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Order No. 13/2016-17

सत्यमेव जयते

Airports Economic Regulatory Authority of India

Determination of Aeronautical Tariffs in respect of Chhatrapati Shivaji International Airport, Mumbai, for the Second Control Period (1.04.2014 – 31.03.2019)

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भारतीय विमानपत्तन आर्थिक विनियामक प्राधिकरण
Airports Economic Regulatory Authority of India
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1. Introduction and Brief Facts

1.1. The Consortium led by the GVK Group was awarded the bid for operating, maintaining, developing, designing, constructing, upgrading, modernising, financing and managing the Chhatrapati Shivaji International (CSI) Airport at Mumbai. Post selection of the private consortium, a special purpose vehicle, namely Mumbai International Airport Private Limited (MIAL), was incorporated on 02.03.2006 with AAI retaining 26% equity stake and balance 74% equity stake being acquired by members of consortia.

1.2. The GVK consortia comprised GVK Airport Holding Pvt Ltd, ACSA Global Limited and Bid Services Division (Mauritius) Ltd. On 04.04.2006, MIAL signed the Operation, Management and Development Agreement (OMDA) with AAI, whereby the AAI granted to MIAL the exclusive right and authority during the term to undertake some of the functions of AAI being the functions of operations, maintenance and development of the CSI Airport and to perform services and activities constituting aeronautical services and non-aeronautical services excluding Reserved activities, defined in OMDA at the airport. MIAL took over the operations of CSI Airport on 03.05.2006. The OMDA has a term of 30 years wherein MIAL has been granted the right to extend the agreement for a further period of 30 years subject to its satisfactory performance under the various provisions governing the arrangement between MIAL and AAI.

1.3. Provisions regarding "Tariff and Regulation" have been made in Chapter XII of OMDA and principles of tariff determination are further detailed out in the Schedule 1 read with clause 3.1 of the State Support Agreement (SSA) which is a part of OMDA.

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

1.4.1. To determine the tariff for the aeronautical services;

1.4.2. To determine the amount of the development fees in respect of major airports;

1.4.3. To determine the amount of the passenger service fee levied under rule 88 of the Aircraft Rules, 1937 made under Aircraft Act, 1934;

1.4.4. 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;

1.4.5. To call for such information as may be necessary to determine the tariff under clause 13 (1) (a)

1.4.6. 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 this Act.

1.5. Further to the functions to be performed by the Authority, the AERA Act 2008 also provides policy guidance on the factors, which are to be considered by the Authority in performing these functions. As per section 13 (1) (a) of the AERA Act, the legislature requires the Authority to determine tariff for the aeronautical services taking into consideration the following factors:

1.5.1. The capital expenditure incurred and timely investment in improvement of airport facilities;

1.5.2. The service provided, its quality and other relevant factors;

1.5.3. The cost for improving efficiency;

1.5.4. Economic and viable operation of major airports;

1.5.5. Revenue received from services other than the aeronautical services;

1.5.6. Concession offered by the Central Government in any agreement or memorandum of understanding or otherwise;

1.5.7. Any other factor which may be relevant for the purposes of the Act

1.6. As per Section 13 (1) (a) of the Act, the Authority is to determine the tariff for the aeronautical services taking into consideration, inter-alia, *"(vi) the concession offered by the Central Government in any agreement or memorandum of understanding or otherwise".* In so far as CSI Airport, Mumbai is concerned, the principles of tariff fixation and mechanism thereof have been laid down in clause 3.1 read with Schedule 1 of the SSA.

1.7. The Authority vide its Order No. 13/2010-11 dated 12.01.2011 (Airport Order) had laid down the overall approach which it would adopt for regulation of aeronautical services provided by the Airport Operators. Subsequently, after appropriate stakeholder consultations, the Authority finalized its Airport Guidelines, which was issued on 28.02.2011. In para 1.4 of these Guidelines contain provisions with respect to Indira Gandhi International Airport, New Delhi and Chhatrapati Shivaji International Airport, Mumbai as under,

> *"These Guidelines shall be applicable to the Indira Gandhi International Airport, New Delhi, Chhatrapati Shivaji International Airport, Mumbai and the Civil Enclaves at Goa and Pune in such form and manner as the Authority may by a separate order determine."*

1.8. At the time of the 1st Control Period (namely from 01.04.2009 to 31.03.2014) the Authority had examined the tariff proposal submitted by MIAL in respect of the revision of aeronautical tariffs at the CSI Airport, Mumbai. The Authority's examination and decisions regarding each building block were incorporated in its Order No. 32/2012-13 dated 15.01.2013 (subsequently referred to as MIAL Tariff Order No. 32 /2012-13 in this document).

1.9. The Authority also issued the following Orders in respect of Development Fee (DF) to be levied at CSI Airport, Mumbai:

1.9.1. Order no. 29 / 2012-13 dated 21.12.2012 in the matter of levy of Development Fee by Mumbai International Airport (P) Ltd. (MIAL) at CSI Airport, Mumbai.

1.9.2. Order No. 46/2015-16 dated 28.01.2016 in the matter of levy of DF in respect of the Metro Connectivity Project for CSIA, Mumbai.

1.10. MIAL submitted a proposal for revision of tariffs for aeronautical services at CSI Airport, Mumbai, for the Authority's consideration and approval for the 2nd Control Period starting 01.04.2014 (01.04.2014 to 31.03.2019) via its Multi-Year Tariff Proposal (MYTP) dated 26.12.2013.

1.11. As per its 26.12.2013 MYTP submission, MIAL sought a one-time increase of 68.11% in the X-Factor for determination of aeronautical tariffs in the 1st year of the 2nd Control Period followed by an annual revision equal to CPI inflation of 7.9% in the subsequent years. MIAL subsequently revised its MYTP vide submissions dated 05.08.2014 based on availability of audited financials for FY2013-14 seeking one-time increase of 78.03% in the X-Factor for determination of aeronautical tariffs (for the 5 year tariff period FY2014-15 to 2018-19, and considered tariff revision from 01.11.2014). MIAL submitted its revised MYTP on 08.09.2015 based on availability of audited numbers for FY2014-15, finalization of certain commercial contracts in respect of new T2, and revision in cost of capex planned during the 2nd Control Period as detailed in MIAL Letter No. MIAL/CEO/48 dated 31.07.2015. As part of such revised submission, MIAL sought a one-time increase of 104.82% in the X-Factor for determination of aeronautical tariffs (for the 5 year tariff period FY2014-15 to 2018-19, and considered tariff revision from 01.01.2016), with an annual CPI correction revision equal to CPI inflation of 5.1% in the subsequent years.

1.12. MIAL had made further interim submissions in response to clarifications sought by the Authority on the various building blocks subsequent to its MYTP submissions dated 26.12.2013, 05.08.2014 and 08.09.2015 in response to the clarifications / information desired by the Authority. The Authority had reviewed and addressed these submissions under respective sections of the Consultation Paper No. 10/2015-16 dated 16.03.2016 and proposed its stance on each building block. Following the release of this Consultation Paper, the Authority had invited a stakeholder consultation on 15.04.2016. The minutes of the meeting have been uploaded on AERA's website.

1.13. The Authority also invited formal comments from all stakeholders on the issues and proposals presented in its Consultation Paper No. 10/2015-16. The Authority appreciates the responses that it has received from the various stakeholders and has considered their inputs while preparing this Order.

1.14. The following stakeholders commented on the Authority's Consultation Paper No. 10/2015-16 in the matter of tariff determination for MIAL:

1.14.1. Mumbai International Airport Limited (MIAL)

1.14.2. Airports Council lnternational (ACI) [Submission dated 17.05.2016]

1.14.3. Airports Company of South Africa (ACSA) and Bid Services Division (Mauritius) Limited [Submission dated 6.06.2016]

1.14.4. Association of Private Airport Operators (APAO) [Submission dated 25.05.2016]

1.14.5. Associated Chambers of Commerce and Industry of India (ASSOCHAM) [Submission dated 18.05.2016]

1.14.6. Blue Dart [Submission dated 18.04.2016]

1.14.7. Delhi International Airport Limited (DIAL) [Submission dated 25.05.2016]

1.14.8. Federation of Indian Airlines (FIA) [Submission dated 26.04.2016]

1.14.9. Federation of Indian Chambers of Commerce Industry (FICCI) [Submission dated 25.05.2016]

1.14.10. International Air transport Association (IATA) [Submission dated 18.04.2016]

1.14.11. Lufthansa [Submission dated 18.04.2016]

1.14.12. PHD Chamber of Commerce and Industry [Submission dated 23.05.2016]

1.15. The Authority has noted that the comments of ACSA & Bid Services was received after the last date for submissions.

1.16. The following part of this Order gives the Authority's position on respective building blocks presented in the Consultation Paper No. 10/2015-16 dated 16.03.2016 in the matter of determination of tariff for MIAL. Each chapter is structured in the following manner where discussion on each issue has been segregated into six sections:

1.16.1. First section presents a summary of MIAL's submissions on the issues at the Consultation stage.

1.16.2. Second section presents a summary of the Authority's discussion on the issue, as presented in the Consultation Paper No. 10/2015-16.

1.16.3. Third section presents the comments made by the Stakeholders to the Authority's position on the issue stated in the Consultation Paper No. 10/2015-16.

1.16.4. Fourth section presents the response made by MIAL to the comments made by the Stakeholders on the issue.

1.16.5. Fifth section presents the comments made by MIAL itself on the issue in addition to its responses to the Stakeholder comments.

1.16.6. Sixth and the final section presents the Authority's examination of Stakeholders' comments, MIAL's responses and MIAL's own comments on that issue and decisions thereof.

1.17. Decisions taken by the Authority on various issues in respect of CSI Airport, Mumbai are summarized in Chapter 13.

2. Principles for Determination of Aeronautical Tariff

a MIAL Submission on Principles for Determination of Aeronautical Tariff

2.1. As part of its tariff application dated 26.12.2013, MIAL stated the following regarding its methodology for determining the aeronautical tariffs for the 2nd Control Period,

> *"The SSA read with OMDA provides the framework for Tariff Determination for CSIA. Schedule 1 of SSA describes Principles of Tariff Fixation and methodology to calculate aeronautical charges in the shared till inflation–x price cap model."*

Control Period

2.2. MIAL submitted the following as part of its tariff application dated 08.09.2015 with regards to the application date of revised tariffs for the 2nd Control Period,

> *"Authority vide its Order No. 26/2015-16 dated 21st August, 2015, has decided that the Aeronautical tariffs approved by it vide Order no. 32/2012-13 dated 15th January, 2013 shall continue upto 30th November 2015, or until final determination of tariffs for the second control period, whichever is earlier. MIAL has made this revised submission considering change in aeronautical tariffs effective from 1st January, 2016."*

b Authority's Proposal on Principles for Determination of Aeronautical Tariff and the Control Period in the Consultation Paper No. 10/2015-16

Principles for Determination of Aeronautical Tariff

2.3. The Authority had noted that MIAL has made a specific mention computation of Tariff and X factor in line with the Schedule 1 of the SSA.

2.4. The Authority had examined MIAL's submissions with respect to the principles of determination of aeronautical tariff and incorporated its decisions in the MIAL Tariff Order No. 32/ 2012-13 after analysing the provisions of SSA as well as other relevant documents viz. OMDA etc. The Authority had proposed to determine the Target Revenue (TR) by aggregating terms in the following formula:

$$\boldsymbol{TR_i = RB_i \times WACC_i + OM_i + D_i + T_i - S_i}$$

Where;

- TR = target revenue
- RB = regulatory base pertaining to Aeronautical Assets and any investments made for the performance of Reserved Activities etc. which are owned by MIAL. The Assets other than Aeronautical Assets will be excluded from the scope of Regulatory Asset Base (RAB).

$$RB_i = RB_{i-1} - D_i + I_i$$

Where: for the 1st regulatory period, RB would be the sum total of

- the Book Value of the Aeronautical Assets in the books of MIAL as a result of investments made by MIAL and
- the Hypothetical Regulatory Asset Base computed using the then prevailing tariff and the revenues, operation and maintenance cost, corporate tax pertaining to Aeronautical Services at the Airport, during the financial year preceding the date of such computation

- WACC = nominal post-tax weighted average cost of capital, calculated using the marginal rate of corporate tax
- OM = efficient operation and maintenance cost pertaining to Aeronautical Services
- D = Annual Depreciation charged on aeronautical assets based on depreciation reference rates prescribed as per the Companies Act, 1956 and now amended under the Companies Act, 2013
- T = Corporate taxes on earnings pertaining to Aeronautical Services
- S = 30% of the Gross Revenue generated from the Revenue Share Assets, which are defined to include:
    - Non-Aeronautical Assets; and
    - Assets required for provision of aeronautical related services arising at the Airport and not considered in revenues from Non-Aeronautical Assets (e.g. Public admission fee etc.)
- i = Number of year in the regulatory Control Period

2.5. Based on the reading of the provisions of SSA and MIAL submissions, the Authority had noted that the principles laid out in the SSA, are broadly consistent with the Authority's regulatory philosophy and approach as stated in its Airport Order and Airport

Guidelines. The Authority had further noted that it has been a consistent view of the Authority that the provisions of the SSA should be taken on board as far as these are consistent with the provisions of the Act. Further, the provisions of SSA should also be reconciled to the extent possible with the provisions of the Act. It is only where the provisions of the SSA are not consistent with the Act and cannot be reconciled there to, a deviation from the provisions of SSA or the Act may need to be made to the extent of repugnancy. There are certain important provisions in Schedule 1 of SSA, which are at variance with the approach decided by the Authority in respect of other airports, which can be summarised as below:

2.5.1. Shared Till – 30% of the gross revenue generated by the JVC from revenue share assets shall be used to subsidize target revenues from regulated aeronautical services for any given year. The costs in relation to such revenues (from revenue share assets) shall not be included while calculating aeronautical charges. The Authority's guidelines on the contrary provide for a single-till mechanism where all revenues and costs of the airport are considered in a single bucket to determine aeronautical charges.

2.5.2. Hypothetical RAB – The opening RAB for the 1st regulatory period would be the sum total of the Book Value of the Aeronautical Assets in the books of the JVC and the hypothetical regulatory base computed using the then prevailing tariff and the revenues, operation and maintenance cost, corporate tax pertaining to Aeronautical Services at the Airport, during the financial year preceding the date of such computation. The Authority's guidelines do not have a provision to provide a return on the hypothetical RAB.

2.5.3. No cost pass through – (read with Clause 3.1.1)-the Upfront Fee and the Annual Fee paid/payable by the JVC to AAI below the OMDA shall not be included as part of costs for provision of aeronautical services and no pass through would be available in relation to the same.

2.6. The Authority had also noted the difference between the provisions of the Act and those of OMDA in treating certain services as aeronautical or non-aeronautical. For e.g. the Act mentions services provided for ground handling services relating to aircraft, passengers and cargo at an airport as well as services provided for cargo facility at an airport as aeronautical services whereas OMDA mentions cargo handling, cargo terminals, and ground handling services under non-aeronautical services.

2.7. The above principles including the variances have been considered by the Authority in its determination of aeronautical tariff in respect of CSI Airport, Mumbai for the 1st Control Period. The Authority had proposed to adopt the same principles for its determination of aeronautical tariff for the current Control Period from 01.04.2014 till 31.03.2019.

2.8. ***Further, in the para 1.30 to 1.34 of the Consultation Paper No. 10/2015-16,*** the Authority had proposed that after the issuance of the Order in respect of Normative Approach for determination of Building Blocks, MIAL will be covered under the normative approach to the extent the Authority decides it to be applicable. This would be applicable to MIAL only for subsequent Control Periods i.e. 3rd Control Period and beyond.

Control Period

2.9. The Authority had proposed to consider the second Control Period to commence from 01.04.2014 to last till 31.03.2019. The Authority had noted that MIAL had considered the same Control Period in the Consultation Paper No. 10/2015-16.

2.10. As mentioned in para 1.37 and 1.38 of the Consultation Paper No. 10/2015-16 the Authority had extended the period for which aeronautical tariffs determined for the 1st Control Period would be levied on users at CSI, Airport Mumbai.

c Stakeholder Comments on Issues pertaining to Principles for Determination of Aeronautical Tariff and Control Period

2.11. With respect to the Proposal 1.a. in the Consultation Paper No. 10/2015-16 on the principles for determination of aeronautical tariff in respect of CSI Airport, Mumbai, IATA has commented that it is broadly in agreement with the principles. However, it has highlighted that the SSA prescribes a hybrid till instead of a single till, which is not in line with the Authority's approach to regulation.

2.12. Lufthansa has also made similar comments in this regard and requested the Authority to apply a single-till mechanism. Lufthansa has substantiated its point by explaining that the Authority is mandated to follow a uniform policy in terms of applying the principles of tariff determination and the provisions of any concession agreements such as OMDA and SSA cannot override the provisions of the statute (AERA Act). Lufthansa has submitted that the AERA Act makes no exception with respect to its applicability. Lufthansa has also argued that the provisions of the SSA were made "subject to the applicable law" referring to Cl.3.1.1 and Schedule I of SSA which says principles therein will be observed by AERA subject to applicable law. Lufthansa has also commented that MIAL entered into the OMDA and SSA being fully aware of a new regulatory authority and a new regulatory regime of tariff determination in the offing. FIA's comments on this matter were on similar lines as Lufthansa.

2.13. FIA has submitted that the Single Till Approach as enshrined under Section 13(1)(a)(v), read with Section 13(1)(b), has been adopted by the Authority in its Order No. 13/2010-11 dated 12.01.2011 warrants a comprehensive evaluation of the economic model and realities of the airport – both capital and revenue elements and accordingly, MIAL's approach of hybrid till deserves to be discarded. FIA has further submitted that the Consultation Paper could have highlighted the preparedness of the Authority to migrate to Single Till approach, in the event the Appeal pending before the Appellate Tribunal on the matter is decided during the 2nd Control Period.

2.14. As regards the Authority's proposal on the Normative Approach followed for determination of Building Blocks, IATA has commented that in its submission to the Authority regarding the consultation document for the proposed normative approach of major airports, it had raised a number of comments and concerns on each of the proposals. It further submitted that given that the Authority had not published a final order regarding these proposals it was too early to comment whether IATA supports the normative approach to be adopted. IATA has however, expressed its agreement with the Authority's proposal not to apply the incentivisation of non aeronautical revenue.

2.15. With respect to the Authority's proposal to follow the Normative Approach for determination of Building Blocks, DIAL has commented that the normative approach should not be applied on MIAL or DIAL as the concession agreement does not envisage using normative principles for tariff determination. It has further commented that the use of norms by AERA in the place of detailed examination of individual airport performance is a major change in regulation which was not foreseeable when current privatization took place, and would alter the economic balance of those concessions. It has also suggested that since each Airport has its own dynamics and challenges, the tariff determination should be on a case to case basis keeping in view specific requirements of an airport.

2.16. With respect to the Authority's proposal regarding the regulatory period for the 2nd Control Period, IATA is in agreement with the consideration of regulatory period from 01.04.2014 to 31.03.2019. It has however, highlighted that there has been no decision on tariffs for the period even after being more than two years into the regulatory period. It has requested the Authority to strive for determining tariffs before the regulatory period commences for future regulatory periods.

2.17. FIA has also commented that the Authority has failed to consider that MIAL has caused inordinate delay in submitting relevant information with respect to projections for the 2nd Control Period which were submitted till as late as February 2016. Such a delay in submission has already diminished the effective Control Period from 60 months to 36 months which puts additional burden on the passengers. FIA has accordingly requested the Authority to load this on the airport operator/MIAL instead of passengers.

2.18. Regarding the principles of determination of aeronautical tariff, ASSOCHAM has commented that there is a lack of consistency in the Authority's principles, as these have changed between Control Periods. ASSOCHAM has explained that this is internationally seen as a bad practice which may make investors shy away.

2.19. Regarding the process followed by the Authority to determine tariffs for aeronautical services, FIA has commented that Section 13(1)(a) of the AERA Act requires the Authority to clearly show the application of mind and analysis carried out by the Authority. However, as per FIA, the Authority has failed to provide any justification of its own or analysis proposed increase in various charges for instance FTC, landing charges, parking charges etc. FIA has also sighted a few cases of Supreme Court and TDSAT to explain the meaning of the word 'Determination' which means application of mind rather than an opinion.

2.20. FIA submitted that the consultation process raises few important and critical questions for consideration of the Authority regarding the provisions of AERA Act and computation of building blocks as presented below, *"(a) Whether the proposals made by the Authority in the Consultation Paper are in consonance with the provisions of the AERA Act and the relevant judicial precedents?*

(b) Whether the computation of the building blocks has been made under the extant laws and the transaction structure comprising the financial model, rights and obligations of the AAI, GoI, the state government and MIAL, with respect to the concession granted to MIAL?"

2.21. FIA has submitted a list of missing documents and has submitted that a substantial number of documents on which reliance has been placed by the Authority are not available for stakeholder's perusal. FIA has further submitted that it had circulated a list of missing/ redacted documents to the Authority on 12.04.2016 and is awaiting response from the Authority with regard to the missing documents.

2.22. ACI has submitted that India's policy framework for airports should be aligned with the country's vision of becoming the third largest aviation market by 2020. The regulatory philosophy should encourage the world's best airport developers to invest in India's airports and judiciously balance the expectation of airport users and investors. It has further submitted that any attempt to relook at the concession after investment has been made would adversely impact the credibility of the government as a party to the agreement. Accordingly, ACI has requested the Authority to ensure success of airport projects through avoiding regulatory uncertainty, allowing a reasonable return on investment, allowing just and reasonable level of airport charges, sustainable industry and the impact of a not so healthy airport industry on economy of the country as whole.

2.23. Lufthansa in its submission has mentioned that appeals filed by itself as well as by other airlines challenging the tariff order dated 15.01.2013 are pending adjudication before the AERA Appellate Tribunal. Accordingly, Lufthansa has requested the Authority to defer its decision on the CSIA airport tariff determination for the 2nd Control Period pending adjudication of the appeals.

d MIAL's response to Stakeholder Comments on Issues pertaining to Principles for Determination of Aeronautical Tariff and Control Period

2.24. With respect to FIA's comment on the process followed by the Authority to 'determine' the tariff for aeronautical services (2.19 above), MIAL has stated that FIA's comments are incorrect and without any basis. MIAL has explained that Authority has done its own analysis and applied its mind before issuing the Consultation Paper which is clearly evident from the details included therein. MIAL has also submitted that the cases cited by FIA are irrelevant in the present case since Authority is yet to determine the tariff and pass any tariff order for 2nd Control Period.

2.25. MIAL responded to IATA, Lufthansa and FIA's comments regarding the applicability of Airports Economic Regulatory Authority Guidelines, 2011 by quoting the relevant provisions of the Guidelines which mention that they shall be applicable to MIAL & DIAL "in such form and manner as the Authority may by a separate order determine". MIAL has subsequently explained that in the absence of any order by the Authority confirming the same, these Guidelines are not applicable to MIAL. Accordingly, MIAL is also of the view that the Authority has issued the present Consultation Paper in accordance with its powers under the AERA Act.

2.26. MIAL has responded to FIA's comments regarding the provisions of AERA Act and computation of building blocks (as discussed in 2.20 above) as below,

"MIAL's submission of MYTP is in accordance with the AERA Act read together with the Concession offered by the Central Government under State Support Agreement (SSA). Section 13 (1) (a) of the AERA Act, 2008 authorizes the Authority to determine tariff for the aeronautical services. Also, as per clause 3.1 of the State Support Agreement entered between the GoI and MIAL, the Authority is required to regulate aeronautical charges. This clause specifically states "AERA shall regulate and set / re-set Aeronautical Charges, in accordance with the broad principles set out in Schedule 1 appended hereto.

Further, Section 13(l)(a)(vi) of the AERA Act, states that Authority shall determine the tariff for aeronautical services taking into consideration the concession offered by the Central Government in any agreement or memorandum of understanding or otherwise."

2.27. MIAL is in agreement with DIAL's comments on normative approach and has requested that in view of the concession agreement the normative approach should not be applied to MIAL.

2.28. MIAL has agreed with ACI's submissions regarding the principles of determination of aeronautical tariff and has requested the Authority to ensure the success of airport projects through avoiding regulatory uncertainty, allowing a reasonable return on investment, allowing just and reasonable level of airport charges.

2.29. In response to Lufthansa's comment regarding the Authority's decision to defer its decision on CSIA airport tariff determination for the 2nd Control Period pending adjudication of the appeals by the AERA Appellate Tribunal, MIAL has commented that since adjudication of various appeals pending before AERAAT may take some time and more than two years out of five year of the Control Period have already passed, the Authority should not wait for adjudication of such appeals and finalize the Tariff Order for the second Control Period at the earliest possible date which would be anyway subject to outcome of the pending appeals before the AERAAT.

2.30. Regarding ASSOCHAM's comments regarding inconsistencies across Control Periods, MIAL has expressed agreement with ASSOCHAM and has requested the Authority to apply a uniform treatment across both the Control Periods and also ensure economic viability of CSIA.

2.31. Regarding Lufthansa's comment on the delay in tariff fixation burdening passengers, MIAL has responded by stating that the allegation about dilatory tactics adopted by MIAL is baseless and factually incorrect. MIAL has explained that in spite of Tariff determination being a very complex exercise, MIAL submitted its MYTP to the Authority on 26.12.2013, well before the start of Second Control Period. MIAL has also stated that a delay does not result in any benefit to MIAL but skewed increase in tariff leading to false perception of steep tariff increase, which, if analysed appropriately, is not the case.

2.32. In response to FIA's comment regarding the Single Till approach, MIAL has submitted that FIA's comments regarding adoption of Single Till is out of context and not relevant while determining aeronautical tariff for MIAL. As per clause 3.1 of the SSA entered between the GoI and MIAL, the Authority is required to regulate aeronautical charges in case of CSIA. This clause specifically states *"AERA shall regulate and set / re-set Aeronautical Charges, in accordance with the broad principles set out in Schedule 1 appended hereto".* MIAL has further submitted that Section 13(1)(a)(vi) stipulates, *inter alia*, "13. (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-

…….

(vi) the concession offered by the Central Government in any agreement or memorandum of understanding or otherwise;"

2.33. MIAL has thus commented that the above provisions have been duly recognized by AERA in its Order No. 13/2010-11 wherein it has stated that it would separately determine the extent to which the covenants of the SSA would impact the general framework being laid down in the order, specifically for IGI airport (DIAL) and CSI airport (MIAL).

e MIAL's comments on Issues pertaining to Principles for Determination of Aeronautical Tariff and Control Period in the Consultation Paper

2.34. Regarding the application of normative principles, MIAL has submitted that Normative Approach contained in the Consultation Paper No. 5/2014-15 of the Authority cannot be made applicable uniformly to all major airports across India, since each airport has a different set of demands, expectations, traffic profile, etc. and cannot be measured with one yardstick.

2.35. MIAL has also drawn attention to the Authority's Consultation Paper No. 5/2014-15 and reiterates that such normative approach towards determination of building blocks cannot be made applicable to CSI Airport since normative approach was not contemplated while signing the State Support Agreement (SSA/Concession Agreement) by Government of India on 26.04.2006.

f Authority's Examination of Stakeholder Comments (including MIAL) on Issues pertaining to Principles for Determination of Aeronautical Tariff and Control Period

2.36. The Authority has carefully examined the submissions of the various stakeholders on issues pertaining to Principles for Determination of Aeronautical Tariff and Control Period. The Authority has decided to maintain its stance on the principles for determination of aeronautical tariff as per the Consultation Paper No. 10/2015-16.

2.37. On the issue of the adoption of hybrid till, the Authority has discussed the matter in detail in MIAL Tariff Order No. 32 /2012-13 for the 1st Control Period. The Authority finds no compelling reason to re-examine its position regarding the same.

2.38. With respect to the Authority's proposal on the date of applicability of the new tariff, the Authority has decided to consider the revised tariffs to be effective from 01.11.2016 in lieu of 01.05.2016. The stakeholders including MIAL, APAO, FIA and CII had sought an extension for submitting their comments which was granted by the Authority. Subsequently, AERAAT, while considering the Appeal filed by MIAL, had vide its Order dated 25.04.2016 decided to extend timeline for submission of comments by MIAL in respect of aforesaid Consultation Paper up to 25.05.2016. Further to this, MIAL has made submissions until the 23.06.2016, which was much beyond the stipulated time limit of 25.05.2016 as per Public Notice No. 03/2016-17 of the Authority. The extension of the dates for the implementation of revised tariffs may thus be attributable to the aforementioned reasons as the Authority had to carefully examine the submissions made by all the stakeholders in determining the Tariff order.

2.39. With respect to the Normative Approach for the determination of Building Blocks, the Authority has issued an Order No. 07/2016-17 dated 06.06.2016 where it has recognised that while a more thorough process is required before finalising the norms on capital costs, there is a need to have at least a tentative basis to fix the ceiling cost of Terminal building and Apron for the airports while evaluating the tariff proposals of various airport operators and determine the tariffs for the 2nd Control Period, for which certain guidelines require to be formulated. The Authority has also decided that the ceiling rates prescribed as part of that Order shall apply only in case of new projects where the works are yet to be awarded. Accordingly, the Authority has decided that as and when it undertakes a more thorough process and finalises the norms on capital costs, the approach as finalised will be applicable for all airports including MIAL, prospectively (from 3rd Control Period and beyond), to the extent the Authority may decide it to be applicable. Till then, the Authority expects MIAL to have reference to the rates provided in Order No. 07/2016-17 dated 06.06.2016 for undertaking any future projects at the airport.

2.40. On the issue of the deferring of decision on CSIA airport tariff determination for the 2nd Control Period because of pending adjudication of the appeals by the AERA Appellate Tribunal, the Authority wishes to highlight that the Tariff Order for the 2nd Control Period for CSIA Airport is subject to outcome of the pending appeals before the AERAAT. The Authority is thus of the view that the deferment of the decision on CSIA airport tariff determination is not required.

2.41. Regarding the issue of the consistency of the Authority's decisions as submitted by ASSOCHAM, the Authority would like to emphasise that the stand taken by it on all matters of tariff determination have been according to the merits of the case, as per the appropriate application of regulatory principles and provisions of the AERA Act, SSA, OMDA etc.

2.42. The Authority has noted ACI's comments regarding India's policy framework for Airports. On the issue pertaining to the viability of Airport, the Authority has followed the principles of aeronautical tariff determination that have been proposed in previous consultations for DIAL and MIAL.

2.43. On the issue of stakeholder consultations and sharing of relevant documents, the Authority believes that it has ensured adequate stakeholder consultations between the airport operator and other stakeholders, in-line with Section 13(4) of the AERA act and has also shared all possible relevant documents required for the purpose. The Authority would also like to emphasise, that it encourages stakeholders to bring to its notice, at an appropriate stage of the tariff determination process, any specific inadequacies regarding the consultations with the airport operator, so that the Authority can take suitable measures to remedy the same.

2.44. Regarding FIA's comments on the proposals of the Authority in the Consultation Paper, the Authority believes that the proposals made by the Authority in the Consultation Paper are in consonance with the provisions of the AERA Act and relevant judicial precedents along with those of the OMDA and SSA. The Authority would also like to emphasise that the computation of the building blocks have been made under the extant laws and the transaction structure comprising of the financial model, rights and obligations of the AAI, GoI, the state government and MIAL with respect to the concession granted to MIAL.

2.45. With respect to FIA's submission regarding the missing documents, the Authority has already provided all documents that it is privy to and relies on for tariff determination.

2.46. Regarding FIA's comment that the Authority has not clearly shown how it has applied its mind to compute the tariff, the Authority would like to clarify that it has aptly deliberated upon and presented its computations as a part of the consultation process.

2.47. The Authority notes that other comments from the Stakeholder are specific to certain building blocks. These comments have been addressed by the Authority in the respective chapters for those building blocks.

Decision No.1 Regarding Principles for Determination of Aeronautical Tariffs and Control Period in respect of CSI Airport, Mumbai based on the material before it and its analysis, the Authority decides:

- **1.a. To adopt the same principles as used in the determination of aeronautical tariff in respect of CSI Airport, Mumbai for the 1st Control Period.**
- **1.b. Regarding the Normative Approach, the Authority has only fixed certain tentative guidelines on capital costs. These guidelines will be applicable for all projects taken up by all airports, including MIAL, prospectively. The Authority expects MIAL to have reference to the rates provided in Order No. 07/2016-17 dated 06.06.2016 for undertaking any future projects at the airport.**
- **1.c. To consider the 2nd Control Period for the purposes of determination of aeronautical tariffs with respect to CSI Airport, Mumbai, commencing from 01.04.2014 to 31.03.2019.**
- **1.d. To consider revised tariffs effective from 01.11.2016.**

3. Consideration of True-ups for 1st Control Period

3.1. In MIAL Tariff Order 32 / 2012-13, the Authority, while determining various elements of the building blocks, provided for true-ups in respect of certain elements of specific building blocks as the estimates of costs, revenues and investments to be made, that the Authority had considered while determining the Annual Revenue Requirement, might be at variance with the corresponding actual figures. Therefore, true-ups were to be considered based on the actual values of respective items that ought to be accounted, based on financial statements, in the 1st Control Period towards determination of aeronautical tariff for the next Control Period (namely second Control Period commencing from 01.04.2014).

3.2. The Authority recognizes that the overarching purpose of true-ups is to enable the Airport Operator get a fair rate of return on its investments (consistent with the quality of service as well as the risk factors for the airport in question). Hence, one part of the exercise at the end of the Control Period is to compare the ex-post (at the end of the Control Period) Aggregate Revenue Requirements (ARR) of the airport with what was actually collected during the Control Period. The actual ARR that the Airport Operator is entitled to at the end of the Control Period depends on the various regulatory building blocks. Within the above framework, the Authority had indicated MIAL's submission with respect to true-up of various items as well as the Authority's examination of the same.

a MIAL Submission on True-up of for the 1st Control Period

3.3. MIAL had made the following submission as part of its tariff application dated 05.08.2014 for computation of true-ups in respect of various building blocks based on their actual audited financial accounts up to FY 2013-14. According to MIAL's submission, the true-up requirement is presented below,

"Table: Truing up for the first control period – Revised *Rs./Crs*

Revenue streams	*FY 10*	*FY 11*	*FY 12*	*FY 13*	*FY 14*	*Total*
Landing charges	-	-	-	9	61	71
Parking charges	-	-	-	1	0	2
Aerobridge charges	-	-	-	(2)	(13)	(15)
UDF	-	-	-	55	123	178
PSF (FC)	-	-	-	(3)	-	(3)

Revenue streams	FY 10	FY 11	FY 12	FY 13	FY 14	Total
Unauthorized Overstay	-	-	-	(6)	(6)	(12)
Fuel concession Fee				9	7	16
Total (A)	-	-	-	64	172	237
Adjustment in RAB due to actual date of capitalization and Adjustment due to DF	(19)	0	6	(34)	(199)	(246)
Change in WACC	12	15	17	19	25	87
Change in Operating expenditure (Property Tax and NA Tax, changes in unit rate of electricity and Water, CPI)	-	-	-	(1)	67	66
Adjustment in depreciation due to actual date of capitalization and DF Adjustment	2	1	3	6	(91)	(78)
Share of Revenue from Revenue Share Assets	0	(0)	(0)	(31)	(33)	(63)
Total (B)	(5)	17	27	(41)	(231)	(234)
Total True-up amount	(5)	17	27	23	(59)	3
Total True-up amount with carrying cost	(9)	26	38	29	(66)	18

"

b Authority's Proposal on True-up for the 1st Control Period in the Consultation Paper No. 10/2015-16

3.4. The Authority had proposed to provide a true-up after working out the actual entitlement of MIAL in terms of Aggregate Revenue Requirement (ARR) based on actual values of regulatory building blocks for the 1st Control Period, covering Regulatory Asset Base (RAB), Hypothetical Regulatory Asset Base (HRAB), Weighted average Cost of Capital (WACC), Depreciation, Operating Expenses, Taxation and Non-Aeronautical Revenue for the 1st Control Period as per the actual audited financial and traffic information. The actual entitlement was subsequently proposed to be compared with the actual aeronautical revenue as per audited financials to arrive at the true-up value of over / under recovered ARR that are to be accounted for the 2nd Control Period. This computation has been elaborated below.

3.5. The Authority had estimated the return on RAB in the 1st Control Period based on the WACC of 11.45%. As per its Decision No. 12 of MIAL Tariff Order No. 32 / 2012-13, the Authority had decided to true up the WACC on account of changes in equity, and reserves and surplus, adjustments to cost of debt (including cost of bridging Rs. 819.05 crores in the means of finance) and additional means of finance, after Authority's approval. After taking into account the additional loan availed by MIAL in FY2013-14, the Authority had computed the weighted average cost of debt for the 1st Control Period to be 10.48%.

3.6. The Authority had discussed the issue of treatment of RSD in detail in the MIAL Tariff Order No. 32/ 2012-13. Thus, the Authority had considered MIAL's submission that it envisages to realise Rs. 220.75 crores, Rs. 435.09 crores and Rs. 344.16 crores in FY2012-13, FY2013-14 and FY2014-15 respectively, totalling to Rs. 1,000 crores, from monetization of land in the period. The Authority had noted MIAL's submission in its tariff application dated 05.08.2014 that because of various encumbrances, monetization of land was delayed and MIAL was unable to raise Rs. 1,000 crores in the 3 tranches that were considered as per the MIAL Tariff Order 32/2012-13. The Authority had noted that MIAL was able to monetize small parcels of land to raise Rs. 207 crores in FY2014-15 and FY 2015-16 and has also taken debt to meet the RSD requirement. In view of the ongoing monetization by MIAL, the Authority had considered NIL RSD in each of the years in the 1st Control Period.

3.7. Thus, considering the above proposals for debt and RSD and cost of equity at 16% as per Decision No. 10 of MIAL Tariff Order No. 32 / 2012-13, the Authority had computed the WACC to be 12.04% as below,

Table 1: Computation of WACC as computed and considered under true-up by the Authority for the 1st Control Period in the Consultation Paper No. 10/2015-16

Rs. Crores	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
Opening Cumulative Debt (D_0)	1470.13	2020.68	2946.81	4547.58	4700.98
Closing Cumulative Debt (D_n)	2020.68	2946.81	4547.58	4700.98	5450.98
Average Cumulative Debt, D= Avg(D_0 ,D_n)	**1745.41**	**2483.75**	**3747.20**	**4624.28**	**5075.98**
Opening Equity (E_0)	246.15	446.15	646.15	846.15	1046.15
Closing Equity (E_n)	446.15	646.15	846.15	1046.15	1046.15
Opening Reserves (R_0)	286.23	383.51	539.98	722.83	872.58
Closing Reserves (R_n)	383.51	539.98	722.83	872.58	1030.15

Average Equity, E=Avg(E_0 ,E_n) + Avg(R_0 ,R_n)	**681.02**	**1007.89**	**1377.55**	**1743.85**	**1997.51**
Opening RSD (RSD_0)	0.00	0.00	0.00	0.00	0.00
Closing RSD (RSD_n)	0.00	0.00	0.00	0.00	0.00
Average RSD, R=Avg(RSD_0, RSD_n)	0.00	0.00	0.00	0.00	0.00
Average Capital Employed, C=D+E+R	**2426.42**	**3491.64**	**5124.75**	**6368.13**	**7073.49**
Average Debt (%), D% = D/C	71.93%	71.13%	73.12%	72.62%	71.76%
Average Net Worth (%), NW% = E/C	28.07%	28.87%	26.88%	27.38%	28.24%
Average RSD (%), R% = R/C	0.00%	0.00%	0.00%	0.00%	0.00%
Cost of Capital (%)					
Weighted Average Gearing %	72.20%				
Weighted Average Equity %	27.80%				
Weighted Average RSD %	0.00%				
Cost of Debt %	10.20%	9.79%	10.13%	10.76%	11.02%
Weighted Average Cost of Debt %	10.51%				
Cost of Equity %	16.00%				
Cost of RSD %	0.00%				
WACC %	12.04%				

3.8. The Authority had proposed to consider asset allocation for the first four years of 1st Control Period as per MIAL's submission since the details of Master Plan were not available and the new terminal was commissioned in FY2013-14. The Authority had further proposed to consider the asset allocation as 84.52% for the year FY2013-14 and 2nd Control Period.

3.9. As part of MIAL Tariff Order 32/2012-13, the Authority had decided to true up the difference between the return on RAB calculated based on actual date of commissioning/ disposal of assets and the return on RAB calculated considering that such asset has been commissioned/ disposed-off half way through the Tariff Year by adjusting the differences for each year in the Control Period at the end of the Control Period. The Authority had also noted that the Development Fee (DF) received by MIAL was for the purpose of aeronautical assets only and accordingly had adjusted RAB (DF applicable for adjustment) for each year of the 1st Control Period.

3.10. In view of various proposals and considerations, the Authority had estimated the RAB for the purpose of determining ARR for the 1st Control Period as presented below:

Table 2: Computation of RAB trued up by the Authority in the 1st Control Period in the Consultation Paper No. 10/2015-16

Regulatory Asset Base (In Rs. Crore)	**FY2009-10**	**FY2010-11**	**FY2011-12**	**FY2012-13**	**FY2013-14**

Computation of HRAB						
a	Opening HRAB	966.03	923.94	877.16	830.35	784.14
b	Depreciation for the year	42.09	46.78	46.81	46.21	20.14
c=a-b	Closing HRAB	923.94	877.16	830.35	784.14	763.99
d=Avg(a,c)	Average HRAB	944.98	900.55	853.76	807.24	774.07
Computation of RAB						
A	Opening Regulatory Asset Base	827.48	1119.31	1505.47	1862.51	2073.66
B	Less: Depreciation on RAB (ex. DF, Upfront fee)	53.46	82.07	104.50	118.96	121.30
C	Add: Pro-rata Addition to aero assets allowed during the year (excl. DF funded assets)	50.72	243.41	292.98	198.16	877.85
C'	Less: Assets discarded/ disposed-off during the year	4.10	1.40	3.50	0.40	0.00
X	Balance: Addition to aero assets carried forward to next year (excl. DF funded assets)	298.67	226.22	172.06	132.35	2452.60
D=A-B+(C-C')+X	Closing Regulatory Asset Base	1119.31	1505.47	1862.51	2073.66	5282.80
Calculation of Return on Aggregate RAB (RAB + HRAB)						
E= A-B+C-C’	Actual RAB for the year	820.65	1279.25	1690.45	1941.31	2830.20
F=d	Average HRAB	944.98	900.55	853.76	807.24	774.07
G=E+F	**Average RAB (including HRAB)**	**1765.63**	**2179.80**	**2544.21**	**2748.55**	**3604.27**
H	WACC	12.04%	12.04%	12.04%	12.04%	12.04%
I=G*H	Return on RAB (WACC x Average RAB)	212.51	262.36	306.22	330.82	433.81
Aggregate Aeronautical Depreciation on RAB						
J=b	Depreciation on HRAB	42.09	46.78	46.81	46.21	20.14
K=B	Depreciation on RAB (excluding DF)	53.46	82.07	104.50	118.96	121.30
L=J+K	**Net Aero Depreciation for the year**	**95.55**	**128.85**	**151.31**	**165.17**	**141.45**

3.11. The Authority had proposed to consider the following cost allocation for the 1st Control Period.

Table 3: Cost allocation of Operating & Maintenance Expenses proposed by the Authority for the 1st Control Period in the Consultation Paper No. 10/2015-15

Cost Allocation, %	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
Employee Cost	86.49%	82.48%	78.05%	78.19%	77.70%
Operation Support Cost for AAI	86.49%	0.00%	0.00%	0.00%	0.00%
Utilities Expenses	94.80%	99.00%	94.80%	96.80%	96.63%
Repair & Maintenance Expense	94.09%	93.95%	93.65%	81.80%	96.10%
Rents, Rates & Taxes	97.00%	96.00%	97.90%	94.56%	90.60%
Advertisement Expense	99.33%	99.02%	88.38%	92.30%	98.85%
Administrative Expenses	90.03%	84.82%	84.89%	82.07%	84.50%

AOA Fees	86.49%	82.48%	78.05%	78.19%	77.70%
Insurance Expense	91.35%	91.38%	91.78%	91.38%	88.68%
Consumption and Store Expense	89.29%	89.29%	89.29%	89.29%	89.29%
Operating Expenditure	70.16%	66.01%	64.11%	58.29%	70.07%
Miscellaneous Expenses	0.00%	0.00%	0.00%	0.00%	0.00%
Provision for doubtful debt	0.00%	0.00%	0.00%	0.00%	0.00%
Bad debts written off*	0.00%	0.00%	100.00%	100.00%	100.00%
Interest on Loan for AAI retirement Compensation	86.49%	82.48%	78.05%	78.19%	77.70%
VRS Payment Amount to AAI	86.49%	82.48%	78.05%	78.19%	77.70%
Provision for PSF(SC) disallowance	0.00%	0.00%	0.00%	100.00%	100.00%
Working Capital loan Interest	90.03%	84.82%	84.89%	82.07%	84.50%
Financing Charges	90.03%	84.82%	84.89%	82.07%	84.50%
Loss on scrapping of assets	0.00%	0.00%	0.00%	0.00%	0.00%
Collection charges over DF	0.00%	0.00%	0.00%	0.00%	0.00%
CSR cost	0.00%	0.00%	0.00%	0.00%	0.00%
Exchange gain and loss	0.00%	0.00%	0.00%	0.00%	0.00%

** Break up of Aeronautical Bad debt amounts assessed separately*

3.12. The Authority had further proposed to consider the following operating and maintenance expenses on submissions made by MIAL as well as proposals of the Authority:

Table 4: Total Operating & Maintenance Expenses considered under true-up by the Authority for the 1st Control Period in the Consultation Paper No. 10/2015-15

Rs. Crores	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
Employee Cost	79.80	83.78	103.37	115.19	154.94
Operation Support Cost for AAI	13.08	0.00	0.00	0.00	0.00
Utilities Expenses (Net off)	60.87	23.37	36.88	43.72	63.80
Repair & Maintenance Expense	29.40	27.38	39.35	49.82	113.30
Rents, Rates & Taxes	6.63	12.41	12.14	56.65	27.70
Advertisement Expense	4.47	5.95	3.97	4.51	16.48
Administrative Expenses	31.77	33.72	54.31	58.93	75.93
AOA Fees	5.34	5.43	6.14	6.76	7.92
Insurance Expense	2.89	2.62	2.74	3.07	3.79
Consumption and Store Expense	4.25	4.56	4.38	3.90	4.31
Operating Expenditure	43.73	49.69	59.67	65.33	86.36
Miscellaneous Expenses	5.99	7.02	0.00	3.82	0.00
Provision for doubtful debt	2.73	0.00	3.00	1.26	-1.92
Bad debts written off	0.00	0.00	0.03	15.01	2.62
Interest on Loan for AAI retirement Compensation	0.00	6.80	5.63	3.95	0.23
VRS Payment Amount to AAI**	154.23	-31.16	54.37	21.13	20.78
Provision for PSF(SC) disallowance[#]	0.00	0.00	0.00	19.94	8.34
Working Capital loan Interest	0.00	0.00	0.22	1.80	4.57
Financing Charges	2.71	3.02	1.13	0.56	11.36
Loss on scrapping of assets	0.00	0.00	0.00	0.00	0.00
Collection charges over DF	0.00	0.00	0.00	0.84	1.97

Rs. Crores	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
CSR cost	0.00	0.00	0.00	0.00	0.00
Exchange gain and loss	0.00	0.00	0.00	0.00	0.00
Total Operating & Maintenance Expenses	**447.87**	**234.59**	**387.32**	**472.16***	**602.48**
* Includes reduction of Rs. 4 crores in FY 2012-13 due to reconciliation with balance sheet ** MIAL to provide documentary evidence for VRS as per Para 3.49 and for finance Para 3.50 # Refer paras 3.37.7, 3.37.8, 3.37.9, 3.37.10, and 3.37.11 for Authority assessment of PSF (SC). ^ In FY2009-10, the total O&M expenditure includes PSF security persons amounting to Rs .10.15 crores.					

