award PMC	2021-22	2022-23	113.28	109.59	(3.69)
			Plant and machinery items (enabling capital project)					
			Expansion of Baggage Conveyor	2022-23	2022-23	7.86	8.27	0.41
			Substation equipment	2022-23	2022-23	2.03	2.14	0.11
			Lift & Travellator	2022-23	2022-23	1.58	1.53	(0.05)
			PA system	2022-23	2022-23	0.90	0.95	0.05
			Engineering Consultancy	2022-23	2022-23	0.83	0.87	0.04
			VDGS	2022-23	2022-23	1.98	2.08	0.10
			Expansion of Passenger Boarding Bridge	2022-23	2022-23	7.41	7.80	0.39
			Information Technology (IT) works (enabling capital projects)					
			Work related to IT for NITB	2022-23	2022-23	9.86	10.38	0.52
			Facelift work for NITB	2022-23	2022-23	0.16	0.17	0.01
			Aluminium Roof Gutter for NITB	2022-23	2022-23	0.02	0.02	-
			SITC of RC CCTV	2022-23	2022-23	1.21	1.27	0.06
			Flight Information Display System	2022-23	2022-23	1.31	1.38	0.05
			Network & Pen Tablet	2022-23	2022-23	0.01	0.01	-
			Supply of Bullet Proof Helmet	2022-23	2022-23	0.02	0.02	-
			Electrical Materials	2022-23	2022-23	0.71	0.75	0.04
	A3		Roads – widening and strengthening of existing perimeter road	2022-23	2022-23	4.36	4.59	0.23
			Financing Allowance / IDC – AAI initiated Capital Addition Projects			26.72	9.53	(17.19)
			Total – AAI initiated projects including enabling capital addition projects and IDC – A			**307.49**	**288.60**	**(18.89)**
B. New Capital expenditure proposed for the First Control Period								
B.	B1.	New Capital expenditure proposed for the First	**Runways, Taxiway and Apron**					
			Centre-lighting	2023-24	2023-24	90.64	90.64	-
			Construction of new taxiway	2023-24	2023-24	36.47	36.47	-
			Construction of new portion RESA	2023-24	2023-24	7.85	7.85	-

Reference		Project Group	Description of the Project	Year of Capitalisation		Submitted by MIA (1)	Proposed by the Authority (2)	Difference (3) = (2)-(1)
				Submitted by MIA	Proposed by Authority			
		Control Period	Apron improvement works	2022-23 2025-26	2023-24 2025-26	1.62 5.39	1.62 5.27	- (0.12)
			Miscellaneous Airside improvement works	2022-23 2023-24 2024-25 2025-26	2022-23 2023-24 2024-25 2025-26	2.14 2.14 1.39 3.27	1.68 3.64 1.51 0.00	(0.46) 1.50 0.12 (3.27)
	B2.		**Terminal Building**					
			Modification / Expansion of existing Terminal Building	2022-23	-	79.88	-	(79.88)
			Miscellaneous works / interiors / finishes / kerbside of existing Terminal	2022-23 2023-24 2024-25	- - -	6.05 6.05 3.93	- - -	(6.05) (6.05) (3.93)
	B3.		**Cargo assets**					
			Cargo Building	2022-23	2023-24	18.90	18.90	-
			Cargo equipment	2022-23	2023-24	4.45	4.45	-
	B4.		**Fuel Facility**					
			Purchase of assets of existing Oil Marketing Companies (OMC)	2022-23	2022-23	10.00	10.00	-
			Building of new assets for Open Access Fuel Facility operations	2022-23	2023-24	17.83	17.14	(0.69)
	B5.		**Security equipment**					
			Equipment for ARFF – runway mechanical sweeper, rubber removal and other equipment	2022-23 2023-24 2024-25	2022-23 2023-24 2024-25	1.20 1.20 0.78	1.27 1.27 0.82	0.07 0.07 0.04
	B6.		**Plant and Machinery**					
			Trans installation of Navaids	2022-23	2023-24	1.98	2.08	0.10
			Bomb Detection and Disposal Equipment (BDDS)	2022-23 2023-24 2024-25	2022-23 2023-24 2024-25	4.03 4.03 2.62	4.25 4.25 2.76	0.22 0.22 0.14
			Electrical Sub-station equipment	2025-26	2025-26	4.63	4.45	(0.18)
			Triturator	2025-26	-	6.06	-	(6.06)
			Water tank, STP and storage tank, Pump house Building	2025-26	2025-26	5.45	2.64	(2.81)
			Various Other – Miscellaneous items	2022-23 2023-24 2024-25 2025-26	- - - -	4.39 2.49 1.62 3.88	- 0.21 5.36 -	(4.39) (2.28) 3.73 (3.88)
	B7.		**Roads**					

Reference	Project Group	Description of the Project	Year of Capitalisation Submitted by MIA	Year of Capitalisation Proposed by Authority	Submitted by MIA (1)	Proposed by the Authority (2)	Difference (3) = (2)-(1)
		Vehicle Access roadway and allied works	2025-26	-	20.95	-	(20.95)
		Road entry and exit – improvement works	2022-23	2022-23	2.85	3.00	0.15
		Miscellaneous enabling works	2025-26	-	12.96	-	(12.96)
B8.		**Boundary Wall**					
		Construction of property boundary wall of 11 kms	2022-23 2023-24 2024-25	- - -	2.87 2.87 1.86	- - -	(2.87) (2.87) (1.86)
		Operational boundary wall	2025-26	2025-26	2.95	2.29	(0.66)
B9.		**Information Technology Works**					
		IT Infrastructure, AOCC, Command Post and various other systems	2022-23 2023-24 2024-25	2022-23 2023-24 2024-25	3.43 3.43 2.23	2.99 2.99 -	(0.44) (0.44) (2.23)
B10.		**Other Associated Works**					
		Storm water	-	-	-	-	-
		Water disposal and supply	2022-23	2022-23	5.70	5.52	(0.18)
		Airside Security gate	2025-26	2025-26	4.15	1.00	(3.15)
		Rainwater harvesting	2025-26	2025-26	9.53	5.01	(4.52)
		Water tank	-	-	-	-	-
		Miscellaneous works – others	2022-23 2023-24 2024-25 2025-26	- - - -	0.24 0.24 0.16 9.22	- - - -	(0.24) (0.24) (0.16) (9.22)
		Total Project Cost			**428.04**	**251.32**	**(176.72)**
		Add: Cost towards Proportionate Technical Services like PMC & Design, Preliminaries, Insurances / Statutory Approvals, labour cess, Site preparation, Contingencies, Pre-Operatives, etc claimed on the above New Capital Expenditure Projects			75.98	20.16	(55.82)
		Financing Allowance / IDC – New Capital Expenditure Proposed			31.90	17.86	(14.04)
		Total – New Capital Expenditure			**535.92**	**289.34**	**(246.58**

Reference	Project Group	Description of the Project	Year of Capitalisation		Submitted by MIA (1)	Proposed by the Authority (2)	Difference (3) = (2)-(1)
			Submitted by MIA	Proposed by Authority			
		proposed including IDC (B)					
Grand Total – AAI hand-over projects and New Capital Expenditure for the First Control Period (A) + (B)					843.41	577.94	(265.47)
Year-wise Capitalization of Assets is as follows (*₹ Crores*):							
FY 2021-22		FY 2022-23	FY 2023-24		FY 2024-25	FY 2025-26	TOTAL
10.28		321.63	217.10		6.11	22.82	577.94

Note: *As can be seen in the table above, the Aeronautical Capital Expenditure decided by the Authority in the Tariff Order for the First Control Period is ₹ 577.94 Crores (refer Table 78) as against ₹ 561.32 Crores proposed by the Authority at the Consultation stage (refer Table 69). The variance of ₹ 16.62 Crores (₹ 577.94 Crores less ₹ 561.32 Crores) is on account of the following factors:*

- *Addition to Project Cost of New Capex amounting to ₹ 11.56 Crores pertaining to assets such as 1) Airside Miscellaneous works ₹ 2.30 Crores, 2) Substation airside under Plant & machinery for ₹ 2.01 Crores, 3) Miscellaneous works under Plant & machinery for ₹ 5.57 Crores, 4) Airside Security gate for ₹ 0.50 Crores and 5) Information Technology additional works for ₹ 1.18 Crores.*
- *Corresponding increase in PMC cost amounting to ₹ 0.92 Crores and*
- *Corresponding increase in IDC cost amounting to ₹ 4.14 Crores.*

7.6.31. Further, the Authority would like the AO to get the passenger handling capacity of the existing and newly constructed areas detailed in para 1.2.7 of this Tariff Order examined as the total area of the Terminal Building after expansion will be 47,462 sqm. (including basement area), and this may handle more than 3 MPPA, whereas annual capacity has been mentioned as 3 MPPA.

Table 79: Depreciation decided by the Authority for Mangaluru International Airport for the First Control Period

(₹ Crores)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Terminal Buildings	2.52	4.41	6.28	6.28	6.28	**25.77**
Runways/Taxiway/ Apron	1.29	3.63	8.45	11.06	11.19	**35.62**
Building used for ANS activities	0.07	0.07	0.07	0.07	0.07	**0.34**
Cargo Building	-	0.01	0.37	0.72	0.72	**1.82**
Cargo Equipment	-	0.00	0.16	0.31	0.31	**0.78**
Boundary wall	0.37	0.37	0.36	0.37	0.53	**2.00**
Software	0.15	0.15	0.11	-	-	**0.40**
IT equipment – Others	0.11	2.65	5.33	5.53	2.99	**16.60**
IT equipment – FIDS	-	0.08	0.16	0.16	0.16	**0.56**
IT equipment – AOCC	-	0.16	0.49	0.66	0.66	**1.96**
Security equipment	0.00	0.05	0.14	0.22	0.25	**0.67**
Plant and Machinery	4.28	5.08	5.99	6.37	6.39	**28.12**
Other buildings	0.00	0.11	0.21	0.21	0.32	**0.85**
Access road	0.01	0.42	0.82	0.82	0.82	**2.88**
Fuel facility						

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Fuel facility Admin building	-	-	0.08	0.17	0.17	**0.42**
Roads	-	0.09	0.34	0.51	0.51	**1.45**
P&M and equipment	0.01	0.33	1.00	1.36	1.36	**4.06**
Furniture & Fixtures	-	0.00	0.00	0.00	0.00	**0.01**
Vehicles	-	0.01	0.01	0.01	0.01	**0.04**
Furniture & fixtures	0.19	0.19	0.18	0.17	0.15	**0.87**
Vehicles	1.44	1.43	1.28	0.80	0.76	**5.71**
Office equipment	0.02	0.00	0.00	0.00	0.00	**0.03**
TOTAL	**10.45**	**19.23**	**31.84**	**35.80**	**33.65**	**130.96**

Note: *As can be seen in the table above, the Depreciation decided by the Authority in the Tariff Order for the First Control Period is ₹ 130.96 Crores (refer Table 79), as against ₹ 126.02 Crores proposed by the Authority at the Consultation stage (refer Table 74). The variance of ₹ 4.94 Crores (₹ 130.96 Crores less ₹ 126.02 Crores) is on account of the capital additions of ₹ 11.56 Crores considered by the Authority based on its view of stakeholders' comments, as detailed in the Notes to Table 78.*

Table 80: RAB decided by the Authority for Mangaluru International Airport for the First Control Period

(₹ Crores)

Particulars	Ref.	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Opening RAB (1)	Table 31	123.67	123.5	425.90	611.16	581.47	
Capital Additions (2)	Table 78	10.28	321.63	217.10	6.11	22.82	**577.94**
Disposal/Transfers (3)	-	-	-	-	-	-	
Depreciation (4)	Table 79	10.45	19.23	31.84	35.80	33.65	**130.96**
Closing RAB (5) = [(1) +(2) – (3) – (4)]		123.50	425.90	611.16	581.47	570.64	
Average RAB = [(1) + (5)]/2		**123.59**	**274.7**	**518.53**	**596.32**	**576.06**	

7.7. Authority's decisions regarding Capital Expenditure (CAPEX), Depreciation and Regulatory Asset Base for the First Control Period

Based on the material before it and based on its analysis, the Authority decides the following with regard to Capital Expenditure (CAPEX), Depreciation and Regulatory Asset Base for the First Control Period:

7.7.1. To consider the Terminal Building ratio of 92:8 as mentioned in para no 7.6.21

7.7.2. To allow only IDC during the First Control Period and not to allow the Financing Allowance as mentioned in Paras 7.3.5 and 7.3.12.

7.7.3. To adopt the capitalization of Aeronautical Expenditure for the First Control Period in accordance with Table 78.

7.7.4. To true up the Aeronautical Capital expenditure on actuals at the time of determination of tariff for

Second Control Period.

7.7.5. To reduce (adjust) 1% of the uncapitalized project cost from the ARR in case any particular capital project is not completed /as per the approved schedule, as mentioned in para 7.6.14.

7.7.6. To adopt Aeronautical Depreciation as per Table 79 for the First Control Period.

7.7.7. To true up the Depreciation of the First Control period based on the actual asset additions and actual date of capitalization during the tariff determination of the Second Control Period.

7.7.8. To consider average RAB for the First Control Period for Mangaluru International Airport as per Table 80.

7.7.9. To consider GST on RAB/ CWIP and Stamp Duty/ Registration charges on actual incurrence basis, as detailed in para 7.6.16 and 7.6.17 respectively.

7.7.10. To examine the accounting of input tax credits in accordance with Chapter V of The Central Goods and Services Tax Act, 2017 and make necessary adjustments at the time of determination of tariffs for the Second Control Period as detailed in para 7.6.29.

7.7.11. To true up the RAB based on actuals at the time of tariff determination for the Second Control period.

8. FAIR RATE OF RETURN (FRoR) FOR THE FIRST CONTROL PERIOD

8.1. Mangaluru International Airport's submission of FRoR for the First Control Period

Cost of equity

8.1.1. The Airport Operator had engaged the services of PricewaterhouseCoopers Services LLP to carry out a study on evaluating the applicable Cost of equity. Based on this study, the Airport Operator has considered the Cost of equity as 17.49%.

8.1.2. The Airport Operator submitted the following assumptions for estimating the Cost of equity:

- Risk-free rate was calculated by taking 10-year average yield on a daily basis, for 10-year Government of India securities
- Asset beta was derived based on five-year weekly regressed beta computed for comparable listed airports (weighted), and adjusted for appropriate leverage to determine the levered Equity beta
- Although various debt-equity (leverage or gearing) ratios had been analysed, the assumed leverage for computation of Cost of equity was the normative approach and standard adopted in earlier tariff determination exercises of the Authority, i.e., debt-equity ratio of 48:52. For such leverage ratio, the Equity beta was computed as 1.40
- Rate of market return was estimated by using average of last 40 years' data of BSE Sensex, and last 30 years' data of Nifty 50, computed using Geometric Mean. The average market return was 14.63%, accordingly, Equity risk premium over risk-free rate was computed as 7.06%

Table 81: Cost of equity computation as per Airport Operator's submission

Parameter	Value
Risk-free rate	7.57%
Market return	14.63%
Debt-equity ratio (leverage)	48:52
Equity beta	1.40
Cost of equity *(rounded off)*	17.49%

Cost of debt

8.1.3. The Airport Operator submitted that Cost of debt assumed for the First Control Period was 12%. The audited financial statements of Mangaluru International Airport Limited for the year ended March 31, 2021 disclosed that it has issued long-term secured, redeemable, non-convertible debentures to its shareholder group company, Adani Airport Holdings Limited in order to raise funds at interest rate of 12% p.a. Further, it had also raised inter-corporate deposit from the same shareholder group company at interest rate of 12% p.a. It was noted that neither Mangaluru Airport nor its current group lending shareholder, Adani Airport Holdings Limited has obtained credit rating from any external rating agency.

8.1.4. Subsequently, Adani Airport Holdings Limited announced on May 9, 2022 that it had raised a 3-year External Commercial Borrowing facility of $ 250 million from a consortium of Standard Chartered Bank and Barclays Bank PLC. The all-in borrowing cost of this facility is 12.10% p.a., the breakdown of which is provided in the table below:

Table 82: Breakdown of all-in External Commercial Borrowing Cost of Adani Airport Holdings Limited

Particulars	Value
Secured Overnight Financing Rate (SOFR) reference	2.28%
Spread over SOFR	4.25%
Withholding tax gross up (at 5% of SOFR + spread)	0.33%

Particulars	Value
One-year forward Dollar-Rupee hedge cost (mandatory as per RBI guidelines)	4.51%
Upfront fees (summarized)	0.73%
All-in Cost of External Commercial Borrowing	**12.10%**

Source: Airport Operator data

8.1.5. It was mentioned that a part of the proceeds raised from this facility are being on-lent to Mangaluru International Airport Limited for the purpose of financing its capital expenditure at the rate of 12.25% p.a. For the purposes of computation of weighted average cost of capital, cost of debt had been assumed as 12% p.a.

Weighted average cost of capital

8.1.6. Based on the Cost of equity, Cost of debt and gearing ratio, the Airport Operator submitted the following FRoR for the First Control Period:

Table 83: Weighted average cost of capital computation submitted by Mangaluru Airport for FRoR

Parameter	Value
Cost of equity	17.49%
Cost of debt	12.00%
Weighted average gearing of equity	52.00%
Weighted average gearing of debt	48.00%
Weighted average Cost of equity	14.85%
rounded off to	**14.90%**

8.2. Authority's Examination of FRoR for the First Control Period at Consultation stage.

Cost of equity

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

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

Table 84: Computation of Cost of equity as per IIM Bangalore independent study reports

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

8.2.3. The above independent study reports had used the Capital Asset Pricing Model (CAPM) and a notional gearing (Debt: Equity) ratio of 48:52 to determine the levered Equity beta and accordingly, derived the Cost of equity.

8.2.4. Based on the above reports, the Authority proposed the Cost of equity of 15.18% for Mangaluru International Airport for the First Control Period.

Cost of debt

8.2.5. The Authority noted that Mangaluru International Airport had considered Cost of debt at 12% for the First Control Period based on its current borrowing rate from a related party and based on Adani Airport Holdings Limited's all-in borrowing cost of 12.10%.

8.2.6. Since the Airport and its holding company had not obtained any credit rating from an external rating agency, there is no direct comparable entity or market data for determining cost of debt for MIA.

8.2.7. However, the Authority recommended that the Airport bring in further efficiencies in its cost of borrowing by leveraging its parent entity's financial strength in order to reduce the interest rates. This suggestion is also in keeping with the spirit of summarized on whereby it is expected that the financial strength of PPP airports is maintained at an optimal level and their cost of capital is within reasonably allowable limits.

8.2.8. Further, the Authority had also noted that average bank lending rate of public sector banks and scheduled commercial banks as per the Reserve Bank of India's publication of March 2022 had been in the range of 8.22% to 8.74% p.a.[3] The Authority had also noted the cost of debt of other five PPP airports viz., DIAL, MIAL, GHIAL, BIAL and CIAL, which ranged from 7.80% to 10.30% (the average cost of debt worked out to 8.96%).

8.2.9. Accordingly, the Authority had considered the Cost of Debt of 9% for the computation of Fair Rate of Return. The Authority proposed to true up the cost of debt, based on the efficiency and reasonableness for the First Control Period.

Fair Rate of Return

8.2.10. Based on the above, the Authority proposed to consider the following FRoR for the First Control Period for Mangaluru Airport:

Table 85: Fair Rate of Return proposed by the Authority for the First Control Period at Consultation stage

Parameter	Value
Cost of equity	15.18%
Cost of debt	9.00%
Weighted average gearing of equity	52.00%
Weighted average gearing of debt	48.00%
Fair Rate of Return	**12.21%**

8.3. Stakeholders' comments on Fair Rate of Return (FRoR) for the First Control Period

8.3.1. During the stakeholders' consultation process, the Authority has received comments/ views from various stakeholders in response to the proposals of the Authority in the Consultation Paper no. 07/2022-23 with respect to Fair Rate of Return (FRoR) for The First Control Period. The comments by stakeholders are presented below:

AO's comments on Fair Rate of Return (FRoR) for the First Control Period

8.3.2. AO has commented on AERA's views relating to Cost of Equity as stated in para 8.2.1 to 8.2.4 in this Tariff Order, which is as follows:

[3] https://www.rbi.org.in/rbi-sourcefiles/lendingrate/LendingRates.aspx

As per AERA Guidelines. AERA is expected to estimate cost by using CAPM of equity for each AO subject to consideration of such factor as the Authority may deem fit. However, in the instant CP, AERA has not estimated the cost of equity for MIA. Rather it has applied the average cost of equity estimated for other Airports. This is not in line with the AERA Guidelines.

Extract from the AERA Guidelines

"Cost of Equity • The Authority shall estimate cost of equity, for a Control Period, by using the Capital Asset Pricing Model (CAPM) for each Airport Operator, subject to the consideration of such factors as the Authority may deem fit."

Mangaluru Airport had engaged the services of Pricewaterhouse Coopers Services LLP (PwC) to carry out a study on evaluating the applicable Cost of equity. Based on this study, the AO considered the Cost of equity (CoE) as 17.49%. Mangaluru, being a relatively small international airport is more susceptible to various risks and external shocks than larger airports, as given below:

***Construction Risk:** Delays in completion of expected capital expenditure (both CWIP and capex) may adversely impact revenues.*

***Traffic Risk:** Volatility in traffic is expected to be higher than the pre-pandemic years. It is expected to take years for pre-pandemic trends in passenger traffic and ATM to return. This may also adversely impact revenues.*

***Competition Risk:** There is a potential risk of loss of business to competing airports. In IXE case, the new Kannur Airport is just 168 kilometres away. Thus, there is a risk of diversion of traffic away from IXE, Mangaluru. This is likely to impact revenues.*

***Event Risk:** Unforeseen events such as the Covid-19 pandemic severely impact the cash flows of IXE, Mangaluru. The Covid-19 pandemic is expected to be a continuous risk as discoveries and research regarding new strains of the virus have adversely impacted various economic forecasts as well as confidence levels in the market.*

The methodology used to compute the Cost of Equity of Mangaluru Airport is the Capital Asset Pricing Model (CAPM). The three components to be estimated in the CAPM are (a) the beta of the Mangaluru Airport, (b) the risk-free rate and (c) the equity risk premium. Following assumptions related to above three components which appropriately capture the risks of Mangaluru Airport have been used to calculate the cost of equity:

Identification of comparable airports: Various airports were identified which are listed on stock exchanges across the globe or have regulated betas. A set of airports were removed from the list because of either lack of data for the required time period or unreliable data.

Determination of equity and asset beta for the selected airports: Beta is indicative of the systematic risk of the project. In order to calculate this, the analysis regresses the movement of the stock prices (of respective airports) on the movement of an index representing the market portfolio. The beta values pertaining to this regression are called the 'equity' betas. Once the equity beta is calculated, the analysis 'un-levers' the beta (i.e., purges off the effects of the capital structure) by using the Hamada equation. Unlevered beta is called the 'asset' beta for the respective airports.

Computing the proximity scores for each airport and asset beta of Mangaluru airport: Once the asset betas have been computed, quantifiable assessment has been undertaken for identified airports to determine the proximity/ relevance scores. All the airports have been compared with Mangaluru airport based on the following airport characteristics:

- *Regulatory Environment*

- *Operational Structure*
- *Payment Structure*
- *Ownership Structure*

Numeric values of 1 to 3 have been assigned to each factor wherein lower the score, more comparable is the airport to the Mangaluru Airport. Furthermore, an inverse of the proximity scores are used to calculate the 'asset' beta the Mangaluru Airport

Re-lever the asset beta to obtain the equity beta: *The asset beta of the Mangaluru Airport is re-levered using the Hamada equation to obtain the equity (re-levered) beta. As the re-levered beta is a function of D/E or gearing ratio, the beta value changes whenever the D/E or gearing ratio changes. A gearing ratio of 48:52 is considered. This has been derived from the gearing ratios set by the regulators at different comparable international airports.*

Risk Free Rate: *An average of daily yield for 10 years of the 10-year Government of India security has been considered as the risk-free rate.*

Equity Risk Premium: *To avoid any bias, an average of equity risk premiums computed by a list of studies and standard market indices are taken for the analysis. The list of the same is provided as follows:*

- *Prof Damodaran's estimate of ERP as of January 2021 based on ratings of sovereign bonds.*
- *Forward looking ERP of India as estimated in a study conducted in April 2019 by Grant Thornton*
- *ERP published by Incwert Valuation Chronicles in June 2020*
- *ERP computed based on Nifty 50*
- *ERP computed based on Sensex*

As is clear from above, a well-defined systematic approach which appropriately captures the risks specific to Mangaluru Airport has been used for computing reasonable rate of CoE for Mangaluru airport.

Since a smaller airport is expected to get more impacted by risks than larger airports, it becomes all the more important to use scientific and rational approach to capture all the risk factors and award commensurate CoE to AO.

Further we would like to point that IIM B study considered 12 airports, out of which only two airports belong to developing countries. Airports in developing markets are exposed to each of these risks differently when compared to developed markets. Following are the risks which the airports in developing market have to face:

Demand Risk *– Apart from the economic conditions which affect demand, demand for air travel is also highly elastic with respect to air fare in India and other developing economies. Any increase or decrease in air fare due to fuel prices or other input costs results in relatively higher traffic volatility.*

Counterparty Risk *– Airports in developing countries typically derive a major part of their revenue from aeronautical services, as against the developed markers where non-aeronautical revenue is higher.*

Regulatory Risk *– Regulations in developing countries are still evolving and are not stable.*

Asset beta of airports in developing countries is consistently higher than the asset beta of airports in developed economies. This can be demonstrated by the data provided in the IIM B study in which the asset beta for Sydney airport is 0.40 whereas the asset beta for Airport of Thailand is 0.86. This shows the quantum of variation in risk perception between developed and developing countries.

Study done by PWC includes airports from both developed economies like France, Spain and Switzerland and developing economies like Mexico, Malaysia, Thailand. The asset betas of various airports as per study are given below:

S.No	Airport Operator	5-year asset beta on 5 year average DER	5-year asset beta on latest DER
1.	Sydney Airport Holdings Private Limited	0.692	0.719
2.	Auckland International Airport Limited	1.030	1.052
3.	Flughafen Zurich	0.865	0.838
4.	Groupe Aeroports De Paris	0.922	0.922
5.	Aena	0.102	0.121
6.	Asur (Aeroporte Del Sureste)	1.338	1.340
7.	Kobenhavns Lufthavne	0.423	0.416
8.	Grupo Aeroportuario Del Centro Norte S.A.B. De C.V. Adr	0.950	1.020
9.	Grupo Aeroportuario Del Pacifico, S.A.B. De C.V	1.430	1.428
10.	Aeroporto Guglielmo Marconi Di Bologna S.P.A	0.642	0.649
11.	Fraport Ag	0.686	0.669
12.	Airport Of Thailand Public Limited Company	0.984	1.002
13.	Malaysia Airport Holdings Berhad	0.848	0.893
14.	Flughafen Wien Ag	0.527	0.610
15.	Gruppo Toscana Aeroporti	0.457	0.455

As is evident from table above, asset betas of airports in Mexico like Grupo Aeroportuario Del Centro Norte, Grupo Aeroportuario Del Pacifico, in Thailand like Airport of Thailand have asset betas of more than 1.

Further, we would like to give reference to para 15.6.2 of the Cochin Airport's Second Control Period Tariff Order No.7/ 2017-18 wherein Authority has taken the stance that newer airports which have higher risks need to be ***adequately compensated by higher cost of equity and one size does not fit all.***

The same point is again acknowledged by the Authority in Tariff Order No 08/2021-22 for CIAL for the Third Control Period.

We hereby request AERA to accept the Cost of Equity as submitted by MIA in the MYTP supported by an in-depth study conducted by an independent consultant PwC as per CAPM methodology.

8.3.3. AO has commented on AERA's views relating to Cost of Debt as stated in para 8.2.5 to 8.2.9 in this Tariff Order, which is as follows:

MIA has considered CoD at 12% for the FCP based on its current borrowing rate from Adani Airport Holdings Limited (AAHL) which in turn has availed borrowing from global institutions like Standard Chartered Bank and Barclays Bank PLC.

However, the authority has proposed cost of borrowing to be considered at 9% p.a. being the average of other five PPP airports viz. DIAL, MIAL (Mumbai), GHIAL, BIAL and CIAL (ranges from 7.80% to 10.30%)

It is to be noted that tariff orders of above-mentioned PPP airports were issued during the period from December 2020 to August 2021. The change in the global and ***domestic interest rates in the said period is provided in the following paragraphs.:***

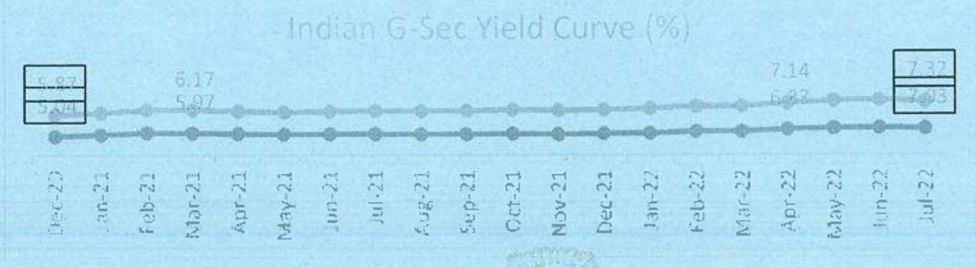
Global Increase in Interest Rates:

"Given the changing economic scenarios across the globe the central banks of the countries have been increasing their benchmark rates. Below chart details 10 years US Treasury movement, where it is evident that the benchmark rates have been increasing since December 2020 (~1.74%) leading to increase credit spreads and cost of the borrowing globally".

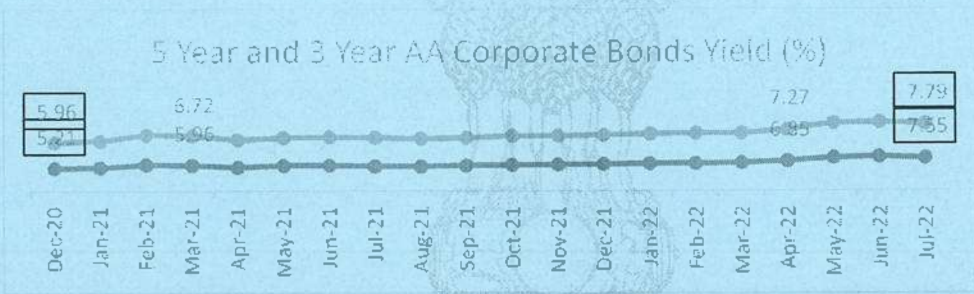
Secured Overnight Financing Rate (SOFR), *has also increased materially (~2.81%) in the said period:*

Increase in Domestic Interest Rates in India:

"Since May-2022, the Reserve Bank of India has increased Repo Rate by 1.40% leading to cost of domestic borrowing becoming dearer in India. The chart below depicts increasing trend in 10 year (+1.45%) and 5 year (1.98%) Indian government securities yields".



The chart below depicts increasing trend in 5 year (+1.87%) and 3 year (2.34%) Indian government securities yields:



Increase in MCLR of Indian Bank :-

"3 Year MCLR of both private sector banks and PSU Bank have increased in the range of 50 to 100 bps points from Oct-21 to July-22. Also, in past few quarters RBI Policy statement indicates that lower interest era is ended. All Bank Rupee Borrowing is linked to MCLR plus Spread based on Credit Rating and Internal Assessment of respective clients."

Rationale of Cost of Debt (CoD) at MIA:

"Considering the current profile of operation and outlook, rating of MIA at maximum can be in BBB Category. Interest rate by lenders is fixed on the risk profile, cashflow generating capacity, other parameters including credit rating both internal (by lenders) and by rating agencies."

Option of raising funds at MIA was not possible without Corporate Guarantee support from Adani Group. Borrowing with Corporate Guarantee of Adani Group in turn amounts to Borrowing at Holding Company level.

We would also like to highlight the fact that the borrowing costs for Government owned Entity and Private Sectors entity are different. Lenders are more comfortable in lending to Government entity since repayment is backed by sovereign guarantee (which carries highest Rating). Whereas in case of private sectors, lending comfort is driven by Industry outlook, cashflow generating capabilities, external and internal rating

The linking of CoD with weighted average lending rate of public sector banks and commercial banks as given in the CP (the trend of which has also changed in June 2022 publication as per RBI website and it is now on increasing trend) is not appropriate because of the following reasons:-

- *Weighted Average Rate means average rate across Rating grades (AAA to BB) and loan duration. It ignores basic premise of lending rate which is based on external rating and internal rating and* *duration of specific loan.*

- *Major portion of borrowings by PSU Bank is to State and Central Government Companies and Departments which carries lower interest considering that those are considered as Sovereign rating.*
- *The interest rate for lending for priority sectors (which constitutes Agriculture and other Areas) is a concessional rate under various scheme of State and Central Government.*
- *With inclusion of all the above, the average rates become lower. Comparing the said average with a private corporate borrowing rate will not be appropriate.*

To have efficiencies in terms of quantum, maturities, and interest rates, borrowing at AAHL was availed in the form of External Commercial Borrowings for capex requirement of various Airports.

Further AAHL combining with Airport SPVs is domestically rated "A+/stable" by India Ratings, which at MIA level will be BBB or below

The transition of the Airport from AAI to MIA happened during the COVID impacted period. This has negatively affected the revenue and cash flow of MIA and its credit worthiness.

We believe that during the FCP, MIA will be able to demonstrate competitive advantage of private sector in the operation of Airport which in turn will be reflected in the borrowing cost going forward. Keeping this in mind, at present we have locked up rates of borrowing for period of 3 years only to enable us to take advantage of reduced rate of interest going forward with synergy of operations.

Hence, we request the Authority, to consider the CoD @12% based on actual borrowings from a third party as submitted by MIA.

8.3.4. AO has commented on AERA's views relating to Fair Rate of Return (FRoR) as stated in para 8.2.10 in this Tariff Order, which is as follows:

The Authority, based on reduced CoE, reduced CoD and notional debt to equity (gearing) ratio of 48:52 has proposed to consider FRoR of 12.21%. Apart from our comments on CoE and CoD already provided here in above, we would like to submit the following:

As per clause no 4.3.3 of the CP, the Authority has allowed FRoR of 14% to AAI for true up purpose and also allowed FRoR of 14% to AO for true up of 5 months from COD to March-2021, as no debt was raised by AAI or AO during the relevant period

Normally any private operator expects a higher FRoR than any Government Entity, as the CoD and expectation of return on equity is lower in case of Government Entity

Because of the methodology proposed by AERA in the CP, the FRoR for the FCP proposed by AERA is substantially lower at 12.21% as against 14.90% claimed by the AO

We would request the Authority to consider our comments on CoE and CoD. We would also request the Authority to clarify whether the notional debt:equity ratio of 48:52 will be trued-up during the tariff determination of the next control period, based on actual gearing ratio.

Other Stakeholder's comments on Fair Rate of Return (FRoR) for The First Control Period

8.3.5. FIA has commented the following:

<u>Para 8.2.10 & 8.3 in Consultation Paper No.7/ 2022-23:</u>

"AERA has considered a FRoR of 12.21%, which is net of income tax return to the airport operator, for the First Control Period. However, while such fixed/assured return favors the service provider/airport operators, which creates an imbalance against the airlines, which are already suffering from huge losses

and bear the adverse financial impact through higher tariffs. Due to such fixed/assured returns, Airport Operators have no incentive to look for productivity improvement or ways of increasing efficiencies, take steps to reduce costs as they are fully covered for all costs plus their hefty returns. Such a scenario breeds inefficiencies and higher costs, which are ultimately borne by airlines. In view of above, in the present scenario any assured return on investment to any services providers like MIA, in excess of three (3) % (including those on past orders), i.e., being at par with bank fixed deposits (i.e., return on investment after the income tax), will be onerous for the airlines. Without prejudice to the above, in case the AERA is unable to accept our recommendation mentioned above, the AERA is requested to conduct an independent study for determination of FRoR to be provided to Airport operator. Such independent study can be exercised by the powers conferred under the AERA Act and in line with studies being conducted by AERA in case of certain major airport operators."

8.3.6. DIAL has commented the following:

Cost of Equity:

"AERA considered cost of Equity as average of cost of equity of other Five PPP Airports viz., DIAL, MIAL, GHIAL, BIAL and CIAL. This approach of AERA is contrary to the Tariff determination guidelines which suggest that AERA shall estimate cost of equity based on the CAPM for each Airport Operator, subject to consideration of the factors as the Authority may deem fit. We suggest the Regulator to conduct a specific study for the Airport as each Airport has specific risk due to competition, catchment area and demography of passenger, connectivity, quantum of passengers etc."

Cost of Debt:

"AERA considered cost of debt of Mangaluru Airport as average of cost of debt of other Five PPP Airports viz., DIAL, MIAL, GHIAL, BIAL and CIAL. This approach of AERA is contrary to the Tariff determination guidelines which suggest that AERA shall consider forecast for future cost of i) debt proposed to be raised during the Control Period or ii) such debt which may be subject to a floating rate of interest subject to the Authority being assured of the reasonableness of such costs, based on a review including of its source, procedure and methods to be used for raising such debt. We are in agreement with Mangaluru Airport that each Airport has specific risk and based on respective risk cost of debt vary."

8.3.7. APAO has commented the following:

Cost of Debt:

"MIA has taken debt from group company Adani Airport Holdings Limited (AAHL) which in turn has availed borrowing from global institutions. Debt was availed by holding company AAHL at rate of 12% which is market driven rate as per risk perceived by investors of airport business of Adani Group. We believe that smaller airports like Mangalore cannot raise debt on their own as no investors will be willing to take such a risk. It is an innovative and cost-efficient measure to take consolidated debt at holding company level instead of obtaining debt at single Airport level which will be costly and lack economies of scale.

AERA has proposed cost of borrowing to be considered at 9% p.a. being the average of other five PPP airports viz. DIAL, MIAL (Mumbai), GHIAL, BIAL and CIAL (ranges from 7.80% to10.30%). This approach is erroneous and penalizing Mangaluru airport and the same will result in MIA generating returns below its cost of capital and a loss-making proposition, which is not the intent of AERA guidelines, NCAP, and against vision of GOI to incentivize the private investments in the airport sector.

We earnestly request Authority to consider 12% as cost of debt for the 1st control period and true up of the same in the subsequent control period."

Cost of Equity:

"In this regard it may be pertinent to mention that to attract investors in the airport development it is essential to accord an optimal rate of return for equity investments. The Ministry of Civil Aviation had appointed SBI-CAPS to conduct a study in order to arrive at an optimal rate of return on equity to cover the risks of an investor. The results of the study indicated that the rate of return for the airport operator considering all risks should be in the range of 18.5% to 20.5%. However, the Authority considered return on equity at 15.18% for MIA based on average of cost of equity allowed by AERA for 5 PPP airports which is far less than the assessment done by the Ministry through SBICAPS. Therefore, it is suggested that the airport operators be accorded adequate return, in this regard Authority should allow the Return on Equity requested by the respective airport operators of 17.50% which is lesser than the assessment of SBI CAPS. Further, IIM B while evaluating beta for return on equity for PPP airports has majorly considered developed countries. In order to arrive at a true reflection of risk the Authority should have used beta of developing countries similar to India."

8.4. AO's responses to stakeholders' comments on Fair Rate of Return (FRoR) for the First Control Period

8.4.1. AO has responded to FIA's comments as under:

Para 8.2.10 & 8.3 in Consultation Paper No.7/ 2022-23:

"As per AERA methodology, return on RAB is one of important building blocks for tariff determination. As claimed by FIA, this is not fixed or assured return. As per AERA guidelines, AERA must determine the Fair Rate of Return (FRoR) for a Control Period as its estimate of the weighted average cost of capital for an Airport Operator. Any business is viable only if it generates adequate return equivalent to its cost of capital as it helps to repay its obligations and given returns to shareholders commensurate to the risks involved in the project As far as issue of airport charges leading to higher costs for airlines is concerned, we would like to state that the airport charges form 6-8% of the total operational cost of Airlines (based on the study of annual reports/financials available in public domain of listed Indian airlines such as Indigo, SpiceJet etc.). Hence, contribution of Airport Charges to the Airline cost structure is very limited and of lower significance as compared to other higher-impact costs such as fuel, aircraft leases, aircraft maintenance costs, salaries etc. As per AERA guidelines, FRoR has to be computed using cost of equity which is to be determined using the CAPM method and cost of debt as per actuals for airport operator. FRoR has no linkage with fixed deposit rates. Linking it to the rate of interest on FD is devoid of any merits With respect to issue of independent study, we would like to state that MIA has already done an independent study for Mangaluru airport which has determined cost of equity of 17.49%. We request Authority to use the same for calculation of FRoR."

8.4.2. AO has responded to DIAL's and APAO's comments as under:

Refer detailed comments of AO on Cost of Equity and Cost of Debt given in Para No. 8.3.2 and 8.3.3 in this Tariff Order.

8.5. Authority's analysis on Stakeholders' comments regarding Fair Rate of Return (FRoR) for the First Control Period

8.5.1. The Authority has examined the comments of AO and the methodology of computation of Cost of Equity employed by its Consultant.

a. The Authority believes that the Cost of Equity for the purpose of determination of FRoR has to be fairly consistent across PPP airports so that there is uniformity of evaluation of their inherent financial risk, and compensation for the same in the form of return on RAB.

b. Determination of Cost of Equity of Mangaluru International Airport as an individual entity, based on its intrinsic traffic and financial factors does not adequately justify the financial and operational strength and reputation of Adani Enterprises Limited, which is its ultimate shareholding entity. In this regard, Mangaluru International Airport is comparable to the owners of other PPP airports which have been used as reference point for computation of Cost of Equity.

c. Further, the Authority expects AO to bring in necessary efficiencies in the operational and financial management of the concerned airport, in line with the other PPP airports.

d. The Authority is of the view that the studies sponsored by the respective Airport Operators, including the one by MIA, always have an inherent conflict of interest. Thus, these studies have to be undertaken by an independent agency. In this context, the study conducted by IIM- Bangaluru, engaged by AERA for determining Cost of equity for representative airports would be the basis of determining FRoR since the reputation of the organisation and its independence vis-à-vis private airport operators is incontrovertible.

e. While the Authority has noted the various risks listed out by the Airport Operator, the Authority does not agree with this submission of the AO. It is also to be noted that Airport Operators in India have certain inherent advantages and protections built into the tariff determination process and airport management, some of which are highlighted below:

- The tariff determination methodology incorporates adequate return on airport operator's gross fixed assets investment, as well as O&M expenses and other building blocks in setting tariff.
- The tariff determination mechanism also ensures the true up of all the building blocks on actual basis in the tariff determination process.
- There is a well-documented, stable and publicly notified regulatory regime for tariff determination and the proceedings are conducted in a transparent manner in compliance with AERA Act and other relevant guidelines.
- The Government of India, through the Ministry of Civil Aviation and various regulatory bodies, provides adequate support and guidance on all operational, safety, connectivity and all other stakeholder related matters.
- Similarly, the relevant State Governments help the AO by the way of allotment of land on concessional rates in many of the cases and take responsibility for connectivity to the airports.

f. The FRoR has to be computed in a consistent manner taking into account long-term business and financial risk parameters, which are reasonably applicable to the industry as a whole. It would not be appropriate for short-term factors such as Covid-19 pandemic, or idiosyncratic factors such as spike in capital expenditure to influence the computation of components of FRoR. It would also not be prudent to prejudge future risk probabilities arising from competitive dynamics, and to incorporate these into the FRoR computation.

g. In view of the above, the Authority does not see any reason to revise the Cost of Equity determined for Mangaluru International Airport.

8.5.2. The Authority has noted the comments of AO regarding the Cost of Debt.

a. The Authority reiterates that Mangaluru International Airport is bound to avail the synergies and benefits owed to it by its strong shareholding and balance sheet support from its parent companies and thereby work towards bringing down the cost of debt to the same levels as other PPP airports.

b. The Authority has considered a reasonable cost of borrowing of 9%, above the prevailing lending rate of banks. It would not be possible to comment on the future trends of interest rate movements at this time.

c. Further, as the traffic, Aeronautical and Non-aeronautical revenue improve and the capital expenditure projects, as approved by the Authority are completed and begin to yield benefits, it is expected the debt profile of Mangaluru International Airport would improve and its inherent financial risk, as reflected in the Cost of debt would reduce to the levels of other PPP airports.

8.5.3. Based on the observations regarding Cost of Equity and Cost of Debt provided earlier, the Authority proposes to retain the FRoR for the FCP at 12.21%.

a. Also, as explained in the para no. 8.5.1 (d) of this Tariff Order, the Authority is of the view that the studies sponsored by the respective Airport Operators, including the one by MIA, always have an inherent conflict of interest and the same have to be undertaken by an independent and reputed agency.

b. The Authority believes that PPP airport has scope of bringing in better efficiencies in financial and operational management of an airport, which would reflect in its overall cost of operations and lower Cost of equity.

8.5.4. The Authority has noted MIA's comments regarding gearing and would like to reiterate that FRoR is being computed based on cost of equity and cost of debt. It had determined cost of equity based on the IIM Bangalore Independent study reports for the other PPP airports, whereas the cost of debt was computed after considering the average bank lending rate of public sector banks and scheduled commercial banks as per the Reserve Bank of India's publication of June 2022 and the cost of debt of other five PPP airports viz., DIAL, MIAL, GHIAL, BIAL and CIAL. Since the debt equity mix had been decided by the Authority considering the efficient capital structure and the interest of all the stakeholders, the notional gearing ratio of 48:52 will not be trued up during the tariff determination for the next Control Period.

8.5.5. The Authority has examined the comments of FIA and the response of the AO on the FRoR being allowed to the AO and has the following views:

a. With respect to FIA's suggestions to limit the FRoR in order to avoid burdening the airlines, who are already stressed due to the impact of COVID-19, the Authority is of the view that an airport is a long-term asset and in such long-term projects, the investors desire a stable return on equity over the project life cycle. Further, the Authority would like to emphasize that the pre-determined return on investments is part of the regulated business such as Airports.

b. Also, the Authority does not find it practical or fair to cap the Fair Rate of Return and compare it with the bank deposit rates. The bank deposit rates and commercial lending rates are two different things altogether. In the same way, AERA does not agree with the high return on equity claimed by the Airport Operators. Thus, AERA takes a balanced view in the interest of all stakeholders in the Aviation sector.

c. The Authority has noted FIA's comments on conducting an independent study for determination of FRoR for the AO and would like to state that the Authority had commissioned independent studies for the evaluation of cost of capital separately, in case of each PPP Airport, namely DIAL, MIAL, GHIAL, BIAL and CIAL through a premier institute, namely IIM Bangalore and had used the study reports as a basis, to the extent applicable and relevant, to ascertain the Cost of equity of Mangaluru International Airport for the First Control Period.

8.6. Authority's decisions regarding FRoR for the First Control Period

Based on the materials before it and based on its analysis, the Authority decides the following with regard to FRoR for the First Control Period:

8.6.1. To consider the Cost of equity at 15.18% as per CAPM formula.

8.6.2. To consider the notional debt to equity (gearing) ratio of 48%:52% in line with target gearing ratio being considered in case of other PPP airports.

8.6.3. To consider cost of debt of 9% for the First Control Period.

8.6.4. To consider FRoR of 12.21% for the First Control Period based on above mentioned Cost of equity, Cost of debt and gearing ratio.

9. INFLATION FOR THE FIRST CONTROL PERIOD

9.1. Mangaluru International Airport's submission regarding Inflation for the First Control Period

9.1.1. Airport Operator had submitted Inflation rate as 5% for all operating expenses including manpower expenses, utility expenses, IT expenses, rent and lease expenses, security expenses, corporate allocation, administrative expenses, repair and maintenance, and other operating expenses for MIA for the First Control Period.

9.1.2. The inflation rate of 5% had been submitted by the Airport Operator based on CPI inflation forecasts as summarized in the table below:

Table 86: CPI inflation rate submitted by Airport Operator

Year	CPI	Source
FY2021-22 (CPI Combined General)	Q1 – 5% Q2 – 4.9% Q3 – 4.3% Q4 – 5%	Survey of Professional Forecasters on Macroeconomic Indicators– Results of the 69th Round released on 07th April, 2021
CY2021*	4.6%	Oxford Economics Forecast
CY2022	4.8%	
CY2023	5.1%	
CY2024	5.3%	
CY2025	5.2%	
CY2026	5.0%	

* CY represents Calendar Year.