Table 5: Aeronautical Operating & Maintenance Expenses considered under true-up by the Authority for the 1st Control Period in the Consultation Paper No. 10/2015-15

Rs. Crores	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
Employee Cost	69.02	69.11	80.68	90.07	120.39
Operation Support Cost for AAI	11.31	0.00	0.00	0.00	0.00
Utilities Expenses (Net off)	57.70	23.13	34.96	42.32	61.65
Repair & Maintenance Expense	27.66	25.72	36.85	40.75	108.88
Rents, Rates & Taxes	6.44	11.92	11.88	53.56	25.10
Advertisement Expense	4.44	5.89	3.51	4.16	16.29
Administrative Expenses	28.60	28.60	46.10	48.36	64.16
AOA Fees	4.62	4.48	4.79	5.29	6.15
Insurance Expense	2.64	2.39	2.52	2.80	3.36
Consumption and Store Expense	3.79	4.07	3.91	3.49	3.84
Operating Expenditure	30.68	32.80	38.25	38.08	60.51
Miscellaneous Expenses	0.00	0.00	0.00	0.00	0.00
Provision for doubtful debt	0.00	0.00	0.00	0.00	0.00
Bad debts written off	0.00	0.00	0.03	15.01	2.62
Interest on Loan for AAI retirement Compensation	0.00	5.61	4.39	3.09	0.18
VRS Payment Amount to AAI	133.40	-25.70	42.44	16.52	16.15
Provision for PSF(SC) disallowance	0.00	0.00	0.00	19.94	8.34
Working Capital loan Interest	0.00	0.00	0.19	1.47	3.86
Financing Charges	2.44	2.56	0.96	0.46	9.60
Loss on scrapping of assets	0.00	0.00	0.00	0.00	0.00
Collection charges over DF	0.00	0.00	0.00	0.00	0.00
CSR cost	0.00	0.00	0.00	0.00	0.00
Exchange gain and loss	0.00	0.00	0.00	0.00	0.00
Total Operating & Maintenance Expenses	**382.74**	**190.58**	**311.46**	**382.14***	**511.08**
* Includes reduction of aeronautical portion of Rs. 4 crores in FY 2012-13 due to a reconciliation with balance sheet ** MIAL to provide documentary evidence for VRS as per Para 3.49 and for finance Para 3.50 # Refer paras 3.37.7, 3.37.8, 3.37.9, 3.37.10, and 3.37.11 for Authority assessment of PSF (SC). ^ In FY2009-10, the total O&M expenditure includes PSF security persons amounting to Rs. 10.15 crores.					

3.13. The Authority had further proposed to consider as NIL, the taxes for the purpose of calculating ARR for the 1st Control Period based on actual numbers.

3.14. The Authority had proposed to consider revenue from Revenue Share Assets as per the table below,

Table 6: Non-Aeronautical Revenues considered by the Authority under true-up for the 1st Control Period in the Consultation Paper No. 10/2015-16

Rs. Crores	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
F&B	22.03	25.70	30.08	32.42	35.00
Flight Kitchen	10.53	16.20	22.76	22.42	27.58
Retail concession	11.02	24.60	39.36	55.10	63.35
Foreign exchange, Banks & ATM	23.44	26.90	39.08	45.67	48.80
Communication	20.50	37.80	36.55	36.59	19.81
Car Rentals & Taxi Service	5.32	6.80	8.82	14.00	15.76
Duty Free Shops	60.49	45.70	45.82	62.22	91.25
Advertising Income	35.68	46.00	56.45	55.87	59.06
Car Parking	13.26	12.10	12.84	16.88	14.31
Ground Handling	26.87	39.40	52.78	86.50	89.76
Others	7.90	7.20	8.57	26.30	20.20
Retail Licenses Revenue [A]	**237.04**	**288.40**	**353.09**	**453.96**	**484.86**
Land Rent & Lease	21.49	27.79	37.08	35.02	37.74
Hanger Rent	1.06	4.43	4.35	8.01	8.60
Terminal Building Rent (excl. CUTE Counter charges)	12.07	15.03	22.95	24.22	25.70
CUTE Counter Charges	3.00	4.20	4.65	0.55	4.55
Lounges	20.48	20.10	22.39	24.41	21.93
Cargo Building Rent	17.17	36.50	17.53	20.98	21.27
Rent & Services Revenue [B]	**75.27**	**108.05**	**108.95**	**113.19**	**119.77**
Domestic cargo	0.13	6.05	10.74	12.51	8.08
Terminal charges	76.93	94.93	98.41	93.52	78.67
De-stuffing	12.82	16.27	16.27	14.78	11.77
Palletization	3.31	5.11	7.94	9.21	9.69
X-ray	11.92	15.22	16.39	16.59	17.18
Carting, packing and others	7.02	8.52	8.94	8.46	8.21
Perishable Cargo	0.00	0.00	2.15	2.60	2.97
Other Rental Incomes (Demurrage)	80.32	138.09	168.36	117.48	104.64
Courier Revenue	8.45	7.91	9.37	10.22	12.97
Outsourced Cargo Revenues	0.00	0.00	0.00	0.00	17.06
Total Cargo Revenue [C]	**200.90**	**292.11**	**338.57**	**285.36**	**271.26**
Other Income [D]	**6.91**	**4.89**	**6.60**	**17.92**	**18.61**
Less: Revenue from Non Transfer Assets) [E]	**4.77**	**5.11**	**5.72**	**5.33**	**5.73**
Non-aeronautical Revenues [E=A+B+C+D-E]	**515.35**	**688.34**	**801.49**	**865.10**	**888.78**
30% of share of Non-Aeronautical Revenues [F=30% (E)]	**154.61**	**206.50**	**240.45**	**259.53**	**266.63**

3.15. The Authority had compared the target aeronautical revenue for MIAL against aeronautical revenues realised by MIAL as per its financial statements in the 1st Control Period. The difference in the net present value of the target revenue (entitlement) and actual aeronautical revenue (realisation) was considered by the Authority as the amount eligible for true-up. The actual aeronautical revenue figure was based on the balance sheet and auditor certificates submitted by MIAL. Accordingly, the true-up was computed as below,

Table 7: ARR and actual revenue considered by the Authority under true-up for the 1st Control Period in the Consultation Paper No. 10/2015-16

Rs. Crores	**FY2009-10**	**FY2010-11**	**FY2011-12**	**FY2012-13**	**FY2013-14**
Landing charges	268.72	285.21	298.07	341.43	624.41
Parking charges	16.18	11.01	9.03	11.41	33.53
Aerobridge	20.11	0.00	0.00	4.15	29.88
User Development Fee	0.00	0.00	0.00	67.07	484.97
Passenger Service Fee	98.25	109.93	117.11	96.33	0.00
CUTE Counter Charges	0.00	0.00	0.00	0.00	0.00
Unauthorized Overstay	0.00	0.00	0.00	5.70	5.81
Fuel concession	73.17	79.96	82.95	95.76	101.66
Total Aeronautical Revenues	**476.44**	**486.11**	**507.16**	**621.84**	**1280.26**
Target Revenue					
Return on RAB (WACC x Average RAB)	212.51	262.36	306.22	330.82	433.81
Regulatory Base	1765.63	2179.80	2544.21	2748.55	3604.27
WACC	12.04%	12.04%	12.04%	12.04%	12.04%
OM - Efficient Operation & Maintenance cost	382.74	190.58	311.46	382.14	511.08
Aero Depreciation	95.55	128.85	151.31	165.17	141.45
Share of Revenue from Revenue Share Assets	154.61	206.50	240.45	259.53	266.63
Target Revenue	**536.19**	**375.29**	**528.54**	**618.60**	**819.71**
Determination of True-up amount					
Target Revenue	536.19	375.29	528.54	618.60	819.71
Total Aeronautical Revenues	476.44	486.11	507.16	621.84	1280.26
Revenue Gap	59.75	(110.81)	21.38	(3.24)	(460.55)
Revenue Gap with carrying cost (NPV)	105.48	(174.59)	30.07	(4.07)	(515.98)
True-up					**(559.10)**

3.16. The Authority had thus proposed a true-up of negative Rs. 559.06 crores as on 31.03.2014 (over-recovery by MIAL in the 1st Control Period) towards determination of aeronautical tariff for the 2nd Control Period.

c Stakeholder Comments on Issues pertaining to True-Ups for the 1st Control Period

3.17. Subsequent to the Stakeholder Consultation process, the Authority has received comments / views from various stakeholders in response to the Consultation Paper No. 10/2015-16 on the determination of aeronautical tariffs for CSIA airport, Mumbai for the 2nd Control Period. Comments with respect to the Authority's proposal on true-up for the 1st Control Period are as given below,

3.17.1. Regarding Authority's proposal on 84.52% aeronautical asset allocation considered in the FY2013-14, IATA has commented that it believes that the Authority's proposed asset allocation of 84.52% to aeronautical activities is too high. It has stressed that the split of costs between aeronautical and non-aeronautical services used by the major Indian airports in their non-single till tariff proposals had been based on arguable assumptions on space usage which were skewed towards aeronautical activities to favour the airport financially. It has suggested that a fairer assumption would be to consider all common spaces in the airport terminal building as being used for activities that generate both aeronautical and non-aeronautical revenues alike and therefore to allocate the costs to these activities on a 50:50 basis.

3.17.2. With respect to the Authority's proposal regarding the working capital loan interest for the 1st Control Period, IATA has commented that it believes that the Authority, should consider the net between interest income and expenses from working capital accounts (i.e. the net of interest generating current assets and liabilities for the calculation of the working capital loan interest.

3.17.3. With respect to the Authority's proposal regarding the true-up amount, IATA has commented on the different operating expenses which impact true-up as follows.

3.17.3.a. Regarding Bad debts, IATA has submitted that good players should not cover the costs of bad ones and if MIAL has not been able to recover bad debts, it should not pass the bill to good payers. IATA substantiated its argument by explaining that passing on the costs of bad debt to users removes any incentive to the airport to control its bad debt.

3.17.3.b. Regarding Financing charges, IATA has submitted that they are awaiting for a clarification on the nature of these costs. IATA has cautioned the Authority regarding a scenario where an airport operator might pay higher upfront fees which is trued up and lower its cost of debt which is trued up but subject to a cap.

3.17.3.c. Regarding Legal fees, IATA has stated that MIAL has engaged in court cases regarding AERA's previous decisions on tariffs and costs related to these should not be included in any tariff calculation (and therefore funded by non-aero revenues). Accordingly, IATA has urged the Authority to seek clarification from MIAL on the matter and make adjustments for the same.

3.17.3.d. Regarding Advertising costs, IATA is unclear on the rationale behind why airport users have to pay for the airport's advertising expenses. According to IATA, people utilize the airport because they want to fly to or from the city the airport serves and advertising will not change this behaviour.

3.17.4. With respect to Authority's proposal regarding the true-up in the ARR computed for determination of aeronautical tariff for the 2nd Control Period, IATA has commented that the resultant over-recovery (after the adjustments suggested by IATA for true-up calculations) should be included in the final true-up determination for the 1st Control Period.

3.17.5. IATA is in agreement with Authority's proposal regarding the inclusion of PSF (SC) O & M expenditure subject to MIAL reimbursing Rs. 38.72 crores for the years 2009-10 to 2013-14 into the PSF (SC) escrow account.

3.17.6. With respect to Authority's proposal on the treatment of revenues from land lease revenues and monetization of land, IATA has commented that revenues arising from land monetization should be included for tariff determination to benefit airport users. It has argued that concessional land given to private players must result in benefits to the end consumers in India and that not including revenues derived from monetization of state land provided free to the private player could be construed as unduly profiting the private player at the expense of the end-consumers. IATA has stated that it is awaiting the timely guidance of AAI and MoCA to have revenues from monetization of state land by DIAL included in this tariff determination.

d MIAL's response to Stakeholder Comments on Issues pertaining to True-Up for the 1st Control Period

3.18. In response to IATA's comments regarding the asset allocation ratio, MIAL has commented that the asset allocation ratio has been computed on the basis of the study of an independent consultant appointed by the Authority. It has also commented that Authority has to take into consideration facts of each case and decide accordingly.

3.19. In response to IATA's comments that interest from positive cash balances and short term loans and advances should be included in the calculation of the working capital loan interest, MIAL has commented that since other income earned by MIAL does not involve providing any kind of services, it is not to be considered for the purposes of aeronautical tariff determination as per Section 13 (a)(v) of AERA Act, 2008 and the SSA.

3.20. In response to IATA's comments on Proposal 3.d. and 3.e. of the Authority in the Consultation Paper No. 10/2015-16 regarding the true up of ARR, MIAL has submitted the following:

3.20.1. With respect to Bad Debts, MIAL has submitted that the occurrence of bad debts is an integral part of any business and beyond the control of MIAL and therefore has to be allowed.

3.20.2. Regarding IATA's comment on MIAL's financing charges, MIAL has clarified that it has incurred finance charges in 1st Control Period including various bank charges, commission for Bank guarantees, management fees for term loans etc. and that MIAL has not claimed any upfront fee for the 1st Control Period.

3.20.3. On the issue of working capital interest computation, MIAL has commented that since other income earned by MIAL does not involve providing any kind of services, it is not to be considered for the purposes of aeronautical tariff determination as per Section 13 (a)(v) of AERA Act, 2008 and the SSA.

3.20.4. On IATA's comments on the legal fees of MIAL, MIAL has submitted that it does not understand as to why legal cost related to determination of aeronautical charges should be funded by Non Aeronautical income.

3.21. Regarding the evidence sought by the Authority for the reimbursement done by MIAL into the PSF (SC) escrow account, MIAL has commented that securitization of the tariff in respect of such security expenses would be required for MIAL to actually make the reimbursement in PSF (SC) Escrow account. MIAL has stated that it would not be possible to do so before the issue of the Tariff Order. It has thus, requested the Authority, to not to put a condition which cannot be complied with. It has further added that the inclusion of the amount, which is, to be reimbursed by MIAL into PSF (SC) Escrow account, for determination of tariff for 2nd Control Period will not lead to double accounting. It has submitted that if it does not make the payment into PSF (SC) Escrow account then Authority has all the rights to true up the amount along with carrying cost while determining tariff for the next Control Period and therefore there is no question of any double benefit to MIAL. It has also stated that if this amount is not allowed by the Authority then MIAL will not be in a position to make the payment into PSF (SC) Escrow account even if so decided by the Hon'ble High Court.

3.22. Regarding IATA's comments suggesting that revenues from land monetization should be included in tariff determination, MIAL has commented that that Non-Transfer Assets are not Non- Aeronautical Assets and hence the revenue from Non-Transfer Assets does not form part of Revenue Share Assets and thus are not to be considered for cross-subsidization of aeronautical costs.

3.23. Regarding IATA's comments on MIAL's advertising costs, MIAL has explained that MIAL advertisement expenditure a minuscule amount and mainly consists of advertisements given in newspapers for inviting quotations for tenders for various projects / announcements, etc. MIAL has accordingly suggested that the same should be allowed by the Authority.

e MIAL's comments on Issues pertaining to True-Up for the 1st Control Period in the Consultation Paper

3.24. MIAL has submitted a number of comments with respect to various issues pertaining to individual building blocks such as consideration of share application money of MIAL, MAT credit etc. which have been detailed in the respective chapters of such building blocks.

3.25. With respect to adjustment in RAB, MIAL has submitted that as part of MIAL Tariff Order 32/2012-13, the Authority had decided to true up the difference between the return on RAB calculated based on actual date of commissioning/ disposal of assets and the return on RAB calculated considering that such asset has been commissioned/ disposed-off half way through the Tariff Year by adjusting the differences for each year in the Control Period at the end of the Control Period. Accordingly, Authority has considered only the weighted average/proportionate additions in every year of the 1st Control Period based on actual date of capitalization. MIAL has further submitted that while reducing the cost of disallowed Aeronautical Assets from weighted average/ proportionate additions during the year, Authority has reduced total amount from RAB instead of weighted average/proportionate disallowance. MIAL has also submitted that similarly while reducing the cost of DF funded assets for the year Authority has reduced the total DF additions instead of weighted average/proportionate additions as was done earlier.

3.26. MIAL has provided the following computation of RAB for the 1st Control Period

Computation of additions in RAB as per Authority

Rs. in Cr.

	FY 10	FY 11	FY 12	FY 13	FY 14
Add: Weighted average Capitalization during the year	71.00	363.40	369.40	291.90	1780.60
Less: Aeronautical Assets disallowed by AERA	13.30	18.10	11.00	-	1.70
Less: DF funded assets to be removed from RAB	9.20	101.20	68.10	94.20	900.70
Net additions during the year	**48.50**	**244.10**	**290.30**	**197.70**	**878.20**

Computation of additions in RAB if done correctly:

Rs. in Cr.

	FY 10	FY 11	FY 12	FY 13	FY 14
Add: Weighted average Capitalization during the year	71.00	363.40	369.40	291.90	1780.60
Less: Weighted average additions of Aeronautical Assets disallowed by AERA	2.40	11.70	7.90	-	0.50
Less: Weighted average additions of DF funded assets to be removed from RAB	9.20	58.80	36.10	80.20	855.80
Net additions during the year	**59.40**	**292.90**	**325.40**	**211.70**	**924.30**

3.27. MIAL has submitted that the above approach of the Authority is clearly inconsistent and while additions are being included by Authority from the actual date of capitalization, the same approach is not being followed by the Authority for deductions/disallowances. According to MIAL, if additions are being considered on weighted average/proportionate basis, deductions/disallowances should also be considered on same basis.

3.28. MIAL has further submitted that the Authority in Table 1 of the Consultation Paper No. 10/2015-16, has done computation of DF capitalisation to be considered for the 1st Control Period. MIAL has reproduced Row 'A' to 'D' of the table as below:

	Computation of DF, Rs. Crores	FY09-10	FY10-11	FY11-12	FY12-13	FY13-14
A=R(n)-R(n-1)	Aeronautical assets capitalization during the year (including DF funded assets)	396.94	559.01	511.61	455.22	6412.87
B	Operational Assets capitalized during the year	2.15	9.31	26.75	111.31	698.86
C	% of Aeronautical assets	88.00%	90.46%	91.78%	91.38%	84.52%
D=B*C	Aeronautical operational Assets capitalized during the year	1.89	8.42	24.55	101.71	93.7

3.29. MIAL has submitted that to arrive at the amount of Aeronautical Operational Assets capitalised during the year FY 10-FY13, the Authority has multiplied the operational assets capitalised during the year with the % of Aeronautical Assets. However, for the year FY 14, Authority has decided to consider the absolute amount of Aeronautical Operational Assets capitalised during the year instead of deriving the same by multiplying the operational assets capitalised during the year with the % of Aeronautical Assets. According to MIAL, this approach of Authority is inconsistent with its own approach followed for the period FY10-FY13. MIAL has submitted that Aeronautical Assets % is computed considering total assets of the company (including operational assets) and not project assets only. Hence, Authority should compute the FY 14 Aeronautical Operational Capital Assets by multiplying the total Operational Capital assets with Aeronautical Asset ratio.

3.30. Regarding the reduction of Aeronautical expenses by the Authority by 4 crores for FY 13 during reconciliation between operating expenses as per model submitted and financial statements of MIAL, MIAL has requested the Authority to consider the reconciliation given below and allow operating expenses of Rs. 448 Crores for MIAL.

Particulars	FY13
Total operating cost as per CPI-x sheet	477
Less:	
Considered as a part of finance charges :	
Working capital interest	2

Finance charges	1
Interest on Loan for Retirement Compensation paid to AAI	4
Retirement Compensation paid to AAI - treated as asset in Financials	21
DF collection charges part of finance charges in financials	1
Total operating cost as per CPI-x sheet	**448**
As per Financials	
Employee benefits expense	106
Other expenses	342
Total Operating cost as per Financials	**448**
Total difference	-

f Authority's Examination of Stakeholder Comments (including MIAL) on Issues pertaining to True-Up for the 1st Control Period

3.31. The Authority has considered and provided its decisions to a number of elements of various building blocks in specific chapters. The key decisions impacting the true-up for the 1st Control Period are highlighted below.

3.32. Subsequent to the release of Consultation Paper No. 10/2015-16 a reconciliation meeting was held between MIAL and the Authority on 23.03.2016. In the reconciliation meeting the Authority had deliberated upon the following aspects:

3.32.1. It was noted that certain disallowances from the project cost were being subtracted from the Regulatory Asset Base based on their total value instead of the aeronautical portion of such disallowances. The same was examined and the Authority decided to reconcile this by subjecting value of such disallowed amounts to the asset allocation ratio. Subsequently, only the aeronautical portion of the disallowed assets were deducted from MIAL's Regulatory Asset Base.

3.32.2. MIAL has submitted that the depreciation figures submitted by it as part of the tariff application were net of depreciation on DF funded assets. However, the Authority had made a further reduction on account of Depreciation on DF funded assets from the amount of depreciation claimed by MIAL. The submission of MIAL was reconciled and it was therefore decided to add back the depreciation on DF assets which MIAL had reduced from its computation to avoid double reduction in depreciation on this account.

3.32.3. During the meeting, MIAL submitted and demonstrated that the balance of Other Income separately added by the Authority was considered by MIAL as part of the head "Other Revenues in Retail Licenses" and due to this reason the revenue figures of the head Other Income was not matching with the audited financial statements of MIAL. Based on the examination of submissions made by MIAL, the Authority decided to roll back the upward adjustment which was resulting in a double charge on MIAL for cross subsidy of 30%.

3.32.4. With respect to assets disposed by MIAL or transferred to MAFFFL, the Authority had decided as part of the Consultation Paper No. 10/2015-16 that the Regulatory Asset Base for MIAL shall be considered net of the assets disposed after taking into account the accumulated depreciation for such assets. The treatment with respect to the same was provided in the financial model while calculating the tariff determination for the 2nd Control period.

3.33. With regards to the Authority's proposal on aeronautical asset allocation, the Authority has recomputed the asset allocation ratio based on MIAL's submissions on the revised amount spent on NACIL assets of Rs. 215.28 crores. The revised asset allocation ratio is 83.97% as explained in para 5.6.17.h below. This revised asset allocation ratio is being used for the purpose of true-up in FY 2013-14.

3.34. Regarding the return on equity (post tax cost for equity) considered for the calculation of WACC for the 1st Control Period, the Authority has decided to continue to consider a post-tax cost of equity as 16% as per its approach outlined in its Consultation Paper No. 10/2015-16.

3.35. On the issue of the inclusion of Upfront fee paid by MIAL to AAI as a part of its equity share capital for the calculation of WACC, the Authority is not persuaded to reconsider its earlier decision to not include the same as part of equity share capital of MIAL. A more detailed analysis of the same by the Authority is given in para 4.111 to 4.113.

3.36. The Authority has carefully examined the submissions made by various stakeholders with respect to Authority's proposed treatment regarding: (1) removal of MAT Credit from Reserves & Surplus (R&S) and (2) not considering Rs. 200 crores of Share Application Money pending allotment as on 31.03.2012 for the purpose of calculating Share Capital for WACC calculation for the FY 2011-12 and FY 2012-13. Based on its examination of various submissions, the Authority has presented its decision in para 4.118. The Authority has decided to not change its proposal with respect to MAT credit and has decided to consider Rs. 200 crores Share Application Money in the opening equity Share Capital of MIAL for FY 2012-13.

3.37. The Authority has examined in detail the submission made by MIAL that if additions are being considered on weighted average/proportionate basis, deductions/disallowances as well as DF adjustment should also be considered on same basis, instead of reducing the total amount from RAB for the respective year. Based on its examination, the Authority has decided that where the additions have been made as per actual date of capitalization, it would be appropriate to adjust the disallowances/disposals as well as cost of DF funded assets (from these additions) based on the same ratio as per the actual date of capitalization. Accordingly, the Authority has decided to consider MIAL's submission in this regard and consider the following ratio for calculating the values based on actual date of capitalisation.

Table 8: Ratio for arriving at actual date of capitalization considered by the Authority based on MIAL's submission under true-up for the 1st Control Period

	FY2009-10	FY2010-11	FY2011-12	FY2012-13	FY2013-14
Actual date of capitalisation ratio	17.8%	64.8%	72.1%	64.1%	28.0%

3.38. Regarding MIAL's submission with respect to Authority's approach of arriving at the amount of Aeronautical Operational Assets capitalised during the year FY 14, the Authority has noted that the figure for Aeronautical Operational Assets capitalised during the year FY 14 is based on the submission made by MIAL to the Authority in which it had indicated that aeronautical assets pertaining to Rs. 93.7 crores will be capitalised during the year. Accordingly, there was no requirement to multiply the operational assets capitalised during the year with the % of Aeronautical Assets since the Authority had the exact aeronautical figures provided by MIAL. The Authority has also noted that since it has decided to adjust the entire balance DF amount in the FY13-14, there would not be any impact on the ARR since the amount capitalised by MIAL is significantly above the DF amount remaining to be adjusted before that year.

3.39. Regarding the reconciliation of Rs. 4 crores pertaining to the Operating and Maintenance expenses of MIAL for the 1st Control Period, the Authority has taken into account the reconciliation statement provided by MIAL and made corresponding adjustment in the Operating and Maintenance expenses for the 1st Control Period.

3.40. With regards to Authority's proposal on the inclusion of PSF (SC) O & M expenditure, the Authority has decided to only consider the inclusion of PSF (SC) O&M expenditure of 14.21 crores out Rs. 38.72 crores for the years 2009-10 to 2013-14 as part of aeronautical service tariff determination as per evidence submitted by MIAL for the reimbursement of these amounts into the PSF (SC) escrow account. The remaining amount shall be considered for true-up at the time of determination of tariff for the 3rd Control Period, on the provision of the evidence for the reimbursement of such amounts into the PSF (SC) escrow account by MIAL.

3.41. Accordingly, based on the Authority's analysis presented above, the true-up is revised as given below,

Table 9: Computation of RAB trued up by the Authority for the 1st Control Period

Regulatory Asset Base (In Rs. Crore)		**FY2009-10**	**FY2010-11**	**FY2011-12**	**FY2012-13**	**FY2013-14**
Computation of HRAB						
A	Opening HRAB	966.03	923.82	876.14	828.11	780.32
B	Depreciation for the year	42.21	47.69	48.03	47.79	23.79
c=a-b	Closing HRAB	923.82	876.14	828.11	780.32	756.54
d=Avg(a,c)	Average HRAB	944.93	899.98	852.12	804.22	768.43
Computation of RAB						
A	Opening Regulatory Asset Base	827.80	1120.98	1506.94	1861.95	2069.78
B	Less: Depreciation on RAB (ex. DF, Upfront fee)	53.69	83.84	107.43	123.22	141.88
M	Capitalization based on actual date of capitalization	71.00	363.40	369.40	291.98	1780.60
N	Less: Aeronautical Disallowances based on actual date of capitalization	2.37	11.72	7.94	0.00	0.47
O	DF Adjustment proposed for the year	51.85	91.12	50.16	125.17	3081.71
P	Ratio for computing proportionate adjustment based on actual days	17.81%	64.79%	72.06%	64.12%	28.03%
Q=O*P	Proportionate DF to be adjusted in the current year	9.23	59.03	36.15	80.26	863.79
C=M-N-Q+C'	Add: Pro-rata Addition to aero assets allowed during the year (excl. DF funded assets)	63.49	294.05	328.81	212.12	916.34

C'	Less: Assets discarded/ disposed-off during the year	4.10	1.40	3.50	0.40	0.00
X	Balance: Addition to aero assets carried forward to next year (excl. DF funded assets)	287.47	177.16	137.12	118.33	2354.54
D=A-B+(C-C')+X	Closing Regulatory Asset Base	1120.98	1506.94	1861.95	2068.77	5198.78
Calculation of Return on Aggregate RAB (RAB + HRAB)		-	-	-	-	-
E= A-B+C-C'	Average RAB = Actual RAB for the year	833.51	1329.78	1724.83	1950.45	2844.24
F=d	Average HRAB	944.93	899.98	852.12	804.22	768.43
G=E+F	**Average RAB (including HRAB)**	**1778.44**	**2229.76**	**2576.95**	**2754.66**	**3612.67**
H	WACC	12.06%	12.06%	12.06%	12.06%	12.06%
I=G*H	Return on RAB (WACC x Average RAB)	214.51	268.95	310.82	332.26	435.75
Aggregate Aeronautical Depreciation on RAB						
J=b	Depreciation on HRAB	42.21	47.69	48.03	47.79	23.79
K=B	Depreciation on RAB (excluding DF)	53.69	83.84	107.43	123.22	141.88
L=J+K	**Net Aero Depreciation for the year**	**95.89**	**131.53**	**155.46**	**171.01**	**165.67**

Table 10: ARR and actual revenue considered by the Authority under true-up for the 1st Control Period

Aeronautical Revenues	**FY2009-10**	**FY2010-11**	**FY2011-12**	**FY2012-13**	**FY2013-14**
Landing charges	268.72	285.21	298.07	341.43	624.41
Parking charges	16.18	11.01	9.03	11.41	33.53
Aerobridge	20.11	0.00	0.00	4.15	29.88
User Development Fee/Passenger Service Fee	98.25	109.93	117.11	163.40	484.97
Unauthorized Overstay	0.00	0.00	0.00	5.70	5.81
Fuel concession	73.17	79.96	82.95	95.76	101.66
Total Aeronautical Revenues	476.44	486.11	507.16	621.84	1280.26
Target Revenue					
Return on RAB (WACC x Average RAB)	214.51	268.95	310.82	332.26	435.75
Regulatory Base	1778.44	2229.76	2576.95	2754.66	3612.67
WACC	12.06%	12.06%	12.06%	12.06%	12.06%
OM - Efficient Operation & Maintenance cost	374.98	190.58	311.46	382.04	502.71
Aero Depreciation	95.89	131.53	155.46	171.01	165.67
Share of Revenue from Revenue Share Assets	154.61	206.44	240.45	255.41	264.92
Target Revenue	530.78	384.61	537.29	629.90	839.21
Determination of True-up amount					
Target Revenue	530.78	384.61	537.29	629.90	839.21
Total Aeronautical Revenues	476.44	486.11	507.16	621.84	1280.26

Revenue Gap	54.34	(101.49)	30.13	8.05	(441.05)
Revenue Gap with carrying cost (NPV)	96.03	(160.06)	42.40	10.11	(494.25)
True-up					(505.76)

***This Pertains to Passenger baggage screening charges**

Decision No.2 Regarding truing-up of ARR for the 1st Control Period for MIAL based on the material before it and its analysis, the Authority decides

2.a. To consider aeronautical asset allocation in FY2013-14 at 83.97%

2.b. To consider cost of debt in the 1st Control Period at 10.48% and WACC at 12.06%

2.c. To include an amount of 14.21 crores in FY 13 on account of PSF (SC) O&M expenditure as part of aeronautical service tariff determination as per evidence furnished by MIAL for reimbursement of this amount into the PSF (SC) escrow account.

2.d. To consider true-up of negative Rs. 505.76 crores as on 31.03.2014 (over-recovery by MIAL in the 1st Control Period) towards determination of aeronautical tariff for the 2nd Control Period as per Table 10 in this Order.

2.e. To consider the above true-up in the ARR computed for determination of aeronautical tariff for the 2nd Control Period.

4. Weighted Average Cost of Capital (WACC)

4.1. WACC represents the weighted average cost of capital considered for calculating returns on Regulatory Asset Base for CSI Airport, Mumbai. Weighted average cost of capital is arrived at based on consideration of individual components including cost of debt, cost of equity and cost related to other means of finance. This chapter provides Authority's final decisions with respect to such components pertaining to WACC for tariff determination for the 2nd Control Period.

a MIAL Submission on Weighted Average Cost of Capital (WACC)

4.2. MIAL made the following submission on means of finance as part of its tariff application dated 08.09.2015:

"Means of Finance

The Means of Finance for the Current Projects cost of Rs. 12,630 Crs. and for New Projects cost of Rs 1320 Crs. along with Operational capital expenditure of Rs. 1,440 Crs. is considered as follows:

Table: Means of Finance – Revised Rs./Cr

	Current Projects - Rs 12,630 Crs.	*New Projects and Operational Capex - Rs. 2,760 Crs.*
Equity		
a. Paid Up Capital	*1,200*	*-*
b. Internal Accruals (Reserves)	*1,166*	*1,413*
c. Internal Resource Generation	*53*	
*Real Estate deposits (refundable)**	*207*	*-*
DF	*3,400*	*518#*
Debt	*6,604*	*829*
Total	*12,630*	*2,760*

**Carrying interest at weighted average cost of debt of MIAL to be charged by Real Estate division to airport division.*

#Metro rail stations contribution of Rs.518 crores included in the New projects aggregating Rs 1320 crs. are proposed to be funded through Development Fees (DF). "

4.3. MIAL submissions as part of its tariff application on individual components for WACC determination are presented below:

<u>Cost of Debt</u>

4.4. MIAL had submitted the following schedule for debt and cost of debt in the 2nd Control Period as part of its tariff model dated 08.09.2015

Table: Outstanding Debt submitted by MIAL as part of its Tariff Model dated 08.09.2015, for the second Control Period

*In Rs. crores**	*FY15*	*FY16*	*FY17*	*FY18*	*FY19*
Opening Debt balance as on 1st April	*5450.98*	*5900.98*	*7365.46*	*7135.91*	*6896.21*
Add: Drawdown (New Debt Infusion)	*1000.00*	*1734.48*	*120.32*	*208.50*	*88.99*
Less: Repayment	*550.00*	*270.00*	*264.51*	*362.82*	*512.59*
Closing Debt balance as on 31st March	*5900.98*	*7365.46*	*7221.28*	*6981.58*	*6472.62*
Total Interest Paid during the year (interest expense)	*562.93*	*736.03*	*867.99*	*852.39*	*810.96*
Average Interest Rate during the year	*11.64%*	*11.94%*	*12.15%*	*12.30%*	*12.44%*
*Weighted Average Interest Rate during the control period***	*12.10%*				

** The values in Tariff Model are in Rs. million terms*

*** The debt calculation submitted by MIAL is on actual date basis*

<u>Land monetization and Treatment of Refundable Security Deposits (RSD) and Revenue</u>

4.5. MIAL had considered Rs. 1,000 crores as a means of finance as part of its tariff application dated 26.12.2013 as well as its tariff application dated 05.08.2014. MIAL had also submitted that such Real Estate Deposits carry interest at weighted average cost of debt of MIAL to be charged by Real Estate division to airport division.

4.6. In its application dated 08.09.2015, MIAL has considered only Rs. 207 crores as a means of finance obtained from RSD as mentioned below:

"While determining tariff for the 1st control period the authority, based on estimated receipt of refundable interest free security deposit to the tune of Rs. 1,000 crores, had considered such deposit as one of the means of finance,

However, due to delay in availability of land and also due to Real Estate market turning unfavourable/specially hospitality segment, response to tender floated by MIAL for leasing of 8.75 acres of land consisting of four Plots was not very encouraging. In fact in one case involving two plots even after allowing extra time to fulfil obligations by the bidder, the bidder expressed inability to proceed with the offer. So far deposit of Rs. 100 crores has been received and there is firm commitment for another Rs. 107 crores. Out of four plots only two plots have been finalised.

Though all efforts will continue to monetize the Real Estate and collect deposits in near future, but due to uncertainty it is essential that arrangement is made for funds to complete the project. As already informed, there is no possibility for getting long term loan / project loan for funding project cost. All shareholders including AAI had expressed inability to bring further equity. As a last resort, MIAL had to approach lenders; for mid-term loan in order to complete the project. In the view of this development, other than Security deposit already collected / committed aggregating Rs. 207 crs., an amount of Rs. 793 crs. has to be arranged through short /Mid-term loans, with a commitment to repay such loan in future out of Real Estate Deposits. Loan of Rs. 300 crs, has been sanctioned by Axis Bank and Rs. 350 crs. by Yes Bank aggregating Rs. 650 crs. Further, Rs. 273 crs. funding gap generated due to escalation in project cost and balance shortfall of RSD has also to be met through debt. It is envisaged that loan of Rs. 923 crs. shall be taken for the period of two/ three years with bullet repayments.

Increase in IDC is due to necessity for obtaining loan in absence of RSD and delay in completion of South East Pier Phase III from May, 2015 to September, 2015.

Interest on additional loan of Rs. 650 crores till completion of the project is Rs. 14 crores."

<u>Cost of Equity</u>

4.7. MIAL had made the following submission as part of its tariff application for 2nd Control Period regarding Cost of Equity,

"The Cost of Equity has been taken on the basis of Report prepared by KPMG (attached as Annexure 7(b)) wherein Cost of Equity has been computed based on CAPM as per following formula:

$Re = Rf + \beta * (Rm – Rf)$

Where: Rf = the current return on risk-free rate

Rm = the expected average return of the market

(Rm – Rf) = the average risk premium above the risk-free rate that a "market" portfolio of assets is earning

ß = the beta factor, being the measure of the systematic risk of a particular asset relative to the risk of a portfolio of all risky assets

MIAL submits that it is relying on the analysis done by KPMG for Cost of Equity. KPMG has arrived at Cost of Equity of 23.12% and accordingly MIAL has considered cost of equity as 23% for WACC calculation. For details, enclosed report of KPMG may kindly be referred. The cost of Equity has been worked out as follows:

Cost of Equity (Re)

Parameter	***Value***
Risk free rate (Rf) - 10 year benchmark government bond yield	*8.62%*
Beta for Infrastructure companies	*1.57*
Market risk premium	*9.24%*
Cost of Equity (Re)	*23.12%*

"

Computation of WACC

4.8. MIAL had made following submission regarding computation of WACC as per its tariff application dated 08.09.2015,

"WACC Computation – Revised

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Total Capital Employed(Net of DF) (a+b+c)	*8,367*	*10,508*	*10,259*	*9,976*	*9,783*
Outstanding Debt (a)	*5,901*	*7,935*	*7,686*	*7,403*	*6,836*
Real Estate Security Deposit (refundable) (b)	*100*	*207*	*207*	*207*	*207*
Equity (c)					
Paid up Capital	*1200*	*1200*	*1200*	*1200*	*1200*
Internal Accruals (Reserves)	*1166*	*1166*	*1166*	*1166*	*1540*
Debt (%)	*70.52*	*75.51*	*74.92*	*74.21*	*69.88*
Real Estate (%)	*1.20*	*1.97*	*2.02*	*2.07*	*2.12*
Equity (%)	*28.28*	*22.52*	*23.07*	*23.72*	*28.00*
Weighted Average Gearing (%)	*73.14*				

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Weighted Average Security Deposit (%)	*1.90*				
Weighted Average Equity (%)	*24.96*				
Cost of Debt (%)	*11.64*	*11.94*	*12.15*	*12.30*	*12.44*
Weighted Average Cost of Debt (%)	*12.11*				
Cost of RE Security Deposit (%)	*12.11*				
Cost of Equity (%)	*23.00*				
Weighted Average Cost of Capital (%)	*14.82*				

"

b Authority's Proposal on Weighted Average Cost of Capital (WACC) in the Consultation Paper No. 10/2015-16

4.9. The Authority had examined the MIAL submissions on individual components of WACC comprising cost of debt, cost of equity and real estate deposits to be considered towards determination of aeronautical tariff for the 2nd Control Period. The Authority had proposed that WACC for the purposes of calculating Target Revenue will be calculated based on estimated proportion of different components of the means of finance and items in the audited Balance Sheet, such as Debt, Equity, Reserve & Surplus as well any other means of finance like RSD, etc.

4.10. The Authority's proposals regarding each of the individual components and WACC is presented below.

4.11. With respect to the projected cost of debt, the Authority was in receipt of the loan agreements for various loans and had noted the interest rates. Accordingly, the Authority had computed the outstanding debt and cost of debt in the 2nd Control Period as shown in Table 11 below considering the opening balance as carried forward from the closing balance in FY2013-14 of Rs. 5,450.98 crores.

4.12. Further, the Authority had noted from the terms and conditions of the loan agreement of Rs. 350 crores with Yes Bank (dated 29.06.2015), that MIAL had an outstanding debt of Rs. 1,400 crores with respect to the Rs. 1,800 crores of debt raised by MIAL; Rs. 4,201 crores with respect to the previous term loan of Rs. 4,231 crores and Rs. 2,439 crores with respect to Rs. 2,648 crores towards ADF loan.

4.13. As regards the interest rates, the Authority had proposed to calculate the rate of interest on projected long term loans for the years 2015-16, 2016-17, 2017-18, and

2018-19 as weighted average of rate of interest on old long term loans (11% on Rs. 6,031 crores) and existing short term loans (11.25% on Rs. 350 crores and 12.05% on Rs. 300 crore); working out to be 11.64% for FY2014-15 and 11.06% for the remaining years in the Control Period.

4.14. The computation of the outstanding debt proposed by the Authority is presented below,

Table 11: Outstanding Debt and Cost of Debt computed by the Authority considered for the second Control Period in the Consultation Paper No. 10/2015-16

In Rs. crores*	2014-15	2015-16	2016-17	2017-18	2018-19
Opening Debt balance as on 1st April	5450.98	5900.98	7365.46	7135.91	6896.21
Add: Drawdown (New Debt Infusion)	1000.00	1734.48	120.32	208.50	88.99
Less: Repayment	550.00	270.00	349.87	448.19	597.95
Closing Debt balance as on 31st March	5900.98	7365.46	7135.91	6896.21	6387.25
Total Interest Paid during the year (interest expense)	562.93	736.34	868.69	853.59	812.71
Average Interest Rate during the year	11.64%	11.06%	11.06%	11.06%	11.06%

4.15. The Authority had proposed to consider weighted average cost of debt at 11.64% for FY2014-15 and 11.06% for remaining years of the 2nd Control Period. The Authority had further proposed to true up the cost of debt for the 2nd Control Period subject to a cap of an additional 50 bps on the existing rates i.e., from current level of 11.06% to a ceiling of 11.56% over the 2nd Control Period (FY2015-16 to FY2018-19).

4.16. The Authority had noted MIAL's submission regarding debt raised by MIAL to fund the RSD of Rs. 793 crores. Vide its Decision No. 9 of the MIAL Tariff Order 32/2012-13 the Authority had decided to consider RSD at zero cost. Further it had decided that in case of reasonable interest payment on RSD by MIAL, it will be considered towards calculation of WACC as RSD is being considered as a means of finance, and would also enter into the balance sheet. Further the Authority had decided as part of its MIAL Tariff Order No. 32/ 2012-13 not to accept the request of MIAL that "in case there is shortfall in collection of RSD for funding the project and such shortfall is met out of other means of finance, cost of such means of finance has to be considered"; unless MIAL presents compelling evidence to the Authority for its review.

4.17. The Authority had noted that MIAL has considered the cost of RSD at 12.11%, as mentioned in para 4.8 above. The Authority had sought loan agreements in respect of the loans raised to fund the gap on account of delay in raising RSD, and was in receipt of the same. The Authority noted that MIAL has taken short term loan in lieu of RSD at a high interest rate with a plan of its bullet repayment in 2-3 years. Further, the Authority pointed out that during the determination of project DF, MIAL has committed an amount of Rs. 1000 crores from RSD accounted as a means of finance. DF being a last measure of means of finance, MIAL was expected to generate RSD. However, MIAL could not monetize the land during the 1st Control Period and has only partially generated RSD to the tune of Rs. 207 crores. Thus, the Authority had proposed to consider RSD already raised by MIAL (at Rs. 207 crores) as a means of finance at zero cost.

4.18. The Authority had stated that it expects MIAL to raise the remaining amount of Rs. 793 crores in the 2nd Control Period. However, it was not very clear from MIAL's submissions whether the future RSD proposed to be raised will bear interest, or otherwise. In view of uncertainty on the rate payable on the proposed RSD, the Authority had proposed not to take the gap of Rs. 793 crores for WACC determination for the purpose of the tariff determination for the 2nd Control Period, but to account for the same as per actuals at the time of true up of WACC during the 3rd Control Period.

4.19. The Authority had dealt with land monetization and treatment of its revenue extensively in Consultation Paper No. 16/2014-15 for DIAL and para 14.6 to 14.20 of Order No. 40/2015-16 of DIAL. The OMDA and project agreements of the two airports operators are similar. As MIAL has undertaken some land monetization in the 2nd Control Period, the Authority had proposed to treat the RSD and its revenue as well as land revenue from monetization based on the mechanism to be prescribed by AAI and MoCA.

4.20. The Authority had noted that in its application dated 08.09.2015, MIAL has considered the cost of equity as 23% in order to compute the WACC. The Authority had noted MIAL's submission on this aspect for the 2nd Control Period and had not found any new grounds to alter its approach or decision taken at the time of Order No. 32/ 2012-13. Accordingly, the Authority had proposed to consider the Return on Equity (post tax Cost of Equity) as 16% for the WACC calculation. The Authority had further proposed to consider the same rate of return as of equity, i.e., 16%, for Reserve & Surpluses / Accumulated Profits (Retained Earnings).

4.21. In line with Authority's decision in the MIAL Tariff Order No.32/2012-13, the Authority had proposed to not consider the Upfront Equity paid by MIAL to AAI as part of its equity in the 2nd Control Period.

4.22. The Authority had computed the WACC for the 2nd Control Period considering equity, debt and RSD on average basis. Further, the Authority had considered reserves and surplus as zero when the accumulative reserves and surplus were negative for the any particular year. The Authority had decided to protect the paid-up equity rather than the Net Worth when positive reserves and surpluses were available with the airport operator. This is because the reserves and surplus are a fluctuating component. Thus, to ensure consistency, the Authority had capped the equity level to the level of paid-up equity in case of negative reserves and surplus. Therefore, the Authority had computed WACC at 11.75% and proposed to consider the same for estimation of return on RAB for the 2nd Control Period,

Table 12: WACC computed by the Authority to be considered for the second Control Period in the Consultation Paper No. 10/2015-16

Rs. Crores	**FY2014-15**	**FY2015-16**	**FY2016-17**	**FY2017-18**	**FY2018-19**
Opening Cumulative Debt (D_0)	5450.98	5900.98	7365.46	7135.91	6896.21
Closing Cumulative Debt (D_n)	5900.98	7365.46	7135.91	6896.21	6387.25
Average Cumulative Debt, D= Avg(D_0 ,D_n)	**5675.98**	**6633.22**	**7250.68**	**7016.06**	**6641.73**
Opening Equity (E_0)	1046.15	1046.15	1046.15	1046.15	1046.15
Closing Equity (E_n)	1046.15	1046.15	1046.15	1046.15	1046.15
Opening Reserves (R_0)	1054.66	735.65	482.13	165.03	0.00
Closing Reserves (R_n)	735.65	482.13	165.03	0.00	0.00
Average Equity, E=Avg(E_0 ,E_n) + Avg(R_0 ,R_n)	**1941.30**	**1655.04**	**1369.73**	**1128.67**	**1046.15**
Opening RSD (RSD_0)	0.00	100.00	207.00	207.00	207.00
Closing RSD (RSD_n)	100.00	207.00	207.00	207.00	207.00
Average RSD, R=Avg(RSD_0, RSD_n)	50.00	153.50	207.00	207.00	207.00
Average Capital Employed, C=D+E+R	**7667.28**	**8441.76**	**8827.42**	**8351.73**	**7894.88**
Average Debt (%), D% = D/C	74.03%	78.58%	82.14%	84.01%	84.13%
Average Net Worth (%), NW% = E/C	25.32%	19.61%	15.52%	13.51%	13.25%
Average RSD (%), R% = R/C	0.65%	1.82%	2.34%	2.48%	2.62%
Cost of Capital (%)					
Weighted Average Gearing %	80.66%				
Weighted Average Equity %	17.34%				
Weighted Average RSD %	2.00%				

Rs. Crores	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Cost of Debt %	11.64%	11.06%	11.06%	11.06%	11.06%
Weighted Average Cost of Debt %	11.16%				
Cost of Equity %	16.00%				
Cost of RSD %	0.00%				
WACC %	11.78%				

4.23. The Authority also proposed to true-up the WACC on account of actual cost of debt, subject to the ceiling proposed and the actual quantum of debt.

4.24. Additionally, the Authority had further proposed to true up WACC, upon review by the Authority, on account of:

4.24.1. Changes in Equity and Reserves & Surpluses (accumulated profits or retained earnings)

4.24.2. Adjustments to cost of debt, if any

4.24.3. Additional means of finance: for example, Cost of RSD, if any.

c Stakeholder Comments on issues pertaining to the Calculation of Weighted Average Cost of Capital (WACC)

4.25. Subsequent to the Stakeholder Consultation process, the Authority has received comments / views from various stakeholders in response to the Consultation Paper No. 10/2015-16 dated 16.03.2016 on the determination of aeronautical tariffs for CSIA airport, Mumbai for the 2nd Control Period.

Comments on the issues pertaining to the cost of equity

4.26. With respect to the principles for the determination of returns for investors, Blue Dart has commented that return for an investor should be measured through both dividends and capital appreciation. Blue Dart has cited that all initial stakeholders of private airports who offloaded their shares have exited their investments for a good premium.

4.27. Regarding return on equity, Blue Dart has commented that the Authority's prescribed rate of return of 16% post tax cost of equity is on the higher side. However, Blue Dart has accepted the proposal requesting the Authority not to allow any further increase in Cost of equity above 16%. IATA has submitted that the return of 16% being provided to MIAL on its equity is on the higher side compared to prior studies which indicate that the return should be between 11% and 14.06%.

4.28. With respect to return on equity, ASSOCHAM has submitted that proposed rate of return for MIAL is significantly lower than other sectors and is not commensurate with the associated risk of the sector. ASSOCHAM has cited the SBI Caps study initiated by MoCA which justifies a higher return of between 18.5% and 20.5% and has also made reference to the returns provided in other sectors such as power and petroleum. It has accordingly requested the Authority to consider a higher rate of return for equity ensuring viability of the airport.

4.29. DIAL, PHD Chambers and FICCI have also commented on similar lines, requesting the Authority to consider a higher rate of return on equity. DIAL has submitted that MoCA has issued a direction to the Authority on 12.03.2012 pertaining to the rate of return on equity and recommended a rate of 18.5% - 20.5% based on a prepared by SBI Capital Markets Limited, which is in the nature of a policy directive as per Section 42 of the AERA Act. DIAL has further stated that according to the industry experts the adequate return for the Airport Sector would be 24% and such return on equity for CSI Airport Mumbai in specific could be even higher keeping in view the capacity constraint on handling of aircraft and passengers and imminent threat due to eating up of traffic by airports planned in close vicinity of CSI Airport, which are additional risks for MIAL.

4.30. APAO has submitted that the Cost of Equity proposed at 16% by AERA is too low in the context of emerging country airports operating in condition where retail inflation is about 7.31%. APAO has further submitted that such low cost of equity proposed by the Authority shall restrict flow of investments to the airports sector which will work counterproductive. According to APAO, risk factors such as the high revenue share payable to AAI by MIAL though a contractual obligation, risk emerging from a second competing airport, coming up at Navi Mumbai also has a role to play in the determination of cost of equity. APAO has further submitted comparisons with other regulated infrastructure sectors and has requested the Authority to ensure that reasonable returns are made available to investors which suitably cover the risk associated with the assets, enable airport operators to have viable operations and provide an incentive for attracting new investments in the sector considering risk reward available for the airports sector. APAO has thus requested the Authority to provide return on equity of 24% to remain viable and provide efficient operations to airlines/ passengers.

4.31. On the non-consideration of Upfront Fee paid by MIAL to AAI as part of equity share capital of MIAL by the Authority, IATA has supported the Authority's views.

4.32. Regarding the Authority's proposal to not consider the upfront fees paid by MIAL to AAI as part of equity share capital of MIAL, APAO has commented that the Authority's decision is unfair to the shareholders who have brought in the money as Equity Share Capital. APAO has submitted that it does not find any provision in the SSA or OMDA which either stipulates that Upfront Fee payment has to be paid out of Equity Share Capital only or that the Authority needs to do one to one mapping for Upfront Fee payment against means of finance for the purpose of WACC calculation.

4.33. ACI has also made similar comments on the matter and requested the Authority to consider the same as a part of equity.

4.34. APAO has submitted that the Authority has considered Equity Share Capital as Rs 846.15 Crores for FY 2011-12, by ignoring Rs 200 Crores of share application money pending allotment as on 31.03.2012. As per APAO, AERA has ignored the Share application money available with MIAL as at close of 31.03.2012 since shares were not allotted on that date. According to APAO, this unfair treatment by AERA has resulted in no return available to MIAL on this amount for entire one year, since such application money aggregating Rs.200 crores has been eliminated both from closing as on 31.03.2012 as well as opening as on 01.04.2012. As per APAO, allotment on 16.04.2012 does not change the status of this fund which was available in hands of MIAL for its use. APAO has requested the Authority to consider the share application money available in the hands of MIAL as closing on 31.03.2012 as well as opening as on 01.04.2012 as part of equity so that MIAL does not suffer by computation of lower WACC due to lower share capital.

Comments on the issues pertaining to the cost of debt

4.35. Blue Dart in its submissions regarding the cost of debt has stated that a ceiling of 11.56% for the interest rate for the 2nd Control Period seemed to be on the higher side given the reduction of interest rates in India. Accordingly, Blue Dart has requested the Authority to re-consider their decision of revising the interest rate and consider instead a decrease in interest rate from the 11.06% approved in the 1st Control Period as it would spur MIAL to seek cost effective loans. Further, it has opposed the truing up the interest cost in the next control period on the grounds that allowing a true-up would not induce MIAL to look for cost effective borrowing.

4.36. Regarding Proposal 7.a. of the Consultation Paper No. 10/2015-16 on the cost of debt, IATA has commented that the need to assume a higher cost of debt as compared to the weighted average of the previous Control Period was unclear, given that the economic circumstances were improving (lower inflation expectations, recent reduction in RBI's repo rate). Additionally, it has also suggested that the Authority benchmark the cost of debt of MIAL with that of other infrastructure companies in India having solid credit ratings and make adjustments in the proposal in case the cost of debt of MIAL is not in line with these benchmarks.

4.37. Regarding, the outstanding debt level considered by the Authority, IATA expressed its agreement on the levels.

4.38. With respect to the true-up of cost of debt, IATA has commented that providing such true-up eliminates the incentive to the regulated company to outperform during the period. Accordingly, it has suggested that the Authority should determine an efficient level of cost of debt and leave it fixed for the period (without truing it up). It has further stated that if AERA wishes to continue true-up, it should define 11.06% as the maximum ceiling.

4.39. With respect to Authority's proposal regarding the capping of Cost of Debt for MIAL at 11.56%, APAO has requested the authority to remove such cap and allow MIAL to recover the market driven Cost of Debt. APAO has submitted that with strained cash flows due to proposed reduction in aeronautical tariff by the Authority, the cost of debt, which is subject to prevailing market conditions and risks, is bound to go up. According to APAO, with proposed reduced tariff, there are chances that the advantage of falling interest rate regime may not be available to MIAL. APAO has further submitted that recent loan availed at 12.05% is an indication about non availability of low rates to MIAL and therefore capping the rate of interest for debt at 11.56% should not be resorted to. APAO has also suggested that the Authority may review the reasonableness of the Cost of Debt charged by MIAL at the time of tariff determination for the subsequent Control Period.

Comments on the issues pertaining to land monetization and treatment of RSD

4.40. Regarding the Proposal 8.a. of the Consultation Paper No. 10/2015-16 on the treatment of RSD as a zero cost means of finance, APAO has requested the Authority to provide a return on Refundable security deposits used to finance Aeronautical Assets. However, the Authority has noted that while at one place APAO has mentioned that the return should at least be equivalent cost of debt, at another place it has requested the Authority to provide a return equivalent to equity, or in the worst case, equivalent to a rate between debt and equity. APAO has substantiated its' submission citing cases from other infrastructure sectors including petroleum and port and has submitted that regulators there provides return on the capital employed by the concessionaire and does not consider the means or source of funding while calculating tariff.

4.41. APAO has also pointed out that the State Support Agreement executed between MIAL and Govt. of India does not require any form of cross-subsidization, either towards revenue requirement or capital expenditure, from deposits raised or revenue earned from Non-Transfer Assets (i.e. assets other than Revenue Share Assets) and therefore providing funds by way of RSD to aeronautical business at zero cost is a direct 100% cross subsidization of aeronautical charges.

4.42. IATA has supported Authority's proposal to treat RSD as a zero cost means of finance on the grounds that it has been received by MIAL without any cost.

4.43. On the matter of the truing up of the RSD, IATA has submitted that the truing up mechanism needs to be accompanied with other measures to ensure that MIAL is adequately incentivized towards land monetization as soon as possible. It has suggested that a potential solution, in this regard, could be to true up but subject to a minimum RSD amount which is ramped up every year.

4.44. With respect to the treatment of revenue from land monetization, IATA has submitted that the revenues arising from land monetization should be included for tariff determination to benefit airport users as it believes that concessional land given to private players must result in benefits to the end consumers in India. It is also submitted that non-inclusion of revenues derived from monetization of state land provided free to the private players could be construed as unduly profiting the private player at the expense of the end-consumers.

4.45. FIA in its comments has highlighted the need for the Authority to elaborate and clarify the meanings of the terms Non-transfer assets, Non- Aeronautical services and transfer assets as a preliminary step to decide the issue of monetization of land.

4.46. FIA has also stated that by floating a tender for only 8.5 acres of the 195 acres allowed to it for commercial monetization by AAI, it is clear that MIAL has not yet firmed up the real estate business plan, which has impacted the tariff determination. FIA has further submitted that the interest of the consumers and the stakeholders requires that the lease rentals from the monetization of the land be appropriated towards the determination of aeronautical tariff and has suggested that the Authority determine the revenue/ value of commercial property to be factored in determination of tariff in order to ensure tariff levels are benchmarked to international airports.

4.47. FIA has also cited Authority's Consultation Paper No. 16/2014-15 and Schedule - VI of OMDA to substantiate that the land should not to be treated as a non – transfer asset and that the revenue arising from the contribution of land should be considered towards the determination of aeronautical tariff. It has further submitted judgements of the honourable Supreme Court to substantiate its view.

4.48. Lufthansa has commented that delay on the part of MIAL in the monetization of the land bank and raising of funds for cross subsidization the aeronautical cost/ charges amounts to a major source of revenue being ignored to the serious prejudice of the airport users.

4.49. With respect to return on Refundable Security Deposit, ASSOCHAM has submitted that the Authority should provide refund for RSD deposits to MIAL at least at the Cost of Debt if not at the Cost of Equity inspite of it not entailing any costs for MIAL as it believes that these funds have an opportunity cost. It has quoted examples in this regard from other sectors in India such as TAMP which offers a uniform rate of return of 16% on all types of capital employed including amounts collected as deposits.

4.50. DIAL has submitted that MIAL had accrued refundable security deposit (RSD) from the commercial exploitation of stipulated area of land as per the concession agreement. It has also stated that as the RSD has been derived from a non- transfer asset it is outside the purview of the regulator, however since MIAL has used the RSDs for part financing the Project Cost, RSDs are akin to equity and should have been treated as quasi equity for which AERA should have provided a fair return to MIAL. DIAL has again referred to the SBI-Caps report inducted by MoCA as a policy directive from MoCA to consider RSDs as quasi-equity and has asked the Authority to provide returns on RSD between debt and equity.

4.51. With respect to Land Monetisation, DIAL has submitted that the Real Estate Development does not get qualified under the definition of Revenue Share Assets and any revenue / proceeds from Real Estate Development is completely outside the purview of cross subsidization in accordance with the provisions of SSA. DIAL has further submitted that in view of absolutely clear provisions under the SSA and OMDA, they are of the view that, there was no need to refer this matter to MoCA and AAI.

4.52. FICCI and PHD chambers have also made similar comments / requests as ASSOCHAM and DIAL on the issue of monetization of Land Assets and requested the Authority to provide MIAL with a return on the RSDs.

4.53. On the calculation of WACC, IATA stated that it was in agreement with the Authority's approach but added that the proposed WACC of 11.75% should be adjusted downwards on the basis of IATA's comments regarding cost of debt, cost of equity and treatment of RSD. IATA has also mentioned that it is unclear as to why negative reserves are not taken into account when defining the equity portion.

4.54. On the matter of true-up of WACC, IATA commented that as land is still not monetized in full, there may be a need to true up for the 2nd Control Period. According to IATA, there may be a further need for truing up since the Authority has not considered negative reserves/accumulated profits in its forecasts. However, IATA has requested the Authority to consider no further true ups starting from the 3rd Control Period (i.e. assume a fixed capital structure).

4.55. On the matter of reduction of loses from Reserves & Surplus and treatment of MAT credit, APAO has submitted that the unilateral adjustment for MAT credit is not in accordance with Accounting Standards and has not been done for tariff fixation for any of the major airports. APAO has submitted that in computation of Target revenue, the Authority has calculated Tax as Nil and if Tax amount which was debited to the books itself is not being considered, the question of considering MAT Credit does not arise. FICCI's submissions on the matter were similar to that of APAO.

4.56. APAO has further submitted that the balance in Profit &Loss account, whether transferred to Reserves or retained in the P&L account, once used for the project development / funding, cannot be taken out or reduced and therefore any adjustment to the same subsequently on account of future losses is incorrect. As per APAO, reducing the same for the purpose of calculation of WACC is not correct treatment. APAO has further submitted that with such reduction in Reserves and Surplus for the losses on one hand and reduced return on RAB due to lower WACC on the other hand results in a double loss to MIAL / Airport operator. APAO has requested the Authority to protect the internal accruals / generation utilized for funding of the project in addition to Equity Share Capital.

d MIAL's response to Stakeholder Comments on Issues pertaining to Weighted Average Cost of Capital (WACC)

4.57. MIAL has supported DIAL's comment on cost of equity, where DIAL has stated that a return of 24% or higher shall be adequate return for the Airport sector. MIAL has similarly agreed to the comments of APAO, ACI, ASSOCHAM, PHD Chambers, ACSA and Bid Services and FICCI which support that MIAL should be allowed to recover a higher rate of return on their Equity.

4.58. MIAL has further stated that it is the responsibility of the Authority to ensure that the returns available to investors, suitably cover the riskiness of the assets, enable airport operators to have viable operations and provide an incentive for attracting new investments in the sector considering risk reward of the sector.

4.59. MIAL has agreed with ACSA and Bid Services and has requested the Authority to not reduce upfront fee paid from equity for calculation of WACC.

4.60. MIAL has submitted the following response to ACI's submissions regarding the non-consideration of the upfront fee paid to AAI by MIAL as equity

> *"… Though MIAL is in agreement with ACI on consideration of upfront fee for the purposes of calculation of WACC as a means of finance, we think that ACIs comment regarding upfront fee being part of RAB is not correct, in view of clause no. 3.1.1 of SSA..."*

4.61. In response to Blue Dart's comments regarding the cost of debt, MIAL has stated that the cost of debt is subject to prevailing market conditions that MIAL as a company has very little control over. It has also stated that capping of the cost of debt at 11.56% for any reset or fresh borrowing was not appropriate as the interest rates are market and risk driven, as evidenced by the fact that the cost of debt for a recent loan was availed by MIAL was 12.05% pa.

4.62. In addition, MIAL has submitted that with the current proposal of the Authority reducing the aeronautical tariff for CSIA and looming annual losses in the years to come, the risk associated with lending to CSIA / MIAL is set to increase. Also, there is a possibility that MIAL may have to approach lenders for rescheduling of existing loans due to inadequacy of cash flows, in which case lenders would charge higher rate of interest and not lower. Given these factors MIAL has submitted that the availability of future loans to MIAL may be at a higher rate of interest than experienced currently and may render the cap at 11.56% insufficient. MIAL has further submitted that the Authority would anyway have the opportunity to true up the cost of debt if MIAL is able to maintain the cap or is able to get lower rate of interest for existing/ new loans.

4.63. Regarding the true-up of Cost of Debt, MIAL has agreed to APAO's submission to remove the cap on cost of debt and allow the market driven cost of debt for future at the time of next determination of tariff.

4.64. With respect to Lufthansa's comments regarding the means of finance, MIAL has submitted that the projected equity contribution of Rs. 626 crores in 2008 was increased to Rs. 1200 crores in 2011 to meet the additional cost of development of the airport. Further, according to MIAL, entire internal accruals of the project have also been ploughed back. MIAL has further stated that in the 1st Control Period, MIAL had envisaged a loan of Rs. 4,231 crores. This loan amount has increased to Rs. 6954 crores for meeting the funding requirement of the Project.

4.65. In response to IATA's comment on MIAL's inability to raise funds through RSD, MIAL has submitted it had taken a very ambitious target to collect Rs. 1,000 crores despite several constraints at CSIA. It has further referred to the State Support Agreement (SSA) explaining that the SSA does not require any form of cross-subsidization, either towards revenue requirement or capital expenditure, from deposits raised or revenue earned against Non-Transfer Assets. MIAL has also submitted that assuming zero cost for deposits for borrowing unit is apparently wrong as it involves an opportunity cost as it had other avenues to deploy funds received from RSD.

4.66. In response to IATA's comments regarding AERA's proposal to reduce Equity Share Capital brought in by the investors / shareholders to the extent of Upfront Fee paid to AAI, MIAL has submitted that the Upfront Fee payment to AAI is part of RAB and therefore overall WACC should be applied on this payment as well instead of carving out this one payment and matching means of finance to the same. MIAL has further submitted that there is no provision in the SSA or OMDA which provides for exclusion of amount equivalent to Upfront Fee from Equity Share Capital for the purpose of WACC calculation and equity contribution by Shareholders in MIAL remains unchanged even after Rs.153.85 crores is excluded from the project cost.

4.67. MIAL has submitted that the Authority has not mapped means of finance for other disallowances and singling out one component of the project cost and mapping the same against specific means of finance is without any basis and devoid of any merit.

4.68. In response to FIA's comment on land monetisation, MIAL has stated that the judgement of the Honourable Supreme Court in Re Special Reference No. 1 of 2012, as quoted by FIA, was not relevant in the present case. It has also stated that FIA should not try to gain advantage from revenue related to real estate development and get unjustly enriched at the cost of MIAL.

4.69. MIAL has further stated that the contention of FIA are completely misplaced and as per SSA and OMDA, MIAL is fully entitled to develop certain percentages of the land for Non-Transfer Assets. According to MIAL, provisions of OMDA and SSA make it explicitly clear that proceeds from leasing of such land for development of Non-Transfer Assets is completely outside the regulatory purview and therefore cannot be utilised for cross subsidisation of aeronautical charges.

4.70. MIAL has also supported the comments and suggestions of DIAL, ASSOCHAM, FICCI, APAO, ACSA and Bid Services and PHD Chambers on issues pertaining Land monetization and RSD.

4.71. MIAL has expressed its agreement with the comments of APAO, ACI and FICCI and has accordingly requested the Authority to not reduce reserves by losses incurred by MIAL and MAT credit entitlement.

4.72. Regarding IATA's statement on the Authority's view to protect the share capital of MIAL, MIAL has responded that once invested in the project, there is no way these funds can be taken out / reduced and therefore any adjustment to the same on account of future events is incorrect. MIAL further explained that any subsequent losses reduce the Reserves and Surplus as per books of accounts, but do not in fact reduce the investment already made by the Shareholders. Accordingly, MIAL has requested the Authority to not only protect Share Capital but also the Reserves & Surplus of MIAL.

4.73. MIAL has further supported APAO and ACSA and Bid Services and has requested the Authority to consider share application money pending allotment as a part of equity share capital.

e MIAL's comments on Issues pertaining to Weighted Average Cost of Capital (WACC) in the Consultation Paper

4.74. MIAL has submitted that the cost of equity as 16% as proposed by the Authority for determination of aeronautical tariffs at CSIA underestimates the riskiness of the CSI Airport. MIAL has further contended that the aviation sector in India competes with other sectors in India as well as global airport projects for investments and if reasonable return on investment is not allowed, it would adversely affect future investments in the sector.

4.75. MIAL has also submitted that the significant revenue share at CSIA airport makes it more susceptible to risks than airports in emerging markets due to availability of lower cash flows with the capital providers. MIAL has submitted that since it is liable to pay 38.7% revenue share to AAI on all its revenues including return on equity and therefore in effect 16% return on equity proposed by AERA would result in a return of only 9.8% to the shareholders (net of revenue share) which is far below the reasonable return expectation of any investor.

4.76. MIAL has also submitted that the studies on the estimation of the cost of equity by experienced parties such as CRISIL (Estimation of Cost of Equity for MIAL), SBI Capital Markets (Report on fair rate of return on equity for Indian airport sector) and KPMG

(Cost of Equity Estimates of Indian Airport Industry) have estimated a higher cost of equity than NIPFP. Comparison between cost of equity estimates of NIPFP, the Authority, KPMG, SBI Capital Markets, CRISIL and Leigh-Fisher as submitted by MIAL are given below,

"SNo.	*Entity*	*Cost of Equity Estimates*
1.	*NIPFP*	*11.64%- 13.84%*
2.	*AERA*	*16%*
3.	*KPMG*	*20% - 23%*
4.	*SBI Capital Markets*	*18.5%-20.5%*
5.	*CRISIL*	*18.16% - 20.44% (CAPM) 21.09%-23.71% (APM)*
6.	*Leigh-Fisher*	*25.1%"*

4.77. MIAL has also submitted benchmarking of returns of airports with other regulated sectors highlighting the key differences between such sectors and the airport sector and stating that 16% equity return allowed by the Authority shall discourage investments in the sector.

4.78. MIAL has further submitted that during the process of competitive bidding for privatisation of Mumbai airport, AAI had indicated to the bidders to consider a post-tax cost of Equity and Debt of 22.8% and 6% respectively i.e. post tax nominal WACC of 11.6% to enable it compare the bids received from various bidders. As submitted by MIAL, the bidders had worked out the quantum of revenue share that could be paid to AAI and the balance that would be available with the bidders taking into account indicative cost of debt and equity given by AAI. MIAL has also submitted that it was assumed that after paying 38.7% of revenue share to AAI they would be able to earn a return of about 14% post tax on equity share capital.

4.79. MIAL has also referred to Section 13(1)(a) and Schedule 1 of SSA to state that the Authority has a responsibility to ensure viable operations of the airport. It has also requested the authority to consider the Annual Fee payable to AAI while considering the viability of the airport and provide commensurate return on equity.

4.80. MIAL as a part of their submissions have also mentioned a number of factors which enhance the risk at CSI airport, including the threat of a second competing airport, limited growth potential for non-aeronautical revenue and financing risks. MIAL has accordingly urged the Authority to provide a higher return on equity to the tune of 23% p.a.

4.81. With respect to Authority's decision regarding not to consider Upfront Fee paid by MIAL to AAI as part of equity share capital of MIAL, MIAL has submitted that Upfront Fee payment to AAI is part of RAB and therefore overall WACC should be applied on this payment as well instead of carving out this one payment and matching means of finance to the same.

4.82. MIAL has submitted that the SSA excludes Upfront Fee from forming part of the project cost and regulatory asset base but not from Equity Share Capital. MIAL has accordingly requested the Authority to consider total equity (without any reduction towards Upfront Fee to AAI) for the purpose of calculation of WACC.

4.83. With respect to Authority's proposal regarding the cost of debt, MIAL has stated that the cost of debt is subject to prevailing market conditions that MIAL as a company has very little control over. It has also stated that capping of the cost of debt at 11.56% for any reset or fresh borrowing was not appropriate as evidenced by the fact that the cost of debt for a recent loan was availed by MIAL was 12.05% pa. Accordingly, MIAL has requested the Authority not to cap the cost of debt at 11.56% as indicated in the CP.

4.84. In response to Authority's proposal to consider RSD already raised by MIAL (at Rs. 207 crore) as a means of finance at zero cost, MIAL has submitted that it has been unable to achieve its target to collect Rs. 1,000 crores towards RSD, for funding airport project due to inherent constraints at CSIA. It has also stated that the RSD amount collected by one business unit i.e. Non-Transfer Asset business, is given to other business unit i.e. Aeronautical business, has to be based on an arm's length transaction which would entail not providing funds from one business unit to the other at zero cost irrespective of whether other unit pays interest or not.

4.85. MIAL in its submissions has also stated that the consideration available to lessor from land lease transactions comprises of two components - upfront RSD and annual lease rentals. It has also stated that as per normal business practice consideration in such transaction is composite and there is an interplay between the two components and that assuming zero cost for deposits for borrowing unit is apparently wrong as it involves an opportunity cost.

4.86. MIAL has further submitted that had there been no necessity to deploy RSD towards project funding, it could have invested RSD in the non-aeronautical business or for other business purposes and earned a market determined return on it.

4.87. Apart from the above submissions, MIAL has presented case studies of other infrastructure sectors and has submitted that in such sectors, the return is allowed on the capital employed and regulators in these sectors do not provide return on the basis of source and associated cost of funds.

4.88. MIAL has thus, requested the Authority to consider the opportunity cost of interest free RSD (i.e. at least equal to the cost of debt) which is deployed for project funding, while calculating WACC.

4.89. With respect to Authority's proposal regarding removal of MAT Credit from Reserves & Surplus (R&S), MIAL has submitted that the proposed adjustment has not been done for tariff fixation for any of the major airports. MIAL has further submitted that out of the total MAT credit they have already realised Rs. 82 crores upto 31.03.2016 and would be able to utilise the balance before the stipulated period under the provisions of Income Tax Act. MIAL has submitted an auditor certificate for the same and has requested the Authority not to reduce the R&S by MAT credit entitlement amount. The submission made in the auditor certificate is presented below:

"

Sr No	*Particulars*	*Rs. In Millions*
(A)	*Total MAT credit entitlement recognised from FY10 to FY16*	*1,361*
(B)	*MAT credit balance as per audited financials of FY 16 (Note)*	*(545)*
(A-B)	*MAT credit adjusted*	*816*

Note: We have reviewed the MAT credit entitlement balance of Rs 545 Millions as on 31 March 2016. Based on the projections provided by the management for convincing evidence that sufficient future taxable income will be available against which such MAT credit entitlement can be realized. We are of the opinion that in accordance with the provisions of Income tax Act, 1961and relevant Guidance Note issued by Institute of Chartered Accountants of India, the Company will be able to *utilize the balance amount of the MAT credit entitlement within the stipulated period."*

4.90. MIAL has also submitted an opinion from Mr. Y.H. Malegam regarding MAT Credit Entitlement who has stated as below:

"5.8 In my opinion, therefore, there is no reason to exclude the MAT Credit Entitlement from "Reserves and Surplus" forming part of Equity for calculation of WACC for the following reasons:-

a) MAT Credit Entitlement is an asset like any other asset of the company.

b) MAT Credit Entitlement has been recognised as explained in the notes to the audited financial statement only when and to the extent there is convincing evidence that the company will pay normal tax within the specified period and MAT credit available can be utilised. MAT Credit Entitlement is therefore in the nature of an Advance Payment of Tax.

c) MAT Credit Entitlement is not a provision but is an asset and in the absence of a specific direction in that regard in the SSA that a particular asset should not be considered as a part of Capital Employed, there is no reason to deduct a particular asset from "Reserves and Surplus" in the calculation of Equity for the purpose of WACC.

d) MAT Credit Entitlement arises when there is an actual outgo of cash for payment of MAT. It is not possible to determine whether this payment is out of equity or debt and it cannot be treated differently from any other payment for the acquisition of assets.

e) The MAT Credit Entitlement has not in any way increased the "Reserves & Surplus". The payment of MAT has been charged against the profits for the year and consequently has reduced the "Reserves & Surplus" and the MAT Credit Entitlement has only restricts the reduction.

5.9 My opinion, therefore, on the matter on which opinion is requested is as under:

a) MAT Credit Entitlement recognised by the Company in its audited financial statements should not be reduced from the quantum of Reserves and Surplus in the calculation of WACC for the purpose of determination of aeronautical charges.

b) I have nothing further to add.”

4.91. In response to Authority’s proposal to protect the paid-up equity share capital but reduce reserves and surplus on account on losses, MIAL has submitted that the project is funded through a combination of means of finance such as Equity Share capital, Reserves & Surplus (R&S), Debt, Deposits, DF, etc. and Reserves and Surplus comprise funds belonging to shareholders / equity investors and once deployed by them into the project, such funding should be protected in the same way as equity share capital is protected. MIAL has further submitted that any subsequent losses though eat into the Reserves and Surplus as per books of accounts, do not reduce the investment already made by the Shareholders.

4.92. MIAL has further submitted that it could have used the reserves to pay to its Shareholders as dividends which in turn could have been ploughed back by them as equity; which Authority in turn would have protected. MIAL is thus of the opinion that the reduction of reserves and surpluses on account of losses is totally unfair to the shareholders, who instead of taking out dividend from the company, decided to plough back all the profits for funding of the project, in the overall interest of the airport development. MIAL has thus requested for these amounts to be treated at par with shareholders’ contribution and given the same treatment as equity.

4.93. MIAL has thus requested the Authority to protect the internal accruals / generation utilized for funding of the project besides Equity Share Capital on the grounds that book losses are not resulting into cash losses and therefore profits already utilized for project funding remain unchanged.

4.94. With respect to Authority’s proposal regarding the Share Application Money, MIAL has submitted that the Share application money is always considered part of shareholders’ funds and it is a normal practice where money received from applicant shareholders is first credited to share application money account and later on credited/transferred to equity share capital account on allotment of shares. MIAL has further submitted that because shares were allotted on 16.04.2012 instead of 31.03.2012, Authority is denying return on Rs 200 Crs for full year which is neither fair nor justifiable. MIAL has requested the Authority to consider the share application money as part of Equity Share Capital for WACC calculation for the FY 2011-12 and FY 2012-13.

4.95. MIAL has also submitted an opinion from Mr. Y.H. Malegam regarding Share Application Money who has stated as below:

"6.5 My opinion, therefore, in the matter on which opinion is requested, is as under:

a) Given the manner in which average equity is computed for the purpose of WACC, the equity as at 31st March, 2012, shall include the amount of Rs. 200 crore shown in the balance sheet as at 31st March 2012 as "Share Application Money Pending Allotment".

b) I have nothing further to add."

f Authority's Examination of Stakeholder Comments (including MIAL) on Issues pertaining to Weighted Average Cost of Capital (WACC)

4.96. The Authority has carefully considered the comments from various stakeholders regarding the various issues pertaining to WACC including the cost of debt, cost of equity, return from RSD for the 2nd Control Period in respect of CSI Airport, Mumbai. The Authority's examination and decisions in this regard have been presented below.

4.97. The loans raised by MIAL pertaining to the DF of Rs. 3400 crores, have not been considered by the Authority, for the computation of debt/WACC in the determination of aeronautical tariff for the 2nd Control Period, as the effect of securitized DF has been separately considered in the determination of DF, as per Order No. 29/2012-13 of the Authority.

4.98. Regarding comments on the interest rate forecast, the Authority has noted that based on indications provided in the monetary policy as well as comments received from various stakeholders, the economic circumstances indicate lower inflation expectations and accordingly, the interest rates are expected to remain same or decrease in future.

4.99. The Authority has also considered APAO and MIAL's comments regarding the cost of debt including various arguments that with strained cash flows due to proposed reduction in aeronautical tariff by the Authority, the cost of debt, which is subject to prevailing market conditions and risks, is bound to go up, that there are chances that the advantage of falling interest rate regime may not be available to MIAL and that there is a possibility that MIAL may have to approach lenders for rescheduling of existing loans due to inadequacy of cash flows, in which case lenders would charge higher rate of interest and not lower. However, the Authority has noted that the arguments submitted by MIAL and APAO have not been substantiated with any supporting evidence in the form of sanctioned letters or any other supporting documents from the banks. Accordingly, the arguments provided by APAO and MIAL seem theoretical. In terms of APAO's submission regarding a recent loan availed at 12.05% as an indication about non availability of low rates to MIAL, the Authority has noted that such loan is a short term loan and generally short term loans are costlier than long term loans which are deployed for creation of fixed assets. Therefore, the Authority does not agree to consider one single short term loan as a benchmark for MIAL's inability to raise debt at lower rate of interest for long term loans.

4.100. The Authority expects MIAL to put all its efforts and raise debt at or below 11.06% for any new loans in the 2nd Control Period. However, the Authority has also provided a headroom to the extent of an additional 50 bps in the cost of debt, to MIAL in case there is a reversal in the trend over the five year span of the 2nd Control Period.

4.101. Accordingly, the Authority has decided to consider weighted average cost of debt at 11.64% for FY2014-15 and 11.06% for remaining years of the 2nd Control Period. The Authority has further proposed to true up the cost of debt for the 2nd Control Period subject to a cap of an additional 50 bps on the existing rates i.e., from current level of 11.06% to a ceiling of 11.56% over the 2nd Control Period (FY2015-16 to FY2018-19) upon receipt of auditor's certificates and other documentary evidence submitted by MIAL.

4.102. Thus, in view of the above discussion, the Authority decides to consider the cost of debt as below,

Table 13: Outstanding Debt and Cost of Debt computed by the Authority considered for the 2nd Control Period

In Rs. crores*	2014-15	2015-16	2016-17	2017-18	2018-19
Opening Debt balance as on 1st April	5450.98	5900.98	7365.46	7135.91	6896.21
Add: Drawdown (New Debt Infusion)	1000.00	1734.48	120.32	208.50	88.99
Less: Repayment	550.00	270.00	349.87	448.19	597.95
Closing Debt balance as on 31st March	5900.98	7365.46	7135.91	6896.21	6387.25
Total Interest Paid during the year (interest expense)	562.93	678.37	789.57	766.72	721.12

Average Interest Rate during the year	11.64%	11.06%	11.06%	11.06%	11.06%

4.103. The Authority has noted that stakeholders' comments on the cost of equity vary significantly, in that some believe that the cost of equity should be higher than 16% based on various factors including a benchmark with other infrastructure sectors and others believe that it should be lower. The Authority has also noted comments from Blue Dart that the returns for an investor should be measured through both dividends and capital appreciation and that all initial stakeholders of private airports who offloaded their shares have exited their investments for a good premium.

4.104. The Authority disagrees with DIAL's comments that the findings of the SBI Caps study initiated by MoCA is in the nature of a policy directive by MoCA as per Section 42 of the AERA Act and that AERA is bound to consider such report.

4.105. With respect to comments from certain stakeholders, the Authority believes that it has addressed a number of business risks for the airport operator through various true-up mechanisms as part of the tariff determination. Accordingly, the Authority believes that a 16% return on equity suitably cover the riskiness of the assets and should provide an incentive for attracting new investments in the sector considering risk reward of the sector.

4.106. In terms of APAO and MIAL submission that risk factors such as the high revenue share payable to AAI by MIAL though a contractual obligation makes it more susceptible to risks than airports in emerging markets due to availability of lower cash flows with the capital providers, the Authority is of the opinion that the revenue share quoted by MIAL at the time of bidding for CSI Airport, Mumbai was a business decision taken by the bidders which cannot be a ground for providing high cost of equity to MIAL. Also, as mentioned by MIAL itself, the post-tax cost of Equity of 22.8% indicated by AAI to the bidders was to enable it compare the bids received from various bidders and there is no evidence from AAI or MIAL to the Authority which mentions that a post-tax cost of Equity of 22.8% was confirmed / assured to the bidders for all future tariffs.

4.107. At the time of tariff determination for the 1st Control Period, the Authority had mandated the National Institute of Public Finance and Policy (NIPFP) to conduct a study to estimate the fair rate of return especially for projects under PPP mode, namely, Mumbai, Delhi, Bangalore and Hyderabad. Considering the NIPFP report dated 19.04.2012 and other relevant factors pertaining to the riskiness of the airport, the Authority had decided to adopt a 16% return on equity for the 1st Control Period. The Authority is of the opinion that the relevant factors considered by it for arriving at 16% return on equity as reasonable have not undergone a change in the ensuing period.

4.108. During its submission for tariff determination for the 2nd Control Period, MIAL has not provided any fresh arguments / substantial evidence in favour of a 24% cost of equity. The Authority is not persuaded to revisit its decision on the cost of equity and hence decides to continue with its proposal to maintain the return on equity for MIAL at 16% and use the same for the purpose of estimation of WACC. However, similar to the tariff determination for IGI Airport, Delhi for the 2nd Control Period, the Authority notes that relevant factors including risk parameters (such as those submitted by MIAL) would evolve over a period of time and may necessitate a fresh study on applicable cost of equity for CSI Airport, Mumbai. The Authority has decided to undertake such study at an appropriate time.

4.109. The Authority has also noted MIAL's comment that SSA and OMDA are clear on the issue of land monetization. The Authority has also noted comments from other stakeholders such as IATA which have supported the position to include revenues arising from land monetization for tariff determination. However, as mentioned earlier, the Authority would like to get the opinion of other contracting parties for the Concession Agreement for the CSI Airport, Mumbai, i.e. AAI / MoCA. The Authority is also of the view that AAI / MoCA having been involved in the process of leasing of land to MIAL, are best placed to provide clarifications regarding the mechanism for land monetisation by MIAL as well as the formulation for treatment of revenue generated from monetisation of land towards determination of aeronautical tariff in respect of CSI Airport, Mumbai. The Authority is not willing to reconsider this view and has requested AAI / MoCA for their considered view in this regard. At present, the Authority has not received any view from AAI/MoCA. Upon the receipt of AAI/MoCA's views, appropriate treatment for land monetization shall be carried out.

4.110. The Authority does not agree with IATA's proposal that a true up should be accompanied with other measures to ensure that MIAL is incentivized to monetize land as soon as possible and that the true up should be subject to a minimum RSD amount which is ramped up every year.

4.111. The Authority has carefully considered the comments from APAO and MIAL regarding the non-consideration of Upfront Fee paid by MIAL to AAI as part of equity share capital of MIAL. As per SSA for CSI Airport, Mumbai, the upfront fee and the annual fee paid/payable by the JVC to AAI under OMDA shall not be included as part of cost for provision of aeronautical services and no pass-through will be available in relation to the same.

4.112. The SSA further defines the regulatory base on which returns are admissible at the rate of WACC as:

> *"It is further clarified that the Upfront Fee and any pre-operative expenses incurred by the Successful Bidder towards bid preparation will not be allowed to be capitalised in the regulatory base."*

4.113. In view of the above, the Authority is not persuaded to reconsider its earlier decision and hence decides to consider paid-up equity after removing the Upfront Fee for the purpose of WACC determination. The Authority will continue with its approach outlined in MIAL Tariff Order No.32/2012-13 and would maintain its stance of reducing the upfront fee of INR 153.85 crores from equity.

4.114. The Authority has examined the comments of all the stakeholders regarding the treatment of RSD. The Authority again disagrees with DIAL's submission that the findings of the SBI Caps study initiated by MoCA is in the nature of a policy directive by MoCA as per Section 42 of the AERA Act to consider RSDs as quasi-equity.

4.115. Furthermore, as regards the treatment of RSD as Quasi Equity, the Authority carefully examined MIAL's submission and noted that that the arguments presented by MIAL on RSD as part of the current submissions are same as the arguments it had submitted at the time of determination of aeronautical tariff for the 1st Control Period. Examining all these aspects and considering that there were no costs involved in raising RSD, the Authority had decided to treat RSD as a means of finance at zero cost. Following detailed examination of the issue and in absence of any fresh argument from MIAL as part of current submissions, the Authority decides to continue to treat RSD already raised by MIAL (Rs 207 crore) as a means of finance at zero cost.

4.116. The Authority further proposed to review and appropriately consider the additional RSD, if any, and applicable costs thereof, if any, to be raised by MIAL during the 2nd Control Period after receipt of views from MOCA / AAI.

4.117. The Authority has noted comments from various stakeholders including MIAL and APAO regarding negative reserves and surpluses of MIAL in the share capital which has an impact of reducing the return on equity. The Authority has computed the Reserves & Surplus, based on the past reserves, profit or loss made by MIAL through its operations, as the case may be. The Authority has decided to protect the paid-up equity rather than the Net Worth and therefore has decided not to reduce the closing equity from the present level of paid-up equity. The Authority believes that the reserves and surplus are a fluctuating component which determines the operator's stake in the venture and the Authority is not assured of whether the surplus is actually employed back into the project. The Authority therefore understands that it would be inappropriate to allow an operator to recover a higher cost of capital despite having a lower stake in the business, due to losses and associated reduction in reserves. The Authority has capped the equity level to the level of paid-up equity in case of negative reserves and surplus, also ensuring consistency in its methodology.

4.118. The Authority has carefully considered submissions made by various stakeholders with respect to Authority's proposed treatment regarding (1) removal of MAT Credit from Reserves & Surplus (R&S) and (2) not considering Rs. 200 crores of Share Application Money pending allotment as on 31.03.2012 for the purpose of calculating Share Capital for WACC calculation for the FY 2011-12 and FY 2012-13. The Authority has also reviewed the auditor certificate submitted by MIAL that out of the total MAT credit entitlement, they have already realised Rs. 82 crores upto 31.03.2016 and would be able to utilise the balance before the stipulated period under the provisions of Income Tax Act. The Authority also had reference to expert opinions provided by MIAL with respect to these issues. Based on its examination of various submissions, the Authority is of the view that MAT Credit was not available with MIAL for investing into the business and therefore cannot be considered for the purpose of calculating WACC. With respect to the Share Application Money, the Authority has noted that such funds were not shown as equity but as a separate entry at the end of financial year as part of MIAL's financial statements and thus cannot be considered as a part of the closing equity Share Capital for MIAL in FY 2011-12. However, the Authority has decided to consider the same as a part of the opening equity Share Capital for MIAL for FY 2012-13 since the equity was allocated in the month of April 2012 itself. Therefore, the Authority has decided to not change its proposal with respect to MAT credit and has decided to consider Rs. 200 crores Share Application Money in the opening equity Share Capital of MIAL for FY 2012-13.

4.119. The Authority has decided to compute the WACC, considering the following:

4.119.1. The cost of equity at 16% per annum

4.119.2. The RSD already raised by MIAL (Rs. 207 crores) at zero cost.

4.119.3. To consider the cost of debt for over the remaining years of 2nd Control Period at 11.06%

4.120. The Authority has also decided to partially true-up the WACC only to the extent of elements mentioned below:

4.120.1. New debt subject to the ceiling on cost of debt for actuals plus 50 basis points

4.120.2. New RSD in addition to Rs. 207 crores considered by the Authority

4.120.3. Fresh paid-up equity in addition to the value already considered by the Authority (after removing upfront fee from the paid-up equity).

4.120.4. Funds from Reserves and Surplus on actuals, if positive, during the 2nd Control Period.

4.121. In view of the above and decisions taken by the Authority, the WACC for the 2nd Control Period has been computed at 11.78% as detailed below,

Table 14: Total Capital Employed and WACC as considered by the Authority for 2nd Control Period

Rs. Crores	**FY2014-15**	**FY2015-16**	**FY2016-17**	**FY2017-18**	**FY2018-19**
Opening Cumulative Debt (D0)	5450.98	5900.98	7365.46	7135.91	6896.21
Closing Cumulative Debt (Dn)	5900.98	7365.46	7135.91	6896.21	6387.25
Average Cumulative Debt, Di= Avg(D0 ,Dn)	**5675.98**	**6633.22**	**7250.68**	**7016.06**	**6641.73**
Opening Equity (E0)	1046.15	1046.15	1046.15	1046.15	1046.15
Closing Equity (En)	1046.15	1046.15	1046.15	1046.15	1046.15
Opening Reserves (R0)	1054.66	735.65	482.13	165.03	0.00

Closing Reserves (Rn)	735.65	482.13	165.03	0.00	0.00
Average Equity, Ei=Avg(E0 ,En) + Avg(R0 ,Rn)	**1941.30**	**1655.04**	**1369.73**	**1128.67**	**1046.15**
Opening RSD (RSD0)	0.00	100.00	207.00	207.00	207.00
Closing RSD (RSDn)	100.00	207.00	207.00	207.00	207.00
Average RSD, Ri=Avg(RSD0, RSDn)	50.00	153.50	207.00	207.00	207.00
Average Capital Employed, Ci=Di+Ei+Ri	**7667.28**	**8441.76**	**8827.42**	**8351.73**	**7894.88**
Average Debt (%), D% = Di/Ci	74.03%	78.58%	82.14%	84.01%	84.13%
Average Net Worth (%), NW% = Ei/Ci	25.32%	19.61%	15.52%	13.51%	13.25%
Average RSD (%), R% = Ri/Ci	0.65%	1.82%	2.34%	2.48%	2.62%
Cost of Capital (%)					
Weighted Average Gearing % (Wd)	80.66%				
Weighted Average Equity % (We)	17.34%				
Weighted Average RSD % (Wr)	2.00%				
Cost of Debt % (CDi)	11.64%	11.06%	11.06%	11.06%	11.06%
Weighted Average Cost of Debt %, CD = (∑ (CDi *Di)/∑Di)	11.16%				
Cost of Equity % (CE)	16.00%				
Cost of RSD % (CR)	0.00%				
WACC %, WACC%=(CD*Wd)+(CE*We)+(CR*Wr)	11.78%				

Decision No.3 The Authority decides to adopt the following approach for consideration of WACC towards determination of tariffs for aeronautical services provided by MIAL at CSI Airport, Mumbai:

3.a. To adopt return on equity (post tax cost of equity) as 16% for the purpose of calculation of WACC.

3.b. To not consider Upfront Fee paid by MIAL to AAI as part of equity share capital of MIAL.

3.c. To not include MAT credit for the computation of Reserves and Surplus.

3.d. To consider Rs. 200 crores of Share Application Money pending allotment as part of Share Capital at the beginning of FY 2012-13 and not as part of the Share Capital at the end of FY12.

3.e. To consider the RSD already raised by MIAL (Rs. 207 crores) at zero cost and to consider any RSD raised by MIAL in future at actual cost.

3.f. To consider weighted average cost of debt at 11.64% for FY2014-15 and 11.06% for remaining years of the 2nd Control Period as per Table 13 in this Order.

3.g. To consider the outstanding debt levels as per Table 13 in this Order.

3.h. To calculate WACC for the purposes of calculating Target Revenue based on the audited balance sheet items like debt, equity, reserve & surplus as well any other means of finance like RSD, etc.

3.i. To consider WACC at 11.78% for the purpose of determination of aeronautical tariffs during the 2nd Control Period.

3.j. To true-up WACC for the 2nd Control Period at the time of determination of aeronautical tariffs for the 3rd Control Period for the elements mentioned below:

i) Changes in equity and Reserves & Surpluses (accumulated profits or retained earnings)

ii) Adjustments to cost of debt, if any, subject to the proposed ceiling of 11.56% and

iii) Additional means of finance: for example, Cost of RSD, if any, and upon review by the Authority

3.k. To commission a fresh study to determine cost of equity applicable in respect of CSI Airport, Mumbai at an appropriate time.

5. Regulatory Asset Base

5.1. The revenue target for MIAL as per SSA is defined as follows

TRi = RBi xWACCi + OMi + Di + Ti - Si

where, RB = regulatory base pertaining to Aeronautical Assets and any investments made for the performance of Reserved Activities etc. which are owned by the JVC, after incorporating efficient capital expenditure. The Regulatory Asset Base is important since the depreciation and return on RAB depend on it. In a new airport, with a large regulatory asset base, these could amount to 60-75% of the Annual Revenue Requirement (ARR).

5.2. This chapter provides Authority's final decisions with respect to various components of Regulatory Asset Base comprising:

5.2.1. Hypothetical Regulatory Asset Base

5.2.2. Treatment of DF Funded Assets

5.2.3. Asset Allocation between Aeronautical and Non-Aeronautical assets

5.2.4. Project Cost

5.2.5. Operational Capital Expenditure

5.2.6. New Capital Expenditure, and

5.2.7. Depreciation

5.2.8. Computation of RAB and return on RAB for 2nd Control Period

5.3. Hypothetical Regulatory Asset Base

5.3.1. Hypothetical Regulatory Asset Base is a part of Regulatory Asset Base, which is considered as a regulatory building block for the purpose of determination of aeronautical tariffs. As per SSA, the hypothetical regulatory base was required to be computed using the then prevailing tariff and the revenues, operation and maintenance cost , corporate tax pertaining to Aeronautical Services at the Airport, during the financial year preceding the date of such computation. Accordingly, the Authority had computed the Hypothetical Regulatory Asset Base (HRAB) at Rs. 966.03 crores vide Decision No. 10 of the MIAL Tariff Order 32/2012-13, pertaining to the tariff determination for the 1st Control Period for MIAL.

a MIAL Submission on Hypothetical Regulated Asset Base (HRAB)

5.3.2. As per MIAL's MYTP submission dated 08.09.2015, it had considered the following values of average HRAB for the 2nd Control Period:

	FY 15	FY 16	FY 17	FY 18	FY
Average HRB	*1,359*	*1,252*	*1,151*	*1,050*	*950*

b Authority Proposal on Hypothetical Regulated Asset Base (HRAB) in the Consultation Paper No. 10/2015-16

5.3.3. The Authority had examined MIAL's submissions on HRAB to be considered towards determination of aeronautical tariff for the 2nd Control Period. The Authority had noted that MIAL's submission for the 2nd Control Period on opening HRAB was on the basis of Rs. 1,817 crores in FY 2009-10 instead of Rs. 966.03 crores as per MIAL Tariff Order 32/2012-13.

5.3.4. The Authority was not in agreement with MIAL's computation of HRAB for 1st Control Period (based on Opening HRAB of Rs. 1,817.40 crores in FY 2009-10) and maintained its own computation in Order No. 32/2012-13. The variance in the Authority's computation of HRAB from that of MIAL was on account of non-consideration of non-aeronautical revenues including CUTE counter charges, inclusion of revenue from fuel throughput charges as part of aeronautical revenue and difference in corporate tax calculation by the Authority. The Authority, thus calculated the value of opening HRAB for the 2nd Control Period on the basis of depreciated value (based on an Opening HRAB of Rs. 966.03 crores in FY 2009-10).

Table 15: Computation of Hypothetical RAB as per Order No. 32 for 1st Control Period

Components of Hypothetical RAB	**Value (in Rs Crore)**
Aeronautical Revenue [A]	445.1
Non-aeronautical Revenue [B]	0
Operation and Maintenance Expenditure pertaining to Aeronautical Services [C]	334.52
Tax pertaining to Aeronautical services [D]	0
WACC [E]	11.45%
Hypothetical Regulatory Base (A+30%*B – (C+D))/E	966.03

5.3.5. In line with its Decision No. 6 of its MIAL Tariff Order 32/2012-13, the Authority further proposed to consider the depreciation on HRAB based on the average depreciation rate for aeronautical assets during the 2nd Control Period. Accordingly the estimated depreciation of HRAB considered by the Authority for the second Control Period in Consultation Paper No. 10/2015-16 is provided below,

Table 16: HRAB and Depreciation of HRAB considered by the Authority for 2nd Control Period in the Consultation Paper No. 10/2015-16

INR Crores	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Opening HRAB [A]	763.99	690.71	642.62	589.42	537.41
Gross Block of HRAB [a]	966.03	966.03	966.03	966.03	966.03
Average Depreciation Rate [d]	7.59%	4.98%	5.51%	5.38%	5.02%
Depreciation for the year [B=a*d]	73.28	48.09	53.20	52.01	48.54
Closing HRAB [C=A-B]	690.71	642.62	589.42	537.41	488.88
Average HRAB [D=Avg(A,C)]	727.35	666.67	616.02	563.42	513.14

c Stakeholder Comments on Issues pertaining to Hypothetical Regulated Asset Base (HRAB)

5.3.6. The Authority has received comments / views from various stakeholders on the matter of HRAB in response to Consultation Paper No. 10/2015-16 on the determination of aeronautical tariffs for CSIA airport, Mumbai for the 2nd Control Period.