9.2. Authority's examination regarding Inflation for the First Control Period at Consultation stage

9.2.1. The Authority had examined the submission made by MIA on inflation to be considered for the First Control Period.

9.2.2. The Authority proposed to consider median of WPI inflation forecasts (WPI Non-food Manufactured products) for the FY 2021-22 as per the recent "Results of the Survey of Professional Forecasters on Macroeconomic Indicators – Round 69" published by the Reserve Bank of India (RBI). An extract of the results of RBI's annual forecast of WPI inflation (WPI Non-food Manufactured products) for the 4th quarter of FY 2020-21 and the 1st, 2nd, 3rd and 4th quarters of FY 2021-22 is reproduced below:

Table 87: WPI inflation rates as per RBI's annual forecast

Year	WPI inflation	Source
FY 2020-21	Q4 – 5.5%	Survey of Professional Forecasters on Macroeconomic Indicators – Round 69
FY 2021-22	Q1-6.2%	
FY 2021-22	Q2-5.8%	
FY 2021-22	Q3-4.3%	
FY 2021-22	Q4-2.6%	

9.3. Stakeholders' comments on Inflation for the First Control Period

9.3.1. During the stakeholders' consultation process, the Authority has received comments/ views from various stakeholders in response to the proposals of the Authority in the Consultation Paper no. 07/2022-23 with respect to Inflation for First Control Period. The comments by stakeholders are presented below:

AO's comments on Inflation for the First Control Period

9.3.2. AO has commented the following on AERA's views relating to Inflation for the First Control Period as detailed in para 9.3.1 of the Consultation Paper No. 7/ 2022-23:

- *While deciding the Tariff of Second Control period for Chandigarh Airport Order No. 07/2021-22 dated 20th August, 2021, at that time, AERA had applied latest available WPI inflation based on 69th round of survey of professional forecasters on macroeconomic indicators of RBI released in Apr-2021.*
- *In the CP for Mangaluru Airport dated 05th August 2022, the Authority has still continued with inflation based on Round 69 of the forecaster survey which is over a year old.*
- *We request the Authority to consider the latest available forecaster survey for providing the necessary inflationary impact.*

Other Stakeholder's comments on Inflation for the First Control Period

9.3.3. BIAL has commented the following:

Inflation considered at 4.9%

- *"AERA has decided to consider WPI inflation at 4.9% for the First Control Period based on average of the median WPI inflation forecasts of the 4th quarter of FY 2020-21 and of FY 2021-22, as given in the 69th round of survey of professional forecasters on macroeconomic indicators of RBI.*
- *As AERA is well aware, Inflation has emerged as a major concern for the economy over the last few months. Reserve Bank of India (RBI) has signaled a shift in focus from reviving growth to mitigating risks posed by inflation. RBI, in its monetary policy statement for FY2022-23, published on 8th June 2022, has clearly concluded as given below:*
- *"Taking into account these factors, and on the assumption of a normal monsoon in 2022 and average crude oil price (Indian basket) of US$ 105 per barrel, inflation is now projected at 6.7 per cent in 2022-23, with Q1 at 7.5 per cent; Q2 at 7.4 per cent; Q3 at 6.2 per cent; and Q4 at 5.8 per cent, with risks evenly balanced" Therefore, we request AERA to consider latest inflation projection of RBI for forecasting the operating expenses of the airport."*

9.3.4. APAO has commented the following:

Inflation considered at 4.9%

- *"AERA has decided to consider WPI inflation at 4.9% for the First Control Period based on average of the median WPI inflation forecasts of the 4th quarter of FY 2020-21 and of FY 2021-22 given in the 69th round of survey of professional forecasters on macroeconomic indicators of RBI*
- *Inflation has emerged as a major concern over the last few months. The situation is such that the Reserve Bank of India (RBI) has signaled a shift in focus from reviving growth to mitigating risks posed by inflation. Retail inflation numbers have remained above the Reserve Bank of India's (RBI) upper tolerance limit of 6 per cent.*
- *Unprecedented inflation all over the world and specifically in India in last few quarters has resulted in huge increase in rates of the raw materials and labor which will eventually result in higher O&M expenses and capital expenditure for the airport*
- *We request AERA to consider the latest inflation numbers for forecasting the expenses of the airport."*

9.3.5. DIAL has commented the following:

Inflation considered at 4.9%

"AERA considered WPI inflation at 4.9% for the First Control Period based on average of the median

WPI inflation forecasts of the 4th quarter of FY 2020-21 and of FY 2021-22, as given in the 69th round of survey of professional forecasters on macroeconomic indicators of RBI. In this context, it is important to note that, cost related to many of the works have escalated during the last two years due to high inflation on account of COVID-19 outbreak. Therefore, AERA is requested to consider the latest inflation which is in the range of 9.5% to 16% for FY 2022-23 basis 77th Round of survey of professional forecasters on macroeconomic indicators of RBI dated August 5, 2022."

9.4. AO's responses to stakeholders' comments on Inflation for the First Control Period

9.4.1. AO has responded to DIAL's, BIAL's & APAO's comments as under:

Refer to AO's comments on Inflation as detailed in para 9.3.2 in this Tariff Order.

9.5. Authority's analysis on Stakeholders' comments regarding Inflation for the First Control Period

9.5.1. The Authority has reviewed the comments of the AO, BIAL, APAO and DIAL on Inflation and has decided to consider the recent "Results of the Survey of Professional Forecasters on Macroeconomic Indicators – Round 79" released on December 7, 2022 published by the Reserve Bank of India (RBI). Accordingly, the Authority decides to consider the actual Wholesale Price Index (All Commodities) inflation in FY 2022 and the mean of WPI inflation forecasts (All Commodities) for FY 2023 till FY 2026 as given in the 79th round of survey of professional forecasters on macroeconomic indicators of RBI. This has been uniformly followed by AERA across all airports.

The inflation rates decided by the Authority for the First Control Period for MIA is as follows:

Table 88: Inflation rates decided by the Authority for the First Control Period for MIA

Particulars	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026
WPI inflation	12.97%	10.4%	5.0%	5.0%	5.0%

9.6. Authority's decisions regarding inflation for the First Control Period

Based on the material before it and its analysis, the Authority has decided the following with regard to Inflation for the First Control Period:

9.6.1. To consider Inflation for the First Control Period for MIA as detailed in Table 88.

10. OPERATION AND MAINTENANCE (O&M) EXPENSES FOR THE FIRST CONTROL PERIOD

10.1. Mangaluru International Airport's submission of Operation and Maintenance Expenses for the First Control Period

10.1.1. AO in its MYTP submission had stated that the Aeronautical Operation and Maintenance (O&M) expenses for the First Control Period had been estimated based on the following assumptions:

- Expansion of Terminal Building which involves addition of 10,142 Sq.m. to the existing Terminal Building area (including other operational buildings) of 37,322 Sq.m.(approx. 27%) during FY 2022-23, resulting in additional increase of 27% in FY 2022-23 across various expenses such as Utilities, IT expenses, Rates & Taxes, Security and Other Operating expenses.
- 10% increase in the O&M expenses had been considered, taking into account the current economic scenario, concession agreement obligations and the expansion of Terminal Building.
- Inflationary increase of 5% had been considered towards all expenses for the First Control Period.
- FY22 had been considered as the base year and relevant growth percentages had been applied over the same to estimate expenses for other Financial Years.
- The operations of Fuel facility to be outsourced to a third-party vendor in FY 2022-23 on a 'Cost plus margin' basis, which includes employee cost, repairs and maintenance expenses and facility operating expenses.
- Cargo expenses had been estimated for the First Control Period based on the assumption of constructing new Cargo facility in FY 2022-23. Further, Cargo expenses had been increased by 10% for the remaining three (3) tariff years of the First Control Period.

10.1.2. The AO had submitted the following categories of O&M expenses in its MYTP submission:

Table 89: O&M expenses (category wise) claimed by the Airport Operator in the MYTP for the First Control Period

Type of O&M Expense	Expense Category
Aeronautical Operating Expenses	Manpower Expenses – AAI employees
	Manpower Expenses – Airport Operator employees
	Utility Expenses
	IT Expenses
	Rates and Taxes
	Security Expenses
	Security Others
	Corporate Allocation
	Administrative Expenses
	Insurance
	Repair and Maintenance Expenses
	Other Operating Expenses and
	Amortisation of Runway recarpeting expenses
Fuel Operating Expenses	Employee cost
	Repairs & Maintenance
	Facility Operating expense

Type of O&M Expense	Expense Category
	Refuellers rental
Cargo Operating Expenses	Salary costs
	Operating expenses
	Customs cost recovery

10.1.3. The above expenses do not include Concession Fee, since it is not considered as part of Aeronautical O&M expenses, as per Clause 27.1.2 of the CA, which states that:

"The Monthly Concession Fee paid/ payable by the Concessionaire to the Authority under and pursuant to the terms of this Agreement shall not be included as a part of costs for provision of Aeronautical Services and no pass-through would be available in relation to the same."

10.1.4. The AO had segregated all O&M expenses into Aeronautical, Non-aeronautical and Common expenses. Allocation ratios have been used to further segregate the Common expenses into Aeronautical and Non-aeronautical categories. The basis adopted by the AO for allocation and segregation of O&M expenses is as follows:

Table 90: Segregation of O&M expenses into Aeronautical and Non-aeronautical expenses and the basis of allocation as per Airport Operator's submission

Expense Category	Expense classification	Allocation Basis	Aeronautical	Non-aeronautical
Manpower expenses – AAI employees	Aeronautical	-	100 %	0%
Manpower expenses – Airport Operator employees	Common	Department wise cost	97 %	3%
Utility expenses	Aeronautical	-	100 %	0%
IT expenses	Common	Initial RAB ratio	95 %	5%
Security expenses	Common	Initial RAB ratio	95 %	5%
Security Others	Common	Initial RAB ratio	95 %	5%
Corporate Allocation Cost	Common	Initial RAB ratio	95 %	5%
Administrative expenses	Common	Initial RAB ratio	95 %	5%
Insurance expenses	Common	Initial RAB ratio	95 %	5%
Rates and taxes	Common	Terminal Building ratio	95 %	5%
Repairs and Maintenance expenses	Common	Terminal Building ratio	95 %	5%
Other Operating expenses	Common	Terminal Building ratio	95 %	5%
Amortization of Runway recarpeting expenses	Aeronautical	-	100 %	0%
Fuel Operating expenses	Aeronautical	-	100 %	0%
Cargo Operating expenses	Aeronautical	-	100 %	0%

10.1.5. The total Aeronautical O&M expenses including Fuel and Cargo Operating Expenses submitted by the AO for the First Control Period have been presented as follows

Table 91: Total Aeronautical Operation and Maintenance (O&M) expenses submitted by the Airport Operator for Mangaluru International Airport

(₹ Crores)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Aeronautical Operating Expenses						
Manpower expenses - AAI	20.00	23.00	22.06	18.19	20.92	**104.18**

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Manpower expenses - Airport Operator	10.28	22.91	38.51	44.29	50.93	**166.93**
Utility expenses	9.38	12.52	13.15	13.81	14.50	**63.36**
IT expenses	4.75	6.75	7.77	8.93	10.27	**38.47**
Rates and Taxes	0.34	0.49	0.56	0.64	0.74	**2.77**
Security expenses	2.14	3.04	3.49	4.02	4.62	**17.31**
Security Others	0.00	11.97	12.57	13.20	13.86	**51.59**
Corporate Allocation Cost	9.50	10.93	12.56	14.45	16.62	**64.05**
Administrative expenses (excluding Collection charges on UDF)	4.23	4.76	5.41	6.18	7.08	**27.65**
Collection charges on UDF	0.28	0.43	0.56	0.68	0.81	**2.77**
Insurance	1.29	1.90	2.11	2.33	2.68	**10.30**
Repairs and Maintenance	14.25	23.52	26.22	29.21	33.58	**126.78**
Other Operating expenses	6.29	8.94	10.28	11.82	13.60	**50.94**
Runway recarpeting	-	11.95	13.72	15.76	18.10	**59.53**
Aeronautical Operating Expenses (A)	**82.74**	**143.11**	**168.98**	**183.52**	**208.30**	**786.64**
Fuel Operating Expenses						
Employee Cost & Related Expense – Inputs	-	1.16	1.78	2.05	2.35	**7.34**
Repair & Maintenance Cost - Inputs	-	0.40	0.69	0.82	0.95	**2.86**
Facility Operating Expense - Inputs	-	0.74	1.27	1.52	1.76	**5.29**
Outsourced Contractor Margin @ 25% on the above expenses	-	0.58	0.93	1.10	1.27	**3.87**
Refuelers Rentals	-	0.72	0.16	-	-	**0.88**
Fuel Operating Expenses (B)	-	**3.60**	**4.82**	**5.48**	**6.34**	**20.23**
Cargo Operating Expenses						
Insourced salary	-	0.31	0.68	0.75	0.83	**2.57**
O&M Expenses	-	0.72	1.91	2.55	3.39	**8.57**
Customs Cost Recovery	-	0.49	1.08	1.19	1.31	**4.07**
Cargo Operating Expenses (C)	-	**1.52**	**3.68**	**4.48**	**5.52**	**15.20**
Total Aeronautical O&M Expenses (A+B+C)	**82.74**	**148.23**	**177.48**	**193.48**	**220.16**	**822.08**

10.1.6. The growth rates assumed by the Airport Operator for total Aeronautical O&M expenses have been presented in the tables below:

Table 92: Growth rates for total Aeronautical Operation and Maintenance (O&M) expenses submitted by the AO for the First Control Period

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Aeronautical Operating Expenses (A)					
Manpower Expenses – AAI employees	15%	15%	15%	15%	15%

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Manpower Expenses – Airport Operator employees	-	20%	15%	15%	15%
Utility expenses	5%	32.17%	5%	5%	5%
IT expenses	15%	42.17%	15%	15%	15%
Rates and Taxes	15%	42.17%	15%	15%	15%
Security expenses	15%	42.17%	15%	15%	15%
Security Others	5%	5%	5%	5%	5%
Corporate Allocation Cost	15%	15%	15%	15%	15%
Administrative expenses	15%	15%	15%	15%	15%
Insurance – on Opening Net block of Assets	15%	15%	15%	15%	15%
Repairs and Maintenance – on Opening Net block of Assets	15%	15%	15%	15%	15%
Other Operating expenses	15%	42.17%	15%	15%	15%
Fuel Operating Expenses (B)					
Employee cost and related expense	-	-	15%	15%	15%
Repairs and Maintenance	-	-	72%	19%	16%
Facility operating expense	-	-	72%	19%	16%
Cargo Operating Expenses (C)					
Insourced salary	-	-	10%	10%	10%
O&M Expenses	-	-	10%	10%	10%
Customs Cost Recovery	-	-	10%	10%	10%

10.2. Authority's examination of Operation and Maintenance Expenses for the First Control Period at Consultation stage

Allocation of O&M expenses to Aeronautical and Non-Aeronautical activities

10.2.1. The AO had considered the Manpower Expenses of AAI employees as 100% aeronautical, as this expense was considered as pass through in the determination of Aeronautical charges, as per the Clause 6.5 read with Clause 28.4.3 of the Concession Agreement. The Authority, in this regard examined the extract of the relevant clauses of the Concession Agreement which reads as under:

- Clause 6.5.1. states that:

*"(i) **"Select Employees·'** shall mean those employees of the Authority as set forth in Schedule S (of the rank of assistant general manager and below) who are posted at the Airport by the Authority and shall be deployed at the Airport for the duration of the Joint Management Period and Deemed Deputation Period. The Select Employees shall stand reduced to the extent of employees who retire, are deceased or otherwise separated from Authority's services during the Joint Management Period or Deemed Deputation Period. It is clarified that the Select Employees shall not be reduced to the extent of employees who are transferred by AAI.*

*(ii) **"Joint Management Period··** shall mean the period commencing from the COD and ending on the date which is I (one) calendar year after the COD.*

*(iii) **"Deemed Deputation Period"** shall mean the period commencing from the expiry of the Joint Management Period and ending on the date which is 2 (two) calendar years therefrom."*

- Clause 6.5.4 states that:

  "The Concessionaire shall bear the Select Employee Costs for the Joint Management Period and Deemed Deputation Period."

- Clause 6.5.10 states that:

  "If, at the expiry of the Deemed Deputation Period, the number of Accepting Employees is less than 60% (sixty) percent of the Select Employees (the 'Deficit Employees"), the Concessionaire shall, commencing from the expiry of the Deemed Deputation Period pay to the Authority, on a monthly basis, such amounts as may be indicated in an invoice to be raised by the Authority on the Concessionaire with regard to the emoluments payable by the Authority in respect of such Deficit Employees (the "Deficit Employee Costs").

  (ii) The Deficit Employee Costs shall be considered for pass-through in the determination of the Aeronautical Charges."

- Clause 28.4.3. states that:

  "The Parties agree and acknowledge that the Concessionaire expressly waives its right to seek as pass-through in the Aeronautical Charges such costs and/ or expenses which the Concessionaire is restrained under this Agreement from seeking to be passed-through thereunder."

10.2.2. The Authority, on review of the above clauses of the CA, proposed to consider the assumptions of the Airport Operator as the Manpower Expenses of AAI employees during the First Control Period are mandated by the terms of the CA. However, the Authority proposed to consider the Manpower Expenses of AAI employees up to 'Deemed Deputation Period' and after the expiry of such period relating to 'Deficit Employee cost' as provided under the relevant Clauses of the Concession Agreement for such expenses.

In this respect, the Authority proposed to consider the Manpower Expenses of AAI employees up to 'Deemed Deputation Period' as Common, since the Manpower of AAI is used for both Aeronautical and Non-aeronautical activities and also in line with the report on Study on Efficient Operation and Maintenance Expenses for Mangaluru International Airport (refer Appendix II of this Tariff Order). Accordingly, the Authority proposed to apportion the Manpower Expenses of AAI employees up to 'Deemed Deputation Period', to Aeronautical activities in the ratio of 98.84:1.16 (Aeronautical: Non-aeronautical) based on department-wise Employee Headcount of AAI employees as of October 31, 2021.

In respect of the Manpower Expenses of AAI employees relating to 'Deficit Employees' after the expiry of the Deemed Deputation Period, the Authority proposed to consider the same as 100% pass through as mandated by Clause 6.5.10. of the CA.

10.2.3. The Airport Operator had allocated the Manpower Expenses of its own employees, in the ratio of Employee Head Count of 97:3 based on the department-wise Employee Headcount, by including both AAI employees and Airport Operator employees, as of October 31, 2021. However, the Authority felt that the Employee Headcount ratio should not be based on the total number of employees of both AAI and Airport Operator, but only based on the Employee Headcount of Airport Operator, as these are Manpower expenses of the Airport Operator only.

Further, the Authority believed that the 5-year average ratio after considering the Employee Headcount projected for the entire First Control Period was more appropriate than the ratio based on Employee Headcount as of October 31, 2021. Accordingly, the Authority had segregated the Manpower expenses of Airport Operator in the ratio of 96:4 based on the 5-year Average Employee Headcount ratio.

However, the Authority proposed to consider the Employee Headcount ratio of 97:3 (based on the

5-year average ratio of Total Employee Headcount of both AAI and Airport Operator for the First Control Period) for allocation of other applicable expenses such as Utilities, IT expenses, Administrative expenses, etc.

10.2.4. The Authority noted that the AO had segregated the expenses towards Utilities after netting off the recoveries proposed to be made from the Concessionaires for Non-aeronautical activities and has considered the net Utilities expenses as 100% Aeronautical. The Authority found this allocation to be in line with that followed in other similar airports and proposes to consider the same.

10.2.5. The Authority noted that the AO had segregated the expenses towards IT expenses, Security expenses, Security others and Insurance expenses in the Initial RAB ratio, i.e., 95:5. However, considering the nature of expenses, the Authority proposed to apportion the IT expenses in the ratio of Employee Head Count i.e., 97:3 (derived based on 5-year average ratio of Total Employee Head Count of both AAI and Airport Operator) and Insurance expenses in the Terminal Building ratio of 92:8, in line with the *Asset Allocation Report*, IMG norms and as approved for other similar airports.

Further, the Authority noted that for Security expenses the allocation ratio prescribed by the *Study on Efficient Operation and Maintenance Expenses of Mangaluru International Airport (Table 21) is* the Gross Fixed Assets ratio i.e., 99.20:0.80. Since this ratio has been derived based on expenses for the past period (from FY 2016-17 up to October 30, 2020) and is on the higher side, the Authority proposed to consider the Terminal Building ratio of 92:8 in line with the *Asset Allocation Report,* IMG norms and as approved for other similar airports.

10.2.6. The Authority noted that AO had segregated Administrative expenses including expenses towards Professional & Consultancy, Sales & Marketing, Travelling & Communication, Printing & stationery and the Collection charges on UDF in the Initial RAB ratio, i.e., 95:5. The Authority proposed to allocate Collection charges on UDF as 100% Aeronautical in line with other similar airports and was of the view that the other expenses which are administrative in nature should be apportioned in the Gross Fixed Assets ratio. Since the Gross Fixed Assets ratio had been derived based on expenses for the past period (from FY 2016-17 up to October 30, 2020) and was on the higher side, the Authority proposed to consider the ratio of Employee Head Count i.e., 97:3 (derived based on 5-year average ratio of Total Employee Head Count of both AAI and Airport Operator) for allocating the Administrative expenses other than Collection charges on UDF.

10.2.7. The Authority noted that the AO had segregated expenses towards Corporate Allocation Cost in the Initial RAB ratio of 95:5 and had engaged an Independent Consultant for conducting a Study on allocation of Corporate Costs of both the Holding Companies of the AO. The AO had shared a Note on the Study report which provides the types of services / costs that had to be allocated to the AO, along with the basis of allocation of such costs.

The AO had derived the allocable Corporate Costs based on the study. However, the basis for allocation of the costs towards Aeronautical and Non-aeronautical activities had not been provided in the Study report. The Authority was of the view that in the absence of an appropriate basis, the Corporate costs can be allocated in the ratio of Employee Headcount (as also mentioned in the *Study on Efficient Operation and Maintenance expenses of Mangaluru International Airport,* given as Appendix II to this Tariff Order). However, as the Employee Headcount ratios have been derived based on expenses for the past period (from FY 2016-17 up to October 30, 2020) and are on the higher side and hence, the Authority proposed to consider the ratio adopted by the Airport Operator (i.e., Initial RAB ratio of 95:5) to be reasonable.

10.2.8. The Authority observed that the AO had segregated expenses towards Repairs and Maintenance, Rates and Taxes and Other Operating expenses (which includes Housekeeping, Horticulture and

Hiring expenses) in the Terminal Building ratio of 95:5, which the Authority proposed to re-allocate in the revised Terminal Building ratio of 92:8 in line with the *Asset Allocation Report*, IMG norms and as approved for other similar Airports.

10.2.9. The AO had considered the expense towards Fuel and Cargo Operating expenses as 100% Aeronautical, which the Authority found to be reasonable.

10.2.10. The Authority's proposal for allocation of Total Aeronautical O&M expenses of Mangaluru International Airport as compared to that submitted by the Airport Operator had been summarized in the table below:

Table 93: Allocation of Total Aeronautical O&M expenses for Mangaluru International Airport proposed by the Authority for the First Control Period at Consultation stage

Particulars	O&M expense allocation	
	AO's Submission	Authority's Proposal
Manpower Expenses – AAI employees (up to Deemed Deputation Period)	100 %	98.14 %
Manpower Expenses – AAI employees (Deficit Employee Cost)	100 %	100 %
Manpower Expenses – Airport Operator employees	97 %	96 %
Utility expenses	100 %	100 %
IT expenses	95 %	97 %
Rates and Taxes	95 %	92%
Security expenses	95 %	92%
Security Others	95 %	92 %
Corporate Allocation Cost	95 %	95%
Administrative Expenses – Others	95 %	97%
Administrative Expenses – Collection Charges on UDF	95 %	100 %
Insurance	95 %	92 %
Repairs and Maintenance	95 %	92%
Other Operating expenses	95 %	92%
Amortization of Runway recarpeting expenses	100 %	100 %
Fuel Operating Expenses	100 %	100 %
Cargo Operating Expenses	100 %	100 %

The Authority had evaluated the submission made by MIA relating to operational expenditure. The Authority analysis of various expenses under operational expenditure are given below:

Manpower Expenses

10.2.11. The Authority, on its examination of Airport Operator's submission towards Manpower expenses, noted the following:

i. **Manpower Expenses of AAI employees** – The Airport Operator had projected the expense towards specified number of AAI employees across all the five (5) tariff years in the First Control Period as per clause 6.5.1 of the Concession Agreement entered into between AAI and

Airport Operator, the extract of which has already been provided under paragraph 10.2.1.

- The Airport Operator had claimed Manpower Expenses for 'Select employees' till the end of Deemed Deputation Period, namely 107 select employees (refer table below for the department wise list) and also 'Deficit Employee Cost' for 64 employees (calculated at 60% of 'Select employee' number as stated in Clause 6.5.10 of the Concession Agreement) for the remaining portion of the First Control Period. The Airport Operator had also projected a growth rate of 15% year-on-year towards Manpower Expenses of AAI employees.

  The department-wise list of 'Select' employees of AAI deputed at MIA as of March 31, 2021 is shown as follows:

Table 94: List of department-wise Select employees of AAI deputed to MIA as of March 31, 2021

Department	No. of Employees
Engineering & Maintenance	36
Finance	6
Fire	38
Human Resource & Admin	15
Commercial (Non-Aero)	1
Terminal & Operations	11
Grand Total	**107**

- The Authority noted that the Manpower Expense of AAI employees are accounted by the Airport Operator, based on the invoice raised by AAI for the 'Select Employees' deputed at Mangaluru International Airport, on a monthly basis. However, the Authority noted that same does not include the cost of retirement benefits for such employees, which had been separately estimated by the Airport Operator in the MYTP submission.
- The Authority on review of Clause 6.5 read with clause 28.4.3 of the Concession Agreement entered into between AAI and the Airport Operator, noted that the cost of AAI employees deputed at the Mangaluru International Airport is eligible for pass-through in the determination of Aeronautical charges. The Manpower Expenses - AAI employees for the entire First Control Period are considered as 100% Aeronautical expenses by the Airport Operator.
- However, the Authority proposed to consider the Manpower Expenses – AAI employees up to 'Deemed Deputation Period' and after the expiry of such period relating to 'Deficit Employee cost' according to the explanation provided in the relevant Clauses of the Concession Agreement for such expenses and accordingly, treat the same which had been explained in paragraph 10.2.2 above.
- Further, the Authority proposed to revise the 15% Y-o-Y increase in Payroll costs claimed by the Airport Operator to 6% for all the five (5) tariff years of the First Control Period, as approved by the Authority for other similar airports.

ii. **Manpower Expenses of Airport Operator** – The Airport Operator had submitted the following regarding projected salary cost per employee per annum and increase in the total employee headcount:

- Salary cost projected per employee per annum - The Airport Operator had submitted a weighted average employee cost of ₹ 15.00 lacs per annum for FY 2021-22 and also projected an increase of 20% in FY 2022-23 and 15% year-on-year (Y-o-Y) for the 3 remaining tariff years in the First Control Period. As per the submission of the Airport Operator, the weighted average employee cost of ₹ 15.00 lacs per annum had been derived after considering the salary cost of projected recruitments for Senior-level positions like Chief Airport Officer, Chief Security Officer and Heads of Departments for Procurement, Legal, Customer Care, Experts for Quality, Corporate Communications and also the salary cost of other-level positions in various departments like Airside management, Security, Terminal Operations, Engineering & Maintenance, HR, Finance, etc.

The AO had further submitted that as per Clause 6.5.3. of the Concession Agreement, the Senior Personnel of AAI deputed to MIA shall remain only for a period not exceeding 3 months from the COD and shall be transferred on expiry of three months. Hence, the AO had projected the recruitment of Senior-level employees in FY 2021-22 itself, which had resulted in the projection of weighted average employee salary cost of ₹ 15.00 lacs per annum for FY 2021-22.

The Authority examined Clause 6.5.3 of the Concession Agreement which states that:

"The senior management staff of the Authority of the rank of deputy general manager and above ("Senior Personnel") shall remain deputed at the Airport for a period not exceeding 3 (three) months from the COD.

(i) On the expiry of such 3 (three) month period, the Senior Personnel shall be transferred out of the Airport and redeployed by the Authority.

(ii) It is clarified that the Concessionaire shall not be liable to bear any costs in respect of the Senior Personnel, which costs shall be borne entirely by the Authority."

Considering all the above, the Authority proposed to accept the weighted average employee salary cost of ₹ 15.00 lacs per annum in FY 2021-22 as appropriate for Senior level employee. However, the Authority proposed to rationalise the growth rate by considering only 6% Y-o-Y for all the 4 FYs, starting from FY 2022-23 in line with what had been considered for Manpower Expenses of AAI employees.

- Increase in Employee Headcount – The Airport Operator had projected an increase in Employee Headcount from 31 as at the end March 2021 to 190 (rounded off) as at the end the First Control period. The table below depicts increase in the total Headcount Y-o-Y with break-up of Aeronautical (department wise) and Non-aeronautical employees, wherein substantial increase (approximately 60 employees) had been projected during FY 2022-23 and FY 2023-24. The Aeronautical Employee headcount shown in below table is after allocation of Common employees.

Table 95: Head Count of Employees added by the Airport Operator for the First Control Period and Department-wise break-up for each FY

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Justification provided by Airport Operator
Aeronautical employees	72	122	188	188	188	
Non-aeronautical employees	4	5	6	6	6	
Total Employee Headcount	76	127	194	194	194	

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Justification provided by Airport Operator
Total Employee Head count (rounded off in MYTP)	70	130	190	190	190	
Department-wise break-up of Aeronautical employees						
Chief Airport Officer's office (CAO office)	2	3	3	3	3	As per Concession Agreement, Clause 6.5.3. AAI employees with designation over DGM and above have been transferred out by AAI and they are not associated with the Airport after 3 months from COD. Accordingly, Airport Director and all HoDs have been transferred out and are not working at Mangaluru Airport He is responsible for overall operations and management of the Airport. Department is akin to erstwhile Office of Airport Director. He is supported by relevant staff for analysis, reviews, KPI management, regular review, action taken follow-ups, stakeholder management, etc.
Techno Commercial (Procurement department)	2	4	5	5	5	AAI do not have any local purchase department at site. All the procurement at AAI is done centrally through tendering process. Techno commercial function is responsible for procurement of various requirement of user department, management of contract, RFP issue, onboarding of vendor, etc.
Corporate communication	1	1	1	1	1	As per Clause 18.1.1 (q), MIA is required to have public relation officer who will interface with various stakeholders. MIA has assumed to place one position to fulfil the mandated requirement.
Corporate Affairs	1	1	1	1	1	Position required to interact with various state government, local municipalities, utility boards, local police, land department etc. on day-to-day basis.
Security	5	9	14	14	14	Currently there is no person deputed for carrying out Security function at the Airport. Earlier AAI was only performing pass section function with an outsourced support. However, there are various activities which need to be performed by MIA like CISF Documentation, Airport Security Program, Kerb Side Management, Traffic Management, Airport

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Justification provided by Airport Operator
						Operator Security Control Room, Security System Maintenance, Encroachment outside and perimeter area, Intelligence and Vigilance Gathering, Avsec Training and Compliances, Landside Operations, BCAS Compliance requirements. MIA will be carrying out the functions with a combination of on-roll and outsourced employees. MIA has assumed 14 employees on-rolls which is a composition of 1 CSO, 4 Pass Section, 2 Audit and Compliances, 2 Loss Prevention and Automation, 2 landside operations and others. Other operations like Kerb side, Tout Management, Traffic Management, Encroachment Prevention, Security System Maintenance etc. are expected to be outsourced.
Legal	1	2	3	3	3	AAI does not have legal positions at the Airport. Composition includes 1 HoD and 2 department supporting staff.
Safety	2	2	2	2	2	As per Concession Agreement clause 18.15.4, MIA is expected to create Airport Safety Management Unit (ASMU) and designate one of its officers to be in-charge of the ASMU. Composition includes 1 Aviation Safety Expert and 1 its associates.
Quality	1	3	3	3	3	Under clause 23.1 of concession Agreement, MIA is obligated to monitor and measure quality of service on the parameters prescribed in the Concession Agreement. Further as per Concession Agreement, MIA is expected to maintain relevant ISO certification and other quality certifications for all the facilities controlled and managed by MIA. Composition includes 1 Quality Expert and 2 its associates.
Customer Engagement	1	2	3	3	3	MIA is expected to perform ASQ rating and take customer feedback on the various facilities, improvement areas at the Airport. Composition includes 1 HoD and 2 its associates.
Information Technology	3	4	4	4	4	AAI does not have Information Technology team to support the IT functioning of the Airport. IT is a

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Justification provided by Airport Operator
						backbone of the Aviation, and all the critical systems need to be running with zero downtime. Critical systems include AODB, FIDS, PDAs, SAP, Business Analytics, Integration with ATC, VDGS, Radio Sets, Desktops, Laptops, Billing Software, Document Management System, Access Control System etc. Composition includes 1 HoD, Support staff.
Airside Management	9	15	30	30	30	As per Clause 18.1.1 (d), (f) and (g), MIA is responsible to maintain and operate Airside including Runway, Taxiways, Apron, Approach Areas etc. Also, it is mentioned in the CNS-ATM Agreement about the airside obligations to be performed by MIA MIA is responsible to establish Apron Management Service, Airside safety, aerodrome safeguarding and aeronautical information services. Previously some of these services were performed by ANS team of AAI and some of the services were not done at all. Post COD, all these functions are to be performed by MIA. The composition includes In Charge Airside, Duty Managers, Duty Officers, Airside Executive, Airside Ground Maintenance, Aerodrome Licencing, Aerodrome Safeguarding, Wildlife Hazard Management, Environment Sustainability
Regulatory	1	1	1	1	1	New position to support in regulatory filing with AERA.
Terminal and Operation	9	10	18	18	18	Expansion of existing terminal area by 27% is under progress. It is expected that there will be requirement for additional duty managers, duty officers to cater to the increased area demand.
Human Resources and Admin	2	4	6	6	6	MIA is expected to consolidate and automate various positions/functions and will employ limited staff which will be comprising of HoD, HR Operations, Talent Acquisition, Compliances and 2 Admin purposes.

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Justification provided by Airport Operator
Finance	4	5	6	6	6	Composition includes 1 HoD, and support staff for various functions under finance and accounts.
Engineering & Maintenance	7	14	21	21	21	Currently AAI has approx. 10-15 people each in Civil, Technical and Engineering sections. MIA is expected to outsource some of the non-core activities. Second there will be increase in Terminal Area by 27%, Increase in Airside Facilities, increase in landside facilities, Utilities etc, there will be requirement of more manpower in Engineering and Maintenance department to cater to these increased facilities. Considering all the above factors, MIA is expected to consolidate the function and will have only 21 people on-rolls.
Aviation Rescue and Fire Fighting (ARFF)	1	2	7	7	7	As per AAI manual 2015, there is requirement of 17 Fire People for Category 7 Airport (considering 3.5 shift and 0.5 leave) (17 shift people * 4). Further there are 2 Shift Managers. Out of total 70 requirement, 16 are Ambulance people which MIA is expected to outsource and balance people to be required by MIA for the safe operations of the Airport. Currently AAI select employees includes 36 Fire Fighters. MIA is expected to employee additional Fire fighters to fulfil the desired requirement. Keeping in view the importance of ARFF activities in the Airport, there is requirement of additional position to fill like Head of Department, Station in Charge, Fire Prevention, Training Cell, Shift Managers etc.
Fire Fighters	20	40	60	60	60	
Total Aeronautical Employee Head count	**72**	**122**	**188**	**188**	**188**	

The Authority noted that the Airport Operator had estimated this increase in number of employees mainly towards functions relating to Security, Firefighting, Airside management, Terminal operations and Engineering and Maintenance, considering the operationalization of the expanded Terminal Building in FY 2022-23 and that the deemed deputation period of the Select Employees deputed by AAI expires during the FY 2023-24.

The Authority also took cognizance of the fact that, prior to COD, certain positions relating to Firefighters, Aviation rescue and firefighting (ARFF) etc., were not entirely filled up by AAI and that AAI had utilised the support of Central Head Quarters (CHQ) for certain other positions / departments, like Procurement department and of ANS team for performing certain functions relating to Airside Management. However, post COD, the AO had projected its manpower requirements in the First Control Period for all the above functions, as the same will be handled exclusively by the AO.

In this background, the Authority examined the Aeronautical Employee Head Count of Mangaluru International Airport for the period from FY 2016-17 to FY 2019-20 (Pre-COVID year) and noted that the 4-year average employee headcount is 103 and the same is given in below table:

Table 96: Headcount of Aeronautical employees of Mangaluru International Airport for the Period from FY 2016-17 to FY 2019-20

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	4 – Year Average
Employee Headcount *	100	103	111	99	103

** Refer Table 10 of paragraph 4.5.3.2. of Study on Efficient Operation and Maintenance Expenses for Mangaluru International Airport.*

The Authority further observed that the growth in Passenger traffic and ATM during the First Control Period for Mangaluru International Airport (refer Table 51) is slow, and the traffic is expected to reach Pre-COVID level only during FY 2023-24. The same has been presented in the following table:

Table 97: Estimated Passenger and ATM traffic of Mangaluru International Airport

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Passenger Traffic (in lacs)	10.13	18.05	21.08	27.27	32.39
ATM Traffic (In '000s)	9.98	15.19	16.69	20.98	24.56

The Authority also observed that the AO in its submission have explained that they will be outsourcing certain activities relating to Security, Engineering and Maintenance department, etc.

Considering the slow growth projected in Passenger traffic and ATM and the current scale of operations, the Authority was of the view that, the Aeronautical Employee Head Count projected by the AO which is at 188 towards the end of the First Control Period, was on the higher side and the same needs to be rationalised.

- Based on the above, the Authority had analysed the Employee Headcount projected vis-à-vis the functions of each department mentioned in Table 95 and proposed the following revision in Aeronautical Employee Headcount projected by AO for the First Control Period:

  (i) In respect of Security department, the Authority was of the view that barring few activities such as coordination with CISF, BCAS compliance etc. which are Aeronautical in nature, the remaining activities listed out by the AO in Table 95 are Non-aeronautical.

  (ii) Further, the Authority noted that the AO will be outsourcing certain activities pertaining to Security department. Hence, the Authority proposed to consider only 50% of the Aeronautical Employee Headcount projected by the Airport Operator for the first 2 tariff years and retain the same number of employees (Five) proposed by the Authority in the 2nd tariff year (FY 2022-23), till the end of the First Control Period.

  (iii) The Authority noted that the Legal Function is excluded in accordance with Clause 28.3.8 of the Concession agreement and hence proposed not to consider the Employee Headcount projected by AO for the Legal Function for Aeronautical Headcount.

  (iv) The Authority proposed to retain the Employee Headcount at 2 for the last three (3) tariff years for Customer Engagement department as against 3 employees claimed by the AO, as the

Authority felt that this function relates to ASQ rating activity, which was performed only on a quarterly basis, that too through outsourced Consultancy Firms.

(v) In respect of Airside Management, the Authority noted that the Headcount projected by AO for all the tariff years is on the higher side considering the fact that, MIA is a small airport with lesser traffic volume and also that the work on ground handling (outsourced) and VDGS system is already in place. Further, the activity of bird chasing has been outsourced by the AO. Based on the above factors, the Authority proposed to consider 75% of the Aeronautical Employee Headcount projected by the Airport Operator for the first 2 tariff years and retain the same number of employees (Eleven), proposed by the Authority in the 2nd Tariff Year (FY 2022-23) for the last three (3) tariff years of the First Control Period as against 30 employees claimed by the AO.

(vi) The Authority noted that the number of Employee Headcount projected by the AO for Terminal Operations was on the higher side considering that there are existing employees of AAI (i.e., Select employees deputed to MIA) at the Airport till the deemed deputation period and hence, proposes to consider 75% of the Headcount projected by the AO, for all the five (5) tariff years.

(vii) In respect of Engineering & Maintenance department, the Authority noted that the AO had submitted that they will be outsourcing certain activities relating to this department including availing hiring services of PMC and hence the Authority proposed to consider 50% of the Aeronautical Employee Headcount projected by the Airport Operator for all the five (5) tariff years of the First Control Period.

(viii) The Authority noted that the Employee Headcount of forty (40) projected by the AO in FY 2022-23 for Fire-fighting department was on the higher side as there are existing employees of AAI (i.e., Select employees deputed at MIA) already handling the function and hence, proposed to consider 24 employees, as reasonable. The Authority considers 60 employees projected by the AO for the last three (3) tariff years for Fire-fighting as reasonable.

(ix) The Authority noted that AO has projected 7 employees for ARFF department for the last Three (3) tariff years of the First Control Period. The Authority was of the view that the AO has already projected 60 employees for Fire-fighting for the last Three (3) tariff years as per DGCA guidelines. Such employees are also involved in related activities. Hence, the Authority proposed to consider 3 employees for ARFF department for the last Three (3) tariff years as against 7 employees claimed by the AO.

Based on the above factors, the Aeronautical Employee Headcount proposed to be considered by the Authority for the First Control Period is shown in the Table below:

Table 98: Aeronautical Employee Head Count for the Airport Operator proposed by the Authority for the First Control Period at Consultation stage

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Aeronautical Employee Head count claimed by the Airport Operator	70	122	188	188	188
Chief Airport Officer's office (CAO office)	2	3	3	3	3
Techno Commercial (Procurement department)	2	4	5	5	5
Corporate communication	1	1	1	1	1
Corporate Affairs	1	1	1	1	1

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Security	3	5	5	5	5
Legal	-	-	-	-	-
Safety	2	2	2	2	2
Quality	1	3	3	3	3
Customer Engagement	1	2	2	2	2
Information Technology	3	4	4	4	4
Airside Management	6	11	11	11	11
Regulatory	1	1	1	1	1
Terminal and Operation	7	8	14	14	14
Human Resources and Admin	2	4	6	6	6
Finance	4	5	6	6	6
Engineering & Maintenance	4	7	11	11	11
Aviation Rescue and Fire Fighting (ARFF)	1	2	3	3	3
Fire Fighters	20	24	60	60	60
Aeronautical Employee Head count proposed by the Authority	**60**	**86**	**137**	**137**	**137**

Further, the Authority proposed not to consider the allocation of 96:4 (Employee Headcount ratio) for this expense, since the same had already been derived based on the revised *Aeronautical Employee Headcount* and not on the Total Employee Headcount.

Utility Expenses

10.2.12. The Authority examined the expenses towards Utilities and noted the following:

- **Power expenses**: Airport Operator had projected the Electricity costs, after netting off the recoveries made from the Concessionaires (which is assumed to be 4.06% of the total electricity cost). The Authority noted that the power recovery percentage is significantly lower than that of comparable airports. The Authority was of the view that with the gradual increase in the Non-aeronautical operations, the Airport Operator should increase the power recovery from the Concessionaires. Accordingly, the Authority proposed that the Airport Operator shall constitute a Committee to verify the bills relating to Power expenses and submit a report on the same to the Authority as part of Stakeholder comments / feedback. In case such report was not submitted by the Airport Operator, the Authority proposed to consider power recoveries at a notional rate of 25% while issuing the tariff order of the First Control Period.

  The Airport Operator had also proposed to increase the cost Y-o-Y by 5% during the First Control Period and an additional increase of 27.17% on account of operationalization of the expanded Terminal Building area. The Authority as part of its review notes that for other similar airports, it had allowed the increase claimed by the Airport Operator which was in proportion to the increase in the area of the Terminal Building. Based on the same, the Authority proposed to consider the additional increase of 27.17% in Power costs and also allow 4.90% Y-o-Y towards inflationary effect across all the five (5) tariff years in the First Control Period.

  However, the Authority proposed to shift the above additional increase of 27.17% to FY 2023-24 as the same would take effect only after operationalization of the extended Terminal Building which is proposed to be completed only by FY 2022-23 as per the Capitalization Schedule proposed by the Authority.

- **Water and Fuel charges**: The Airport Operator had assumed 5% Y-o-Y increase in water and fuel charges for all the five (5) tariff years in First Control Period and an additional increase of 27.17%

for FY 2022-23 on account of operationalization of the expanded Terminal Building. The Authority reviewed the submission of Airport Operator and noted that the fuel charges claimed by the Airport Operator pertain to the diesel fuel required for operating the Generators. As mentioned in the above para, the Authority proposed to allow the one-time increase of 27.17% in water and fuel charges, in line with that approved for other similar airports. Further, the Authority proposed to consider the above increase of 27.17% in the FY 2023-24 as the same would take effect only after operationalization of the extended Terminal Building which is proposed to be completed only by FY 2022-23 as per the Capitalization Schedule proposed by the Authority.

- The Authority also proposed to allow 4.90% Y-o-Y towards inflationary effect across all the five (5) tariff years in the First Control Period.

IT expenses, Rates & Taxes and Security expenses

10.2.13. The Airport Operator had claimed an increase of 15% Y-o-Y and an additional increase of 27.17% in FY 2022-23 due to the proposed increase in the Terminal Building area.

- The Authority examined the actual expenses incurred by the Airport Operator for all the above expenses till January 2022 and noted that the actual IT expenses incurred by the Airport Operator was only ₹ 1.66 crores as against ₹ 5.00 Crores projected for the entire FY 2021-22. Based on the same, the Authority proposed to rationalize the IT expense to ₹ 2.50 crores for the FY 2021-22 but for other expenses, namely, Rates and Taxes and Security expenses, the Authority proposed to consider the projected amount as appropriate. Further, the Authority proposed to revise the growth rate to 4.90% towards inflationary effect for all these expenses across the five (5) tariff years of the First Control Period.
- As explained in the above paras, the Authority on its review of the other similar airports, was of the opinion that expansion of Terminal Building area will result in proportionate increase in all these expenses and hence, proposed to consider the additional increase of 27.17% claimed by the AO. However, the Authority proposed to shift the additional increase to FY 2023-24 as the same would take effect only after operationalization of the extended Terminal Building which is proposed to be completed only by FY 2022-23 as per the Capitalization Schedule proposed by the Authority.

Security Others

10.2.14. The Authority on its examination of the expense claimed towards Security Others and noted the following:

- Airport Operator had projected expenses of ₹ 12.00 Crores in FY 2021-22 with an increase of 5% Y-o-Y towards charges proposed to be paid to a Service Vendor for commissioning, operation and maintenance of 'Aerial Threat Detection and Neutralization System' (i.e., Counter-Drone system) at the Mangaluru International Airport based on the directive of Bureau of Civil Aviation Security (BCAS), which had directed the Indian Airports to implement sophisticated, reliable, robust and highly effective Counter drone technology/solution for Surveillance, detection and Neutralization of drones/ UAVs vide AVSEC Circular no 02/2020 dated February 11, 2020 and vide addendum dated February 9, 2021 to the said circular.
- However, the Authority noted that the above-mentioned Circular had been subsequently withdrawn by BCAS vide Order No. CAS-6(11)/2018/ Div-I/RPA/ (Part2)/ 180940 dated February 23, 2022 and hence the Authority proposed not to consider this expense during the First Control Period.

Corporate Allocation Cost

10.2.15. The Airport Operator had claimed Corporate Allocation Cost of ₹ 10.00 Crores towards Corporate Support Services received from the Holding Companies, namely, AEL and AAHL for the FY 2021-22 and projected 15% increase Y-o-Y during the First Control Period.

(i) The Authority observed from the Note provided by the AO (refer Appendix IV for the Note on Corporate cost allocation study report), that it had engaged an independent consultant, to conduct a Study on Corporate Cost allocation and based on the Study Report, they had submitted the following in support of their claim for Corporate cost allocation:

- AEL provides various strategic functions/activities like corporate finance, legal, central procurement, green initiative, ESG, Information technology, human resource management, etc., and also includes various leadership functions. AAHL through its corporate structure, provides expertise and specialist domain knowledge in Airports Operation, Airside Management, Master Planning, Designing, Airport Development, Airport Regulatory, Hospitality, Customer management, Cargo Development and management, Airline Marketing, Non-Aeronautical etc.
- AEL and AAHL incur costs at the corporate level to provide these services and support to various Group Companies (including Airports) and Airport companies. The major composition of these costs includes salaries and administrative costs. These costs (except shareholders services and non-Aeronautical services) are recovered by AEL and AAHL through a pre-determined, appropriate allocation method.
- Similar corporate cost allocation process is used by other private airport operators' holding entities, such as GMR Infrastructure Limited (GIL) and GMR Airports Limited (GAL), which provide corporate administration services to DIAL and GHIAL, and their costs are allocated based on suitable drivers. Similarly, AAI also allocates its Central Head Quarters (CHQ) / Regional Head Quarters (RHQ) costs to various airports based on appropriate cost drivers.

(ii) The detailed break up of Corporate costs along with the basis of allocation submitted by the AO for the FY 2021-22 is as follows:

Table 99: Corporate Allocation cost break-up with allocation basis submitted by the Airport Operator for the FY 2021-22

(₹ Crores)

Particulars	Department	Allocation Key (basis)	Admin cost	Salary cost	Total
	Finance, Tax and Internal Audit	Ratio of Debt raised for a SPV to total Debt raised for Adani Group, Ratio of Turnover of a SPV to Total Group Turnover and Ratio of Full Time Equivalents (FTE) allocated to a SPV to total FTEs	0.06	0.37	0.42
	HR and Admin	Ratio of Number of Employees of a SPV to Total Adani Group Employees	0.44	0.40	0.84
AEL	CMD Office and Support Staff	Ratio of a SPV PBT to Group PBT and Airport budgeted expenditure to Total budgeted expenditure	0.05	0.27	0.32

Particulars	Department	Allocation Key (basis)	Admin cost	Salary cost	Total
	IT	Ratio of Number of IT users in a SPV to total Group users	0.09	0.05	0.14
	Legal	Ratio of Legal Budget of a SPV to Total Legal Budget	0.00	0.05	0.05
	Procurement	Ratio of Turnover of a SPV to Total Group Turnover	0.00	0.01	0.01
	Land & Estate	Ratio of a SPV PBT to Group PBT	0.01	0.00	0.01
	Total (A)		**0.65**	**1.16**	**1.81**
AAHL	Human Resources and Admin	Ratio of Number of Employees of a SPV to Total Adani Group Employees	0.95	0.72	**1.67**
	Finance	Ratio of Debt raised for a SPV to total Debt raised for Airport Group	0.65	0.93	**1.58**
	Operations (Airline Marketing, Operation, Security, HSE, Regulatory)	Ratio of Per Pax Revenue of SPV to total Per Pax Revenue	0.07	1.25	**1.32**
	IT	Ratio of Number of IT users in a SPV to total IT users in all airports	0.24	0.30	**0.53**
	Inhouse Legal Team	Ratio of Legal Budget of a SPV to Total Legal Budget of all airports	0.04	0.07	**0.10**
	Cargo Development	Ratio of Per Pax Revenue of a SPV to total Per Pax Revenue of all airports	0.01	0.34	**0.35**
	CEO Office	Ratio of Per Pax Revenue of SPV to total Per Pax Revenue	0.02	2.62	**2.64**
	Total (B)		**1.96**	**6.23**	**8.19**
	Total (A) + (B)		**2.61**	**7.39**	**10.00**

(iii) The Authority observed that the activities of certain Functions such as Finance, HR & Admin and IT are performed both centrally at Corporate (AEL, AAHL) and at the individual Airports. The same had been detailed as follows:

- **Activities performed at Corporate level:** These are strategic, decision-making activities that are carried out across the Group such as:
  - Designing policies and procedures, benchmarking and standardisation of processes across the Group
  - Monitoring annual budgeting process
  - Implementation of ERP for the Group (particularly Finance and HR functions)
  - Reviewing performance of the Group and providing guidance to Group Companies
  - Maintaining Adani Airports Information Repository, standards in software development and networking.
  - Identifying new revenue generating IT services, technologies and solutions.

- **Activities performed at the Airport:** These are operational in nature which includes:
  - Recording of Financial data in ERP
  - Preparation of monthly MIS for presenting it to Corporate team
  - Financial due diligence of various proposals.
  - Conducting interviews at site level for hiring of manpower and managing manpower at the site.
  - Executing Performance appraisal process and providing feedback to Corporate team.
  - Executing day-to-day IT requirements at the Airport.
  - Maintaining airport related IT assets such as AODB, FIDS, software used in AOCC, etc.
  - Support HO/Corporate IT team in the areas of IT Strategy, delivery and Governance.

(iv) The Authority noted that AEL on overall basis, extends support and guidance to various Group Companies and AAHL provides expertise and specialist domain knowledge to the Airport Companies, which are essential for the sustainable operations of the business. The major composition of the costs of these services included salaries and administrative costs that are recovered by AEL and AAHL through an appropriate allocation method. Further, this process is consistent with the approach followed by other PPP airports such as DIAL, GHIAL etc. for allocation of Corporate costs to the Airports. Based on the above factors, the Authority considered the apportionment of costs of AEL and AAHL to MIA as reasonable.

(v) The Authority on review of the above projection, observed that the same includes costs of inhouse legal team, which as per Clause 28.3.8 of the Concession agreement is excluded from the determination of Aeronautical charges. Extract of the above clause is provided hereunder:

"It is clarified that costs incurred by the Concessionaire with regard to legal services, shall not be considered by the Regulator for the purpose of determining the Aeronautical Charges."

(vi) Based on the above, the Authority proposed not to consider an amount of ₹ 0.15 Crores claimed by Airport Operator towards such inhouse legal team and allow the remaining amount of ₹ 9.85 Crores towards Corporate Allocation Expense of the Airport Operator for FY 2021-22. Further, the Authority observed that Salary cost constitutes the major portion of the Corporate Cost of ₹ 10.00 Crores and hence, proposed to rationalize the increase claimed by the Airport Operator to 6% Y-o-Y across all the five tariff years in the First Control Period, is in line with the increase proposed for Manpower expenses under Para 10.2.11 above.

Administrative Expenses

10.2.16. The Airport Operator had projected an increase of 15% Y-o-Y for Administrative Expenses towards Professional & Consultancy, Sales & Marketing, Travelling & Communication, Printing & Stationery and Collection charges for UDF. The Authority proposed to consider increase in Collection charges for UDF in line with the growth in Passenger traffic proposed for the First Control period for Mangaluru International Airport, as per Table 51. The Authority is of the view that MIA is a brownfield airport and proposes to consider an increase of 4.90% Y-o-Y towards inflationary effect, for the Administrative expenses (other than Collection charges for UDF), across all the five tariff years in the First Control Period, in line with the other similar airports.

Insurance expenses

10.2.17. The Authority examined the expense claimed by the Airport Operator towards Insurance and noted the following:

- **Insurance on Opening Net block of assets** - The Airport Operator has claimed ₹ 1.29 crores in FY 2021-22 and an increase of 15% Y-o-Y for Insurance expenses on the Opening Net block of

Assets. The Authority, on review of the same, proposed to consider 4.90% increase Y-o-Y towards inflationary effect for the First Control Period.

- **Insurance on New Capital Expenditure** – The Airport Operator had also claimed Insurance expense at the rate of 0.10% on the cumulative value of Capitalized Total Assets for each tariff year. The Authority reviewed the same and proposes to consider the expense at the same rate of 0.10% on the revised cumulative value of Capitalized Aeronautical Assets that are forming part of Table 69. Further, the Authority proposed not to consider the allocation of 92:8 (Terminal Building ratio) for this expense, since the same has already been derived based on the Capitalized value of Aeronautical Assets.

Repairs and Maintenance expenses

10.2.18. The Authority examined the expenses towards Repairs and Maintenance and noted that the same has been projected towards Civil, Electrical, Plant and machinery, Electronics and Others.

- **Repairs and Maintenance on Opening Net block of Assets**- The Airport Operator had claimed ₹ 15.00 Crores in FY 2021-22 towards Repairs and Maintenance for Opening Net block of Assets and an increase of 15% Y-o-Y.
- **Repairs and Maintenance on New Capital Expenditure** – The Airport Operator had also claimed Repairs and Maintenance expense at the rate of 1.00% on the cumulative value of Capitalized Total Assets for each tariff year.
- The Authority as part of its review of the total amount claimed by the Airport Operator in each FY towards Repairs and Maintenance notes, that the total amount claimed by the Airport Operator was higher than 6% of the Opening Net block of Aeronautical Assets for the first Three (3) tariff years of the First Control Period and lower than 6% of the Opening RAB (Net block of Assets) for the last 2 tariff years, i.e., FY 2024-25 and FY 2025-26.
- The Authority was of the view that MIA is a brownfield airport, wherein Capital Additions had been newly proposed for the First Control Period. As the newly constructed/ installed assets are covered under warranty clauses, they may need only minimum repairs and maintenance. The Authority, therefore, proposed to restrict the total repairs and maintenance expenses claimed by the Airport Operator to 6% of the Opening Net block of Aeronautical Assets for the FYs 2021-22, 2022-23, 2023-24 and considered the amount claimed by the Airport Operator towards repairs and maintenance for the FY 2024-25 and FY 2025-26.
- Further, the Authority proposed not to consider the allocation of 92:8 (Terminal Building ratio) for this expense, since the same has already been derived based on the Capitalized value of Aeronautical Assets. The amount claimed by the Airport Operator (as per row 'D') and Proposed by the Authority (as per row 'E') is shown in the table below:

Table 100: Repairs and Maintenance on Opening Net block of Assets claimed by the Airport Operator and Proposed by the Authority for the First Control Period at Consultation stage

(₹ Crores)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Repairs and Maintenance – Opening Net block of Assets claimed by the Airport Operator (A)	15.00	17.25	19.84	22.81	26.24	101.14
Repairs and Maintenance – New Capital Expenditure	-	7.51	7.76	7.94	9.11	32.32

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
claimed by the Airport Operator (B)						
Total Repairs and Maintenance – claimed by the Airport Operator (C = A+B)	15.00	24.76	27.60	30.75	35.34	**133.46**
Aeronautical Repairs and Maintenance – claimed by the Airport Operator (D)	14.25	23.52	26.22	29.21	33.58	**126.78**
Aeronautical Repairs and Maintenance Proposed by the Authority	7.42	6.83	25.06	29.21	33.58	**102.09**

Other Operating expenses

10.2.19. The Airport Operator had submitted the Other Operating Expenses towards Housekeeping, Horticulture and Hire charges and claimed an increase of 15% Y-o-Y for all five (5) tariff years and an additional increase of 27.17% in FY 2022-23 on account of expansion of Terminal Building area.

- The Authority noted that the Airport Operator had issued a Letter of Award (LOA) in October 2021 to a vendor for handling various services, namely, housekeeping (terminal, landside, airside and ancillary buildings), landscape management, trolley management, birds and wildlife hazard management and Pest control at MIA and further noted that the contracted rates were effective for 1 year and extendable for 2 more years, based on agreed escalation rate of 4% after completion of each year. Therefore, the Authority was of the view that, for each tariff year across the First Control period, an increase of 4.90% towards inflationary effect should only be considered, instead of 15% increase Y-o-Y claimed by the Airport Operator.
- In respect of additional increase of 27.17% claimed by the AO, the Authority proposed to consider this increase in line with that allowed by it for other similar airports (as mentioned in para 10.2.12) with regard to expansion of Terminal Building area within the Airport. However, the Authority proposed to shift the additional increase to FY 2023-24 as the same would take effect only after operationalisation of the extended Terminal Building which is proposed to be completed only by FY 2022-23 as per the Capitalization Schedule proposed by the Authority.

Amortization of Runway recarpeting expenses

10.2.20. The Airport Operator had claimed amortization of ₹ 59.53 Crores projected towards expenditure on Runway Recarpeting works over a period of five (5) FYs starting from FY 2022-23 and based on the Depreciation Order No. 35 / 2017-18 dated January 12, 2018.

In this respect, the Authority noted that, the Airport Operator had claimed amortization of ₹ 59.53 Crores projected towards expenditure on Runway Recarpeting works in their MYTP dated December 10, 2021, based on their plan to provide 2 layers of Semi Dense Asphaltic Concrete (SDAC) and Dense Asphaltic Concrete (DAC) with design layer as a recarpeting work. Subsequently, based on the Consultant's technical study report, the number of layers were increased from 2 to 4 which resulted in an increase in PCN value and accordingly, this project had been included under the revised CAPEX submitted by the AO on May 7, 2022.

The Authority based on its examination of the Consultant's study report (refer Appendix III of this Tariff Order), BOQ and detailed explanation provided by the Airport Operator, proposed to allow the same as Capital Expenditure. The Authority, therefore, proposed not to consider the above expense of

₹ 59.53 Crores under O&M expenses for the First Control Period.

Boundary Wall expenses

10.2.21. The Airport Operator had claimed Capital Expenditure of ₹ 7.60 for the First Control Period towards construction of property boundary wall in their Revised CAPEX schedule submitted on May 7, 2022.

The Authority noted that this project included replacement of small sections of the wall (11 km length wall) since frequent falling-down of certain vulnerable sections of the boundary wall had been noticed, due to the topology of the Airport and inherent weather conditions.

In this respect, the Authority observed that there is an existing Boundary Wall at the airport which largely adheres to all the necessary specifications as per BCAS Guidelines and is in good condition. Hence, the Authority felt that the amount of ₹ 7.60 Crores claimed by the AO was on the higher side and proposed to consider an amount of ₹ 0.50 Crores towards Boundary wall repairs expenses in each FY for the last four tariff years of the First Control Period i.e., commencing from FY 2022-23. The Authority further proposed to consider the actual expenses incurred by AO at the time of true up of the First Control Period, while determining tariff for the Second Control Period.

It is pertinent to note here that, AERA had outlined the principles of RAB boundary and Ring fencing of the assets which allow for inclusion of only those aeronautical assets which are integral to the functioning of the Airport and are within the boundary of the Airport.

Fuel Operating Expenses

10.2.22. Clause 19.3. of the Concession Agreement stipulates the Airport Operator's obligations towards providing aircraft fueling services (refer to paragraph 18.4.7 of Annexure 4 of Chapter 18 of this Tariff Order)

10.2.23. The Airport Operator had submitted the following assumptions regarding Fuel facility Operating expenses:

- The Airport Operator had projected that the Fuel farm facility operations will commence from July 2022 onwards (i.e., 9-month period in FY 2022-23) and continue for the remaining three (3) tariff years of the First Control Period.
- The Airport Operator had estimated the Fuel Throughput volume at the rate of approximately 3 KL per ATM for the Total ATM traffic projected in each tariff year.
- Further the Airport Operator had submitted that they planned to outsource the Fuel facility operations to a third-party vendor who will manage the facility on Cost plus margin basis.
- The charges payable to the Vendor by the Airport Operator had been projected at the rate of approximately ₹ 800 to ₹ 850 per KL of Fuel throughput which will include expenses towards employee cost, repairs and maintenance and facility operating cost and also the Operator's margin of 25% on such expenses. Since the Contract terms are based on Cost plus margin term, the Airport Operator had also projected 15% Y-o-Y increase in employee cost and increase in repairs and maintenance and facility operating cost corresponding to the increase in fuel throughput volume for each FY.
- Apart from the above, the Airport Operator had projected Rental cost for 4 numbers of Refuellers mainly for the first year of Operations i.e., FY 2022-23 at the rate of ₹ 0.02 crores per month for each refueller. Based on the same, the Airport Operator had estimated rental cost for 9-month period in FY 2021-22 and only for 2 months in FY 2023-24 after which they

expect to have sufficient number of own refuellers to run the operations.

- The Airport Operator had further submitted that they have considered the Rate of ₹ 800 - ₹ 850 per KL based on the Operating and Maintenance expenditure and Fuel throughput volume proposed by the Authority during determination of Fuel Infrastructure Fee for BPCL Kannur Fuel Farm Private Limited (BKFFPL) (the Company handling operations of Aviation Fuel farm at Kannur International Airport) for the First Control Period i.e., from FY 2020-21 to FY 2022-23 (refer to Para 4.3.5 and 7.4.12 of CP No. 23 / 2021-22). The Airport Operator has considered the Operating and Maintenance expenditure proposed by the Authority for BKFFPL excluding land lease rental and their own submission excluding refueller rental cost.

The Authority examined all the above and summarised its view as under:

a) The Airport Operator had not identified any 3rd party vendor or issued any contract / work order for handling the Fuel facility operations and hence, proposed to shift the base year of Fuel facility operations to FY 2023-24, in line with the shifting of the Capitalization of the asset, i.e., expected to commence operations from July 2023 instead of July 2022.

b) The Authority noted that Kannur International Airport is a comparable airport in terms of PAX, ATM traffic, Fuel Throughput volume, Fuel facility operations etc., and hence considered as a benchmark for deriving the Fuel operations and maintenance cost of MIA. The Authority proposed to consider the Fuel throughput Volume and related Operations and Maintenance Costs of Kannur International Airport for the FY 2022-23, as a comparable year of operations.

   The Authority further noted that Kannur International Airport had created a separate Joint Venture Company namely, BKFFPL to design, develop, construct, operate and handle the overall Fuel Facility operations and allied activities exclusively at the airport and in turn, BKFFPL had sub-contracted the Operation and Maintenance (O&M) of Fuel farm and Into-plane facilities to BPCL. Whereas, in Mangaluru International Airport, the Authority noted that, the Airport Operator had not formed any separate Joint Venture Company to operate and handle the Fuel facility but had submitted outsourcing the same directly, to a 3rd party vendor who will handle the operations and maintenance of the facility, similar to that of BPCL in Kannur International Airport. Therefore, the Authority proposed to consider the Operations and Maintenance Cost of BPCL, adopted by the Authority for FY 2022-23 as per Table 22 of Para 8.2.8 and Fuel throughput Volume as per Table 15 of Para 4.2.5 of Tariff Order No. 44 / 2021-22 for the purpose of benchmarking.

c) Based on the above, the Authority proposed to consider the rate of ₹ 615 per KL towards Operations and Maintenance cost of the Outsourced Contractor, and additionally 16% on such Costs as the Operator's margin in each FY in line with the rate adopted by the Authority for Kannur International Airport.

d) The Authority further proposed not to consider any increase Y-o-Y claimed by the Airport Operator, for all the individual expenses, since the Outsourced Contractor is responsible to handle the same as part of Contract terms.

e) The Authority proposed to accept the refueller rental expense as projected by the Airport Operator for FY 2022-23 and FY 2023-24.

Cargo Operating Expenses

10.2.24. Clause 19.4.1. of the Concession Agreement stipulates the Airport Operator's obligations towards upgrading,. developing, operating and maintaining the Cargo facilities in accordance with the provisions of the Concession Agreement (refer to paragraph 18.4.5 of Annexure 4 of Chapter 18 of this Tariff Order).

10.2.25. The Airport Operator had claimed Cargo Operating Expenditure towards salary cost, Cargo O&M expenses and Customs cost recovery by considering the FY 2022-23 as base year of operations on the assumption of commencing Cargo Operations from mid FY 2022-23. The Airport Operator had projected the Insourced salary and Customs Cost recovery based on the Manpower required to efficiently handle the Cargo operations and the Cargo O&M expenses on the basis of estimated Cargo Volume and Cargo cost / MT for each FY. The Airport Operator had also claimed an increase of 10% Y-o-Y for all the expenses for the next 3 FYs in the First Control Period.

The Authority examined the submission of the Airport Operator and noted that apart from the salary cost of their own employees, the Airport Operator had projected reimbursement of salary cost of Customs officials who will be handling the international cargo operations, under the head 'Customs cost recovery'. The Authority noted that the Airport Operator has estimated the salary cost of 5 Customs officials as per Para 7 of the Circular issued by the Department of Revenue, Ministry of Finance vide Circular No. 02/2021-Customs dated January 19, 2021 and arrived at 0.90 crores per annum. Since the Airport Operator had estimated commencement of Cargo operations only during middle of FY 2022-23, they have considered approximately 50% in the first year of operations and entire amount of salary cost from the next FY. Based on the above, the Authority proposed to consider the same as appropriate.

The Authority proposed to shift the base year of Cargo operations to FY 2023-24 (as per Table 69), in line with the shifting of Capitalization of the asset, as per the Capitalisation schedule proposed by the Authority. Further the Authority proposed to revise the increase in salary cost to 6% Y-o-Y, in line with that allowed for Manpower expense of AAI and Airport Operator and allow 4.90% Y-o-Y (inflationary effect) for other expenses, namely, Cargo O&M and Customs cost recovery as against 10% claimed by the Airport Operator for the remaining three (3) tariff years of the First Control period. Also, the Authority noted that the Cargo revenue projected by the AO for the First Control Period is sufficient to meet the Cargo expenses. However, the Authority was of the view that the AO should take efforts to substantially increase the Cargo revenue and the same will be examined by the Authority at the time of true up of the First Control Period.

10.2.26. After incorporating the above observations by the Authority, the revised Total Aeronautical O&M expenses including Fuel and Cargo Operating Expenses of Mangaluru International Airport have been presented in the tables below:

Table 101: Total Aeronautical Operation and Maintenance (O&M) expenses proposed by the Authority for Mangaluru International Airport for First Control Period at Consultation stage

(₹ Crores)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Aeronautical Operating Expenses						
Manpower expenses – AAI employees	19.77	20.95	18.59	14.25	15.10	**88.67**
Manpower expenses – Airport Operator employees	9.09	13.84	23.27	24.66	26.14	**97.00**
Utility expenses	9.38	9.84	13.11	13.75	14.43	**60.51**
IT expenses	2.43	2.54	3.36	3.52	3.70	**15.55**

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Rates and Taxes	0.33	0.35	0.46	0.48	0.50	**2.12**
Security expenses	2.07	2.17	2.87	3.01	3.16	**13.27**
Security Others	-	-	-	-	-	-
Corporate Allocation Cost	9.36	9.92	10.51	11.14	11.81	**52.75**
Administrative Expenses - Others	4.34	4.55	4.77	5.01	5.25	**23.91**
Admin Expenses – Collection Charges on UDF	0.28	0.50	0.58	0.75	0.90	**3.01**
Insurance	1.00	1.37	1.64	1.70	1.78	**7.49**
Repairs and Maintenance	7.42	6.83	25.06	29.21	33.58	**102.09**
Other Operating expenses	6.09	6.39	8.44	8.85	9.29	**39.05**
Runway recarpeting	-	-	-	-	-	-
Boundary Wall repair expense	-	0.50	0.50	0.50	0.50	**2.00**
Total Aeronautical Operating Expenses (A)	**71.54**	**79.75**	**113.16**	**116.85**	**126.13**	**507.43**
Fuel Operating Expenses						
Outsourced Contractor Cost (@ ₹ 615/- per KL of Fuel Throughput)	-	-	2.00	3.43	4.10	**9.54**
Outsourced Contractor margin – 16% on above amount	-	-	0.32	0.55	0.66	**1.53**
Refuellers Rentals	-	-	0.72	0.16	-	**0.88**
Total Fuel Operating Expenses (B)	**-**	**-**	**3.04**	**4.14**	**4.76**	**11.95**
Cargo Operating Expenses						
Insourced salary	-	-	0.31	0.66	0.70	**1.66**
O&M Expenses	-	-	0.72	1.83	2.31	**4.86**
Customs Cost Recovery	-	-	0.49	1.03	1.08	**2.60**
Total Cargo Operating Expenses (C)	**-**	**-**	**1.52**	**3.51**	**4.09**	**9.13**
Total Aeronautical O&M expenses (A+B+C)	**71.54**	**79.75**	**117.72**	**124.50**	**134.98**	**528.51**

10.2.27. Based on above considerations, the Authority proposed the following growth rates in Operation and Maintenance (O&M) expenses for Aeronautical Operating expenses, Fuel Operating expenses and Cargo Operating expenses, as compared to the projections submitted by the Airport Operator.

Table 102: Growth rates in total Aeronautical O&M expenses considered by the Authority for the First Control Period at Consultation stage

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Aeronautical Operating expense (A)					
Manpower Expenses – AAI employees	6%	6%	6%	6%	6%
Manpower Expenses – Airport Operator's employees		6%	6%	6%	6%
Utility expenses	4.90%	4.90%	32.07%	4.90%	4.90%

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
IT expenses	4.90%	4.90%	32.07%	4.90%	4.90%
Rates and Taxes	4.90%	4.90%	32.07%	4.90%	4.90%
Security expenses	4.90%	4.90%	32.07%	4.90%	4.90%
Security Others	-	-	-	-	-
Corporate Allocation Cost	6%	6%	6%	6%	6%
Administrative Expenses - Others	4.90%	4.90%	4.90%	4.90%	4.90%
Administrative Expenses – Collection Charges on UDF	-	78%	17%	29%	19%
Insurance – on Opening Net block of Assets	4.90%	4.90%	4.90%	4.90%	4.90%
Repairs and Maintenance – on Opening Net block of Assets	-	-	-	-	-
Other Operating expenses	4.90%	4.90%	32.07%	4.90%	4.90%
Amortization of Runway recarpeting	-	-	-	-	-
Boundary wall repair expense	-	-	-	-	-
Fuel operating expense (B)					
Fuel operator's margin	-		16%	16%	16%
Cargo operating expense (C)					
Cargo Operating Expenses – Insourced Salary cost			6%	6%	6%
Cargo Operating Expenses – Other expenses	-	-	4.90%	4.90%	4.90%

10.3. Stakeholders' comments on Operation and Maintenance Expenses for the First Control Period

10.3.1. During the stakeholders' consultation process, the Authority has received comments/ views from various stakeholders in response to the proposals of the Authority in the Consultation Paper no. 07/2022-23 with respect to Operation and Maintenance Expenditure for the First Control Period. The comments by stakeholders are presented below:

AO's comments on Operation and Maintenance Expenses for the First Control Period

10.3.2. AO has commented the following with respect to AERA's views relating to Manpower Expenses as detailed in para 10.2.11 (i) and (ii) in this Tariff Order:

"We would like to submit our analysis as follows

1. *All India AAI Employees salary growth*
2. *Mangaluru Airport AAI Employees Salary Growth Analysis of Select Employee Cost Paid by MIA to AAI from COD".*

All India AAI Employees salary growth

Avg salary per employee of all India AAI employee is Rs. 25.8 lakhs in FY19-20 and the CAGR increase in avg cost per employee from FY13 to FY20 is 13.30%

Mangaluru Airport AAI Employees Salary Growth Avg salary per AAI employee at Mangaluru Airport is Rs. 20 lakhs in FY19-20 and the CAGR increase in avg cost per employee is 22% and annual growth of 14% each in FY19 and FY20

Analysis of Select Employee Cost paid by MIA to AAI

The Avg cost per employee from Nov-2021 onwards has increased by over 20% without adjusting *the one-time costs and 10-12% after adjusting the one-time costs*

Further, we have analyzed 10 sample AAI select employee cost and found similar trend in the increase in cost from Nov-2021 onwards.

Summary of Analysis

Details	***Cost per Employee***	***Increase in cost as %***
All India AAI Employee	*Cost per employee in FY20 is Rs. 25.80 lakhs*	*Increase in cost per employee from FY13 to FY20 is CAGR of 13.30%*
Mangaluru Airport AAI Employee before COD	*Cost per employee in FY20 is Rs. 20 lakhs*	*Increase in cost per employee from FY17 to FY20 is CAGR over 20%*
AAI Select Employees payment made by MIA after COD	*Cost per employee in Mar-2022 is Rs. 17.89 lakhs without adjusting one-time costs and Rs. 15.09 lakhs after adjusting one-time costs*	*Increase in salary during the period from Nov-21 to Mar-2022 as compared to period from Nov-2020 to Mar-2021 is over 22% without adjusting one-time costs and 10-12% after adjusting one-time costs.*
Sample 10 AAI Select Employees cost		*Increase in salary during the period from Nov-21 to Mar-2022 as compared to period from Nov-2020 to Mar-2021 is 10-12%*

It is evident from the above analysis that avg annual cost per AAI employees has been increasing at a rate of 10-12%.

MIA is a new AO who needs to build its manpower to run the Airport operations. MIA needs to hire all people from outside who come at 25%-30% higher salaries. According to a recent Michael Page report titled "Talent Trends 2021," better remuneration is the top reason for changing jobs. The report highlights that job seekers on an average expect around 20% salary hike at middle levels and 19% increase at director, Vice President and CXO levels from their current or last salary drawn. Even non-managerial level employees' expectations are an average of 20%."

MIA would like to highlight the fact that Airport Operators face difficulties while hiring a new workforce. This is because the suitable personnel available for the aviation sector is very limited. While it is comparatively easier to get workforce for accounts, finance, administration etc., it is very difficult to get skilled workforce for airside and terminal operations, engineering and maintenance and safety. To obtain and retain competent employees, it is imperative to compensate them well.

Based on above analysis, we had requested for annual 15% increase in avg cost per employee. However, AERA has considered increase of 6% only.

We request the Authority to provide at least 10-12% YoY increase in avg cost of salaries for all employees i.e. AAI and MIA Manpower.

10.3.3. AO has commented the following with respect to AERA's views relating to Manpower Expenses as detailed in para 10.2.11 (ii) in this Tariff Order:

The approved strength of AAI Select and Non-Select Employees as on COD was as.

(A) AAI Approved Strength –

Details	***No.***
Select Employees as per Schedule S, other than Fire Fighters (a)	*79*
Select Employees as per Schedule S, Fire Fighter (b)*	*37*
Non-Select Employees - DGM & Above (c)	*5*
Deficiency in ARFF People (d)*	*30*
Total approved strength of AAI for Mangaluru Airport (a to d)	***151***

There is deficiency in ARFF of 30 people as per DGCA Task Resource Analysis (refer point 6.3.10 below)

There are other roles and responsibilities which are either not done by AAI at Airport or not mandated to AAI (refer information provided below table (B)). The private Airport Operator is charged with various additional responsibilities under the CA. It is the endeavor of the Private Airport Operator that necessary positions are filled to operate the Airport in safe and secure manner.

(B) New Roles and Responsibilities for Private Airport Operator –

New Roles and Responsibilities	*As submitted by AO for FY24-FY26*	*As proposed by AERA for FY24-FY26*
Procurement Department	5	5
Corporate Communication	1	1
Corporate Affairs	1	1
In-house legal team	3	-
Safety	2	2
Quality	3	3
Customer Engagement	3	2
Regulatory	1	1
Total	**19**	**15**

(C) Roles which were not filled by AAI –

New Roles and Responsibilities	*As submitted by AO for FY24-FY26*	*As proposed by AERA for FY24-FY26*
Security	14	5
Information technology	4	4
Airside Management*	30	11
Total	**48**	**20**

**Previously Airside operations were performed by ATC/ ANS team as an additional responsibility. In this regard, reference is invited to the DGCA observation on Airside Operation Manpower.*

Airport is undertaking Terminal Expansion from (~37,000 sq mtr to ~47,000 sq mtr) & Parallel Taxi Track work which were started by AAI in 2018 and 2017 respectively but will be commissioned in FY 23. With the completion of Terminal Expansion, the area of the terminal will increase by 27%. Once these facilities are commissioned, it will require additional manpower of 31 numbers.

Total Strength of Mangaluru Airport

Details	*As submitted by AO for FY24-FY26*
Approved strength (A)	151
New roles (B)	19
Roles which are deficient (C)	48
Increase in number for various department like Finance, HR, E&M, Commercial, Terminal Operation due to increase in passenger and new facilities	31
Total	**249**

*After taking into account all the above, the total strength of MIA could go up to 249 personnel. Based on AERA re-computation it could reach to 210 (151 approved manpower + 15 new roles + 20 Roles which are not filled by AAI and 24 (31*75%) due to expansion)*

To understand the strength of the Airport of similar size and nature we have benchmarked the same with AAI Calicut Airport. Refer table below for the MYTP submission by AAI of Calicut Airport for Third Control Period.

Form F11 (a): Employee Strength					
	2nd Control Period				
Particulars - with detailed breakup	2016-2017	(2017-18)	(2018-19)	(2019-20)	(2020-21)
Department-wise Full-Time Employees					
Airport Director office	3	3	3	3	3
CSO	3	2	2	2	2
Terminal Management	16	16	17	16	14
M.T. Section	15	12	13	13	13
Fire Service	71	75	72	91	95
Hrm	11	13	11	12	14
House Keeping	Nil	Nil	Nil	Nil	Nil
Stores	1	1	1	1	1
Finance & Accounts	9	10	10	9	10
Cargo	Nil	Nil	Nil	Nil	Nil
Commercial	4	5	4	4	4
Civil Engineering	14	13	11	8	6
Electrical Engineering	27	28	26	27	25
CNS - Other than Airport Systems	24	23	25	24	22
CNS - Airport system	10	11	11	10	5
CNS - IT	4	1	1	1	1
Airport Systems	0	1	1	0	0
Land Management	2	2	2	2	2
ATC	22	27	27	27	26
Total	236	243	237	250	243
......					
Total Airport Strength	190	193	185	199	195
Total ANS Strength	46	50	52	51	48
Total	236	243	237	250	243
Finance & HR	20	23	21	21	24
proportion of Finance & HR to ANS	4	5	5	4	5
Percentage of ANS for the common expenses	2.05	2.45	2.49	2.15	2.43

Redeployed Employees :

Total Strength of Calicut Airport is 219 (Airport Strength 195 + Finance & HR 24 in FY20-21). Since it is also an AAI Airport it does not include airside manpower, new role and responsibilities applied on Private Airport Operator.

MIA has requested 188 manpower after applying various factors including efficiency as against the likely requirement of 249, as per benchmarking. However, that has been reduced to 137 by Authority without any justification.

In view of the foregoing, we hereby request AERA to allow the Manpower deployment plan as has been requested by MIA in MYTP

10.3.4. AO has commented the following with respect to AERA's views on Manpower relating to various departments proposed by the AO:

- *In respect to Security function, the relevant submission provided to the consultant during the review is reproduced below:*

  "Currently there is no person deputed for carrying out Security function at the Airport. AAI was only performing pass section function with an outsourced support. However, there are various activities which need to be performed by MIA like CISF Documentation, Airport Security Program, Kerb Side Management, Traffic Management, Airport Operator Security Control Room, Security System Maintenance, Encroachment prevention, perimeter area, Intelligence and Vigilance gathering, Avsec Training and Compliances, BCAS Compliance requirements.

  MIA will be carrying out functions with a combination of On roll and outsourced employees.

  Sovereign agencies and security set up of the airport operator have clearly defined mandates. NACASP 2018 vide Para4.2.2(xxii) stipulates that the Airport Operator is responsible for implementation of security controls at the airports through the CSO. The Asset CSO is bestowed with all the powers to implement security controls at the airport level and overall coordination *with other agencies at the airport (Para5.2.1(ii) of NCASP refers).*

MIA has assumed on roll 14 employees comprising of 1 CSO, 4 Pass Section, 2 Avsec Audit and Compliances, 2 Loss Prevention and Automation, 2 kerbside management and 3 others. Other activities like, Traffic Management, Encroachment Prevention, Security System Maintenance etc. are expected to be outsourced"

However, AERA has considered only 5 personnel as AERO against our submission of 14 personnel. As opined by AERA that activities relating to CISF and BCAS coordination are only Aeronautical and other Activities are non-Aeronautical. Hence as per AERA, activities relating to Airport Security Program, Kerb Side Management, Traffic Management, Airport Operator Security Control Room, Tout Management, Security System Maintenance, Encroachment prevention and perimeter area, Intelligence and Vigilance Gathering, Avsec Training and Compliances, (emphasis) are all Non-Aeronautical.

In connection with the above, we have following comments

It is to be noted that it is responsibility of Airport Operator to implement necessary security controls at the Airport. It is responsibility of the Airport Operator that no unauthorized access is provided to the Airport premises. Under the Concession Agreement Clause 18.1.1 obligation includes (n) "preventing, with the assistance of the concerned law enforcement agencies, any encroachments on, unauthorized entry to or unauthorized use of the Airport."

Under the Concession Agreement Clause 5.9 Obligations relating to Security Clearance it is mentioned that "Notwithstanding anything to the contrary contained in this Agreement, the engagement of employees**, staff and personnel of the Concessionaire and of its Contractors and subcontractors shall always be subject to security clearance by the Designated GOI Agency as may be required under Applicable Laws, and only persons having a valid security clearance shall be permitted on the Site." **In order to obtain security clearances for various personnel Avsec Security Training are mandatory. The pass section is to be manned with necessary manpower.

- *Schedule J User Charter of Concession Agreement provides that : -*

"Approach to the Airport We will undertake all efforts to make your arrival within the Airport area smooth and comfortable. Our traffic plans will be oriented in such a manner that will enable easy entry into and exit from the Airport area."

The activities mentioned by AERA as Non-Aeronautical are essential part of the Airport Operations and it should be categorized as Aeronautical activities.

- *In relation to in-house legal department, AERA has commented that : -*

"The Authority notes that the Legal Function is excluded in accordance with Clause 28.3.8 of the Concession agreement and hence proposes not to consider the Employee Headcount projected by AO for the Legal Function for Aeronautical Headcount."

It is to be noted that the Authority has treated cost of employees under Legal department as non-Aero which is not in line with the letter and spirit of the Concession Agreement. The work of in-house Legal department is mainly related to Aero. Till COD and thereafter also, legal department had to play a huge in role in complying with the terms of the Concession Agreement and applicable laws for operational readiness of the Airport. Further, the Airport Operator has given the rights of Non-Aeronautical Services to a Master Service Provider and therefore, the majority work being carried out by the Legal department is only related to Aeronautical Services. It may also be noted that cost of Legal Employees cannot be treated as Legal Services.

It is also requested to take a note that as per CA "costs incurred by the Concessionaire with regards to legal services, shall not be considered by the Regulator for the purpose of determining the Aeronautical Charges". As is clear, CA does not restrict Regulator to allow pass through of costs incurred by the AO with respect to the employees of in-house legal department.

- In relation to Terminal and Operation department, AERA has commented that

"The Authority notes that the number of Employee Headcount projected by the AO for Terminal Operations is on the higher side considering that there are existing employees of AAI (i.e., Select employees deputed to MIA) at the Airport till the deemed deputation period and hence, proposes to consider 75% of the Headcount projected by the AO, for all the five (5) tariff years"

Airport is a 24x7 operations. The required manpower should be available in shifts to ensure efficient operations. The observation from AERA that headcount looks higher is generic and without any detailed working provided in the CP. We would like to submit to the AERA the roles and responsibilities of these manpower in below table

Details	***No. of people***	***Roles and responsibilities***
Head Terminal Operations	*1*	*Reports to Chief Airport Officer and is responsible for Terminal (Domestic & International) Operations, Passenger Service, Facilities.*
Duty Terminal Manager (DTM)	*12*	*Round the clock operations duty managers are placed at Departure and Arrivals. in 03 shifts. Major responsibility of DTM is to man the Terminal Manager office round the clock. Passengers reach out to Terminal Manager office for any issues related to airlines, generic queries about flights, airport facilities etc. DTM has also the responsibility of handling emergency situation in terminals.*
Head Guest Relations	*1*	*Responsible to facilitate the movement of VIPs with smooth Check-in, VIP Lounge services, Security Check and Boarding after proper coordination with airlines, CISF*
Duty Officer Protocol	*2*	*Round the clock operations (1= General Shift 01 = Night Shift. Report to Head Guest Relations and facilitate the movement of VIPs with smooth Check-in, VIP Lounge services, Security Check for both domestic and international terminals*
Facilities Management-Terminal	*2*	*Round the clock operations (1= General Shift 01 = Night Shift. Person is responsible to oversee and supervise the work performed by outsourced housekeeping staff. This will enhance customer experience at the airport*
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- In relation to Engineering and Maintenance department, AERA has commented that:

"In respect of Engineering & Maintenance department, the Authority notes that the AO has submitted that they will be outsourcing certain activities relating to this department including availing hiring services of PMC and hence the Authority proposes to consider 50% of the Aeronautical Employee Headcount projected by the Airport Operator for all the five (5) tariff years of the First Control Period."

We would like to reproduce the exact submission made by us as follows:

"Currently AAI has 233 approx. 10-15 people each in Civil, Technical and Engineering sections. MIA is expected to outsource some of the non-core activities. Second there will be increase in Terminal Area by 27%, increase in Airside Facilities, increase in landside facilities, Utilities etc,

and there will be requirement of more manpower in Engineering and Maintenance department to cater to these increased facilities. Considering all the above factor, MIA is expected to consolidate the function and will have only 21 people on-rolls."

There are certain interpretation / assumptions made by AERA: -

- ✓ *AERA has itself added PMC as additional hiring services. MIA has not made any such statement in its submission for Operation & Maintenance expenses. PMC is part of Project Management and not relating to O&M.*
- ✓ *MIA has submitted that AAI currently has approx. 35 employees in E&M section (10-15 people each in Civil, Technical and Engineering sections.)*
- ✓ *MIA has clearly mentioned that it will consolidate the positions and it will have only 21 people on rolls as against the AAI current headcount of 35. The 21 on-rolls are after increased operations due to expansion and after considering the non-core activities which MIA is planning to outsource.*
- ✓ *It appears that the Authority has mis-read the submissions.*

- In relation to Airside Management, AERA has commented that

  "In respect of Airside Management, the Authority notes that the Headcount projected by AO for all the tariff years is on the higher side considering the fact that, MIA is a small airport with lesser traffic volume and also that the work on ground handling (outsourced) and VDGS system is already in place. Further, the activity of bird chasing has been outsourced by the AO. Based on the above factors, the Authority proposes to consider 75% of the Aeronautical Employee Headcount projected by the Airport Operator for the first 2 tariff years and retain the same number of employees (Eleven), proposed by the Authority in the 2nd Tariff Year (FY 2022-23) for the last three (3) tariff years of the First Control Period as against 30 employees claimed by the AO".

  Airport is a 24x7 operations. The required manpower should be available in shifts to ensure efficient operations. The observation from AERA that headcount looks higher is generic and without any detailed working provided in the CP. We would like to submit to AERA about the detailed roles and responsibilities of these manpower as tabled below –

Details	***No. of people***	***Roles and responsibilities***
Head Aero Operations	*1*	*Lead the Airside Operations, Aviation Safety, ESG, Apron control and ARFF for Ahmedabad Airport*
Compliance Officer	*1*	*Updating of regulatory documents, compilation and closure of ATRs to DGCA observations, surveys etc.*
Duty Managers	*4*	*For 24x7 shift duties. Round the clock operations. Inspects and patrols all airport facilities, grounds and properties to ensure regulatory compliance. Prepares detailed reports of daily operations, unusual incidents/accidents, hazardous conditions and inspections.*
Executives	*8*	*2 executives in each shift (for 24x7 shift duties) considering the projected traffic, infra enhancements, enforcement, airside works management, follow me services, Emergency handling*
Lead AOCC	*1*	*Responsible for allocation of resources such as parking bay or aerobridge, check-in counter and baggage belts, and also control the Flight Information Display System (FIDS) for the passengers.*

Details	*No. of people*	*Roles and responsibilities*
AOCC Associates	*8*	*8 - AOCC Executives (for 24x7 shift duties @ 2 in each shift)*
Wildlife & Hazard Management	*2*	*Responsible for monitoring and recording wildlife activities at the airport and mitigation plan. 1 Executive + 1 Supervisor*
ADP/AVP	*2*	*Responsible for vehicle movements at the airside and authorizing driving permits for airside vehicle movement*
Aerodrome Safeguarding	*2*	*1 Executive + 1 Surveyor. To ensure compliant Obstacle Limitation Surfaces as per DGCA CAR and allied works. Monitors immediate airport environs for safeguarding purposes, including temporary obstacles that might alter the approach and take off and circling procedures from each runway.*
Airside Works and Planning	*2*	*In FY22-23 and FY23-24, as a part of capex expansion plan, new airside facilities to come up. Major Airside projects – Parallel taxi Track, Runway recarpeting and Center lighting, Fuel Farm, taxiways, cargo, RESA.*
	31	

- In relation to Fire Fighter, AERA has commented that

"The Authority notes that AO has projected 7 employees for ARFF department for the last Three (3) tariff years of the First Control Period. The Authority is of the view that the AO has already projected 60 employees for Fire-fighting for the last Three (3) tariff years as per DGCA guidelines. Such employees are also involved in related activities. Hence, the Authority proposes to consider 3 employees for ARFF department for the last Three (3) tariff years as against 7 employees claimed by the AO."

As per Task Resource Analysis (TRA) carried out post COD, the required manpower for ARFF at Mangaluru International Airport is 83 to maintain the required Fire Category as per DGCA CAR.

Out of above 83 positions, 16 positions relating to Assistants in Ambulance, Emergency Medical Center and Terminal Fire Control Room are planned to be outsourced and balance 67 positions are required by MIA for the safe operations of the Airport.

AERA has allowed overall 63 people out of total requirement of 67. We request AERA to allow all 67 employees as per TRA.

In relation to Customer Engagement, AERA has commented that

"The Authority proposes to retain the Employee Headcount at 2 for the last three (3) tariff years for Customer Engagement department as against 3 employees claimed by the AO, as the Authority feels that this function relates to ASQ rating activity, which is performed only on a quarterly basis, that too through outsourced Consultancy Firms."

MIA has planned to hire Customer Engagement based on increase in size of operations. MIA has been cautious of the hiring plan. Accordingly, it has planned to increase count from 2 to 3 from FY24 onwards when the expanded terminal will be fully in operation leading to increase in terminal area by 27%

In view of the above details, in the interest of safety and security and unhindered operations of the Airport, we request the Authority to allow total 188 strength as requested by the Airport in its MYTP submission.

10.3.5. AO has commented on AERA's views relating to Utilities Expenses as stated in para 10.2.12 in this

Tariff Order:

"Please find attached the report as directed by the Authority. Please refer Annexure 9".

10.3.6. AO has commented on AERA's views relating to Counter Drone Expenses as stated in para 10.2.14 in this Tariff Order:

"With reference to AVSEC Circular No 02/2020 dated 11 Jan 2020 and subsequent Addendum issued on 09 Feb 2021 issued by BCAS, Ministry of Civil Aviation, wherein all airports were instructed to install the technically and operationally compliant Counter Drone System for Surveillance, Detection and Neutralization of drones within 6 / 12 months per the parameters mentioned by BCAS

In order to comply with BCAS guidelines, MIA tad taken necessary steps. MIA floated the tender and post selection, issued LoA to the competent vendor in Nov 2021

Subsequently, vendor completed the Site Visit, Solution Design discussion, Order placement and System Procurement to meet the installation timelines. Meanwhile, MIA also completed the following activities.

Preparation of local Infrastructure requirement (Power, Cabling, Civil, etc.) discussed and agreed with all stakeholders.

Location for setting up Command and Control discussed with CISF

However, in Feb 2022, BCAS withdrew the orders till further notice. We wish to bring to the notice of the Authority that all our efforts to deploy the counter drone system and its critical sub-systems at the airports was based on the requirements mentioned in the AVSEC Circular No 02/2020. Since these requirements pertain to safety of the Airport Operations, we would pursue the same once BCAS restores the circular or issues fresh directions.

We therefore request the Authority to allow us to incur the expenditure as and when BCAS restores the circular or issues fresh directions and true-up of this expenditure during the tariff determination of the next control period, on incurrence basis".

10.3.7. AO has commented the following with respect to AERA's views relating to Corporate Cost Allocation as stated in para 10.2.15 (vi) in this Tariff Order:

"To avoid repetition of comments on in-house legal team, please refer the comments provided in earlier para.

Since the major portion the Corporate Cost Allocation is comprising of Salary, we request Authority to provide increase in average cost per employee by 10-12% YoY".

10.3.8. AO has commented the following with respect to AERA's views relating to Repairs and Maintenance as stated in para 10.2.18, in this Tariff Order:

"We would like to submit that Repairs and Maintenance expenses for FY21-22 and FY22-23 are either incurred or committed. These are expenses which need to be incurred for maintaining safe operations at the Airport. Please find enclosed the list of expenses as Annexure 1.2 to 1.3.

We hereby request Authority not to prescribe any cap at least for FY21-22 and FY22-23".

10.3.9. AO has commented the following with respect to AERA's views relating to Boundary Wall Expenses as stated in para 10.2.21 in this Tariff Order:

"Being a tabletop Airport with extensive yearly rainfall, every year lot of landslides occur which lead to collapse of operational as well as property boundary wall. To control, repair & reconstruction of Boundary wall is a perineal issue at the Airport

Recently, in the month of Jun-2022 a section of boundary fell due to heavy rainfall (please refer the photos provided below). In order to rectify the Boundary wall of 110 meter, MIA is required to incur an expenditure of Rs. 0.67 Crs (refer below the cost of reconstruction)

Second, the work for parallel taxi track is underway. In order to facilitate the construction certain portion of the property wall is kept open. Whenever the construction of Parallel Taxi track is completed, MIA is required to cover the property with a proper boundary wall. The Authority has approved only Rs. 0.5 Crs p.a. which is very low considering the above requirements and actual cost incurred recently

We therefore request the Authority to approve the amount of Rs. 7.6 Crs as requested by the Airport Operator. Details of expenditure being incurred on reconstruction of Boundary wall collapsed during heavy rain in June 22 is given below"

Schedule of Works:

S.No	Description	Qty	Unit	Rate	Amount
Works carried-out at 24 End:-(M/s. Sheela Construction)					
1	Various works carried out at 24 End by M/s. Sheela Constructions (Details attached)	1	Item	26,43,250	26,43,250
Works carried-out at Advapady Side:- (M/s. PSV Project Pvt ltd)					
1	**Temporary Hard Barrication:** Providing, fabricating and fixing of Hard barication around the construction plot area Min. 4mtr height / As per AAI norms with vertical & horizontal supports members (angles / Channel sections having yst 250Mpa) in required regular intervals, the frame shall be covered with 0.5mm PPGI sheet including necessary welding if required and all accessories (Screws, Clamps Etc...) to fix the PPGI sheet, the scope also includes necessary excavation, concreting and backfilling to erect the vertical & supporting members all complete as per drawing, specifications and as directed by EIC	117	m	13,682	16,00,760
2	JCB Work at Airside compound damage repair				
	Day 1: JCB timings 7.00 pm to 5.00am	10	Hrs	1,500	15,000
	Day2: JCB timings 10.00 am to 12.00 am	14	Hrs	1,500	21,000
	Day3: JCB timings 10.00 am to 2.00 pm	4	Hrs	1,500	6,000
3	Construction of Compound wall works at Advapady Side	1	Item	21,28,345	21,28,345
	Total Amount (INR)				**64,14,355**
				Contingency 5%	3,20,718
				Total Amount Excluding GST (INR)	**67,35,073**
				Say	**67.36 Lacs**

10.3.10. AO has commented the following with respect to AERA's views relating to Fuel Operating Expenses as stated in para 10.2.22 (c) and (d) in this Tariff Order:

Please find the comparison of per KL cost approved for BPCL KIAL Fuel Farm Private Limited and as requested by the MIA in below tables –

Kannur Airport overall cost of operating the BPCL KIAL Fuel Farm Private Limited as per order number 44/2021-22 dated 15th March 2022

Details	*FY21-22*	*FY22-23*
Total Cost of operations (refer table 25 of the Order No. 44/2021-22) (Rs Crs)	5.24	5.56
Throughput volume (KL) (refer table 13 of the Order No. 44/2021-22) (KL)	26,929	44,882
Rs Cost per KL	1,945	1,238

Cost requested by MIA in the MYTP is as follows:

	FY22-23	***FY23-24***	***FY24-25***	*FY25-26*
Overall cost projected by MIA in MYTP	3.60	4.82	5.48	6.34

	FY22-23	FY23-24	FY24-25	FY25-26
(Rs Crs)				
Overall volume projected by MIA in MYTP (KL)	32,581	55,817	66,743	77,638
Rs Cost per KL	1,103	864	820	816

Cost proposed by AERA in the CP is as follows:

	FY23-24	FY24-25	FY25-26
Overall cost proposed by AERA in CP (Rs Crs)	3.04	4.14	4.76
Overall volume proposed by AERA in CP (KL)	32,581	55,817	66,743
Rs Cost per KL	933	742	713

The overall cost per KL approved for BPCL KIAL Fuel Farm Private Limited is much higher than the cost requested by the MIA.

We request the Authority to approve the cost as projected by MIA and to allow the true-up of the actual cost during the tariff determination of next Control period.

Other Stakeholder's comments on Operation and Maintenance Expenditure for the First Control Period

10.3.11. APAO has commented the following:

Rationalization in Employee numbers and salary increase not allowed as per projections of Airport Operator

"Airport operators are experts in their domain, and they understand much better about the operating requirements of the Airport. AERA has reduced the number of manpower without a justifiable reasoning. The reduction in manpower is made on the premise that it looks higher as per Authority point of view. It would be helpful if the Authority can publish its study about the manpower requirement based on size of the Airport.

AERA has only allowed 6% increase in salary which is very low given the current labor market conditions. According to global professional services firm Aon's 26th Salary increase Survey in India, organizations across industries project a 9.9 per cent salary increase in 2022, compared to 9.3 per cent in 2021. Salary increments in India will touch a five-year high of 9.9 per cent in 2022 as organizations are planning to invest in new-age capabilities to build a resilient workforce amid strong economic recovery and positive business sentiment. As per the survey, a positive business outlook is resulting in a higher number of double-digit increments. Around 88 per cent organizations foresee an improvement in business outlook in 2022, 11 per cent higher from 2021, the survey said, adding that 33 per cent organizations are expected to give double-digit salary increases in 2022 - an increase of 5 percentage points from 2021.

The salary increases across India in the last 10 years before Covid-19 is ranged from 12.6% to 9.3%."

Restricting R&M expenses to 6% of opening RAB

"AERA has restricted the R&M expenses to lower of 6% of opening RAB or submission of airport operator. This approach is against the spirit of AERA Act. As per section 13 of the AERA Act, Authority has to ensure economic and viable operation of the airports. Further, cost for improving the efficiency has also to be considered for determination of tariff of aeronautical services.