5.3.6.a. Regarding Authority's proposal on calculation of depreciation on HRAB, IATA has commented that having depreciation values that vary each year for the same asset is not logical. It has accordingly suggested that the Authority should determine a fixed asset life for the HRAB and depreciate the asset accordingly on a straight line basis, which would result in the same fixed depreciated value per year throughout all periods until the net value of the HRAB is nil.

5.3.6.b. IATA has agreed with the Authority's proposal regarding opening value of HRAB for the 2nd Control Period.

5.3.6.c. Regarding calculation of HRAB, FIA has submitted that the Authority should not have considered the depreciation of HRAB as part of target revenue as the principles laid out in the SSA (to compute HRAB) are inconsistent with the Authority's regulatory philosophy and there is no intimation from MoCA with respect to the objective and mechanism for computation of HRAB.

5.3.6.d. ASSOCHAM has commented that the hypothetical RAB has not been calculated in accordance with the provisions of the Concession Agreement.

d MIAL's Response to Stakeholder Comments on Issues pertaining to Hypothetical Regulated Asset Base (HRAB)

5.3.7. In response to FIA's submission on HRAB, MIAL has submitted that FIA's contention that there is no statutory provision for inclusion of HRAB in RAB is incorrect. MIAL has clarified that AERA Act stipulates that a concession offered by the Central Government in any agreement / MOU / otherwise needs to be considered by the Authority while determining tariffs. MIAL has accordingly stated that the inclusion of Hypothetical RAB (HRAB) in RAB for tariff determination is mentioned in SSA and is therefore justified.

5.3.8. Regarding IATA's suggestion on applying a straight line method for depreciation, MIAL has submitted that HRAB is part of aeronautical RAB and applying depreciation rate applicable to aeronautical RAB is the correct approach.

5.3.9. MIAL is in agreement with ASSOCHAM's comment on HRAB and has submitted that the Authority must honour the Concession Agreement holistically on the matter of calculation of HRAB.

e MIAL's comments on Issues pertaining to Hypothetical Regulated Asset Base (HRAB) in the Consultation Paper

5.3.10. MIAL has not made any submissions with regard to the computation of HRAB.

f Authority Examination of Stakeholder Comments including MIAL on Issues pertaining to Hypothetical Regulated Asset Base (HRAB)

5.3.11. The Authority has examined the submissions and responses of IATA, FIA, ASSOCHAM and MIAL on issues pertaining to HRAB.

5.3.11.a. Regarding IATA's suggestion on applying a straight line method for depreciation, the Authority agrees with MIAL's submission that HRAB is part of aeronautical RAB and applying the same depreciation rate as applicable to aeronautical RAB is the correct approach.

5.3.11.b. Regarding ASSOCHAM's comment on the method adopted for computation of HRAB, the Authority notes that neither ASSOCHAM nor MIAL in its response has substantiated the argument why the approach adopted by the

Authority is against the Concession Agreement. Accordingly, the Authority sees no reason to change its stand on the matter.

5.3.11.c. Regarding FIA's comment that depreciation on HRAB should not be allowed for the purpose of tariff determination, the Authority understands that depreciation on HRAB is allowable based on provisions of the SSA. The Authority has therefore decided to maintain a consistent approach on the HRAB as per the Consultation Paper No. 10/2015-16.

5.3.12. Accordingly the Authority has decided to consider HRAB and its corresponding depreciation for each of the year in the 2nd Control Period as below which includes the impact on account of changes in the true-up figures for the 1st Control Period. The average depreciation rates for the 2nd Control Period have been computed as per Table 38.

Table 17: Hypothetical RAB considered by the Authority for 2nd Control Period

INR Crores	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Opening HRAB [A]	756.54	695.36	647.27	594.23	542.34
Gross Block of HRAB [a]	966.03	966.03	966.03	966.03	966.03
Average Depreciation Rate [d]	6.33%	4.98%	5.49%	5.37%	5.02%
Depreciation for the year [B=a*d]	61.18	48.08	53.04	51.89	48.52
Closing HRAB [C=A-B]	695.36	647.27	594.23	542.34	493.82
Average HRAB [D=Avg(A,C)]	725.95	671.32	620.75	568.29	518.08

Decision No.4 Regarding Hypothetical RAB for 2nd Control Period for MIAL based on the material before it and its analysis, the Authority decides,

4.a. To consider an opening Hypothetical RAB and depreciation on HRAB for the 2nd Control Period as indicated in Table 17 in this Order.

4.b. To estimate the depreciation for HRAB at year-wise average depreciation rate for aeronautical assets for the 2nd Control Period.

5.4. Treatment of DF Funded Assets

a MIAL Submission on treatment of DF Funded Assets

5.4.1. MIAL had included the treatment of DF funded assets as part of the overall RAB projection and did not make any separate submission with respect to the same.

b Authority Proposal on treatment of DF funded assets in the Consultation Paper No. 10/2015-16

5.4.2. As per the Order No. 29/2012-13 dated 21.12.2012, the Authority had decided to cap the allowable project cost Rs. 12,069.80 crores (including deferred projects of Rs. 422.34 crores) and determine the Development Fee for meeting the project funding gap at Rs. 3,400 crores, to be levied on embarking passengers with effect from 01.01.2013. The DF amount as allowed by the Authority is required to be adjusted (reduced) from the RAB of MIAL for the purpose of tariff determination since the funds are made available to the operator by the passengers at no cost.

5.4.3. The Authority's approach for DF adjustment to RAB was discussed in the para 2.6 to 2.9 of the Consultation Paper No. 10/2015-16. The Authority had noted as part of MIAL Tariff Order 32/2012-13 that the adjustment of RAB on account of DF has meaning when DF is received by the airport operator for funding aeronautical assets. The Authority had decided to adopt the principle based approach for DF adjustment to RAB based on apportionment of DF collected over all the eligible asset, proportionately.

5.4.4. The Authority had thus proposed to consider DF funding of RAB such that fund available to MIAL on account of DF for investment in a year (including any DF apportioned towards CWIP in the previous year brought-forward to the given year) would be apportioned over expenditure incurred on the aeronautical assets capitalized in the given year and the expenditure incurred on aeronautical CWIP in the given year; as per the scheme indicated in Para 8.63, 8.64 and 8.65 of MIAL Tariff Order No 32/2012-13. Further, while the fund apportioned to the expenditure incurred on the aeronautical assets capitalized in a year would be adjusted from RAB in the given year, that amount which is apportioned to expenditure incurred on aeronautical CWIP is proposed to be carried over to the subsequent years for adjustment from RAB in those years. The Authority had also proposed that in the year the terminal 2 is commissioned, the remaining balance of DF allowed by the Authority would be adjusted in the RAB i.e. in FY2013-14. Accordingly, the Authority proposed to adjust the entire DF of Rs 3,400 crores allowed, vide Order No. 29/2012-13 dated 21.12.2012 in respect of CSI Airport, Mumbai from the capitalizations made by MIAL by FY 2013-14.

5.4.5. The Authority had recomputed the DF capitalization on the basis of approach determined in the MIAL Tariff Order No. 32 / 2012-13 as below,

Table 18: Computation of DF capitalization considered under true up by the Authority in the 1st Control Period in the Consultation Paper No. 10/2015-16

	Computation of DF, Rs. Crores	FY08-09	FY09-10	FY10-11	FY11-12	FY12-13	FY13-14
A=R(n)-R(n-1)	Aeronautical assets capitalization during the year (including DF funded assets)		396.94	559.01	511.61	455.22	6412.87
B	Operational Assets capitalized during the year		2.15	9.31	26.75	111.31	698.86
C	% of Aeronautical assets		88.00%	90.46%	91.78%	91.38%	84.52%
D=B*C	Aeronautical operational Assets capitalized during the year		1.89	8.42	24.55	101.71	93.70
E= A-D	**Aeronautical assets net of operational capex capitalized during the year**		**395.05**	**550.59**	**487.07**	**353.51**	**6319.17**
F	Project capex incurred during the year		1241.20	1632.10	1990.32	2222.90	1688.70
G	Aeronautical Project capex incurred during the year		1218.10	1599.80	1966.40	2206.00	1622.40
g	Aeronautical CWIP of previous year (only Project Cost)		968.27	1791.31	2840.52	4319.85	6172.35
H=G+g	Total Aero Capex Available for DF Adjustment		2186.37	3391.11	4806.92	6525.85	7794.75
I=E/H	Ratio for apportionment of DF pertaining to Capitalized Assets		18.07%	16.24%	10.13%	5.42%	81.07%
J	DF disbursed by AAI to MIAL + DF Securitized		285.61	325.13	25.86	1865.40	898.01
K	Disbursement made by the lender to MIAL in that year on account of securitization		0.00	0.00	0.00	0.00	0.00
$L=(N-O)_{n-1}$	Brought Forward DF considered as a part of CWIP		0.00	234.00	468.35	444.13	2184.42
M	Repayment of DF securitized loan (principal and interest)		0.00	0.00	0.00	0.00	0.00
N=J+K+L+M	Total DF Available to be apportioned **		285.61	559.13	494.20	2309.53	3082.43
O= Min (N,N*	DF apportioned to Capitalized Assets		51.61	90.78	50.08	125.11	3082.43

I)							
P=Cumulative (O)	Cumulative DF Apportioned	0.00	51.61	142.39	192.46	317.57	3400.00
Q=N-O	DF considered as part of CWIP		234.00	468.35	444.13	2184.42	0.00
R	Cumulative Aero Assets Before DF Adjustment	881.51	1278.45	1837.47	2349.08	2804.29	9217.17
S=R-P	Net Aero Assets after DF Adjustment	881.51	1226.85	1695.08	2156.61	2486.72	5817.17
T=A-O	**Net Aero Addition per year after DF adjustment**		**345.34**	**468.23**	**461.54**	**330.11**	**3330.45**

5.4.6. Based on the Authority's approach to compute the depreciation on DF (refer para 2.10 of Consultation Paper No. 10/2015-16), the following depreciation was considered for the purpose of computing true up of depreciation (net of DF) for the 1st Control Period.

Table 19: Depreciation on DF capitalized assets as computed and considered under true-up by the Authority for the 1st Control Period in the Consultation Paper no. 10/2015-16

In Rs. Crore	FY09-10	FY10-11	FY11-12	FY12-13	FY13-14
Depreciation on DF Capitalized assets (as calculated by the Authority)	2.25	6.89	9.33	15.19	70.90

c Stakeholder Comments on Issues pertaining to treatment of DF funded assets

5.4.7. The Authority has received following comments / views from various stakeholders in response to the Consultation Paper No. 10/2015-16, with respect to its proposed treatment of Development Fee:

5.4.7.a. In its comments on the issues pertaining to the development fee in the Consultation Period No. 10/2015-16, IATA agreed with the approach proposed by the Authority.

5.4.7.b. Regarding the issue of DF Funded Assets being adjusted in FY 2013-14, APAO requested the Authority to use a consistent philosophy and methodology as was decided and followed in the 1st Control Period. Accordingly, APAO requested the Authority to continue with the proportionate adjustment for the remaining balance of DF adjustment till FY 2015-16 which is the date of completion for the terminal T2. ACI, ASSOCHAM and DIAL have made similar comments/suggestions as APAO with regards to the Development Fee and its adjustment to RAB.

d MIAL's response to Stakeholder Comments on Issues pertaining to DF funded assets

5.4.8. In response to IATA's comment that it is in agreement with the Authority's proposal, MIAL has submitted that there are some inconsistencies in the methodology proposed by AERA for adjusting DF from RAB.

5.4.9. MIAL is in agreement with the comments/suggestions of ACI, APAO, and DIAL regarding the adjustment of Development Fee to RAB and has requested the Authority to consider the DF adjustment up to FY 2015-16, which is the year of completion of New Terminal 2.

e MIAL's comments on issues pertaining to DF funded assets

5.4.10. Regarding the treatment of DF funded assets, MIAL has submitted that only a part of Terminal 2 project was commissioned in FY14 which does not imply the completion of the Project. MIAL has thus submitted that DF should be proportionately reduced from capitalised assets during FY 2013-14 to FY 2015-16, in continuation of Authority's own methodology followed in Tariff order of 1st Control Period.

5.4.11. MIAL has attached a certificate from an independent engineer confirming that the project was completed in FY 2015-16. MIAL has also quoted Para 5.141 of the Authority's DF Order 29/2012-13 dated 21.12.2012, and has submitted that the Order indicates that the allowed amount of Development Fee is towards the total allowable project cost and not restricted to the construction and development of Terminal 2 alone.

5.4.12. MIAL has further stated that the approach proposed by the Authority would result in denial of returns on the assets that were funded through other means of finance and has requested the Authority to adjust the Development Fee proportionately towards Aeronautical Assets up to FY 2015-16, which is when the asset was actually completed.

f Authority examination of Stakeholder Comments including MIAL on Issues pertaining to DF funded assets

5.4.13. The Authority has noted MIAL's submission that the Development Fee was towards the total allowable project cost and not restricted to the construction and development of Terminal 2 alone. However, the Authority disagrees with MIAL's submission that the approach used by the Authority will result in a denial of return on the assets which were funded through other means of finance. The Authority notes that the entire amount of Rs. 3,400 crores has been securitized by MIAL and deployed into projects by FY 2013-14. Interest on this loan amount obtained by securitizing the Development Fee is also being allowed by the Authority. Therefore, it would be incorrect to submit that there is a denial of return on the assets which were funded through other means of finance. The Authority has always maintained that DF is a measure of last resort and therefore adjusting DF from RAB till the completion of entire project, when MIAL has already commissioned a substantial portion of the project in FY14 (more than the value of allowed DF), would be against that principle. Similarly, the Authority remains unconvinced by the submissions of ACI, APAO, and DIAL in the above matter.

5.4.14. The Authority has thus decided to continue with its proposed approach for adjustment of DF funded assets from RAB as below,

Table 20: DF capitalization considered by the Authority in the 1st Control Period

	Computation of DF, Rs. Crores	**FY08-09**	**FY09-10**	**FY10-11**	**FY11-12**	**FY12-13**	**FY13-14**
A=R(n)-R(n-1)	Aeronautical assets capitalization during the year (including DF funded assets)		398.71	560.92	512.60	455.22	6352.59
B	Operational Assets capitalized during the year		2.15	9.31	26.75	111.31	698.86
C	% of Aeronautical assets		88.00%	90.46%	91.78%	91.38%	83.97%
D=B*C	Aeronautical operational Assets capitalized during the year		1.89	8.42	24.55	101.71	93.70
E= A-D	**Aeronautical assets net of operational capex capitalized during the year**		**396.82**	**552.50**	**488.05**	**353.51**	**6258.89**
F	Project capex incurred during the year		1241.20	1632.10	1990.32	2222.90	1688.70
G	Aeronautical Project capex incurred during the year		1218.10	1599.80	1966.40	2206.00	1622.40
g	Aeronautical CWIP of previous year (only Project Cost)		967.91	1789.19	2836.48	4314.83	6167.33
H=G+g	Total Aero Capex Available for DF		2186.01	3388.99	4802.88	6520.83	7789.73

	Adjustment						
I=E/H	Ratio for apportionment of DF pertaining to Capitalized Assets		18.15%	16.30%	10.16%	5.42%	80.35%
J	DF disbursed by AAI to MIAL + DF Securitized		285.61	325.13	25.86	1865.40	898.01
K	Disbursement made by the lender to MIAL in that year on account of securitization		0.00	0.00	0.00	0.00	0.00
$L=(N-O)_{n-1}$	B/F DF considered as a part of CWIP		0.00	233.76	467.78	443.47	2183.70
M	Repayment of DF securitized loan (principal and interest)		0.00	0.00	0.00	0.00	0.00
N=J+K+L+M	Total DF Available to be apportioned **		285.61	558.89	493.63	2308.87	3081.71
O= Min (N,N*I)	DF apportioned to Capitalized Assets		51.85	91.12	50.16	125.17	3081.71
P=Cumulative (O)	Cumulative DF Apportioned	0.00	51.85	142.96	193.12	318.29	3400.00
Q=N-O	DF considered as part of CWIP		233.76	467.78	443.47	2183.70	0.00
R	Cumulative Aero Assets Before DF Adjustment	881.87	1280.58	1841.50	2354.10	2809.32	9161.91
S=R-P	Net Aero Assets after DF Adjustment	881.87	1228.73	1698.54	2160.98	2491.03	5761.91
T=A-O	**Net Aero Addition per year after DF adjustment**		**346.86**	**469.81**	**462.44**	**330.05**	**3270.88**

5.4.15. The Authority has decided to consider the following depreciation for the purpose of computing true-up of depreciation for the 1st Control Period.

Table 21: Depreciation on DF capitalized assets considered by the Authority for the 1st Control Period

In Rs. Crore	FY09-10	FY10-11	FY11-12	FY12-13	FY13-14
Depreciation on DF Capitalized assets (as calculated by the Authority)	2.27	7.06	9.60	15.74	83.72

Decision No.5 Regarding Development Fee and its adjustment to RAB based on the material before it and its analysis, the Authority decides

5.a. To consider DF funding of RAB such that fund available to MIAL on account of DF for investment in a year (including any DF apportioned towards CWIP in the previous year brought-forward to the given year) would be apportioned over expenditure incurred on the aeronautical assets capitalized in the given year and the expenditure incurred on aeronautical CWIP in the given year; as per the scheme indicated in Para 8.63, 8.64 and 8.65 of MIAL Tariff Order No 32/2012-13.

Further, while the fund apportioned to the expenditure incurred on the aeronautical assets capitalized in a year would be adjusted from RAB in the given year, that amount which is apportioned to expenditure incurred on aeronautical CWIP would be carried over to the subsequent years for adjustment from RAB in those years.

5.b. The remaining balance of DF allowed by the Authority would be adjusted in the RAB in the year in which international part of Terminal 2 is commissioned i.e. in FY2013-14. Accordingly, to adjust total DF of Rs 3,400 crores allowed, vide Order No. 29/2012-13 dated 21.12.2012 in respect of CSI Airport, Mumbai from the capitalizations made by MIAL by FY 2013-14.

5.c. To consider the adjustments in RAB in respect of CSI Airport, Mumbai on account of DF as per Table 20 in this Order.

5.5. Asset Allocation

a MIAL Submission on Asset Allocation (Aeronautical / Non-Aeronautical)

5.6.1. As given in MIAL's final MYTP submission dated 08.09.2015, MIAL had proposed the following with respect to Asset Allocation for tariff computation:

"Table: Overall Aeronautical Assets as a % of Total Assets (for second Control Period) – Revised

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Aeronautical Assets as % of Total Assets	*87.58*	*87.58*	*87.58*	*87.58*	*87.58*

... "

b Authority's Proposal on Asset Allocation (Aeronautical / Non-Aeronautical) in the Consultation Paper No. 10/2015-16

5.6.2. Based on various submissions made by MIAL regarding asset allocation towards aeronautical services for the 1st and 2nd Control Periods as well as inputs from ICWAI study for MIAL, the Authority had proposed following with respect to the asset allocation for CSI Airport Mumbai for tariff determination.

5.6.3. The Authority had noted MIAL submission as well as ICWAI's comments pertaining to moving of NACIL and Line Maintenance Building. The Authority noted that while these assets are not owned by MIAL anymore, MIAL did incur a cost for relocating and constructing the facilities. Hence the Authority proposed to consider this expense incurred by MIAL as aeronautical in nature, pending the receipt of the supporting documents from MIAL on the handing over of the assets to NACIL. Accordingly, the Authority proposed an allocation ratio of 84.52% (as aeronautical assets).

5.6.4. The Authority had proposed to take into account non-aeronautical allocation of the new terminal building, T2, based on the actual handed over area or earmarked area, whichever is higher, including the common areas to be apportioned between aeronautical and non-aeronautical areas.

5.6.5. The Authority noted that certain areas which have been earmarked as aeronautical could be part of non-aeronautical assets based on the treatment given to similar areas in the building and that the apportionment of common areas did not seem to be appropriate. Therefore the Authority proposed to consider the asset allocation as 84.52% for the year FY 2013-14 and 2nd Control Period. The Authority had further proposed to reconsider the reallocation based on the details of the break-up for the entire area of the terminal building of 444,203 square meter and detailed breakup of its uses provided by MIAL.

5.6.6. The Authority had further proposed to take corrective action, as may be necessary, based on the independent study to be conducted to determine the allocation of assets in respect of the CSI, Mumbai Airport at the commencement of the 3rd Control Period.

c Stakeholder Comments on Issues pertaining to Asset Allocation in Consultation Paper

5.6.7. Subsequent to the Stakeholder Consultation process, the Authority has received comments / views from various stakeholders in response to the Consultation Paper No. 10/2015-16 dated 16.03.2016. Comments with respect to the asset allocation are as below.

5.6.7.a. With respect to asset allocation, IATA has submitted that the percentage allocated by AERA to aeronautical activities is way too high and has urged AERA to reconsider the same and has submitted the need for providing a true-up for cost allocation at a later stage.

5.6.7.b. On the matter of allocation of assets, FIA has commented that the issue of asset allocation is a subject matter of the Appeal pending before AERAAT and therefore the asset allocation ratio is subject to the outcome of the Appeal. FIA has further submitted that the Authority in its previous order with respect to tariff determination for MIAL for the 1st Control Period, decided to accept the proposal made by MIAL on allocation of assets into aeronautical and non-aeronautical assets on the basis of area and had decided to commission an independent study in this behalf and take corrective action, as may be necessary, at the commencement of the Control Period commencing with effect from 01.04.2014.

5.6.7.c. FIA has submitted that the Authority has once again proposed that it will consider the issue of asset allocation, and take corrective action, as may be necessary, based on the independent study to be conducted to determine the allocation of assets in respect of CSI Airport, Mumbai, in the 3rd Control Period. FIA has further submitted that the studies commissioned by the Authority have considered studies submitted by MIAL's consultants as a reference point and therefore due to the lack of any independent analysis of the asset allocation ratio, the consumers have been subjected to increased charges on account of a skewed asset allocation ratio suggested by MIAL's consultants. Lufthansa has also made similar comments / suggestions as FIA on the issue of asset allocation.

FIA has also commented that the Authority's review of the asset allocation ratio does not seem to take into account the construction of new assets. FIA has submitted that one of the key issues which was raised with respect to the Consultation Paper was the increased capex of MIAL.

5.6.7.d. FIA has also suggested that an order passed by an administrative authority, affecting the rights of parties, must be a speaking order supported with reasons and has drawn attention to a specific judgment of the Hon'ble Supreme Court highlighting the need to pass speaking and reasoned orders.

5.6.7.e. FIA has also submitted a table showing the mismatch between allocation of assets and revenue generated from those assets in case of MIAL and has suggested a 70:30 between aeronautical and non-aeronautical service including adopting a Single Till approach for MIAL.

5.6.7.f. On the matter of allocation of assets, FICCI has commented that instead of using the allocation ratio for bifurcation of common areas in T2 at CSIA based on ratio of T3 at IGIA, AERA should consider the asset allocation ratio based upon actual area at T2 rather than assuming the same based on T3 of DIAL.

5.6.7.g. Regarding details of Terminal 2 for asset allocation, Lufthansa commented that the details/ clarification sought by Authority with respect to the break-up of entire area of new Terminal T2 for asset allocation has not been provided by MIAL.

d MIAL's response to Stakeholder Comments on Issues pertaining to Asset Allocation

5.6.8. With respect to FIA's comment regarding the asset allocation, MIAL has submitted that the contentions of FIA are wrong and without any basis. MIAL has further submitted that AERA has appointed an independent consultant, ICWAI Management Accounting Research Foundation "ICWAI-MARF", for allocation of assets between Aeronautical and Non-Aeronautical Assets which has computed allocation ratio based on its own analysis. MIAL has made a similar submission in response to Lufthansa's comment for the requirement of an independent study.

5.6.9. MIAL has further submitted that using allocation ratio of T3 at Delhi for T2 of Mumbai by ICWAI is inappropriate and needs to be corrected. MIAL has also submitted that there is no basis of 70:30 ratio for aeronautical and non-aeronautical assets segregation suggested by FIA and that there is no merit in correlating percentage of revenues to percentage of assets because it is well known and accepted fact that concessionaire pays to the airports for the right to carry on their business from the airport and not for the assets to be provided by the airport operator.

5.6.10. In response to IATA's comment that the percentage allocated by AERA to aeronautical activities is way too high, MIAL has referred to the response given above.

5.6.11. MIAL has agreed with FICCI's response to submissions regarding the allocation ratio for T2 and requests the Authority to consider the area allocation as per T2 commercial area submitted by MIAL.

e MIAL's comments on Issues pertaining to Asset Allocation in the Consultation Paper

5.6.12. With respect to relocation of NACIL facilities and Authority's request for provision of supporting documents confirming a handover of assets to Air India, MIAL has submitted a letter from Air India confirming that the referred assets were in their possession. MIAL has also submitted an inspection report from IRS, an independent auditor which has confirmed that the assets referred by MIAL are in possession of NACIL/ Air India and are being used by them.

5.6.13. With respect to the cost of relocation and construction of NACIL/ Air India facilities, MIAL has submitted that while the Authority had considered Rs. 165.45 crores as aeronautical assets pertaining to relocation and construction of NACIL/ Air India facilities, the correct amount pertaining to NACIL/ Air India capitalized in books of MIAL as at 31.03.2014 is Rs 215.28 crores and has submitted an auditor certificate with respect to that.

5.6.14. MIAL has further submitted that line maintenance building pertaining to other airlines was also in the foot print of T2 apron which was demolished and such airlines moved their operations to T2. As per MIAL's submission, the cost for the same is Rs 15.22 Crores and MIAL has requested the Authority to consider the cost of LMD offices also as aeronautical since the primary objective of shifting of these building was construction of apron. MIAL has also submitted an auditor certificate with respect to this cost.

5.6.15. MIAL has further submitted an opinion from Mr. Y. H. Malegam, (the past President of The Institute of Chartered Accountants of India from 1979 to 1980, past director on the board of Reserve Bank of India and past Chairman of National Advisory Committee on Accounting Standards (NACAS)) on the above matter who has submitted that since the primary objective of shifting of the building was the construction of an apron; which is an aeronautical asset, such an expense should be considered an aeronautical.

5.6.16. Regarding the South East Pier of the airport, MIAL has submitted that the Authority has proposed to allocate the South East pier at the overall asset allocation of 84.52% whereas since the South East pier is part of T2, the allocation ratio applicable to T2 should be applied and not the overall allocation ratio of aeronautical assets.

f Authority's Examination of Stakeholder Comments (including MIAL) on Issues pertaining to Asset Allocation

5.6.17. The Authority has examined the submissions of all the stakeholders on issues pertaining to Asset allocation.

5.6.17.a. In terms of comments from IATA regarding the percentage allocated by AERA to aeronautical activities, the Authority has already proposed to consider the asset allocation based on an independent study and adopt the results of such study for true-up at the time of determination of tariffs for the 3rd Control Period.

5.6.17.b. With respect to FIA's comments, the Authority notes that the construction for various facilities at CSI Airport is still under progress and the final asset allocation of the new terminal can only be made once the construction is complete. Accordingly, the Authority as part of the Consultation Paper had proposed to commission an independent study at the commencement of the 3rd Control Period and take corrective action, as may be necessary.

5.6.17.c. With regards to FIA's suggestion that an order passed by the Authority must be a speaking order supported with reasons, the Authority agrees with FIA and believes that all its orders till date have been speaking orders supported with reasons. The Authority intends to continue this in future also. With respect to FIA's comments regarding a single till approach, the Authority had deliberated on this aspect in detail as part of the 1st Control Period and is currently not inclined to change its position regarding the tariff determination philosophy for CSI Airport to a single till approach.

5.6.17.d. Regarding the inclusion of the Line Maintenance Building as aeronautical for the computation of asset allocation ratio, the Authority has decided against considering the same as aeronautical, as the demolition of such building shall not lead to an increase in aeronautical assets of the airport. Accordingly, the Authority has decided not to accept Rs. 15.22 crores as aeronautical in this regard.

5.6.17.e. With respect MIAL's submission regarding to the cost of relocation and construction of NACIL/ Air India facilities, MIAL has submitted that while the Authority had considered Rs. 165.45 Crores as aeronautical assets pertaining to relocation and construction of NACIL/ Air India facilities, the correct amount pertaining to NACIL/ Air India capitalized in books of MIAL as at 31.03.2014 is Rs. 215.272 Crores and has submitted an auditor certificate with respect to that. The Authority has accepted MIAL's submission in this regard and shall compute the asset allocation ratio based on Rs. 215.272 crores.

5.6.17.f. Regarding FICCI's comment regarding computing the asset allocation based on actual area at T2 and MIAL's submission of the IRS report containing the asset allocation for Terminal 2 (85.57% aeronautical), the Authority has decided to accept the same and compute the asset allocation ratio for the airport using the provided information. Accordingly, the Authority has used an asset allocation ratio of 85.57% (aeronautical) for Terminal 2 as per its examination of the IRS report on the asset allocation for Terminal 2.

5.6.17.g. MIAL has vide its letter dated 23.06.2016 has requested the Authority to correct the asset allocation ratio to 86.27% (a change from its initial submission of 87.58% at the time of submission of its tariff application dated 08.09.2015) instead of 84.52%. However, the Authority notes that MIAL has not submitted a detailed computation on how adjustments for Terminal 2 and NACIL assets would result in such a ratio. The Authority also understands that MIAL has consider the asset allocation of 14.43% towards non-aeronautical area as provided in the IRS report only towards the common area provided in ICWAI report for calculating the above value of 86.27%. However, as per Authority's examination, the IRS report provided 14.43% as the ratio of total non-aeronautical area (including sitting areas) vis-à-vis total T2 area. Accordingly, the Authority has decided to consider asset allocation ratio of 85.57% (aeronautical) for Terminal 2 and re-compute the overall asset allocation ratio based on the information in paras 5.6.17.d, 5.6.17.e and 5.6.17.f above. A true-up would be available to MIAL at the time of tariff determination for the 3rd Control Period, based on MIAL's submissions on the matter.

5.6.17.h. With regards to the proposal on the asset allocation ratio, the Authority has decided to revise the asset allocation ratio as 83.97% based on revised computations by the Authority.

Table 22: Revised Asset Allocation Ratio as computed by the Authority for FY13-14 and the 2nd Control Period

Particulars	Non-Aeronautical (Rs. Crores)	(%)	Aeronautical (Rs. Crores)	(%)	Grand Total
Asset Allocation for airport assets as per the Consultation Paper (a)	1695.86	15.46%	9270.0	84.54%	10965.9
(-) Allocation of New Terminal 2 Considered above (b)	823.21	13.3%	5368.38	86.7%	6191.59
(+) Revised Allocation for New Terminal 2 (Based on IRS Report) (c)	893.4	14.4%	5298.1	85.6%	6191.59
(+) Change in the amount for NACIL Assets (215.272-165.45) (d)	0	NA	49.8	NA	49.8
Revised allocation for airport assets as per the Order (a-b+c+d)	1766.1	16.03%	9249.6	83.97%	11015.7

5.6.17.i. Regarding the South East Pier of the airport, based on MIAL's submission, the Authority has decided to take into account the submission made by MIAL and accordingly considered a ratio of 85.57% to calculate the aeronautical component of South East Pier Project.

Decision No.6 Regarding Asset Allocation for 2nd Control Period for MIAL based on the material before it and its analysis, the Authority decides

6.a. To consider asset allocation as 83.97% aeronautical as per para 5.6.17.h. in this Order.

6.b. To consider the effect of relocation and construction of NACIL/ Air India facilities and Line Maintenance Building and not accept Rs. 15.22 crores of Line Maintenance Building and accept value of NACIL facility as Rs. 215.28 crores for the computation of asset allocation as per para 5.6.17.d and 5.6.17.e in this Order.

6.c. To use the new Terminal T2 asset allocation ratio of 85.57% aeronautical for South East Pier.

6.d. The Authority proposes to conduct an independent study to determine the allocation of assets in respect of the CSI, Mumbai Airport at the commencement of 3rd Control Period and based on such study take corrective action, as may be necessary.

5.7. Capital Expenditure pertaining to Current Projects

a MIAL Submission on capital expenditure on Current Projects

5.7.1. As per MIAL's submission dated 26.12.2013, the details of total capital expenditure towards the current projects as per MIAL's nomenclature amounted to Rs. 12,500 crores as given below:

Table 23: Revised Project Cost submitted by MIAL in its submission dated 26.12.2013

Sr.	Particulars	Rs. In Crores
1	Project cost allowed by Authority as per Order No. 29/2012-13	11,647.46
2	Project cost deferred by Authority as per Order No. 29/2012-13	422.34
3	Project cost disallowed by Authority as per Order No. 29/2012-13	310.20
4	Reduction in project cost due to encashment of Performance Security of HDIL and decision on cargo development	75.00
5	Increase in project cost	380.00
6	Increase in IDC due to delay in capitalisation of new terminal	55.00
7	Increase in IDC due to additional loan	140.00
8	Cost of projects dropped by MIAL	380.00
	Total (1+2+3-4+5+6+7-8)	**12,500.00**

5.7.2. However, as part of its MYTP submission dated 08.09.2015, MIAL submitted that the project cost has increased from Rs. 12,500 crores to Rs. 12,630 crores for reasons beyond its control. An extract of the abovementioned submission has been reproduced below,

"i) Projects Capital Expenditure

a) Current Projects (Project Cost)

As submitted earlier, MIAL vide its letter no. MIAL/CEO/48 dated 31st July, 2015 has stated that cost of current projects has been increased from Rs. 12,500 crs. to Rs. 12,630 crs. due to the reasons beyond the control of MIAL.

....

Capex incurrence and capitalization numbers for FY 15 have been updated on actuals and FY 16 - FY 17 are accordingly updated.

Further, Terminal 2 domestic section which was envisaged to be opened in July 2015, will now be opened in two phases i.e. shifting of Air India in October 2015 and Jet Airways January 2016."

5.7.3. Accordingly, MIAL submitted a revised capital expenditure schedule and a revised capitalization schedule after updating the same based on actuals for FY 2014-15, as presented below:

"…

Table: Capital Expenditure Incurrence - Revised ***Rs./Crs.***

	*Incurrence upto FY 14**	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*	*Total FY 15-FY19*	*FY 20*	*Total upto FY 20*
	Actual	*Actual*	*Projected*						
Current Projects	*10,877*	*729*	*861*	*163*	*0*	*0*	*1,753*	*0*	*12,630*

* Excludes Retirement Compensation to AAI

Table: Capitalisation – Revised *Rs./Crs*

	*Upto FY 14**	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*	*Total FY 15-*	*FY 20*	*Total upto FY 20*
	Actual	*Actual*		*Projected*					
Current Projects	*10,272*	*223*	*1,878*	*257*	*-*	*-*	*2,358*	*0*	*12,630*

* Excludes Retirement Compensation to AAI

…"

b Authority Proposal on capital expenditure pertaining to Current Projects in the Consultation Paper No. 10/2015-16

5.7.4. The Authority had, vide its Order No.29/2012-13 dated 21.12.2012, decided to consider the allowable project cost at Rs 12,069.80 crores with respect to CSI Airport Mumbai, which included Rs 11,647.46 crores as allowable project cost during the 1st Control Period and Rs. 422.34 crores as cost of projects not included in the 1st Control Period. Further, the Authority had also decided to disallow Rs 310.20 crores from the project cost of Rs. 12,380 crores as submitted by MIAL. Furthermore, the Authority decided to cap the escalation, claim & contingencies of

Rs. 630 crores to avoid project cost overrun which was included as part of the project cost of Rs. 11,647.46.

5.7.5. The Authority had also decided to consider total project cost of Rs 11,647.46 crores as basis of determination of RAB for 1st Control Period and that the project cost of Rs. 422.34 crores may be allowed by the Authority on the basis of the documentary evidence on incurrence of expenditure on items included in this category. Thus the Authority capped the total project cost at Rs. 12,069.80 crores.

5.7.6. At the time of analysing MIAL's submission for tariff determination for the 2nd Control Period, the Authority had noted the revisions to the project cost made by MIAL in its submissions dated 26.12.2013, 05.08.2014 and 08.09.2015.

5.7.7. The Authority had also noted that compared with the project cost of Rs. 11,647.31 crores (including escalations, claims and contingencies of Rs. 630 crores) capped by the Authority in its Order No. 29/2012-13 dated 21.12.2012, MIAL has made the following revisions:

5.7.7.a. Increase in project cost (Rs. 575 crores segregated between Rs. 380 crores as increase in project cost and Rs. 195 crores as increase in interest during construction)

5.7.7.b. Increase in project cost (Rs. 130 crores)

5.7.7.c. Drop in project cost (Rs. 380 crores)

5.7.8. Based on its analysis, the Authority had proposed to consider only a part of these expenditures as part of the project cost, as given below:

Table 24: Increase in project cost considered by the Authority as part of the Rs. 380 crores

Increase in project cost	Cost submitted by MIAL, Rs. crores	Remarks
CENVAT Credit Disallowance	45	Allowed as it is a mandatory cost for MIAL
Time Delay Overhead for T2 Sep 2014 Apr 2015	39	Not Allowed, AAI to justify the delay
Due to inability to avail EPCG benefit	17	Allowed as it is a mandatory cost for MIAL
Increase in cost of imported equipment	103	
Interior works	55	Not Allowed, cost is of the nature of Escalations & Contingencies which was capped by the Authority at Rs. 630 crores under which MIAL has already claimed increase in project cost.
Additional check in area	28	
Arrival plaza	21	
Electrical Works	16	
Signage work	8	

Increase in project cost	Cost submitted by MIAL, Rs. crores	Remarks
Bus Gate Canopy & Loading Dock	9	
Head House stand road	8	
Contribution to MMRDA for Sahar Elevated Access Road	20	Allowed as it is a mandatory cost for MIAL
Sahar Elevated Road (Deck Slab) (12) + at grade roads (11)	23	Not Allowed, cost is of the nature of Escalations & Contingencies which was capped by the Authority at Rs. 630 crores under which MIAL has already claimed increase in project cost.
Staff Canteen	5	
Change in Roof	4	
Landscape work	5	
Cost of settlement for land	32	Allowed as it is a mandatory cost for MIAL
MCR Finishing works	2	Not Allowed, cost is of the nature of Escalations & Contingencies which was capped by the Authority at Rs. 630 crores under which MIAL has already claimed increase in project cost.
Increase in project cost	**440**	
ATC Tower	-60	Allowed, Savings on ATC Tower project
Net Increase in project cost	**380**	
Net Increase proposed to be allowed by the Authority	**157**	

5.7.9. Further, the Authority proposed to not consider increase in project cost by Rs. 55 crores due to increased interest during construction (IDC) on account of delayed capitalisation of new terminal on 01.01.2014 instead of 31.08.2013. However, the Authority had proposed to consider the increase in cost due to additional IDC of Rs. 140 crores, which was required to meet the funding gap on allowable project cost.

5.7.10. Accordingly, the Authority considered as allowable increase of only Rs. 297 crores (Rs. 157 crores and Rs. 140 crores) in the project cost against Rs. 575 crores submitted by MIAL, which includes additional IDC of Rs. 140 crores.

5.7.11. The Authority also proposed to consider the increase in additional cost of Rs. 130 crores as submitted by MIAL which was on account of withdrawal of the service tax for airport projects (of Rs. 50 crores) and another Rs. 80 crores on account of increase in IDC and higher cost of land settlement.

5.7.12. The Authority also noted that the projects dropped by MIAL include projects that were part of the allowed project cost as well as projects that were disallowed (Rs. 310.20 crores) and deferred (Rs. 422.34 crores) as per the Order No. 29/2012-13 dated 21.12.2012, as below:

Table 25: Categories from which projects worth Rs. 380 crores were dropped by MIAL

Particulars	**Estimated cost in Rs. Cr.**	**Project Cost Category as per Order No.29/2012-13**
North West Pier (Part of New T2)	60	Allowed Project Cost
Apron for North West Pier (Part of Airside Projects)	20	Allowed Project Cost
Relocation of Air India GSD Facility (Part of Misc. Projects)	60	Allowed Project Cost
Airport Management Building (Part of Misc. Projects)	40	Allowed Project Cost
ATC Technical Block (Part of Additional Projects)	200	Deferred Project Cost
Total	**380**	

5.7.13. The Authority had considered the nature and requirement for the projects proposed to be dropped by MIAL and accordingly proposed to allow and account for MIAL to drop these projects from the project cost.

5.7.14. The Authority has noted that MIAL has encashed Performance Security of Rs. 25 crores of HDIL, appropriated towards receivables from HDIL which was part of the deferred project cost and resulted in the project cost sanctioned by the Authority to be reduced by Rs. 25 crores. The Authority further noted that Rs. 50 crores of the project cost were dropped on account of the cargo terminal development at Sahar, which was disallowed by the Authority at the time and which has further resulted in the project cost reducing by another Rs. 50 crores.

5.7.15. The Authority further noted that the technical block cost of Rs. 200 crores is also not being executed by MIAL. Therefore, Authority worked out the updated disallowed and deferred project costs to be Rs. 260.20 crores and Rs. 197.34 crores respectively.

5.7.16. The Authority proposed to accept this change in the disallowed and deferred project costs and consider the latter as part of the project cost in the 2nd Control Period. As regards the deferred projects of Rs. 197.34 crores, the Authority proposed to consider capitalisation of the same in equal sums in each year – 2015-16, 2016-17 and 2017-18 respectively.

5.7.17. Based on the above, the revised project cost computed by the Authority worked out to be Rs. 11,894.31 crores which did not include the disallowed and deferred project costs of Rs. 260.20 crores and Rs. 197.34 crores respectively, as elaborated in the table below,

Table 26: Summary of Authority's proposal on revised project cost in the Consultation Paper No. 10/2015-16

Project Cost Items, Rs. Crores	Authority's Proposal								
	Allowed Project Cost	Allowed Escalations	Increase/ savings in project cost (05.08.2014)	Increase in project cost (08.09.2015)	Allowed Projects dropped from Allowed Project Cost	Revised Disallowed Projects	Revised Deferred Projects	Total Project Cost	Total Project Cost excl Disallowed & Deferred
	(D)	(N)	(O)	(P)	(Q)	(R = B-K)	(S = C-L)	(T = D+N+O+P-Q+R+S)	(U=T-R-S)
T1 projects	399.00	12	0	1	0	54.00	0.00	466.00	412.00
T2 projects	5082.40	459	157	26	60	0.60	0.00	5665.00	5664.40
Runway, Taxiway & Apron (Airside Projects)	1512.66	123	0	9	20	0.00	32.34	1657.00	1624.66
Landside projects	40.00	0	0	0	0	1.00	0.00	41.00	40.00
Misc. projects	485.00	1	0	4	100	2.00	0.00	392.00	390.00
5.4 of OMDA (AAI works taken over)	24.00	0	0	0	0	0.00	0.00	24.00	24.00
Technical services & consultancy	786.00	30	0	2	0	48.00	0.00	866.00	818.00
Capitalized interest (IDC)	1410.00	0	140	62	0	0.00	0.00	1612.00	1612.00
Additional / Mandated projects	476.25	5	0	26	0	0.75	165.00	673.00	507.25
Expenditure during construction	802.00	0	0	0	0	153.85	0.00	955.85	802.00
Escalations & Claims	0.00	0	0	0	0	0.00	0.00	0.00	0.00
Contingency	0.00	0	0	0	0	0.00	0.00	0.00	0.00
Total	**11017.31**	**630.00**	**297.00**	**130.00**	**180.00**	**260.20**	**197.34**	**12351.85**	**11894.31**
	(D)	(N)	(O)	(P)	(Q)	(R = B-K)	(S = C-L)	(T = D+N+O+P-Q+R+S)	(U=T-R-S)

c Stakeholder Comments on Issues pertaining to capital expenditure on Current Projects

5.7.18. Subsequent to the Stakeholder Consultation process, the Authority has received comments / views from various stakeholders in response to the Consultation Paper No. 10/2015-16 on issues pertaining to capital expenditure for Current Projects.

5.7.19. Lufthansa has commented that MIAL is adopting inefficient practices and not managing its assets/funds as per best practices to minimize the losses. Lufthansa has submitted to the Authority that airport users should not be burdened with the cost of inefficient planning and execution by MIAL.

5.7.20. Regarding calculation of RAB as per actual date of capitalisation, IATA has commented that the Authority should capitalize assets at the end of each regulatory year ensuring that assets are capitalized and added to the RAB only when they come into operational use. IATA has also recommended a rebate system to compensate the airlines in case the assets are not delivered on time or are not of the required quality.

5.7.21. Regarding the Proposal 5.b. of the Consultation Paper No. 10/2015-16 on calculation of opening and closing RAB, IATA has commented that it is unable to take a reasonable assessment of the proposed capital investment plan due to MIAL's unwillingness to share meaningful detailed information about major capital project investments. IATA has highlighted that since MIAL has failed to capture users requirements and share Business Cases with the airline community, it is unable to review the costs, benefits and return on investment for capital projects. IATA has supported the methodology adopted by the Authority for RAB and return on RAB.

5.7.22. Lufthansa also submitted that AERA sought clarifications from MIAL on its MYTP revisions but views of other stakeholders were not solicited at that stage. Lufthansa has further added that MIAL's dropping projects reflects inefficient and improper planning, moreover, it should not have dropped any projects without consultations with stakeholders or without prior approval of the Authority.

5.7.23. With respect to the project cost, Lufthansa has commented that despite the Authority having held that delay in capitalization of the new terminal was on account of improper planning and coordination by MIAL, the Authority has allowed a part of the expenses without imposing liquidated damages on MIAL.

5.7.24. On the matter of drop in project cost of Rs. 380 crores by MIAL, Blue Dart has requested for an independent study on the feasibility of dropping further new projects which may not enhance performance and are a part of the 2nd Control Period.

5.7.25. With regard to addition in project cost, FIA's has stated that MIAL has enhanced its claim for project cost from Rs. 9,802 crores to Rs. 12,380 crores of which Rs. 11,647 crores has been tentatively approved by the Authority and such escalated project cost has already been challenged before AERAAT and a decision on the same is yet to be taken.

5.7.26. Regarding MIAL's revision of master plan, FIA has submitted that under the OMDA, MIAL is fully and exclusively responsible for financial, technical, commercial, legal and other risks in relation to the Project. FIA has further submitted that while under Clause 8.3.2 of OMDA any significant deviation in the Master Plan from the Initial Development Plan needs to be fully explained, MIAL has not solicited views from stakeholders for revising its Master Plan.

5.7.27. FIA has also commented on the review of audit reports of financial (Ved Jain and Associates) and technical (Engineers India Limited) auditors and has submitted that such reports indicate that escalation in the project cost is attributable to casual approach of MIAL towards management and monitoring of project.

5.7.28. FIA has further commented that in the last Control Period, the Authority after allowing all the escalation has capped the total project cost to Rs 12,068.80 crores (para 5.15 of CP 10/2015-16) which included Rs 11,647.46 crores for 1st Control Period and Rs 422.34 crores deferred for 2nd Control Period. However, even after capping the cost in 1st Control Period, the Authority has proposed a number of additions during 2nd Control Period. FIA has requested the Authority to further scrutinize incremental capex on technical and economic grounds before considering it as additions to RAB, analyse its implications and conduct prudence check before allowing any cost to be included, even at a later period.

5.7.29. Regarding the increase in project cost, APAO has submitted that MIAL had an airport with multiple encumbrances and constraints, and was able to develop a new integrated terminal without disturbing or paralyzing the existing operations. APAO has therefore requested the Authority not to penalize MIAL for delays due to these encumbrances which, according to APAO, have been beyond MIAL's control. APAO has accordingly submitted that the Authority's decision to disallow project costs aggregating to Rs. 278 crores despite having observed the implementation of this project very closely would cause an irreparable loss affecting the viability of MIAL. ACI has also made similar comments on the matter of project cost and requested the Authority to allow Rs. 278 crores which has been disallowed.

5.7.30. APAO has further submitted that while the Authority has considered the saving in project cost of Rs.60 crores on ATC equipment in reducing project cost, the corresponding escalation aggregating to Rs.184 crores has been disallowed.

5.7.31. Regarding capacity additions at airports, ASSOCHAM has commented that the Authority must also take a long-term view on regulation and capacity additions should be supported by adequate returns to ensure that, in the long-run, Indian airports sufficiently meet the demand, which is in the interest of passengers and the aviation industry at large.