Relevant extract from AERA Act is as follows: -

13. Functions of Authority – (1) The Authority shall perform the following functions in respect of major airports, namely: -

(a) to determine the tariff for the aeronautical services taking into consideration-

(i) the capital expenditure incurred and timely investment in improvement of airport facilities:

(ii) the service provided, its quality and other relevant factors;

(iii) the cost for improving efficiency;

(iv) economic and viable operations of major airports

By restricting these expenses, we humbly submit that the Authority is acting in contravention to the mandate of the AERA Act.

Further AERA guidelines which provide for the detailed framework of how the Authority will determine the tariff also does not provide any capping of R&M expenses to 6%. Restricting the expenses will compromise the operations as Airport operator as they will not able to incur more than what has been allowed by Authority.

Interestingly, in this case two Airport operators are involved Pre-COD and Post-COD. Both understand the intricacies and needs of repair and maintenance which an airport requires and have accordingly provided for the same for safe and efficient running of the airport. Linking the same to plain mathematical formula (% of net RAB) might result in over projection or under projection of these expenses with no linkage of the same to actual R&M needs of each individual airport.

R&M needs of each airport operator depends on various factors which are unique to them, by using the same standard template of projecting these expenses for different airports is not an appropriate approach."

10.3.12. BIAL has commented the following:

Capping of R&M expenses to 6% of opening RAB

"AERA has restricted the R&M expenses to lower of 6% of opening RAB or the submissions of airport operator. This approach is against the provisions of AERA Act. As per section 13 of the AERA Act, Authority has to ensure economic and viable operation of the airports. The capping of the R&M expenses by the Authority is not in consonance to the mandate under the AERA Act. Restricting the expenses will compromise the operations of the Airport, as the operator will not be able to incur more than what has been allowed by Authority.

The AERA guidelines published so far in regard to Airport operators, does not provide for any capping of R&M expenses to any value. Therefore, we are not able to understand the logic for the proposed capping principle. Such fundamental changes to economic regulation of airports need to have some compelling reason and the Consultation Paper does not have any such analysis"

10.3.13. FIA has commented the following:

Para 10.1.1 read with 10.2.22 (Fuel Operating Expenses)

"AERA should not permit outsourcing of fuel facility on a 'Cost plus margin Basis' and instead should lowest cost model through competitive bidding."

Para 10.2.12 (Utility Expenses):

"Airport operator is requested to clarify whether any report of the Committee on Power Expenses has been submitted to AERA? If yes, request a copy of the same is provided to stakeholders"

Para 10.2.25 (Cargo Operating Expenses):

"It is requested that the Customs Cost Recovery Charges for Customs staff posted at Air Cargo complexes, courier terminals etc. as prescribed by the Central Board of Excise and Customs needs to be levied on custodians, and not on the airlines"

Para 10.1.15 & Table 77 & 78:

"It appears that no cost cutting/reduction in O&M expenses have taken place and on the contrary, as per para 10.1.13 and Table 77 of the CP, a further increase is proposed O&M expenditure for First Control Period.

We submit that while the aviation sector, including airlines have incurred huge losses and are struggling to meet their operational costs, the Airport operator on the other hand seems to have incurred/will incur incremental expenses which may not appear prudent considering the significant losses incurred by the aviation sector."

10.3.14. IATA has commented the following:

"There seems to be room to pursue greater rationalization of O&M expenses with the transition from AAI to the new airport operator"

"It is important to clarify how the new airport operator will account for the monthly passenger fee payments from its profits/ allowable returns, as this is not allowed to be passed through. Although this would naturally not appear in the regulated costs for the determination of the ARR, we encourage AERA to maintain visibility of this aspect to ensure that the passenger fees are not picked up by airport users, either fully or partially, intentionally or not."

10.4. AO's responses to stakeholders' comments on Operation and Maintenance Expenses for the First Control Period

10.4.1. AO has responded to APAO's comments on Rationalization in Employee numbers and salary increase not allowed as per projections of Airport Operator as under:

Detailed comments provided by the AO on department wise employee Headcount (para 10.3.4 in this Tariff Order) may be referred to.

10.4.2. AO has responded to BIAL's and APAO's comments on Restricting R&M expenses to 6% of opening RAB as under:

Detailed comments provided by the AO on R&M expenses (para 10.3.8 in this Tariff Order) may be referred to.

10.4.3. AO has responded to FIA's comments as under:

Para 10.1.1 read with 10.2.22 (Fuel Operating Expenses)

"MIA follows the process of selection of vendors through an open competitive bidding. The airport operator is going to carry out the functions itself and not through an ISP"

Para 10.2.12 (Utility Expenses):

"Report of the Committee on Power Expenses has been submitted to AERA as part of stakeholders' comments by MIA. Same is annexed as Annexure-9 of comments submitted by MIA"

Para 10.2.25 (Cargo Operating Expenses):

"In this particular case, MIA is the custodian and also the operator of cargo complex. Recovery charges for customs staff is a statutory cost for MIA for running the cargo facility and same is included as part

of O&M expenses for tariff determination purposes. This is a generally accepted practice in all sectors in the Country".

Para 10.1.15 & Table 77 & 78:

"Mangaluru Airport is undertaking Terminal Expansion from (~37,000 sq mtr to ~47,000 sq mtr) & Parallel Taxi Track work and facilities are likely to be commissioned in FY 23. Same will result in significant increase in airside and terminal capacity. Consequently, incremental manpower, utility expenses and various other expenses for running these new assets are bound to increase overall O&M of the airport. Also, existing assets of airport are very old (last major capex happened in 2010). In our experience, R&M expenses increase significantly once the assets mature due to ageing of infrastructure facilities, equipment and general wear and tear.

MIA is a new AO and needs to build its manpower to run the Airport operations. Airport Operators face difficulties while hiring a new workforce. This is because suitable personnel available for the aviation sector is very limited. To obtain and retain competent employees, it is imperative to compensate them well. MIA needs to hire all people from industry who come at 25%-30% higher salaries. Building of such a talent pool is an essential requirement to ensure delivery of optimized efficiencies to the airport users and more importantly to the airline community.

Further private Airport Operator is charged with various additional responsibilities under the Concession Agreement and same will result in commensurate increase in expenses."

10.4.4. AO has responded to IATA's comments as under:

"Airport Operator has taken measures to rationalize its O&M expenses wherever possible. For e.g., considering the current ongoing expansion along with additional responsibilities which are given to Airport Operator as per CA, total strength of Mangaluru Airport should be 249. However, MIA has projected manpower requirement of 188 taking into account possible efficiencies. Kindly refer the MIA comments to the consultation paper for details relating to the matter."

"Article 27 of the CA provides for necessary provisions relating to Concession Fees. For quick reference some of the relevant extracts provided as:

27.1.2 The Monthly Concession Fee paid/ payable by the Concessionaire to the Authority under and pursuant to the terms of this Agreement shall not be included as a part of costs for provision of Aeronautical Services and no pass-through would be available in relation to the same.

27.2 Verification of Passenger Throughput The Authority may, in order to verify the International Passenger Throughput and/ or Domestic Passenger Throughput and/ or to ascertain the actual International Passenger Throughput and Domestic Passenger Throughput at the Airport, depute its representatives to the Airport and the offices of the Concessionaire, and undertake such other measures and actions as it may deem necessary. The Authority may call upon the Concessionaire to furnish any and all data, information, log, sheet, document or statement, as the Authority may deem fit and necessary for these purposes. As provided above, the Concession Agreement does not allow pass-through of the per passenger fees. Further CA provides for necessary governance mechanism about the verification and reconciliation of the monthly passenger fees. Lastly, the audited financial statements separately disclose the monthly passenger fees.

MIA is of the opinion that there is sufficient mechanism provided to safeguard the interest of the users such that passenger fee is not picked up by airport users fully or partially. Further, AERA has ensured not to add monthly fees payable to AAI as an expenditure while calculating ARR."

10.5. Authority's analysis on Stakeholders' comments regarding Operation and Maintenance Expenses for the First Control Period

10.5.1. The Authority has examined the comments of the AO and the details provided on increase in manpower expenses and has the following views:

i. The CAGR considered by AO up to pre-COVID period includes an increase of 38% in salary cost for Executive employees provided in FY 2017-18, along with the additional leave encashment of ₹ 1.38 Crores and a similar 38% salary increase for Non-Executive employees in FY 2018-19. Hence the same cannot be considered as the appropriate base and applied directly for the First Control Period.

ii. Further, the Authority had reviewed at the Consultation stage that the Manpower expenses of AAI employees are accounted by the Airport Operator, based on the invoice raised by AAI for the 'Select Employees' deputed at Mangaluru International Airport, on a monthly basis.

iii. For both Manpower expenses of AAI and of AO, the Authority had only revised the Y-o-Y growth rate in payroll expenses to 6%, instead of 15% proposed by the AO. The Authority is of the view that the de-growth in passenger traffic caused by the COVID-19 pandemic and the resultant decrease in Aeronautical revenues including profitability, has necessitated rationalization of the operational and maintenance costs of the airport.

iv. The Authority notes AO's comments regarding the average cost per Select Employee of AAI has increased by over 20% from Nov 2021. The Authority has the following views with respect to the above increase in the cost of AAI employees from Nov 21:

- Austerity measures applied by AAI on account of COVID 19 pandemic, were later on lifted in phases.
- Dearness Allowance (DA) which was frozen in FY 2020-21, was restored with effect from July 1, 2021.
- 50% of the perquisites were withheld by AAI in the initial months of FY 2021-22, which were released in the later part of FY 2021-22.

The cumulative effect of the above measures by AAI had resulted in the one-time increase in the cost of AAI employee in Nov 21. Hence, in the Authority's opinion such one-time increase in payroll should not be considered as the basis for determining the growth in the payroll costs for the First Control Period.

v. Further, the Authority notes that AAI in the recent past had proposed a growth rate of only 5% to 7% in Payroll expenses for similar airports.

vi. Also, the Authority had considered in the past, a growth rate of approximately 6% consistently across other similar AAI airports and also PPP airports such as BIAL, and MIA cannot be treated any differently.

Based on all the above factors, the Authority decides to consider only 6% growth rate towards Manpower Expenses of both Select Employees of AAI and of the Airport Operator across all the five tariff years of the First Control Period.

10.5.2. The Authority has carefully examined AO's comments and details provided by the AO on manpower increase for First Control Period and notes that the AO has estimated the increase in number of employees, considering the completion of the expansion of Terminal Building in FY 2022-23 and its operationalization in FY 2023-24 and also that the deemed deputation period of

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the Select Employees deputed by AAI expires during the FY 2023-24.

In this respect, the Authority notes that the passenger traffic has plummeted as a result of the Pandemic and is expected to reach Pre-COVID levels only in FY2023-24. The Authority also notes that, the expanded Terminal Building though might become operational in FY 2023-24, is however expected to operate at its peak capacity only by the end of the First Control Period.

Further, considering other significant factors such as, the existing employees of AAI (107 Select Employees deputed to MIA) available for managing various departmental functions at the airport till mid-FY 2023-24, past 4-year average number of employees being only 103 (i.e., from FY 2016-17 to FY 2019-20) and the fact that the AO has planned for outsourcing significant portion of some major functions, the Authority is of the view that additional employee numbers claimed by the AO especially during the last 3 tariff years is not justified.

The Authority is also not inclined to compare MIA with Calicut International Airport though there are some similarities in terms of topography and climate, the Calicut International Airport handles much larger volume of traffic i.e., 3.23 MPPA in FY 2019-20 (pre-Covid) as against 1.88 MPPA handled by MIA in the same year, projected traffic of 3.8 MPPA in FY 2025-26 (by the end of the Control Period) as against 3.2 MPPA for MIA. Also, the Authority is of the view that PPP airports should bring in efficiency in the airport operations by optimising O&M expenses. Hence, the Authority does not find sufficient merit in AO's argument regarding higher employee numbers projected for MIA by benchmarking the same with Calicut International Airport.

The Authority has given its detailed analysis on the roles, responsibilities (department wise) of the manpower added by the AO for the First Control Period in para 10.2.11 (i), (iii) to (viii) of the Tariff Order.

Based on the above, the Authority is of the view that the manpower determined by the Authority (shown in table below) is sufficient for the smooth conduct of the business operations of the Airport.

However, the Authority has reconsidered its view on the Employee Head Count of Legal department, as a result of which, the Authority has decided to consider the employees of Legal department as 'Common' (instead of 'Non-aeronautical' earlier) and accordingly recomputed the Employee Head Count and corresponding Manpower Expenses of the AO for the First Control Period.

The recomputed Employee Head Count of AO across the First Control Period is shown in Table 103.

10.5.3. The Authority examined the comments of the AO relating to manpower of Security, Terminal and Operations, Engineering and Management, Airside Management, Firefighters and Customer engagement and states that, the Authority has proposed the revised Employee Head Count as per Table 98 of this Tariff Order, only after undertaking detailed analysis of the relevant assumptions relating to Employee numbers projected by the AO during the First Control Period, through the Authority's Consultant and also considering the imperative need to rationalize costs of the airport as a result of the COVID-19 Pandemic's adverse impact on the aviation sector (refer para 10.2.11 (i), (iii) to (viii) of the Tariff Order for department wise rationalization of headcount).

Based on the above, the Authority is of the view that aforementioned departments can be effectively handled with the reduced manpower as already proposed by it at the Consultation stage and it finds no reason to deviate from its proposal.

- As mentioned in para 10.5.2, the Authority decides to consider the employees of Legal department as 'Common' (as against 'Non-aeronautical proposed by it at the Consultation stage) and include the projected number in the Total Employee Head Count of AO for all the tariff years across the First Control Period.

- The Authority also notes the AO's comments on the categorization of activities as "Aero" and "Non-aero" by the Authority, whereby only activities relating to CISF and BCAS coordination are classified as Aeronautical and others such as Kerb Side Management, Traffic Management, Airport Operator Security Control Room, Tout Management, Security System Maintenance, Encroachment prevention are classified as "Non-Aeronautical". The Authority would like to state that the AERA Guidelines 2011, clearly demarcates the Aeronautical and Non-aeronautical activities and the Authority has examined the submission of the AO in line with the above Guidelines.

  The Authority is of the view that the AO has not understood the distinction between Aeronautical and Non-aeronautical activities. Further, it is the responsibility of the AO to provide infrastructure for the Non-aeronautical activities that are performed within the Airport.

- The Authority has noted the AO's comments regarding the Authority's view that the Employee Headcount submitted by the AO for the First Control Period is on the higher side, is a generic comment and is not backed up by any detailed working in the Consultation Paper.

  AERA would like to state that it understands its regulatory responsibilities under AERA Act, its Guidelines and ICAO principles very well. Only after a detailed analysis and consultation process, the decision is taken on all the matters relating to determination of tariff, in the interest of all the stakeholders. The AO gives a perception that manpower deputed by the AAI to AO is merely to draw salaries and not to perform any airport related duties. The AO needs to transcend this narrow thinking and revisit the manpower projections considering the fact that AAI had, in the past, managed operations of Mangaluru airport up to approximately 1.9 MPPA with its manpower of 105 employees and with a Airport Quality rating of 4.7. Accordingly, AO is required to further plan to fully utilise the services of the deputed AAI employees so that the interest of all stakeholders are served.

- In view of the above factors, AERA has rationalised the manpower headcount and these are not generic issues. Further, although AERA rationalises the employee headcount and the costs, it understands that manpower is needed for safe operations of the Airport and the same is taken care of.

Based on the above factors, the Authority decides to consider the Manpower Headcount determined by it for the First Control Period, which is as follows:

Table 103: Employee Headcount decided by the Authority for the First Control Period for MIA

Particulars	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
As per Consultation Paper No. 7/ 2022-23 (Table 98)	60	86	137	137	137
Add: Legal department Head Count	1	2	3	3	3
Revised Employee Head Count	61	88	140	140	140

10.5.4. AERA has noted the comments of APAO on publishing the study reports. The Authority would like to state that it has done the study on Efficient O&M expenses and Allocation of Assets for Mangaluru International Airport for the 5-year period from FY 2016-17 to FY 2020-21, which covers the pre-COD period (for AAI) and the period of 5 months from COD till March 31, 2021 (for the new Concessionaire). The above Study reports have been published in the AERA's website along with Consultation Paper No. 7/ 2022-23. AERA would like to emphasize that the fundamentals stated in the above Study reports would be applicable for the future Control Periods as well. Further, AERA may undertake study on NAR, Unplanned CAPEX, Efficient O&M expenses etc. for future Control Periods of MIA.

10.5.5. The Authority has examined the AO's comments relating to Power expenses and the details submitted by the AO and notes that the AO has fulfilled the requirement regarding submission of a report on the details of Power expenses. However, the Authority feels that 4% power recovery is too less and that the AO should make efforts to increase the power recovery.

Else, the Authority may make notional recovery at the time of tariff determination for the next Control Period.

10.5.6. The Authority has examined the comments of the AO regarding Counter Drone expenses and is of the view that as there is no order from BCAS at this point of time, these expenses are not considered for determination of tariff for this Control Period. AERA may take its view on this issue, in the future Control Periods depending upon the policies of BCAS/ GoI.

10.5.7. The Authority reviewed the comments of AO relating to Corporate Cost Allocation, in respect of the allocated cost ₹ 0.15 Crores towards In-house legal team. The Authority has already allowed the employee expenses towards the inhouse legal team of the AO and therefore, is of the view that providing additional expenses towards legal department at the corporate level would result in redundancy. Hence, the Authority has decided to exclude the same from the Aeronautical O&M expenses.

As stated by the Authority at the Consultation stage (refer para no. 10.2.15 (vi) of this Tariff Order) the Authority has considered growth rate of 6% Y-o-Y in line with the increase considered for Manpower expenses of both the AAI employees and AO's employees and is of the view that the same is justified.

10.5.8. The Authority reviewed the comments of AO, BIAL and APAO on Repairs & Maintenance (R&M) and states that, as per the Independent Study conducted on Efficient O&M expenses of MIA, Repairs & Maintenance expenses of MIA were found to be inefficient and hence, the Study proposed rationalization of R&M expenses by restricting the same to 6% of Opening RAB. Based on the same, the expenses were adjusted downward and the revised amount was considered for true up in the Consultation paper No. 07 / 2022-23.

Further, the Authority would like to point out that it has proposed this practice consistently in the past for other similar airports, in order to rationalize the inefficiency noted in the incurrence of the Repairs & Maintenance expenses.

The Authority has also considered other pertinent factors such as, a) the AO has proposed several capital expenditure projects for MIA for the First Control Period. As the Airport has a blend of new and old assets, the overall R&M costs may only be to the extent, which the Authority has considered in its analysis of the R&M costs and b) rationalization of costs of the Airport to improve efficiency in the operations.

Based on the above, the Authority is of the view that its proposal already stated in the Consultation Paper is reasonable and justified and hence, sees no reason to change the same.

10.5.9. The Authority has examined the comments of AO and information provided in respect of Boundary wall repair expenses.

The Authority had performed a detailed analysis of the existing condition of the boundary wall through its Independent Consultant and based on the same, the Authority had proposed an amount of ₹ 0.50 Crores for each FY commencing from FY 2022-23 at the Consultation stage (refer Para No. 10.2.21 of this Tariff Order). However, based on the review of the actual expenses incurred by the AO, on the reconstruction of the Boundary Wall repairs, the Authority decides to consider the Boundary wall expenses as ₹ 0.67 Crores for FY 2022-23 and ₹ 0.50 Crores for each of the remaining three tariff years of First Control Period.

However, the Authority decides to consider the actual cost incurred by AO at the time of determination of true up of the First Control Period under O&M expenses, while determining tariff of the next Control Period subject to the assessment of efficiency and reasonableness of the expenditure incurred by the AO.

10.5.10. The Authority has carefully considered AO's comments and the information provided in the annexure regarding Fuel Operating expenses and would like to reiterate that the Authority has undertaken detailed analysis to arrive at the relevant assumptions relating to benchmarking of Outsourced Fuel O&M contract planned by the AO for MIA with that of similar services performed by BPCL (sub-contractor to BKFFPL) at Kannur International Airport.

Further the Authority has thoroughly analysed the corresponding Rate / KL and percentage of margin allowed for the services of BPCL at Kannur International Airport.

As stated in para 10.2.23 in this Tariff Order, the Authority notes that Kannur International Airport has created a separate Joint Venture Company namely, BKFFPL to design, develop, construct, operate and handle the overall Fuel Facility operations at the airport and in turn, BKFFPL has sub-contracted the Operation and Maintenance (O&M) of Fuel farm and Into-plane facilities to BPCL. Whereas, in Mangaluru International Airport, the Authority notes that, the Airport Operator has not formed any separate Joint Venture Company to operate and handle the Fuel facility but has proposed outsourcing the same directly, to a 3rd party vendor who will handle the operations and maintenance of the facility, similar to that of BPCL in Kannur International Airport. Therefore, the Authority decides to consider the O&M costs of BPCL, adopted by the Authority for FY 2022-23 for Kannur Airport for the purpose of benchmarking.

Based on the same, the Authority has proposed in the Consultation Paper No. 07 / 2022-23, the rate of ₹ 615 per KL towards Operations and Maintenance cost of the Outsourced Contractor for Fuel O&M and additionally 16% on such Costs as the Operator's margin for each FY of the First Control Period for MIA.

Considering the above, the Authority is convinced that the Rate / KL and margin % proposed in the Consultation Paper is reasonable and justified and hence feels that there is no reason to change the proposal as already stated by it at the Consultation stage (refer Para No. 10.2.23 of this Tariff Order).

10.5.11. The Authority has noted the comments of FIA and the response of the AO and it is in agreement with the response of the AO on the Fuel Operating expenses.

10.5.12. The Authority has reviewed the comments of FIA and the response of the AO on Customs cost recovery charges and is of the view that the response of the AO addresses the comments raised by FIA.

10.5.13. The Authority has reviewed the comments of FIA on the O&M expenses of MIA and the response of the AO.

The Authority would like to emphasize that it has examined in detail each component of the O&M expense submitted by the AO with respect to essentiality, reasonableness etc and has considered only the O&M expenses that are mandated by the terms of the Concession Agreement or that are needed for meeting operational requirements. Based on the above factors, the Authority has rationalised the total O&M expenses submitted by the AO for the First Control period.

10.5.14. The Authority has reviewed the comments of IATA on the O&M expenses of MIA and the response of the AO.

The Authority would like to emphasize that it has examined in detail each component of the O&M expense submitted by the AO with respect to essentiality, reasonableness etc and has considered only the essential O&M expenses that are mandated by the terms of the Concession Agreement or that are needed for meeting operational requirements. Based on the above factors, the Authority has rationalised the total O&M expenses submitted by the AO for the First Control period.

10.5.15. The Authority has reviewed the comments of IATA and the response of the AO and is also of the view that per passenger fees will not be considered as a pass through, in accordance with the terms of the Concession Agreement.

The Authority as part of its detailed examination of the expenses, reviews that the per passenger fee is not included as part of the Operation and Maintenance expenses submitted by the AO as part of its MYTP.

10.5.16. Considering the size and scale of operations of the Airport, the Authority expects AO to bring in efficiencies in the incurrence of O&M expenses, in view of the higher CAPEX and comparatively low traffic.

10.5.17. Based on the above factors, the Authority has derived the Aeronautical O&M expenses, which it decides to consider for MIA for the First Control period, which is as follows:

Table 104: O&M Expenses decided by the Authority for the First Control Period for MIA

(₹ Crores)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
O&M Expenses (other than Fuel and Cargo)						
Manpower expenses – AAI employees	19.77	20.95	18.59	14.25	15.10	**88.67**
Manpower expenses – Airport Operator employees	9.24	14.17	23.78	25.20	26.71	**99.10**
Utility expenses	9.38	9.87	13.16	13.81	14.48	**60.70**
IT expenses	2.43	2.68	3.54	3.72	3.90	**16.26**
Rates and Taxes	0.33	0.37	0.48	0.51	0.53	**2.22**
Security expenses	2.07	2.29	3.02	3.17	3.33	**13.88**
Security Others	-	-	-	-	-	**-**
Corporate Allocation Cost	9.36	9.92	10.51	11.14	11.81	**52.75**
Administrative Expenses - Others	4.34	4.79	5.03	5.28	5.54	**24.97**
Admin Expenses – Collection Charges on UDF	0.28	0.50	0.58	0.75	0.90	**3.01**
Insurance	1.01	1.44	1.71	1.78	1.86	**7.80**
Repairs and Maintenance	7.42	7.41	25.54	29.21	33.58	**103.16**
Other Operating expenses*	6.09	6.72	8.89	9.33	9.80	**40.83**
Runway recarpeting	-	-	-	-	-	**-**
Boundary Wall repair expense	-	0.67	0.50	0.50	0.50	**2.17**
Total O&M Expenses (other than Fuel and Cargo) (A)	**71.70**	**81.77**	**115.34**	**118.65**	**128.05**	**515.51**
Fuel Operating Expenses						

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Outsourced Contractor Cost (@ ₹ 615/- per KL of Fuel Throughput)	-	-	3.43	4.10	4.77	**12.31**
Outsourced Contractor margin – 16% on above amount	-	-	0.55	0.66	0.76	**1.97**
Refuellers Rentals	-	-	0.72	0.16	-	**0.88**
Total Fuel Operating Expenses (B)	-	-	**4.70**	**4.92**	**5.54**	**15.16**
Cargo Operating Expenses						
Insourced salary	-	-	0.62	0.66	0.70	1.97
O&M Expenses	-	-	1.74	2.21	2.81	6.75
Customs Cost Recovery	-	-	0.90	0.95	0.99	2.84
Total Cargo Operating Expenses (C)	-	-	**3.26**	**3.81**	**4.49**	**11.57**
Total O&M Expenses (A+B+C)	**71.70**	**81.77**	**123.30**	**127.38**	**138.08**	**542.23**

** Other Operating expenses include Housekeeping, Upkeep expenses, Horticulture and Hire charges.*

Note: *The variance (₹ 13.72 Crores) between the total O&M expenses decided by the Authority for First Control Period in this Tariff Order which is ₹ 542.23 Crores (refer Table 104) and that proposed by the Authority at the Consultation stage, which is ₹ 528.51 (refer Table 101), is on account of the following factors:*

- *Inflation rates have been considered by the Authority at the rate of 12.97% for FY 2021-22, 10.4% for FY 2022-23 and 5% for the remaining three tariff years of FY 2023-24 to FY 2025-26 (refer Table 88) for expenses such as, Utilities, IT expenses, Rates & taxes, Security expenses, Administrative expenses – Others, Other Operating expenses etc., as against 4.90% applied uniformly across all the five tariff years at the Consultation stage.*
- *Inclusion of Legal department Employee Headcount in the Aeronautical Employee Headcount of AO, by considering it as 'Common' and apportioning it to Aeronautical activities, as against treating the same as 'Non-aeronautical' at Consultation stage.*
- *Considering the Fuel O&M expenses and Cargo O&M expenses with effect from April 1, 2023 i.e., beginning of the FY, as against considering the same in the middle of FY 2023-24, at the Consultation stage.*
- *Increase in the cost of Insurance and Repairs & Maintenance expenses due to upward revision in the value of CAPEX as a result of certain additional CAPEX allowed in this Tariff Order (refer Table 78).*

10.5.18. Based on the above factors, the Authority decides the following growth rates in Operation and Maintenance (O&M) expenses for Aeronautical Operating expenses, Fuel Operating expenses and Cargo Operating expenses for MIA for the First Control Period:

Table 105: Growth rates in O&M Expenses decided by the Authority for the First Control Period

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
O&M Expense (Other than Fuel and Cargo) (A)					
Manpower Expenses – AAI employees	6%	6%	6%	6%	6%
Manpower Expenses – Airport Operator's employees	-	6%	6%	6%	6%
Utility expenses	12.97%	10.40%	32.17%	5.00%	5.00%

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
IT expenses	12.97%	10.40%	32.17%	5.00%	5.00%
Rates and Taxes	12.97%	10.40%	32.17%	5.00%	5.00%
Security expenses	12.97%	10.40%	32.17%	5.00%	5.00%
Security Others	-	-	-	-	-
Corporate Allocation Cost	6%	6%	6%	6%	6%
Administrative Expenses - Others	12.97%	10.40%	5.00%	5.00%	5.00%
Administrative Expenses – Collection Charges on UDF	-	78%	17%	29%	19%
Insurance – on Opening Net block of Assets	-	-	-	-	-
Repairs and Maintenance – on Opening Net block of Assets	-	-	-	-	-
Other Operating expenses	12.97%	10.40%	32.17%	5.00%	5.00%
Amortization of Runway recarpeting	-	-	-	-	-
Boundary wall repair expense	-	-	-	-	-
Fuel operating expense (B)					
Fuel operator's margin	-	-	16%	16%	16%
Cargo operating expense (C)					
Cargo Operating Expenses – Insourced Salary cost	-	-	6%	6%	6%
Cargo Operating Expenses – Other expenses	-	-	5.00%	5.00%	5.00%

10.6. Authority's decisions regarding Operation and Maintenance Expenses for the First Control Period

Based on the material before it and on its examination, the Authority decides the following with regard to O&M expenses for the First Control Period:

10.6.1. To consider O&M Expenses for the First Control Period for Mangaluru International Airport as per Table 104.

10.6.2. To consider the O&M expenses incurred by the Airport Operator during the First Control Period subject to reasonableness and efficiency, at the time of True up in the Second Control period.

10.6.3. Considering the size and scale of operations of the Airport, the Authority expects AO to bring in efficiencies in the incurrence of O&M expenses, in view of the higher CAPEX and comparatively low traffic.

11. NON-AERONAUTICAL REVENUE FOR THE FIRST CONTROL PERIOD

11.1. Mangaluru International Airport's submission of Non-aeronautical revenue for the First Control Period

11.1.1. The Airport Operator in its submission dated May 31, 2021 to AERA had stated that it follows a Master Concessionaire model for managing commercial activities at the Airport.

11.1.2. The Airport Operator had submitted that it outsourced all Non-aeronautical businesses (mentioned below) to the Master Concessionaire, Adani Airport Holdings Limited, vide Master Services Agreement executed on May 18, 2021. As per the Agreement, the scope of the Master Concessionaire is to develop, operate, maintain, manage the Non-aeronautical businesses at Mangaluru International Airport, in accordance with best-in-class standards and good industry practices, and at par with facilities at comparable airports:

- Duty free stores
- Food and beverages outlets
- Retail outlets
- Lounges
- Advertising, Sponsorship and promotion opportunities
- Car parks and ground transportation facilities
- Airport hotels and transit hotels
- Preferred partners association for including but not limited to pouring rights, services in air (Wi-Fi, Bluetooth, aroma etc.), music and video rights, mobile wallet, payment gateway and other as may be approved by the Airport Operator
- Business Center
- City side development
- Flight catering services
- Foreign exchange services
- Freight consolidators/forwarders or agents
- Left luggage, lost and found, excess baggage
- Porter service, Special assistance services (such as paid wheelchair services)
- Meet and assist services
- Provision of land and space for various stakeholders at Airport
- Various passenger amenities, including but not limited to, foreign exchange, SIM card, child-care room, kids play areas, car rental and hotel reservation counters, digital wallet tie-ups, ATMs, spas, and entertainment areas
- Airport village comprising of various retail, food and beverage, entertainment and amenities options; and
- Any other services as may be mutually agreed by the parties or permitted pursuant to the Applicable Laws.

11.1.3. As per the terms of the Master Services Agreement, the Service provider (Adani Airport Holdings

Limited) shall pay to the Airport Operator an amount which is higher of the following:

a) Minimum Guarantee amount of ₹ 6 Crores per annum or

b) The amount arrived at by multiplying the Revenue Share Percentage (10%) with Gross Revenue in that year.

Further, it is stated in the Agreement that the Minimum Guarantee amount of ₹ 6 Crores per annum shall remain unchanged for the first five years from the date of signing the Master Services Agreement. Thereafter, this Minimum Guarantee amount shall be increased at the rate of 50% of the Delta CPI(IW) every year.

11.1.4. Based on the above, the Non-aeronautical revenue submitted by the Airport Operator for Mangaluru International Airport is given in the table below:

Table 106: Non-aeronautical revenue submitted by Airport Operator for MIA for the First Control Period.

(₹ Crores)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
1. Revenue from Master Service Agreement	5.00*	6.00	6.00	6.00	6.00	**29.00**
2. Other income (not covered under Master Service Agreement)#						
a. Advertising	0.09					**0.09**
b. Car Parking	0.16					**0.16**
c. Lounges	0.02					**0.02**
d. Services	0.12					**0.12**
e. Space Rental: Others	1.01					**1.01**
f. Space Rental: Govt. Agencies	1.80	1.89	1.98	2.08	2.19	**9.94**
Total	**8.20**	**7.89**	**7.98**	**8.08**	**8.19**	**40.34**

** Master Services Agreement, which was signed on May 18, 2021 is effective only from June 1, 2021. Hence the revenue for 10 months beginning June 1, 2021 has been projected for the FY 2021-22.*

 # Revenue from Advertising, Car Parking, Lounges, Services etc. (covered under point 2a to 2e) totaling to ₹ 1.40 Crores have been shown separately for FY 2021-22, as these incomes were earned prior to initiation of Master Services Agreement.

11.2. Authority's examination regarding Non-aeronautical revenue for the First Control Period at Consultation stage

11.2.1. The Authority had examined the Non-aeronautical revenue submitted by the AO for the First Control Period and reviewed the Master Services Agreement entered into by the Airport Operator with the Master Concessionaire - Adani Airport Holdings Limited with respect to scope of services outsourced to the Master Concessionaire and the revenue sharing arrangement.

11.2.2. The Authority noted that the AO undertook two-stage tendering process through e-tender mode vide Request for Proposal (RFP) dated March 1, 2021. Pursuant to the above RFP, three prospective bidders (domestic and global) had submitted their proposals to the AO. Based on technical qualification, financial parameters and evaluation criteria provided under the RFP, Adani Airport Holdings Limited was selected as the Service Provider, with whom the AO had entered into a Master Services Agreement. The Authority noted that the revenues projected by the Airport Operator are in line with the said

Agreement.

11.2.3. The Authority noted that the total Non-aeronautical revenue projected by the Airport Operator for the First Control Period is only for ₹ 40.34 Crores (refer Table 106) which was substantially lower than the actual Non-aeronautical revenue earned by AAI for the Pre-COD period (FY 2016-17 till COD) which was for ₹ 72.51 Crores.

11.2.4. The Authority was not convinced that the revenue from Master Services Agreement was remaining constant for the entire Control Period, while all the other costs are increasing substantially across the First Control Period. Further, the Terminal Building space will be increasing considerably adding more area for Non-aeronautical services.

11.2.5. The Authority took cognizance of the fact that Non-aeronautical revenues had been projected for the First Control Period by the Airport Operator, after taking into consideration the de-growth in passenger traffic caused due to the on-going COVID-19 pandemic. However, the Authority felt that the gradual increase in Non-aeronautical operations (by increasing in the Non-aeronautical area within the Terminal Building from the existing 5% to 8% to 10%), would lead to increase in the Non-aeronautical revenues.

11.2.6. Considering the positive outlook provided by the Expert Agencies and the GoI's recent decision to resume commercial flights, the Authority was of the view that the domestic and international passenger traffic will revert to pre-COVID levels by FY 2022-23 and FY 2023-24 respectively. Further, the traffic was expected to progressively increase during the First Control Period (as also discussed in Chapter 6).

11.2.7. With the steady increase in passenger traffic and extension of existing Terminal Building area, the Authority foresaw an increase in passenger related Non-aeronautical revenue across the First Control Period. Further, the Authority expected that the Airport Operator may bring in efficiencies in Non-aeronautical operations as being followed by other PPP airports wherein the proportion of Non-aeronautical revenue projected by the AO is equal or comparable to the quantum of O&M expenses. Whereas, in MIA the situation is peculiar wherein the projection of NAR is substantially lesser than O&M expenses. Further, this will impact the interest of the airport users as 30% of the Non-aeronautical revenue was used for cross subsidization. The Authority felt that with the progressive increase in the passenger traffic, the AO should make efforts to generate Non-aeronautical revenue for Mangaluru International Airport higher than that earned by AAI during the pre-COD period (which was ₹ 72.51 Crores).

11.2.8. The Authority noted that the revenue on Space rental from Govt. agencies has been increased by 5% Y-o-Y by the Airport Operator and the Authority found the same to be reasonable.

11.2.9. Based on the above considerations, the Authority had estimated the total Non-aeronautical revenues for the First Control Period for MIA as follows:

i. The NAR earned by AAI in FY 2019-20, which is a pre-COVID year, was considered as the base for estimating the NAR for MIA for the First Control Period.

ii. The Authority had considered the actual revenue earned by the AO for FY 2021-22, as this FY has already passed.

iii. The NAR of FY 2019-20 i.e. ₹ 17.36 crores had been assumed for FY 2022-23, as the traffic is expected to reach the pre-COVID level of FY 2019-20 by FY 2022-23 (as explained in Chapter 6).

iv. The Authority proposed to increase NAR by 5% Y-o-Y for the remaining tariff years for the First Control Period. However, the Authority took cognizance of the fact that with the expansion of the existing terminal building area in FY 2022-23, the Non-aeronautical area may also increase.

Hence, the Authority proposed an additional increase of 5% to the NAR of the FY 2023-24 (the year that immediately succeeds the year of operationalization of the extended Terminal Building).

The NAR derived by the Authority based on the above factors had been presented as follows:

Table 107: Total Non-aeronautical revenues estimated by the Authority for First Control Period at Consultation stage

(₹ Crores)

Particulars	NAR of AAI for FY 2019-20	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Total NAR	17.36*	8.20	17.36	19.10	20.05	21.05	85.76
% Increase in NAR				10%	5%	5%	

** Refer Table 20 of this Tariff Order.*

11.2.10. Based on the total NAR derived as per Table 107, the Authority had bifurcated it component wise as under:

i. **Revenue from Master Service Agreement:** This had been derived as the difference between total NAR derived as per Table 107 and the Revenue from Space rental of Govt. Agencies.

ii. **Other income (Revenue from Space rental of Govt. Agencies)**: The Authority had considered this revenue as projected by the AO in its MYTP.

Table 108: Non-aeronautical revenues (component wise) proposed by the Authority for the First Control Period at Consultation stage

(₹ Crores)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
1. Revenue from Master Service Agreement	**5.00**	**15.47**	**17.12**	**17.97**	**18.86**	**74.42**
2. Other income (not covered under Master Service Agreement)						
a. Advertising	0.09					**0.09**
b. Car Parking	0.16					**0.16**
c. Lounges	0.02					**0.02**
d. Services	0.12					**0.12**
e. Space Rental: Others	1.01					**1.01**
f. Space Rental: Govt. Agencies	1.80	1.89	1.98	2.08	2.19	**9.94**
Total (a: f)	**3.20**	**1.89**	**1.98**	**2.08**	**2.19**	**11.34**
3. Grand Total (1+2)	**8.20**	**17.36**	**19.10**	**20.05**	**21.05**	**85.76**

11.2.11. The Authority was of the view that the NAR projected by the AO for the First Control Period was significantly lower as compared to that of other PPP airports (DIAL, MIAL, BIAL, GHIAL, CIAL), wherein the NAR projected by such PPP airports either equalize or higher or constitute at least 50% of the total O&M expenses projected by them for the respective Control Period. Whereas in the case of MIA, the Authority noted that the NAR projected by the AO for the First Control Period was ₹ 40.34 crores which was significantly lower as compared to the O&M expenses submitted by the AO which was ₹ 822.08 crores (refer Chapter 10).

The Authority was of the view that the AO should take efforts to substantially increase NAR for the First Control Period for MIA, in line with the other PPP airports. Otherwise, AERA might propose for a notional increase in the NAR for the First Control Period, while determining tariff for the Second Control Period, in the interest of the Airport Users.

11.3. Stakeholders' comments on Non-Aeronautical Revenue for the First Control Period

11.3.1. During the stakeholders' consultation process, the Authority has received comments/ views from various stakeholders in response to the proposals of the Authority in the Consultation Paper no. 07/2022-23 with respect to Non-Aeronautical Revenue for First Control Period. The comments by stakeholders are presented below:

AO's comments on Non-Aeronautical Revenue for the First Control Period

11.3.2. The AO has commented the following on AERA's views relating to Non-Aeronautical Revenues as detailed in para 11.2.2, 11.2.4 and 11.2.11 in this Tariff Order:

- *The AO invited bids through a global competitive bidding process for selection of a Master Service Provider for Non-Aeronautical services at Mangaluru Airport. The bids were invited through e-procurement. A third-party consultant was appointed to oversee the process adopted by the AO. Entire process was undertaken in a fair and transparent manner. The AO submits that the sanctity of open competitive bidding process should be maintained, and the Authority may not disapprove the price discovery undertaken through open competitive bidding.*
- *Such a course of action would vitiate the very purpose of the open competitive bidding and undermine the well-established judicial principles in this regard. It is settled in law that the price discovered through open bidding has to be taken at face value and there is no reason to disbelieve such price. The Authority should not obliviate the entire bidding process on the premise that the price discovered could have been better.*
- *During the COVID-19 period, the Non-Aeronautical revenues of the Airport were severely impacted. In order to protect its business interests MIA entered into a Master Service Agreement whereby a minimum amount of Non-Aeronautical revenues are guaranteed to the AO. This has insulated the Airport Operator from any future unforeseen event which may negatively impact the Non-Aeronautical revenues. The necessary commercial arrangements are provided in the Master Service Agreement based on which revenues for MIA are projected.*
- *There is no provision in AERA Guidelines 2011 for notional increase in the Non-Aeronautical revenues while determining tariffs.*
- *In light of above, we request the Authority to accept the Non-Aeronautical Revenues as projected by the AO which is in line with the contract entered based on market discovery rate.*

Other Stakeholder's comments on Non-Aeronautical Revenue for the First Control Period

11.3.3. FIA has commented the following:

<u>Para 11.2.3 – 11.2.9 in the Consultation Paper No.7/ 2022-23</u>

- *"We observe that the non-aeronautical revenues projected by Airport operator is substantially low / conservative. It is requested that Airport operator explores all avenues to maximise revenue from the utilisation from the expansion of terminal building for non-aeronautical purposes. As mentioned in para 11.2.3, the non-aeronautical revenue projected by the Airport operator for First Control Period is substantially lower than the actual NAR revenue earned by AAI for Pre-COVID-19 period from 2016-17 to COD. Accordingly, we request AERA to encourage Airport operator to enter into suitable agreements with concessionaires to exploit the potential/ growth of non-aeronautical revenue.*

- *In this regard we also request AERA to kindly undertake detailed examination with the assistance of an independent study to be conducted on the non-aeronautical revenue before the tariff determination of the First Control Period.*
- *Without prejudice to the above, we submit that increase in non-aeronautical revenue (NAR) is function of increase in terminal building area, passenger traffic growth, inflationary increase and real increase in contract rates. Despite all these factors increasing during the control period, on examination of the non-aeronautical revenue projected for the first control period by AERA, it was noted by that a conservative approach has been taken by the AERA.*
- *AERA is requested to ensure no adjustments are proposed to non-aeronautical revenue which is not dependent on traffic but are derived from agreements with concessionaires. Further in para 11.2.11, AERA has remarked that NAR projected by MIA is significantly less than PPP airports – which are generally not less than 50% of the total O&M Expenses of the respective airports.*
- *In view of the above, we request AERA to allow higher non-aeronautical revenues being not less than 50% of the projects O&M Expenses for MIA, as approved by AERA. In this regard, AERA may undertake suitable independent study."*

11.4. AO's responses to stakeholders' comments on Non-Aeronautical Revenue for the First Control Period

11.4.1. AO has responded to FIA's comments as under:

- *"In the interests of its users and in its own commercial interests, Airport Operator will always endeavor to increase the non-aeronautical revenues to maximum possible extent. As suggested by FIA, MIA as Airport Operator has already entered into Master Concessionaire Agreement to exploit the potential/ growth of non- aeronautical revenue whereby a minimum amount of Non-Aeronautical revenues are guaranteed to the AO. This has insulated the Airport Operator from any future unforeseen event which may negatively impact the Non-Aeronautical revenues.*
- *The AO invited bids through a global competitive bidding process for selection of a Master Service Provider for Non-Aeronautical services at Mangaluru Airport. A third-party consultant was appointed to oversee the process adopted by the AO. Entire process was undertaken in a fair and transparent manner. Any further study on this would vitiate the very purpose of the open competitive bidding.*
- *Last 2 years of pandemic clearly point to the fact that airport operators are highly vulnerable to passenger volumes and spending power of the customer as far as non-aeronautical revenues are concerned. In order to mitigate the impact of this volatility, AO has entered into contract which ensures minimum annual guaranteed amount is also available to airport operator.*
- *We are in consonance on the view of FIA that AERA should not make any adjustments on non-aeronautical revenue which is not dependent on traffic but are derived from agreements with concessionaires. Further any comparison of non-aeronautical revenues with O&M costs is not rational and unwarranted as non-aeronautical revenues are dependent on traffic volume, passenger profile, spending propensity, whereas O&M costs are largely fixed."*

11.5. Authority's analysis on Stakeholders' comments regarding Non-Aeronautical Revenue for the First Control Period

11.5.1. The Authority has carefully studied the comments of the AO on Non-aeronautical revenues.

i. The Authority is cognizant about the bidding process undertaken by the AO for selecting the Master Service Provider for Non-Aeronautical services at Mangaluru Airport.

ii. However, as also stated in this Tariff Order, the Authority is not convinced about the revenue from the Master Services Agreement remaining constant for the entire Control Period, while all the other costs are increasing substantially across the First Control Period. In this context, there was no obligation on the AO to accept the bid of Master Concessionaire offering such low revenue share.

iii. Further, the Authority notes that the revenue projected by the AO towards NAR for the First Control Period, is significantly lower as compared to the other PPP airports (DIAL, MIAL, BIAL, GHIAL, CIAL), wherein the NAR projected by such PPP airports either equalize or higher or constitute at least 50% of the total O&M expenses projected by them for the respective Control Period.

iv. With the steady increase in passenger traffic and extension of existing Terminal Building area, the Authority foresees an increase in passenger related non-aeronautical revenue across the First Control Period. Further, the Authority expects that the Airport Operator may bring in efficiencies in Non-aeronautical operations as being followed by other Public-Private Partnership (PPP) airports wherein the proportion of non-aeronautical revenue projected by the AO is equal or comparable to the quantum of O&M expenses.

v. Further, it is pertinent to note that the total NAR projected by the AO for the First Control Period (FY 2021-22 to FY 2025-26) is much less i.e ₹ 40.34 crores, as compared to the actual revenue earned by AAI, which is ₹ 72.51 Crores during the period from FY 2016-17 till COD. The following table shows the year wise NAR earned by AAI during the period FY 2016-17 till FY 2020-21 (up to COD) and the projections of the AO for the First Control Period:

Table 109: Year wise NAR earned by AAI and projected by the AO

(₹ Crores)

Particulars (FY)	AAI	AO
2016-17	15.26	-
2017-18	16.64	-
2018-19	18.65	-
2019-20	17.36	-
2020-21 (till COD)	4.60	-
2021-22	-	8.20
2022-23	-	7.89
2023-24	-	7.98
2024-25	-	8.08
2025-26	-	8.19
Total	**72.51**	**40.34**

vi. Based on the above factors and considering the positive outlook on the growth in the passenger traffic during the First Control Period and the increase in the Terminal Building space (after expansion of the Terminal Building), the Authority feels that there is significant scope for expanding the NAR.

11.5.2. The Authority has carefully studied the comments of FIA and the response of the AO on the Non-aeronautical revenues (NAR) and has the following views:

i. The Authority has increased the NAR submitted by the AO for the First Control Period, after taking into consideration the increase in the passenger flows and the expansion of the Terminal Building area.

ii. The Authority is also of the view that the AO should bring in efficiencies in Non-aeronautical operations as being followed by other PPP airports wherein the proportion of Non-aeronautical revenue projected by the AO is equal or comparable to the quantum of O&M expenses.

iii. The Authority also notes the comments of FIA on conducting an independent study on the Non-aeronautical revenue. In this regard, the Authority believes that the requirement of an independent study will depend upon the size of the airport, the scale complexity of operations. MIA, being a small airport, the Authority does not see any requirement to conduct an independent study at this stage. If AERA feels that if there is a need arising in the future, it may commission an independent study for the future Control Periods of MIA.

iv. As detailed in para no. 11.2.11 of this Tariff Order, the Authority will review the NAR achieved by the AO for the First Control Period, at the time of determination of tariff for the next Control Period. If in case, efforts have not been taken by the AO to substantially increase the NAR for the First Control Period, then the Authority shall consider a notional increase in the NAR for the First Control Period, while determining tariff for the Second Control Period, in the interest of the Airport Users.

11.6. Authority's decisions regarding Non-Aeronautical revenue for the First Control Period

Based on the material before it and its analysis, the Authority decides the following with regard to Non-aeronautical revenue for the First Control Period:

11.6.1. To consider Non-aeronautical revenues for the First Control Period for Mangaluru International Airport as per Table 108.

11.6.2. The AO should take efforts to substantially increase the NAR of MIA for the First Control Period, in line with other similar/ AAI airports.

12. TAXATION FOR THE FIRST CONTROL PERIOD

12.1. Mangaluru International Airport's submission of Taxation for the First Control Period

12.1.1. The AO had submitted that the computation of income tax on aeronautical income, had been made on the prevailing Income Tax laws and rules.

12.1.2. AO had calculated the revenue generated from Regulated services, Non-aeronautical revenue Aeronautical operating expenses, interest and financing charges, and depreciation on written down value (WDV) of assets as per the Income Tax Act. After calculating the Profit Before Tax (PBT), a tax rate of 25.17% was applied, after setting off prior losses. The Aeronautical taxes submitted by Mangaluru International Airport are shown in the table below:

Table 110: Taxation submitted by AO for Mangaluru International Airport for the First Control Period

(₹ Crores)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Aeronautical Revenue with Revised Rates	29.55	257.00	366.45	471.96	589.64	**1,714.60**
Add: 30% of Non-aeronautical revenue	2.46	2.37	2.40	2.43	2.46	**12.11**
Less: O&M expenses	82.74	148.23	177.48	193.48	220.16	**822.08**
Less: Interest costs	19.98	55.48	67.62	64.44	69.63	**277.14**
Less: Interest costs on Working Capital	0.05	1.34	3.21	4.48	5.85	**14.93**
Less: Financing charges	4.12	3.49	0.88	1.03	1.22	**10.74**
Less: Tax Depreciation	41.51	81.35	75.24	68.90	73.45	**340.45**
Profit Before Tax	**(116.39)**	**(30.52)**	**44.42**	**142.06**	**221.79**	**261.37**
Set-off of prior period tax losses			(44.42)	(47.14)		
Less: Carry forward of unabsorbed depreciation	(10.52)	(52.04)	(82.56)	(82.56)		
PBT after set-off of prior period losses				12.36	221.79	
Tax rate (%)	25.17%	25.17%	25.17%	25.17%	25.17%	
Tax	-	-	-	3.11	55.82	**58.93**

12.2. Authority's examination of Taxation for the First Control Period at Consultation stage

12.2.1. The Authority noted that MIA had considered 30% Non-aeronautical revenues in the estimation of Aeronautical PBT, which was then used in the computation of Aeronautical taxes. The fact that a part of Non-aeronautical revenues is used for cross subsidization as per the Hybrid Till mechanism, doesn't change the nature of such revenues to Aeronautical. Further, the cross subsidization as per the Hybrid till mechanism was done in order to reduce tariff pressure on passengers and to incentivize the AO to make effective investments in Non-aeronautical generating sources.

12.2.2. Therefore, the Authority was of the view that:

- 30% Non-Aeronautical revenues should not be treated as a subsidy for the airport operator as the airport operator had already earned it from Non-Aeronautical services and was meant as a cross subsidy to the airport user.
- The consideration of 30% Non-Aeronautical revenues as part of revenues from Aeronautical services would result in undeserved enrichment to the airport operator effectively reducing the cross-subsidy benefit to the airport user from the present 30% Non-Aeronautical income.

12.2.3. The Authority thus proposed to consider only Aeronautical revenues and expenses in the calculation of

Aeronautical PBT.

12.2.4. Further, the Authority had considered the Financing charges and Fees payable to Independent Engineer for the purpose of determining ARR for the First Control Period (Refer Table 115), for computing Aeronautical taxes.

12.2.5. The Authority had recomputed taxes of MIA based on the changes proposed to the other building blocks and based on the proposal discussed above on exclusion of Non-aeronautical revenue.

12.2.6. Further, as the Authority had considered the prior period losses in the computation of true up of AAI for the pre-COD period, the same had been excluded in the computation of taxes of the AO for the First Control Period for MIA.

12.2.7. The following table summarizes the Aeronautical taxes proposed by the Authority for the First Control Period.

Table 111: Taxation proposed to be considered as per the Authority for the First Control Period at Consultation stage

(₹ Crores)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Aeronautical Revenue (refer Table 115)	247.97	129.39	213.84	240.66	247.15	**1,079.01**
30% Non-aeronautical revenues	0.00	0.00	0.00	0.00	0.00	**0.00**
Less: O&M expenses (Refer Table 101)	71.54	79.75	117.72	124.50	134.98	**528.51**
Less: Financing charges (refer para 14.2.2)	5.09	2.62	0.67	0.80	0.60	**9.78**
Less: Fees payable to Independent Engineer	1.58	1.58	1.58	1.58	1.58	**7.90**
Less: Tax Depreciation	14.25	47.51	65.77	58.13	53.93	**239.58**
Profit Before Tax	**155.51**	**(2.07)**	**28.10**	**55.65**	**56.06**	**293.26**
Tax rate (%)	25.17%	25.17%	25.17%	25.17%	25.17%	
Aeronautical Tax	39.14	0.00	7.07	14.01	14.11	**74.33**

12.3. Stakeholders' comments regarding Taxation for the First Control Period

12.3.1. During the stakeholders' consultation process, the Authority has received comments/ views from various stakeholders in response to the proposals of the Authority in the Consultation Paper no. 07/2022-23 with respect to Taxation for First Control Period. The comments by stakeholders are presented below:

AO's comments on Taxation for the First Control Period

12.3.2. AO has commented the following on AERA's views relating to exclusion of Non-aeronautical revenues for the purpose of computation of Taxation, as stated in para 12.2.2 in this Tariff Order:

We refer to the direction of the TDSAT in the judgment dated 15th November 2018 in the matter of AERA appeal no 4 of 2013. The Judgment at Para 41(i) remands the matter of considering the S-Factor as part of revenue in calculation of tax, to AERA. MIA is also of the view that the S Factor should be considered as part of the aeronautical revenue while calculation of tax. Our claim is supported by the following arguments.

Extract from TDSAT Judgment 15th November 2018

"41. To conclude, we find no good reason to interfere with the impugned tariff order, except to the

extent indicated below – (i) In respect of decision XV.a, the question of 'S' as an element of revenue pertaining to aero services for the purpose of calculating 'T' is remanded back. Only to this limited extent, we direct AERA to consider the issue afresh through a consultative process in the next control period that may be falling for consideration."

As per AERA guidelines 5.5.1 as provided below, corporate tax paid on income from assets/ amenities/ facilities/ services (emphasis) taken into consideration for determination of Aggregate Revenue Requirement (ARR) will be considered for calculation of taxation component of ARR.

Income from Non-Aeronautical services are used in calculating the overall ARR. Therefore, in order to calculate the taxation under the regulatory framework, income from Non-Aeronautical services need to be considered. In case, the Authority does not consider income from Non-Aeronautical services for the purposes of taxation, it will be in contradiction to its Guidelines.

We hereby request the Authority to add the 30% of Non-Aeronautical revenues while determining the tax.

12.3.3. AO has commented the following on AERA's views relating to Taxation for the First Control Period Revenues, as stated in para 12.2.2 in Consultation Paper No. 7/ 2022-23:

It is to be noted that computation of aeronautical tax is a hypothetical calculation which is done by AERA based on regulatory accounts of the Airport.

Supreme Court vide its judgment dated 11th July 2022 on tariff appeals of first control period of Delhi Airport and Mumbai Airport has opined that

"111. No doubt, it is a principle of taxation that it is the actual tax which is paid and which has to be taken into account. This is what the AERA and the TDSAT have done ostensibly on the premise that there should not be any undue enrichment of the Airport Operators. However, to our mind, the more important factor is to look at what the contract says and whether some other construction would be required to be given to the contract.

112. If we turn to the express language of 'T' in Schedule 1 of the SSA the wordings are clear and unequivocal. The determination has to be made of "corporate taxes on earnings pertaining to Aeronautical Services" (emphasis supplied). 'T' is part of a formula. No doubt it refers to taxation, but how it would apply to the formula has to be determined from the definition of 'T' and not from how generally 'tax' is understood. These are complex formulas settled by experts and various factors weigh in arriving at them.

113. In the overall scenario, it is the TR which is crucial where 'T' is only a component. No one is saying that a different methodology and not the common practice has to be followed for payment of tax. It is for the component 'T' to be calculated in the formula for TR that 'T' has been defined. 'T' has to be computed based solely on regulatory accounts prepared by AERA for the TR formula. If the Annual Fee is the component which is taken out of aeronautical services, the definition of 'T' would have to be read completely differently.

In view of the above Judgement, it is clearly implied that methodology as given in the CA's of Delhi and Mumbai Airport will have to be used by AERA to calculate the corporate tax and same may not have any linkage with the actual tax paid by Airport Operator.

As per the methodology adopted by AERA for calculation of corporate tax in AAI airports, it has been observed that AERA calculates the hypothetical/notional tax for each of the AAI airport based on the regulatory accounts of that particular Airport. It has no correlation with actual tax paid by AAI at consolidated level for managing all the airports under its one umbrella corporate entity. The same can *be verified from publicly available AAI annual reports.*

Refer the below extract from Chennai Airport's Third Control Period Tariff Order No. 38/2021-22 dated 04th Feb 2022, where AERA has calculated tax on regulated profits based on full rate of tax @34.944% for FY 2016-17 and FY 2017-18.

Table 72: Aeronautical taxes for true-up of the Second Control Period decided by the Authority

FY ending March 31 (in Rs. Cr.)	2017	2018	2019	2020	2021	Total
Aeronautical Revenue (A)	978.58	842.74	445.05	272.67	161.00	**2,700.05**
Operating Expense (B)	377.82	382.31	352.62	386.87	316.99	**1,816.61**
Total Interest and Finance Charges (C)	-	-	-	-	-	-
Depreciation as per IT Act (D)	172.10	171.28	164.30	167.75	163.14	838.56
Total Expenditure (E) = (B + C + D)	549.92	553.59	516.92	554.62	480.13	**2,655.18**
PBT (F) = (A – E)	428.66	289.15	(71.87)	(281.95)	(319.12)	44.87
Set-off of prior period tax losses (G)	-	-	-	-	-	-
PBT after set-off of prior period tax losses (H) = (F – G)	428.66	289.15	(71.87)	(281.95)	(319.12)	44.87
Tax 34.944% (FY19) & 25.17% w.e.f. FY20 (I)	149.79	101.04	-	-	-	250.83
PAT (J) = (H – I)	278.87	188.11	(71.87)	(281.95)	(319.12)	(205.96)

The above examples for Delhi & Mumbai Airport and also for AAI Airport, clearly provides that only the Tax amount calculated with reference to ARR (not actual tax payment) is to be added in the calculation of ARR. We request Authority to allow aeronautical tax based on regulatory accounts and same should not be linked to actual tax outflow.

12.4. Authority's analysis on Stakeholders' comments regarding Taxation for the First Control Period

12.4.1. The Authority has noted the comments of AO and provides its views as under:

This issue on consideration of 30% NAR in computation of Corporate taxes had been decided by AERA in Chapter 8 of DIAL Tariff Order No. 57/ 2020-21 dated December 30, 2020 for the Third Control Period, wherein the Authority had formed its views after taking in to consideration the views of the various stakeholders as directed by the Hon'ble TDSAT and had decided not to consider S factor as part of Aeronautical Revenue base to compute Corporate Taxes on earnings pertaining to Aeronautical services for the Third Control Period.

Hence, the Authority had considered the Hon'ble TDSAT judgement dated November 15, 2018, at the time of finalization of the Tariff Order No. 57/ 2020-21 dated December 30, 2020 for DIAL.

Based on the above factors, the Authority decides not to consider the 30% NAR, while determining the Corporate Taxes for MIA for the First Control Period.

12.4.2. The Authority notes the comments provided by the AO and takes cognizance of the Supreme Court's judgement dated July 11, 2022 on tariff appeals of the First Control Period of Delhi and Mumbai airport.

The Authority has decided to true up the aeronautical tax amount appropriately taking into consideration all relevant facts, Orders and Judgements at the time of determination of tariff of the next Control Period for MIA.

12.4.3. Based on the above factors and the Aeronautical Revenue determined by the Authority for the First Control Period for MIA as per Table 117, revised O&M expenses as per Table 104, revised Tax depreciation, Financing charges, Interest on Working Capital, Fees payable to Independent Engineer etc., the Authority has re-computed Aeronautical Taxation which it decides to consider for the First Control Period for MIA which is as follows:

Table 112: Taxation decided by the Authority for MIA for the First Control Period

(₹ Crores)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Aeronautical Revenue (refer Table 117)	27.91	54.78	178.28	255.79	322.19	**838.94**
30% Non-aeronautical revenues	0.00	0.00	0.00	0.00	0.00	**0.00**
Less: O&M expenses (Refer Table 104)	71.70	81.77	123.30	127.38	138.08	**542.23**
Less: Interest on Working capital		0.15	1.00	2.27	3.26	**6.68**
Less: Financing charges	3.22	2.51	0.65	0.81	0.6	**7.79**
Less: Fees payable to Independent Engineer	1.58	1.58	1.58	1.58	1.58	**7.90**
Less: Tax Depreciation	15.34	48.56	67.46	59.47	55.44	**246.27**
Profit Before Tax	**(63.93)**	**(79.79)**	**(15.71)**	**64.28**	**123.23**	**28.08**
Tax rate (%)	25.17%	25.17%	25.17%	25.17%	25.17%	
Aeronautical Tax	**0.00**	**0.00**	**0.00**	**16.18**	**31.02**	**47.20**

***Note:** The variance between Taxation derived in this Tariff Order (₹47.20 crores) and that proposed by the Authority at the Consultation stage (₹74.33 crores) is on account of considering Projected revenue derived by the Authority as per Table 117, revised O&M expenses as per Table 104, inclusion of interest on Working capital and depreciation derived for First Control Period as per Income Tax Act, 1961 after considering the revised CAPEX as per Table 78 in this Tariff Order.*

12.5. Authority's decisions regarding Taxation for the First Control Period

Based on the material before it and based on its analysis, the Authority decides the following with regard to Taxation for the First Control Period.

12.5.1. To consider the Taxation for the First Control Period for Mangaluru International Airport as per Table 112.

12.5.2. To true up the aeronautical tax amount appropriately taking into consideration all relevant facts at the time of tariff determination for the Second Control Period.

13. QUALITY OF SERVICE FOR THE FIRST CONTROL PERIOD

13.1. Mangaluru International Airport's submission relating to Quality of Service

13.1.1. AO had submitted that it will abide by the ASQ performance indicators mentioned in Annexure I to Schedule H in the Concession Agreement.

Clause 23.7.1 of the CA states:

"The Concessionaire shall participate in the user survey of ASQ undertaken by Airports Council International (ACI) or any substitute thereof, conducted every quarter and shall ensure that the Airport achieves and maintains a rating of at least 4.5 out of 5.0 and/ or shall appear within top 20 percentile of all airports, in its category in the World in such survey within 5 years from the COD and maintain the same throughout the rest of the Concession Period."

Clause 23.7.2 of the CA states:

"The Concessionaire shall, within 21 days of the end of each calendar quarter, provide to the Authority a written report on the results of the user survey of ASQ for the immediately preceding quarter, together with its analysis of the results and the action, if any, that it proposes to take for improvement in User satisfaction."

13.1.2. AO had further submitted that adherence and maintenance of these standards will require creation of significant infrastructure, ramp-up of human resource and increase in operations and maintenance costs and that the AO had considered the cost implications, while preparing future projections as part of its MYTP submission.

13.2. Authority's examination regarding Quality of Service for the First Control Period at Consultation stage

13.2.1. The Authority noted that:

- As per section 13 (1) (d) of the AERA Act, 2008, the Authority shall *"monitor the set performance standards relating to quality, continuity and reliability of service as may be specified by the Central Government or any Authority authorized by it in this behalf."*
- As per section 13(1)(a)(ii), the Authority is required to determine the tariff for Aeronautical services taking into consideration *"the service provided, its quality and other relevant factors."*

13.2.2. The Authority noted from AAI's website that the ACI ASQ survey results for Mangaluru International Airport for the FYs 2017 to 2020 have been in the range of 4.65 to 4.54 (overall score), as against the average score of AAI Airports which ranged from 4.57 to 4.71.

Table 113: ASQ rating for Mangaluru International Airport for the years 2017-2020

Financial Year	ASQ rating
2017	4.65
2018	4.87
2019	4.84
2020	4.54
2021 – Q1 & Q2	ASQ was not conducted due to lockdown on account of COVID-19 pandemic
2021- Q3	4.33

Financial Year	ASQ rating
2021- Q4	4.80
2022 -Q1	4.87
2022- Q2	4.87
2022-Q3	4.91

13.2.3. The Authority noted that the ASQ rating awarded to Mangaluru International Airport is quite close to the average rating of the AAI airports for the FYs 2017 to 2020.

13.2.4. The Authority reviewed the MoU between AAI and MoCA for the FY 2019-20 and noted that the ASQ rating target for FY 2019-20 was 4.68. As MOU for FY 2020-21 had not been signed due to COVID-19 pandemic, the Authority had considered the MOU target of FY 2019-20, which is 4.68. The actual ASQ rating achieved by Mangaluru International Airport for FY 2019-20 was 4.84, which was higher than the target rating.

13.2.5. The Authority also noted that as per the Concession Agreement, the AO was required to maintain an ASQ rating of at least 4.5 out of 5. However, the Authority noted that the AO has achieved ASQ rating of 4.87 to 4.91 during the first 3 quarters of the FY 2021-22, which was higher than the requirement given in the Concession Agreement. Further, the Authority noted that the rating for Q3 of 2021 was lower than the target rating mandated by the Concession Agreement (which is 4.5), due to the onset of COVID-19 pandemic, which had then recouped in the subsequent quarters.

13.2.6. Based on the above factors, the Authority had not proposed any adjustment towards tariff determination for the First Control Period on account of quality of service maintained by the Mangaluru International Airport.

13.3. Stakeholders' comments regarding Quality of Service for the First Control Period

13.3.1. No comments were received from the stakeholders regarding Quality of Service for the First Control Period.

13.4. Authority's analysis on Stakeholders' comments regarding Quality of Service for the First Control Period

13.4.1. The Authority has noticed that there are no stakeholder's comments regarding Quality of Service proposed for the First Control Period. The Authority has decided that no adjustment will be made towards tariff determination for the First Control Period on account of quality of service maintained by Mangaluru International Airport.

13.5. Authority's decisions regarding Quality of Service for the First Control Period

Based on the material before it and its analysis, the Authority decides the following with regard to Quality of Service for the First Control Period:

13.5.1. Not to consider any adjustment towards tariff determination for the First Control Period with regard to Quality of Service of MIA.

13.5.2. The Airport Operator should ensure that service quality at Mangaluru International Airport conforms to the performance standards as indicated in the Concession Agreement over the First Control Period.

14. AGGREGATE REVENUE REQUIREMENT (ARR) FOR THE FIRST CONTROL PERIOD

14.1 Mangaluru International Airport's submission of ARR for the First Control Period

14.1.1. AO had submitted ARR and Yield per Passenger (YPP) for the First Control Period as per the regulatory building blocks discussed.

14.1.2. The summary of ARR and YPP had been presented in the table below.

Table 114: ARR submitted by AO for Mangaluru International Airport for the First Control Period

(₹ Crores)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Average RAB	220.94	522.17	696.27	657.68	662.86	
Fair Rate of Return	14.86%	14.86%	14.86%	1.86%	14.86%	
Return on average RAB	32.83	77.60	103.47	97.73	98.50	**410.13**
O&M expenses (including interest on working capital, financing charges etc).	82.74	148.23	177.48	193.48	220.16	**822.08**
Working capital loan - interest	0.00	1.36	3.38	4.75	6.19	**15.68**
Negative Cash loan - interest	7.08	12.27	5.19	0.00	0.00	**24.55**
Financing charges	4.19	3.59	0.92	1.07	1.25	**11.03**
Depreciation	25.13	46.41	59.30	60.46	59.91	**251.21**
Tax expense				3.11	55.82	**58.93**
Less: 30% NAR	(2.46)	(2.37)	(2.40)	(2.43)	(2.46)	**(12.12)**
Add: True up for the period from COD till March 31, 2021	29.76					**29.76**
ARR per year (₹ Crores)	**179.26**	**287.09**	**347.34**	**358.17**	**439.37**	**1,611.23**
Discount factor (@ 14.86%)	1.00	0.87	0.76	0.66	0.57	
PV of ARR	179.26	249.95	263.28	236.36	252.44	**1,181.30**
Sum Present value of ARR (₹ Crores)			**1,181.30**			**1,181.30**
Total Traffic (million passengers)	1.13	1.73	2.24	2.73	3.24	
Yield per passenger (YPP) (₹)	261.55	1,293.35	1,240.02	1,142.27	1,045.77	

14.2 Authority's examination of Aggregate Revenue Requirement (ARR) for the First Control Period at Consultation stage

14.2.1. The observations and proposals of the Authority across the regulatory building blocks impact the computation of ARR and Yield. With respect to each element of the regulatory building blocks considered by AO in computation of ARR and Yield in the table above, the Authority proposed to consider the regulatory building blocks as discussed in the above chapters.

14.2.2. The Authority had determined Financing charges (₹ 9.78 crores) based on the Aeronautical CAPEX allowed by the Authority and has considered the same in the computation of ARR.

14.2.3. The Authority noted that the AO has estimated working capital requirements and interest thereon, based on projected Aeronautical revenues. As the AO has not submitted individual year-wise tariff rate card to determine Aeronautical revenue, the Authority proposed to consider interest on working capital, upon submission of the Tariff Rate card by the AO.

14.2.4. The Authority had also included the fees payable to the Independent Engineer in the determination of ARR (shown in the table below), in accordance with clause 24.1.7 of the Concession Agreement.

The Authority had considered the fee payable to the Independent Engineer on a proportionate basis for the First Control Period.

14.2.5. The Authority noted that the AO has claimed interest on Negative Cash Loan, based on cash flows from Operating, Investing and Financing activities. The Authority was of the opinion that since Interest on Working Capital (operating activity), Interest During Construction (Investing activity) and Financing charges for processing debts (financing activity) are claimed separately by the AO, the aforementioned interest on negative cash loan seems to be repetitive of the above costs and hence the Authority proposed not to consider interest on negative cash loan (₹ 24.55 crores) claimed by the AO.

14.2.6. The Authority noted that the AO had on-going capital expenditure projects and other planned works, which had resulted in a higher ARR for the First Control Period. Whereas, the existing traffic base was not sufficient for the complete recovery of ARR in the current Control Period and this would require a significant increase in tariff, which in the present times is likely to adversely impact the recovery of air traffic. Further, a significant increase in Aeronautical tariff, was also attributable to the following factors:

i. Tariff was being determined for the first time for Mangaluru International Airport, wherein hitherto tariff rate card of Non-Major airport has been followed.

ii. New Aeronautical tariff proposed by the Authority may be implemented only by the end of the current Financial Year, thereby resulting in only lesser tariff years being available for recovery of the ARR.

In this regard, the Authority had drawn reference to the guiding principles issued by the International Civil Aviation Organization ("ICAO") on charges for Airports and Air Navigation Services (ICAO DoC 9082), which lays down the main purpose of economic oversight which is to achieve a balance between the interest of Airports and the Airport Users. This policy document categorically specifies that *caution be exercised when attempting to compensate for shortfalls in revenue considering its effects of increased charges on aircraft operators and end users*. The said policy document also emphasizes on balancing the interests of airports on one hand and aircraft operators, end users on the other, in view of the importance of the air transport system to States. This should be applied particularly during periods of economic difficulty. Therefore, the policy document recommends that States encourage increased cooperation between airports and aircraft operators to ensure that the economic difficulties facing them all are shared in a reasonable manner.

This may also be read in conjunction with the objectives of the National Civil Aviation Policy (NCAP) 2016, which intends to provide affordable and sustainable air travel for passengers/masses. As per para 12 (c) of the NCAP, "In case the tariff in one particular year or contractual period turns out to be excessive, the Airport Operator and the Regulator will explore ways to keep the tariff reasonable and spread the excess amount over the future." The above has also been conveyed by AERA vide its Order No. 14/2016-17 dated January 12, 2017.

Further, it is pertinent to note that considerable investments in capacity had already been made which would be sufficient for the foreseeable future. Therefore, the subsequent control periods are expected to witness lower capital expenditure requirements while catering to a larger traffic base.

Based on the above considerations, the Authority had proposed to carry forward some portion of the ARR to the next Control Period in the harmonious interest of all the stakeholders chain including the Airport Operator.

14.2.7. After considering the above, the Authority proposed the following ARR and YPP:

Table 115: ARR proposed to be considered by the Authority for the First Control Period at Consultation stage

(₹ Crores)

Particulars	Table/ Para Ref.	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Average RAB = A	Table 77	118.74	265.69	508.24	585.27	565.29	
Fair Rate of Return = B	Table 85	12.21%	12.21%	12.21%	12.21%	12.21%	
Return on average RAB C= A*B		14.50	32.44	62.06	71.46	69.02	**249.48**
O&M expenses – D	Table 101	71.54	79.75	117.72	124.50	134.98	**528.51**
Depreciation – E	Table 74	9.84	18.21	30.47	34.33	33.17	**126.02**
Financing Charges – F	Para 14.2.2	5.09	2.62	0.67	0.80	0.60	**9.78**
Independent Engineer's fees – G		1.58	1.58	1.58	1.58	1.58	**7.90**
Taxation – H	Table 111	39.14	0.00	7.07	14.01	14.11	**74.33**
ARR per year = SUM (C:H)		**141.69**	**134.60**	**219.57**	**246.68**	**253.46**	**996.00**
Add: PV of Under-recovery of AAI as on March 31, 2022– I	Table 24	**81.14**					
Add: PV of Under-recovery of AO as on March 31, 2022 – J	Table 42	**27.60**					
ARR – K (ARR+I+J)		**250.43**	**134.60**	**219.57**	**246.68**	**253.46**	**1,104.74**
NAR	Table 108	8.20	17.36	19.10	20.05	21.05	**85.76**
Less: 30% NAR – L		2.46	5.21	5.73	6.02	6.32	**25.73**
Net ARR = (K-L)		247.97	129.39	213.84	240.66	247.15	**1,079.01**
Discount factor (@ 12.21%)		1.00	0.8912	0.7942	0.7078	0.6308	
PV of ARR/ Target Revenue as on 31 March 2022		247.97	115.31	169.83	170.34	155.90	**859.36**
Sum Present value of ARR				**859.36**			**859.36**
Total Traffic (million passengers)	Table 51			11.02			**11.02**
Yield per passenger on Total Traffic (YPP) (₹)				**779.82**			**779.82**
Departing Passengers				5.51			**5.51**
Yield per Departing Passenger (₹)				1,559.63			**1,559.63**

14.2.8. The Authority noted that, it is necessary to have the individual year wise tariff card laying down the different aeronautical charges and the workings for the aeronautical revenues, in order to have a constructive stakeholder discussion and hence MIA was directed to submit the detailed Annual Tariff proposals in line with the ARR and Yield arrived at by the Authority within 7 days of issue of the Consultation Paper.

14.3. Stakeholders' comments regarding Aggregate Revenue Requirement (ARR) for the First Control Period

14.3.1. During the stakeholders' consultation process, the Authority has received comments/ views from various stakeholders in response to the proposals of the Authority in the Consultation Paper no. 07/2022-23 with respect to Aggregate Revenue Requirement (ARR) for First Control Period. The comments by stakeholders are presented below:

AO's comments on Aggregate Revenue Requirement (ARR) for the First Control Period

14.3.2. AO has commented the following on AERA's views relating to Aggregate Revenue Requirement (ARR) for the First Control Period as stated in para 14.2.1 and 14.2.3 in this Tariff Order:

We request the Authority to make suitable adjustments in the ARR after considering the impacts of the requests raised in this document. The tariff card was submitted to the Authority on 12th August 2022 and subsequently published by the Authority vide Public Notice No. 10/2022-23 dated 16th August 2022

We request Authority to consider interest on working capital based on the assumptions for working capital requirements provided in the MYTP submission.

14.3.3. AO has commented the following on AERA's views relating to Carry forward some portion of ARR as stated in para 14.2.6 in this Tariff Order:

We request the Authority to take cognizance of the following facts:

- *Mangaluru Airport has been incurring losses before privatization (refer Table 21 from Consultation Paper No.7/ 2022-23 for True-up of AAI).*
- *The losses have been continuing after privatization. MIA has made Cash losses in FY21 and FY22 totaling to ~Rs.88 Crs. The losses are getting accumulated in FY23.*
- *There are certain obligations under the Concession Agreement which are to be met like payment of Adjusted Deemed Initial RAB to AAI (refer 4.3.11.2 of CP), reimbursement of select employee salaries to AAI, monthly concession fees payments to AAI, maintenance of service standards for operation and development*
- *In the proposed CP, substantial amounts relating to justified projects and operational expenditure are already proposed on actual incurrence basis without taking its impact in current ARR*
- *The existing debt of the company is based on cash flow assumptions including full recovery of the ARR. In case it does not happen, the credit profile of the company will further erode, and it will have cascading impact leading to higher cost of debt. This will ultimately translate to higher FRoR*
- *MIA has been prudent while proposing the tariff card. The increase in rate proposed is lower in initial years with gradual increase in future years*
- *As per AERA Act 2008 Clause 13 (a) (iv) Functions of Authority, the Authority need to consider the economic and viable operations of the Airport while determining the tariffs*
- *In light of above, we request the Authority not to carry forward any portion of the ARR which will jeopardize the efficient operations of the Airport and adversely impact the very purpose of privatization.*

Other Stakeholder's comments on traffic forecasts for the First Control Period

14.3.4. BIAL has commented the following:

Deferment of ARR to next control period

"We request Authority to consider the cash flow requirements of the Mangaluru Airport while making a decision on the deferment of ARR, as it might affect the capacity of the Airport Operator to raise required finances to meet the capex requirements of the Airport.

We also request the Authority to publish the cash flow impact on the airport operator, on account of the decision to defer a portion of ARR, as an addendum to the Consultation paper along with the assumptions used therein.

Further, we request Authority to take the consent of the Airport Operator on the deferment and not proceed on the same in a unilateral manner. Deferment of ARR may not be in the interest of airport users as well as they will have to pay for the same along with carrying costs, in next Control Period."

14.3.5. APAO has commented the following:

"In addition to above mentioned issues, Authority has proposed to carry forward some portion of the ARR to the next Control Period. We request Authority to consider cash flow requirements of the Mangaluru Airport while making a decision on the deferment of ARR, as it might affect the capacity of the Airport Operator to raise required debt to meet the much-needed capex requirement of the Airport. We request the Authority to take consent of the Airport Operator on the deferment and not take any decision unilaterally on the matter. Deferment of ARR may not be interest of airport users as well as they will have to pay for any shortfall in ARR with higher amounts (with carrying costs) in the next Control Period.

We also request the Authority to consider favorably Airport Operator's request to revisit the tariff card at the end of FY24 without undertaking a detailed tariff review"

14.3.6. FIA has commented the following on Aeronautical Tariffs:

i. *"MIA has proposed increase in the Landing Charges (Domestic) on B-737-800 approximately between 66% to 922% from existing charges; and on Q-400 (80 & above seater) approximately between 134% to 1344% from existing charges. Similarly, for Landing Charges (International) on B-737-800 approximately between 39% to 1449 % from existing charges; and on Q-400 (80 & above seater) approximately between 106% to 2199 % from existing charges. MIA has proposed to increase in the Parking Charges (Domestic) on B-737-800 approximately between 209% to 1792% from existing charges; and on Q-400 (80 & above seater) approximately between 344% to 2622% from existing charges. Similarly, for Parking Charges (International) on B-737-800 approximately between 209% to 3360% from existing charges; and on Q-400 (80 & above seater) approximately between 344% to 4878% from existing charges MIA has proposed increase in the UDF of up to 610 % on Domestic Passengers and up to 209% on International Passengers for the First Control Period with the proposed introduction of charge on UDF on dis-embarking passengers as well, in addition to embarking passengers. It is in the interest of all the stakeholders that the proposed tariffs not be implemented as the proposals are excessive. AERA is requested to reconsider the same, as also keeping in view our points as mentioned in Annex - B of this letter"*

ii. *"Any attempt to award the contracts by the airport operator on highest revenue share basis should be discouraged as it breeds inefficiencies and tends to disproportionately increase the cost.*

It is general perception service providers has no incentive to reduce its expenses as any such increase will be passed on to the airlines through tariff determination mechanism process and *indirectly airlines will be forced to bear these additional costs. There needs to be a mechanism for incentivizing the parties for increasing efficiencies and cost savings and not for increasing the royalty for the airport operator.*

As you are aware, royalty is in the nature of market access fee, charged (by any name or description) by the Airport operator under various headings without any underlying services. These charges are passed on to the airlines by the airport operator or other services providers.

The rates of royalty at the airport are as high as up to 45.5% for some services. It may be pertinent to note that market access fee by any name or description is not practiced in most of the global economies, including European Union, Australia etc. Sometimes it is argued by the airport operators that 'Royalty' on 'Aero Revenues' helps in subsidizing the aero charges for the airlines, however royalty in 'Non-Aero Revenues' hits the airlines directly without any benefit.

In view of the above, we humbly urge AERA to abolish such royalty which may be included in any of the cost items"

iii. ***"Tax Efficiencies**: Airlines are now paying separately for FIC and ITP which was earlier part of ATF pricing. Such FIC and ITP along with GST thereon becomes part of ATF pricing and suffers from Excise Duty and Sales Tax. The additional burden of non-creditable taxes becomes sixty-four (64) % - seventy (70) % on the airlines. We would also like to urge Authority to devise methods or pass an order stating that FIC and ITP should be directly invoiced by fuel farm operator or the services providers to the airlines to avoid circuitous billing and for the sake of 'Ease of doing businesses and 'Transparency'. This will also help in avoiding unnecessary tax on tax to the tune of sixty-four (64) %- seventy (70) % sixty-seven (67) % to Airlines."*

iv. *"AERA is requested to review the suggestions/comments on the regulatory building blocks as mentioned above which is likely to reduce the ARR. This will further ensure the lowering of tariff including UDF, which will be beneficial to passengers and airlines.*

It is in the interest of all the stakeholders that the proposed excessive hikes in the tariffs be reduced and also in order to encourage middle class people to travel by air, which will help in sharp post-COVID-19 recovery of aviation sector. It is the stated vison of the government to make UDAN ("Ude Desh ka Aam Naagrik") a reality and this can only happen if we have the lowest possible cost structure, such that we can bring more and more people to airports to travel by air."

v. *"It may kindly be noted that the Airport operator has proposed a UDF on not only embarking passengers, but on disembarking passengers as well. This is a something new and would request AERA to review the same. Please clarify the rationale for applying UDF on disembarking passengers?"*

vi. *"We request AERA to clarify in the Tariff Order, the date and method of applicability of change in UDF charges, if any (as done through addendums for MAA & CCJ airport vide addendum to order no. 38/2021-22 dated 4th March 2022 and addendum to order no. 39/2021-22 dated 8th March 222, respectively)."*

vii. *"Collection Charges: We would like to invite AERA's attention to notes 2 of UDF charges in the Public notice 10/2022-23, wherein the rate of collection of UDF charges has been proposed to be reduced by MIA from the current Rs. 5.00 per embarking/disembarking passenger to Rs. 2.50. As airlines have not agreed to this reduction, we request AERA to consider the collection charges to be reverted to Rs. 5.00 embarking/disembarking passenger, in line with other Airports."*

a. *"There is no mention of Collection charges for PSF in the MYTP submitted by the Airport operator. In the event the PSF is subsumed in the UDF, then airlines may kindly be eligible to claim collection* *charges at 2.5% of PSF per passenger, is being done currently. If PSF is not subsumed in the UDF, then current practices may kindly be continued.*

b. *We further request that in the Collection Charges, the entitlement by airlines for the same may kindly be against Airport operator having received the 'undisputed' invoiced UDF amount within the applicable due date.*

c. *CUTE, CUPPS, CUSS: As these are aeronautical revenues, we could neither find a proposal for the same in the MYTP submitted by the Airport operator for the First Control Period, nor any comment by AERA on regulating these charges in the CP for the First Control Period. We would like to state that (i) the current prices are excessive; (ii) whatever bouquet of services is agreed between the Airport operator and the service provider, this is enforced upon the airlines; (iii) the airlines have no say on the prices (unbundling), even if the airlines do not require all the services; and (iv) are in foreign currency at certain airports, making airlines vulnerable due to currency fluctuations. AERA is kindly requested to inform us the guidelines for price regulation on the same.*

d. *Query: Whether landing charges will be charged in INR or US$ for international flight?*

e. *As per ATP proposed by MIA "Parking time will be calculated based on On-Blocks and Off-Blocks time as recorded at the Airport Operations Control Centre. (AOCC)."*

   Comment: As per standard practice, 15mins time each after touchdown and before takeoff of aircraft is provided as an exemption. We would want to propose the same industry practice to be implemented here.

f. *As per ATP proposed by MIA "In case of an aircraft being parked beyond 24 hours due to technical or any other reasons, the parking charges shall be levied on a weekly basis in-line with the governing tariff order.*

   Query: Please clarify which governing tariff order is being mentioned above. Please provide the corresponding rate card.

g. *In the table dealing appended to point no. 5 of Exemption in Landing Charges and Parking Charges, there are no charges appearing for applicability of UDF on disembarking passenger. Please clarify.*

h. *With respect to effectiveness of UDF from 1st October "Will the above UDF effective date shall be considered as Travel date or Sale date or Both-travel and sale date?"*

i. *Please clarify the rationale for applying UDF on disembarking passengers?*

j. *With respect to Collection Charges "Please note that the same is paid by airport operator to airlines separately after airlines raises an invoice against the same as a standard industry practice. We request the same practice is applied."*

k. *With respect to X Ray Charges, it is mentioned that Invoices for international passengers / international carriers will be done in USD.*

   Query: Does that mean all international passengers flown by Domestic scheduled operators also will be invoiced in USD? And if so, INR rates are applicable on which passenger/operator?

l. *With respect to Variable Tariff Plan for Scheduled Passenger Airlines "New Route: A flight to a new destination that is currently unserved from Mangalore by any airline already operating at Mangalore. (Destination must be unserved for the previous 12 months)"*

   Query: We understand "Unserved" means no scheduled operations. Please confirm.

m. *In the table of VTP Applicable Rates for Scheduled Passenger Airlines Rate per MTOW (MTOW*

>100 MT) appears to be repeated, with no additional conditions. Please clarify the same.

n. *FIA submits that the Hon'ble TDSAT Order dated 16 December 2020 for BIAL stated as follows:*

'100...However, there is substance in this grievance and AERA will do well to ensure that if delay is caused by the Airport operator, its consequences should not fall upon the users. Tariff orders should be prepared well in time so that the burden of recovery is spread over the entire period for which the order is passed...'

In view of the above, AERA is requested to ensure that airlines/passengers are not burdened in view of the apparent shrinkage in the period of recovery of the aeronautical tariff from passengers/airlines, as the AERA Tariff Order for MIA - First Control Period, will now be issued after the commencement of the Control Period i.e., 1 April 2021."

14.3.7. HPCL has commented the following on Aeronautical tariffs:

"Since FIC tariff is one of the component in the pricing mechanism, kindly make the new tariff applicable on prospective basis.

14.4. AO's responses to stakeholders' comments on Aggregate Revenue Requirement (ARR) for the First Control Period

14.4.1. AO has responded to BIAL's and APAO's comments on deferment of ARR as under:

Refer to detailed comments given by the AO in para 14.3.3 in this Tariff Order on deferment of ARR.

14.4.2. AO has responded to FIA's comments on Tariff Rate Card as under:

i. *"Existing rate card of the Airport approved by MoCA is very old. The last UDF revision for the Airport was effected in year 2010. Since then, there has been no major revision of tariff for the Mangaluru Airport. The tariff as approved then by MoCA did not follow the building block methodology as is done by AERA. Lower tariffs combined with lower traffic due to COVID-19 resulted in substantial under recovery of aeronautical revenues for both AAI and MIA. Further, AAI had already embarked on an expansion capex plan since 2018 and the modernization plan will significantly improve the service levels for airport users as mandated under the Concession Agreement and also for catering towards upcoming growth volumes. The cumulative impact of these developments has an impact on the tariffs. Assuming new tariff is approved with effect from 1st Oct 2022, one and half years of the first control period has already elapsed and airport operator is left with only 3.5 years to recover the approved ARR (which is over and above the under-recovery amount of Rs. 81 Crs for period prior to COD, as determined by AERA). This has further amplified the impact of increased tariff.*

   Higher percentages as calculated by FIA for various aeronautical charges are an aberration since same have been calculated on a very low base and pre-development structures"

ii. *"In case of Mangaluru airport, there is no royalty or concession fee which will be recovered in case of cargo and fuel activities as these facilities will be managed and operated by Airport Operator only. As far as royalty of 45.5% on Ground Handling (GH) activity is concerned, we would like to state GH is aeronautical service.*

   Abolition or reduction in royalty will result in increase in other aeronautical charges like Landing, Parking and UDF as ARR of AO as determined by the Authority is fixed. Further, we would like to state that selection of concessionaire through competitive bidding based on highest revenue *share is common industry practice being followed by various airports in India and World."*

iii. *"We believe relevant Authority has been mindful of the undue tax burdens on various players in the aviation ecosystem. This is substantiated by the fact that fuel throughput charges were abolished by AERA/MoCA in Jan 2020 and airport operators were compensated by way of increase in landing charges and airlines were benefitted by way of lower tax burden. Having said the above, we will welcome any new steps that are taken by MoCA/GoI/AERA in this direction.*

However, as far as billing of FIC and ITP charges is concerned, OMCs (not airlines) are the users of the open access facility and fuel farm operator is appropriately charging FIC and ITP charges to the users of the facility."

iv. *"MIA appreciates the vision of the Government to make UDAN a reality that will ensure long term sustainability of entire aviation ecosystem. We will continue to abide by all the orders of the Authority to boost regional connectivity (RCS scheme) whereby no landing charges are charged to Airlines and no UDF is charged to the departing passenger."*

v. *"In order to cushion the impact of this increase and in the interest of users, Airport Operator has introduced UDF on arriving passengers in its tariff card. This is not a new practice. Authority in the past had approved UDF on arriving pax for Delhi Airport (DIAL). Authority while tariff determination of first control period of DIAL had observed the following:*

"As far as splitting of UDF between departing and arriving passengers is concerned, both departing and arriving passengers use the airport facilities. The Authority is also informed that such a charge on the arriving passengers is prevalent in some of the airports like Brussels, Darwin, Sydney, Canberra, Brisbane, Auckland. The Authority decided to accept this proposal of DIAL""

vi. *"We understand that by virtue of the above-mentioned addendum orders, AERA has stated that revised UDF charges are applicable for tickets issued on or after the effective date of the tariff order. This was done based on the request made by AAI in order to bring clarity regarding the applicability of revised UDF charges. We request Authority to put similar clause in MIA order as well."*

vii. *"Collection charges paid to airlines is pass though expense for airport operator. Reduction in collection charges is in interest of all airport users"*

14.4.3. AO has responded to FIA's comments on Collection charges and Aeronautical tariff (as detailed in para 14.3.6 ((a.) to (n.)) as under:

a. *"For simplicity and in the interest of users, we have requested Authority to subsume PSF charges in to UDF and propose Rs 2.5 per passenger as collection charges for UDF.*

b. *As approved by AERA for other airports, airlines entitlement to collection charges should only be against full and timely payment of all outstanding dues.*

c. *At MIA, the CUTE /CUPPS /CUSS (CUTE) charges are charged by third party concessionaire who in turn shares certain portion of these charges with MIA. MIA is not directly charging the users. The arrangement was existing before COD when AAI was operating the Airport and it is novated to MIA from COD onwards as per terms of the CA. In this respect, revenue portion received by MIA is considered as aeronautical (refer table 35 of CP). Therefore, other aeronautical charges like landing, UDF etc, calculated to provide the recovery of ARR, as provided in the tariff card are arrived after reducing contribution of revenues from CUTE services from eligible ARR.*

In simple terms, Present value of eligible ARR = Present value of Aeronautical Revenues other than *revenues from CUTE services + Present value of revenues from CUTE services.*

Any reduction in revenues from CUTE services will increase landing/parking charges by that amount as the ARR to be recovered is a fixed number.

d. *All the charges to Indian Carriers will be raised in INR and to international carriers USD denominated*

e. *On Block and Off Block time are much cleaner to monitor and is more relevant from a true parking time perspective unlike touch-down / take-off which is highly variable in nature.*

f. *Governing Tariff Order is the proposed tariff order itself as the rates are applicable irrespective of the time period of parking. Also, the weekly payment is in line with our invoicing policy for other aero charges like Landing, UDF etc.*

g. *Refer section "Exemptions in Payment of User Development Fee (UDF)" for the same (page 18 of the ATP document submitted by MIA).*

h. *As per recent orders approved by the Authority, revised UDF charges are applicable on tickets issued on or after effective date of tariff order. We request similar practice may be followed for MIA as well.*

i. *This issue has already been addressed.*

j. *Once MIA receives the UDF amount within the due date as mentioned in the invoice; and there are no overdue on any account with MIA, the collection charges payable to the Airlines will be paid as per due dates mentioned on the invoice. However, no collection charge shall be payable by MIA to the airline if the airline fails to make UDF invoice payment within aforesaid applicable time limit/credit period. This is as per the existing provisions made in the AERA order for other airports.*

k. *All the charges to Indian Carriers (including international operations) will be done in INR terms and to international carriers in USD terms.*

l. *Same is confirmed*

m. *For more clarity check VTP rate card.*

n. *It is to be noted that MIA started commercial operations from 31st October 2020. As per the clause 28.11.1 of the CA, MIA shall have not less than 365 days from the COD to seek revision of the Aeronautical Charges from AERA. MIA submitted its MYTP to AERA on 31st May 2021 and complied with provisions of CA.*

14.4.4. AO has responded to HPCL's comments as under:

"Once the tariff is approved by the Authority, FIC will be levied by MIA on prospective basis only i.e. from the date of operation of the facility."

14.5. Authority's analysis on Stakeholders' comments regarding Aggregate Revenue Requirement (ARR) for the First Control Period

14.5.1. The Authority has studied the comments made by the AO and dealt with them under the relevant chapters. As stated in the respective chapters, after a detailed examination the Authority had rationalized the CAPEX (by changing the year of capitalisation of the asset or shifting the CAPEX to the next Control Period and rationalising the CAPEX cost, wherever necessary), O&M expenses, NAR etc. of MIA for the First Control Period.

Based on its analysis under the respective regulatory building blocks, the Authority has recomputed the ARR and the same is presented in Table 116 of this Tariff Order.

Further, the above ARR has been re-computed, after taking into consideration the interest on working capital determined based on projected aeronautical revenues for the First Control Period.

14.5.2. The Authority has noted the comments of the AO, BIAL and APAO on carry forward of some portion of the ARR and has the following views:

i. The Authority notes that the AO has on-going capital expenditure projects and other planned works, which have resulted in a higher ARR for the First Control Period. Whereas, the existing traffic base is not sufficient for the complete recovery of ARR in the current Control Period and this would require a significant increase in tariff, which in the present times is likely to adversely impact the recovery of air traffic.

ii. It is pertinent to note that MIA is not a Major Airport as per the AERA Amendment Act, 2019, as currently the maximum passenger throughput it has handled is 2.27 MPPA in any Financial Year (FY 2017-18), which is considerably lower than the threshold limit of 3.5 MPPA defined under the AERA Act. However, it became a Major Airport, as it was notified so, by MoCA vide Order No. S.O. 206 (E) dated January 10, 2020. This low traffic base has a significant impact on the increase in tariff.

iii. The Authority is also cognisant of the fact that there are certain obligations under the Concession Agreement, which need to be fulfilled by the AO and that the Tariff is being determined for the first time for Mangaluru International Airport, wherein hitherto tariff rate card of Non-Major airport has been followed. Further, the new Aeronautical tariff proposed by the Authority may be implemented only by the end of the current Financial Year, thereby resulting in only lesser tariff years being available for recovery of the ARR.

iv. In this regard, the Authority would like to draw reference to the guiding principles issued by the International Civil Aviation Organization ("ICAO") on charges for Airports and Air Navigation Services (ICAO DoC 9082), which lays down the main purpose of economic oversight which is to achieve a balance between the interest of Airports and the Airport Users. This policy document categorically specifies that *caution be exercised when attempting to compensate for shortfalls in revenue considering its effects of increased charges on aircraft operators and end users*. The said policy document also emphasizes on balancing the interests of airports on one hand and aircraft operators, end users on the other, in view of the importance of the air transport system to States. This should be applied particularly during periods of economic difficulty.

v. Further, it is pertinent to note that considerable investments in capacity have already been made which would be sufficient for the foreseeable future. Therefore, the subsequent control periods are expected to witness lower capital expenditure requirements while catering to a larger traffic base.

vi. The Authority had also drawn reference of the National Civil Aviation Policy (NCAP) 2016, which intends to provide affordable and sustainable air travel for passengers/masses. Adhering to the aim of the country's NCAP to make the air travel affordable is all the more important at this juncture when the entire civil aviation sector is going through an unprecedented, turbulent, once-in-a-century pandemic whereby the air travel has taken a nose-drive. Further as per para 12 (c) of the NCAP, *"In case the tariff in one particular year or contractual period turns out to be excessive, the airport operator and regulator will explore ways to keep the tariff reasonable, and spread the excess amount over the future."* The above has also been conveyed by the AERA vide its Order No. 14/2016-17 dated 12th January 2017.

vii. Keeping the above intent of the NCAP, Regulatory Guidelines of the AERA, ICAO manuals, stakeholders' comments on record, the Authority has adjusted the rate card and tariff growths over the First Control Period, and has decided to carry forward ₹ 248.91 Cr. (29.23% of the ARR in NPV terms) subject to true up in the next control period to ensure that the stakeholders are not unnecessarily burdened as they are already impacted by COVID-19 pandemic and the Aviation growth is not adversely impacted due to higher tariff.

viii. The Authority has decided to carry forward a certain portion of the ARR to the next Control Period, in order to protect the interest of all stakeholders, including the Airport Operators, Airlines as well as the Users as the same will lower the burden on the Airport Users and strengthen the revival of the Aviation sector in the post pandemic years by ensuring that all the stakeholders including the passengers and the airlines are not burdened with higher charges leading to decrease in air traffic demand, thereby impacting the revival of the aviation sector.

ix. It is pertinent to note here that due to COVID -19 pandemic, the air traffic demand has been impacted substantially. While the capital expenditure continued to be incurred by the airport operators, the demand for air travel nose-dived during this period leading to overhang of capacity creation vis-à-vis the traffic demand. In this backdrop, it is not possible to recover 100% of the ARR in one Control Period without further harming the aviation sector.

Based on the above considerations, the Authority has decided to carry forward some portion of the ARR to the next Control Period in the harmonious interest of all the stakeholders chain including the Airport Operator.

14.5.3. The Authority has noted the comments of FIA on Tariff Rate Card proposed by the AO and the response of the AO.

- The Authority is of the view that the aeronautical tariff currently followed by MIA are quite low, because those are the rates for AAI airports approved by MoCA. Further, the new Aeronautical tariff may be implemented only by the end of the current Financial Year, thereby resulting in only lesser tariff years being available for recovery of the ARR.
- As part of the tariff determination exercise, the Authority had rationalized all the regulatory building blocks such as CAPEX (by changing the year of capitalization of certain projects, rationalizing the cost of the capital projects or by shifting the projects to the next Control Period, rationalizing the Terminal Building ratio), O&M expenses, NAR etc. submitted by the AO for the First Control Period. However, the Authority has decided to carry forward a certain portion of the ARR to the next Control Period in the harmonious interest of all the stakeholders, as explained in para no. 14.5.2 of this Tariff Order. The Authority has thus re-computed the tariff rate card proposed by the AO, by increasing the Aeronautical tariff in a progressive manner and the same is presented in the Annexure 1 of this Tariff Order.