5.7.32. Additionally, FIA has also submitted that no detailed tariff model has been made available with the Consultation Paper No. 10/2015-16 as a result of which it wasn’t possible to trace the total RAB cost to the total project cost and the amount recorded in financial statements.

5.7.33. Further, regarding the true-up of RAB, IATA has submitted that the Authority's analysis should include an independent review of the capital efficiency of each project before allowing the same in RAB. IATA has submitted that it does not object to trueing-up the cost of capital expenditure on the provision that an independent third party appointed by AERA audits major projects and proves them to be efficient, including an assessment that major projects have been delivered to the defined scope and quality.

5.7.34. IATA has also suggested that the “price profile” (increase in price) should be smoothed over a three year period to avoid a significant increase and burden on users. IATA has also highlighted the need for a detailed review for future investments to ensure that costs and benefits of such investments are assessed.

d MIAL’s response to Stakeholder Comments on Issues pertaining to capital expenditure for Current Projects

5.7.35. On Blue Dart’s comment regarding drop in project cost of Rs. 380 crores, MIAL has submitted that it is in the interest of MIAL to keep the capital cost to the minimum as for every Rs. 100 of capital expenses, Authority reimburses to MIAL Rs. 100 (in NPV terms considering both return over RAB and depreciation) but it has to pay Annual Fee of Rs. 38.7 to AAI and hence there is a net loss of Rs. 38.7 for every Rs. 100 of capital expenditure. Accordingly, MIAL has submitted that the allegation of Blue Dart that MIAL has no incentive to reduce cost is baseless.

5.7.36. In response to FIA's contention that various forecasts have been allowed without evaluating the same in detail, MIAL has submitted that the Authority has disallowed escalation in Projects Cost of Rs.278 crores, over and above Rs.260 crores disallowed earlier in the 1st Control Period even after MIAL had provided all the details and justification for escalation in costs which have arisen due to reasons beyond the control of MIAL.

5.7.37. In response to the FIA's comments on escalation of project cost, MIAL has submitted that the increase in the project cost from time to time has been necessitated due to factors beyond the control of MIAL and on account of additional requirements in the project that were mandated subsequently at various stages. Also, regarding the permissibility of such increase MIAL has submitted that increase in the project cost and its permissibility under the concession agreements has been fully explained to MoCA and AERA from time to time and each revision in the project cost has been approved by the Board of Directors of MIAL, presented and reviewed by MoCA (in 2009), and now presented and determined by AERA (in 2011-16). MIAl has further submitted that the prudence check of the escalation in project cost estimated by MIAL has been done at each stage, first by MoCA in 2009, and thereafter by AERA between years 2011-16.

5.7.38. Regarding the contention of FIA that the Authority has failed to verify each component of the estimated project cost, MIAL has submitted that the same is incorrect and erroneous as the Authority has independently applied its mind to the reports of the technical and financial auditors to come to its conclusions. MIAL has also mentioned that Financial and technical Auditors were appointed under the direct supervision of the Authority and had conducted the audit based upon instructions received from the Authority.

5.7.39. MIAL in its response to the comments of FIA on changing the master plan has also quoted relevant provisions of the SSA which states that the Authority will accept the Master Plan and Major Development Plans as reviewed and commented by the GOI and will not seek to question or change the approach to development if it is consistent with these plans. However, the Authority would have the right to assess the efficiency with which capital expenditure is undertaken.

5.7.40. MIAL has also stated that modifications to the master plan took place either due to compliance with comments of MoCA/AAI or to implement mandatory projects. Hence, allegations on MIAL for lack of consultation is unfounded.

5.7.41. MIAL has also agreed with APAO's submissions on disallowed project costs (in para 5.7.29) of Rs.278 crores and has requested the Authority to increase the project cost by this amount. MIAL has also agreed to similar submissions from ACI regarding the disallowed project costs.

5.7.42. MIAL has agreed with ASSOCHAM's view that adequate returns should be provided on capacity additions made by the airport operator by the Authority.

5.7.43. With respect to Lufthansa's and IATA's comment on ineffective stakeholder consultations (including that for new projects), MIAL has contested the comments and has submitted that MIAL has conducted stakeholders consultations while finalising Master Plan in 2006 and subsequently on 05.03.2014 and 23.06.2014 for new projects in which all stakeholders including airlines and their associations were invited.

5.7.44. Regarding Lufthansa's comment on the Authority's consultation process, MIAL responded that AERA has issued a Consultation Paper and has called for Stakeholders meeting and invited comments from Stakeholders which clearly demonstrates that adequate consultations with users have been done and therefore any allegation of Lufthansa are baseless and without any merit.

5.7.45. With respect to the delay in capitalisation of new terminal, MIAL's comments on Lufthansa's submission were similar to its own comments to the Consultation Paper No. 10/2015-16 where they explained the cause for such delays and reasons why they were beyond MIAL's control.

e MIAL's comments on issues pertaining to capital expenditure on Current Projects in the Consultation Paper

5.7.46. With respect to Authority's proposals regarding the disallowance of interest cost of Rs. 55 crores on account of a delay in construction and commencement of operations New T2 & Associated Apron, MIAL has explained that it had kept all stakeholders informed of such a delay in the completion schedule and the causes for delay for both construction and commencement of operations were beyond the control of MIAL. MIAL has further submitted that the planned completion date of the New Passenger Terminal Building (New T2) & the International Apron was significantly impacted due to the delayed relocation of Shivaji statue, which was coming in the footprint of the New T2 processor building and following the relocation of Shivaji statue on 27.08.2011 after delay of 17 months (the statue was originally planned to be relocated on 31.03.2010), the completion schedule for New T2 including Associated Apron Works was revised as 31.08.2013 for International Operations and 31.08.2014 for Domestic Operations. MIAL has also submitted that the revised completion schedule was informed to the Board of Directors in MIAL's 30th Board Meeting held on 01.10.2011. Simultaneously it was informed to AAI vide letter no. MC0030/M/L/000/CT/GN/0069 dated 26.09.2013 and to MoCA vide letter no. MIAL/CEO/146 dated 15.10.2011.

5.7.47. According to MIAL, the commencement of operations could not take place from 01.09.2013 as envisaged, due to following reasons:

5.7.47.a. Delay in settlement of issue of placement of Immigration counters after Security Check against earlier or then existing practice of placement of Immigration counters before Security Check

5.7.47.b. Security clearance from BCAS for New T2 was received only on 24.12.2013

5.7.47.c. Delay in completion of MMRDA portion of Sahar Elevated Access Road which is mainly attributable to the delay in works of Vehicular Underpass at Western Express Highway, which was dependent on removal and relocation of existing foot over bridge. The foot over bridge was relocated on 13.10.2013 by MMRDA and consequently the vehicular underpass was completed by end December 2013.

5.7.48. MIAL further submitted that it had taken all the necessary steps and proactively coordinated with all the agencies for early resolution of the issues detailed above and accordingly the delay in opening New T2 was not on account of improper planning and lack of coordination on the part of MIAL. MIAL has thus requested the Authority to allow such increase in IDC cost (Rs 55 Cr) on account of delay in capitalization as all the reasons for delay were beyond control of MIAL.

5.7.49. With respect to the Authority's proposal to disallow site overheads cost of Rs. 39 crores due to delay in completion of T2 from September, FY 2014-15 to April, FY 2015-16 and the justification sought by the Authority, MIAL has explained that a delay in commencement of International Operations for reasons as explained above had resulted in a delay in commencement of the works for Domestic Operations as planned (Phase III works). MIAL also stated the completion schedule was further impacted on account of factors which were beyond the control of MIAL including:

5.7.49.a. 7 months delay in shifting old Air India Hangar & Annex facilities by Air India (AI)

5.7.49.b. 4 months delay in handing over of Old International Terminal T2 B/C to MIAL for demolition by various Stakeholders

5.7.49.c. 10 months delay in shifting of prayer area (mosque) located below old International Terminal T2 B/C up-ramp constrained due to the existence of a prayer area (Mosque) underneath. The clearance for demolition of this remaining portion of up-ramp, was received on 6th February 2015. Accordingly demolition works were immediately completed and the area was handed over for construction by 08.03.2015.

5.7.50. MIAL has further explained that while the entire up-ramp was planned to be demolished and handed over for construction by 01.04. 2014, a delay of more than 10 months in demolition of the up-ramp delayed the construction of New T2 Building and Apron areas. This resulted in a delay commencing domestic operations; as a result of which MIAL had to incur additional site overheads of Rs. 39 crores over and above the budgeted provisions. MIAL has submitted that they had informed the Independent Engineer and AAI about revised completion schedules and delays through progress reports and separate communications. MIAL also stated that it has requested for a confirmation from AAI for an increase in this cost as required by Authority and that the same is awaited from AAI. MIAL contended that since the above-mentioned delays cannot be attributed to MIAL, the Authority should allow MIAL to recover the same through tariffs.

5.7.51. With respect to the Authority's proposal on projected increase in cost of Rs. 184 crores due to a variation in scope which was not a part of earlier estimates, MIAL has submitted that capping of such costs by the Authority is not appropriate considering the complexities of a project of such magnitude. MIAL expressed that MIAL have shared detailed reasons and justifications for the increase in such costs with the Authority. MIAL also stated that these costs were due to an increase in scope, quantities and prices of certain items / works which arose on account of site conditions and due to many unforeseen events during implementation.

5.7.52. MIAL has further submitted that the total cost towards Escalation, Contingencies & Claims now works out be Rs 754 Cr (Rs 630 Cr + increase of Rs 184 Cr – savings of Rs 60 Cr) which is an effective increase is Rs 124 Cr and that the overall % age of this cost vis-à-vis total project cost of Rs 12,630 Cr works out to be 5.96% (Rs 754 Cr / Rs 12630 Cr), which is very reasonable considering the quantum/scale and complexities of the project. MIAL has further provided the detailed break up of this increase of Rs 184 crores as given below:

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Sl. No.	Description	Rs. in Cr.	Rs. in Cr.
1	Elevated Road - MIAL portion		23
a.	Elevated road: Based on operational requirement, additional entry and exit to MLCP from top was constructed during course of execution, which was not considered at the time of estimates; Gap between Elevated road and Terminal building was also added to the elevated roads at later date; these resulted into increase in RCC Deck area. Area as per PC was 47,237 Sqm and as per Final Design / layout area is 49,254 Sqm. (Increase in area 2017 Sqm).	12	
b.	At Grade roads: As per earlier Estimates, overall area considered was		

	50,000 Sqm. However, additional road for autos / buses on both side of nallah was constructed due to operational requirement, which was not considered in the earlier estimates. Due to which, revised area works out to be 65,000 Sqm. Increase in Area of 15,000 Sqm.	11	
2	VARIATION IN SCOPE /QTY & RATE		101
2.1	Additional works not part of earlier estimates:	51	
a.	CIP / VIP Check in: It was decided to develop the special facility for all airlines for CIP / VIP check in at later date in the check in area. Hence, the same was not covered in earlier estimates.	28	
b.	Bus gate Canopy / Loading Dock - scope was not considered in the earlier estimates.	9	
c.	Staff Canteen works: Not considered in earlier estimates.	5	
d.	MCR finishing work: Cost was not envisaged in earlier estimate. Cost as per awarded works.	2	
e.	Toilets (Public & staff): Cost for toilets in Phase 3 was not covered in earlier estimate.	3	
f.	Back of House: Cost for phase 3 works was not included earlier.	4	
2.2	Increase in quantity over estimates:	15	
a.	Signage Work: Increased no. of signage from estimated 5000 to 6242 as per final design / award and also on account of statutory signage's requirement.	8	
b.	Landscape Work: Provision of Rs 25 Cr was made in the earlier estimates at T2. However, based on committed cost, there is increase of Rs. 7 Cr.	7	
2.3	Increase in Rate over Estimates :	6	
a.	FLB Interior: Increase in cost based on actual award.	6	
2.4	Increase in both Quantity & Rate over Estimate	89	
a.	Arrival Plaza : Increase in Granite flooring Qty of 26,698 Sqm to 37,703 Sqm based on final design / actual awarded works; Increase in Landscape area of 9,330 Sqm to 15792 sqm based on final design / actual awarded works;	21	
b.	Electrical works: Increase in scope and quantity in number of fixtures as per final design / award. Other additional electrical works for landscaping / retail areas, public area lighting as per site requirements.	16	
c.	False Ceiling Works : Increase in (avg) rate for False ceiling - Rs 2,000 per Sqm as per estimates to Rs 3,000 per Sqm and also increase in qty from estimated 97,700 Sqm to 1,02,164 Sqm as per final design / award - Rs 10.61 Crs	11	
d.	Interior Panel and cladding: Due to increase in basic material rate for corian @ 4.20 Cr ; Due to increase in rate for Trespa /metal panel/ SS cladding etc.@ 1.82Cr; Due to increase in qty for various items based on actual execution @ 14.96 Cr (as per final detail design, site requirement).	21	
e.	Glass Partition doors and SS railings: Increase in cost due to change in Qty for glass partition from estimated 18,250 Sqm to 20,770 Sqm as per final design & awarded work.	8	
f.	Interior sky well partitions: Additional wall / demarcation wall (Sandwich panel Type) between GFRC & GFRG and periphery wall between GFRC & bull Nose for T2 at catwalk level above GFRC/GFRG level, which was not envisaged during earlier estimates; Additional Gypsum Area in lieu of louvers.	4	
g.	Carpet flooring: Increase in rate for carpet - Rs 3925 / Sqm to Rs 4140 per Sqm; Increase in qty from estimated 25,400 Sqm to 33,350 Sqm as per final design / award.	4	
h.	Miscellaneous civil works: Increase in cost based on awarded as per site requirement.	4	

3	TOTAL		184

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5.7.53. MIAL has further submitted that while Authority (AERA) has considered savings of Rs. 60 crores on account of ATC equipment, it has disallowed the other costs of Rs. 184 crores, when the benefit of this saving should have been adjusted against the other increases in costs of Rs.184 crores taking net increase to Rs 124 crores.

5.7.54. Based on the above, MIAL has requested the Authority that such cost increases were justifiable and were beyond control of MIAL and hence should be allowed by AERA while determining tariff for 2nd Control Period for CSIA.

5.7.54.a.	Increase in IDC	Rs. 55 crores
5.7.54.b.	Increased in Site Overheads cost	Rs. 39 crores
5.7.54.c.	Increased costs due to variation in scope / rate including additional scope not part of earlier estimates	Rs.184 crores
5.7.54.d.	**Total**	Rs.278 crores

f Authority examination of Stakeholder Comments including MIAL on Issues pertaining to capital expenditure on Current Projects

5.7.55. MIAL vide its' submission dated 25.05.2016 had submitted that the increase in interest during construction of Rs. 55 crores on account of delay in capitalization and the increase in site overheads of Rs. 39 crores was beyond its control. MIAL accordingly requested the Authority to not disallow these expenditures calling them a result of improper planning and coordination by MIAL. APAO has also submitted to the Authority requesting the Authority to allow the disallowed project cost.

5.7.56. The Authority vide its letter dated 14.06.2016 asked Airports Authority of India, (which monitors the airport project) to comment on the reason for delays and whether such delays were beyond the control of MIAL. In response, AAI consulted with the independent engineer for the project Engineers India Limited (EIL) who has been monitoring the project from the beginning. Based on EIL's letter dated 08.07.2016, which stated that the delays were beyond the control of

MIAL, the Authority has decided to allow these expenditures of Rs. 55 crores and Rs. 39 crores respectively.

5.7.57. MIAL has also submitted that the Authority has disallowed certain expenses which are of the nature of increase in scope, quantities and rates which arose on account of site conditions and unforeseen events during project implementation. MIAL accordingly requested the Authority to allow this expenditure of Rs. 184 crores. The Authority once again referred the matter to AAI, which in turn consulted with the independent Engineer (EIL). EIL has submitted as part of its letter dated 08.07.2016 that increase in cost due to variation in scope / rate including additional scope was not part of earlier estimates of Rs. 184 crores. Also, that there has been an increase in area for different facilities as pointed out by MIAL but the cost for the same cannot be ascertained.

5.7.58. Accordingly, the Authority has decided that these expenditures are deferred and shall be re-considered at the time of tariff determination of the 3rd Control Period based on the amount actually spent by MIAL when these costs can be individually assessed.

5.7.59. With respect to Blue Dart's request for an independent study on the feasibility of dropping further new projects which may not enhance performance and are a part of the 2nd Control Period, the Authority would expect such aspects to come out of a stakeholder consultation process undertaken by MIAL.

5.7.60. The Authority has noted FIA's & IATA's comments where they have stated that MIAL has not consulted its stakeholder effectively for certain projects MIAL has undertaken. The Authority requests stakeholders to highlight such cases in a timely manner, so that the Authority can request MIAL to undertake the consultation process as per the applicable guidelines.

5.7.61. Regarding Lufthansa's comment that the Authority has entered into unilateral discussions with MIAL, the Authority would also like to clarify that the stakeholders have been given adequate opportunity to put forth their views as a part of this consultation process.

5.7.62. Regarding Lufthansa's comment that the Authority should impose liquidated damages on MIAL for improper planning and coordination, the Authority would like to highlight that AAI has the sole right to impose liquidated damages on MIAL, if any.

5.7.63. Regarding FIA's comment that a part of the project cost has been challenged by the airlines and is pending for a decision by AERAAT, the Authority acknowledges the same, and shall consider the final decision of AERRAT on this matter as and when applicable.

5.7.64. Regarding FIA's comment on technical evaluation (including efficiency of costs), the Authority would like to highlight that the Authority has wherever necessary, appointed independent consultants for a technical evaluation of costs of various airport operators. The Authority shall continue appointing independent consultants for a technical opinion on matters which it deems necessary.

5.7.65. The Authority has also noted IATA's comment on a rebate mechanism to compensate the airlines in case the assets are not delivered on time or are not of the required quality. The Authority currently does not propose to affect any rebate on MIAL for delays / quality of its projects.

5.7.66. The Authority has also taken note of IATA's request to smooth the "price profile" (increase in price) on account of increase in project costs over a three year period.

5.7.67. Regarding FIA's submission that no detailed tariff model has been made available with the Consultation Paper 10/2015-16, the Authority would like to clarify that all the relevant workings from the financial model have been presented in the Consultation Paper for perusal by the stakeholders.

5.7.68. Thus, in view of the above proposals, the revised project cost computed by the Authority works out to be Rs. 11988.31 crores. This project cost does not include the disallowed and deferred project costs of Rs. 260.20 crores and Rs. 197.34 crores respectively

Table 27: Summary of revised project cost as considered by the Authority for tariff determination for the 2nd Control Period

Project Cost Items, Rs.	Authority's Proposal

Crores	Allowed Project Cost	Allowed Escalations	Increase/ savings in project cost (05.08.2014)	Increase in project cost (08.09.2015)	Allowed Projects dropped from Allowed Project Cost	Revised Disallowed Projects	Revised Deferred Projects	Total Project Cost	Total Project Cost excl Disallowed & Deferred
	(D repeated)	(N)	(O)	(P)	(Q)	(R = B-K)	(S = C-L)	(T = D+N+O+P-Q+R+S)	(U=T-R-S)
T1 projects	399.00	12	0	1	0	54.00	0.00	466.00	412.00
T2 projects	5082.40	459	196	26	60	0.60	0.00	5704.00	5703.40
Runway, Taxiway & Apron (Airside Projects)	1512.66	123	0	9	20	0.00	32.34	1657.00	1624.66
Landside projects	40.00	0	0	0	0	1.00	0.00	41.00	40.00
Misc. projects	485.00	1	0	4	100	2.00	0.00	392.00	390.00
5.4 of OMDA (AAI works taken over)	24.00	0	0	0	0	0.00	0.00	24.00	24.00
Technical services & consultancy	786.00	30	0	2	0	48.00	0.00	866.00	818.00
Capitalized interest (IDC)	1410.00	0	195	62	0	0.00	0.00	1667.00	1667.00
Additional / Mandated projects	476.25	5	0	26	0	0.75	165.00	673.00	507.25
Expenditure during construction	802.00	0	0	0	0	153.85	0.00	955.85	802.00
Escalations & Claims	0.00	0	0	0	0	0.00	0.00	0.00	0.00
Contingency	0.00	0	0	0	0	0.00	0.00	0.00	0.00
Total	**11017.31**	**630.00**	**391.00**	**130.00**	**180.00**	**260.20**	**197.34**	**12445.85**	**11988.31**
	(D repeated)	(N)	(O)	(P)	(Q)	(R = B-K)	(S = C-L)	(T = D+N+O+P-Q+R+S)	(U=T-R-S)

Decision No.7 Regarding Capital expenditure pertaining to Current Projects based on the material before it and its analysis, the Authority has decided:

7.a. To consider the revised capital expenditure pertaining to Current projects as per Table 27 in this Order.

7.b. To consider increase in IDC costs of 55 Crore and increase in site overheads of Rs. 39 Crores towards the project cost and exclude the increase in costs due to changes in scope of Rs. 184 Crores for the 2nd Control Period. This expenditure of Rs. 184 crores is deferred and shall be re-considered at the time of tariff determination of the 3rd Control Period based on the amount actually spent by MIAL.

5.8. Capital Expenditure pertaining to operational capital expenditure in the 2nd Control Period

a MIAL Submission on capital expenditure pertaining to operational capital expenditure in the 2nd Control Period

5.8.1. MIAL submitted a proposed operational capex of Rs. 1440 crores for the 2nd Control Period as part of its MYTP submission dated 08.09.2015. MIAL further submitted the following capital expenditure and capitalization schedules for the operational capex.

"… Table: Capital Expenditure Incurrence - Revised *Rs./Crs*

	*Incurrence upto FY 14**	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*	*Total FY 15-FY19*	*FY 20*	*Total upto FY 20*
	Actual	*Actual*		*Projected*					
Operational Capex		*321*	*557*	*164*	*256*	*142*	*1,440*	*0*	*1,440*

… "

"… Table: Capitalisation - Revised *Rs./Crs*

	*Upto FY 14**	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*	*Total FY 15-FY19*	*FY 20*	*Total upto FY 20*
	Actual	*Actual*		*Projected*					
Operational Capex		*312*	*507*	*104*	*53*	*464*	*1,440*	*0*	*1,440*

… "

b Authority's examination of MIAL Submission on capital expenditure pertaining to operational capital expenditure in the 2nd Control Period in the Consultation Paper No. 10/2015-16

5.8.2. Based on its detailed evaluation, the Authority had proposed to consider the following operational capital expenditure for the 2nd Control Period.

Table 28: Treatment of individual elements of operational capital expenditure as allowed by the Authority for the 2nd Control Period

S. No.	Projects	Authority Proposed Position	Rs. Crores
1	Tunnel under Runway 14/32	Allowed	365
2	Construction of new RET (including cost of boundary wall and enabling cost)	Allowed.	69
3	Recarpeting of RWY 09-27	Allowed	62

S. No.	Projects	Authority Proposed Position	Rs. Crores
4	Rescue & Fire Fighting Facilities	Allowed	61
5	Reconstruction of RET N8 & provision of standby RET	Allowed	35
6	Construction of compound wall - 15 Km.	Allowed	31
7	Development of Airside perimeter roads	Disallowed. Operational road already exists at the airport. MIAL should reprioritize the expenditure.	0
8	Passenger boarding bridges - T2 - Code F	Allowed	25
9	Reconstruction of Apron "C"	Allowed	16
10	Mithi River retaining wall	Allowed	20
11	Additional baggage reclaim carousals at T2	Allowed	20
12	Crash fire tenders	Allowed; subject to proper justification by MIAL	25
13	Central Store Utility Building	Partially allowed only for the actual expenses incurred during FY15 and FY16. Cost pertaining to future years to be reviewed as part of true up for the 3rd Control Period.	19
14	Airport Sweeper/Scrubber (additional)	Allowed for the time being	9
15	Rescue Stairs vehicle	Allowed	5
16	Grooving on Runway 32 rigid surface.	Allowed	8
17	Structure of Approach Radar	Allowed	3
18	Steel Gate for Mithi river opening	Allowed	8
19	Provision of 5 MVA Sub-Stn. At Gaondevi area	Disallowed. Airport exists and is operational; therefore requirement is not established	0
20	Construction of TWY S7 & R Junction	Allowed	11
21	Replacement of 04 marking machine	Allowed	5
22	New T2-Trolleys/Trolley Scooter	Allowed	7
23	New T2-Tensa Barrier/Tensa Top/Standies etc.	Allowed	5
24	T1 (Queue Manager/Standalone AC/View Cuter Screen)	Allowed	3
25	Medical Equipment/Wheel Chairs	Allowed	3
26	PIDS Protection/ACS Systems	Allowed	6
27	IT (not by Wipro)	Allowed	8
28	CISF Family Accommodation at Chakala	Allowed	9
29	CISF Barrack Accommodation at Kalina	Allowed	5
30	Shifting of Terminal 1B Power House	Allowed	5
31	Provision of VDGS for C D, L Aprons	Allowed	5
32	Terminal 1A/ 1B Refurbishment	Disallowed. Subject to submission of a comprehensive plan by MIAL on utilization of T2 and T1	0
33	Miscellaneous expenses	Broadly Disallowed as no proper justification provided by MIAL. If such expenses include any operational nature of work with proper approval, the same may be considered as part of true up in the next Control Period. Only the actual expenses incurred during FY15 and FY16 allowed.	4
	Total Operational Capital Expenditure allowed		**857**

5.8.3. The Authority had further noted and proposed that "disallowed" and the disallowed portion of "partially allowed" expenses in the above table means the Authority has not considered estimated cost, which is a block cost, of the project for inclusion under the ARR determination for the 2nd Control Period and in case a proper justification is made available and if the works cannot be reprioritized or scheduled in a different phased manner but are required to be executed because of operational requirement, then the costs for these project works may be permitted under the true-up process.

5.8.4. The Authority also noted that the "allowed" expenses in the above table means that the Authority has considered work as a core operationally justified need and the estimated cost, which is a block cost indicated by MIAL, is proposed to be considered as it is for the time being for the purpose of determination of ARR. The Authority further proposed to review the same based on the stakeholder consultations and board resolution to be submitted by MIAL at the time of final order for the 2nd Control Period or as part of true-up for the 3rd Control Period, based on the information available during such times.

5.8.5. Based on the actual expenditure incurred in FY 2014-15, the phasing of this operational capex expenditure over the 2nd Control Period was revised by the Authority as given below,

"...

In Rs. Crores	*FY15*	*FY16*	*FY17*	*FY18*	*FY19*
Operational Capital Expenditure	*215*	*313*	*214*	*53.8*	*61.2*

..."

c Stakeholder Comments on issues pertaining to capital expenditure related to operational capital expenditure in the 2nd Control Period

5.8.6. On the matter Operational Capital Expenditure, APAO has commented that the Authority has disallowed operational capex aggregating to Rs. 655 crores which shall result in non-availability of funds to carry out essential operational capex in the balance Control Period for safe, efficient and economic operations.

5.8.7. APAO has also commented that an escalation in the cost of operational capex of Rs. 55 crores have not been considered by the Authority, though these projects are approved by the Authority. APAO has further submitted that the Authority has not provided any justification for not approving many proposals such as refurbishment of Terminal 1, development of airside perimeter road, construction of 2 parallel Code C taxiway and miscellaneous assets aggregating to Rs. 112 crores. APAO has accordingly urged the Authority not to disallow any operational capex since the same would be trued up in the next Control Period.

5.8.8. APAO has submitted that the Authority has proposed to allow expenditure on development of airside perimeter roads as repairs and maintenance instead of operational capex which should therefore be considered as part of O&M expenditure in the 2nd Control Period.

5.8.9. With respect to increase in operational capital expenditure Blue Dart has objected to the proposed increase in operational capital expenditure from Rs. 1156 crores to Rs. 1440 crores as submitted by MIAL and has requested the Authority to cap the operational capex ensuring that MIAL has incentive to reduce the same. It had also requested MIAL to give more importance to projects related to cargo.

5.8.10. With regards to Authority's approach to the project cost, FIA has commented the Authority has proposed to accept the operational capital expenditures of MIAL of Rs. 857 crores without any technical evaluation.

5.8.11. Lufthansa has submitted that MIAL did not follow a due consultation process before proposing such additional capex plans to AERA in the tariff proposal.

d MIAL's response to Stakeholder Comments on issues pertaining to capital expenditure related to operational capital expenditure in the 2nd Control Period

5.8.12. APAO has urged the Authority not to disallow any operational capex, since the same would be trued up in the next Control Period and any excess tariff collected due to any shortfall in incurrence could be clawed back later. MIAL is in agreement with APAO on the above and has requested the Authority to allow entire operational capex submitted by MIAL.

5.8.13. With respect to Blue Dart's comments regarding cargo assets, MIAL has submitted that the list of operational capex submitted by MIAL is only for the aeronautical assets and capital expenditure proposed to be incurred for Non Aeronautical Assets are not included therein.

5.8.14. In response to FIA's contention that various forecasts have been allowed without evaluating the same in detail, MIAL has submitted that the Authority has not allowed entire operational capex submitted by MIAL. MIAL has submitted that as against Operational capex of Rs.1448 crores over the 2nd Control Period, AERA has allowed only Rs.857 crores, which is grossly inadequate and would in fact hamper the development/ maintenance, etc. of some essential facilities.

5.8.15. MIAL has also agreed with ACSA and Bid Services and has requested the Authority to allow the entire Operational Capital expenditure as well as the pre-operative expenses of Rs 96 Cr for new projects.

e MIAL's comments on issues pertaining to capital expenditure related to operational capital expenditure in the 2nd Control Period in the Consultation Paper

5.8.16. MIAL has submitted that the Authority has allowed a total of Rs. 857 crores towards Operational Capital expenditure for the 2nd Control Period. MIAL has stated that the Authority has disallowed operating capital expenditures to the extent of Rs. 667 crores and submitted a list as given below,

Table 29: MIAL submission on treatment of individual elements of operational capital expenditure as disallowed by the Authority for the 2nd Control Period

Sr. No.	Disallowance by the Authority	Rs. in Crs.
A	Development of Airside perimeter roads	32
B	Provision of 5 MVA sub-station at Gaondevi area along with cost of construction of MT work shop, civil stores, GSE area etc.	5
C	Terminal 1 refurbishment	85
D	Miscellaneous expenses (Detailed list being resubmitted as Annexure 12)	112
E	Short provision considered for allowed Capex	54
F	Additions to Fixed Assets in FY 15 (Actual)	124
G	Additions to Fixed Assets in FY 16 (Aeronautical)	172
H	Closing CWIP of FY 16 (Aeronautical)	68
I	Additional operational capital expenditure proposed now (Details as per Annexure 13)	92
	Total Operational capital expenditure not considered	**667**

5.8.17. MIAL has further requested the Authority to consider Operational Capex of Rs. 543 crores as mentioned above in addition to Rs. 857 crores already allowed.

5.8.18. Regarding the Development of airside perimeter roads, MIAL has submitted that repairs shall not be a feasible and long term solution due to generation of FOD which reach apron along with vehicle tyres, are likely to get ingested by the jet engines and cause damage to the engines and has accordingly proposed the construction of cement concrete roads inside the operational area to resolve the problem of wearing out of Airside Roads. MIAL has also submitted that if the Authority believes this expenditure to be of revenue nature as mentioned in Para 5.82 of Consultation Paper, MIAL requests the Authority to allow such expenditure and accordingly add this entire amount of Rs. 32 crores to Repairs and Maintenance expenditure.

5.8.19. With respect to provision of 5 MVA sub-station at Gaondevi area along with cost of construction of MT work shop, civil stores, GSE area etc., MIAL has submitted that present location of a few facilities are coming in the way of runway strip which is not compliant with DGCA requirements and are also in the alignment of proposed Taxiway 'W' and hence MIAL needs to relocate these facilities to Gaondevi area. MIAL has futher submitted that this relocation would require a new power sub-station which could provide electricity to these facilities. MIAL has also submitted a layout map highlighting the current non-compliance and requested the Authority for the provision of a 5 MVA sub-station at the Gaondevi area along with cost of construction of MT work shop, civil stores, GSE area etc. which need to be relocated.

5.8.20. MIAL has also requested the Authority to allow capital expenditure for the refurbishment of Terminal 1. MIAL has submitted that in order to handle an enhanced airside capacity of 50 million passengers which MIAL is targeting, it needs to refurbish Terminal 1 since MIAL's current terminal capacity with an operational terminal 2 and terminal 1A shall be 47 million passengers annually. MIAL submitted that the airport would require Terminal 1B to match its airside capacity and hence the Authority should allow MIAL to recover the costs of refurbishing the same. MIAL has also attached a detailed list of activities to be undertaken for refurbishment of terminal and photographs showing critical areas with structural weakness needing an immediate attention along with their submissions to the Authority. MIAL has also requested the Authority to allow such funds due to its criticality for MIAL to continue providing safe, secure and efficient aeronautical services from the terminal.

5.8.21. Regarding the miscellaneous expenses of Rs. 112 crores, MIAL has submitted an item wise list of such expenses to the Authority. MIAL has requested the Authority to consider these items and has submitted that most of them are critical for airport operations and non-availability of funds for these projects would adversely affect efficient airport operations. MIAL has requested the Authority to allow the amount of Rs. 112 crores as Operational Capital expenditure. The detailed list submitted by MIAL has been reproduced below:

"

Sl. No.	*Project*	*Amount (Rs. In Crs.)*
1	*Construction of TWY K1 and K3*	*25*
2	*Conversion of taxiway E-l from Code E to Code F*	*17*
3	*Apron A - Re-strengthening*	*7*
4	*Energy conservation equipments*	*6*
5	*Re-carpeting of RWY 14-32*	*6*
6	*Replacement of High Mast*	*5*
7	*Ops View and Ops Analyser software applications*	*4*
8	*Provision of Ozone deodorizer units in Passenger washrooms at Terminal*	*3*
9	*Provision of offices/ stores at New T2*	*3*
10	*Domestic Terminal - Gas supply installations and readiness*	*3*
11	*Bird scaring sonic automated device*	*3*
12	*Others*	*30*
	Total	***112***

"

5.8.22. Regarding a short provision considered in respect of allowed items, MIAL has submitted that the Authority has not allowed increase in cost in some projects aggregating to Rs. 55 crores.

"

(a) Increase in service tax - Tunnel under Runway 14/32 - Rs. 18 crs.

(b) Increase in scope :

i.	*Reconstruction of Apron "C"*	*Rs. 26 crs.*
ii.	*Additional baggage reclaim carousals at T2*	*Rs. 21 crs.*
iii.	*Reduction in other assets- net*	*(Rs. 10 crs.)*

"

5.8.23. MIAL has also submitted that for Apron C the apron area to be reconstructed was increased from the earlier envisaged 30,000 square metres to 56,985 square metres considering the existing conditions of the apron. As a result of the above, MIAL estimated costs for reconstruction of the Apron increased from Rs. 20 crores to Rs. 42 crores, against which the Authority has allowed only Rs. 16 crores. MIAL has therefore requested the Authority to allow the recovery of the remaining Rs. 26 crores which is currently disallowed by the Authority.

5.8.24. With respect to additional baggage reclaim carousals at T2, MIAL has submitted that the requirement for baggage reclaim carousals at T2 has increased from 2 additional baggage reclaim carousals costing a total of Rs. 20 crores to 4 additional baggage reclaim carousals increasing the total cost to Rs. 41 crores due to requirement of more carousals for larger aircrafts. MIAL submitted that it has already incurred and capitalised Rs. 17 crores for 2 carousals in FY 16 and has requested the Authority to consider and allow this cost of Rs. 17 crores and the balance amount of Rs. 21 crores towards the two carousals yet to be installed.

5.8.25. MIAL has claimed that MIAL has capitalised aeronautical operations fixed assets of Rs. 172 crores during FY 2015-16 and have closing aeronautical capital work-in-progress of Rs. 68 crores for FY 2015-16. MIAL has requested the Authority to allow the total operations expenditure of Rs. 240 crores as explained above, in addition to Rs. 124 crores considered by the Authority for FY 2014-15. MIAL has attached an Auditor's certificate for these expenses incurred in FY 2015-16 as a part of their submission.

5.8.26. As part of the consultation paper response, MIAL has further increased the projected capital expenditure on projects by Rs. 92 crores and has requested the Authority to consider such additional projects.

f Authority examination of Stakeholder Comments including MIAL on issues pertaining to capital expenditure related to operational capital expenditure in the 2nd Control Period

5.8.27. The Authority does not agree with the figures provided by MIAL regarding the operational capital expenditure not proposed to be considered by the Authority for the purpose of tariff determination for the 2nd Control Period.

5.8.28. As given in Table 29 , the Authority had considered Additions to Fixed Assets in FY 15 of Rs. 124 crores as part of its projected operational capital expenditure. Also, as given in Table 28 of the Consultation Paper No. 10/2015-16, the Authority had already allowed for the proposed operational capitalization of Rs. 301.74 crores for FY 2015-16 by MIAL. However, the Authority is in receipt of MIAL's submission dated 25.05.2016 which states that operational capex with respect to the additions to Fixed Assets (Aeronautical) and Closing CWIP of FY 2015-16 (Aeronautical) of Rs. 172 Crores and Rs. 68 Crores respectively are disallowed by the Authority. This is in contradiction to the aforementioned proposal of the Authority to allow operational capitalization of Rs. 301.74 crores in FY 2015-16. Thus, the Authority thus does not accept the incorrect representation regarding the allowed operational capital expenditure in MIAL's submission dated 25.05.2016 and believes the same to be misleading. Based on MIAL's submission, the Authority has further decided to revise the allowed operational capital expenditure by MIAL for FY 2015-16 to Rs. 172 Crore. It has also been decided by the Authority to transfer Rs. 129.74 crores i.e. the difference of the proposed and actual operational capitalization by MIAL in FY 2015-16 which therefore includes the closing CWIP of Rs. 68 crores to the allowed operational capitalization for FY 2016-17. Accordingly, the allowed operational capitalization for FY 2016-17 is Rs. 191.63 Crore.

5.8.29. The Authority has also noted the photographs of perimeter roads are attached as Annexure 15 of the MIAL's letter MIAL/EVPF/16-17/6, showing the damage to the airside perimeter roads. The Authority is of the opinion that operational perimeter road at the airport does not require concretization and can be used with minor maintenance and repairs. If however, MIAL feels it necessary to concretize the roads, MIAL may go ahead with the required capital expenditure and the Authority shall deliberate on and consider the expense incurred while truing up the RAB while determination of tariffs for the 3rd Control Period.

5.8.30. Regarding the expenditure on a 5 MVA sub-station at Gaondevi area along with cost of construction of an MT work shop, civil stores, GSE area etc., the Authority has noted MIAL's submission vide Annexure 16 of MIAL/EVPF/16-17/6 containing the layout map showing existing facilities coming in the way of runway strip 14-32. The Authority wishes to highlight that MIAL should charge the users of this sub-station and the other buildings for the associated costs in relocation. The Authority therefore proposes not add this cost as part of RAB for the 2nd Control Period.

5.8.31. Regarding the refurbishment of Terminal 1, The Authority has noted Annexures 17 and 18 of MIAL's submission vide its letter MIAL/EVPF/16-17/6 containing a list of refurbishments to be undertaken for terminal. In view of the above, the authority proposes that MIAL undertake user consultation before refurbishment, considering the magnitude of this expenditure. The Authority expects MIAL to discuss as part of such consultations, the proposed improvements which can increase the passenger handling airside capacity at CSI Airport to 50 MMPA, any alternatives for handling such increase traffic, estimated timelines for undertaking such works etc. The Authority shall consider such expenditure based on an evidence of adequate user consultation and true it up while determining tariffs for the 3rd Control Period.

5.8.32. Regarding the Miscellaneous expenses of Rs. 112 crores, the Authority has noted details of the miscellaneous expenses along with their justifications of as submitted by MIAL vide Annexure 12 of its letter MIAL/EVPF/16-17/6. The Authority has also noted the short provisions considered in respect of allowed items. The Authority has decided not to pre-fund this capital expenditure. The Authority shall consider such expenditures only after they have been incurred and shall true up same while determining tariffs for the 3rd Control Period.

5.8.33. Regarding the additional capital expenditure of Rs. 92 crore, the Authority has noted the list of projects along with justifications as submitted by MIAL vide

Annexure 13 of its letter MIAL/EVPF/16-17/6. The Authority proposes that MIAL should incur the required capital expenses if the same are necessary. As these expenditures have not been highlighted prior to the release of the Consultation Paper and other stakeholders have not had a chance to comment on the same, the Authority proposes to allow the same after deliberation and stakeholder consultation by truing it up at the time of tariff determination for the 3rd Control Period.

5.8.34. With respect to Blue Dart's comment on the increase in operational capital expenditure from Rs. 1,156 crores to Rs. 1,440 crores, the Authority reiterates that the Authority has only considered select elements of the proposed operational capital expenditure by MIAL. The Authority also proposes not to impose a cap on the same but to deliberate on the individual components on a case by case basis.

5.8.35. Also, the Authority does not accept APAO's comment to not disallow any operational capital expenditure but claw back the same at a later date.

5.8.36. Accordingly, the Authority proposes to consider the capitalization for the 2nd Control Period for operational capital expenditure as below,

Table 30: Capitalization schedule for operational capital expenditure considered by the Authority for 2nd Control Period

Capitalization - In Rs. Crores	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19	Total
Operational Capitalization	124.80	172.00	191.63	31.54	337.03	857.00

Decision No.8 Regarding Capital Expenditure pertaining to operational capital expenditure in the 2nd Control Period based on the material before it and its analysis, the Authority has decides:

8.a. To consider the Capitalization schedule for operational capital expenditure considered by the Authority for 2nd Control Period as per Table 30 in this Order.

5.9. Capital Expenditure pertaining to new projects in the 2nd Control Period

a MIAL Submission on capital expenditure on new projects in the 2nd Control Period

5.9.1. Vide its submission dated 08.09.2015, MIAL had submitted the cost of new projects proposed to be undertaken during the 2nd Control Period as Rs.1320 crores, as mentioned below:

S. no.	Projects in the 2nd Control Period	Project Cost
1.	Metro Station - 2 nos	518
2.	Taxiway 'M' (Only Slum Rehab cost)	157
3.	Air India Code 'C Hangar	53
4.	South East Pier	409
5.	Meteorological Farm	13
	Expenditure during construction and Interest during construction	170
	Total	1,320

5.9.2. MIAL had submitted the following capital expenditure and capitalisation schedule with respect to such new projects in the 2nd Control Period.

"...

Table: Capital Expenditure Incurrence – Revised

Rs./Crs.

	*Incurrence upto FY 14**	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*	*Total FY 15- FY19*	*FY 20*	*Total upto FY 20*
	Actual	*Actual*		*Projected*					
New Projects		*90*	*546*	*170*	*183*	*198*	*1,187*	*133*	*1,320*

* *Excludes Retirement Compensation to AAI*

... "

"... Table: Capital Expenditure Incurrence – Revised *Rs./Crs.*

	*Upto FY 14**	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*	*Total FY15-FY19*	*FY 20*	*Total upto FY 20*
	Actual	*Actual*		*Projected*					
New Projects		*-*	*549*	*-*	*-*	*209*	*757*	*562*	*1,320*

* *Excludes Retirement Compensation to AAI*

... "

b Authority's examination of MIAL Submission on capital expenditure pertaining to new projects in the 2nd Control Period in the Consultation Paper No. 10/2015-16

5.9.3. As per MIAL's initial submissions, MIAL had submitted a project cost of Rs. 1303.30 crores which has been summarized below,

Table 31: Cost of New Projects Submitted by MIAL

In Rs. Crores	FY15	FY16	FY17	FY18	FY19	Total
Metro Station - 2 nos	15	108	93	92	210	518
Taxiway 'M' (Only Slum Rehab cost)	0	34.9	37.7	40.7	43.9	157.2
Air India Code 'C' Hangar	0	50.6	0	0	0	50.6
South East Pier (between Grid RE 29 - PE 12)	161.9	232.8	0	0	0	394.7
Meteorological Farm	0	12	0	0	0	12
Sub Total	176.9	438.3	130.7	132.7	253.9	1,132.50
Soft Cost (IDC & Preoperative)	25.1	59.9	24	28.5	33.2	170.8
Total Cost of new Projects as above	202	498.4	154.7	161.1	287.1	1,303.30

5.9.4. Of the above proposed cost of new projects, the Authority, based on the letter from MoCA and vide Order No. 46/2015-16, determined the DF for metro connectivity project.

5.9.5. The Authority also noted MIAL's revised submission on 08.09.2015 regarding the increase in project cost for projects to be undertaken in the 2nd Control Period, by Rs. 17 crores on account of withdrawal of Service tax exemption to airport project construction.

5.9.6. Accordingly, the cost towards new projects as considered by the Authority for the purpose of Consultation Paper is shown in table below

Table 32: List of New Projects considered by the Authority for the 2nd Control Period in the Consultation Paper No. 10/2015-16

In Rs. Crores	FY15	FY16	FY17	FY18	FY19	Total
Metro Station - 2 nos	-	-	-	-	-	0.00
Taxiway 'M' (Only Slum Rehab cost)	-	34.93	37.69	40.66	43.88	157.15
Air India Code 'C' Hangar	-	53.10	-	-	-	53.10
South East Pier (between Grid RE 29 - PE 12)	90.00	318.50	-	-	-	408.50
Meteorological Farm	-	12.67	-	-	-	12.67
Sub Total	90.00	419.20	37.69	40.66	43.88	631.43
Soft Cost (IDC & Preoperative)	-	80.05	10.00	13.98	18.25	122.29
Total Cost of new Projects as above	90.00	499.25	47.69	54.65	62.12	753.72

5.9.7. Based on MIAL's submissions and the Authority's analysis above, the capital expenditure and capitalization on account of new projects considered by the Authority are given below,

Table 33: Summarized Capital Expenditure and Capitalization schedule considered by the Authority for 2nd Control Period in the Consultation Paper No. 10/2015-16

Capex and Capitalization - In Rs. Crores	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19	Total
New Projects (incl. soft cost) [B]	90.00	499.25	47.69	54.65	62.12	753.72
New Projects Capitalization (incl. soft cost) [B']	0.00	589.25	0.00	0.00	164.47	753.72

c Stakeholder Comments on issues pertaining to capital expenditure on new projects in the 2nd Control Period

5.9.8. With regards to Authority's approach to the project cost, FIA has commented the Authority has proposed to accept the further capital expenditures of MIAL of Rs. 754 crores without any technical evaluation.

d MIAL's response to Stakeholder Comments on issues pertaining to capital expenditure on new projects in the 2nd Control Period

5.9.9. Regarding the contention of FIA that AERA has failed to verify each component of the estimated project cost, MIAL has commented that FIA's comments are incorrect and erroneous since the Authority has independently applied its mind to the reports of the technical and financial auditors to come to its conclusions.

e MIAL's comments on issues pertaining to capital expenditure on new projects in the 2nd Control Period in the Consultation Paper

5.9.10. MIAL has submitted that the Authority has not considered total Pre-operative expenditure for new projects of Rs. 96 crores, and has reduced the same to Rs. 52 crores only by disallowing the preoperative expenditure allocated over Metro stations. MIAL has further submitted that allocation of pre-operative expenses to Metro was by oversight and the same needs to be corrected. MIAL has also shared a complete list of expenses and submitted that if the fixed establishment costs are not considered by the Authority, it will be difficult for MIAL to undertake projects due to shortage of funds.

5.9.11. Regarding the compensation payable by MIAL for the Air India hangar, MIAL had engaged an independent consultant "STUP Consultants Pvt. Ltd." for estimating the amount to be paid to Air India for Hanger. MIAL has also submitted the report of the consultant as a part of its submissions. Accordingly, MIAL has considered cost of Rs. 53.10 crores, and the computation of the same is as given below,

"...

	Rs. in Crs.
Estimation of cost of Hangar by STUP	43.50
Add: Expected increase in cost in 2 years due to inflation @ 7.9% (CPI)	7.14
Add: Addition due to Service tax disallowance	2.46
Total cost	**53.10**

5.9.12. MIAL has further submitted the Minutes of 17th OIOC meeting dated 31.12.2013 as required by the Authority.

f Authority's examination of Stakeholder Comments (including MIAL) on issues pertaining to capital expenditure on new projects in the 2nd Control Period

5.9.13. The Authority has noted FIA's comment that the Authority has proposed to accept the further capital expenditures of MIAL of Rs. 754 crores without any technical evaluation. As mentioned in para 5.7.64 above, the Authority shall appoint independent consultants for a technical opinion on matters which it deems necessary.

5.9.14. With regards to MIAL's submission regarding the pre-operative expenses, the Authority has noted its submission that such expenses were incorrectly allocated to the Metro project. The Authority believes that the projections made by MIAL for pre-operative expenses have not been substantiated and justified, especially on major heads like Staff, Consultant and Training cost (including outsourced staff) and staff travel. Based on its examination, the Authority has decided not to allow pre-operative expenses worth Rs. 44.14 crores as submitted by MIAL at the time of tariff application for the 2nd Control Period. The Authority will review the actual cost spent by MIAL after completion of such assets while undertaking true-up at the time of tariff determination for the 3rd Control Period.