14.5.4. The Authority reviewed FIA's comment and the response thereon of the AO on royalty and has the following views:

- Further, the Authority has noted the issue of royalty fees and revenue share payable to Airport Operators by the Service Providers as a pass-through expenditure. It may be noted that the Authority has a separate tariff determination process for service providers providing Cargo, Ground Handling and Fuel Supply to aircraft where the royalty charges are addressed alongside a rigorous stakeholders' consultation process.
- It may also be noted that the Royalty paid by the ISPs to the Airport Operators are taken into account as Aeronautical revenue by AERA during tariff determination process, thus helping the Airport Users by reduction in the tariff.

14.5.5. The Authority has noted the comments of FIA on Tax Efficiencies and the response of the AO and is of the view that the AO's comments adequately addresses the issues raised by FIA.

14.5.6. The Authority has reviewed the comments of FIA on reduction of ARR and the response of the AO. As mentioned in the para no. 14.5.2 of this tariff order, the Authority has determined ARR after performing a detailed examination of the regulatory building blocks and by rationalising the same such as CAPEX, O&M expenses, NAR etc.

14.5.7. The Authority has noted the comments of FIA and the response of the AO on levying UDF on the disembarking passengers. The Authority is of the following views:

- The aeronautical tariff currently followed by MIA are quite low, because those are the rates for AAI airports approved by MoCA. Further, the Authority notes that the billable traffic (after excluding non-RCS, less than 80-seater flights that are exempt from Landing charges) projected for the First Control Period is at a low base for recovering the ARR determined for the First Control Period.
- By levying some portion of UDF on the disembarking passengers (as prevalent in certain other countries), the Authority feels that it may help in reducing the aeronautical tariff determined towards Landing charges (as the Authority notes that there are only two major components of Aeronautical revenue, which is Landing charges and UDF). This process may also help in recovering ARR for this Control Period and put lesser burden on the Airlines and other Airport Users. Based on the above factors, the Authority decides to consider levying UDF on the disembarking passengers for the First Control Period.
- Further, the Authority feels that the airport facility is used by both embarking and disembarking passengers. However, the facility used by disembarking passengers is comparatively less as compared to by embarking passengers, so the Authority is of the view that lesser UDF may be levied on the disembarking passengers. Hence, the Authority has decided to levy UDF on the embarking and disembarking passengers in the ratio of 70:30. The same has been detailed in the Tariff Rate Card annexed to this Tariff Order (Refer Annexure 1).

Other issues

14.5.8. The date and method of applicability of the UDF charges will be stated in the Tariff Order of MIA for the First Control Period.

14.5.9. The Authority has reviewed the comments of FIA and the response of AO on the collection charges and is of the opinion that the collection charges is a matter between the Airport Operator and the Airlines. However, Para No. 18.1.1 (c) note (i) of this tariff order regarding collection charges may be referred to.

14.5.10. The Authority has noted the comments of FIA and the response of AO and would like to mention that PSF has been subsumed in the UDF charges. With respect to Collection charges, the Authority has stated its views as mentioned above.

14.5.11. The revenue from CUTE, CUSS, CUPPS has been considered as part of Aeronautical revenues, which is in line with the standard practice being followed across all Major Airports. This revenue component is used for recovery of ARR and helps in reducing Aeronautical tariff levied towards Landing and Parking charges.

14.5.12. All the charges to Indian Carriers will be raised in INR. In case of payment in foreign currency, the RBI conversion rate as on the last day of the previous month will be applicable for the first fortnight and the rate as on 15th of the month will be applicable for the second fortnight.

14.5.13. Parking time will be calculated based on ON BLOCK and OFF BLOCK time as recorded at Airport Operations Control Centre (AOCC).

14.5.14. The revised UDF charges would be applicable on tickets issued on or after the effective date as mentioned in the Tariff Order. Refer para 18.1.1 (c) note (iii) Tariff Order.

14.5.15. The charges to Indian Carriers (including international operations) will be done by the AO in INR terms. The Authority has given its views, in this regard, in the Tariff Rate Card and the same may be referred to.

Variable Tariff Plan (VTP)

14.5.16. The Authority based on the Tariff Rate Card submitted by the AO, examined the Variable Tariff Plan and notes that the purpose of VTP is to bring additional flights and generate additional revenue, which will help to reduce Aeronautical charges in long term and also to encourage growth in international traffic.

14.5.17. Accordingly, the Authority, agrees to accept the VTP, as this will help in developing new international routes leading to additional revenue generation and will also help in decreasing the aeronautical tariff in the long run. The Authority would like to further state that it will be beneficial for the airlines in the current situation and will help to revive the traffic.

14.5.18. The Authority also directs MIA to keep a separate record of the Landing charges earned under VTP, expenditure incurred and incentives granted in this regard during the First Control Period for the purpose of verification by the Authority at the time of true up and take considered decision during tariff determination for the next Control Period.

14.5.19. Based on its examination, the Authority decides to consider the VTP effective from February 1, 2023 as given in para 18.1.3 of this Tariff Order. The terms and conditions to the Variable Tariff Plan (VTP) has been annexed to the Tariff Rate Card on VTP and the same may be referred to.

Cargo tariff rate

14.5.20. The Authority has examined the Tariff Rate Card for Cargo submitted by the AO. The Authority has noted the Policy Guidelines on 'Air Freight Station' (AFS) issued by MoCA in October 2014. This Policy shall create an off Airport Common User facility equipped with fixed installations of minimum requirements and offering services for handling International Air Cargo in the form of Air Freight Stations with a mandate to enable the Cargo Industry as follows:

- Off-Airport common user facility equipped with fixed installations of minimum requirements and offering services for handling and temporary storage of import/ export goods, loaded and empty Unit Load devices (ULD) and Cargo in bulk/ loose for outright export.
- Create an enabling environment for promoting International Air Cargo operations by reaching out to hinterland regions of the Country besides de-congesting the congested Air Cargo terminals in some gateway International Airports that face high dwell time.
- Authorising some of the Inland Container Depots (ICD) to cater to the International Air Cargo operations, the existing facilities in these ICDs, could be fully utilized.

14.5.21. The Authority notes that the above Policy Guidelines on AFS has larger national intent and it aims to strengthen and develop air cargo logistics in the Country and the same is expected to reduce the bottlenecks in air cargo logistics and help in ease of doing business, particularly for exporters.

14.5.22. In this background, if such facility is developed by any AFS Operator as per Guidelines of GoI in this regard and wants to use the Cargo facilities at Mangaluru International Airport in future, AERA shall issue appropriate directions in this regard, including the charges to be levied on AFS Cargo.

14.5.23. The Authority directs MIA to maintain separate accounts for its Cargo Handling and Fuel services and submit Annual Compliance Statement (ACS) for each accounting year (ending on 31st March) as per AERA CGF Guidelines.

Recovery burden on account of shrinkage in the Control Period

14.5.24. The Authority has noted FIA's concerns on the recovery burden on account of shrinkage in the Control Period. The Authority would like to emphasize that the tariff determination exercise was carried out for MIA in accordance with the terms of the Concession Agreement (CA). Further, it is pertinent to note that the COD was achieved after 8 months from the date of signing the CA. Furthermore, there were delays in the submission of MYTP and other details by AAI and the new Concessionaire due to delays in the hand-over/ take-over of the Airport on account of unforeseen circumstances such as the COVID -19 pandemic. Also, the Authority had sought clarification from time to time, from AAI and the new Concessionaire on the various regulatory building blocks, based on which aeronautical tariff has been determined by the Authority.

In the background of the special circumstances involving change of AO, provisions of Concession Agreement and two Airport Operators being involved in the tariff determination process, it has resulted in the time lag in the determination of tariff for the First Control Period for MIA.

14.5.25. The Authority has noted the comments of HPCL and the response of the AO thereof.

14.5.26. Based on the above factors, the Authority has re-computed ARR, which it decides to consider for MIA for the First Control Period and the same is as follows:

Table 116: ARR considered by the Authority for MIA for the First Control Period

(₹ Crores)

Particulars	Table Ref.	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Average RAB = A	Table 80	123.59	274.70	518.53	596.32	576.06	
Fair Rate of Return = B	Table 85	12.21%	12.21%	12.21%	12.21%	12.21%	
Return on average RAB C= A*B		15.09	33.54	63.31	72.81	70.34	**255.09**
O&M expenses – D	Table 104	71.7	81.77	123.3	127.38	138.08	**542.23**
Depreciation – E	Table 79	10.45	19.23	31.84	35.80	33.65	**130.96**
Financing Charges – G		3.22	2.51	0.65	0.81	0.6	**7.79**
Independent Engineer's fees - G		1.58	1.58	1.58	1.58	1.58	**7.90**
Taxation – I	Table 112	0.00	0.00	0.00	16.18	31.02	**47.20**
Interest on Working Capital - J			0.15	1.00	2.27	3.26	**6.68**
ARR per year = SUM (C:J)		**102.04**	**138.78**	**221.69**	**256.83**	**278.52**	**997.85**
Add True up of AAI from FY 2017 till COD – K	Table 24	81.14					
Add: True up of AO from COD till March 31, 2021 – L	Table 43	31.01					
ARR – M		**214.19**	**138.78**	**221.69**	**256.83**	**278.52**	**1,110.00**
NAR	Table 108	8.20	17.36	19.10	20.05	21.05	**85.76**
Less: 30% NAR – N		**2.46**	**5.21**	**5.73**	**6.02**	**6.32**	**25.73**
Net ARR = (M-N)		211.73	133.57	215.96	250.81	272.21	**1,084.27**
Discount factor (@ 12.21%)		1	0.8912	0.7942	0.7078	0.6308	
PV of ARR/ Target Revenue (₹ Crores)		211.73	119.04	171.51	177.52	171.71	**851.51**
Sum Present value of ARR (₹ Crores)		851.51					**851.51**
Total Traffic (million passengers)	Table 54	11.02					**11.02**
Yield per passenger on Total Traffic (YPP) (₹)		772.70					**772.70**
Departing Passengers		5.51					**5.51**
Yield per Departing Passenger (₹)		1,545.40					**1,545.40**

14.5.27. The Authority, based on the ARR, has computed the projected Aeronautical Revenue for MIA for the First Control Period based on tariff decided by the Authority as shown in the table below:

Table 117: Projected Aeronautical Revenue decided by the Authority for MIA for the First Control Period

(₹ Crores)

Particulars	Ref.	FY 22	FY 23	FY 24	FY 25	FY 26	Total
Total PV of ARR including true up (Refer Table 116)	**A**	**211.73**	**119.04**	**171.51**	**177.52**	**171.71**	**851.51**
Landing charges	**B**	**6.89**	**12.31**	**43.04**	**66.32**	**86.76**	**215.33**
Domestic		*4.30*	*7.50*	*25.70*	*38.88*	*47.52*	*123.91*
International		*2.60*	*4.80*	*17.34*	*27.44*	*39.23*	*91.42*
UDF	**C**	**18.23**	**38.03**	**109.34**	**155.23**	**193.97**	**514.80**
Domestic - departure		*7.73*	*14.60*	*42.18*	*63.28*	*78.40*	*206.19*
Domestic -arrival			*1.60*	*18.08*	*27.12*	*33.60*	*80.40*
International - departure		*10.50*	*20.40*	*34.36*	*45.38*	*57.37*	*168.01*
International - arrival			*1.40*	*14.73*	*19.45*	*24.59*	*60.16*
Parking	**D**	0.20	0.09	0.62	1.47	2.56	4.94
X Ray	**E**	0.00	1.21	8.73	12.61	14.81	37.36
Ground Handling	**F**	1.03	1.44	1.66	1.94	2.24	8.31
CUTE Charges	**G**	1.56	1.71	1.96	2.39	2.83	10.45
Cargo revenue	**H**	0.00	0.00	2.71	3.61	4.80	11.13
Fuel revenue	**I**	0.00	0.00	10.21	12.21	14.21	36.64
Total (SUM A:H)	**J**	**27.91**	**54.78**	**178.28**	**255.79**	**322.19**	**838.94**
PV factor	**K**	1	0.89	0.79	0.71	0.63	
Discounted Aeronautical Revenue	**L**	**27.91***	**48.82**	**141.59**	**181.05**	**203.24**	**602.60**
Under-recovery for the First Control Period (A-L)							**248.91**

** Aeronautical revenue for FY 2021-22 is based on actuals.*

14.5.28. The Authority notes that based on the projected Aeronautical Revenue determined by it (considering Aeronautical tariff as per Tariff Rate Card in Annexure 1), there would be an Under-recovery (shortfall) of ₹ 248.91 Crores as on March 31, 2022, which the Authority decides to carry forward to the next Control Period.

14.6. Authority's decisions regarding Aggregate Revenue Requirement (ARR) for the First Control Period

Based on the material before it and based on its analysis, the Authority decides the following with regard to ARR for the First Control Period:

14.6.1. To consider the ARR and YPP for the First Control Period for Mangaluru International Airport in accordance with Table 116.

14.6.2. To consider projected Aeronautical revenue and Under-recovery for MIA for the First Control Period as per Table 117.

14.6.3. To consider VTP effective from February 1, 2023 as given in para 18.1.3 Annexure 1B of this Tariff Order.

14.6.4. The Authority directs MIA to keep a separate record of landing charges earned, expenditure incurred and incentives granted under VTP during the First Control Period for information for stakeholders and AERA so as to take a considered view for determination of Aeronautical Tariff for the next Control Period. The Authority directs MIA to ensure that the principles of non-discrimination of ICAO are not violated

14.6.5. The Authority directs MIA to maintain separate accounts for its Cargo Handling and Fuel services and submit Annual Compliance Statement (ACS) for each accounting year (ending on 31st March) as per AERA CGF Guidelines.

14.6.6. To consider Tariff Rate Card for MIA for the First Control Period as per Annexure I (1A, 1B, 1C).

15. NOTE ON KEY ISSUES ARISING FROM CONCESSION OF MIA AND COVID-19 PANDEMIC IMPACT

15.1 Background

15.1.1. The outbreak of COVID-19 has severely impacted the Aviation Industry globally and consequently India, as well. The lockdown and travel restrictions imposed by various Governments/ Countries have brought down air travel substantially during FY 2020-21, both domestic and international. The domestic and international combined passenger throughput in FY 2020-21 was 33.8% of the FY 2019-20 passenger traffic. Even during 1st quarter of FY 2021-22 the passenger throughput was 27.7% compared to the same period of FY 2019-20. With this effect of COVID pandemic, the total passenger traffic for the First Control Period for MIA is estimated to be 11.04 million.

15.1.2. It is pertinent to note that the tariff determination process for MIA has been carried out by the Authority under special circumstances wherein there had been a change in the AO (due to concessioning of the Mangaluru Airport), which had necessitated involvement of two Airport Operators in the process of determination of Aeronautical tariff and adherence to the provisions of the Concession Agreement.

15.1.3. The AO has on-going capital expenditure projects and other planned works, which has resulted in a higher ARR for the First Control Period. Whereas, the existing traffic base is not sufficient for the complete recovery of ARR in the current Control Period and this would require a significant increase in tariff, which in the present times is likely to adversely impact the recovery of air traffic. The impact of higher ARR and lower traffic would lead to increased tariff over the current control period. If the entire ARR is proposed to be recovered during the First Control Period itself, tariff rates would be exceptionally high due to double impact of increased ARR and decreased traffic and the same may be counter-productive for the revival of aviation industry.

15.1.4. AERA as a regulator is expected to look into the interest of all the stakeholders while determining the tariff of the Airport. It is also expected to look into the economic and viable operation of the Airport. Section 13 (I) (a) (vii) of the AERA act allows AERA to consider any other factor relevant for the determination of the Tariff. In the background of the above stated facts arising out of development of Mangaluru Airport through PPP mode and the adverse impact of COVID-19 pandemic which is beyond the control of all stakeholders, the Authority while determining the tariff of the Airport and considering the viability for the sustainable operations of the airport, has considered the following factors while determining the tariff for the First Control Period.

15.2 Development of MIA through PPP mode

15.2.1 AAI and the Airport Operator had entered into a Concession Agreement on February 14, 2020, for the Operation, Development, Maintenance and Management of Mangaluru International Airport for a period of 50 years from the Commercial Operation Date (COD) i.e., October 31, 2020. As per clause 28.11.1 of the Concession Agreement, *"The Concessionaire shall seek revision of Aeronautical Charges by the Regulator as per applicable Regulatory Framework for the next applicable Control Period. Notwithstanding the above, the Concessionaire shall have not less than 365 (three hundred and sixty five) days from the COD to seek such revision of the Aeronautical Charges."* Accordingly, the MYTP was submitted by the AO within 365 days from the COD.

15.2.2 As there was time-lag involved in the submission of MYTP and other details by AAI and the new Concessionaire due to delays in the hand-over/ take-over of the Airport on account of unforeseen circumstances such as the COVID -19 pandemic, the new Aeronautical tariff decided by the Authority may be implemented only by the end of the current Financial Year, thereby resulting in only lesser tariff years being available for recovery of the ARR.

15.3 Recovery of certain portion of ARR in the Second Control Period

15.3.1. As highlighted in the above paragraphs, the air traffic demand has been deeply impacted by the challenges posed by the COVID-19 pandemic and the resultant slowdown in the economy. Moreover, airport operator has on-going capital expenditure projects and other planned works, which have resulted in a higher ARR. Whereas, the existing traffic base is not sufficient for the complete recovery of ARR in the current control period, as this would require a significant increase in tariffs. But the increase in tariffs during present times is likely to adversely impact the recovery of air traffic.

15.3.2. During the stakeholder consultation process, the Authority received various comments from stakeholders regarding full recovery of ARR in the light of disruptions caused by the COVID-19 pandemic. The Authority has examined such comments and is of the considered view that keeping the tariff at present level for the entire control period and postponing the entire recovery of shortfalls (in case no tariff hike is effected in the present control period) to the next control period would create a huge recovery burden and lead to steep upward revision of tariffs in the Second Control Period. Further, this would also adversely affect the cash flows of the Airport Operator in the present control period. Nevertheless, the Authority understands that targeting a full recovery at time when the aviation industry is struggling to recover from the perils of the COVID-19 pandemic would not be fair to all the stakeholders and be counterproductive to the efforts to revive demand. The Authority finds that airport operators are relatively better placed in such a situation due to provision for true up of any shortfalls in revenue recovery in the next control period.

15.3.3. Further, following factors are equally important to justify that a certain portion of the ARR, needs to be carried forward to the next Control Period, to avoid steep increase in aeronautical tariffs:

i. Mangaluru International Airport is a table-top airport, which necessitates significant Capital investment to adhere to safety and security requirements (such as RESA, Centre Lighting, compliance with DGCA norms etc.) of the Airport.

ii. It is pertinent to note that MIA is not a Major Airport as per the AERA Amendment Act, 2019, as currently the maximum passenger throughput it has handled is 2.27 MPPA in any Financial Year (FY 2017-18), which is considerably lower than the threshold limit of 3.5 MPPA defined under the AERA Act. However, it became a Major Airport, as it was notified so, by MoCA vide Order No. S.O. 206 (E) dated January 10, 2020. This low traffic base has a significant impact on the increase in tariff.

iii. The proportion of non-billable ATM traffic (flights with less than 80-seater capacity that pertain to non-RCS category) seems to be on the higher side, which ranges from 28% to 37% of the total ATM traffic projected for the First Control Period.

iv. Tariff is being determined for the first time for Mangaluru International Airport, wherein hitherto tariff rate card of non-Major airport had been followed. Further, the Authority witnessed special circumstances where there had been a change in the AO and involvement of two Airport Operators in the tariff determination process for MIA.

v. New Aeronautical tariff decided by the Authority would be implemented only by the end of FY 2022-23, thereby resulting in only lesser tariff years being available for recovery of the ARR.

vi. Further, it would be pertinent to note that considerable investments in capacity have already been made which should be sufficient for the foreseeable future. Therefore, the subsequent control periods are expected to witness lower capital expenditure requirements while catering to a larger traffic base.

The Authority believes that it has considered conservative traffic estimates based on prevailing situation and the actual traffic might be better. Hence, the Authority has taken a balanced approach in this regard and has decided that the recovery of a certain portion of the ARR would be postponed to the Second Control Period in view of the prevailing conditions.

15.4 Progressive increase in Aeronautical tariffs

15.4.1. The Authority has decided to increase Aeronautical tariffs (Landing charges, UDF etc.) in a progressive manner, with a view to not burden the airport users, who are already suffering with COVID pandemic impact. The same has been shown in the Tariff Rate card for MIA for the First Control Period in Annexure 1 to this Tariff Order.

15.4.2. Further, the Authority notes that the billable ATM traffic is at a low base in Mangaluru Airport for recovering the ARR determined for the First Control Period. Hence, the Authority has decided to levy UDF on both embarking and disembarking passengers, as it is of the view that levying some portion of UDF on the disembarking passengers may help in recovering ARR for this Control Period and only embarking passengers are not impacted with higher increase in tariff rates.

15.4.3. With a view to protect the interest of all stakeholders, including the Airport Operators, Airlines as well as the Users and to strengthen the revival of the Aviation sector in the post pandemic years by ensuring that all the stakeholders including the passengers and the airlines are not burdened with higher charges leading to decrease in air traffic demand, the Authority has decided to carry forward ₹ 248.91 Cr. (29.23% of the ARR in NPV terms) subject to true up in the next control period.

16. SUMMARY OF AUTHORITY'S DECISIONS

The below mentioned summary provides the Authority's decisions relating to relevant chapters regarding the tariff determination for the First Control Period:

Chapter 4: True up of AAI for the period from FY 2017 to COD

4.15.1 To consider true up of RAB for the pre-COD period as per Table 11.

4.15.2 To consider true up of depreciation for the pre-COD period as per Table 12.

4.15.3 To consider Deemed Initial RAB as on October 31, 2020, as ₹ 127.42 crores as per Table 13.

4.15.4 To consider true up of Aeronautical O&M expenses for the pre-COD period as per Table 19.

4.15.5 To consider true up of Non-aeronautical revenue for the pre-COD period as per Table 20.

4.15.6 To consider true up of Aeronautical revenue for the pre-COD period as per Table 21.

4.15.7 To consider true up of Aeronautical Taxation for the pre-COD period as per Table 23.

4.15.8 To consider true up of FRoR @14% for the pre-COD period.

4.15.9 To consider Adjusted Deemed Initial RAB as per Table 26 or based on formula provided in paragraph 4.14.2, as appropriate for actual date of payment.

4.15.10 To consider Under recovery of ₹ 81.14 crores for True up of AAI for the Pre-COD period as per Table 24 and readjust the same in the ARR for the First Control Period.

Chapter 5: True up of Airport Operator for the period from COD till March 31, 2021

5.11.1 To consider true up of RAB and depreciation for the period from COD till March 31, 2021 as per Table 31.

5.11.2 To consider true up of FRoR for the period from COD till March 31, 2021 @ 14%.

5.11.3 To consider true up of Aeronautical O&M expenses for the period from COD till March 31, 2021 as per Table 39.

5.11.4 To consider true up of Non-aeronautical revenue for the period from COD till March 31, 2021 as per Table 40.

5.11.5 To consider true up of Aeronautical revenue for the period from COD till March 31, 2021 as per Table 41.

5.11.6 To consider Under recovery of ₹ 31.01 crores for True up of Airport Operator, as on March 31, 2022 as per Table 43 for the period from COD till March 31, 2021 and readjust the same in the ARR for the First Control Period.

Chapter 6: Traffic for the First Control Period

6.6.1 To consider the ATM, Passenger traffic and Cargo traffic for the First Control Period for Mangaluru International Airport as per Table 54.

6.6.2 To true up the traffic volume (ATM, Passengers and Cargo) on the basis of actual traffic in the First Control Period while determining tariffs for the Second Control Period.

Chapter 7: Capital Expenditure, Depreciation and Regulatory Asset Base (RAB) for the First Control Period

7.7.1 To consider the Terminal Building ratio of 92:8 as mentioned in para no 7.6.21.

7.7.2 To allow only IDC during the First Control Period and not to allow the Financing Allowance as mentioned in Paras 7.3.5 and 7.3.12.

7.7.3 To adopt the capitalization of Aeronautical Expenditure for the First Control Period in accordance with Table 78.

7.7.4 To true up the Aeronautical Capital expenditure on actuals at the time of determination of tariff for Second Control Period.

7.7.5 To reduce (adjust) 1% of the uncapitalized project cost from the ARR in case any particular capital project is not completed /as per the approved schedule, as mentioned in para 7.6.14.

7.7.6 To adopt Aeronautical Depreciation as per Table 79 for the First Control Period.

7.7.7 To true up the Depreciation of the First Control period based on the actual asset additions and actual date of capitalization during the tariff determination of the Second Control Period.

7.7.8 To consider average RAB for the First Control Period for Mangaluru International Airport as per Table 80

7.7.9 To consider GST on RAB/ CWIP and Stamp Duty/ Registration charges on actual incurrence basis, as detailed in para 7.6.16 and 7.6.17 respectively.

7.7.10 To examine the accounting of input tax credits in accordance with Chapter V of The Central Goods and Services Tax Act, 2017 and make necessary adjustments at the time of determination of tariffs for the Second Control Period as detailed in para 7.6.29.

7.7.11 To true up the RAB based on actuals at the time of tariff determination for the Second Control period.

Chapter 8: Fair Rate of Return (FRoR) for the First Control Period

8.6.1 To consider the Cost of equity at 15.18% as per CAPM formula.

8.6.2 To consider the notional debt to equity (gearing) ratio of 48%:52% in line with target gearing ratio being considered in case of other PPP airports.

8.6.3 To consider cost of debt of 9% for the First Control Period.

8.6.4 To consider FRoR of 12.21% for the First Control Period based on above mentioned Cost of equity, Cost of debt and gearing ratio.

Chapter 9: Inflation for the First Control Period

9.6.1 To consider Inflation for the First Control Period for MIA as detailed in Table 88.

Chapter 10: Operation and Maintenance Expenses for the First Control Period

10.6.1 To consider O&M Expenses for the First Control Period for Mangaluru International Airport as per Table 104.

10.6.2 To consider the O&M expenses incurred by the Airport Operator during the First Control Period subject to reasonableness and efficiency, at the time of True up in the Second Control period.

10.6.3 Considering the size and scale of operations of the Airport, the Authority expects AO to bring in efficiencies in the incurrence of O&M expenses, in view of the higher CAPEX and comparatively low traffic.

Chapter 11: Non-aeronautical revenue for the First Control Period

11.6.1 To consider Non-aeronautical revenues for the First Control Period for Mangaluru International Airport as per Table 108.

11.6.2 The AO should take efforts to substantially increase the NAR of MIA for the First Control Period, in line with other similar/ AAI airports.

Chapter 12: Taxation for the First Control Period

12.5.1 To consider the Taxation for the First Control Period for Mangaluru International Airport as per Table 112.

12.5.2 To true up the aeronautical tax amount appropriately taking into consideration all relevant facts at the time of tariff determination for the Second Control Period.

Chapter 13: Quality of Service for the First Control Period

13.5.1 Not to consider any adjustment towards tariff determination for the First Control Period with regard to Quality of Service of MIA.

13.5.2 The Airport Operator should ensure that service quality at Mangaluru International Airport conforms to the performance standards as indicated in the Concession Agreement over the First Control Period.

Chapter 14: Aggregate Revenue Requirement (ARR) for the First Control Period

14.6.1 To consider the ARR and YPP for the First Control Period for Mangaluru International Airport in accordance with Table 116.

14.6.2 To consider projected Aeronautical revenue and Under-recovery for MIA for the First Control Period as per Table 117.

14.6.3 To consider VTP effective from February 1, 2023 as given in para 18.1.3 Annexure 1B of this Tariff Order.

14.6.4 The Authority directs MIA to keep a separate record of landing charges earned, expenditure incurred and incentives granted under VTP during the First Control Period for information for stakeholders and AERA so as to take a considered view for determination of Aeronautical Tariff for the next Control Period. The Authority directs MIA to ensure that the principles of non-discrimination of ICAO are not violated.

14.6.5 The Authority directs MIA to maintain separate accounts for its Cargo Handling and Fuel services and submit Annual Compliance Statement (ACS) for each accounting year (ending on 31st March) as per AERA CGF Guidelines.

14.6.6 To consider Tariff Rate Card for MIA for the First Control Period as per Annexure 1 (1A, 1B, 1C).

17. ORDER

17.1 In exercise of power conferred by section 13 (1) (a) of the AERA Act, 2008 and based on the above decisions, the Authority hereby determines the aeronautical tariff to be levied at Mangaluru International Airport for the First Control Period, as placed at Annexure 1 (1A, 1B, 1C).

17.2 In exercise of powers conferred by Section 13 (1) (b) of the AERA Act, 2008, read with Rule 89 of the Aircraft Rules, 1937 made under the Aircraft Act, 1934, the Authority hereby determines the rate of UDF as indicated in the rate card at Annexure 1 to the Order for the current Control Period.

17.3 The tariff determined herein are ceiling rates, exclusive of taxes, if any.

17.4 This Order shall be made effective from February 1, 2023.

17.5 MIA shall submit its MYTP for Mangaluru International Airport to the Authority for the Second Control Period in a timely manner as per the Authority's Guidelines, 2011.

By the Order and in the name of the Authority

(Col. Manu Sooden)
Secretary

To,

Mr. Arun Bansal
CEO, Adani Airport Holdings Limited,
Adani Corporate House,
Shantigram, S.G Highway,
Ahmedabad – 382421
Gujarat, India

Copy to:

1. **Secretary,** Ministry of Civil Aviation, Rajiv Gandhi Bhawan, Safdarjung Airport, New Delhi – 110003.
2. **Directorate General of Civil Aviation:** for issue of AIC
3. **Chairman,** Airports Authority of India.

भारतीय विमानपत्तन आर्थिक विनियामक प्राधिकरण
Airports Economic Regulatory Authority of India
सत्यमेव जयते

18. ANNEXURES

18.1 Annexure 1A: Tariff Rate Card

Tariff Card pertaining to Mangaluru International Airport, for First Control Period as approved by the Authority – Effective from February 1, 2023 to March 31, 2026

18.1.1 Landing and Parking Charges

a) **Landing Charges**

Applicable rates from February 1, 2023 to March 31, 2026

(Rate in ₹)

Flight	Weight Of Aircraft	February 1, 2023 to March 31, 2023	April 1, 2023 to March 31, 2024	April 1, 2024 to March 31, 2025	April 1, 2025 to March 31, 2026
Domestic	Up to 100 MT	450.00 per MT	700.00 per MT	900.00 per MT	950.00 per MT
International	Up to 100 MT	600.00 per MT	950.00 per MT	1,200.00 per MT	1,450.00 per MT

Notes:

i. Weight of an aircraft means Maximum Take-off Weight (MTOW) in MT i.e 1000 kg as indicated in the certificate of airworthiness.

ii. Landing charges shall be calculated on the basis of nearest MT (i.e., 1000 kg)

iii. No landing charges shall be payable in respect of:

  a. Aircrafts with a maximum certified passenger capacity of less than 80 seats, being operated by domestic scheduled operators at the airport and

  b. Helicopters of all types (not applicable to non-scheduled operators)

iv. At present, flights that are lesser than 100 MT only operate in Mangaluru International Airport (as it's a table-top airport) and hence the tariff rate for such flights have only been presented above. If in future, flights above 100 MT operate in this airport, then the tariff rates for landing charges as shown in the above tables (for less than 100 MT flights) would be applicable for flights that are higher than 100 MT.

b) **Parking charges for all aircrafts**

Applicable rates from February 1, 2023 to March 31, 2023

(Rate in ₹)

Details	Weight of Aircraft	Domestic Flight	International flight
Parking charges (First two hours after free parking period)	Up to 100 MT	8.00 per MT	8.00 per MT
Parking charges (beyond four hours)	Up to 100 MT	16.00 per MT	16.00 per MT

Applicable rates from April 1, 2023 to March 31, 2024

(Rate in ₹)

Details	Weight of Aircraft	Domestic Flight	International flight
Parking charges (First two hours after free parking period)	Up to 100 MT	28.00 per MT	8.00 per MT
Parking charges (beyond four hours)	Up to 100 MT	56.00 per MT	16.00 per MT

Applicable rates from April 1, 2024 to March 31, 2025

(Rate in ₹)

Details	Weight of Aircraft	Domestic Flight	International flight
Parking charges (First two hours after free parking period)	Up to 100 MT	49.30 per MT	28.00 per MT
Parking charges (beyond four hours)	Up to 100 MT	98.60 per MT	56.00 per MT

Applicable rates from April 1, 2025 to March 31, 2026

(Rate in ₹)

Details	Weight of Aircraft	Domestic Flight	International flight
Parking charges (First two hours after free parking period)	Up to 100 MT	49.30 per MT	89.60 per MT
Parking charges (beyond four hours)	Up to 100 MT	98.60 per MT	179.20 per MT

Notes:

i. Weight of an aircraft means MTOW in MT (1000 kg) as indicated in the certificate of airworthiness.

ii. The charges set forth herein shall be calculated based on the nearest rounded off MT. MTOW to be as per the Certificate of Airworthiness filed with DGCA.

iii. Free parking is allowed on all aircraft stands (Contact and Remote) for the first two hours.

iv. Parking time will be calculated based on On-Blocks and Off-Blocks time as recorded at the Airport Operations Control Centre. (AOCC).

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

vi. In case of an aircraft being parked beyond 24 hours due to technical or any other reasons, the parking charges shall be levied on a weekly basis in line with this tariff order.

vii. At present, flights that are lesser than 100 MT only operate in Mangaluru International Airport (as it's a table-top airport) and hence the tariff rate for such flights have only been presented above. If in future, flights above 100 MT operate in this airport, then the tariff rates for parking charges as shown in the above tables (for less than 100 MT flights) would be applicable for flights that are higher than 100 MT.

c) <u>User Development Fee</u>

Applicable rates from February 1, 2023 to March 31, 2023

(Rate in ₹)

Type of Passenger	Domestic Flight	International flight
Embarking passenger	350.00	770.00
Disembarking passenger	150.00	330.00

Applicable rates from April 1, 2023 to March 31, 2024

(Rate in ₹)

Type of Passenger	Domestic Flight	International flight
Embarking passenger	560.00	1,015.00
Disembarking passenger	240.00	435.00

Applicable rates from April 1, 2024 to March 31, 2025

(Rate in ₹)

Type of Passenger	Domestic Flight	International flight
Embarking passenger	700.00	1,050.00
Disembarking passenger	300.00	450.00

Applicable rates from April 1, 2025 to March 31, 2026

(Rate in ₹)

Type of Passenger	Domestic Flight	International flight
Embarking passenger	735.00	1,120.00
Disembarking passenger	315.00	480.00

Notes:

i. Collection Charges: If payment is made within 15 days from receipt of invoice, then collection charges per departing/ arriving passenger shall be paid by MIA as per the agreement to such charges between the Airport Operator and the Airlines. No collection charges shall be paid in case the airline fails to pay the UDF invoice to MIA within the credit period of 15 days or in case of any part payment.

ii. For calculating UDF in Foreign currency, the RBI conversion rate as on the last day of the previous month for tickets issued in the first fortnight and rate as on 15th of the month for tickets issued in the second fortnight shall be adopted.

iii. Revised UDF charges will be applicable on the tickets issued on or after **February 1, 2023.**

General Terms and Conditions:

iv. **Exemption in payment of User Development Fee-** In terms of DGCA AIC No. 14/2019 dated 16.05.2019 and AIC No. 20/2019 dated 06.11.2019 (decision of Ministry of Civil Aviation, Govt. of India vide order no. AV 29012/39/2018-AD dated 30.10.2019) the following categories of persons are exempted from levy and collection of UDF/PSF:

- Children (Under the age of 2 years)
- Holders of Diplomatic Passport.
- Airlines crew on duty including sky marshals and airline crew on board for the particular flight only (this would not include Dead Head Crew, or ground personnel),
- Persons travelling on official duty on aircraft operated by Indian Armed Forces.
- Persons travelling on official duty for United Nations Peace Keeping Missions.
- Transit/transfer passengers (this exemption may be granted to all the passengers transiting up to 24 hours. "A passenger is treated in transit only if onward travel journey is within 24 hours from arrival into Airport and is part of the same ticket, in case two separate tickets are issued, it would not be treated as a transit passenger").

d) Fuel Infrastructure charges

Applicable rates from April 1, 2023 to March 31, 2026

Fuel Infrastructure charges (Including Aircraft Refuelling)	Aircraft Defueling	Aircraft Re-fuelling of defueled product	
		Within 24 hrs	Beyond 24 hrs
₹ 1,830 per KL	₹ 300 per KL	₹ 350 per KL	₹ 400 per KL

Notes:

i. Rate are excluding applicable taxes, which will be levied at applicable rates announced by GoI from time to time

e) X-Ray screening charges

Applicable rates from February 1, 2023 to March 31, 2024

(Rate in ₹)

Type of flight	Applicable Charge (per departure flight)
Domestic flight with seats up to 100 Nos	INR 5,000.00
Domestic flight with seats more than 100 Nos	INR 9,000.00
International flight (all flights)	INR 16,000.00

Applicable rates from April 1, 2024 to March 31, 2026

(Rate in ₹)

Type of flight	Applicable Charge (per departure flight)
Domestic flight with seats up to 100 Nos	INR 7,000.00
Domestic flight with seats more than 100 Nos	INR 12,000.00
International flight (all flights)	INR 16,000.00

18.1.2 General Conditions

i. All the above Airport charges (Landing, Parking, UDF and X Ray) are exclusive of applicable taxes.

ii. Landing and Parking Charges are payable to Mangaluru International Airport Limited.

iii. Invoices for international carriers will be done in USD.

iv. Invoice for the charges ((Landing, Parking, UDF and X Ray) shall be raised by the Airport Operator on weekly basis and the invoice shall include applicable taxes.

v. For all the above charges (Landing, Parking, UDF and X Ray), the Airlines will be allowed a credit period as may be decided by MIA from time to time, subject to approval of credit limits by MIA.

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

vii. Flight operating under Regional Connectivity Scheme will be completely exempted from the charges as per Order No. 20/2016-17 dated March 31, 2017 of the Authority from the date the scheme is operationalized by GOI.

18.1.3 **Annexure 1B: Variable Tariff Plan**

(For MIA for First Control Period as approved by the Authority – Effective from February 1, 2023).

Variable Tariff Plan (VTP) shall be limited to below mentioned categories only and applicable for schedule domestic and international passenger airlines.

VTP Applicable Rates for Scheduled Passenger Airlines

Type	Rack Rate (RR) per MT	Existing flight	New Route
Landing Charges			Year 1
Domestic Flights			
Rate per MTOW	RR	-	0.75*RR
International Flights			
Rate per MTOW	RR	-	0.50*RR
Up gauging of Aircraft from Less than 80-Seater to above 80 Seaters (applicable for Existing Passenger Routes)			
Rate per MTOW	RR		0.70*RR

** Rack Rates are the rates approved for Landing charges in this Tariff Order.*

i. **Existing flights**: Flights that are currently being operated at Mangaluru.

ii. **New Route**: A flight to a new destination that is currently unserved from Mangaluru by any airline already operating at Mangaluru. (Destination must be unserved for the previous 12 months)

E.g., Airline A introduces a new route Mangalore-Male, which is currently unserved from Mangaluru by any airline.

iii. **Night Parking:** Incremental night parking at the airport, shall be governed by the condition as mentioned in the **Incremental Night Parking** section below:

Validity

The VTP for applicable domestic and international flights is valid from the date of commencement of operations and for the duration specified below:

(a) 12 months for Equipment Up-gauge in case of Existing Routes/Flights

(b) 12 months for Domestic and International new route.

Notes

i. No discount over and above the Variable Tariff Plan is applicable.

ii. VTP is applicable only for scheduled passenger and freighter airlines, as applicable in the table above

iii. Scheduled airline must operate VTP eligible flights for a minimum of 42 weeks within a rolling 12-month period to qualify for the incentive.

iv. The payment of landing charges should be done by the airline in full without any deductions, as per the invoicing by Mangaluru International Airport. The settlement shall be provided in the form of a 'Credit Note' at the end of 12-month period.

v. Mangaluru International Airport reserves the right to change any term or condition of this VTP, withdraw or replace any of the category, at any time at its absolute discretion, by way of prior approval of the AERA.

Incremental Night Parking

i. No parking charges shall be applicable to the additional aircraft being parked at the airport from 22:00 to 08:00 IST.

ii. This waiver shall be applicable for first 12 months, effective from when the aircraft is being night parked at the airport. The airline must park the aircraft for at-least 80% of the filed schedule to avail this benefit.

18.1.4 **Annexure 1C: Cargo charges**

a) **Export Cargo**

Applicable rates from April 1, 2023 to March 31, 2024

(Rate in ₹)

S. No.	Type of Charge	Rate per Kg	Minimum rate per consignment
1	**Terminal, Storage and Processing Charges**		
	General	0.90	152.00
	Special & Valuable	1.79	298.00
	Perishable	0.90	152.00
2	**Demurrage Charges (Leviable from Shippers)**		
	General	0.92	152.00
	Special (AVI)	1.83	298.00
	Perishable	0.92	152.00

Applicable rates from April 1, 2024 to March 31, 2025

(Rate in ₹)

S. No.	Type of Charge	Rate per Kg	Minimum rate per consignment
1	**Terminal, Storage and Processing Charges**		
	General	0.99	167.00
	Special & valuable	1.97	328.00
	Perishable	0.99	167.00
2	**Demurrage Charges (Leviable from Shippers)**		
	General	1.01	167.00
	Special (AVI)	2.01	328.00
	Perishable	1.01	167.00

Applicable rates from April 1, 2025 to March 31, 2026

(Rate in ₹)

S. No.	Type of Charge	Rate per Kg	Minimum rate per consignment
1	**Terminal, Storage and Processing Charges**		
	General	1.09	184.00
	Special & Valuable	2.17	361.00
	Perishable	1.09	184.00
2	**Demurrage Charges (Leviable from Shippers)**		
	General	1.11	184.00
	Special (AVI)	2.21	361.00
	Perishable	1.11	184.00

Notes (Export Cargo):

i. The free period for export cargo shall be applicable as notified by the Government of India from time to time.

ii. Consignments of human remains, coffin including unaccompanied baggage of deceased and Human eyes will be exempted from the purview of Terminal, Storage, Processing and Demurrage charges. No XBIS/ETD usage charges will also be leviable on these shipments.

iii. Terminal, Storage and processing charges are inclusive of Forklift charges wherever Forklift usage is involved. No separate Forklift charges will be levied.

iv. Special cargo consists of live animals, hazardous goods and valuable cargo.

v. Charges will be levied on the 'gross weight' or the 'chargeable weight' of the consignment, whichever is higher. Wherever the 'gross weight' and (or) 'volume weight' is wrongly indicated on the Airway Bill and is found more, charges will be levied on the 'actual gross weight' or 'actual volumetric weight', whichever is higher.

vi. For misdeclaration of weight above 2% and up to 5% of declared weight, penal charges @ double the applicable Terminal, Storage and Processing charges and for variation above 5%, the penal charges @ 5 times the applicable Terminal, Storage and Processing charges will be leviable on the differential weight, subject to minimum amount equivalent to the applicable minimum Terminal Storage and Processing Charges. No penal charges will be leviable for variation up to and inclusive of 2%. (For any variation, all the documents/ records to be invariably amended). No weight variation acceptable in the case of VAL consignments.

vii. Valuable cargo consists of gold, bullion, currency notes, securities, shares, share coupons, travelers' cheques, diamonds (including diamonds for industrial use), diamond jewelry, jewelry & watches made of silver, gold platinum and items valued at USD 1000 per Kg. and above.

viii. Terminal Operator shall levy packing/repacking charges @ 2% of packages per shipping bill with a minimum of INR 20.00 per Airway Bill (FY 2023-24) INR 22.00 per Airway Bill (FY 2024-25), INR 24.00 per Airway Bill (FY 2025-26). Packing / Repacking charges will be at INR 10.00 per packet (FY 2023-24), at INR 11.00 per packet (FY 2024-25), INR 12.00 per packet (FY 2025-26).

ix. XBIS usage charges INR 1.00 per kg subject to minimum of INR 150.00 per shipment (FY 2023-24), INR 1.10 per kg subject to minimum of INR 165.00 per shipment (FY 2024-25), INR 1.21 per kg subject to minimum of INR 182.00 per shipment (FY 2025-26). The same is applicable at 50% per kg subject to minimum of INR 100.00 per ODC shipment (FY 2023-24), INR 110.00 per ODC shipment (FY 2024-25), INR 121.00 per ODC shipment (FY 2025-26), where physical check with the help of ETDs are facilitated. However, for random check cases in ETDs by Airlines after scanning through XBIS, no charges to be levied for usage of ETDs.

x. Merchant Over Time (MOT) charges @ INR 200 per consignment (FY 2023-24), INR 220 per consignment (FY 2024-25), INR 242 per consignment (FY 2025-26) for admitting cargo beyond normal working hours wherever 24x7 Export Cargo operation' does not exist.

xi. The export TSP charges paid in advance through online by the shippers/ agents will be refunded in case the export cargo is not physically brought to the Air Cargo Terminal for processing on the same day subject to retention of minimum rate per consignment of General/ Special/ Valuable cargo respectively. Proportionate Applicable GST on minimum rate will also be retained.

xii. For the Export Cargo withdrawal from the examination area, withdrawal demurrage charge will be collected equivalent to examination area demurrage charges. Similarly, for the withdrawal of export cargo from the bonded area, bonded area demurrage charges will be collected.

xiii. Any other agencies operating at airport utilizing the terminal operator's equipment like Forklift, Tractor and any other equipment shall be charged separately.

xiv. Any services not covered above will attract miscellaneous charges of INR 3.00 per kg subject to Minimum INR 300 per consignment (FY 2023-24), INR 3.30 per kg subject to Minimum INR 330 per consignment (FY 2024-25), INR 3.63 per kg subject to Minimum INR 363 per consignment (FY 2025-26).

xv. All minimum charges shall be rounded off to the nearest Rupee 1.00

xvi. All Bills shall be rounded up to the nearest higher of Rupee 1.00

xvii. All the above charges are excluding taxes, which will be levied at applicable rates announced by GoI from time to time.