5.9.15. Regarding the compensation payable for the Air India hangar, the Authority has examined the submissions made by MIAL and has decided to accept the computation done by STUP Consultants. Accordingly, the Authority has considered the cost of Rs. 53.10 crores as a part of new projects for the 2nd Control Period.

5.9.16. Accordingly, the Authority has decided to consider the following as new projects for the 2nd Control Period along with their capital expenditure and capitalisation schedule:

Table 34: List of New Projects considered by the Authority for the 2nd Control Period

In Rs. Crores	FY15	FY16	FY17	FY18	FY19	Total
Taxiway 'M' (Only Slum Rehab cost)	-	34.93	37.69	40.66	43.88	157.15
Air India Code 'C' Hangar	-	53.10	-	-	-	53.10
South East Pier (between Grid RE 29 - PE 12)	90.00	318.50	-	-	-	408.50
Meteorological Farm	-	12.67	-	-	-	12.67
Sub Total	90.00	419.20	37.69	40.66	43.88	631.43
Soft Cost (IDC & Preoperative)	-	80.05	10.00	13.98	18.25	122.29
Total Cost of new Projects as above	90.00	499.25	47.69	54.65	62.12	753.72

Table 35: Capital Expenditure and Capitalization schedule considered by the Authority for 2nd Control Period for the new projects

Capex and Capitalization - In Rs. Crores	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19	Total
New Projects (incl. soft cost)	90.00	499.25	47.69	54.65	62.12	753.72
New Projects Capitalization (incl. soft cost)	0.00	589.25	0.00	0.00	164.47	753.72

Decision No.9 Regarding Capital expenditure on New projects in the 2nd Control Period based on the material before it and its analysis, the Authority decides:

9.a. To consider capital expenditure and capitalization schedule for new projects in the 2nd Control Period as per Table 35 in this Order.

9.b. To not consider pre-operative expenses worth Rs. 44.14 crores as submitted by MIAL for the tariff application for the 2nd Control Period. The actual cost spent by MIAL after completion of such assets shall be reviewed while undertaking true-up at the time of tariff determination for the 3rd Control Period.

9.c. To consider compensation of Rs. 53 Crore, payable by MIAL to Air India for Hangar facility, as a part of new projects for the 2nd Control Period.

5.10. Depreciation

a MIAL Submission on Depreciation

5.10.1. MIAL had submitted its projections for depreciation in the 2nd Control Period vide its submissions dated 26.12.2013 and 05.08.2014. MIAL's revised tariff application dated 08.09.2015 on depreciation of aeronautical assets is as below,

"As per SSA, rates applicable under Schedule XIV of the Companies Act, 1956 are to be applied on the value of the assets. This Act has been replaced by the Companies Act, 2013. Accordingly Depreciation for second control period is calculated as per Schedule II of the Companies Act, 2013. Revised depreciation on assets is shown below… "

"

Depreciation	*FY 15*	*FY 16*	*FY 17*	*FY 18*	*FY 19*
- On Aero assets	*434*	*430*	*498*	*496*	*495*
- On Hypothetical Assets	*124*	*88*	*99*	*98*	*92*
Total	*559*	*518*	*597*	*594*	*586*

"

b Authority's Proposal on Depreciation in the Consultation Paper No. 10/2015-16

5.10.2. The Authority had carefully examined MIAL's submission regarding depreciation to be considered towards determination of ARR for the 2nd Control Period. As per the MIAL Tariff Order 32/2012-13 the Authority had decided to follow the Companies Act 1956 for the purpose of depreciating MIAL's assets every year during the 1st Control Period. However, the MIAL in its tariff applications used the depreciation rates as per the useful life of assets stated in the Companies Act 2013 which has replaced the Company's Act of 1956, in India. In the spirit of the guidelines set in the SSA, i.e. to adopt the applicable depreciation rates at any point in time the Authority had proposed to follow the depreciation rates as per the useful life of assets stated in the Companies Act 2013 in the 2nd Control Period.

5.10.3. MIAL had submitted the following comparison between the depreciation rates applicable to it, which had been noted by the Authority.

Table 36: Comparison of Depreciation Rate provided by MIAL as applicable to CSI Airport between Companies Act 1956 and Companies Act 2013

S. No.		Descriptions	Rate (%)	
			FY 2013-14	Revised as per Companies Act, 2013
1	a)	Buildings RCC Structure	3.34%	3.34%
	b)	Buildings (other than factory buildings) other than RCC Frame Structure	3.34%	3.34%
	c)	Buildings (other than factory buildings) other than RCC Frame Structure (for Insta cabin, carpet tiles, column cladding, toilets)	10.00%	10.00%
	d)	Roads - Carpeted other than RCC	3.34%	20.00%
	e)	Roads - Carpeted RCC	3.34%	10.00%
	f)	Others (including temporary structure, etc.)	100.00%	100.00%
2		**Runways & Taxiways**		
	a)	Runways	5.00%	5.00%
	b)	Taxiways	3.34% / 5.00%	3.34% / 5.00%
	c)	Apron	3.34% / 5.00%	3.34% / 5.00%
3		**Plant & Machinery**		
	a)	Plant & Machinery	10.34%	13.33%
	b)	Plant & Machinery (X Ray)	7.07%	13.33%
	c)	Plant & Machinery (cost below Rs.5000)	100.00%	100.00%
4		**Office Equipment**		
	a)	Office Equipment	10.34%	20.00%
	b)	Office Equipment (cell phones)	50.00%	50.00%
	c)	Office Equipment (Cost below Rs.5000)	100.00%	100.00%
5		**Electrical Installations and Equipment**		
	a)	Electrical Installations and Equipment	10.34%	10.00%
	b)	Electrical Installations and Equipment (Cost below Rs.5000)	100.00%	100.00%
6		**Computers**		
	a)	Servers and Networks	16.21%	16.67%
	b)	End user devices, such as desktops, laptops, etc.	16.21%	33.33%
	c)	End user devices, such as desktops, laptops, etc. (Cost below Rs.5000)	100.00%	100.00%
7		**Vehicles**		
	a)	Motor cycles, scooters and other mopeds	11.31%	10.00%
	b)	Motor buses, motor lorries and motor cars other than those used in a business of running them on hire	11.31%	12.50%
8		**Fixtures and Fittings**		
	a)	General Furniture and fittings	9.50%	10.00%
	b)	General Furniture and fittings (cost below Rs.5000)	100.00%	100.00%

5.10.4. The Authority had noted that the MIAL has applied depreciation rate of 3.34% for runways, taxis and aprons, same as it had in the 1st Control Period, considering that these assets have a useful life of 30 years.

5.10.5. The Authority had proposed to accept depreciation rates adopted by MIAL as per the Companies Act 2013, requiring MIAL to submit a Board resolution or any other valid proof indicating that the Board of MIAL has adopted the new depreciation rates as in submission for 2nd Control Period as part of the consultation process, for record.

5.10.6. The Authority had re-computed depreciation based on the Authority's estimates of RAB for the 2nd Control Period (except FY2014-15 for which actual depreciation is available from the auditor's certificates). Furthermore, the Authority proposed to continue to consider depreciation on HRAB based on average depreciation on aeronautical assets in the 2nd Control Period. The Authority computed depreciation as below,

Table 37: Depreciation considered by the Authority for the 2nd Control Period in the Consultation Paper No. 10/2015-16

Depreciation, INR Crores	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Average Depreciation Rate	7.59%	4.98%	5.51%	5.38%	5.02%
Depreciation on HRAB	73.28	48.09	53.20	52.01	48.54
Depreciation on RAB	430.00	376.74	421.86	418.64	421.01
Depreciation on RAB due to PSF (SC) Capex	0.00	17.91	23.94	25.49	24.84
Net Aero Depreciation for the year	**503.28**	**442.74**	**499.00**	**496.14**	**494.39**

5.10.7. The Authority had also proposed to true up depreciation at the time of determining aeronautical tariffs in the 3rd Control Period.

c Stakeholder Comments on Issues pertaining to Depreciation

5.10.8. Subsequent to the Stakeholder Consultation process, the Authority has received comments / views from various stakeholders in response to the Consultation Paper No. 10/2015-16 dated 16.03.2016 on the determination of aeronautical tariffs for CSIA airport, Mumbai for the 2nd Control Period. Comments pertaining to depreciation have been presented below.

5.10.8.a. Regarding Authority's proposal on the calculation of depreciation on RAB, IATA has commented that it is in agreement with the Authority's proposal given that the Authority has not yet made a final decision on the work carried out on the setting of depreciation rates to be adopted for the regulatory purpose. It has further submitted that it believes that the allocation of assets is highly skewed towards aeronautical activities and that such allocation has an immediate effect on all building blocks.

5.10.8.b. Regarding Authority's proposal on the truing up of depreciation on RAB, IATA has submitted that it may be prudent to true up depreciation on the basis of the actual date of capitalization of the asset. It has further submitted that the Authority should ensure that the value of the asset being capitalized (and then depreciated) is efficient; and that this would help avoid the users paying for underperformance.

5.10.8.c. With respect to the Authority's approach to depreciation, FIA has commented that a highly inflated RAB has been recovered over a shorter period of 14 years as opposed to concession period of 30 years. It has further commented that the adoption of depreciation rates as per useful life of assets specified in the Companies Act 2013 and as per provisions of the concession agreement are not representative of the economic useful life of the asset. FIA has also stated that the use of these rates has resulted in the sharp decline in the accounting life of assets, which has significantly increased depreciation expense and consequently impacted aeronautical tariff. It addition FIA has also highlighted that the useful life of the asset considered for the purposes of depreciation for the aviation sector maybe determined by the Authority as per Part B Schedule II of the Companies Act. Accordingly, FIA has submitted that pending the Authority arriving at the applicable rate of depreciation for the aviation sector, the Authority should consider arriving at the depreciation rates, as per the provisions of the Companies Act, read with the relevant accounting standards. According to FIA, the abovementioned treatment would result in the asset being depreciated based on the tenure of the concession agreement rather than the shorter tenure as per the Companies Act 2013.

5.10.8.d. FIA has further submitted that according to the data evaluations carried by it, increase in useful life of the asset to 30 years would reduce the target revenues. It has requested the Authority to have considered the provisions of the Companies Act and the relevant accounting standards to arrive at the depreciation rates for the assets controlled by MIAL. It has also stated that pending the study to arrive at the depreciation rates for the aeronautical assets, the Authority should negate the submissions of MIAL.

5.10.8.e. On the approach of the Authority on depreciation, FIA has also referenced provisions of the Companies Act (read with accounting standards) and the Concession agreement to substantiate its position that the useful life of the airport assets which do not have an “independent existence” should be 60 years.

5.10.8.f. With regards to the Depreciation rates for Reinforced Concrete Cement frame structure, FIA has submitted that as per Part "C" of Schedule II of the Companies Act 2013 useful life of buildings (other than factory buildings) having Reinforced Concrete Cement (“RCC”) frame structure is 60 years. FIA has also highlighted that only Buildings (other than factory buildings) other than RCC frame structure are to be depreciated over a period of 30 years. It has also commented that although there was no mention in MIAL’s submission regarding the structure of buildings, it is highly unlikely that terminal buildings are not built with RCC technology. Accordingly, it has requested that the Authority consider obtaining the details of building structure and allow depreciation accordingly.

5.10.8.g. Regarding depreciation of assets up to 100% of its original cost, FIA has submitted that the practice of depreciating beyond 90% of an asset’s original cost is contrary to AERA Guidelines.

5.10.8.h. Regarding depreciation of HRAB, IATA has submitted that in order to avoid unnecessary true-ups, AERA should determine a fixed asset life for the HRAB and depreciate the asset accordingly on a straight line basis which will imply the same fixed depreciated value per year throughout all periods until the net value of the HRAB is nil.

d MIAL's response to Stakeholder Comments on issues pertaining to Depreciation

5.10.9. In response to IATA's comment that the depreciation is skewed as a result of improper allocation of assets between aeronautical and non-aeronautical components, MIAL has explained that the same has been done based on ICWAI report. MIAL has expressed agreement with IATA's submission as per para 5.10.8.b above.

5.10.10. Responding to FIA's submissions that the depreciation is being computed over a shorter period whereas the Concession period is of 30 years, MIAL has submitted that the Authority has rightly followed the calculation/computation of depreciation as per the Companies Act 2013 which takes into account useful life of the assets for calculation of depreciation. It has also commented that the examples given by FIA of the other airports are not comparable due to many reasons including local climatic conditions, period of operations and intensity of the operations. MIAL has also submitted that the approach of FIA to co-relate the useful life of the assets with the term of the concession is without any basis.

5.10.11. In response to FIA's submissions regarding the depreciation rates as per the provisions of the Companies Act, MIAL commented that the provisions of the Companies Act 2013 that are being followed by the Authority for the purposes of depreciation are also in accordance with the provisions of SSA and OMDA. MIAL has also submitted that the judgment in case of JK Industries Ltd. V (Jol (2007) 10 SCC 1, highlighted by the FIA to substantiate its point was out of context and not relevant to the current case.

5.10.12. In response to FIA's submissions that the depreciation rate for the Reinforced Concrete Cement frame structure not computed as per the Companies Act, MIAL has submitted that since the terminals at CSIA are used for passenger movement 24 hours a day, it is considered as factory building and accordingly 30 years been considered as useful life for the as per Schedule II Companies Act, 2013.

5.10.13. With respect to FIA submissions regarding the computation of depreciation of the asset up to 100% of the value of asset, MIAL has submitted that the depreciation has been computed up to 100% of the value of asset considering the fact that generally realizable value at the end of the useful life is negligible and sale proceeds received, if any, are credited to P&L account adjusted from depreciation in that year. It has further submitted that Companies Act, 2013 specifically provides that ordinarily, the residual value of an asset is often insignificant but it should generally be not more than 5% of the original cost of the asset.

5.10.14. Regarding IATA's submission for a straight line method depreciation of HRAB, MIAL has submitted that since HRAB is part of aeronautical RAB, applying depreciation rate applicable to aeronautical RAB is correct approach and there is no need of changing to fixed depreciation.

e MIAL's comments on Issues pertaining to Depreciation in the Consultation Paper

5.10.15. MIAL has not made any comments on issues pertaining to depreciation.

f Authority's Examination of Stakeholder Comments (including MIAL) on Issues pertaining to Depreciation

5.10.16. The Authority is in agreement with IATA's comment as per para 5.10.8.b above.

5.10.17. Regarding FIA's comment on the useful life and depreciation rates applicable, the Authority is of the view that the useful life of assets worked out on the basis of the expected life / duration of such assets may be significantly different from the tenure for which such assets have been leased out to MIAL. Using depreciation rates as per the Companies Act may at times lead to a higher depreciation rate than that which would be computed using the useful life of such asset based on the concession agreement. Despite this the Authority sees no compelling reason to not consider the depreciation rates as mentioned in the Companies Act 2013. Accordingly, the Authority has decided to continue using the rates mentioned in Consultation Paper No. 10/2015-16.

5.10.18. Regarding FIA's comment that the terminal building made of Reinforced Concrete Cement structure should be depreciated over 60 years, the Authority has decided to accept MIAL's response to FIA's comment which states that the same is similar to a factory building which operates 24 hours a day, and should be depreciated over 30 years.

5.10.19. Regarding the applicability of AERA Guidelines regarding depreciation of an asset up to 90%, the Authority understands that guidelines are not applicable to MIAL and hence the Authority has decided to continue with its stand as mentioned in Consultation Paper No. 10/2015-16.

5.10.20. Regarding IATA's suggestion of having an SLM depreciation on HRAB, the Authority does not find any compelling evidence to change its approach and has decided to apply the rate of depreciation applicable to aero assets on HRAB as well. Accordingly, the Authority has maintained its proposal as given in Consultation Paper No. 10/2015-16.

5.10.21. Based on the Authority's decisions and the revision in the regulatory asset base (RAB), the depreciation rate on the gross block of aeronautical assets considered for the purpose of tariff determination for the 2nd Control Period for MIAL is as given below,

Table 38: Depreciation rate considered by the Authority for aeronautical assets the 2nd Control Period

Depreciation, INR Crores	2014-15	2015-16	2016-17	2017-18	2018-19
Average Depreciation Rate	6.33%	4.98%	5.49%	5.37%	5.02%

5.10.22. Based on the adjustments made to the regulatory asset base (RAB), the depreciation considered for the purpose of tariff determination for the 2nd Control Period for MIAL is as given below,

Table 39: Depreciation considered by the Authority for the 2nd Control Period

Depreciation, INR Crores	2014-15	2015-16	2016-17	2017-18	2018-19
Depreciation on HRAB	61.18	48.08	53.04	51.89	48.52
Depreciation on RAB	355.77	380.16	424.44	421.37	424.13
Depreciation on RAB due to PSF (SC) Capex	0.00	2.48	6.85	8.78	9.26
Net Aero Depreciation for the year	**416.95**	**430.72**	**484.33**	**482.04**	**481.91**

Decision No.10 Regarding depreciation for the 2nd Control Period based on the material before it and its analysis, the Authority decides

10.a. To consider depreciation rates as per the useful life of assets specified in the Companies Act 2013 for the second Control Period except for assets

pertaining to runway, taxiway and apron, which are to be considered at useful life of 30 years.

10.b. To consider the depreciation for 2nd Control Period as presented in Table 38 and Table 39 in this Order.

10.c. To true up depreciation at the time of determining aeronautical tariffs in the 3rd Control Period based on actual date of capitalization of assets.

5.11. Computation of RAB for the 2nd Control Period

a MIAL submission on computation of RAB for the 2nd Control Period

5.11.1. As part of its tariff application dated 08.09.2015, MIAL has submitted that it has reclassified the Gross Block of assets as at 01.04.2014 as per Schedule XIV to the Companies Act, 1956 to as per Schedule II to the Companies Act, 2013. Similar adjustment has been done to corresponding accumulated depreciation of these assets.

5.11.2. With respect to capital expenditure related to security expenses, MIAL has submitted that in continuation of its earlier letter dated 31.07.2015, wherein it has requested the Authority for allowing a separate Security Component of tariff for taking care of security related revenue and capital expenditure incurred up to FY 15 and in the balance Control Period, it has calculated the separate tariff in this connection. According to MIAL, capital expenses aggregating Rs. 487 crores have been considered as opening RAB as on 01.04.2016 towards capex incurred up to FY15 of Rs.327 crores plus the carrying costs of Rs. 160 crores Returns by way of WACC and depreciation has been considered on the opening RAB.

5.11.3. MIAL has further submitted the following details of RB for the Control Period are as follows:

"Table: Computation of RB for the 2nd Control Period –Revised Rs./Cr.

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Opening RB	*6,051*	*5,468*	*7,568*	*7,386*	*6,936*
Less: Depreciation	*434*	*430*	*498*	*496*	*495*
Add: Capitalization during the year	*-149*	*2,530*	*316*	*46*	*589*
Closing RB	*5,468*	*7,568*	*7,386*	*6,936*	*7,030*
Average RB	*5,760*	*6,518*	*7,477*	*7,161*	*6,983*
Average HRB	*1,355*	*1,249*	*1,156*	*1,058*	*963*
Average RB including HRB	*7,115*	*7,768*	*8,633*	*8,219*	*7,946*

Note: RB excludes Upfront Fee, Non-Aeronautical Asset, DF funded assets and assets related to disallowance from PSF(SC). "

b Authority's examination of issues pertaining to computation of RAB for the 2nd Control Period in the Consultation Paper No. 10/2015-16

5.11.4. The Authority had noted MIAL's submission regarding treatment of security related capital expenditure. The Authority had also noted the 31.05.2015 letter submitted by MIAL in this regard.

5.11.5. The Authority had proposed to account this expenditure as part of the RAB for the purpose of calculation of ARR. However, the Authority had noted that the matter of reimbursement of expenses incurred by MIAL into the escrow account is sub-judice. The Authority had proposed to consider both these category of capital expenditure as a part of the RAB for the time being, subject to production of adequate documentary evidence by MIAL and clarification from AAI and MoCA before taking a final decision in the order had proposed to review this capital expenditure based on evidence of reimbursement as well as other documents, subject to reconciliation.

5.11.6. Based on the actual audited values of depreciation available to the Authority for the 1st Control Period, the Authority had proposed to consider the depreciation values recorded in the books of MIAL for these years for the purpose of truing-up the depreciation, based on actual date of capitalization.

5.11.7. Furthermore, the Authority had proposed that the difference between the value of RAB - calculated based on actual date of commissioning/ disposal of assets and that calculated considering such asset has been commissioned/ disposed half way through the respective Tariff Year, will also be adjusted at the end of the (1st) Control Period considering Future Value of the differences for each year in the Control Period.

5.11.8. Accordingly, the Authority had proposed to consider the capital expenditure and capitalization for the 2nd Control Period for project related capital expenditure and operational capital expenditure as below,

Table 40: Summarized Capital Expenditure and Capitalization schedule considered by the Authority for 2nd Control Period in the Consultation Paper No. 10/2015-16

Capex and Capitalization - In Rs. Crores	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19	Total
Capital Expenditure (Project Cost) [A]	729.00	661.00	166.00	138.00	59.00	1753.00

New Projects (incl. soft cost) [B]	90.00	499.25	47.69	54.65	62.12	753.72
Operational Capital Expenditure [C]	215.00	313.00	214.00	53.80	61.20	857.00
Total Capital Expenditure [D=A+B+C]	**1034.00**	**1473.25**	**427.69**	**246.45**	**182.32**	**3363.72**
Project Cost Capitalization [A']	223.00	1769.00	48.00	105.00	213.00	2358.00
New Projects Capitalization (incl. soft cost) [B']	0.00	589.25	0.00	0.00	164.47	753.72
Operational Capitalization [C']	124.80	301.74	61.89	31.54	337.03	857.00
Capitalization [D=A'+B'+C']	**347.80**	**2659.99**	**109.89**	**136.54**	**714.50**	**3968.72**

Table 41: Aeronautical Capitalization considered by the Authority for RAB in second Control Period

Aeronautical Capitalization - In Rs. Crores	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19	Total
Project Cost Capitalization (Aeronautical + Non-Aeronautical) [X]	219.00	1440.00	48.00	105.00	213.00	2025.00
Aeronautical Project Cost Capitalization [X']	185.10	1217.09	40.57	88.75	180.03	1711.53
Aeronautical New Projects Capitalization [Y]	0.00	514.75	0.00	0.00	164.47	679.22
Aeronautical Operational Capitalization [Z]	124.80	301.74	61.89	31.54	337.03	857.00
Aeronautical Capitalization [W=X'+Y+Z]	**309.90**	**2033.57**	**102.46**	**120.29**	**681.52**	**3247.75**

5.12. Accordingly, the Authority had recomputed the RAB to be as the following,

Table 42: RAB and Return on RAB considered by the Authority for 2nd Control Period in the Consultation Paper No. 10/2015-16

Regulatory Asset Base (In Rs. Crore)		**FY2014-15**	**FY2015-16**	**FY2016-17**	**FY2017-18**	**FY2018-19**
Computation of HRAB						
A	Opening HRAB	763.99	690.71	642.62	589.42	537.41
B	Depreciation for the year	73.28	48.09	53.20	52.01	48.54
c=a-b	Closing HRAB	690.71	642.62	589.42	537.41	488.88
d=Avg(a,c)	Average HRAB	727.35	666.67	616.02	563.42	513.14
Computation of RAB						
A1	Opening RAB	5282.80	4704.39	6752.98	6459.84	6163.01
A2	Opening RAB (One Time Carry Forward from PSF SC Account)	0.00	309.97	0.00	0.00	0.00
B1	Less: Depreciation on RAB (ex. DF, Upfront fee)	430.00	376.74	421.86	418.64	421.01
B2	Less: Depreciation on RAB due to Security Related Capital Expenditure	0.00	17.91	23.94	25.49	24.84
C1	Add: Pro-rata Addition to aero assets allowed during the year (excl. DF funded assets)	(148.41)	2033.57	102.46	120.29	681.52
C1'	Less: Assets discarded/ disposed off during the year	0.00*	0.00	0.00	0.00	0.00
X	Balance: Addition to aero assets carried forward to next year (excl. DF funded assets)	0.00	0.00	0.00	0.00	0.00
C2	Add: Addition to aero assets due to Security Related Capital Expenditure	0.00	99.70	50.20	27.00	15.00
D=(A1+A2)-	Closing Regulatory Asset Base	4704.39	6752.98	6459.84	6163.01	6413.69

Regulatory Asset Base (In Rs. Crore)		FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
(B1+B2)+(C1-C1'+C2)+X						
Calculation of Return on Aggregate RAB (RAB + HRAB)						
E= Avg[A1+A2,D]	Average RAB	4993.60	5883.67	6606.41	6311.43	6288.35
F=d	Average HRAB	727.35	666.67	616.02	563.42	513.14
G=E+F	Average RAB (including HRAB)	5720.95	6550.34	7222.44	6874.84	6801.49
H	WACC	11.75%	11.75%	11.75%	11.75%	11.75%
I=G*H	**Return on RAB (WACC x Average RAB)**	**672.07**	**769.50**	**848.45**	**807.62**	**799.00**
Aggregate Aeronautical Depreciation on RAB						
J=b	Depreciation on HRAB	73.28	48.09	53.20	52.01	48.54
K=B	Depreciation on RAB (excluding DF)	430.00	376.74	421.86	418.64	421.01
L=B1	Depreciation on RAB due to PSF (SC) Capex	0.00	17.91	23.94	25.49	24.84
M=J+K+L	**Net Aero Depreciation for the year**	**503.28**	**442.74**	**499.00**	**496.14**	**494.39**

c Stakeholder comments on issues pertaining to computation of RAB for the 2nd Control Period

5.12.1. Regarding Authority's proposal on computation of capital expenditure related to PSF (SC), IATA has commented that it supports the Authority's requirement that MIAL provides evidence for reimbursement of the capitalized amounts, otherwise it would result in double counting.

5.12.2. With regards to the reimbursement of funds used for Security related expenditure out of PSF (SC) Escrow account, APAO has requested the Authority not to put a pre-condition for reimbursement of Rs. 309 crores to PSF (SC) escrow account since it would not be possible for MIAL to arrange for the same at such a short notice. It has also requested the Authority to allow MIAL a reimbursement of Rs.17.19 crores towards expenditure on capital work in progress and carrying cost on funds from PSF (SC) escrow account.

5.12.3. APAO has also submitted to the Authority that the Authority's Consultation paper No. 17/2010-11 dated 24.03.2011 proposes guidelines for terms and conditions for determination of Passenger Service Fee at major private airports and that it is imperative for the Authority to determine a separate component for PSF (SC) reimbursements.

5.12.4. Regarding reimbursement of expenditure related to security incurred from PSF (SC) escrow account, DIAL has requested the Authority to allow carrying cost on the amounts to be reimbursed along with the amount of CWIP incurred from the said escrow account. DIAL has further submitted that the condition to make the payment before passing of Order by Authority is a nearly impossible condition put in and it would not be possible for an airport to arrange such a large fund for reimbursement at a short notice. DIAL has further requested the Authority to propose a separate component towards PSF (SC).

d MIAL's responses to stakeholder comments on issues pertaining to computation of RAB for the 2nd Control Period

5.12.5. MIAL has disagreed with IATA's view on the matter of PSF (SC) escrow account and has submitted that it would be required to securitize the Tariff in respect of such security expenses to make the reimbursement in PSF (SC) Escrow account and that would not be possible before issue of Tariff Order.

5.12.6. MIAL has expressed agreement with DIAL's & APAO's comment on the reimbursement of expenditure related to security incurred from PSF (SC) escrow account.

e MIAL's comments on issues pertaining to computation of RAB for the 2nd Control Period in the Consultation Paper

5.12.7. MIAL has submitted that during FY 15, there were certain assets which were disposed off by MIAL. The Gross block of these assets was Rs 5,195 million, Accumulated depreciation of Rs 1,644 million and thus WDV of Rs 3,551 million. MIAL has submitted that while the Consultation Paper states that the adjustment pertaining to assets disposed off has been done by reducing WDV from the Gross additions, it has noticed during the reconciliation process that Gross block value and not WDV of assets disposed has been reduced from the Gross additions and the same needs to be rectified by adding back the accumulated depreciation of Rs. 164.4 crores pertaining to such assets to give the correct impact on RAB.

5.12.8. With respect to the Authority's treatment of expenditure pertaining to security, MIAL had submitted that MoCA in its letter dated 18.02.2014 had required the Airport Operators to reimburse back the amount incurred towards procurement and maintenance of security system/ equipment and on creation of fixed assets out of PSF(SC) Escrow account, along with the interest that would have accrued in normal course. MIAL had submitted that it has appealed against such reimbursement before Hon'ble High Court of Bombay and had indicated its inability to reimburse the Capital and Operating expenditure amount payable to the PSF (SC) Escrow account prior to the passing of the Tariff Order due to the severe funding gap faced by it. MIAL had mentioned that due to huge losses incurred and the absence of adequate funding for projects in the 2nd Control Period, it would be required to securitize the Tariffs in respect of these security charges to meet the reimbursement requirement. MIAL had further submitted that the Authority while agreeing to consider allowing these reimbursements has not considered carrying cost on Rs.309 crores which MIAL may have to pay. Based on the above, MIAL had requested the Authority to not put a condition which cannot be complied with and has submitted that the security expenditure of Rs. 59.42 crores for 2nd Control Period will be directly incurred by MIAL and therefore the question of reimbursement of such amount into PSF(SC) Escrow account by MIAL does not arise.

5.12.9. Further to the remarks given above, MIAL had submitted that the inclusion of the amount, which is, to be reimbursed by MIAL into PSF(SC) Escrow account, for determination of tariff for 2nd Control Period would not lead to double accounting in case MIAL does not make the payment into PSF (SC) Escrow as the Authority would have the right to true-up the amount with the carrying cost while determining tariff for the next Control Period.

5.12.10. It was also MIAL's submission that the Rs. 17.19 crores that has been incurred out of the PSF(SC) Escrow account towards Capital Work in Progress as at 31.03.2015 needs to be considered by the Authority for the purposes of reimbursement into PSF (SC) Escrow Account.

5.12.11. MIAL had also requested for a separate tariff component towards the reimbursement of Capital Expenditure and Operating Expenditure incurred for security purposes for Airport Operators. MIAL had submitted that security is a sovereign function and in case airport operator is incurring such expenditure, it is for the purpose of performing a sovereign function. MIAL had also mentioned that if such expenditure was recovered through tariffs, MIAL would have to pay a revenue share to AAI on the same resulting in undue enrichment of AAI at the cost of the airport operator.

5.12.12. Subsequently, MIAL vide its letter dated 14.09.2016 has clarified that it has partially reimbursed its dues to the extent of Rs. 15.21 crores, (i.e. Rs. 14.21 crores pertaining to O&M expenditure and Rs. 1.01 crores pertaining to capital expenditure) to the escrow account. MIAL has also enclosed a confirmation in this respect from Bank of India as well as a confirmation letter written by MIAL to MOCA in this respect.

f Authority's examination of stakeholder comments (including MIAL) on issues pertaining to computation of RAB for the 2nd Control Period

5.12.13. Regarding MIAL's submission on the Authority's proposal to reduce the full cost of Aeronautical Assets disallowed from RAB while it has considered additions proportionately, the Authority has accepted MIAL's submission as mentioned in para 3.37 above.

5.12.14. Regarding MIAL's submission on the Authority's proposal to subtract the gross block value of assets disposed from RAB without adding back accumulated depreciation on assets disposed, the Authority has accepted MIAL's submission as mentioned in para 3.32.4 above.

5.12.15. The Authority has also noted the views of IATA, APAO, DIAL and MIAL on the matter of PSF (SC) with regards to the Authority's proposal to not consider the figure of Rs. 309.97 crores capitalized by MIAL till FY 2014-15 on account of PSF (SC) on the grounds that MIAL has not provided evidence for the reimbursement of the same into the PSF (SC) escrow account.

5.12.16. The Authority has noted MIAL's submission that the Authority while agreeing to consider allowing these reimbursements has not considered carrying cost on Rs.309.97 crores which MIAL may have to incur. The Authority would like to clarify that as per the directive of the Ministry, airport operators are directed to reimburse back the respective PSF (SC) Escrow account, the total amount spent the towards procurement and maintenance of security systems/equipment and on creation of fixed assets, together with interest that would have accrued in normal course had the said amount not been debited against the PSF (SC) Escrow account.

As mentioned previously, if MIAL incurs any carrying cost while reimbursing the escrow account, the Authority shall deliberate on the matter while determining tariffs for the 3rd Control Period.

5.12.17. The Authority has also noted MIAL's submission on the practical difficulties it would face in trying to reimburse the amount payable to the PSF(SC) Escrow account prior to current Tariff Order. However, the Authority understands that allowing this amount before MIAL actually reimburses the escrow account shall amount to MIAL being pre-paid such amount at the expense of passengers.

The Authority has noted MIAL's submission vide 14.09.2016, clarifying that it has partially reimbursed its dues to the extent of Rs. 1.01 crores out of Rs. 309.97 crores pertaining to capital expenditure to the escrow account. The Authority is also in receipt of a confirmation in this respect from Bank of India as well as a confirmation letter written by MIAL to MOCA regarding the same. Therefore, considering MIAL's evidence of reimbursement of Rs. 1.01 crores into the PSF (SC) escrow account, the Authority has decided to allow Rs. 1.01 crores pertaining to capital expenditure in FY 2012-13, subject to a proportionate addition of capital expenditure over the actual number of calendar days in the FY13. The Authority has decided to further deliberate on the matter at the time of tariff determination for the 3rd Control Period. The Authority's has also decided to disallow the amount of Rs. 17.19 crores, submitted by MIAL as Capital Work-in-progress for security equipment, as evidence regarding the same was not provided by MIAL.

5.12.18. Accordingly, the Authority has recomputed the RAB for tariff determination for the 2nd Control Period as below,

Table 43: RAB and Return on RAB considered by the Authority for tariff determination for MIAL for the 2nd Control Period

Regulatory Asset Base (In Rs. Crore)		FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Computation of HRAB						
A	Opening HRAB	756.54	695.36	647.27	594.23	542.34
B	Depreciation for the year	61.18	48.08	53.04	51.89	48.52
c=a-b	Closing HRAB	695.36	647.27	594.23	542.34	493.82
d=Avg(a,c)	Average HRAB	725.95	671.32	620.75	568.29	518.08
Computation of RAB						
A1	Opening RAB	5198.78	4836.98	6575.88	6426.73	6143.30
A2	Opening RAB (One Time Carry Forward from PSF	0.00	0.00	0.00	0.00	0.00

Regulatory Asset Base (In Rs. Crore)		FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
	SC Account)					
B1	Less: Depreciation on RAB (ex. DF, Upfront fee)	355.77	380.16	424.44	421.37	424.13
B2	Less: Depreciation on RAB due to Security Related Capital Expenditure	0.00	2.48	6.85	8.78	9.26
C1	Add: Pro-rata Addition to aero assets allowed during the year (excl. DF funded assets)	294.15	2021.85	231.94	119.71	680.35
C1'	Less: Assets discarded/ disposed off during the year	300.19	0.00	0.00	0.00	0.00
X	Balance: Addition to aero assets carried forward to next year (excl. DF funded assets)	0.00	0.00	0.00	0.00	0.00
C2	Add: Addition to aero assets due to Security Related Capital Expenditure	0.00	99.70	50.20	27.00	15.00
D=(A1+A2)-(B1+B2)+(C1-C1'+C2)+X	Closing Regulatory Asset Base	4836.98	6575.88	6426.73	6143.30	6405.25
Calculation of Return on Aggregate RAB (RAB + HRAB)						
E= Avg[A1+A2,D]	Average RAB	5017.88	5706.43	6501.31	6285.01	6274.27
F=d	Average HRAB	725.95	671.32	620.75	568.29	518.08
G=E+F	Average RAB (including HRAB)	5743.83	6377.75	7122.06	6853.30	6792.35
H	WACC	11.78%	11.78%	11.78%	11.78%	11.78%
I=G*H	**Return on RAB (WACC x Average RAB)**	**676.34**	**750.98**	**838.63**	**806.98**	**799.80**
Aggregate Aeronautical Depreciation on RAB						
J=b	Depreciation on HRAB	61.18	48.08	53.04	51.89	48.52
K=B	Depreciation on RAB (excluding DF)	355.77	380.16	424.44	421.37	424.13
L=B1	Depreciation on RAB due to PSF (SC) Capex	0.00	2.48	6.85	8.78	9.26
M=J+K+L	**Net Aero Depreciation for the year**	**416.95**	**430.72**	**484.33**	**482.04**	**481.91**

Decision No.11 Regarding the computation of RAB for the 2nd Control Period based on the material before it and its analysis, the Authority decides:

11.a. To consider an opening RAB of Rs. 5,198.78 crores and opening HRAB of Rs. 756.54 crores as of 01.04.2014.

11.b. To include the capitalized figure of Rs. 1.01 crores as per the evidence submitted by MIAL towards reimbursement to PSF (SC) account.

11.c. To not include Rs. 309.97 crores as projected in 31.03.2015 for the 2nd Control Period and to not consider the CWIP of Rs. 17.19 Crores for security equipment in RAB.

11.d. To include the projected security related capital expenditure of Rs. 191.90 crores to be capitalized during the remaining part of the 2nd Control Period in the RAB.

11.e. To consider the RAB and return on RAB as for the 2nd Control Period as per Table 43 in this Order for the purpose of determination of aeronautical tariff for 2nd Control Period.

11.f. To true-up the cost of capital expenditure based on actual audited values of at the time of determination of aeronautical tariff for the 3rd Control Period.

11.g. To review the Regulatory Asset Base and Return on RAB for 2nd Control Period at the time of determination of aeronautical tariff for 3rd Control Period based on actual additions to RAB (capitalization) and actual depreciation based on date of capitalization during the 2nd Control Period.

6. Operating Expenses

6.1. As per SSA, the tariff determination for MIAL for CSI Airport Mumbai need to take into account the efficient operation and maintenance cost pertaining to aeronautical services. This chapter provides Authority's final decisions with respect to various expense heads as projected and submitted by MIAL for tariff determination for the 2nd Control Period.

a MIAL Submission on Operating & Maintenance (O&M) Expenses

6.2. Extracts of MIAL's submission as per its tariff application dated 08.09.2015 regarding Operating and Maintenance are presented below,

"...

2.4. Operation & Maintenance cost

The Operation and Maintenance (O&M) cost consists of the employees cost, electricity, water and fuel cost, repairs & maintenance costs and other operating expenditure. The projection of the O&M cost for the second control period is based on the actual costs experienced in the base year i.e. FY 2014-15.

The assumptions and rationale for each cost head projection are described in detail below:

2.4.1. Employees Cost

The cost incurred towards employees in a year is determined by the head-count and the applicable compensation. Average salary per employee is revised based on actual average salary for FY 15, which is expected to increase by 10% YoY, inclusive of CPI. Further, average employees cost for new employees recruited in the second control period is also considered based on average salary per employee for FY 15 and increased 10% YoY. MIAL has updated the department headcount for FY 16-FY 19 based on expected manpower requirements."

"... Table: Employees Cost - Revised

Head Count (Nos.)

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*

- Operations including corporate (excluding cargo)	*967*	*1,186*	*1,205*	*1,233*	*1,238*
- Cargo	*8*	*15*	*15*	*15*	*15*
- Retainers	*29*	*28*	*28*	*28*	*28*
- Outsourced	*59*	*71*	*74*	*78*	*82*
Total Payroll cost - Rs./Crs.	*146*	*192*	*215*	*240*	*266*

…"

"… 2.4.2. Electricity, Water and Fuel

MIAL has updated the cost for Utilities for the FY 15. Further, MERC has recently approved the increased rates of Tata power for electricity to Rs. 13.24 per unit, being rate applicable for MIAL (enclosed as Annexure 2). Accordingly, cost per unit for FY 16 has been updated. Projected cost for FY 16-FY 19 based on updated cost for FY 16 is as under:…"

"… Table: Electricity, Water & Fuel Costs - Revised

Rs./Crs.

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Electricity	*95*	*195*	*207*	*218*	*230*
Water	*8*	*9*	*10*	*11*	*13*
Fuel	*1*	*2*	*2*	*3*	*3*
Total Electricity, Water and Fuel cost	*104*	*205*	*219*	*232*	*246*

…"

"… 2.4.3. Repair and Maintenance (R&M) Costs

Repairs and Maintenance Cost is updated for FY 15 based on actuals. Updated R&M costs based on 0.85% of Gross block escalated by CPI is as under:…"

"… Table: R&M Costs - Revised

Rs./Crs.

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*

R&M	*110*	*147*	*167*	*179*	*196*

…"

"… 2.4.5. Rents, Rates and Taxes

Rent, Rates and Taxes has been updated for FY 15 based on actuals and accordingly numbers for FY 16-FY 19 have been updated. Property Tax is updated based on change in rates and area for FY 16 to FY 19. Further, Non Agriculture Tax has undergone a slight change and revised numbers are as under:…"

"…Table: Rents, Rates and Taxes - Revised

Rs./Crs.

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Rents, Rates & Taxes	*28*	*41*	*42*	*43*	*44*

…"

"… 2.4.6. Advertising Cost

Actual Advertising cost for FY 15 has been updated and costs for FY 16 to FY 19 are updated accordingly…"

"… Table: Advertising Cost - revised

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Advertising Expenses	*6*	*6*	*6*	*7*	*7*
T2 - Launch exp	*-*	*2*	*-*	*-*	*-*
Advertising cost - Total	*6*	*8*	*6*	*7*	*7*

…"

"… 2.4.7. Administrative Cost

Administrative cost for FY 15 is updated based on actuals. Consultants cost which did not materialise in FY 15 is now considered in FY 16. FY16-FY19 are updated accordingly…"

"… Table 2: Administrative Cost - Revised

	FY 15 (Actu	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Administrative Expenses	*59*	*68*	*75*	*82*	*91*
Consultants' cost for specific studies	*-*	*9*	*-*	*-*	*-*
Administrative cost - Total	*59*	*77*	*75*	*82*	*91*

Rs./Crs.

…"

"… 2.4.8. Airport Operator Fee

The fee payable to the airport operator is updated for FY 15 and accordingly revised expenditure is projected as under:-…"

"… Table: Airport Operator Fee - Revised

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Airport Operator Fees	*8*	*8*	*8*	*9*	*9*

…"

"… 2.4.9. Insurance Cost

The actual insurance cost is updated for FY 15 and cost for FY 16-FY19 are updated accordingly…"

"… Table: Insurance Cost - Revised

Rs./Crs.

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Insurance Cost - Total	*5*	*9*	*9*	*9*	*10*

…"

"… 2.4.10. Interest on Working Capital and Financial Charges

Interest on working capital and finance charges has been updated for FY 15 based on actuals. Finance charges for FY 16 is expected to be Rs. 20 crs. due to processing fees paid on short term loans taken during the year. Finance charges for FY 16-FY19 are expected to increase by CPI YoY.

The interest on working capital has been calculated assuming limit utilisation of Rs.150 Crs. during the balance control period at interest rate of 12.5%..."

"… Table: Interest on working capital and Financial charges - revised

Rs./Crs.

	FY 15 (Actual)	FY 16	FY 17	FY 18	FY 19
Interest on Working capital	6	19	19	19	19
Financial charges	9	20	21	22	23
Total - Interest and Financial charges	16	39	40	41	42

…"

"… 2.4.11. Other Operating Costs

Other operating costs for FY 15 have been updated by actuals. Further, projections for FY 16-FY 19 have undergone a change based on contracts and CAGR of minimum wages, revised projections are as under:…"

"… Table: Other Operating Costs - Revised

Rs./Crs.

	FY 15 (Actual)	FY 16	FY 17	FY 18	FY 19
Cleaning Contract	37	51	57	65	73
Security Contract	14	17	20	22	25
Gardening Contract	5	6	6	7	8

Other Operating Contracts	*13*	*18*	*20*	*22*	*25*
Trolley Contract	*10*	*12*	*15*	*18*	*22*
Inter-terminal coaches Contract	*10*	*9*	*8*	*8*	*9*
Total - Other Operating cost	*89*	*113*	*126*	*143*	*162*

…"

"… 2.4.12. Corporate Social Responsibility Cost

CSR cost is estimated as per the provisions of the Companies Act, 2013. As per the Act, CSR cost for an year is 2% of its average net profit for the immediately preceding three financial years…"

"… Table : Corporate Social Responsibility Cost - Revised

Rs./Crs.

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
CSR cost	*-*	*-*	*-*	*-*	*2*

…"

"… 2.4.13. Issues pertaining to security expenses (PSF-SC)

As mentioned in Para 6 security expenses like salaries of inline screeners paid from PSF(SC) account are considered separately and included as part of MYTP. We request the Authority to kindly consider such expense for calculation of separate Target Revenue for this MYTP.

Rs./Crs.

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Salary to Inline Screeners	*10*	*11*	*12*	*13*	*14*

…"

"… 2.4.14. Treatment of Written Down Value (WDV) of Old Terminal 2 (2B & 2C)

Construction of part of integrated terminal and apron could take place only after demolition and disposal of old Terminal 2. As part of the project implementation, demolition of old Terminal 2 was essential for completion of the project as envisaged in the Master Plan. Loss on disposal of assets (net of realization from scrap sales) for FY 15 is Rs. 245 crores. This amount after considering realisable value from scrap is part of the O & M cost of FY 15 and the same has been treated accordingly. RAB has been reduced by WDV, net of realization, on such disposal.

Earlier T1A was considered to be retired once domestic operation shifts to new T2. However, T1A is now being retained and will be used by Go Air or any other airline and hence WDV of Rs. 44.16 crores (net of scrap realisation) earlier considered as part of the O&M cost for FY16 is excluded and accordingly no deduction is done from RAB…"

"… Table : Loss on asset discarded - Revised

Rs./Crs.

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Loss on asset discarded	*245*	-	-	-	-

…"

6.3. With respect to Information Technology (IT) related cost MIAL submitted the following:

Table: IT related cost - revised

Rs./Crs.

	FY 14 (Actual)	FY 15	FY 16	FY 17	FY 18	FY 19
IT related cost	15	-	-	8	11	12

6.4. In summary, MIAL had proposed the following allocation and O&M expenses for calculating aeronautical tariff determination for the 2nd Control Period:

Table 44: Cost allocation of O&M Expenses submitted by MIAL as part of its submission dated 08.09.2015s

Cost Allocation, %	**FY2014-15 to 2018-19**
Employee Cost	93.74%

Cost Allocation, %	FY2014-15 to 2018-19
Operation Support Cost for AAI	0.00%
Utilities Expenses	100%
Repair & Maintenance Expense	97.93%
Rents, Rates & Taxes	99.62%
Advertisement Expense	93.09%
Administrative Expenses	94.63%
AOA Fees	100.00%
Insurance Expense	88.68%
Consumption and Store Expense	89.29%
Operating Expenditure	92.12%
Miscellaneous Expenses	89.07%
Provision for doubtful debt	94.63%
Bad debts written off	17.66%
Interest on Loan for AAI retirement Compensation	100.00%
VRS Payment Amount to AAI	100.00%
Provision for PSF(SC) disallowance	100.00%
Working Capital loan Interest	94.63%
Financing Charges	94.63%
Loss on scrapping of assets	100.00%
Collection charges over DF	0.00%
CSR cost	100.00%
Exchange gain and loss	0.00%

Table 45: Total Operating & Maintenance Expenses submitted by MIAL as part of its submission dated 08.09.2015

Rs. Crores	FY2014-15 (Actual)	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Employee Cost	146.10	192.17	214.51	240.38	265.73
Operation Support Cost for AAI	0.00	0.00	0.00	0.00	0.00
Utilities Expenses (Net off)	103.82	205.30	219.15	232.24	246.18
Repair & Maintenance Expense	109.78	147.40	167.08	178.83	196.10
Rents, Rates & Taxes	28.26	41.45	42.25	43.09	43.97
Advertisement Expense	5.75	8.04	6.35	6.68	7.02
Administrative Expenses	58.52	76.65	74.66	82.39	90.92
AOA Fees	8.10	8.23	8.37	8.52	8.66
Insurance Expense	5.14	8.81	9.20	9.41	9.86
Consumption and Store Expense	4.44	4.97	5.56	6.23	6.98
Operating Expenditure	89.22	112.87	125.98	142.88	162.19
Miscellaneous Expenses	0.00	0.00	0.00	0.00	0.00
Provision for doubtful debt	1.60	0.00	0.00	0.00	0.00
Bad debts written off	0.00	0.00	0.00	0.00	0.00
Interest on Loan for AAI retirement Compensation	0.00	0.00	0.00	0.00	0.00
VRS Payment Amount to AAI	20.43	19.97	19.29	18.55	17.89
Provision for PSF(SC) disallowance	9.75	10.72	11.79	12.97	14.27
Working Capital loan Interest	6.30	18.75	18.75	18.75	18.75
Financing Charges	9.34	20.00	21.02	22.09	23.22
Loss on scrapping of assets	245.48	0.00	0.00	0.00	0.00

Rs. Crores	FY2014-15 (Actual)	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Collection charges over DF	3.05	0.00	0.00	0.00	0.00
CSR cost	0.00	0.41	0.00	0.00	2.49
Exchange gain and loss	146.10	192.17	214.51	240.38	265.73
Total	**855.06**	**875.75**	**943.97**	**1023.01**	**1114.24**

b Authority's Proposal on Operating & Maintenance (O&M) Expenses in the Consultation Paper No. 10/2015-16

6.5. Based on submissions made by MIAL, the Authority examined MIAL's projections of operating and maintenance expenses for the 2nd Control Period and presented its proposals as part of the Consultation Paper No. 10/2015-16.