Import Cargo

Applicable rates from April 1, 2023 to March 31, 2024

(Rate in ₹)

S. No.	Type of Charge	Rate per Kg	Minimum rate per consignment
1	**Terminal, Storage and Processing Charges**		
	General Cargo	6.02	164.00
	Special and Valuable	12.02	322.00
2	**Demurrage Charges**		
	General (Up to 96 Hrs/ 4 working days) including free period	1.75	
	General (Between 96 Hrs and 720 Hrs/ 5 and 30 days)	3.49	395.00
	General (Beyond 720 Hrs/ 30 days)	5.25	
	Special (Up to 96 Hrs/ 4 working days) including free period	3.49	
	Special (Between 96 Hrs and 720 Hrs/ 5 and 30 days)	6.97	778.00
	Special (Beyond 720 Hrs/ 30 days)	10.45	
	Valuable (Up to 96 Hrs/ 4 working days) including free period	6.97	
	Valuable (Between 96 Hrs and 720 Hrs/ 5 and 30 days)	13.93	1,556.00
	Valuable (Beyond 720 Hrs/ 30 days)	20.91	

Applicable rates from April 1, 2024 to March 31, 2025

(Rate in ₹)

S. No.	Type of Charge	Rate per Kg	Minimum rate per consignment
1	**Terminal, Storage and Processing Charges**		
	General Cargo	6.62	180.00
	Special and Valuable	13.22	354.00
2	**Demurrage Charges**		
	General (Up to 96 Hrs/ 4 working days) including free period	1.93	
	General (Between 96 Hrs and 720 Hrs/ 5 and 30 days)	3.84	435.00
	General (Beyond 720 Hrs/ 30 days)	5.78	
	Special (Up to 96 Hrs/ 4 working days) including free period	3.84	856.00

S. No.	Type of Charge	Rate per Kg	Minimum rate per consignment
	Special (Between 96 Hrs and 720 Hrs/ 5 and 30 days)	7.67	
	Special (Beyond 720 Hrs/ 30 days)	11.50	
	Valuable (Up to 96 Hrs/ 4 working days) including free period	7.67	
	Valuable (Between 96 Hrs and 720 Hrs/ 5 and 30 days)	15.32	1,712.00
	Valuable (Beyond 720 Hrs/ 30 days)	23.00	

Applicable rates from April 1, 2025 to March 31, 2026

(Rate in ₹)

S. No.	Type of Charge	Rate per Kg	Minimum rate per consignment
1	**Terminal, Storage and Processing Charges**		
	General Cargo	7.28	198.00
	Special and Valuable	14.54	389.00
2	**Demurrage Charges**		
	General (Up to 96 Hrs/ 4 working days) including free period	2.12	479.00
	General (Between 96 Hrs and 720 Hrs/ 5 and 30 days)	4.22	
	General (Beyond 720 Hrs/ 30 days)	6.36	
	Special (Up to 96 Hrs/ 4 working days) including free period	4.22	942.00
	Special (Between 96 Hrs and 720 Hrs/ 5 and 30 days)	8.44	
	Special (Beyond 720 Hrs/ 30 days)	12.65	
	Valuable (Up to 96 Hrs/ 4 working days) including free period	8.44	1,883.00
	Valuable (Between 96 Hrs and 720 Hrs/ 5 and 30 days)	16.85	
	Valuable (Beyond 720 Hrs/ 30 days)	25.30	

Notes (Import Cargo):

i. Free storage period for import cargo shall be 48 hrs. (02 working days) from the date and time of segregation reflected in the ICEGATE. For the next 48 hrs., (02 working days), demurrage will be charged at "per kg per day" non-cumulative basis, provided the consignment is cleared within 96 hrs. (04 working days), from the date and time of segregation reflected in the ICEGATE. If clearance is affected after 96 hrs. (04 working days), demurrage will accrue for the entire period from the date/time of segregation reflected in the ICEGATE.

ii. Consignments of human remains, coffin including baggage of deceased and Human eyes will be exempted from the purview of Terminal, Storage and Processing and Demurrage charges.

iii. Terminal, Storage and processing charges are inclusive of Forklift charges wherever Forklift usage is involved. No separate Forklift charges will be levied.

iv. Charges will be levied on the 'gross weight' or the 'chargeable weight' of the consignment whichever is higher. Wherever the 'gross weight' and (or) volume weight is wrongly indicated on the Airway Bill and is actually found more, charges will be levied on the 'actual gross weight' or 'actual volumetric weight' or 'chargeable weight' whichever is higher.

v. Special Import cargo consists of cargo stored in cold storage, live animals and hazardous goods.

vi. Valuable cargo consists of gold, bullion, currency notes, securities, shares, share coupons, travelers' cheques, diamonds (including diamonds for industrial use), diamond jewelry, jewelry & watches made of silver, gold platinum and items valued at USD 1000 per Kg. and above.

vii. Any product/commodity having inbuilt/ mounted with Lithium batteries will be continued to be treated as Hazardous Cargo for storage / handling purpose but attract only general cargo TSP rate during the clearance within the free period. However, Special charges leviable beyond the free period.

viii. Wherever 24 hours operations are NOT implemented due to lack of presence of all related/regulatory agencies, INR 232 per consignment (FY 2023-24), INR 255 per consignment (FY 2024-25), INR 281.00 per consignment (FY 2025-26) will be levied as overtime charges in addition to next working day demurrage charges.

ix. XBIS usage charges INR 1.00 per kg subject to minimum of INR 150.00 per consignment (FY 2023-24), INR 1.10 per kg subject to minimum of INR 165.00 per consignment (FY 2024-25), INR 1.21 per kg subject to minimum of INR 182.00 per consignment (FY 2025-26), (as per the requirement of Customs for speedy clearance of import cargo).

x. Any other agencies operating at airport utilizing terminal operator's equipment like Forklift, Tractor and any other equipment shall be charged separately.

xi. Any services not covered above will attract miscellaneous charges of INR 3.00 per kg subject to Minimum INR 300 per consignment (FY 2023-24), INR 3.30 per kg subject to Minimum INR 330 per consignment (FY 2024-25), INR 3.63 per kg subject to Minimum INR 363 per consignment (FY 2025-26).

xii. All minimum charges shall be rounded off to the nearest Rupee 1.00.

xiii. All Bills shall be rounded up to the nearest higher of Rupee 1.00.

xiv. All the above charges are excluding taxes, which will be levied at applicable rates announced by GoI from time to time.

xv. Opening / Repacking Charges: INR 10.00 per pkg. subject to minimum of INR 20.00 per consignment (FY 2023-24), INR 11.00 per pkg. subject to minimum of INR 22.00 per consignment (FY 2024-25), INR 12.10 per pkg. subject to minimum of INR 24.20 per consignment (FY 2025-26).

b) Schedule of charges leviable on Airlines for International Cargo Handling

Applicable charges from April 1, 2023 to March 31, 2024

(Rate in ₹)

S. No.	Activity	Minimum Charges	Per Kg
1	Charges for Export Cargo unitization/handling	INR395 per EGM	1.75/kg
2	Charges for De-stuffing	INR306 per IGM	1.35/kg
3	Carting charges for transhipment of Import/Export Cargo (if Terminal Operator provides service)	INR204 per CTM	2.67/kg
4	Carting of cargo from aircraft stand to Cargo Terminal and vice-versa (if services of GHA not available)	INR204 per CTM	0.59/kg

<table>
<tr><th>S. No.</th><th>Activity</th><th colspan="2">Minimum Charges</th><th>Per Kg</th></tr>
<tr><td>5</td><td>(i) Storage Charges for General Export uplifted beyond free period</td><td colspan="2">-</td><td>2.21/kg/day</td></tr>
<tr><td></td><td>(ii) Storage Charges for valuable Export Cargo Perishable/Live Animals and Hazardous Cargo uplifted beyond free period</td><td colspan="2">-</td><td>4.40/kg/day</td></tr>
<tr><td rowspan="6">6</td><td rowspan="3">(i) Penal/Storage charges on Airlines/Agencies for not handing over of general import cargo (including courier cargo) to the Customs appointed Custodian within 5 hours of flight landing (subject to Customs stipulation)</td><td colspan="2">General Bulk Cargo</td><td>Loaded ULD</td></tr>
<tr><td colspan="2">(in Rs)(kg/day)</td><td>(in Rs)(ULD/day)</td></tr>
<tr><td colspan="2">2.21/kg/day</td><td>879/ULD/day</td></tr>
<tr><td rowspan="3">(ii) Penal/Storage charges on Airlines/Agencies for not handing over of 'Val'/ Haz/Perishable/Live Animal Import Cargo to the Customs appointed Custodian within 5 hours of flight landing (subject to Customs stipulation)</td><td>Valuable</td><td>Haz/Peri/Live Animals</td><td>Minimum Charges Per Consignment/AWB</td></tr>
<tr><td>(per kg/day)(in Rs.)</td><td>(per kg/day)(in Rs.)</td><td>(in Rs.)</td></tr>
<tr><td>5.55/kg/day</td><td>3.65/kg/day</td><td>INR 307</td></tr>
</table>

Applicable charges from April 1, 2024 to March 31, 2025

(Rate in ₹)

<table>
<tr><th>S. No.</th><th>Activity</th><th colspan="2">Minimum Charges</th><th>Per Kg</th></tr>
<tr><td>1</td><td>Charges for Export Cargo unitization/handling</td><td colspan="2">INR435 per EGM</td><td>1.93/kg</td></tr>
<tr><td>2</td><td>Charges for De-stuffing</td><td colspan="2">INR337 per IGM</td><td>1.49/kg</td></tr>
<tr><td>3</td><td>Carting charges for transhipment of Import/Export Cargo (if Terminal Operator provides service)</td><td colspan="2">INR224 per CTM</td><td>2.94/kg</td></tr>
<tr><td>4</td><td>Carting of cargo from aircraft stand to Cargo Terminal and vice-versa (if services of GHA not available)</td><td colspan="2">INR224 per CTM</td><td>0.65/kg</td></tr>
<tr><td>5</td><td>(i) Storage Charges for General Export uplifted beyond free period</td><td colspan="2">-</td><td>2.43/kg/day</td></tr>
<tr><td></td><td>(ii) Storage Charges for valuable Export Cargo Perishable/Live Animals and Hazardous Cargo uplifted beyond free period</td><td colspan="2">-</td><td>4.84/kg/day</td></tr>
<tr><td rowspan="6">6</td><td rowspan="3">(i) Penal/Storage charges on Airlines/Agencies for not handing over of general import cargo (including courier cargo) to the Customs appointed Custodian within 5 hours of flight landing (subject to Customs stipulation)</td><td colspan="2">General Bulk Cargo</td><td>Loaded ULD</td></tr>
<tr><td colspan="2">(in Rs)(kg/day)</td><td>(in Rs)(ULD/day)</td></tr>
<tr><td colspan="2">2.43/kg/day</td><td>967/ULD/day</td></tr>
<tr><td rowspan="3">(ii) Penal/Storage charges on Airlines/Agencies for not handing over of 'Val'/ Haz/Perishable/Live Animal Import Cargo to the Customs appointed Custodian within 5 hours of flight landing (subject to Customs stipulation)</td><td>Valuable</td><td>Haz/Peri/Live Animals</td><td>Minimum Charges Per Consignment/AWB</td></tr>
<tr><td>(per kg/day)(in Rs.)</td><td>(per kg/day)(in Rs.)</td><td>(in Rs.)</td></tr>
<tr><td>6.11/kg/day</td><td>4.02/kg/day</td><td>INR338</td></tr>
</table>

Applicable charges from April 1, 2025 to March 31, 2026

(Rate in ₹)

<table>
<tr><th>S. No.</th><th>Activity</th><th colspan="2">Minimum Charges</th><th>Per Kg</th></tr>
<tr><td>1</td><td>Charges for Export Cargo unitization/handling</td><td colspan="2">INR479 per EGM</td><td>2.12/kg</td></tr>
<tr><td>2</td><td>Charges for De-stuffing</td><td colspan="2">INR371 per IGM</td><td>1.64/kg</td></tr>
<tr><td>3</td><td>Carting charges for transhipment of Import/Export Cargo (if Terminal Operator provides service)</td><td colspan="2">INR246 per CTM</td><td>3.23/kg</td></tr>
<tr><td>4</td><td>Carting of cargo from aircraft stand to Cargo Terminal and vice-versa (if services of GHA not available)</td><td colspan="2">INR246 per CTM</td><td>0.72/kg</td></tr>
<tr><td rowspan="2">5</td><td>(i) Storage Charges for General Export uplifted beyond free period</td><td colspan="2">-</td><td>2.67/kg/day</td></tr>
<tr><td>(ii) Storage Charges for valuable Export Cargo Perishable/Live Animals and Hazardous Cargo uplifted beyond free period</td><td colspan="2">-</td><td>5.32/kg/day</td></tr>
<tr><td rowspan="6">6</td><td rowspan="3">(i) Penal/Storage charges on Airlines/Agencies for not handing over of general import cargo (including courier cargo) to the Customs appointed Custodian within 5 hours of flight landing (subject to Customs stipulation)</td><td colspan="2">General Bulk Cargo</td><td>Loaded ULD</td></tr>
<tr><td colspan="2">(in Rs)(kg/day)</td><td>(in Rs)(ULD/day)</td></tr>
<tr><td colspan="2">2.67/kg/day</td><td>1,064/ULD/day</td></tr>
<tr><td rowspan="3">(ii) Penal/Storage charges on Airlines/Agencies for not handing over of 'Val'/ Haz/Perishable/Live Animal Import Cargo to the Customs appointed Custodian within 5 hours of flight landing (subject to Customs stipulation)</td><td>Valuable</td><td>Haz/Peri/Live Animals</td><td>Valuable</td></tr>
<tr><td>(per kg/day)(in Rs.)</td><td>(per kg/day)(in Rs.)</td><td>(per kg/day)(in Rs.)</td></tr>
<tr><td>6.72/kg/day</td><td>4.42/kg/day</td><td>Rs. 372</td></tr>
</table>

Notes:

i. Demurrage charges on Import Transshipment cargo will be as applicable to Import cargo subject to payment of minimum charges as applicable.

ii. Demurrage charges on Transshipment cargo from Domestic to International and from International to International shall be treated as same as applicable for export cargo, after allowing the normal free period and subject to payment of minimum applicable export demurrage charges.

iii. The free period for export cargo for the carrier from the time of entry in bonded area till upliftment shall be 36 hrs. as per Government Directives as of now.

iv. No free period may be allowed on second time handling/upliftment of export cargo from cargo terminal. Applicable charges (Demurrage/Storage) shall be levied.

v. In case of Transit ULDs brought by the Airlines handed over to the terminal operator for Storage in the Bonded Area/ETV stacker for any reasons, the Storage Charges as per para 6 of the above table shall be levied.

vi. The free period for export cargo for the NSOs in the bonded area, would be same as applicable for scheduled carrier as per the government regulations issued from time to time, from the time of physical acceptance at bonded area.

vii. XBIS usage charges INR 1.00 per kg subject to minimum of INR 150.00 per AWB (FY 2023-24), INR 1.10 per kg subject to minimum of INR 165.00 per AWB (FY 2024-25) and INR 1.21 per kg subject to minimum of INR 182.00 per AWB (FY 2025-26). The same is applicable at 50% per kg subject to minimum of INR 100.00 (for FY 2023-24), INR 110.00 (for FY 2024-25) and INR 121.00 (for FY 2025-26) per ODC shipment where physical check with the help of ETDs are facilitated. However, for random check cases in ETDs by Airlines after scanning through XBIS, no charges to be levied for usage of ETDs.

viii. Additional Packing services required by Airlines for any shipment shall be additionally chargeable

ix. All the Scheduled Airlines shall maintain Security deposit for adequate amount as prescribed by Terminal Operator for the cargo operations apart from the security deposit for License fee and enter into an agreement for availing credit facility as per the policy prescribed from time to time.

x. Any services not covered above will attract miscellaneous charges of INR 3.00 per kg for FY 2023-24, INR 3.30 for FY 2024-25 and INR 3.63 for FY 2025-26 subject to Minimum INR 300 for FY 2023-24, INR 330 for FY 2024-25 and INR 363 for FY 2025-26 per consignment.

xi. Any other agencies operating at airport utilizing the terminal operator's equipment like Forklift, Tractor and any other equipment shall be charged separately.

xii. All minimum charges shall be rounded off to the nearest Rupee 1.00

xiii. All Bills shall be rounded up to the nearest higher of Rupee 1.00

xiv. All the above charges are excluding taxes, which will be levied at applicable rates announced by GoI from time to time.

c) **Schedule of charges leviable Non-Scheduled Operators**

Applicable charges from April 1, 2023 to March 31, 2024

(Rate in ₹)

S. No.	Activity	Minimum Charges	Per Kg
1	Unitization/ loading charges tariff	INR500 per EGM	2.96/kg
2	Charges for De-stuffing	INR575 per IGM	2.24/kg
3	Carting charges for transhipment of Import/Export Cargo (if Terminal Operator provides service)	INR383 per CTM	4.36/kg
4	Carting of cargo from Cargo Terminal to aircraft stand and vice-versa (if services of GHA not available)	INR383 per CTM	0.96/kg
5	(i) Storage Charges for General Export uplifted beyond free period	-	3.64/kg/day
	(ii) Storage Charges for valuable Export Cargo Perishable/Live Animals and Hazardous Cargo uplifted beyond free period shall be two times of normal	-	7.32/kg/day

S. No.	Activity	Minimum Charges		Per Kg
6	(i) Penal/Storage charges on Airlines/Agencies for not handing over of general import cargo (including courier cargo) to the Customs appointed Custodian within 5 hours of flight landing (subject to Customs stipulation)	General Bulk Cargo		Loaded ULD
		(in Rs)(kg/day)		(in Rs)(ULD/day)
		3.64/kg/day		1,452/ULD/day
	(ii) Penal/Storage charges on Airlines/Agencies for not handing over of 'Val'/ Haz/Perishable/Live Animal Import Cargo to the Customs appointed Custodian within 5 hours of flight landing (subject to Customs stipulation)	Valuable	Haz/Peri/Live Animals	Minimum Charges Per Consignment/AWB
		(per kg/day)(in Rs.)	(per kg/day)(in Rs.)	(in Rs.)
		9.16/kg/day	6.05/kg/day	INR505

Applicable charges from April 1, 2024 to March 31, 2025

(Rate in ₹)

S. No.	Activity	Minimum Charges		Per Kg
1	Unitization/ loading charges tariff	INR550 per EGM		3.26/kg
2	Charges for De-stuffing	INR633 per IGM		2.46/kg
3	Carting charges for transhipment of Import/Export Cargo (if Terminal Operator provides service)	INR421 per CTM		4.80/kg
4	Carting of cargo from Cargo Terminal to aircraft stand and vice-versa (if services of GHA not available)	INR421 per CTM		1.06/kg
5	(i) Storage Charges for General Export uplifted beyond free period	-		4.00/kg/day
	(ii) Storage Charges for valuable Export Cargo Perishable/Live Animals and Hazardous Cargo uplifted beyond free period shall be two times of normal	-		8.05/kg/day
6	(i) Penal/Storage charges on Airlines/Agencies for not handing over of general import cargo (including courier cargo) to the Customs appointed Custodian within 5 hours of flight landing (subject to Customs stipulation)	General Bulk Cargo		Loaded ULD
		(in Rs)(kg/day)		(in Rs)(ULD/day)
		4.00/kg/day		1,597/ULD/day
	(ii) Penal/Storage charges on Airlines/Agencies for not handing over of 'Val'/ Haz/Perishable/Live Animal Import Cargo to the Customs appointed Custodian within 5 hours of flight landing (subject to Customs stipulation)	Valuable	Haz/Peri/Live Animals	Minimum Charges Per Consignment/AWB
		(per kg/day)(in Rs.)	(per kg/day)(in Rs.)	(per kg/day)(in Rs.)
		10.08/kg/day	6.66/kg/day	Rs. 556

Applicable charges from April 1, 2025 March 31, 2026

(Rate in ₹)

S. No.	Activity	Minimum Charges		Per Kg
1	Unitization/ loading charges tariff	INR605 per EGM		3.59/kg
2	Charges for De-stuffing	INR696 per IGM		2.71/kg
3	Carting charges for transhipment of Import/Export Cargo (if Terminal Operator provides service)	INR463 per CTM		5.28/kg
4	Carting of cargo from Cargo Terminal to aircraft stand and vice-versa (if services of GHA not available)	INR463 per CTM		1.17/kg
5	(i) Storage Charges for General Export uplifted beyond free period	-		4.40/kg/day
	(ii) Storage Charges for valuable Export Cargo Perishable/Live Animals and Hazardous Cargo uplifted beyond free period shall be two times of normal	-		8.86/kg/day
6	(i) Penal/Storage charges on Airlines/Agencies for not handing over of general import cargo (including courier cargo) to the Customs appointed Custodian within 5 hours of flight landing (subject to Customs stipulation)	General Bulk Cargo		Loaded ULD
		(in Rs)(kg/day)		(in Rs)(ULD/day)
		4.40/kg/day		1,757/ULD/day
	(ii) Penal/Storage charges on Airlines/Agencies for not handing over of 'Val'/ Haz/Perishable/Live Animal Import Cargo to the Customs appointed Custodian within 5 hours of flight landing (subject to Customs stipulation)	Valuable	Haz/Peri/Live Animals	Valuable
		(per kg/day)(in Rs.)	(per kg/day)(in Rs.)	(per kg/day)(in Rs.)
		11.09/kg/day	7.33/kg/day	Rs. 612

Notes:

i. Demurrage charges on Import Transshipment cargo will be as applicable to Import cargo subject to payment of minimum charges as applicable

ii. Demurrage charges on Transshipment cargo from Domestic to International and from International to International shall be treated as same as applicable for export cargo, after allowing the normal free period and subject to payment of minimum applicable export demurrage charges.

iii. The free period for export cargo for the NSOs in the bonded area, would be same as applicable for scheduled carrier as per the government regulations issued from time to time, from the time of physical acceptance at bonded area.

iv. No free period may be allowed on second time handling/upliftment of export cargo from cargo terminal. Applicable charges (Storage) shall be levied.

v. In case of Transit ULDs brought by the Airlines handed over to the terminal operator for Storage in the Bonded Area/ETV stacker for any reasons, the Storage Charges as per para 6 of the above table shall be levied.

vi. XBIS usage charges INR 1.00 per kg subject to minimum of INR 150.00 per shipment at Export (FY 2023-24), INR 1.10 per kg subject to minimum of INR 165.00 per shipment at Export (Export (FY 2024-25), INR 1.21 per kg subject to minimum of INR 182.00 per shipment at Export (FY 2025-26). The same is applicable at 50% per kg subject to minimum of INR 100 (FY 2023-24), minimum of INR 110.00 (FY 2024-25), INR 121.00 (FY 2025-26) per ODC shipment where physical check with the help of ETDs are facilitated. However, for random check cases in ETDs by Airlines after scanning through XBIS, no charges to be levied for usage of ETDs.

vii. Any other agencies operating at airport utilizing the terminal operator's equipment like Forklift, Tractor and any other equipment shall be charged separately.

viii. Any services not covered above will attract miscellaneous charges of INR 3.00 per kg (FY 2023-24), INR 3.30 per kg (FY 2024-25), INR 3.63 per kg (FY 2025-26) subject to Minimum INR 300 (FY 2023-24), INR 330 (FY 2024-25), INR363 (FY 2025-26) per consignment.

ix. All minimum charges shall be rounded off to the nearest Rupee 1.00

x. All Bills shall be rounded up to the nearest higher of Rupee 1.00

xi. All the above charges are excluding taxes, which will be levied at applicable rates announced by GoI from time to time.

d) **Domestic Outbound Cargo Charges leviable on Shippers/ Consignor(s) etc.**

Applicable charges from April 1, 2023 to March 31, 2024

(Rate in ₹)

S. No.	Type of Charge	Rate per Kg per day	Minimum rate per consignment or AWB
	Domestic Outbound		
1	**Terminal, Storage and Processing Charges (Standard Charges for processing & Handling at Air Cargo Terminal)**		
	General	0.96	141.00
	Special (AVI)	1.92	281.00
	PER/DGR/VAL	1.92	281.00
2	**Demurrage Charges/Storage**		
	General	0.96	141.00
	Special (AVI)	1.92	281.00
	PER/DGR/VAL	1.92	281.00
3	Courier Handling	1.28	153.00
4	Carting charges for outbound/inbound cargo	0.24 per KG	320.00 per single trip
5	Amendment of Airway Bill	128.00 per AWB	
6	Return Cargo Charges	128.00 per AWB	
7	Strapping/Re-packing Charges	12.77 per Bag	
8	In addition to the above, penal charges applicable for mis-declaration of weight as below:		
a	Up to and inclusive of 2 percentage	No penal charges (This is not applicable for VAL Cargo)	
b	2-5% variation	2 times of the excess weight	
c	More than 5%	5 times of the excess weight	

Applicable charges from April 1, 2024 to March 31, 2025

(Rate in ₹)

S. No.	Type of Charge	Rate per Kg per day	Minimum rate per consignment or AWB
	Domestic Outbound		
1	**Terminal, Storage and Processing Charges (Standard Charges for processing & Handling at Air Cargo Terminal)**		

S. No.	Type of Charge	Rate per Kg per day	Minimum rate per consignment or AWB
	General	1.06	155.00
	Special (AVI)	2.11	309.00
	PER/DGR/VAL	2.11	309.00
2	**Demurrage Charges/Storage**		
	General	1.06	155.00
	Special (AVI)	2.11	309.00
	PER/DGR/VAL	2.11	309.00
3	Courier Handling	1.41	168.00
4	Carting charges for outbound/inbound cargo	0.26 per KG	352.00 per single trip
5	Amendment of Airway Bill	141.00 per AWB	
6	Return Cargo Charges	141.00 per AWB	
7	Strapping/Re-packing Charges	14.05 per Bag	
8	In addition to the above, penal charges applicable for mis-declaration of weight as below:		
a	Up to and inclusive of 2 percentage	No penal charges (This is not applicable for VAL Cargo)	
b	2-5% variation	2 times of the excess weight	
c	More than 5%	5 times of the excess weight	

Applicable charges from April 1, 2025 to March 31, 2026

(Rate in ₹)

S. No.	Type of Charge	Rate per Kg per day	Minimum rate per consignment or AWB
	Domestic Outbound		
1	**Terminal, Storage and Processing Charges (Standard Charges for processing & Handling at Air Cargo Terminal)**		
	General	1.17	171.00
	Special (AVI)	2.32	340.00
	PER/DGR/VAL	2.32	340.00
2	**Demurrage Charges/Storage**		
	General	1.17	171.00
	Special (AVI)	2.32	340.00
	PER/DGR/VAL	2.32	340.00
3	Courier Handling	1.55	185.00
4	Carting charges for outbound/inbound cargo	0.29 per KG	387.00 per single trip
5	Amendment of Airway Bill	155.00 per AWB	
6	Return Cargo Charges	155.00 per AWB	
7	Strapping/Re-packing Charges	15.50 per Bag	
8	In addition to the above, penal charges applicable for mis-declaration of weight as below:		
A	Up to and inclusive of 2 percentage	No penal charges (This is not applicable for VAL Cargo)	
B	2-5% variation	2 times of the excess weight	

S. No.	Type of Charge	Rate per Kg per day	Minimum rate per consignment or AWB
c	More than 5%	5 times of the excess weight	

Notes:

i. The free period for outbound domestic cargo shall be 12 hours for examination/processing by the shipper/consignor/authorized representative etc. and 12 hours for airlines at SHA.

ii. Consignment of human remains, coffin including unaccompanied baggage of deceased and human eyes will be exempted from the purview of domestic cargo handling & demurrage charges. No XBIS/ETD usage charges will also be leviable on these shipments.

iii. The domestic cargo handling charges are inclusive of fork lift charges wherever fork lift usage is involved. No separate fork lift charges will be levied.

iv. As per IATA definition, Special cargo consists of cold storage, live animals, hazardous goods & valuable cargo.

v. Valuable cargo consists of gold, bullion, currency notes, securities, shares, share coupons, travelers' cheques, diamonds (including diamonds for industrial use), diamond jewelry, jewelry & watches made of silver, gold platinum and items valued at USD 1000 per Kg. and above.

vi. Charges will be levied on the 'gross weight' or the chargeable weight' of the consignment, whichever is higher. Wherever the 'gross weight' and (or) 'volume weight' is wrongly indicated on the Airway Bill and is found more, charges will be levied on the 'actual gross weight' or 'actual volumetric weight', whichever is higher.

vii. For mis-declaration of weight above 2% and up to 5% of declared weight, penal charges @ double the applicable domestic cargo handling charges and for variation above 5%, the penal charges % 5 times the applicable domestic cargo handling charges will be leviable on the differential weight, subject to minimum amount equivalent to the applicable minimum domestic cargo handling Charges. No penal charges will be leviable for variation up to and inclusive of 2%. No weight variation permissible in VAL Cargo.

viii. XBIS usage charges INR 1.00 per kg subject to minimum of INR 150.00 per AWB (for FY 2023-24), INR 1.10 per kg subject to minimum of INR 165.00 per AWB (FY 2024-25) and INR 1.21 per kg subject to minimum of INR 182.00 per AWB (FY 2025-26). The same is applicable at 50% per kg subject to minimum of INR 100.00 per ODC shipment (FY 2023-24); INR 110.00 per ODC shipment (FY 2024-25), INR 121.00 per ODC shipment (FY 2025-26), where physical check with the help of ETDs are facilitated. However, for random check cases in ETDs by Airlines after scanning through XBIS, no charges to be levied for usage of ETDs.

ix. Any other agencies operating at airport utilizing the terminal operator's equipment like Forklift, Tractor and any other equipment shall be charged separately.

x. Any services not covered above will attract miscellaneous charges of INR 3.00 per kg subject to Minimum INR 300 per consignment (FY 2023-24), INR 3.30 per kg subject to Minimum INR 330 per consignment (FY 2024-25), INR 3.63 per kg subject to Minimum INR 363 per consignment (FY 2025-26).

xi. All minimum charges shall be rounded off to the nearest Rupee 1.00

xii. All Bills shall be rounded up to the nearest higher of Rupee 1.00

xiii. All the above charges are excluding taxes, which will be levied at applicable rates announced by GoI from time to time.

e) Domestic Inbound Cargo Charges leviable on Shippers/ Consignees etc.

Applicable charges from April 1, 2023 to March 31, 2024

(Rate in ₹)

S. No.	Type of Charge	Rate per Kg per day	Minimum rate per consignment or AWB
	Domestic Inbound		
1	**Terminal, Storage and Processing Charges (Standard Charges for processing & Handling at Air Cargo Terminal)**		
	General	0.96	141.00
	Special (AVI)	1.92	281.00
	PER/DGR/VAL	1.92	281.00
2	**Demurrage Charges/Storage**		
	General	0.96	141.00
	Special (AVI)	1.92	281.00
	PER/DGR/VAL	1.92	281.00
3	Courier Handling	1.28	153.00

Applicable charges from April 1, 2024 to March 31, 2025

(Rate in ₹)

S. No.	Type of Charge	Rate per Kg per day	Minimum rate per consignment or AWB
	Domestic Inbound		
1	**Terminal, Storage and Processing Charges (Standard Charges for processing & Handling at Air Cargo Terminal)**		
	General	1.06	155.00
	Special (AVI)	2.11	309.00
	PER/DGR/VAL	2.11	309.00
2	**Demurrage Charges/Storage**		
	General	1.06	155.00
	Special (AVI)	2.11	309.00
	PER/DGR/VAL	2.11	309.00
3	Courier Handling	1.41	168.00

Applicable charges from April 1, 2025 to March 31, 2026

(Rate in ₹)

S. No.	Type of Charge	Rate per Kg per day	Minimum rate per consignment or AWB
	Domestic Inbound		
1	**Terminal, Storage and Processing Charges (Standard Charges for processing & Handling at Air Cargo Terminal)**		
	General	1.17	171.00
	Special (AVI)	2.32	340.00
	PER/DGR/VAL	2.32	340.00
2	**Demurrage Charges/Storage**		
	General	1.17	171.00
	Special (AVI)	2.32	340.00
	PER/DGR/VAL	2.32	340.00
3	Courier Handling	1.55	185.00

Notes:

i. The free period for inbound domestic cargo shall be one working day for processing/delivery by the consignee/authorized representative etc.

ii. Consignment of human remains, coffin including unaccompanied baggage of deceased and human eyes will be exempted from the purview of domestic cargo handling & demurrage charges. No XBIS/ETD charges leviable on these shipments in case it is screened.

iii. The domestic cargo handling charges are inclusive of fork lift charges wherever fork lift usage is involved. No separate fork lift charges will be levied.

iv. Charges will be levied on the 'gross weight' or the chargeable weight' of the consignment, whichever is higher. Wherever the 'gross weight' and (or) 'volume weight' is wrongly indicated on the Airway Bill and is found more, charges will be levied on the 'actual gross weight' or 'actual volumetric weight', whichever is higher.

v. As per IATA definition, Special cargo consists of cargo stored in cold storage, live animals, valuable & hazardous goods.

vi. Valuable cargo consists of gold, bullion, currency notes, securities, shares, share coupons, travelers' cheques, diamonds (including diamonds for industrial use), diamond jewellery, jewellery & watches made of silver, gold platinum & items valued at US$ 1000 and above.

vii. Any other agencies operating at airport utilizing the terminal operator's equipment like Forklift, Tractor and any other equipment shall be charged separately.

viii. Any services not covered above will attract miscellaneous charges of INR 3.00 per kg subject to Minimum INR 300 per consignment (FY 2023-24), INR 3.30 per kg subject to Minimum INR 330 per consignment (FY 2024-25), INR 3.63 per kg subject to Minimum INR 363 per consignment (FY 2025-26).

ix. All minimum charges shall be rounded off to the nearest Rupee 1.00

x. All Bills shall be rounded up to the nearest higher of Rupee 1.00

xi. All the above charges are excluding taxes, which will be levied at applicable rates announced by GoI from time to time.

f) <u>Schedule of Charges leviable on Airlines for Domestic Cargo Handling</u>

Applicable charges from April 1, 2023 to March 31, 2024

(Rate in ₹)

S. No.	Activity	Minimum per flight	Per Kg
1	Unloading of incoming cargo loaded on trolleys (Bulk cargo handling)	105.00	0.79
2	Loading of outgoing cargo on trolleys (bulk cargo handling)	105.00	0.79
3	Loading of Container/Pallet	263.00	1.40
4	De-stuffing of Container/Pallet	263.00	1.40

Applicable charges from April 1, 2024 to March 31, 2025

(Rate in ₹)

S. No.	Activity	Minimum per flight	Per Kg
1	Unloading of incoming cargo loaded on trolleys (Bulk cargo handling)	116.00	0.87
2	Loading of outgoing cargo on trolleys (bulk cargo handling)	116.00	0.87
3	Loading of Container/Pallet	289.00	1.54
4	De-stuffing of Container/Pallet	289.00	1.54

Applicable charges from April 1, 2025 to March 31, 2026

(Rate in ₹)

S. No.	Activity	Minimum per flight	Per Kg
1	Unloading of incoming cargo loaded on trolleys (Bulk cargo handling)	128.00	0.96
2	Loading of outgoing cargo on trolleys (bulk cargo handling)	128.00	0.96
3	Loading of Container/Pallet	318.00	1.69
4	De-stuffing of Container/Pallet	318.00	1.69

Notes:

i. All minimum charges shall be rounded off to the nearest Rupee 1.00

ii. All Bills shall be rounded up to the nearest higher of Rupee 1.00

iii. Any services not covered above will attract miscellaneous charges of INR 3.00 per kg for FY 2023-24, INR 3.30 per kg for FY 2024-25 and INR 3.63 per kg for FY 2025-26 subject to Minimum INR 300 per consignment (FY 2023-24), INR 330 per consignment (FY 2024-25) and INR 363 per consignment (FY 2025-26).

iv. All the above charges are excluding taxes, which will be levied at applicable rates announced by GoI from time to time.

g) Regulated Agent Facilitation (for Export and Domestic Outbound)

Applicable charges from April 1, 2023 to March 31, 2024

(Rate in ₹)

S. No.	Activity	Minimum Charges	Per Kg
1	i) X-Ray Machine Usage Charges	INR 150 per shipment/AWB	1.00 per kg
	ii) Use of ETD for ODC	INR 100.00 per shipment/AWB	0.50 per kg
2	Screening & Certification Charges		
	i) Export	INR 150 per shipment/AWB	1.50 per kg
	ii) Domestic Outbound	INR 120 per shipment/AWB	1.32 per kg
3	Security services for escorting of Cargo from Cargo Terminal to Aircraft and vice-versa and handing over to the Airlines representative (For both Scheduled Airline and Non-Scheduled Airlines)	INR 1000 per flight (Subject to negotiation based on type of Aircraft and load)	0.10 per kg

Applicable charges from April 1, 2024 to March 31, 2025

(Rate in ₹)

S. No.	Activity	Minimum Charges	Per Kg
1	i) X-Ray Machine Usage Charges	INR 165 per shipment/AWB	1.10 per kg
	ii) Use of ETD for ODC	INR 110.00 per shipment/AWB	0.55 per kg
2	Screening & Certification Charges		
	i) Export	INR 165 per shipment/AWB	1.65 per kg
	ii) Domestic Outbound	INR 132 per shipment/AWB	1.45 per kg
3	Security services for escorting of Cargo from Cargo Terminal to Aircraft and vice-versa and handing over to the Airlines representative (For both Scheduled Airline and Non-Scheduled Airlines)	INR 1,100 per flight (Subject to negotiation based on type of Aircraft and load)	0.11 per kg

Applicable charges from April 1, 2025 to March 31, 2026

(Rate in ₹)

S. No.	Activity	Minimum Charges	Per Kg
1	i) X-Ray Machine Usage Charges	INR 182 per shipment/AWB	1.21 per kg
	ii) Use of ETD for ODC	INR 121.00 per shipment/AWB	0.61 per kg
2	Screening & Certification Charges		
	i) Export	INR 182 per shipment/AWB	1.82 per kg
	ii) Domestic Outbound	INR 145 per shipment/AWB	1.60 per kg
3	Security services for escorting of Cargo from Cargo Terminal to Aircraft and vice-versa and handing over to the Airlines representative (For both Scheduled Airline and Non-Scheduled Airlines)	INR 1,210 per flight (Subject to negotiation based on type of Aircraft and load)	0.12 per kg

Notes:

i. All Bills shall be rounded up to the nearest higher of Rupee 1.00.

ii. All the above charges are excluding taxes, which will be levied at applicable rates announced by GoI from time to time

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18.2 Annexure 2 – Summary of study on allocation of assets between Aeronautical and Non-aeronautical assets

Background

18.2.1. RAB is one of the fundamental elements in the process of tariff determination. The return to be provided on the RAB constitutes a considerable portion of the Aggregate Revenue Requirement for an airport operator. To encourage the participation of the private sector in airport development and operations, investors must be fairly compensated for the capital outlays involved. At the same time, to safeguard the interests of the airport users, it must be ensured that the capital additions are efficient, their needs justified, and the return on investment provided solely on the assets related to the core operations (i.e., Aeronautical services) of the airport. Assets not directly related to provision of Aeronautical services, if considered as Aeronautical assets, would result in increased charges for the passengers, stakeholders and other users. Therefore, the diligent allocation of assets into Aeronautical and Non-aeronautical assets becomes an important part of the tariff determination process.

18.2.2. RAB evolves on a continuous basis, primarily due to the addition of capital assets required to meet the growing demand and ensure optimal level of service, replacement of obsolete assets at end of their useful life, sales or transfers of assets and depreciation. The allocation of an asset towards RAB depends upon the type of asset (building & civil works, plant & machinery, equipment, etc.), usage (provision of various services such as Aeronautical, Non-aeronautical, or Common), ownership (by airport operator, concessionaire or other entities) and useful life of the asset. Based on these factors, the rationale for allocation of each asset into the appropriate classification needs to be determined diligently.

18.2.3. Towards this objective, AERA has decided to conduct an independent study on allocation of assets and segregation between Aeronautical and Non-aeronautical components in respect of assets appearing in the Fixed Asset Register (FAR) of Mangaluru International Airport Limited as on March 31, 2021, based on the audited financial statements for the year ended March 31, 2021 and the True up workings as submitted by AAI to the AERA up to October 30, 2020.

Classification of Assets

18.2.4. The study based on the analysis, classified the aggregate assets of MIA under the following categories:

a. **Aeronautical assets:** All assets that are exclusively used for the provision of Aeronautical services/ activities have been classified as 'Aeronautical assets'. Such assets would include runway(s), taxiways, drainage, culverts, aprons, etc.

b. **Non-aeronautical assets:** All assets that are exclusively used for the provision of Non-aeronautical services/ activities have been classified as 'Non-aeronautical assets'. Such assets would include land side development, commercial projects, etc.

c. **Common assets:** All assets that cannot be directly allocated to either Aeronautical assets or Non-aeronautical assets have been classified as 'Common assets'. Such assets as the name suggests, get utilised for both Aeronautical and Non-aeronautical activities. They would include terminal building, select terminal equipment, etc.

Principles for segregation of assets

18.2.5. The study reviewed the various asset categories and developed a basis for classification of assets into aeronautical and non – aeronautical activities. The study also determined the appropriate proportion of the Common Assets that may be included as part of Aeronautical activity so in order to determine the Aeronautical asset base. The principles of segregation usedby the study are as follows:

Aeronautical Assets

- Assets required for the performance of the Aeronautical services at the airport.
- Classification of aeronautical assets are taken as defined in the AERA Act.
- Assets necessary to maintain the service quality of the airport are proposed to be considered as aeronautical except those located in the Non-aeronautical area.

Non-aeronautical Assets

- Assets required for the performance of the Non-aeronautical activities at the airport. Examples include car parking, advertisement, retail etc.

Common Assets

- Common assets are assets which are not directly attributable to either Aeronautical or Non-aeronautical services. These assets include the terminal building, air conditioning, furniture, administrative office of airport company, etc.
- Common assets are bifurcated between Aeronautical and Non-aeronautical assets based upon Terminal Building ratio or Employee Head Count ratio or Staff Quarters ratio. The ratio of Aeronautical to Non-aeronautical as considered by the Study for the period from FY 2016-17 to FY 2020-21 are as follows:

Table 118: The ratio of Aeronautical to Non-aeronautical as considered by the Study for the period from FY 2016-17 to FY 2020-21

Particulars	Ratio (Aeronautical: Non-aeronautical)
Terminal Building ratio	92.00: 8.00
Employee Head Count ratio (up to October 30, 2020)	89.60: 10.40
Employee Head Count ratio (from October 31, 2020)	94.44: 5.56
Staff Quarters ratio	77.21: 22.79

Details of adjustment to RAB

A. Exclusion of Financing Allowance and assets related to ANS activities from the RAB as on October 30, 2020

It was observed that the RAB as on October 30, 2020, included Financing Allowance of ₹ 2.52 Crores. Since AAI has not disclosed any borrowings in the True up submission, such amount is proposed not to be allowed for the determination of RAB.

It was also observed that certain assets related to ANS activities had been included in the RAB as per AAI's submission. Such assets have been excluded from the Adjusted RAB computed by the Study as on COD.

B. Reclassification of assets of AAI as on October 30, 2020

Terminal building

a. Allocation as per AAI: Aeronautical
b. Observation: The assets pertaining to the expansion of the terminal building in the lower ground floor and other areas have been considered as Aeronautical assets by AAI. However, as these assets are within the terminal building, wherein both Aeronautical and Non-aeronautical activities are carried out, the same is reclassified as Common asset and segregated in the ratio of the terminal building (92:8). It was also identified that an asset, viz., covering for car park which pertains to Non-aeronautical activities, had been classified as Aeronautical by AAI. Such asset has been reclassified as Non-aeronautical assets.
c. Allocation proposed as per the Study report: Common / Non-aeronautical
d. Impact on RAB: Reduction of ₹ 0.19 Crores.

Staff Quarters

a. Allocation as per AAI: Aeronautical
b. Observation: The construction of staff quarters and other assets in and around the Quarters have been classified as Aeronautical assets by AAI. As these assets are used by both Aeronautical and ANS staff, these are reclassified as Common assets and have been reallocated in the ratio of the occupancy of the staff quarters between Aeronautical and ANS (77.21: 22.79). Further, it was observed that the Quarters ratio had been considered as 79:21 in cases where the assets had been classified as Common and apportioned in the Quarters ratio. Such ratios are also proposed to be updated to 77.21: 22.79.
c. Allocation proposed as per the Study report: Common (Quarters Ratio)
d. Impact on RAB: Reduction of ₹ 0.09 Crores.

Plumbing and Electrical works for Airport

a. Allocation as per AAI: Aeronautical
b. Observation: The assets pertaining to supply of water, including drilling of borewells, rainwater harvesting and building for sub-station have been considered as Aeronautical assets by AAI. However, since these assets cater to the need of both Aeronautical and Non-aeronautical activities, these assets are reclassified as Common assets and have been reallocated in the ratio of the Terminal Building (92:8).
c. Allocation proposed as per the Study report: Common
d. Impact on RAB: Reduction of ₹ 0.01 Crores.

Artwork

a. Allocation as per AAI: Aeronautical
b. Observation: Artwork related assets have been classified as Aeronautical assets by AAI. However, since these assets are for the common use within the terminal building, they have been reclassified as Common assets and have been reallocated in the ratio of the Terminal Building (92:8).
c. Allocation proposed as per the Study report: Common
d. Impact on RAB: Reduction of ₹ 0.06 Crores.

Equipment for utilities

a. Allocation as per AAI: Aeronautical
b. Observation: The equipment related to sub-station, including earthing and wiring, generators,

rainwater harvesting and water supply have been considered as Aeronautical assets by AAI. However, since these assets cater to the need of both Aeronautical and Non-aeronautical activities, these assets are reclassified as Common assets and have been reallocated in the ratio of the Terminal Building (92:8).

c. Allocation proposed as per the Study report: Common
d. Impact on RAB: Reduction of ₹ 0.27 Crores

CCTV

a. Allocation as per AAI: Aeronautical
b. Observation: The assets pertaining to the installation of CCTV cameras across the airport, including those at entry, exit, parking and expansion of its storage medium have been considered as Aeronautical assets by AAI. In the absence of specific identification as to the location of the assets, it is prudent to consider such assets as Common assets and has segregated these in the ratio of the Terminal Building (92:8).
c. Allocation proposed as per the Study report: Common
d. Impact on RAB: Reduction of ₹ 0.11 Crores.

Air Conditioning

a. Allocation as per AAI: Aeronautical
b. Observation: Replacement of air conditioners have been classified as Aeronautical assets by AAI. As these assets are used for servicing both Aeronautical and Non-aeronautical activities within the terminal building, these are reclassified as Common assets and have been reallocated in the ratio of the Terminal Building (92:8).
c. Allocation proposed as per the Study report: Common
Impact on RAB: Reduction of ₹ 0.02 Crores.

Other Assets

a. Allocation as per AAI: Aeronautical
b. Observation: Certain miscellaneous assets (such as streetlights, furniture, computers etc.) have been classified as Aeronautical assets by AAI. However, since these assets are for the common use, they have been reclassified as Common assets and have been reallocated in the ratio of the Terminal Building (92:8) or in the ratio of the Employee Head Count (89.60:10.40) depending on the nature of such individual assets.
c. Allocation proposed as per the Study report: Common
d. Impact on RAB: Reduction of ₹ 0.028 Crores.

Impact of revised Terminal Building ratio and Employee Head Count ratio as per the Study

The total impact of revised Terminal Building Ratio and the differential Employee Head Count ratio as per Study is ₹ 0.923 Crores.

The year-wise impact of reclassification of assets to the RAB of Mangaluru International Airport is detailed in the table below:

Table 119: Year-wise impact of reclassification of assets as per the Study

(₹ in Crores)

Particulars	Up to March 31, 2016	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21*	Total
Opening RAB **(A)**	73.58#	74.21	101.42	96.00	110.78	129.80	NA
Additions # **(B)**	-	40.00	4.78	23.78	29.03	2.69	100.28
Financing allowance and assets related to ANS activities excluded from RAB **(C)**	(0.35)	(3.56)	(0.03)	(0.36)	(0.28)	(0.07)	(4.65)
Deletions **(D)**	-	(0.01)	(0.81)	(0.58)	(0.34)	(0.24)	(1.98)
Depreciation as per AAI **(E)**	-	(9.06)	(9.30)	(8.23)	(9.34)	(6.09)	(42.02)
Depreciation impact on (B) above **(F)**	-	0.04	0.18	0.25	0.28	0.17	0.92
Sub-total (G)	**73.23**	**101.62**	**96.24**	**110.86**	**130.13**	**126.26**	
Reclassification adjustments							
Reclassification impact (other than depreciation) **(H)**	0.98	(0.12)	(0.18)	(0.07)	(0.33)	(0.01)	0.27
Depreciation impact on reclassification **(I)**	-	(0.08)	(0.06)	(0.01)	-	0.02	(0.13)
Total reclassification impact (J = H + I)	**0.98**	**(0.20)**	**(0.24)**	**(0.08)**	**(0.33)**	**0.01**	**0.14**
Closing RAB (G + J)	**74.21**	**101.42**	**96.00**	**110.78**	**129.80**	**126.27**	**NA**

* Up to October 30, 2020

As per AAI's submission

The summary of the value of assets transferred by AAI to the Airport Operator, computed based on the Study report is presented in the table below.

Table 120: Value of assets, post adjustments and reclassification, transferred by AAI to the Airport Operator as per the Study

(₹ in Crores)

Particulars	Aeronautical assets (A)	Non-aeronautical assets (B)	Other assets (C)*	Total D = (A + B +C)
Total assets of AAI as on October 30, 2020 (Net block) as per True up submission	129.86	0.46	27.58	157.90
Exclusion of Financing Allowance and assets related to ANS Activities	(3.73)	-	1.04	(2.69)
Reclassification	0.14	0.54	-	0.68

Particulars	Aeronautical assets (A)	Non-aeronautical assets (B)	Other assets (C)*	Total D = (A + B +C)
Total assets of AAI as on October 30, 2020 (Net block), after reclassification and other adjustments	**126.27**	**1.00**	**28.62**	**155.89**
Less assets retained by AAI	(0.63)	(0.01)	(25.65)	(26.29)
Net assets transferred by AAI to the Airport Operator as on October 31, 2020.	**125.64**	**0.99**	**2.97**	**129.60**

* *Other assets pertain to assets related to ANS activity (refer Asset Allocation report in Appendix I to this Tariff Order).*

C. Reclassification of assets of the Airport Operator as on March 31, 2021

Computer and Software additions

a. Allocation as per Mangaluru International Airport Limited: Common
b. Observation: The assets pertaining to Computers and Software have been classified as Common assets by the Airport Operator and have been allocated in the ratio of Terminal Building as had been determined by the Airport Operator (95:5). However, since these assets are for the use of employees of the Airport Operator, the same have been reallocated in the ratio of Employee Head Count of the Airport Operator (94.44:5.56).
c. Allocation proposed as per the Study report: Common (Employee Head Count ratio)
d. Impact on RAB: Reduction of ₹ 0.003 Crores.

Intangible asset

a. Allocation as per Mangaluru International Airport Limited: Common
b. Observation: It is determined from Clause 5.1.1 of the Concession Agreement that the capitalisation of Intangible asset and its allocation may not be a subject matter to be considered as part of the Study report. Accordingly, the Intangible asset have been excluded from the Adjusted RAB computed by the Study as of March 31, 2021.
c. Allocation proposed as per the Study report: Exclude Intangible asset from this report
d. Impact on RAB: Reduction of ₹ 16.37 Crores.