<u>Allocation of O&M Expenses between aeronautical and non-aeronautical services</u>

6.6. With respect to the allocation of operating and maintenance expenses between aeronautical and non-aeronautical services for the 2nd Control Period, the Authority noted that while for some cost heads such as the Employees Cost, Utilities, Repair & Maintenance, Rents, Rates and Taxes, Administrative Expenses, Operating Expenses, Working Capital Loan Interest and Financing Charges, the cost allocation towards aeronautical expenses are higher than that considered for FY2013-14 as considered by MIAL, for expenses such as advertisement expenses, the proposed allocation is lower than that considered for FY2013-14.

6.7. Furthermore, the Authority noted that MIAL had also considered expenses towards provision for doubtful debts, provision for PSF (SC) disallowance, DF loan (Upfront fee/ underwriting and processing fee), CSR cost and miscellaneous expenses as aeronautical operating expenses during the 2nd Control Period.

6.8. The Authority had sought clarifications regarding the variations in cost allocation and overall expense values under all sub-heads of operating and maintenance expenses considered by MIAL for the 2nd Control Period, as compared with FY2013-14. Additionally, the Authority had sought clarification for increase in operating expenses considered by MIAL in the 2nd Control Period on account of new terminal T2 becoming operational as well as a comparison of operating expenses per unit area for T1 and expenses projected for T2. The Authority was in receipt of the clarifications from MIAL regarding the basis for allocation of costs as well as the Terminal wise breakup for FY 12, FY 13 and FY 14 and Terminal wise projected O&M cost from MIAL.

6.9. The Authority had further noted that the capitalisation and commissioning of entire T2 is expected only in the 2nd Control Period and also that cost allocation between aeronautical and non-aeronautical will also have some reference to the asset allocation. Therefore, the Authority had proposed, for the time being, to consider the allocation used by MIAL in 2013-14 as the cost allocation for each of the years in the 2nd Control Period, with the exception of:

6.9.1. Allocation for VRS expense for AAI employees and AAI retirement compensation interest cost as well as operational support cost same as the allocation of employee cost.

6.10. The Authority had further noted MIAL submission regarding provision of expenses made out of PSF (SC) and based on additional clarification submitted by MIAL on the security related expenses made by MIAL, the Authority had proposed to accept the treatment of provision for PSF (SC) as aeronautical expense and accept the projection made by MIAL for this expense category in the 2nd Control Period. The Authority had also proposed to true-up this expense head at the time of aeronautical tariff determination for the next Control Period on the basis of actual expense incurred by MIAL.

6.11. With respect to the allocation of Airport Operator Fee, after duly considering a number of facts and submissions, the Authority proposed that allocation of the airport operator fee be based on the same allocation as that for the manpower expenses on the grounds that the airport operator will provide personnel for providing services almost in the same proportion as MIAL, and therefore the manner in which the apportionment should be similar to the apportionment of the manpower cost of MIAL.

6.12. In summary, the Authority had proposed the following allocation for calculating aeronautical operating and maintenance expenditure, for the 2nd Control Period,

Table 46: Cost allocation of O&M Expenses considered by the Authority for 2nd Control Period in Consultation Paper No. 10/2015-16

Cost Allocation, %	**FY2014-15 to 2018-19**
Employee Cost	77.70%
Operation Support Cost for AAI	0.00%
Utilities Expenses	96.63%
Repair & Maintenance Expense	96.10%
Rents, Rates & Taxes	90.60%
Advertisement Expense	98.85%
Administrative Expenses	84.50%
AOA Fees	77.70%

Cost Allocation, %	FY2014-15 to 2018-19
Insurance Expense	88.68%
Consumption and Store Expense	89.29%
Operating Expenditure	70.07%
Miscellaneous Expenses	0.00%
Provision for doubtful debt	0.00%
Bad debts written off	100.00%
Interest on Loan for AAI retirement Compensation	77.70%
VRS Payment Amount to AAI	77.70%
Provision for PSF(SC) disallowance	100.00%
Working Capital loan Interest	84.50%
Financing Charges	84.50%
Loss on scrapping of assets	84.52%
Collection charges over DF	0.00%
CSR cost	100.00%
Exchange gain and loss	0.00%

Projection of Operating and Maintenance Expenses

6.13. As regards the methodology for projection of operating expenses for the second Control, the Authority had proposed the following.

6.14. The Authority had proposed to increase the manpower cost by 15% for the year 2015-16 and 10% subsequently.

6.15. Authority had also noted that in case of MIAL, the operator was providing cargo services and if the cargo screening costs have been taken as a part of the operation and maintenance expenses in the profit and loss account of MIAL, they should be removed from the O&M expenses for that period.

6.16. The Authority had proposed to consider electricity and water costs as per MIAL's revised projections for the 2nd Control Period. For fuel charges, the Authority had proposed not to consider an increase in fuel charges as projected by MIAL and provide a true-up on the basis on the actual expense incurred by MIAL during the 2nd Control Period at the time of determination of aeronautical tariffs for the 3rd Control Period.

6.17. The Authority had further proposed to consider repair and maintenance costs, advertising costs, insurance costs, CSR costs, expenses related to cleaning, security and other operating contracts and expenses related to Rents, Rates and Taxes as per MIAL's projections for the 2nd Control Period.

6.18. With respect to VRS expenses, the Authority had proposed to consider the projections submitted by MIAL subject to confirmation by AAI during the stakeholder consultation period.

6.19. With respect to loss on sale of scrap assets, the Authority had proposed to consider such loss as expense (but not operating expense) but only for the aeronautical portion by applying the asset allocation ratio. The Authority had further proposed to true-up this expense if realised values vary from these scrap of assets in the respective years, at the time of aeronautical tariff determination for the next Control Period.

6.20. With respect to Administrative expenses, the Authority had proposed to not allow the real increase in administrative expenses for the time being, but to true up any changes in the operating expenses at the time of determination of aeronautical tariffs in the next Control Period, based on audited values. The Authority had also asked MIAL to control or optimize non-value added costs namely legal, consultancy, travel and allocate any litigation related expenses based on the nature of the litigation between and aeronautical and non-aeronautical on cost basis.

6.21. The Authority had examined MIAL's submission pertaining to Airport Operator (AOA) fees and noted it has been projected to increase annually at the rate equal to US CPI inflation rate (which is assumed at 1.7% p.a.) as per Airport Operator Agreement dated 28.04.2006 between MIAL and ACSA Global Limited. The Authority had proposed to project the AOA fee using the recent most available inflation rate for 2015 i.e. the United States of America Consumer Price Index, all urban consumers (CPI-U), U.S. City average, all item, in percent for the calendar year 1 Jan 2015 to 31 Dec 2015 as published by the U.S. Department of Labor at 0.7%. The Authority further noted that as per the Airport Operator Agreement between MIAL and ACSA, the performance fees was payable only for a period of 7 years starting 2006. However, MIAL has continued to incur as well as project the AOA fees till the year FY 2018-19. The Authority had requested MIAL for clarification for the same during the consultation period.

6.22. With respect to Finance Charges, the Authority had noted that the financing charge for the year 2014-15 is Rs. 9.34 Crores. The Authority had proposed to consider the same amount for the purpose of projection of financing charges for each year of the 2nd Control Period. The Authority had also mentioned that it may take a considered view on the same subject to the submission of a specific claim by MIAL along with the working details and supporting evidence for the figures pertaining to 2nd Control Period during the consultation process.

6.23. For interest on working capital loan, the Authority had sought further details regarding methodology for calculation of the working capital and pending receipt of such details, had proposed to consider Rs. 6.30 crores (as in FY2014-15) for each year in the 2nd Control Period.

6.24. With respect to MIAL's submission regarding operating expense pertaining to 'Exchange Gain and Loss' booked during the year FY 2014-15, the Authority had noted that since MIAL has not taken any ECBs, there is lack of clarity on why the exchange losses are occurring. Since the nature of these expenses was not clear, the Authority had proposed, in the absence of any supporting document or worksheet, to not consider the expenses on account of 'Exchange Gain and Loss' booked during the year FY 2014-15.

6.25. The Authority had sought operating and maintenance expenditure for the first six months of FY2015-16 and had received the same. The Authority had also noted actual expenses incurred by MIAL in FY2014-15. Considering these and keeping in view ICWAI's recommendation that the O&M expenses incurred by MIAL in FY2010-11 may be considered efficient, the Authority had projected the operating and maintenance costs for the 2nd Control Period as below,

Table 47: Total Operating & Maintenance Expenses considered by the Authority for the 2nd Control Period in the Consultation Paper No. 10/2015-16

Rs. Crores	FY2014-15 (Actual)	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Employee Cost	146.10	168.01	184.81	203.30	223.62
Operation Support Cost for AAI	0.00	0.00	0.00	0.00	0.00
Utilities Expenses (Net off)	103.82	177.21	189.73	201.45	213.97
Repair & Maintenance Expense	109.78	133.28	149.18	160.60	177.12
Rents, Rates & Taxes	28.26	41.45	42.25	43.09	43.97
Advertisement Expense	5.75	8.04	6.35	6.68	7.02
Administrative Expenses	58.52	70.50	64.64	67.94	71.40
AOA Fees	8.10	8.15	8.21	8.27	8.32
Insurance Expense	5.14	8.30	8.50	8.72	9.16
Consumption and Store Expense	4.44	5.01	5.66	6.39	7.22
Operating Expenditure	89.22	112.98	126.24	143.34	162.92
Miscellaneous Expenses	0.00	0.00	0.00	0.00	0.00
Provision for doubtful debt	1.60	0.00	0.00	0.00	0.00
Bad debts written off	0.00	0.00	0.00	0.00	0.00

Rs. Crores	FY2014-15 (Actual)	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Interest on Loan for AAI retirement Compensation	0.00	0.00	0.00	0.00	0.00
VRS Payment Amount to AAI	20.43	19.97	19.29	18.55	17.89
Provision for PSF(SC) disallowance	9.75	26.54	11.79	12.97	14.27
Working Capital loan Interest	6.30	6.30	6.30	6.30	6.30
Financing Charges	9.34	9.34	9.34	9.34	9.34
Loss on scrapping of assets	245.48	0.00	0.00	0.00	0.00
Collection charges over DF	3.05	0.00	0.00	0.00	0.00
CSR cost	0.00	0.49	0.00	0.00	0.00
Exchange gain and loss	0.00	0.00	0.00	0.00	0.00
Total Operating & Maintenance Expenses	**855.06**	**795.59**	**832.29**	**896.92**	**972.53**

Table 48: Aeronautical O&M Expenses considered by the Authority for 2nd Control Period in Consultation Period No. 10/2015-16

Rs. Crores	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Employee Cost	113.52	130.55	143.60	157.96	173.76
Operation Support Cost for AAI	0.00	0.00	0.00	0.00	0.00
Utilities Expenses (Net off)	100.32	171.23	183.34	194.67	206.76
Repair & Maintenance Expense	105.50	128.09	143.37	154.34	170.22
Rents, Rates & Taxes	25.60	37.55	38.27	39.04	39.84
Advertisement Expense	5.68	7.95	6.28	6.60	6.94
Administrative Expenses	49.45	59.58	54.62	57.41	60.34
AOA Fees	6.29	6.33	6.38	6.42	6.47
Insurance Expense	4.56	7.36	7.53	7.73	8.13
Consumption and Store Expense	3.96	4.48	5.05	5.71	6.44
Operating Expenditure	62.51	79.16	88.45	100.43	114.15
Miscellaneous Expenses	0.00	0.00	0.00	0.00	0.00
Provision for doubtful debt	0.00	0.00	0.00	0.00	0.00
Bad debts written off	0.00	0.00	0.00	0.00	0.00
Interest on Loan for AAI retirement Compensation	0.00	0.00	0.00	0.00	0.00
VRS Payment Amount to AAI	15.87	15.52	14.99	14.41	13.90
Provision for PSF(SC) disallowance	9.75	26.54	11.79	12.97	14.27
Working Capital loan Interest	5.32	5.32	5.32	5.32	5.32
Financing Charges	7.89	7.89	7.89	7.89	7.89
Loss on scrapping of assets	207.48	0.00	0.00	0.00	0.00
Collection charges over DF	0.00	0.00	0.00	0.00	0.00
CSR cost	0.00	0.49	0.00	0.00	0.00
Exchange gain and loss	0.00	0.00	0.00	0.00	0.00
Total Operating & Maintenance Expenses	**723.72**	**688.05**	**716.89**	**770.90**	**834.42**

c Stakeholder Comments on Issues pertaining to Operating & Maintenance (O&M) Expenses

6.26. Subsequent to the stakeholder consultation process, the Authority has received comments / views from various stakeholders in response to the Consultation Paper No. 10/2015-16 dated 16.03.2016 on the determination of aeronautical tariffs for CSIA airport, Mumbai for the 2nd Control Period.

6.27. With respect to Authority's proposal regarding the overall cost allocation, IATA has submitted that it continues to believe that the percentage apportioned to aeronautical activities is high. IATA has also supported Authority's proposed approach regarding the allocation of VRS payment to AAI at the rate of employee cost allocation.

6.28. With respect to Authority's proposal regarding the Operating expense allocation ratio for Aeronautical and Non-Aeronautical expenses, APAO has submitted that since operating expenses for 2013-14 being the last year of the 1st Control Period included expenses on account of cargo handling operations which were outsourced to 'Concor Air' by MIAL and that there would not be any cargo related expenses in subsequent years, during the 2nd Control Period, the expense allocation ratio be considered on the basis of the study done by the Cost Auditors of MIAL which had determined that 92.08% expenses were Aeronautical expenses. APAO has requested the Authority to apply the correct allocation ratio relevant to the 2nd Control Period instead of expenses of FY14 which are not comparable to the 2nd Control Period.

6.29. DIAL, ACI and FICCI have made comments/suggestions similar to APAO regarding the need for the Authority to consider updated expense allocation ratio on account of concessioning of the cargo operations by MIAL. In addition, ACI has also urged AERA to allocate the new terminal T2 cost relative to the area detail of T2 and not based upon the ratio at T3 terminal at IGI Airport, Delhi.

6.30. IATA has in principle supported Authority's proposed approach on the projection of operating expenses for the 2nd Control Period based on audited financials for FY2014-15, subject to an efficiency assessment for such costs.

6.31. In terms of Authority's proposals for various individual expense heads, IATA has commented as below, *"We request AERA to take into account the following before making its final determination:*

Personnel expenses: It is unclear as to why AERA has assumed a 15% in 2015-16 and 10% thereafter. Since the level of assumed inflation is around 5.1%, this implies that the allowances from AERA are almost 5% above the level of inflation. AERA itself concedes that employee costs are on the high side, and therefore we request AERA to reconsider such excess allowance.

Repairs and maintenance: Since a large proportion of the fixed assets will made of a new asset (T2) which, by definition, would have a low need for repairs; and that Old assets being decommissioned, AERA may need to reconsider whether the increases in Repairs and maintenance forecast are necessary.

Financing costs: As mentioned in proposal 3d, there needs to be a more careful evaluation of these costs.

Advertising expenses: it is unclear as why advertising expenses are necessary, and why should users be paying for them.

Operating expenditure: Increases at a rate way higher than the assumed level of inflation. It is unclear what other drivers are being considered for such increases (as many of these cannot be directly linked to passenger growth). We request AERA to review these assumptions.

Administrative costs. As mentioned in proposal 3d, we request AERA to take a closer look into any proposed legal costs and what do they entail

Working capital loan: As mentioned in 3d, we would appreciate to understand whether AERA is considering interest on forecast cash balances. "

6.32. On the matter of the CSR expense, Blue Dart has submitted that there was no immediate requirement for MIAL to incur CSR expenses and that it disagrees with the MIAL methodology of claiming the same as part of aeronautical charges. It has further submitted that as per the Companies Act, 2013, CSR needs to be spent by the Company out of their profits, and has requested the Authority to instruct MIAL not to recharge the same to the users of the airport.

6.33. Blue Dart has further commented regarding Authority proposal on operating and maintenance expenses that the expenses are simply allowed as pass through and MIAL would claim all the O&M expenses incurred by them, there would be no inducement for MIAL to reduce the O&M expense and conduct the airport operation in an efficient manner. Accordingly, Blue Dart has requested AERA to compare the O&M expenses proposed to be incurred by MIAL with an international airport of similar stature for efficiency, and sanction the same only after the said study. In Addition it has also suggested that there should be a cap fixed on O&M expenses, and the same should not be trued up in next Control Period.

6.34. Similarly, on the matter of truing up of the operating expenses, IATA has submitted that every proposed cost item of MIAL's operating expenses should be carefully scrutinized and justified as the fundamental objectives of economic regulation is to ensure that the airport is managed and operated in a cost efficient manner. IATA has also commented that truing up of a lax and inefficient operating expenses forecast does not incentivize the airport to drive for cost efficiency but in fact encourages excess spending in order not to be penalized in the truing-up process.

6.35. On the matter of projections of operating expenses, FIA has commented as that the Authority has determined Operating Expenditure on a very broad basis without considering past trends, productivity improvements and cost drivers. FIA has submitted that the Authority has adopted different attributes (CPI inflation, agreements executed, % of fixed assets) for forecasting operating expenditure and in most of the cases relied on projections made by MIAL.

6.36. FIA has further submitted that since operating expenditure is one of the major component for determining ARR, the Authority should have evaluated these expenses in detail rather rely on projections and basis made by MIAL. FIA has, thus, stated that the approach of the Authority for reviewing the operating expenditure is not in line with provisions of Airport Guidelines and even international regulatory procedures. FIA has also shared an extract of the process adopted by CAA for determination of operating expenditure for Gatwick Airport.

6.37. FIA has further commented that while Authority had proposed to consider the actual costs incurred by MIAL for FY2010-11 as the efficient O&M costs on the basis of the independent study by ICWAI, it has considered FY2014-15 as appropriate base for projection of operating costs for the 2nd Control Period. Therefore, according to FIA, the base of FY2014-15 taken for projections does not represent the efficient O&M costs. FIA has also commented that the Authority has not considered other recommendations of the O&M efficiency study conducted by ICWAI which suggested that cost control measures may be taken by management of MIAL to mitigate increase in controllable costs.

6.38. Lufthansa has submitted that the increase in the outstanding dues recoverable from the airlines amounting to Rs. 457 crores has resulted in an increase in the operational costs and same has a direct impact on the tariff calculation. It has commented that the writing off of the bad debts is a reflection of the inefficiency in operations on the part of MIAL and that MIAL cannot be rewarded/ compensated for same.

6.39. With regards to the quantum of operating expenses considered by AERA, APAO has requested the Authority to allow the actual interest on working capital funding and financing charges which would be commensurate with the actual requirements and utilization of limits, etc. by MIAL. APAO's submission with respect to collection charges on DF are exactly similar to MIAL and are discussed as part of MIAL's comments to the Consultation Paper.

6.40. With respect to expenses related to PSF(SC), APAO and DIAL have requested the Authority not to put the pre-condition for reimbursement of Rs.309 crores to PSF(SC) escrow account. , since it would not be possible for MIAL to arrange for such big amount along with carrying cost thereon at such a short notice. APAO and DIAL have also requested the Authority to determine tariff in respect of Rs.309 crores, Rs.17.19 crores and carrying cost in respect of them, as a separate component identifying the same as towards PSF(SC) reimbursement.

d MIAL's response to Stakeholder Comments on issues pertaining to Operating & Maintenance (O&M) Expenses

6.41. MIAL has agreed with the suggestions of ACI, ACSA and Bid Service, APAO, and DIAL on the expense allocation ratio and has requested the Authority to consider the revised expense allocation ratio for FY 2014-15 (after discontinuation of cargo operation by MIAL) instead of continuing with the old ratio.

6.42. In response to Blue Dart and FIA's comment on the efficiency of operating and maintenance costs, MIAL has submitted that it has adopted a robust mechanism of projecting the Operating expenses based on expected CPI, increase in minimum wages, based on executed contracts and % of gross fixed assets. MIAL has further submitted that it is in the interest of MIAL to keep the operating cost to the minimum as for every Rs. 100 of expenses, while Authority reimburses MIAL Rs. 100, it has to pay Annual Fee of Rs. 38.7 to AAI and hence there is a net loss of Rs. 38.7 for every Rs. 100 of operating expenses. MIAL has therefore termed the allegation of FIA that cost of MIAL are not efficient as baseless. MIAL has further submitted that operating cost at CSIA are lowest amongst the Indian airports and therefore any allegations that operating costs are not efficient are baseless. MIAL has also referred to the above response while responding to IATA's comment that MIAL should not be allowed to true up a lax cost structure. Accordingly MIAL has justified that it does not have any incentive to spend more than necessary.

6.43. With respect to IATA and FIA's comments regarding the True Up mechanism dis-incentivizing airport operator to make effort in bringing any operational cost savings, MIAL has submitted that the payment of Annual Fees is a natural mechanism inbuilt in the PPP model for CSIA, which disincentivises any inefficient expenditure and encourages cost savings.

6.44. Regarding IATA's submission on MIAL's personnel expenses, MIAL has commented that yearly increments to employees equals to an inflation based increase as well as a real increase. Accordingly MIAL has justified an increase of 10% per annum in salaries while the inflation is merely 5.1%. MIAL has further submitted, that personnel expenses will also increase due to increase in head count every year. MIAL has further submitted that amount paid as Retirement Compensation to AAI is paid as per the terms of OMDA, and is not related to any non-aeronautical activity. Hence, the same should be considered as 100% aeronautical being the payment made as per terms of OMDA and same treatment should be given to interest on loan taken for payment of Retirement Compensation.

6.45. In response of IATA's comment that MIAL's repairs and maintenance appears to be high considering that the new Terminal 2 would require low maintenance, MIAL has explained that apart from repairs, Repairs and Maintenance also include cost of various Comprehensive Maintenance Contracts (CMCs) and Annual Maintenance Contracts (AMCs), which would increase with the increase in airport assets. MIAL further elaborated its argument by stating that the area under operations has increased because of new Terminal 2, the expenses on repairs & maintenance are likely to increase. MIAL has further submitted that repairs & maintenance along with costs towards CMC / AMCs shall increase with the age of assets.

6.46. Regarding IATA's submission on MIAL's advertisement expenses, MIAL has commented that these expenses are miniscule and are mainly for advertisements given in newspapers for inviting quotations for tenders for various projects or announcements, etc. for the airport. Similarly, with respect to IATA's submission regarding legal costs of MIAL has submitted that it fails to understand that why legal cost related to determination of Aeronautical charges should be funded by Non Aeronautical income.

6.47. Regarding Lufthansa's comment on MIAL's inefficiency in recovering dues and resultant bad debts, MIAL has submitted that occurrence of bad debts is an integral part of any business and beyond the control of the MIAL. It has further submitted that the independent study for efficient cost of operating expenses for the 1st Control Period is already done by ICWAI-MARF which has concluded that the operating cost of CSIA is efficient.

6.48. MIAL is in agreement with APAO's comments/suggestions regarding the reduced operating expenses considered by the Authority and has requested the Authority to consider the projections submitted by MIAL for working capital interest and financing charges and provide for true up. In response to IATA's query regarding whether AERA is considering return on cash balance towards calculating working capital interest, MIAL has submitted that under SSA/ OMDA, other income does not fall under the definition of Revenue Share Assets and therefore should not be considered for cross-subsidization

6.49. MIAL has agreed with ACI's comments/suggestions regarding the cost allocation of T2 CISA to be allocated on the basis of the area detail of T2 and not on the basis of the ratio at T3.

6.50. In response to Blue Dart's comments regarding the CSR expense MIAL commented that the CSR cost is a statutory cost of running a business as a company and companies have to adhere to the requirements/provisions of the Companies Act, 2013.

6.51. With respect to expenses related to PSF(SC), MIAL has supported the submissions of APAO and DIAL.

e MIAL's comments on Issues pertaining to Operating & Maintenance (O&M) Expenses in the Consultation Paper

6.52. In response to the Authority's proposal regarding operating expense allocation ratio for Aeronautical and Non-Aeronautical expenses, MIAL has requested the Authority to consider the expense allocation ratio of 92.08% for the 2nd Control Period. MIAL has explained that the same has been determined by its cost auditors in FY 15 and accounts for the effect of concessioning out of international cargo operations to Concor Air Ltd. by MIAL in February 2014.

6.53. With respect to the Authority's proposal to consider the allocation of VRS payment to AAI at the rate of employee allocation while projecting aeronautical expenses for the 2nd Control Period, MIAL has submitted that the amount paid as Retirement Compensation to AAI is paid as per the terms of OMDA, and is not related to any non-aeronautical activity. Accordingly, MIAL has requested that the same should be considered as 100% aeronautical and that the same treatment should be given to interest on loan taken for payment of Retirement Compensation.

6.54. With regards to the Authority's proposal regarding allocation for the operations support cost, MIAL has provided referenced to Order No. 32/2012-13 dated 15.01.2013 of the Authority to highlight its decision to consider the operations support cost as 100% aeronautical. Accordingly, MIAL has requested the Authority to not change the allocation ratio for operational support cost now and consider the same as 100% aeronautical in line of its Order No. 32/2012-13.

6.55. With respect to the Authority's proposal to allocate AOA fees into aeronautical and non-aeronautical expenses based on ratio of employee cost, MIAL has submitted that the fee payable to the Airport Operator (AO) is paid as per Airport Operator Agreement (AOA) dated 28.04.2006 between MIAL and ACSA Global Limited, which was entered into after the approval of AAI. It has also referred to the provisions of the OMDA and the AOA to substantiate its contention that the performance fee which is being paid to the AO is not linked to revenue or profits of the company but to the operations and maintenance of aeronautical and non-aeronautical assets. MIAL has also submitted that AOA agreement provides for separate payment for any specific consultancy services to be availed from AO and if AO is engaged for specific services such as study/ measures etc. to increase non aeronautical revenues, the specific fees paid for such engagement can be considered as non-aero. MIAL has further submitted that even if the fee payable to the Airport operator was linked to revenue or profits, the allocation of the same would have to be done based upon services provided by the AO and not in proportion to aeronautical and non-aeronautical revenues. Accordingly, MIAL has requested the Authority to consider the allocation of the AOA fees according to the overall ratio of Aeronautical and Non Aeronautical Assets or the overall ratio of Aeronautical and Non Aeronautical expenses.

6.56. MIAL has also submitted that due to requirement of expertise and services of ACSA, the agreement was amended on 27.01.2010 via Addendum to Airport Operator Agreement and the point related to the discontinuation of performance fee has been deleted.

6.57. MIAL has made revised submissions regarding the allocation ratio of certain expenses. MIAL has submitted that the cargo operations at CSIA Airport were outsourced in February 2014, after which the expenses incurred on employee cost, operating cost, utilities cost and administrative cost related to cargo operations have reduced substantially due to which non-aeronautical expenses have come down leading to higher ratio of aeronautical expenses.

6.58. MIAL has submitted the following as the revised cost allocation ratio for certain heads:

Sr. No.	Expense Head	FY 14 (As per Authority)				FY 15 (As per Cost Auditor)			
		%				%			
		Aero (a)	Non-aero (b)	Cargo (c)	Total (a+b+c)	Aero (a)	Non-aero (b)	Cargo (c)	Total (a+b+c)
1.	Employee Cost	77.70%	9.84%	12.46%	100%	92.45%	5.73%	1.83%	100%
2.	Administrative Expenses	84.50%	5.94%	9.56%	100%	88.60%	8.83%	2.56%	100%
3.	Operating Cost	70.07%	5.82%	24.11%	100%	94.83%	4.68%	0.50%	100%
4.	Utilities Expenses	96.63%	0.00%	3.37%	100%	100%	0.00%	0.00%	100%
5.	Repairs and Maintenance	96.01%	0.13%	3.77%	100%	82.24%	3.41%	14.36%	100%

6.59. In response to Para 12.62 of the Consultation Paper No. 10/2015-16 wherein the Authority had directed MIAL to provide supporting documents with respect to VRS

Expenses, MIAL has commented that the schedule of payment for Retirement Compensation paid/payable to AAI (including interest on corresponding loan) is as per the schedule given by AAI which was agreed between AAI and MIAL. MIAL has also provided a confirmation from AAI for the same. It has submitted that the actual payments were in accordance to the same schedule and has thus requested the Authority to allow the Retirement Compensation paid/payable to AAI as per the same schedule.

6.60. With regards to the Authority's proposal regarding projection for employee cost, MIAL has commented that based on Authority's direction, MIAL had revisited the proposed increase in manpower cost and rationalized projected manpower additions for FY 16- FY 19 given in its submission dated 08.09.2015. MIAL has further submitted that although it had further reduced its projections for manpower additions and costs in its submission dated 15.01.2016, the Authority has now proposed not to consider any increase the Headcount for FY 17 to FY 19. MIAL has highlighted that an increase in Head count is necessitated in light of increasing operations at CSIA and the shifting of operations from T1 to T2. It has also reiterated that it has already considered only the minimum increase in head count and has provided department wise headcount along with the rationale for the same. MIAL has, therefore, requested the Authority to consider projections of Head count as submitted by MIAL to enable it to provide safe, secure and efficient services to users.

6.61. With regards to the Authority's proposal regarding the projections for administrative cost, MIAL has submitted that it has an effective cost control mechanism in place with budgets being discussed and finalized by operating teams and senior management before being scrutinized by its Board of Directors for approval. It has also highlighted that cost auditor (ICWAI-MARF) appointed by the Authority has found the operating cost of CSIA to be the efficient cost, with the administrative expenses per Passenger Terminal capacity of CSI Airport, Mumbai being lower than that of other airports like Delhi, Bangalore and Hyderabad. MIAL has also commented that many administrative cost heads such as travelling and conveyance, legal and professional charge, communication etc. have been assumed to increase only at CPI increase, while a real increase of 10% in FY 15 and FY 16 and 5% from FY2017-19 has only been assumed considering the incidence of various additional expenses which are likely to occur but difficult to predict in advance. Accordingly, MIAL has requested the Authority to consider the expenditure projected by it for administrative expenses and true up the same in next Control Period.

6.62. MIAL has further submitted that the administrative expenses are segregated into Aeronautical/ Non Aeronautical expenses based on overall ratio of Aeronautical and Non Aeronautical expenses, since it is not possible to segregate expenses under this head as most of the expenses are for departments/ employees which are common to both the services.

6.63. In response to the Authority's query regarding cargo screening services, MIAL has submitted that the cargo screening services at CSIA are provided by a Regulated Agent, under a concession granted by MIAL. As the Regulated agent is an independent entity, MIAL does not provide any x-ray screening services for cargo handling and there is no inclusion of any expenditure regarding x-ray screening getting included in O&M cost.

6.64. In response to Authority's proposal regarding treatment of PSF (SC) related expenses, MIAL vide its letter dated 25.05.2016 had submitted that the Authority should not insist for reimbursement of operating cost (Rs. 38.72 crores plus 15.82 crores) prior to release of Tariff Order. MIAL had requested the Authority to include reimbursement of Rs. 38.72 crores plus Rs 15.82 crores as part of operating expenses without insisting for payment before issue of the Order and to true up the amount along with carrying cost in the next Control Period if the amount was not deposited into PSF (SC) Escrow account. MIAL had also requested the Authority to reimburse opex incurred for security purposes through a separate component of the tariff.

6.65. Subsequently, MIAL vide its letter dated 14.09.2016 has clarified that it has partially reimbursed its dues to the extent of Rs. 15.21 crores, (i.e. Rs. 14.21 crores pertaining to O&M expenditure and Rs. 1.01 crores pertaining to capital expenditure) to the escrow account. MIAL has also enclosed a confirmation in this respect from Bank of India as well as a confirmation letter written by MIAL to MOCA regarding the same.

6.66. With respect to the Authority's proposal regarding working capital interest for each year in the 2nd Control Period, MIAL has submitted that the reasons for working capital requirement for day to day operations is due to significant delay in payment by Air India and other airlines and that service tax has to be paid by MIAL to the Government in advance on accrual basis irrespective of whether billed amount and service tax has been collected or not. MIAL has also provided a computation for the estimated working capital requirements, amounting to INR 285 crores and has submitted that against a projected requirement of Rs 285 Crores, MIAL has projected utilization of only Rs 150 Crores considering interest at 12.5%. MIAL has therefore requested the Authority to provide Rs. 18.75 Crores per annum towards working capital interest.

6.67. The computation submitted by MIAL with respect to working capital requirement is presented below:

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Particulars	***Average (Rs in Crs.)***
Outstanding from Air India	*200*
Outstanding from Other airlines - normal billing cycle	*126*
Inventories	*6*
Prepaid expenses	*10*
Deposit with Government bodies & others	*8*
Advances to suppliers & other advances	*10*
Total current assets (a)	***360***
Less :	
Trade payables	*75*
Total current liabilities (b)	***75***
Working capital (a-b)	***285***

"

6.68. In response to the Authority's proposal regarding the collection charges on DF, MIAL as submitted the following major reasons for collection charges on DF:

6.68.1. Collection charges for DF should also be allowed as the same is mandated by DGCA and needs to be paid as per AIC issued by DGCA, hence it is not an expense but reduction in collection of DF.

6.68.2. As per DF Rules, any delayed payment from airlines is subject to penal interest. Since interest earned on DF fund is being adjusted by Authority from DF amount, collection charges on same should also be adjusted from DF amount.

6.68.3. It is given to understand that MoCA had made provision for DF collection charges while approving the DF amount of Rs. 1,543 crores in February 2009. DF collection charges were included while arriving at the amount of DF to be collected by MIAL.

6.68.4. If collection charges for DF are not allowed then Authority should advise DGCA appropriately to withdraw the collection charges, since the airlines are already being paid collection charges separately for UDF and PSF and DF amount remains with airlines for at least 3-4 weeks without, paying any interest to MIAL.

6.68.5. Authority should either allow pass through of DF collection charges or consider net DF amount (net of collection charges) for calculations since Airport Operator has no other avenue to adjust this cost.

6.69. With respect to the allocation of miscellaneous expenses, MIAL has submitted an auditor's certificate demonstrating that Rs. 3.4 crores out of Rs.3.81 crores of miscellaneous expenses pertains to arrears of operation support cost to AAI. MIAL has, thus, requested the Authority to allow Rs. 3.4 crores as aeronautical expenditure.

6.70. With respect to the projections for finance charges for each year in the 2nd Control Period, MIAL has submitted that it has incurred finance charges in 1st Control Period which includes various bank charges, commission for Bank guarantees, management fees for term loans etc. MIAL has submitted an auditor's certificate to support the same. MIAL has further submitted that the amounts proposed by the Authority towards finance charges would be grossly inadequate because:

6.70.1. MIAL already has long term loans of more than Rs 6,000 crores, repayment of which is starting from FY 17 itself besides other short term loans and considering the significant shortfall in cash flows, there would be need for re-financing of existing long term and short term loans. As per MIAL, lenders expect substantial amount towards upfront payment, processing fees and arrangers fees and therefore adequate provision needs to be made for the same. MIAL has accordingly requested a one time cost of Rs. 50 crores in FY 17

6.70.2. Finance charges also have to be paid for Bank Guarantees submitted to various authorities, management fees on term loans and finance charges may also be incurred in future years considering short term / medium term loan requirements for meeting funding requirements in respect of various operational capital expenditure, refinancing, etc. Bank guarantee commission of Debt Service Reserve Account (DSRA) kept with the banks along with other Bank Guarantees will be around Rs. 6 crores MIAL has further submitted that it needs to pay management fees on term loans and Lenders agent Fees of about Rs. 5 crores per annum and the other bank charges are expected to be around Rs. 3 crores.

6.70.3. MIAL incurred finance charges for FY 16 of Rs. 22 crs and would need Rs. 14 crores yearly as finance charges apart from Rs. 50 crores as one time loan restructuring charge in FY 17.

6.71. MIAL has therefore requested the Authority to consider finance charges of Rs. 22 crores for FY 16, Rs. 64 crores for FY 17 and Rs. 14 crores each for FY 18 and FY 19 to enable MIAL make the necessary payments to lenders and has submitted that without availability of these funds it will not be possible to meet various payment obligations to lenders.

"

	FY 17	*FY 18*	*FY 19*
Bank guarantee commission	*6*	*6*	*6*
Management Fees on Term loans, Lenders Agent Fees	*5*	*5*	*5*
Other Bank charge	*3*	*3*	*3*
Loan restructuring charges	*50*	-	-
Total Finance charges	*64*	*14*	*14*

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f Authority's Examination of Stakeholder Comments (including MIAL) on Issues pertaining to Operating & Maintenance (O&M) Expenses

6.72. Regarding IATA's comment that it believes the percentage of expenses allocated to aeronautical activities is too high, the Authority has noted that IATA has not provided any submission regarding alternative allocation ratio for various expense heads. In absence of such substantiation of their comment, the Authority is not in a position to consider the same.

6.73. The Authority had perused the initial submissions of MIAL as well as APAO, ACI, FICCI and DIAL on the revision of expense allocation ratio based on figures provided by MIAL's cost auditor. The Authority had not agreed with the expense allocation ratio proposed by MIAL's cost auditor as no detailed basis had been provided against various activities in such certificate.

6.74. Subsequently, the Authority has received the detailed cost allocation submission by MIAL regarding the allocation of expenses of MIAL as per its cost auditors after the outsourcing of cargo activities. The Authority noted that expenses on cargo activities form a significant portion of the operating and maintenance expenses and therefore it is prudent to consider the revised allocation ratio on account of outsourcing of cargo activities. In light of these new detailed submission the Authority has decided to accept the submissions of MIAL regarding change in allocation ratio for the following heads: Employee expenses, Administration expenses, Operating expenses, Utilities expenses and Repairs and Maintenance (R & M) heads.

6.75. There has consequently, been a revision in the expense allocation considered by the Authority for other heads that have the same drivers as the aforementioned expense heads. These include the AOA fee, VRS payment amount and Interest on Loan for AAI retirement Compensation heads which have the same drivers as the Employee Cost expense head. The allocation ratios considered by the Authority for Working Capital Loan interest head and Financing charges have also been revised due to a change in the weighted average expense allocation ratio. The cost allocations considered by the Authority is shown in Table 49. The Authority has also decided that the expense allocation ratio and efficiency of MIAL's costs shall be studied and trued-up at the time of tariff determination for the 3rd Control Period.

Table 49: Expense allocation ratio considered by the Authority for the 2nd Control Period

	Expense allocation considered by the Authority as per Consultation Paper	**Expense allocation considered by the Authority for 2nd Control Period**
Cost Allocation, %	**FY2014-15 to 2018-19**	**FY2014-15 to 2018-19**
Employee Cost	77.70%	92.45%
Operation Support Cost for AAI	0.00%	92.45%

Cost Allocation, %	Expense allocation considered by the Authority as per Consultation Paper FY2014-15 to 2018-19	Expense allocation considered by the Authority for 2nd Control Period FY2014-15 to 2018-19
Utilities Expenses	96.63%	100.00%
Repair & Maintenance Expense	96.10%	82.24%
Rents, Rates & Taxes	90.60%	90.60%
Advertisement Expense	98.85%	98.85%
Administrative Expenses	84.50%	88.60%
AOA Fees	77.70%	92.45%
Insurance Expense	88.68%	88.68%
Consumption and Store Expense	89.29%	89.29%
Operating Expenditure	70.07%	94.83%
Miscellaneous Expenses	0.00%	0.00%
Provision for doubtful debt	0.00%	0.00%
Bad debts written off	100.00%	100.00%
Interest on Loan for AAI retirement Compensation	77.70%	92.45%
VRS Payment Amount to AAI	77.70%	92.45%
Provision for PSF(SC) disallowance	100.00%	100.00%
Working Capital loan Interest	84.50%	89.07%
Financing Charges	84.50%	89.07%
Loss on scrapping of assets	84.52%	83.97%
Collection charges over DF	0.00%	0.00%
CSR cost	100.00%	100.00%
Exchange gain and loss	0.00%	0.00%

6.76. Similarly, regarding IATA's comment on the efficiency of MIAL's costs, the Authority had noted that the operations of MIAL are not stable currently due to ongoing capital works. Accordingly, the Authority has decided to go ahead with the current cost allocation for the purpose of 2nd Control Period and commence relevant study as deemed necessary before the 3rd Control Period.

6.77. Regarding projection of personnel expenses of MIAL, based on the comments received from various stakeholders, the Authority notes that personnel expenses of MIAL are likely to increase for managing the new integrated T2. Accordingly, Authority's proposal regarding a 15% increase in manpower costs for FY 2015-16 (which already takes into account the increased manpower projected by MIAL for FY16) and 10% per annum from FY 2016-17 to FY 2018-19 seems reasonable. Authority will look at the actual outflow pertaining to these expenses for true-up at the time of tariff determination for the 3rd Control Period.

6.78. On examination of various comments received from stakeholders regarding projected increase in repairs & maintenance expenditure of MIAL, the Authority has noted that repairs and maintenance includes cost of various Comprehensive Maintenance Contracts (CMCs) and Annual Maintenance Contracts (AMCs), which is expected to increase with the increase in airport assets as well as with the age of the assets. Accordingly, the Authority has decided to consider R&M expenses based on the Authority's approach as highlighted in Consultation Paper No. 10/ 2015-16.

6.79. Regarding IATA's submission on advertisement expenses of MIAL, the Authority finds no compelling reason in IATA's argument to change its stand. The Authority believes that expenses incurred for advertisement are normal business expenses and therefore has decided to consider the same towards operating expenses as mentioned in Consultation Paper No. 10/2015-16.

6.80. Regarding the Working Capital interest expenses of 18.75 crores projected by MIAL, the Authority believed that it is MIAL's responsibility to collect payments from airlines in a timely manner. The cost of increased working capital required by MIAL, due to non-payments by a select few airlines should not be borne by the passengers / other airlines. Accordingly, the Authority expects MIAL to recover this cost from those airlines which delay in payments. The Authority has decided to allow interest on working capital only to the extent proposed in the Consultation Paper No. 10/2015-16.

6.81. Regarding IATA's submission that legal costs of MIAL pertaining to past decisions of the Authority should not be allowed for recovery to MIAL, the Authority disagrees with IATA's submission as there is no compelling reason for disallowing such expenditure. Therefore, the Authority proposes to continue allowing such expenditure as suggested in Consultation Paper No. 10/2015-16.

6.82. Based on various submissions made by stakeholders (including FIA) in response to the Authority's proposal regarding the projection of operating expenses for the 2nd Control Period as part of Consultation Paper No. 10/2015-16 and their examination by the Authority, the Authority still believes that the projections made based on

(1) actual expenses incurred by MIAL in FY2014-15,

(2) ICWAI's recommendation that the operating and maintenance expenses incurred by MIAL in FY2010-11 may be considered efficient, and

(3) appropriate cost drivers such as the expected CPI, increase in minimum wages, provisions of executed contracts and percentage of gross fixed assets etc.,

can be considered for the purpose of tariff determination. Also, since these are only projections, the Authority has decided to true-up the same for actuals at the time of tariff determination for the 3rd Control Period.

6.83. The Authority has carefully examined Blue Dart's & IATA's submission that MIAL should not be allowed a true-up of O&M expenses. Authority has also noted MIAL's submission that in spite of the amount considered by the Authority, it has to pay 38.7% to AAI as Annual Fee and therefore has all the incentive to keep the operating cost to the minimum. On balance, the Authority has not found any compelling reason to not allow a true-up of operating expenses and has decided to continue its proposal as mentioned in Consultation Paper No. 10/2015-16.

6.84. Regarding Lufthansa's comment on MIAL's inefficiency in recovering dues resulting in bad debts, the Authority believes that bad debts being a part of ordinary business, there is no reasonable basis to disallow such expenditure. The Authority has accordingly decided to continue with its position as mentioned in Consultation Paper No. 10/2015-16.

6.85. As per Decision 29 of the Order No. 32/2012-13, the Authority had decided not to consider collection charges in respect of DF as operating expense. The Authority has decided to continue with this treatment in respect of the 1st Control Period and subsequent Control Periods.

6.86. The Authority has examined Blue Dart's comment regarding the CSR costs projected by MIAL. The Authority has taken note of Blue Dart's comments and agree that CSR related expenses is required to be borne by a Company out of their profits. Accordingly, the Authority has decided not to consider CSR costs as part of operating and maintenance expenses of MIAL for the tariff determination.

6.87. Regarding the finance charges of Rs. 92 crores sought by MIAL for the FY 2016-17 – 2018-19 period as per its letter to the Authority dated 20.05.2016, the Authority has examined the submissions in details. Based on that, while the Authority has decided not to increase the yearly finance charges to the extent mentioned in the Consultation Paper No. 10/2015-16, it has decided to consider the one time projected expense of Rs. 50 crore projected by MIAL on account of re-financing of existing long term and short term loans. The Authority shall also review such charges during true up at the time of tariff determination for the 3rd Control Period.

6.88. Regarding the reconciliation of VRS expenses with AAI as submitted by MIAL, the Authority has taken note of the schedule of payment for Retirement Compensation paid/payable to AAI (including interest on corresponding loan) as provided by MIAL. The Authority has decided to accept MIAL's submission which shall be allowed for the purpose of tariff determination in the 2nd Control Period. Regarding the expense allocation ratio for VRS expenses, based on examination of various arguments submitted by the stakeholders, the Authority believes that VRS being an employee expense should be allowed based on the same allocation ratio that is used for employee costs. Accordingly, the Authority has decided to consider the same for the purpose of projecting employee expenses and has not agreed with MIAL's submission to consider 100% of such costs as aeronautical.

6.89. Regarding MIAL's submission on the allocation ratio used for the operations support cost wherein it has highlighted the Authority's previous position on this matter, the Authority has already discussed the reasons behind its proposal as part of the Consultation Paper No. 10/2015-16. Since MIAL has not submitted any new argument to support its position, the Authority finds no reason to change its proposal and has decided to consider the allocation of such costs between aeronautical as well as non-aeronautical expenditure as given in Consultation Paper No. 10/2015-16.

6.90. The Authority has also noted MIAL's submission that there is no inclusion of any expenditure regarding x-ray screening getting included in O&M cost.

6.91. Regarding MIAL's submission on the AOA Fees, the Authority is in receipt of MIAL's contract with ACSA Global confirming that the same has been extended, and that MIAL shall continue to pay AOA fees to ACSA. Accordingly, the Authority has decided to consider MIAL's submission and allow AOA fees projected for the 2nd Control Period using the inflation rate of 0.7%, as discussed in the Consultation Paper No. 10/2015-16. Also, regarding the allocation ratio to be used for AOA fees, based on its examination of submissions made by MIAL and other stakeholders, the Authority has not found any reason to change its proposal that AOA fees should be allocated based on the allocation ratio of employee costs. The Authority do not agree with MIAL's submission that the overall ratio of Aeronautical and Non Aeronautical expenses can be considered for such fees. This is because, as discussed during the Consultation paper, the nature of service provided by the Airport Operator is in terms of manpower inputs and therefore an average of overall costs which include other elements like repair and maintenance, utilities etc. is not the correct reference. Accordingly, the Authority has decided to consider the allocation ratio suggested in Consultation Paper No. 10/2015-16 for AOA fees.

6.92. Regarding the projection of administrative expenses, the Authority has carefully considered the submissions of all the stakeholders including MIAL's submission justifying the increase in administrative costs. The Authority has noted that MIAL itself has submitted that a real increase of 10% in FY 15 and FY 16 and 5% from FY 2017-19 has been assumed considering the incidence of various additional expenses which are likely to occur but difficult to predict in advance. In absence of any justification in terms of such additional expenses, the Authority believes that its proposal to not consider the real increase for the purpose of tariff determination for the 2nd Control Period, but to allow MIAL a true up in case the actual expense is higher than the amount allowed by the Authority is reasonable. The Authority accordingly has decided to continue with its proposed position in the Consultation Paper. Also, as provided in the Consultation Paper, the Authority continues to expect MIAL to control or optimize non-value added costs namely legal, consultancy, travel and allocate any litigation related expenses based on the nature of the litigation between and aeronautical and non-aeronautical on cost basis.

6.93. Regarding miscellaneous expenses, the Authority has accepted MIAL's auditor's certificate which confirms that Rs. 3.4 crores out of Rs. 3.81 crores of miscellaneous expenses pertains to arrears of operation support cost to AAI. The Authority has decided to consider the same using the expense allocation ratio as applied to the operation support cost.