The Summary of the impact of proposed adjustments on Aeronautical assets as on March 31, 2021 in provided in the table below:

Table 121: Adjusted RAB as of March 31, 2021 as per the Study

(₹ Crores)

Particulars		Amount
Adjusted RAB as on October 31, 2020 transferred to Mangaluru International Airport Limited	A	**125.64**
Additions to RAB from COD to March 31, 2021 as per Airport Operator's submission	B	16.89
Sub-total (A + B)	C	**142.53**
Reclassifications on asset additions		
Computers and Software – reclassification	D	(0.003)
Exclusion of Intangible asset	E	(16.37)

Particulars		Amount
Impact of differential Employee Head Count ratio	F	0.01
Total reclassifications on asset additions Sum (D: F)	G	**(16.36)**
Adjusted RAB (C + G)	H	**126.17**
Depreciation for the period from COD to March 31, 2021	I	(4.26)
Adjusted RAB as on March 31, 2021, i.e., opening RAB for First Control Period (H + I)		**121.91**

18.2.6. Based on the above, the year-wise revision in the Gross Fixed Assets ratio has been summarized in the tables below:

Table 122: Summary of assets as submitted by AAI up to COD

(₹ Crores)

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 (October 30, 2020)
Aeronautical Gross block (closing) **(A)**	316.40	320.37	343.57	372.26	374.71
Non-aeronautical Gross block **(B)**	14.18	14.18	14.19	14.35	14.35
Total Gross block (C = A + B)	**330.58**	**334.55**	**357.76**	**386.61**	**389.06**
Non-Aeronautical ratio	***4.29%***	***4.24%***	***3.97%***	***3.71%***	***3.69%***
Aeronautical Accumulated Depreciation **(D)**	(211.89)	(221.19)	(229.42)	(238.76)	(244.85)
Non-aeronautical Accumulated Depreciation **(E)**	(9.68)	(11.43)	(13.09)	(13.82)	(13.89)
Aeronautical Net block (RAB) **(F = A – D)**	104.51	99.18	114.15	133.50	129.86
Non-aeronautical Net block **(G = B – E)**	4.50	2.75	1.10	0.53	0.46
Total Net block (H = F + G)	**109.01**	**101.93**	**115.25**	**134.03**	**130.32**
Non-aeronautical Net block as a % of Total Net block	***4.13%***	***2.70%***	***0.95%***	***0.40%***	***0.35%***

Table 123: Summary of assets up to COD, net of Financing allowance and assets related to ANS activities included in Aeronautical assets

(₹ in Crores)

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 (October 30, 2020)
Aeronautical Gross block (closing) **(A)**	312.43	316.37	339.21	367.62	370.00
Non-aeronautical Gross block **(B)**	14.18	14.18	14.19	14.35	14.36
Total Gross block (C = A + B)	**326.61**	**330.55**	**353.40**	**381.97**	**384.36**
Non-Aeronautical ratio	***4.34%***	***4.29%***	***4.02%***	***3.76%***	***3.74%***
Aeronautical Accumulated Depreciation **(D)**	(211.79)	(220.91)	(228.89)	(237.95)	(243.88)

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 (October 30, 2020)
Non-aeronautical Accumulated Depreciation (E)	(9.68)	(11.43)	(13.09)	(13.82)	(13.90)
Aeronautical Net block (RAB) **(F = A – D)**	100.64	95.46	110.32	129.67	126.12
Non-aeronautical Net block **(G = B – E)**	4.50	2.75	1.10	0.53	0.46
Total Net block (H = F + G)	**105.14**	**98.21**	**111.42**	**130.20**	**126.58**
Non-aeronautical Net block as a % of Total Net block	***4.28%***	***2.80%***	***0.99%***	***0.41%***	***0.36%***

Table 124: Summary of assets derived for the Airport Operator as part of the Study as on March 31, 2021 prior to reclassification

(₹ in Crores)

Particulars	Assets transferred from AAI on October 31, 2020	Additions as per Airport Operator	Total Assets as on March 31, 2021
Aeronautical Gross block **(A)**	125.40	16.89	142.29
Non-aeronautical Gross block **(B)**	0.46	0.89	1.35
Total Gross block (C = A + B)	**125.86**	**17.78**	**143.64**
Non-Aeronautical ratio	***0.37%***		***0.94%***
Aeronautical Depreciation **(D)**			(5.50)
Non-aeronautical Depreciation **(E)**			(0.11)
Aeronautical Net block (RAB) **(F = A – D)**			136.79
Non-aeronautical Net block **(G = B – E)**			1.23
Total Net block (H = F + G)			**138.02**

Table 125: Types of reclassifications and impact as per the Study

(₹ Crores)

		Impact of reclassification of assets on Gross Block of the assets– Increase / (Decrease)					
S. No.	**Reclassification**	**FY 2016-17**	**FY 2017-18**	**FY 2018-19**	**FY 2019-20**	**FY 2020-21 (up to October 30, 2020)**	**From COD up to March 31, 2021**
1	Aeronautical to Common	(0.65)	(0.72)	(0.78)	(1.12)	(1.12)	(0.61)
2	Aeronautical to Non-aeronautical	-	(0.11)	(0.11)	(0.11)	(0.11)	(0.10)

		Impact of reclassification of assets on Gross Block of the assets– Increase / (Decrease)					
S. No.	Reclassification	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 (up to October 30, 2020)	From COD up to March 31, 2021
3	Intangible asset excluded	-	-	-	-	-	(16.37)
	Sub-Total	**(0.65)**	**(0.83)**	**(0.89)**	**(1.23)**	**(1.23)**	**(17.04)**
4	Terminal Building ratio adjustment	2.99	2.99	2.99	2.99	2.99	0.92
	Total	**2.34**	**2.16**	**2.10**	**1.76**	**1.76**	**(16.12)**

Table 126: Revised Gross and Net block of Assets up to COD as per the Study report

(₹ Crores)

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21 (October 30, 2020)
Aeronautical gross block **(A)**	314.77	318.53	341.31	369.38	371.76
Non-aeronautical gross block **(B)**	11.57	11.76	11.83	12.32	12.33
Total gross block (C = A + B)	**326.34**	**330.29**	**353.14**	**381.70**	**384.09**
Revised Non-Aeronautical ratio	***3.55%***	***3.56%***	***3.35%***	***3.23%***	***3.21%***
Reduction in Non-Aeronautical ratio	***0.80%***	***0.73%***	***0.67%***	***0.53%***	***0.53%***
Aeronautical Accumulated Depreciation **(D)**	(213.35)	(222.53)	(230.53)	(239.58)	(245.49)
Non-aeronautical Accumulated Depreciation **(E)**	(7.72)	(9.16)	(10.52)	(11.19)	(11.33)
Aeronautical Net block (RAB) **(F = A – D)**	101.42	96.00	110.78	129.80	126.27
Non-aeronautical Net block **(G = B – E)**	3.85	2.60	1.31	1.13	1.00
Total Net block (H = F + G)	**105.27**	**98.60**	**112.09**	**130.93**	**127.27**
Non-aeronautical Net block as a % of Total Net block	***3.66%***	***2.64%***	***1.17%***	***0.86%***	***0.79%***

Table 127: Revised Gross and Net block of Assets as on March 31, 2021 as per the Study report

(₹ Crores)

Particulars	Assets transferred from AAI on October 31, 2020	Additions as per Airport Operator	Reclassification adjustments/ exclusions	Total Assets as on March 31, 2021
Aeronautical gross block (closing) **(A)**	125.40	16.89	(16.12)	126.17
Non-aeronautical gross block **(B)**	0.46	0.89	(0.33)	1.02

Particulars	Assets transferred from AAI on October 31, 2020	Additions as per Airport Operator	Reclassification adjustments/ exclusions	Total Assets as on March 31, 2021
Total gross block (C = A + B)	**125.86**	**17.78**	**(16.45)**	**127.06**
Non-Aeronautical ratio				***0.80%***
Aeronautical Depreciation **(D)**				(4.26)
Non-aeronautical Depreciation **(E)**				(0.10)
Aeronautical Net block (RAB) **(F = A – D)**				121.91
Non-aeronautical Net block **(G = B – E)**				0.92
Total Net block (H = F + G)				**122.83**

18.2.7. As seen from the above table, the net increase due to the above adjustments in the Aeronautical RAB from FY 2016-17 to FY 2020-21 (up to October 30, 2020) for AAI as on October 30, 2020, is ₹ 0.14 Crores and the net decrease for the Airport Operator as on March 31, 2021 is ₹ 16.36 Crores.

18.3 Annexure 3 - Summary of study on efficient Operation and Maintenance expenses

Background

18.3.1. Establishing efficient Operation and Maintenance (O&M) expenses is an essential component in tariff determination for Aeronautical services. The allocation of O&M expenses as Aeronautical and Non-aeronautical expenses depends on the nature of expenses, type of assets which they service, the business function which they are deployed for, the end-user that benefits or avails services from those expenses, and reasonableness of the quantum of such expenses.

18.3.2. Towards this objective, AERA has decided to conduct an independent study on efficient Operation and Maintenance expenses, and their allocation as Aeronautical and Non-aeronautical components in respect of O&M expenses appearing in the extract of the audited trial balance of AAI for the period from FY 2016-17 (period from which MIA is a Major Airport) to October 30, 2020 and the audited financial statements of Mangaluru International Airport Limited for the period from October 31, 2020 (Commercial Operation Date (COD)) to March 31, 2021, and the True up workings as submitted to AERA by AAI up to October 30, 2020 and by the Airport Operator up to March 31, 2021.

Principles for segregation of costs

18.3.3. This Study segregates the O&M expenses of Mangaluru International Airport into the following:

- **Aeronautical expenses:** Expenses which are incurred for operation and maintenance of Aeronautical assets have been categorised as Aeronautical expenses.
- **Non-aeronautical expenses:** Expenses which are incurred for operation and maintenance of Non-aeronautical assets have been categorized as Non-aeronautical expenses.
- **Common expenses:** Expenses for which the benefits or use cannot be exclusively linked to either Aeronautical or Non-aeronautical activities have been segregated as Common expenses. Expenses primarily incurred for provision of Aeronautical services but are also used for provision of Non-aeronautical services are segregated as Common Expenses. Expenses which are used for general corporate purposes including legal, administration, and management affairs are treated as Common Expenses.

18.3.4. The Segregation of the various O&M expenses as per AAI's submission is as below:

Table 128: Segregation ratio for O&M expenses as per AAI's submission

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21*
Employee benefit	98.75%	98.27%	97.94%	97.81%	96.40%
Administrative and other expenses	96.21%	85.48%	73.93%	99.20%	81.61%
Operating expenses	88.36%	87.68%	88.02%	88.14%	89.90%
Repairs and Maintenance	96.51%	97.38%	96.53%	98.38%	96.91%
Finance cost	NA	NA	NA	100.00%	NA

*Up to the date of COD (October 31, 2020)

Details of adjustment to O&M expenses

18.3.5. The study on the basis of the expense classification and principles of segregation adopted, as can be seen in the above paragraphs, has considered re-segregation of Operation and Maintenance expenses to determine Aeronautical O&M costs. The study has proposed the following ratios:

Table 129: Revised segregation ratio for O&M expenses as per the study

Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21*
Employee benefit	91.01%	90.37%	90.99%	88.39%	87.43%
Administrative and other expenses	95.88%	85.03%	73.51%	98.70%	81.19%
Operating expenses	87.42%	86.56%	86.51%	86.59%	87.85%
Repairs and Maintenance	91.27%	92.14%	90.97%	93.52%	92.74%
Finance cost	NA	NA	NA	100.00%	NA

**Up to the date of COD (October 31, 2020)*

18.3.6. Based on the above reclassification and change in allocation ratio, the Study has proposed the revised Aeronautical O&M expenses (prior to rationalisation) for the period FY 2016-17 to COD as summarised in the table below:

Table 130: Aeronautical O&M expenses due to reclassification and change in allocation ratio (prior to rationalisation) for AAI for the period from FY 2016-17 to COD as per Study

(₹ Crores)

O&M expenses	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21*	Total
Employee benefit	10.93	15.68	19.40	19.80	10.43	**76.24**
Administrative and other expenses	14.66	16.98	15.76	15.95	9.80	**73.15**
Operating expenses	8.34	11.66	12.06	12.78	6.00	**50.84**
Repairs and Maintenance	5.75	8.09	7.35	16.16	6.00	**43.35**
Finance cost	0.00	0.00	0.00	0.11	0.00	**0.11**
Total	**39.68**	**52.41**	**54.57**	**64.80**	**32.23**	**243.69**

**Up to the date of COD (October 31, 2020)*

18.3.7. Based on the review of the O&M expenses as per the Airport Operator's submission, adjustments were made in the Manpower expenses with respect to staff deputed by AAI, rectification of the Employee Head Count ratio considered by the Airport Operator and adjustment for Utility expenses. Pursuant to such adjustments and reclassifications, the revised Aeronautical O&M expenses for the period from COD to March 31, 2021, as summarised in the table below:

Table 131: Aeronautical O&M expenses for the Airport Operator for the period from COD to March 31, 2021, proposed by Study

(₹ Crores)

Particulars	October 31, 2020 to March 31, 2021
Manpower expenses	9.67
Utility expenses	3.89
IT expenses	1.67

Particulars	October 31, 2020 to March 31, 2021
Security expenses	0.86
Allocation of Corporate expenses	2.20
Administration and General expenses	2.00
Insurance expenses	0.31
Repairs and Maintenance expenses	3.40
Bank charges	0.41
Other expenses	2.39
Total	**26.80**

Rationalisation of O&M expenses

18.3.8. Based on the Internal Benchmarking analysis, it was observed that the Operation and Maintenance expenses for Mangaluru International Airport for the period from FY 2016-17 to FY 2020-21 are higher than normal operating efficiency levels, in respect of Repairs and maintenance expenses and CHQ/RHQ allocations of the corporate overheads included in Administrative and other expenses.

18.3.9. It is proposed to rationalise such expenses to determine the efficient Aeronautical O&M expenses for the period from FY 2016-17 to FY 2020-21.

Efficient Aeronautical O&M expenses

18.3.10.Based on the above, the efficient Aeronautical operating and maintenance expenses for AAI and the Airport Operator is given in the tables below:

Table 132: Efficient Aeronautical O&M expenses for AAI for the period from FY 2016-17 to COD after rationalisation as per Study

(₹ Crores)

Aeronautical O&M expenses	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21*	Total
Employee benefit expenses	10.93	15.68	19.40	19.80	10.43	**76.24**
Administrative and other expenses	10.93	12.30	10.60	10.47	2.68	**46.98**
Operating expenses	8.34	11.66	12.06	12.78	6.00	**50.84**
Repairs and maintenance expenses	4.45	6.09	5.76	13.40	4.54	**34.24**
Finance cost	0.00	0.00	0.00	0.11	0.00	**0.11**
Total	**34.65**	**45.73**	**47.82**	**56.56**	**23.65**	**208.41**

** Up to the date of COD (October 31, 2020)*

Table 133: Efficient Aeronautical O&M expenses for the Airport Operator for the period from COD to March 31, 2021 after rationalisation as per Study

(₹ Crores)

Aeronautical O&M expenses	FY 2020-21*
Manpower expenses	9.67
Utility expenses	3.89

Aeronautical O&M expenses	FY 2020-21*
IT expenses	1.67
Security expenses	0.86
Allocation of Corporate expenses	2.20
Administration and General expenses	2.00
Insurance expenses	0.31
Repairs and Maintenance expenses	3.14
Bank charges	0.41
Other expenses	2.39
Total	**26.54**

* *For the period from COD to March 31, 2021*

18.3.11. AAI had claimed Aeronautical O&M expenses of ₹ 254.19 Crores for the period from FY 2016-17 to COD as part of their True up submission and the Airport Operator had claimed Aeronautical O&M expenses of ₹ 27.00 Crores as part of their True up submission for the period from COD to March 31, 2021.

18.3.12. The Study proposes ₹ 208.41 Crores as the Aeronautical O&M expenses for AAI for the period from FY 2016-17 to COD, thus, resulting in a downward adjustment of ₹ 45.78 Crores in the Aeronautical O&M expenses. The Aeronautical O&M expenses for the period from FY 2016-17 to COD is reduced by 18.01%.

18.3.13. The Study proposes ₹ 26.54 Crores as the Aeronautical O&M expenses for the Airport Operator for the period from COD to March 31, 2021, thus, resulting in a downward adjustment of ₹ 0.46 Crores for the Airport Operator. The Aeronautical O&M expenses for the period from COD to March 31, 2021 is reduced by 1.70%.

18.4 Annexure 4 – Clauses of the Concession Agreement entered between AAI and Airport Operator

18.4.1. The Airports Authority of India (AAI) entered into a Concession Agreement with Mangaluru International Airport Limited (Airport Operator) on February 14, 2020 for the Operation, Development, Maintenance and Management of Mangaluru International Airport for a period of 50 years from the Commercial Operation Date (COD) i.e., October 31, 2020 in accordance with the terms and conditions mentioned in the Concession Agreement.

18.4.2. The relevant Clause of the Concession Agreement may be read as under:

3.1.1. "Subject to and in accordance with the provisions of this Agreement, Applicable Laws and the Applicable Permits, the Authority hereby grants to the Concessionaire, the concession set forth

herein including the exclusive right, lease and authority to operate, manage and develop

*the Airport ("**Concession**") for a period of 50 (fifty) years commencing from the COD, and*

the Concessionaire hereby accepts the Concession and agrees to implement the Project

subject to and in accordance with the terms and conditions set forth herein".

3.1.2. Subject to and in accordance with the provisions of this Agreement, the Authority, Applicable Laws and the Applicable Permits, the Concession hereby granted shall oblige or

entitle (as the case may be) the Concessionaire to:

(a) *the Right of Way, access and lease to the Site for the purpose of and to the extent conferred by the provisions of this Agreement.*

(b) *finance the development and expansion of the Airport.*

(c) *operate, maintain and manage the Airport and regulate the use thereof by third parties.*

(d) *demand, collect and appropriate Fee from Users liable for payment of Fee for using the Airport or any part thereof and refuse entry of any such User if the Fee due is not paid.*

(e) *perform and fulfil all of the Concessionaire's obligations under and in accordance with this Agreement.*

(f) *save as otherwise expressly provided in this Agreement, bear and pay all costs, expenses, Taxes and charges in connection with or incidental to the performance of theobligations of the Concessionaire under this Agreement; and*

(g) *neither assign, transfer or create any lien or encumbrance on this Agreement, or the Concession hereby granted or on the whole or any part of the Airport nor trans fer, orpart possession thereof, save and except as expressly permitted by this Agreement or the Substitution Agreement.*

*27.1.1. Subject to Clause 27.3, the Concessionaire agrees to pay to the Authority, during the Concession Period, a monthly concession fee calculated as follows (the "**Monthly Concession Fee**"):*

Per Passenger Fee for International Passengers	x	*International Passenger Throughput for that month*	+	*Per Passenger Fee for Domestic Passengers*	x	*Domestic Passenger Throughput for that month*

Where:

*"**Per Passenger Fee for Domestic Passengers**" means Rs. 115 (Rupees One Hundred and Fifteen), as may be revised pursuant to Clause 27.3;*

*"**Per Passenger Fee for International Passengers**" means 2 (two) times the Per Passenger Fee for Domestic Passengers;*

*"**Domestic Passenger Throughput**" for any month shall mean the total domestic Passenger Traffic (embarking and disembarking passengers) as provided by the Authority by the 7th (seventh) day of the subsequent month in the form and manner as may be specified by the Authority from time to time.*

*"**International Passenger Throughput**" for any month shall mean the total International Passenger Traffic (embarking and disembarking passengers) as provided by the Authority by the 7th (seventh) day of the subsequent month in the form and manner as may be specified by the Authority from time to time.*

Provided further that, in the first and that last month of the Concession Period, the International Passenger Throughput and Domestic Passenger Throughput shall be pro-rated by the number of the days in such months as reckoned with respect to the COD or Transfer Date, as relevant.

27.1.2. The Monthly Concession Fee paid/ payable by the Concessionaire to the Authority under and pursuant to the terms of this Agreement shall not be included as a part of costs for provision of Aeronautical Services and no pass-through would be available in relation to the same.

*20.1.1 The Concessionaire acknowledges and agrees that only the Designated GOI Agencies are authorised to undertake the following services (**"Reserved Services"**) at the Airport:*

(a) CNS/ATM Services;

(b) security services;

(c) meteorological services;

(d) mandatory health services;

(e) customs control;

(f) immigration services;

(g) quarantine services;

(h) any other services, as may be notified by GOI;

Provided that, subject to the Applicable Laws and the Applicable Permits, nothing in this

Agreement shall restrict the Authority from requiring the Concessionaire to undertake any or all of the Reserved Services on such terms and conditions as may be mutually agreed between the Parties.

18.4.3. The relevant portion of Schedule T which pertains to the list of capital expenditure contracts already awarded by AAI and handed over to the Airport Operator and Schedule U which pertains to the list of capital expenditure projects proposed / planned by AAI but not yet awarded and forming part of the terms of the Concession Agreement are given below:

SCHEDULE T

EXISTING CONTRACTS

List of capital expenditure already awarded:

S. No	Name of Work/Scheme planned	Contractor Name /Address	Estimate Cost (Crores)	Awarded Value (Crores)	Date of Start	Stipulated date of Completion	Likely Physical Progress up till 30th June 2019	Likely Financial Progress up till 30th June 2019
	CIVIL							
1	Providing and fixing Sun Control film for NITB side glasses at Mangaluru International Airport. S/H: Providing and fixing Sun Control film and Graphic film	M/s Balaji Associates, Bengaluru	0.64	0.51	14-12-2017	30-11-2018	100%	0.60
2	C/o CISF family accommodation renamed as 'C/oCISF Barracks at Mangaluru International Airport'	M/s A.L.Pinto & Brothers, Airport Road, Bajpe.	2.40	2.03	26-12-2017	25-12-2018	100%	2.25
3	Construction of Link Parallel Taxi Track (Phase-II) and Grading of Basic Strip at South Side at Mangaluru International Airport	M/s PBI Construction Company, Bunder Road, Bhatkal, U.K. Karnataka	114.47	97.71	19-02-2017	18-08-2019	60%	60.00
4	Modification / Expansion of existing Integrated Terminal Building at Mangaluru International Airport	M/s Harsh Constructions, Nashik, Maharashtra	132.24	95.80	19-04-2018	18-04-2020	33%	30.00
5	Face lift works in NITB & minor expansion ofDomestic SHA	M/s Harsh Constructions, Nashik, Maharashtra	4.86	4.35	03-08-2018	02-08-2019	70%	3.00
6	Extension of Apron towards East side	M/s Sheela Constructions, Balmatta	6.76	5.37	20-09-2018	19-09-2019	74%	4.00
7	Post Award Project Management Consultancy forsupervision of Modification / Expansion of existing Integrated terminal Building at Mangaluru International Airport	M/s KITCO Ltd., 4407, Femith's PB No. 4407, Puthiya Road, Vennala, Kochi-78	2.15	2.42	15-10-2018	14-06-2020	44%	1.06

S. No	Name of Work/Scheme planned	Contractor Name /Address	Estimate Cost (Crores)	Awarded Value (Crores)	Date of Start	Stipulated date of Completion	Likely Physical Progress up till 30th June 2019	Likely Financial Progress up till 30th June 2019
8	Replacement of ILS system - Civil &Internal Electrical works	M/s Sheela Constructions, Balmatta Road, Mangaluru	0.43	0.32	30-11-2018	30-01-2019	100%	0.32
9	Widening and strengthening of perimeter road	M/s Shaan Enterprises, Kunjathbail, Mangaluru	7.1	4.59	30-11-2018	30-11-2019	58%	2.75
10	Construction of storm water drains in MalavoorVillage on foothills of Mangaluru Airport	Panchayat Raj Engineering Department, Mangaluru	6.75	6.75	15-01-2019	30-07-2019	90%	6.08
11	Providing Artwork	M/s S Cube-Mangalore M/s S.K.Pahari - New	1.17	1.17	15-07-2018	31.01-2019	100%	1.17

S. No	Name of Work/ Scheme planned	Contractor Name / Address	Estimated Cost (Crores)	Awarded Value (Crores)	Date of Start	Stipulated dateof Completion	Likely Physical Progress up till 30th June 2019	Likely Financial Progress up till 30th June 2019
	ELECTRICAL							
1	Extension of Apron Towards East side at Mangaluru Intl. Airport. SH: SITC of Apron Flood lights and allied Electrical works	M/s B/814, 8th Floor, B.G. Tower, Opp. Delhi Gate, Shahibaug Road, Ahmedabad – 380 004.	0.3	0.27	20-10-2018	18-04-2019	100%	0.27
2	Replacement of HPSV fittings of perimeter lighting with LED fittings i/c re-orientation of fittings - Phase-I.	M/s Saraswat Engineer Services,6, Vanarai Complex, W E Highway	0.41	0.34	15-11-2018	14-03-2019	100%	0.34
3	Replacement of ceiling fans in AAI Residential Colony	M/s Guru Electricals, Shop No.2-96(6), Church Building, Bajpe, Mangaluru- 574 142.	0.05	0.04	15-11-2018	16-02-2019	100%	0.04
4	Provision of additional remote control desk	M/s Nasu Systems, 503-A, 'Amrat' Society,	0.04	0.04	26-04-2018	30-11-2018	100%	0.04
5	Provision of 3 Nos. of additional check in counters for Departure Baggage Handling system at Mangaluru International Airport. SH: Supply of Conveyor System.	M/s, Pteris Global Ltd., Singapore		0.95	04-08-2018	03-02-2019	100%	0.95
6	Provision of 3 Nos. of additional check in counters for Departure Baggage Handling system at Mangaluru International Airport.	M/s Delite Systems Engineering (I) Pvt. Ltd, 34,'B'wing, Ground Floor, Guru Gobind		0.24	04-08-2018	03-02-2019	100%	0.24
7	Providing Apron Drive Glass walled Passenger Boarding Bridges and Advanced	M/s ADELTE Airport, Technologies, SLV, No.1Calle Buenos Aires,		1.6	01-07-2016	31-01-2019	100%	1.60

S. No	Name of Work/ Scheme planned	Contractor Name / Address	Estimated Cost (Crores)	Awarded Value (Crores)	Date of Start	Stipulated dateof Completion	Likely Physical Progress up till 30th June 2019	Likely Financial Progress up till 30th June 2019
	Visual Docking Guidance System (AVDGS) for Goa, Calicut, Coimbatore, Mangalore, Trichy, Vadodara, Amritsar, Ahmedabad & Trivandrum Airport in India.	Barcelone, Spain						
8	Replacement of ductable AC in NDB and LLZ & Replacement of RO filters and Water Coolers at various locations at Mangalore International Airport	M/s Velocity Aircon, New Delhi	0.13	0.12	22-12-2017	31-10-2018	100%	0.12
9	Replacement of conventional light fittings to LED fittings	M/s Energy Efficiency Service Ltd, (EESL)		0.21	30-07-2018	30-11-2018	100%	0.21
10	Provision of additional cable to NAVAIDS - SH: - Providing standby cables for Glide path at Mangaluru International Airport.	M/s N L Neema, 8/3 North, Rajmohalla, Indore- 452 002.	0.4	0.36	06-09-2018	05-01-2019	100%	0.36

SCHEDULE U

List of Works Proposed by AAI:

S. No	Name of Work/Scheme planned	Line Estimate(cost) of work
ELECT	**MANGALORE AIRPORT**	
1	Converting HT overhead line to underground cabling in AAI colony.	0.08
2	Relocation of Landing 'T' & Windsock.	0.01
3	Provision of additional CCR	0.1
4	Provision of Ladders	0.02
5	Replacement of pumps and rewiring in pump houseat OTB	0.07
6	Provision of standby cable for NATS building fromOTB.	0.46
7	Replacement of AC's water cooler and water dispenser at various locations	0.1
8	Modification of existing threshold cum end light inset fitting at 06 beginning.	0.3
9	Replacement of obsolete kirloskar make 33 KVVCB panel with new VCB panel	0.5
10	Provision of thermal storage system for HVAC plantat NITB	1
12	Work to meet emergency operational and DGCA requirement	0.05
13	Provision of Solar lights for existing CISF hut andnew watch towers	0.1
14	Provision of CAT-I approach lighting system.	2
15	Central Line Light	3
16	Solar Roof Top	2
CIVIL		
15	C/o C&D type quarters (18 Nos) to be renamed as'C/o staff quarters of various categories at Mangaluru International Airport'	
16	'Extension of Runway by 120 m for RESA'	
17	Extension of NITB Departure side	
18	Wall to wall grading at operational area	
19	Extension of existing MT workshop	
20	Rainwater Harvesting works	
20	Providing new Aluminum roof Gutters for NITB	2.52

List of Works that are in planning stage and works cannot be deferred for operational reasons

Sl No	Name of Work/Scheme planned	Line Estimate (cost) of work	Status of obtaining A/A & E/S	Whether workessential for operational requirement	If so commencement to be specified for meeting operational requirement
ELECTRICAL					
1	Converting HT overhead line to underground cabling in AAI colony.	0.08	-	-	Planning stage
2	Relocation of Landing 'T' & Windsock.	0.10	-	-	Planning stage
3	Provision of additional CCR	0.10	-	-	Planning stage
4	Provision of Ladders	0.02	-	-	Planning stage
5	Replacement of pumps and rewiring in pumphouse at OTB	0.07	-	-	Planning stage
6	Provision of standby cable for NATSbuilding from OTB.	0.46	-	-	Planning stage
7	Replacement of AC's water cooler and waterdispenser at various locations	0.10	-	-	Planning stage
8	Modification of existing threshold cum endlight inset fitting at 06 beginning.	0.30	-	-	Planning stage
9	Replacement of obsolete Kirloskar make 33KV VCB panel with new VCB panel	0.50	-	-	Planning stage
10	Provision of thermal storage system forHVAC plant at NITB	1	-	-	Planning stage
12	Work to meet emergency operational andDGCA requirement	0.05	-	-	Planning stage
13	Provision of Solar lights for existing CISFhut and new watch towers	0.1	-	-	Planning stage
14	Provision of CAT-I approach lighting system.	2	-	-	Planning stage
15	Central Line Light	3			Planning stage
16	Solar Roof Top	2			Planning stage
CIVIL					
15	C/o C&D type quarters (18 Nos) to be renamed as 'C/o staff quarters of variouscategories at Mangaluru International Airport'				Planning stage
16	'Extension of Runway by 120 m for RESA'				Planning stage
17	Extension of NITB Departure side				Planning stage
18	Wall to wall grading at operational area				Planning stage
19	Extension of existing MT workshop				Planning stage
20	Rainwater Harvesting works				Planning stage
20	Providing new Aluminum roof Gutters forNITB	2.52			Planning stage

18.4.4. **Carved-out Area** - Annexure IV of Schedule A to the Concession Agreement provides details of the carved-out area for Cargo Terminal.

Annex IV

(Schedule A)

(See Clause 10.1)

Carved Out Assets and Areas

It is clarified that the Site and Project Assets shall not include the following:

Sl No.	ASSET		AREA OF LAND IN SQ.M. (Approx.)
1.	ATC TOWER		2258 Sq.m. (0.56 Acres)
2.	CARGO TERMINAL		
	a)	Existing Domestic	2,785.059 Sq.m.
	b)	Existing International	1,813.52 Sq.m.
	c)	Proposed ICT Complex	11,000 Sq.m.
		Total	15,598.58 Sq.m. (3.85 Acres)
4.	ANY FUTURE LAND REQUIREMENT FOR CNS/ATM/STAFF QUARTERS		
	a)	Land for ASR/MSSR Building at Remote Location	5625 Sq.m. (1.39 Acres)
	b)	Densification of Residential Colony	46834.2 Sq.m. (11.57 Acres)
		Total	52459.2 Sq.m. (12.96 Acres.)
5.	TOTAL		70315.78 Sq.m. (17.37 Acres.)

18.4.5. Clause 19.4.1. of the Concession Agreement relating to obligations of the Airport Operator Towards cargo facilities is reproduced below-

(a) The Concessionaire shall upgrade, develop, operate and maintain the Cargo Facilities in accordance with the provisions of this Agreement, Applicable Laws, Applicable Permits, relevant ICAO Documents and Annexes and Good industry Practice.

(b) Notwithstanding anything to the contrary provided in this Clause 19.4 and Clause 23.5, it is clarified that, where Cargo Facilities have been earmarked for AAICLAS in Schedule A (i) the Concessionaire will not be responsible for operations, development, maintenance and management thereof, nor shall the Concessionaire be bound by the obligations set out elsewhere in this Clause 19.4; and (ii) AAICLAS shall be granted access to the airside by the Concessionaire free of cost.

(c) It is further clarified that, where Cargo Facilities have been earmarked for AAICLAS in Schedule A, there shall be no restriction on the upgradation and/ or development of Cargo Facilities by the Concessionaire, including on grounds of quantum of cargo volumes at the Airport, business potential or impact of such additional facilities on Cargo Facilities earmarked for AAICLAS.

18.4.6. Clause 19.2. relating to Airport Operator's obligation towards Ground Handling Services is given below:

The Concessionaire shall provide or cause to be provided as per Applicable Laws and Good Industry Practice, at its own cost and expense, the infrastructure required for operation of the ground handling services required at the Airport for and in respect of the Users, like aircrafts, passengers and cargo, which shall include ramp handling, traffic handling, aircraft handling, aircraft cleaning, loading and unloading (**"Ground Handling Services"**). Such infrastructure shall include luggage conveyor belts, computer terminals, information technology backbone and associated facilities in accordance with the provisions of this Agreement, Applicable Laws and Good Industry Practice.

18.4.7. The Clause 19.3. of the Concession Agreement mentions the Airport Operator's obligations towards providing aircraft fueling services, which has been reproduced below:

"The Concessionaire shall provide, or cause to be provided, the infrastructure required for operation of fuelling services on equal access basis for all the aircrafts at the Airport in a transparent and non-discriminatory manner. Such infrastructure shall include tank farms and associated facilities in accordance with the provisions of this Agreement, Applicable Laws and Good Industry Practice."

18.4.8. As per the Concession Agreement, the Estimated Deemed Initial RAB as on March 31, 2018, was determined to be ₹ 71 Crores, which was due and payable by the Concessionaire to AAI. The terms of the Concession Agreement also provide for the value of ₹ 71 Crores to be subject to reconcifiation, True up and final determination by AERA. The extract of the relevant clauses from the Concession Agreement shall be read as under:

Clause 28.11.3 states that:

a. *It is agreed by the Parties that the Concessionaire shall be liable to pay to the Authority an amount equivalent to the investments made by the Authority in the Aeronautical assets as of the COD and considered by the Regulator as part of the Regulatory Asset Base, subject to requisite reconciliation, true-up and final determination by the Regulator of the quantum of such investment **("Deemed Initial RAB").***
b. *The estimated depreciated value of investments made by the Authority in the Aeronautical assets at the Airport as on March 31, 2018, is Rs. 71,00,00,000 (Rupees Seventy-One Crore) **("Estimated Deemed Initial RAB").** It is agreed by the Parties that the Estimated Deemed Initial RAB shall be due and payable by the Concessionaire to the Authority within 90 (ninety) days of COD.*

Clause 28.11.4 states that:

Pursuant to the payment of the Estimated Deemed Initial RAB, and upon the reconciliation, true-up and final determination by the Regulator of the quantum of the investment under 28.11.3(a). any surplus or deficit in the Estimated Deemed Initial RAB with respect to the Deemed Initial RAB shall be adjusted as part of the Balancing Payment that becomes due and payable as per Clause 31.4 after the expiry of 15 (fifteen) days from such final determination by the Regulator, with due adjustment for the following ("Adjusted Deemed Initial RAB'"):

a) reduced to the extent of over-recoveries, if any, of Aeronautical Revenues by the Authority until the COD, that the Regulator would provide for as a downward adjustment while determining Aeronautical Charges for the next Control Period; or
b) increased to the extent of under-recoveries, if any, of Aeronautical Revenues by the Authority

until the COD, that the Regulator would provide for as an upward adjustment while determining Aeronautical Charges for the next Control Period.

The amount(s) to be paid by the Authority or Concessionaire shall be the present value of Adjusted Deemed Initial RAB calculated using the fair rate of return as determined by the Regulator for the time period from the COD to the date of actual payment of the Adjusted Deemed Initial RAB.

Clause 28.11.5 states that:

Upon reimbursement of such amount by the Concessionaire to the Authority, the Deemed Initial RAB will, in addition to the investments made by the Concessionaire, be considered for the purpose of determination of Aeronautical Charges by the Regulator.

f) The Authority undertakes to make any required supporting submissions to the Regulator towards such consideration and determination by the Regulator.

g) The Parties shall submit to and request the Regulator to separately identify the Deemed Initial RAB in future determinations of Aeronautical Charges with regard to consideration of depreciation, required returns, etc.

18.4.9. Clause 5.1.1 of the Concession Agreement which states *that "Subject to and on the terms and conditions of this Agreement, the Concessionaire shall, at its own cost and expense, procure finance for and undertake the operations, management and development of the Airport, in accordance with the provisions of the Applicable Permits, Applicable Laws, this Agreement and observe, fulfil, comply with and perform all its obligations set out in this Agreement or arising hereunder".*

18.4.10. The relevant clause (6.4.5.) of the Concession Agreement relating to the Airport Operator's obligation regarding CWIP handed-over by AAI as on COD and as set forth in Schedule T, has been reproduced below-

"Notwithstanding anything to the contrary in this Clause 6.4, the Concessionaire shall be liable to pay to the Authority such amounts as may have been incurred by the Authority as on the COD in respect of the contracts relating to works-in-progress as have been set forth in Schedule T. Such amounts shall be intimated by the Authority with supporting documents and details within 30 (thirty) days of COD and shall be due and payable by the Concessionaire the Authority within a period of 90 (ninety) daysthereon.

The Parties shall constitute a committee comprising representatives of the Concessionaire, Authority and each of the counterparties under such contracts, whichcommittee shall be responsible for: (a) facilitating any discussions and/ or interactions amongst AAI, the Concessionaire and the counterparties under such contracts, including in respect of any modifications to the works and (b) coordinating, facilitating, and monitoring the progress of such works-in-progress. The Concessionaire shall be responsible to incur any additional cost towards completion ofsuch work-in-progress assets after COD.

Upon reimbursement by the Concessionaire to the Authority, of amounts as may havebeen incurred by the Authority as on the COD for such work-in-progress assets as provided for above, and completion of such works-in-progress by the Concessionaire, such works-in-progress assets shall form part of the Airport.

The amounts reimbursed by the Concessionaire to the Authority and additional amounts incurred by the Concessionaire for completion of such work-in-progress assets shall be considered as investments made by the Concessionaire in creation of such assets for the purpose of determination of Aeronautical Charges by the Regulator. In the event that any part *of the amounts reimbursed by the Concessionaire to the Authority pursuant to this Clause 6.4.5 are not considered for pass-through by the Regulator due to any act or omission on the part of the Authority, the adjustment towards any differences in the amounts reimbursed by the Concessionaire to the Authority and the amounts considered for pass-through by the Regulator shall be undertaken as part of the Balancing Payment that becomes due and payable as per Clause 31.4 immediately after the determination of the Aeronautical Charges by the Regulator."*

18.4.11. The relevant clause 4.1.3. (h) of the Concession Agreement relating to the Airport Operator's obligation regarding Conditions Precedent required to be satisfied within 180 days of the agreement relating to works proposed by AAI and as set forth in Schedule U, has been reproduced below-

Except as may have been specifically otherwise provided in this Agreement, the Conditions Precedent required to be satisfied by the Concessionaire within a period of 180 (one hundred and eighty) days from the date of this Agreement shall be deemed to have been fulfilled, when the Concessionaire shall, subject to the satisfaction of the Authority, have -

(h) delivered to the Authority –

(a) a list of Construction works it proposes to undertake in the first 7 (seven) Concession years having due regard to the works:

a. Currently being implemented by the Authority; and

b. Proposed to be implemented by the Authority as on the date of signing the Agreement and (as set forth in Schedule U),

(b) the scheduled date for completion of such Construction works.

18.4.12. The relevant Clauses relating to the Independent Engineer's appointment, duties & functions and remuneration are reproduced below:

Clause 24.1 Appointment of Independent Engineer

24.1.1 *The Authority (AAI) and the Concessionaire shall appoint a consulting engineering firm substantially in accordance with the selection criteria set forth in Schedule K, to be the independent consultant under this Agreement **("Independent Engineer").** The Independent Engineer shall be appointed in accordance with the provisions of Schedule K.*

24.1.2 *The appointment of the Independent Engineer shall be made within 90 (ninety) days of the date of execution of this Agreement, and such appointment shall be valid for a period of 3 (three) years. On the expiry or termination of the said appointment, the Authority shall appoint an Independent Engineer for a further term of3 (three) years in accordance with the provisions of Schedule K, and such procedure shall be repeated after expiry of each appointment.*

Clause 24.2. Duties and Functions

24.1.3 *The Independent Engineer shall discharge its duties and functions substantially in accordance with the terms of reference set forth in Schedule L.*

24.1.4 *The Independent Engineer shall submit regular periodic reports (at least once every* *month) to the Authority in respect of its duties and functions set forth in Schedule L.*

24.1.5 *A true copy of all communications sent by the Authority to the Independent Engineer and by the Independent Engineer to the Authority shall be sent forthwith by the Independent Engineer to the Concessionaire.*

24.1.6 *All communications required to be sent by the Independent Engineer to the Concessionaire shall be undertaken through the Authority.*

Clause 24.3 Remuneration

24.1.7 *The remuneration, cost and expenses of the Independent Engineer shall be paid by the Authority, and all such remuneration, cost and expenses shall be reimbursed by the Concessionaire to the Authority within 15 (fifteen) days of receiving a statement of expenditure from the Authority. Any amounts paid to the Independent Engineer shall be considered for a pass-through for the determination of the Aeronautical Charges by the Regulator.*

18.4.13. The relevant Paras relating to Role and functions of the Independent Engineer as stated in Schedule L of the Concession Agreement are reproduced below:

1. Role and functions of the Independent Engineer

3.1 The role and functions of the Independent Engineer shall include the following:

(a) review of the designs, drawings, and documents as set forth in Paragraph 4.

(b) review, inspection and monitoring of Construction Works as set forth in Paragraph 4.

(c) reviewing and witnessing the Tests on completion of construction and assisting the Authority in issuing Completion Certificate/ provisional certificate as set forth in Paragraph 4.

(d) review, inspection and monitoring of O&M as set forth in Paragraph 5.

(e) review, inspection and monitoring of Divestment Requirements as set forth in Paragraph 6.

(f) determining, as required under the Agreement, the costs of any works or services and/or their reasonableness.

(g) determining, as required under the Agreement, the period or any extension thereof, for performing any duty or obligation.

(h) assisting the Parties in resolution of Disputes as set forth in Paragraph 8.

(i) undertaking all other duties and functions in accordance with the Agreement; and

(j) assisting the Concessionaire in determining the Scheduled Completion Dates and Phase Milestones.

3.2 The Independent Engineer shall discharge its duties in a fair, impartial and efficient manner, consistent with the highest standards of professional integrity and Good Industry Practice.

18.5 Annexure 5 – Project wise details of Capital expenditure submitted by the AO in the revised MYTP as on December 10, 2021

(₹ Crores)

S. No	Capital Expenditure Project	Financial Year of Commissioning	Project cost (*includes design, PMC, Pre- operative expenses etc*)	Financing allowance (FA)	Total Capex (incl. FA)
A.	**Projects initiated in Pre-COD Period and proposed to be executed in First Control Period along with Enabling Capital Projects integral to completion of the mandated Projects**				
A1.	**Runways, Taxiway & Aprons**				
	Joint Filling work at Runway / taxiway	2021-22	1.25	0.74	1.99
	Construction of Link Parallel taxi track (Phase II) and Grading of basic strip at south side	2022-23	119.55	2.70	122.25
A2.	**Terminal Building**				
	Expansion / modification of Existing Terminal Building on its western side (arrival side)	2021-22	109.83	-	109.83
	Post Award Project Management Consultancy for supervision of Expansion / Modification of Existing Integrated Terminal Building	2021-22	3.45	-	3.45
	Buildings- Financial Allowance	2021-22	-	5.64	5.64
	Plant and Machinery (enabling capital project)				
	Expansion of Baggage Conveyor	2021-22	7.86	-	7.86
	Substation equipment	2021-22	2.03	-	2.03
	Lift & Travellator	2021-22	1.58	-	1.58
	PA system	2021-22	0.90	-	0.9
	Engineering Consultancy	2021-22	0.83	-	0.83
	VDGS	2022-23	1.98	-	1.98
	Expansion of Passenger Boarding Bridge	2022-23	7.41	-	7.41
	Plant & Machinery – Financial Allowance	2021-22	-	0.11	0.11
	Information Technology (IT) works (enabling capital project)				
	Work related to IT for NITB	2021-22	9.86	-	9.86
	Facelift work for NITB	2021-22	0.16	-	0.16
	Aluminium Roof Gutter for NITB	2021-22	0.02	-	0.02
	SITC of RC CCTV	2021-22	0.68	-	0.68
	Flight Information Display System	2021-22	1.21	-	1.21
	Network & Pen Tablet	2021-22	1.31	-	1.31
	Supply of Bullet Proof Helmet	2021-22	0.01	-	0.01
	Electrical Materials	2021-22	0.02	-	0.02
	Information Technology (IT) works – Financing allowance		-	0.26	0.26
A3.	**Roads** Widening and strengthening of existing perimeter road	2021-22	4.36	-	4.36

S. No	Capital Expenditure Project	Financial Year of Commissioning	Project cost (*includes design, PMC, Pre- operative expenses etc*)	Financing allowance (FA)	Total Capex (incl. FA)
Total Capex initiated in the Pre-COD Period and mandated to be executed in the First Control Period along with Enabling Capital Projects (A)			**274.30**	**9.45**	**283.75**
B.	**New Capital expenditure proposed for the First Control Period**				
B1.	**Runways, Taxiway & Aprons**				
	Miscellaneous Airside improvement works- threshold lights, AGL cable, LED lights, illuminated guidance signages, infrastructure for GHA, etc	2021-22	21.12	12.57	33.69
	Runway recarpeting	2022-23	52.00		52.00
	Centre-lighting	2022-23	37.65		37.65
	Construction of new taxiway	2022-23	66.53		66.53
	Construction of new portion RESA	2022-23	17.16		17.16
	Apron improvement works	2022-23	1.80	4.38	6.18
	Miscellaneous Airside improvement works- demolition of existing structures for construction of new Runway End Safety Area (RESA) and new Taxiway, airside canteen, taxiway improvement works, Navaids etc	2022-23	19.04		19.04
	Miscellaneous Airside improvement works-LED lights for NATS Building and exit road, illuminated guidance signages etc.	2023-24	0.92	0.05	0.97
	Apron improvement works	2024-25	0.56	0.26	0.82
		2025-26	5.96	0.20	8.66
	Miscellaneous Airside improvement works- airside canteen, taxiway improvement works, Navaid, bomb cooling pit etc	2025-26	2.50		
B2.	**Terminal Building**				
	Modification / Expansion of existing Terminal Building	2022-23	93.39	2.25	102.37
	Miscellaneous works / interiors / finishes / kerbside of existing Terminal	2022-23	6.72		
	Miscellaneous works / interiors / finishes / kerbside of existing Terminal	2023-24	7.38	-	7.38
		2024-25	4.52	-	4.52
B3.	**Cargo assets**				
	Financing allowance – Cargo Buildings	2021-22	-	0.08	0.08
	Cargo Buildings (new integrated Cargo Terminal)	2022-23	14.46	0.08	19.61
	Cargo equipment	2022-23	5.07		
B4.	**Fuel Facility**				
	Purchase of assets of existing Oil Marketing Companies (OMC)	2021-22	10.00	-	10.00
	Building of new assets for Open Access Fuel Facility operations	2022-23	12.73	-	12.73

S. No	Capital Expenditure Project	Financial Year of Commissioning	Project cost (*includes design, PMC, Pre- operative expenses etc*)	Financing allowance (FA)	Total Capex (incl. FA)
B5.	**Security equipment**				
		2022-23	3.73	-	3.73
	Equipment for ARFF – runway mechanical sweeper, rubber removal and other equipment	2023-24	4.10	-	4.10
		2024-25	2.51	-	2.51
B6.	**Plant and Machinery**				
	Miscellaneous items - Trilo for grass cutting, fire water tanker, call tree eqpt, Police outpost, anti-hijack room, Power reticulation from SS to new infrastructures	2021-22	6.25	0.05	6.30
	Shifting of Navaid systems	2022-23	2.20	-	2.20
	Bomb Detection and Disposal Equipment (BDDS)	2022-23	4.48	-	4.48
	Miscellaneous items - Trilo for grass cutting, fire water tanker, call tree eqpt, Police outpost, anti-hijack room, Power reticulation from SS to new infrastructures	2022-23	1.99	-	1.99
	Bomb Detection and Disposal Equipment (BDDS)	2023-24	4.92	0.08	7.19
	Miscellaneous items - Trilo for grass cutting, fire water tanker, call tree eqpt, Police outpost, anti-hijack room, Power reticulation from SS to new infrastructures	2023-24	2.19		
	Bomb Detection and Disposal Squad (BDDS)	2024-25	3.02	0.59	4.95
	Miscellaneous items - Trilo for grass cutting, fire water tanker, call tree eqpt, Police outpost, anti-hijack room, Power reticulation from SS to new infrastructures	2024-25	1.34		
	Electrical Sub-station equipment	2025-26	5.21	0.51	23.05
	Triturator	2025-26	6.82		
	Water tank, STP and storage tank, Pump house Building	2025-26	6.13		
	Landside utilities - Landscaping and irrigation systems, Fuel station and Landside utilities – STP and storage tanks, Pumphouse Buildings	2025-26	4.38		
B7.	**Roads**				
	Road entry and exit – improvement works	2021-22	12.67	0.01	12.68
	Financing allowance - Roads	2022-23	-	0.31	0.31
	Financing allowance - Roads	2023-24	-	1.51	1.51
	Vehicle Access roadway and related works – on landside of existing Terminal Building	2025-26	32.44	1.20	48.73

S. No	Capital Expenditure Project	Financial Year of Commissioning	Project cost (*includes design, PMC, Pre- operative expenses etc*)	Financing allowance (FA)	Total Capex (incl. FA)
	Miscellaneous works – earth work, construction of temporary roads, retaining walls, temporary barricading, sign board etc	2025-26	15.09		
B8.	**Boundary walls**				
	Construction of boundary wall	2021-22	12.67	-	12,67
	Financing allowance – Boundary wall	2023-24	-	0.01	0.01
	Financing allowance – Boundary wall	2024-25	-	0.07	0.07
	Airside boundary wall	2021-22	2.17	0.06	2.23
B9.	**Information Technology (IT)**				
		2021-22	0.03	-	0.03
	IT Infrastructure, AOCC, Command Post and various other systems	2022-23	3.82	-	3.82
		2023-24	4.19	-	4.19
		2024-25	2.57	-	2.57
B10.	**Other Associated Works**				
	Storm water	2021-22	7.92	-	7.92
	Water disposal and supply	2021-22	9.50	-	9.50
	Miscellaneous works - others	2022-23	0.27	-	0.27
		2023-24	0.29	0.16	0.45
		2024-25	0.18	0.71	1.05
	Airside security gate	2025-26	4.69		
	Rainwater Harvesting	2025-26	10.77		
	Water tank	2025-26	2.16		
	Miscellaneous works - Into Plane facility, Hazardous Waste Storage, Nursery plot, various enabling activities and other miscellaneous works	2025-26	11.71	0.71	30.05
New Capital expenditure proposed for the First Control Period (B)			**571.92**	**26.00**	**597.92**
GRAND TOTAL (A+B)			**846.22**	**35.45**	**881.67**

19. APPENDICES

Appendix I - Study on Allocation of assets between Aeronautical and Non-Aeronautical Assets

Appendix II - Study on efficient Operation and Maintenance Expenses

Appendix III – Schematic Design Report from KITCO on Design Consultancy services for Airside Improvement Works at Mangaluru International Airport submitted by the Airport Operator

Appendix IV – Brief Note on independent study on allocation of Corporate costs submitted by the Airport Operator