6.94. The Authority has not received any comments from stakeholders on other heads of operating expenses including on Utilities, Exchange Gain and Loss, loss on sale of scrap assets etc. Accordingly, the Authority has decided to consider its proposed position with respect to such expenses for the purpose of tariff determination for the 2nd Control Period.

6.95. The Authority has noted stakeholder responses regarding provision of expenses made out of PSF (SC). Based on examination of the submissions, the Authority has decided to consider the treatment of provision for PSF (SC) as aeronautical expense and accept the projection made by MIAL for this expense category for the 2nd Control Period. However, with respect to disallowance by MoCA, including the amount not claimed by MIAL in its accounts during the years FY10-FY15, the Authority has decided to only consider the amount reimbursed by MIAL to MoCA. Considering MIAL's evidence of reimbursement of Rs. 14.21 crores into the PSF (SC) escrow account, the Authority has decided to allow Rs. 14.21 crores pertaining to O&M expenditure in FY13. The Authority has also decided to true-up this expense head at the time of aeronautical tariff determination for the next Control Period on the basis of actual expense incurred by MIAL. Also, the Authority requests MIAL to inform MoCA about the consideration of the 2nd Control Period PSF (SC) expenditure for tariff determination.

6.96. The table below summarise the operating expenses considered by the Authority for the purpose of tariff determination for the 2nd Control Period.

Table 50: Total Operating & Maintenance Expenses considered by the Authority for the 2nd Control Period

Rs. Crores	FY2014-15 (Actual)	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Employee Cost	146.10	168.01	184.81	203.30	223.62
Operation Support Cost for AAI	-	-	-	-	-
Utilities Expenses (Net off)	103.82	177.20	189.53	201.04	213.31
Repair & Maintenance Expense	109.78	133.21	148.96	160.22	176.55
Rents, Rates & Taxes	28.26	41.43	42.21	43.04	43.90
Advertisement Expense	5.75	8.04	6.34	6.66	6.99
Administrative Expenses	58.52	70.45	64.52	67.74	71.13
AOA Fees	8.10	8.15	8.21	8.27	8.32
Insurance Expense	5.14	8.30	8.50	8.71	9.16
Consumption and Store Expense	4.44	5.01	5.65	6.37	7.19
Operating Expenditure	89.22	112.97	126.22	143.32	162.89
Miscellaneous Expenses	-	-	-	-	-
Provision for doubtful debt	1.60	-	-	-	-
Bad debts written off	-	-	-	-	-
Interest on Loan for AAI retirement Compensation	-	-	-	-	-
VRS Payment Amount to AAI	20.43	19.97	19.29	18.55	17.89

Rs. Crores	FY2014-15 (Actual)	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Provision for PSF(SC) disallowance	9.75	10.72	11.79	12.97	14.27
Working Capital loan Interest	6.30	6.30	6.30	6.30	6.30
Financing Charges	9.34	9.34	59.34	9.34	9.34
Loss on scrapping of assets	245.48	-	-	-	-
Collection charges over DF	3.05	-	-	-	-
CSR cost	-	-	-	-	-
Exchange gain and loss	-	-	-	-	-
Total Operating & Maintenance Expenses	**855.06**	**779.09**	**881.68**	**895.82**	**970.87**

Table 51: Aeronautical O&M Expenses considered by the Authority for the 2nd Control Period

Rs. Crores	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Employee Cost	135.07	155.33	170.86	187.95	206.74
Operation Support Cost for AAI	-	-	-	-	-
Utilities Expenses (Net off)	103.82	177.20	189.53	201.04	213.31
Repair & Maintenance Expense	90.28	109.55	122.51	131.77	145.19
Rents, Rates & Taxes	25.60	37.54	38.25	38.99	39.77
Advertisement Expense	5.68	7.95	6.27	6.58	6.91
Administrative Expenses	51.85	62.42	57.16	60.02	63.02
AOA Fees	7.48	7.54	7.59	7.64	7.70
Insurance Expense	4.56	7.36	7.54	7.73	8.12
Consumption and Store Expense	3.96	4.47	5.04	5.69	6.42
Operating Expenditure	84.60	107.13	119.70	135.91	154.47
Miscellaneous Expenses	-	-	-	-	-
Provision for doubtful debt	-	-	-	-	-
Bad debts written off	-	-	-	-	-
Interest on Loan for AAI retirement Compensation	-	-	-	-	-
VRS Payment Amount to AAI	18.89	18.46	17.83	17.15	16.54
Provision for PSF(SC) disallowance	9.75	10.72	11.79	12.97	14.27
Working Capital loan Interest	5.61	5.61	5.61	5.61	5.61
Financing Charges	8.32	8.32	52.85	8.32	8.32
Loss on scrapping of assets	206.12	-	-	-	-
Collection charges over DF	-	-	-	-	-
CSR cost	-	-	-	-	-
Exchange gain and loss	-	-	-	-	-
Total Operating & Maintenance Expenses	**761.60**	**719.59**	**812.53**	**827.36**	**896.40**

Decision No.12 Regarding Operating Expenses to be considered for determination of ARR for 2nd Control Period, based on the material before it and its analysis, the Authority decides

12.a. To consider cost allocation for the 2nd Control Period as per Table 49 in this Order.

12.b. To consider the operating expenses for the purpose of determining ARR for the 2nd Control Period as per Table 51 in this Order.

12.c. To consider the allocation of VRS payment to AAI at the rate of employee allocation while projecting aeronautical expenses for the 2nd Control Period.

12.d. To not consider CSR costs as part of operating and maintenance expenses of MIAL for the tariff determination.

12.e. To consider the one time projected expense of Rs. 50 crores towards re-financing of existing long term and short term loans in FY17.

12.f. To consider the projected expense on account of PSF (SC) O&M expenditure for the 2nd Control Period and to consider Rs. 14.21 crores claimed by MIAL as part of operating expenses of the 1st Control Period. Authority will consider PSF (SC) O&M expenditure further claimed by MIAL as part of operating expenses of the 1st Control Period when MIAL provides evidence of reimbursement of the same into PSF (SC) escrow account reconciled with MoCA, at the time of determination of tariff for the 3rd Control Period.

12.g. To true-up operating expenses for the second Control Period at the time of determination of tariff for the 3rd Control Period subject to results of the independent study on determining efficient operating expenses in respect of the CSI Airport, Mumbai and actual expenses incurred by MIAL.

7. Taxation

7.1. This chapter provides Authority's final decisions with respect to taxation on aeronautical services for tariff determination for the 2nd Control Period.

a MIAL Submission on taxation

7.2. MIAL had initially submitted its estimation of taxation as part of its tariff application dated 26.12.2013 and 05.08.2014.

7.3. MIAL submitted a revised estimation as part of its tariff application dated 08.09.2015 on allowable income tax for aeronautical services, without considering Annual Fee as an expense for each year of the Control Period, as follows:

"… Table: Tax on Aeronautical Income - Revised Rs./Crs.

	FY15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Income Tax	-	-	*150*	*247*	*357*

… "

b Authority's Proposal on taxation in the Consultation Paper No. 10/2015-16

7.4. The Authority had carefully examined the submissions made by MIAL with regard to taxation to be considered towards determination of ARR for the 2nd Control Period.

7.5. The Authority had noted that MIAL has calculated corporate tax on account of aeronautical revenues without considering the annual fee or revenue share to AAI as a cost for the purpose of determination of ARR in the 2nd Control Period.

The Authority was not convinced with MIAL's approach (of not considering revenue share as a pass through) and decided to compute taxation based on actual tax payable by MIAL (considering revenue share as a pass thorough).

7.6. Accordingly, the Authority computed the corporate tax estimated to be paid by MIAL on earnings pertaining to aeronautical services, which worked out to be nil in each year during the second Control.

Table 52: Corporate Tax considered by the Authority for the 2nd Control Period in the Consultation Paper No. 10/2015-16

Corporate Tax, Rs. Crores.	FY 15	FY 16	FY 17	FY 18	FY 19
Corporate Tax	-	-	-	-	-

7.7. The Authority also proposed to true-up the forecast figures of tax on earnings pertaining to aeronautical services of the 2nd Control Period as per the actuals at the time of determination of aeronautical tariff for the 3rd Control Period.

c Stakeholder Comments on Issues pertaining to taxation

7.8. Subsequent to the Stakeholder Consultation process, the Authority has received comments / views from various stakeholders in response to the Consultation Paper No. 10/2015-16 on the determination of aeronautical tariffs for CSIA airport, Mumbai for the 2nd Control Period. Comments pertaining to taxation have been presented below.

7.8.1. Regarding calculation of tax and true-up of tax, IATA and Blue Dart have submitted that they agree with the Authority's approach presented in Proposal No 13 of the Authority's Consultation Paper No. 10/2015-16.

7.8.2. Regarding the calculation of corporate tax entitlement, ASSOCHAM, APAO and ACI have submitted that the Authority's proposal to calculate the corporate tax entitlement considering the revenue share as a pass through operating cost is against the Concession Agreement/SSA which categorically specify revenue share not to be considered as a pass through. ASSOCHAM, APAO and ACI, have requested the Authority to compute taxation on aeronautical revenue in terms of SSA, ignoring the annual fee as a pass-through expenditure as per the illustration provided in SSA. ACI's rationale in this regard is as given below,

7.8.3. APAO has further submitted that under the current approach adopted by the Authority, there would never be any tax payable and an important building block for the Target Revenue would become redundant.

7.8.4. DIAL has also submitted that as per the terms of the SSA and the OMDA, revenue share cannot be considered as expense for tax calculation. It has explained that the MIAL will have two separate tax calculations, one regulatory and the other statutory which have different purposes. The statutory tax would be calculated as per the provisions of the Income Tax Act for payment of income tax whereas the regulatory tax (aeronautical tax) shall be used for the purposes of tariff determination. DIAL has submitted that this regulatory tax is to be calculated as per provisions of the SSA and is limited to taxation on earnings from aeronautical services only. DIAL has further added that the consideration of the revenue share for tax calculation is contrary to the express provisions of the SSA and would result in a lower tax add-on in the building block for MIAL. Accordingly, DIAL has requested that the tax should be considered as per the provisions of the concession agreement and thereby the revenue share should be excluded from tax computation.

7.8.5. With regards to the MIAL's proposal to calculate corporate tax on account of Aeronautical revenue with the consideration of the annual fee, Blue Dart has requested the Authority to not consider the said proposal, as the said amount is paid to AAI by from total revenues by MIAL and should not be allowed as per Proposal No.13 of the Consultation Paper.

d MIAL's response to Stakeholder Comments on issues pertaining to taxation

7.9. MIAL has agreed with the suggestions/submissions of ACI, APAO, ASSOCHAM and DIAL on the issues pertaining to the consideration of the Annual Fee on aeronautical incomes as a pass through and has requested the Authority to not consider the Annual Fee paid to AAI as a pass through while calculating corporate tax.

7.10. In response to Blue Dart's & IATA's comments on corporate tax, MIAL has submitted that the methodology used in example given in SSA should be followed and Annual Fee paid to AAI should not be considered as aeronautical expenditure for computation of corporate tax for the purpose of TRR, in the light of explicit illustration given in the SSA and specific clarification given by AAI during the bidding process.

7.11. MIAL has also agreed with ACSA and Bid Services that including Annual Fee as an operating expenditure only while calculating corporate income tax is absolutely incorrect as it leads to an absurd position where complete burden of Annual Fee is to be borne by the JVC, tax shield on the same is being usurped by AERA.

7.12. MIAL has also referred to its own response to the Consultation Paper No. 10/2015-15 through their submission dated 25.05.2016, while responding to Blue Dart's & IATA's comment.

e **MIAL's comments on Issues pertaining to taxation in the Consultation Paper**

7.13. With respect to the Authority's Proposal No. 13.a. and para 3.52 of the Consultation Paper No. 10/2015-16 regarding the corporate tax, MIAL has submitted that the illustration given in the SSA clearly shows the methodology that income taxes on aeronautical earnings need to be calculated separately and added to the other building blocks.

7.14. MIAL has also referenced the clarifications provided by AAI in question No. 1000 of the pre-bid questionnaire for the privatisation of Mumbai and Delhi airport, to substantiate that the calculation of taxes needs to be based on revenues and cost related to aeronautical services and not JVCs corporate income tax. MIAL has quoted the response of the pre-bid question and an extract of the same is as reproduced below,

"…

1000	*In inflation-x model which corporate income tax should we consider? Is it JVC's corporate income tax or income tax based on revenues and costs related to aeronautical services? In case it is the latter, do we consider revenues from aeronautical services net of 30% subsidy from revenue share assets?*	*In the illustrative example, the corporate tax included in the target revenue relates only to the tax payable on the income from Aeronautical Services. While calculating taxable income in the CPI –X price cap model, revenues from aeronautical services should be considered net of 30% of the revenue accruing to the JVC from the Revenue Share Assets.*

… "

7.15. MIAL has further added that if the Annual Fee is not being considered as a pass through expenditure (as per the provisions of State Support Agreement) while calculating aeronautical charges, it should not be considered as an expenditure for calculation of income taxes. It has commented that doing the same is tantamount to taking away all the advantages while leaving only the disadvantages of the Annual fee for the airport operator. It has also submitted that the consideration of the Annual fee for the calculation of tax is making one of the important building blocks of TRR redundant, since there would never be a case where positive tax could be arrived at, with annual fee included as a pass through expenditure.

7.16. MIAL has further submitted that it was clearly spelt out in the illustration given in the Schedule 1 of the SSA and was accordingly understood by the bidders, during the bidding process, that while Annual Fees would not be a pass through cost for the purpose of tariff determination, the tax shield on Annual Fee would be available to them and therefore cost to be borne by them on account of Annual Fee would be net of tax savings on such Annual Fee. MIAL has, thus, requested the Authority to not include Annual Fee in the O&M cost while computing income tax for Aeronautical services.

f Authority's examination of Stakeholder Comments (including MIAL) on Issues pertaining to taxation

7.17. The Authority has noted and examined the submissions of Blue Dart and IATA who have expressed agreement with the Authority's proposal regarding the tax to be considered for the purpose of tariff determination.

7.18. The Authority has also noted and examined the submissions of MIAL along APAO, ACI, ASSOCHAM, and DIAL who have a contrary view on Proposal 13.a. of the Consultation Paper No. 10/2015-16 regarding the forecasting of corporate tax payable on aeronautical services for ARR determination.

7.19. The Authority remains unpersuaded by MIAL's submission on the matter of corporate taxation. The Authority is of the view that recovery of corporate tax on aeronautical income can only compensate the airport operator for corporate taxes actually paid by them on account of aeronautical income earned without allowing the operator to retain the difference between regulatory (notional) and statutory (actual) tax liabilities. The Authority has thus decided to maintain its view as mentioned in the above Consultation Paper, which states that tax being a statutory payment, its calculation on theoretical basis in any methodology of working that leads to a situation of undue enrichment of the airport operator is not appropriate.

Decision No.13 Regarding taxation on aeronautical service based on the material before it and its analysis, the Authority decides

13.a. To forecast the corporate tax payable on aeronautical services as indicated in the Table 52 in this Order and consider the same for ARR determination.

13.b. To true up the forecast figures of tax on earnings pertaining to aeronautical services of the 2nd Control Period as per the actuals at the time of determination of aeronautical tariff for the 3rd Control Period.

8. Revenue from Revenue Share Assets, Cargo Handling, Fuel Throughput, Into Plane and Ground Handling Services

8.1. The revenue target for MIAL as per SSA is defined as follows

TRi = RBi xWACCi + OMi + Di + Ti - Si

where, S = 30% of the gross revenue generated by the JVC from the Revenue Share Assets. This chapter provides Authority's final decisions with respect to such revenues from Revenue Share Assets for tariff determination for the 2nd Control Period.

a MIAL Submission on Revenue from Revenue Share Assets, Cargo Handling, Fuel Throughput, Into Plane and Ground Handling Services

8.2. MIAL's submission with regards to non-aeronautical revenues at CSI Airport, Mumbai, including revenue from revenue share assets, cargo and ground handling, as per its tariff application dated 08.09.2015 for the 2nd Control Period is summarized below,

"...

Land Lease Rentals, License Fee and Space Rent

Area given on lease at rate per square meter per month has been updated for FY 15 based on actuals and accordingly revenues for FY 16 - FY 19 have been updated. Land lease rentals from private parties have been increased based on the recent hike done in per square mtr rates by MIAL. Space rentals projections for FY 16 have been updated based on Terminal 2 domestic section transition plan. T2 Domestic section, earlier envisaged to be opened in July 2015, will now be opened in two phases i.e. shifting of Air India in October 2015 and Jet Airways in January 2016.

Table: Revenue from Land, Hangar and Terminal buildings – Revised Rs./Cr

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Land Lease rentals (excluding Real Estate)	*42*	*54*	*57*	*61*	*73*
Hangar Rent	*9*	*10*	*11*	*11*	*12*
Terminal Building Rent	*39*	*41*	*48*	*51*	*57*
Other Building Rent	*22*	*23*	*25*	*27*	*29*

Total	*112*	*128*	*141*	*151*	*171*

Lounge Concessions

Total revenue and revenue per embarking pax has been updated for FY 15 based on actuals and revenue for FY 16-FY 19 has been updated accordingly. MAG projected for FY 16 is lower than previous submission as Terminal 2 domestic section envisaged to open in July 2015, will now be opened in two phases i.e. shifting of Air India in October 2015 and Jet Airways in January 2016.

Table: Lounge concessions – revised Rs./Cr

	FY 15	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Total	*27*	*33*	*47*	*52*	*56*

Retail Concessions

Total revenue and revenue per embarking pax has been updated for FY 15 based on actuals and revenue for FY 16-FY 19 has been updated accordingly. MAG from retail concession has also been updated based on the actual contracts.

Table: Retail concessions – Revised Rs/Cr

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Total	*72*	*99*	*126*	*139*	*154*

Food and Beverage (F&B) Concessions

Total revenue and revenue per embarking pax along with MAG has been updated for FY 15 based on actuals and accordingly revenue for FY 16-FY 19 has been updated. Though overall yearly revenue has increased due to increase in Revenue per pax; MAG now projected for this control period is lower than previous submission as:-

(a) Terminal 2 domestic section, envisaged to open in July 2015, will now be opened in two phases i.e. shifting of Air India in October 2015 and Jet Airways in January 2016 and;

(b) One of the contract has been renegotiated as the concessionaire was incurring losses and wanted to shut down operations. Hence, the contract has been amended to continue at a higher % of revenue share and in turn MMG is waived. Further, MIAL has entered into new contracts in the current year and incremental MMG of the same have been considered.

Table: Food and Beverage concessions - Revised Rs./Cr

	FY 15 (Actual)	FY 16	FY 17	FY 18	FY 19
Total	46	51	71	81	92

Flight Catering Concessions

Total revenue and revenue per embarking pax has been updated for FY 15 based on actuals after excluding the revenue pertaining to prior period and revenue for FY 16-FY 19 has been revised accordingly.

Table: Flight Catering Concessions -Revised Rs./Cr

	FY 15 (Actual)	FY 16	FY 17	FY 18	FY 19
Total	32	33	35	37	39

ATMs and Forex Concessions

Revenue from Forex concession and ATMs has been updated for FY 15 based on actuals.

MAG projected for this control period for ATMs is lower than previous submission as:-

(a) Terminal 2 domestic section, envisaged to open in July 2015, will now be opened in two phases i.e. shifting of Air India in October 2015 and Jet Airways in January 2016 and;

(b) Further, MMG has been updated based on new contracts entered in the current year.

Table: ATMs and Forex concessions – Revised Rs./Cr

	FY 15 (Actual)	FY 16	FY 17	FY 18	FY 19
Total	50	53	56	60	64

Car Rental and Hotel Reservation Concessions

Total revenue and revenue per disembarking pax has been updated for FY 15 based on actuals and revenue for FY 16-FY 19 has been updated accordingly.

Table: Car Rental and Hotel Reservation – Revised Rs./Cr

	FY 15 (Actual)	FY 16	FY 17	FY 18	FY 19
Total	15	17	19	21	24

Duty Free Concession

Duty free concession revenue has been updated for FY 15 based on actuals

Table: Duty free concession – Revised Rs./Cr

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Total	*171*	*201*	*240*	*271*	*302*

Advertising Concession

Total revenue and revenue per pax has been updated for FY 15 based on actuals and revenue for FY 16-FY 19 has been updated accordingly. Though overall revenue has increased due to increase in revenue per pax; MAG projected for FY 16 is lower than previous submission as Terminal 2 domestic section, envisaged to open in July 2015, will now be opened in two phases i.e. shifting of Air India in October 2015 and Jet Airways in January 2016.

Table: Advertising concessions – Revised Rs./Cr

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Total	*76*	*85*	*95*	*107*	*120*

Car Parking Concessions

Revenue from Car park concession has been updated for FY 15 based on actuals. Revenue for FY 16 is updated, as the existing contract in FY 15 is extended for FY 16.

Contract for Car park for MLCP at T1 and T2 is yet to be awarded. Depending upon bids received there may be significant change in projected revenues. Hence, we request the Authority, to allow us to submit actual details as and when contract is awarded for its consideration.

Table: Car parking concessions – Revised Rs./Cr

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Total	*14*	*17*	*21*	*24*	*27*

Ground Handling Concessions

Total revenue and revenue per ATM has been updated for FY 15 based on actuals and revenue for FY 16-FY 19 has been updated accordingly.

Table: Ground handling concessions – Revised Rs./Cr

	FY 15 (Actual)	FY 16	FY 17	FY 18	FY 19
Total	90	93	98	103	110

Fuel Concessions*

Average fuel consumption per ATM and number of ATMs has been updated for FY 15 based on actuals and projection has been revised accordingly for FY 16-FY 19. Further, Throughput charge rate/KL is assumed to increase by 5% YoY. However, actual increase may vary between 5% to 7% based on WPI and needs to be trued up by the Authority.

Table: Fuel concessions – Revised Rs./Cr

	FY 15 (Actual)	FY 16	FY 17	FY 18	FY 19
Total	104	123	128	139	151

* Considered as Aeronautical revenue as per Authority Order No. 32/2012-13 dated 15th January, 2013

Other revenues

Revenue from Others has been updated for FY 15 based on actuals. Revenue from Spa concession has been reclassified from Other Revenue to Retail Revenues head, accordingly revenues from FY 16-FY 19 has been updated.

Table: Other revenues – Revised Rs./Cr

	FY 15 (Actual)	FY 16	FY 17	FY 18	FY 19
Total	29	22	27	31	38

Cargo

International cargo operations have been concessioned out to CONCOR Air Ltd. Authority has approved 15% increase in the rates for Concor's International Cargo Handling which come into effect from 15th June 2015. The revised rates have been considered for the balance control period.

Table: Revenue from Cargo – Revised Rs./Cr

	FY 15 (Actual)	FY 16	FY 17	FY 18	FY 19
Concessions:					
Domestic cargo	8	9	9	10	10
International cargo	209	232	241	249	258

Perishable Cargo	*4*	*4*	*5*	*5*	*5*
Courier	*16*	*17*	*17*	*18*	*18*
Total	*238*	*262*	*272*	*281*	*292*

8.3. The summary of Non-Aeronautical revenue submitted by MIAL is presented below:

"

	FY 15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
F&B	*46*	*51*	*71*	*81*	*92*
Flight Catering concession	*32*	*33*	*35*	*37*	*39*
Retail concession	*72*	*99*	*126*	*139*	*154*
Foreign exchange, Banks & ATM	*50*	*53*	*56*	*60*	*64*
Communication	*23*	*0*	*0*	*0*	*0*
Car Rentals & Hotel Reservation	*15*	*17*	*19*	*21*	*24*
Duty Free Shops	*171*	*201*	*240*	*271*	*302*
Advertising Income	*76*	*85*	*95*	*107*	*120*
Car Parking	*14*	*17*	*21*	*24*	*27*
Ground Handling	*90*	*93*	*98*	*103*	*110*
Others	*29*	*22*	*27*	*31*	*38*
Fuel concession	*104*	*123*	*128*	*139*	*151*
Total Concessions	*721*	*793*	*916*	*1014*	*1120*
Land Lease rentals (excluding Real Estate)	*42*	*54*	*57*	*61*	*73*
Hangar Rent	*9*	*10*	*11*	*11*	*12*
Terminal Building Rent	*39*	*41*	*48*	*51*	*57*
Lounges	*27*	*33*	*47*	*52*	*56*
Cargo Building Rent	*22*	*23*	*25*	*27*	*29*
Total Rent & Services	*139*	*161*	*189*	*202*	*227*
Revenue from cargo and cargo concessions	*238*	*262*	*272*	*281*	*292*
Total	*1098*	*1216*	*1377*	*1497*	*1638*

"

b Authority's Proposal on Revenues from Revenue Share Assets, Cargo Handling, Fuel Throughput, Into Plane and Ground Handling Services in the Consultation Paper No. 10/2015-16

8.4. The Authority had carefully examined MIAL's submission regarding all components of the revenues from Revenue Share Assets, Cargo Handling, Fuel Throughput, Into Plane and Ground Handling Services for the 2nd Control Period. The Authority had sought from MIAL the Auditor's Certificates providing detailed break-up of revenues from aeronautical and non-aeronautical sources. Based on Authority's instructions, MIAL had also submitted the rental agreements with government and private parties specifying the spaces rented out by them and rates charged for the same. The Authority was in receipt of the same.

8.5. In view of above and deliberations undertaken for each of the revenue heads, the Authority had proposed to consider MIAL's methodology for projection of revenues from Revenue Share Assets, Cargo Handling, Fuel Throughput, Into Plane and Ground Handling Services under various sub-heads for the 2nd Control Period.

8.6. The Authority had further proposed to continue treating the revenue from fuel concessions and Into-Plane services as aeronautical based on its earlier position.

8.7. The Authority had further noted that MIAL had earned Rs. 21.47 crores from Other Income including interest on bank deposits, interest on investments etc. in FY2014-15. The Authority had proposed to consider all components of "Other Income" accounted under either aeronautical or non-aeronautical categories, in the future, as far as possible. The Authority had requested MIAL to classify all revenue heads, including other income as either aeronautical or non-aeronautical while submitting its proposal for the 3rd Control Period.

8.8. Based on the above, the revenues from Revenue Share Assets, Cargo Handling and Ground Handling Services for the 2nd Control Period considered by the Authority were as below:

Table 53: Revenues from Revenue Share Assets, Cargo Handling and Ground Handling Services considered by the Authority for the 2nd Control Period in the Consultation Paper No. 10/2015-16

Rs. Crores	**FY2014-15**	**FY2015-16**	**FY2016-17**	**FY2017-18**	**FY2018-19**
F&B	45.71	51.54	70.51	80.53	91.86
Flight Kitchen	32.06	32.92	35.37	38.00	40.82
Retail concession	71.87	99.50	127.92	142.44	158.71
Foreign exchange, Banks & ATM	49.51	53.08	56.54	60.85	65.11
Communication	22.71	0.00	0.00	0.00	0.00
Car Rentals & Taxi Service	15.37	17.35	19.58	22.11	24.96
Duty Free Shops	171.02	201.02	239.81	270.58	301.58
Advertising Income	75.91	85.74	96.84	109.39	123.56
Car Parking	14.40	16.80	21.42	24.18	27.30
Ground Handling	90.01	94.43	99.73	105.50	111.75
Others	28.71	22.31	27.31	31.42	37.80
Retail Licenses Revenue [A]	**617.28**	**674.68**	**795.05**	**884.99**	**983.46**
Land Rent & Lease	48.47	60.75	64.52	68.58	81.26
Hanger Rent	9.21	9.90	10.64	11.44	12.30
Terminal Building Rent (excl CUTE Counter charges)	32.97	34.59	41.99	44.93	50.34
CUTE Counter Charges	5.77	5.97	6.18	6.41	6.63

Rs. Crores	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
Lounges	26.99	32.56	47.16	51.58	55.81
Cargo Building Rent	21.83	23.46	25.22	27.12	29.15
Rent & Services Revenue [B]	**145.23**	**167.23**	**195.72**	**210.05**	**235.48**
Domestic cargo	8.40	8.82	9.26	9.72	10.21
Terminal charges	0.07	0.00	0.00	0.00	0.00
De-stuffing	0.00	0.00	0.00	0.00	0.00
Palletization	0.15	0.00	0.00	0.00	0.00
X-ray	9.13	9.45	9.79	10.14	10.50
Carting, packing and others	0.01	0.00	0.00	0.00	0.00
Perishable Cargo	4.18	4.33	4.48	4.64	4.80
Other Rental Incomes (Demurrage)	6.10	0.00	0.00	0.00	0.00
Courier Revenue	16.05	16.62	17.22	17.83	18.46
Outsourced Cargo Revenues	193.48	222.91	230.84	239.06	247.57
Total Cargo Revenue [C]	**237.56**	**262.13**	**271.59**	**281.39**	**291.55**
Other Income [D]*	**29.74**	**0.00**	**0.00**	**0.00**	**0.00**
Less: Revenue from Non Transfer Assets) [E]	**10.00**	**10.75**	**11.56**	**12.42**	**13.35**
Non-aeronautical Revenues [E=A+B+C+D-E]	**1019.81**	**1093.29**	**1250.80**	**1364.02**	**1497.13**
30% of share of Non-Aeronautical Revenues [F=30% (E)]	**305.94**	**327.99**	**375.24**	**409.20**	**449.14**

** Other income for future years in the second control period shall be considered under true-up* under the next review

8.9. The Authority had further noted that only a portion of the new passenger terminal at MIAL became operational during the last quarter of FY2013-14 of the 1st Control Period. The expansion of the terminal was yet not complete and the entire terminal was expected to become operational only in FY2015-16. The Authority had expected that MIAL would be in a position to surpass its projected revenues on account of the entire new terminal becoming operational for a substantial part of the 2nd Control Period, with certain level of maturity of non-aeronautical services provision. Thus, the Authority had proposed to true-up revenues from non-aeronautical services based on actuals at the end of 2nd Control Period and consider the above projections in Table 53 as minimum / floor for the 2nd Control Period.

c Stakeholder Comments on Issues pertaining to Revenues from Revenue Share Assets, Cargo Handling, Fuel Throughput, Into Plane and Ground Handling Services

8.10. Subsequent to the Stakeholder Consultation process, the Authority has received comments / views from various stakeholders in response to the material and proposals presented by the Authority with respect to various elements of determination of aeronautical tariffs for CSIA airport, Mumbai for the 2nd Control Period in its Consultation Paper No. 10/2015-16 dated 16.03.2016. Comments pertaining to non-aeronautical revenues are presented below.

8.10.1. IATA has supported Authority's proposals regarding the projections of non-aeronautical revenues (except for Authority's proposal regarding treating revenues from CUTE as non-aeronautical) and has also supported the true-up mechanism given the uncertainties regarding the impact of new terminal on non-aeronautical revenues.

8.10.2. Regarding the Authority's proposal to treat other income (i.e. interest from banks and others, income from investments) as non-aeronautical revenues, APAO has submitted that such a treatment would cross-subsidize aeronautical income. APAO has accordingly requested the Authority to apply principles for treatment of other income consistently, as done during the 1st Control Period. APAO has further submitted that this is an income earned by MIAL from temporary investments, which does not involve provision of any kind of services and AERA Act requires provision of services for considering such income for the purpose of tariff determination.

8.10.3. DIAL and ACI have made comments/suggestions similar to APAO with regards to the treatment of other income as non-aeronautical revenues. Both DIAL and ACI have submitted that such earnings relate to temporary investments and retention of funds till the same are paid out as dividends and therefore do not form part of either aeronautical or non-aeronautical revenues.

8.10.4. With respect to the treatment of fuel throughput charges and Into Plane concession charges, APAO has submitted that the revenues from Fuel Throughput Concessions (FTC) and ITP services be considered as non-aeronautical revenues by the Authority. APAO has referenced select sections of the AERA Act and ICAO documents such as “Policies on Charges for Airports and Air Navigation Services”, “Airports Economic Manual” etc. to indicate the same.

8.10.5. APAO has also submitted that MIAL’s role in the fuel supply chain at CSI Airport, was limited to the lessor of the land for which lease rentals were being charged and that it had no role in providing any services. Accordingly, the privilege/concession of grant of access to airport does not involve the provision of any services. The charge for such grant of concession/ privilege falls under revenue from non-aeronautical sources. It has thus requested the Authority to consider concession fee from Fuel Throughput and Into Plane as revenues from non-aeronautical services.

8.10.6. On the treatment of fuel throughput charges, ACSA and Bid Services, ACI and ASSOCHAM have made comments similar to that of APAO, and have requested the Authority to consider fuel throughput charges as revenues from non-aeronautical services.

8.10.7. Regarding the classification of various charges such as ground handling charges, hangar rent etc. as non-aeronautical services, Lufthansa have commented that the classification of ground handling services, hangar rent, terminal charges, cargo, CUTE charges etc. as non-aeronautical services / assets is contrary to the definition of aeronautical services in terms of Section 2(a) of the AERA Act and that no reliance can be placed on the OMDA for carrying out the said classification. Lufthansa has also pointed out that the challenge to the classification as per earlier tariff order dated 15.01.2013 is pending adjudication before AERAAT.

8.10.8. Regarding revenues from Cargo and Ground Handling services, FIA has submitted that these services are clearly ‘Aeronautical Services’ in terms of the AERA Act, 2008 and therefore, the revenue being realized from such services should be treated as aeronautical revenue in the hands of MIAL and has submitted a calculation regarding potential reduction in target revenue (without taking into account any adjustment in RAB and other costs).

8.10.9. Regarding projection of non-aeronautical revenues FIA has submitted that given that the CAGR of non-aeronautical income in the 1st Control Period works out to be 15%, it appears that Authority has considered lower growth projections for non-aeronautical revenues for 2nd Control Period by considering a CAGR of around 10%. It has thus submitted that the Authority should reasonably estimate or appoint a consultant to determine revenue from these services as it may not be appropriate to burden the airlines and passengers with higher tariff in this Control Period and provide relief for the same in subsequent period.

8.10.10. Further, FIA has also submitted that the Authority has only considered Other Income earned by MIAL for only the first year of the 2nd Control Period, inspite the fact that MIAL had an aggregated Other Income of Rs. 55 crores in the 1st Control Period, with a CAGR of 28%. Accordingly, FIA has suggested that the Authority should include Other Incomes on the basis of past trends and cash flow management of the company. FIA has further submitted that since non-aeronautical revenue is one of the major component for determining ARR, the Authority should evaluate it in detail and on line-by-line basis rather than broadly relying on projections and basis provided by MIAL.

8.10.11. As regards to the Authority's proposal to consider projections made by MIAL in respect of Non Aeronautical revenues as minimum / floor for the 2nd Control Period, APAO has submitted that the True- up should be done based upon actuals and projections by MIAL for the 2nd Control Period should not be considered as minimum/ floor for true up in the 3rd Control Period. APAO has further contended that shared till approach relevant for MIAL acts as a natural incentive to MIAL for increasing non aeronautical revenues. With this mechanism and safe guard already in place, providing such minimum /floor is not necessary to treat projections of NAR submitted as minimum / floor. According to APAO, it will be only in case of a genuine reason that MIAL may not be able to achieve the projections, which should be considered acceptable to AERA. Accordingly, APAO has submitted that true up of actual NAR, if at all is to be done, should be both for increase as well as decrease in actual NAR over the projected NAR, on cumulative non aeronautical revenues instead of comparing each individual line item of such NAR.

8.10.12. Lufthansa has commented that AERA cannot seek advice from MoCA or AAI with respect to lease revenue from commercial area being non transfer or not and any advice / direction by MoCA or AAI would tantamount to interfering with the independent exercise of the powers of the Authority.

d MIAL's response to Stakeholder Comments on Issues pertaining to Revenues from Revenue Share Assets, Cargo Handling, Fuel Throughput, Into Plane and Ground Handling Services

8.11. MIAL is in agreement with the comments/suggestions of APAO, ACI and DIAL on the treatment of Other Income and has requested the Authority to not consider Other Income for cross subsidy. With respect to Lufthansa's comments regarding the same, MIAL has submitted that there is no question of under exploitation of non-aeronautical areas as it has already considered all the vacant commercial area in Terminal as Non aeronautical for allocation of assets.

8.12. MIAL is in agreement with APAO's comments on the Authority's proposal to consider projections made by MIAL in respect of Non Aeronautical revenues as minimum / floor for the 2nd Control Period and has requested the Authority to not treat the projections given by MIAL in respect of Non Aeronautical Revenue as minimum / floor to be trued up at the time of determination of tariff for the 3rd Control Period.

8.13. MIAL concurs with the comments/suggestions of ACSA and Bid Services, ACI, APAO and ASSOCHAM on the treatment of Fuel Throughput Concessions (FTP) and ITP services and has requested the Authority to consider them as non-aeronautical charges.

8.14. In response to IATA's comments supporting Authority's position of treating Fuel Throughput as aeronautical revenues, MIAL has submitted that fuel throughput charge is not against a 'service' provided by MIAL, let alone an 'aeronautical service' and it is a charge for the parting of the privilege by MIAL in favour of oil companies.

8.15. In response to FIA's comments on the matter of considering the revenues from Cargo and Ground handling services considered as non – aeronautical, MIAL has cited Section 13(l)(a)(vi) to substantiate its point that the Authority has to consider the provisions of SSA and OMDA for the determination of tariff at CSIA. MIAL has submitted that Schedule 6 of OMDA classifies cargo and ground handling services as non-aeronautical and that Central Government as a signing party to SSA has clarified the position to the Authority vide its letter dated 10.09.2012 that the revenue from cargo and ground handling services accruing to the airport operator has to be categorized as non-aeronautical revenues as provided under the OMDA, irrespective of the service provider.

8.16. MIAL has further submitted that MoCA has correctly interpreted SSA and conveyed its understanding to the Authority which has decided to consider 30% of revenues from these services for the purpose of cross-subsidy, but decided to regulate the charges for ground handling services. MIAL has stated that it is in agreement with the position of the Authority since it is a harmonious construction of the AERA Act, OMDA and SSA.

8.17. With respect to Lufthansa's comments regarding AERA seeking advice of MoCA/ AAI for land lease revenue from commercial area being non transfer assets or not, MIAL has submitted that SSA has explicit provisions under which any revenues / proceeds from Non Transfer Asset cannot be considered for cross subsidizing Aeronautical charges.

e **MIAL's comments on Issues pertaining to Revenues from Revenue Share Assets, Cargo Handling, Fuel Throughput, Into Plane and Ground Handling Services in response to the Consultation Paper**

8.18. With respect to Authority's proposal to consider revenues from fuel concessions and ITP services as aeronautical revenues, MIAL has submitted that section 2 (a) (vi) of the AERA Act (by limiting the scope of "aeronautical services" only to the extent of "services provided for supplying fuel", and not to privileges of access to the airport by the fuel supplier), is in consonance with the ICAO Document No.9082 wherein the "revenues from non-aeronautical sources" is defined to include concession granted to oil companies to supply aviation fuel. The privilege/concession of grant of access to airport does not involve provision of any services. Therefore, the charge for such grant of concession/ privilege falls under revenue from non-aeronautical sources. MIAL has further submitted that its role in the fuel supply chain at CSIA was limited that of a lessor of the land for which these lease rentals were being charged, and that it had no role in providing any services.

8.19. Further to the views expressed above, MIAL has submitted that AERA is not regulating oil suppliers for the supply of fuel as it treats it not as a service but as sale of goods. MIAL has also stated that the fixation of fuel throughput charges does not lend itself to the tariff determination process contemplated under the AERA Act as the fuel throughput charges levied by airport operators on the oil companies is towards consideration for commercial opportunity and access to trading platform provided to oil companies for carrying on their business of fuel sale/supply and refuelling services to airlines at airport premises. It has also referenced the select abstracts from the ICAO document Airports Economic Manual and Form J (used by ICAO contracting states to report financial data of airports) where oil concessions have been categorized as non-aeronautical revenues.

8.20. MIAL has thus requested the Authority to consider Fuel Throughput Charges and Into Plane concession as revenues from non-aeronautical service.

8.21. With respect to the revenues considered as Aeronautical by the Authority for the 2nd Control Period as presented in Table 47 of Consultation Paper No. 10/2015-16, the Authority had asked MIAL to submit concession revenues expected from Into Plane services and Fuel Infrastructure from MAFFFL from FY 2015-16 to FY 2018-19. MIAL has submitted the actual revenues for FY 2014-15 and FY 2015-16 along with projections for FY 2016-17 to FY 2018-19 to the Authority in its letter to the Authority dated 10.06.2016, which is presented below.

Table 54: Projected revenues from land lease rental to MAFFL and ITP service submitted by MIAL

Rs. Crores	**FY2014-15**	**FY2015-16**	**FY2016-17**	**FY2017-18**	**FY2018-19**
Land Lease rental from MAFFFL	0.3	1.5	1.7	1.8	2
Into Plane Service	0.7	4.2	5.03	5.47	7.81

Rs. In Crores

8.22. Regarding the Authority's proposal to consider the projections of MIAL as a floor for true up of Non-Aeronautical income, MIAL has submitted a similar reasoning to APAO, mentioning that the Shared till approach provides a natural incentive to MIAL to strive to increase, and not stifle, its non- aeronautical revenues and that it is not necessary for the Authority to use projections of non-aeronautical revenue submitted by MIAL as a minimum / floor since there could be genuine reasons due to which it may not be possible to achieve the projections. MIAL has further stated that the projection of non-aeronautical revenue submitted by MIAL to the Authority is primarily based on the past trends and projected inflation and in case the Authority decides to true-up the actual non-aeronautical revenues, it should be done consistently for both increase and decrease in actual non-aeronautical revenues compared to the projections, considering cumulative non-aeronautical revenue, and not the projections for individual revenue heads under non-aeronautical activities.

8.23. With respect to Authority's proposal regarding treatment of revenues from Other Income as non aeronautical revenues, MIAL has submitted that such income earned by MIAL mainly includes interest income on fixed deposits and dividends from temporary investments, which does not involve providing any kind of services. Also, Authority during determination of tariffs for 1st Control Period has not considered the revenues from "Other Income" for cross subsiding aeronautical revenue and therefore any deviation from the previously agreed principle is not correct. MIAL has further submitted that under SSA/ OMDA, Other Income does not fall under the definition of Revenue Share Assets and therefore should not be considered for cross-subsidization.

f Authority's Examination of Stakeholder Comments (including MIAL) on Issues pertaining to Revenues from Revenue Share Assets, Cargo Handling, Fuel Throughput, Into Plane and Ground Handling Services

8.24. The Authority has carefully considered the comments from various stakeholders regarding the revenue projections from Revenue Share Assets, Cargo Handling, Fuel Throughput, Into Plane and Ground Handling Services for the 2nd Control Period in respect of CSI Airport, Mumbai. The Authority's examination and decisions in this regard have been presented below.

8.24.1. On the matter of projection methodology for revenues from Revenue Share Assets, Cargo Handling, Fuel Throughput, Into Plane and Ground Handling Services, the Authority has examined the comments made by FIA regarding the difference in CAGR between the 1st Control Period and the 2nd Control Period for MIAL. The Authority believes that as it had explained in the Consultation Paper No. 10/2015-16, due to ongoing development works at CSI Airport, Mumbai as well as different base values for such revenues in the first and the 2nd Control Period to calculate the CAGR, the past growth of revenues may not serve either as a benchmark or guide in making the forecast in the future. The Authority has also considered IATA's comments supporting the approach proposed by the Authority. Based on its examination, the Authority does not find any concrete reason for changing its proposal and has decided to continue its approach as given in Consultation Paper No. 10/2015-16 and use the projections made by MIAL, the basis for which has been documented in the abovementioned consultation paper along with MIAL's response to stakeholders.

8.24.2. The Authority has noted stakeholder's comments on the treatment of other income (i.e. interest from banks and others, income from investments) as non-aeronautical revenues. The Authority believes that such earnings are on account of various decisions taken for cash flow management which is part of day-to-day operations of the airport comprising provision of both aeronautical and non-aeronautical services. Therefore, the benefits of such additional income should be passed onto the passengers. The Authority has accordingly decided to follow its approach as given in Consultation Paper No. 10/2015-16. Therefore, in the Authority's view, all components of "Other Income" should be accounted under aeronautical or non-aeronautical categories, in the future, as far as possible. Furthermore, these items are intermittent in nature and have no consistent driver on which this income can be projected. Thus, the Authority has projected this subhead at 'nil' value for four years of the 2nd Control Period. However, the Authority has decided to true up the "Other incomes" based on the actual values realized by MIAL during the 2nd Control Period at the time of tariff determination for the 3rd Control Period.

8.24.3. On the matter of the treatment of revenues from fuel concessions and ITP services, the Authority has maintained its view that Fuel throughput fee, revenue from common infrastructure, and Into-plane services are interdependent and arise on account of aircraft fuelling services. It has thus maintained its position of treating the same as aeronautical revenues as per Consultation Paper No. 10/2015-16 and has decided to consider the projections submitted by MIAL as per Table 54 above.

8.24.4. On the consideration of CUTE counter charges as Non-Aeronautical revenue, the Authority has carefully examined the submissions of various stakeholders. The Authority believes that it has received no concrete reasoning/evidence for the

Authority to change its proposed position. The Authority has thus decided to continue the treatment of CUTE counter charges as Non-aeronautical revenue as per its stance given in the Consultation Paper No. 10/2015-16.

8.24.5. The Authority disagrees with the views of Lufthansa regarding it seeking clarification from MoCA/ AAI as to whether the land lease revenue from the commercial area should be taken as income from non-transfer assets or not. The Authority is also of the view that AAI / MoCA having been involved in the process of leasing of land to MIAL, are best placed to provide clarifications regarding the treatment of the same. The Authority would like to highlight that in the case of tariff determination for DIAL also, the Authority had sought a clarification from MoCA and AAI regarding the same matter.

8.24.6. At present, the Authority has not received any view from AAI/MoCA as to whether the land lease revenue from the commercial area should be taken as income from non-transfer assets or not. In the absence of the same, the Authority has decided to continue with its approach in the Consultation Paper No. 10/2015-16 and has decided to consider the land lease revenue as a part of revenue from non-transfer asset for the time being in case of MIAL.

8.24.7. On the Authority's proposal regarding the non-aeronautical revenue projections for the current Control Period to be treated as a floor for non-aeronautical revenue true-up at the time of the 3rd Control Period, the Authority has reconsidered its position and agrees with MIAL's view that it has adequate incentive to increase non-aeronautical revenues due to the shared till methodology. The Authority has, thus, decided not to use projections of non-aeronautical revenue submitted by MIAL as a minimum / floor for the true-up of non-aeronautical revenue at the time of the next Control Period.

8.25. Based on the above, the revenues from Revenue Share Assets, Cargo Handling and Ground Handling Services for the 2nd Control Period considered by the Authority are as below:

Table 55: Revenues from Revenue Share Assets, Cargo Handling and Ground Handling Services considered by the Authority for the 2nd Control Period

Rs. Crores	FY2014-15	FY2015-16	FY2016-17	FY2017-18	FY2018-19
F&B	45.71	51.49	70.48	80.48	91.79
Flight Kitchen	32.06	32.92	35.37	38.00	40.82
Retail concession	71.87	99.42	127.72	142.11	158.21
Foreign exchange, Banks & ATM	49.51	53.08	56.54	60.85	65.11
Communication	22.71	0.00	0.00	0.00	0.00
Car Rentals & Taxi Service	15.37	17.33	19.55	22.04	24.86
Duty Free Shops	171.02	201.02	239.81	270.58	301.58
Advertising Income	75.91	85.66	96.66	109.08	123.09
Car Parking	14.40	16.80	21.40	24.14	27.22
Ground Handling	90.01	94.37	99.61	105.29	111.45
Others	28.71	22.31	27.31	31.42	37.80
Retail Licenses Revenue [A]	**617.28**	**674.39**	**794.45**	**883.98**	**981.93**
Land Rent & Lease	48.47	60.75	64.52	68.58	81.26
Hanger Rent	9.21	9.90	10.64	11.44	12.30
Terminal Building Rent (excl CUTE Counter charges)	32.97	34.59	41.99	44.93	50.34
CUTE Counter Charges	5.77	5.97	6.18	6.40	6.63
Lounges	26.99	32.56	47.15	51.58	55.80
Cargo Building Rent	21.83	23.46	25.22	27.12	29.15
Rent & Services Revenue [B]	**145.23**	**167.22**	**195.71**	**210.04**	**235.47**
Domestic cargo	8.40	8.82	9.26	9.72	10.21
Terminal charges	0.07	0.00	0.00	0.00	0.00
De-stuffing	0.00	0.00	0.00	0.00	0.00
Palletization	0.15	0.00	0.00	0.00	0.00
X-ray	9.13	9.45	9.79	10.14	10.50
Carting, packing and others	0.01	0.00	0.00	0.00	0.00
Perishable Cargo	4.18	4.33	4.48	4.64	4.80
Other Rental Incomes (Demurrage)	6.10	0.00	0.00	0.00	0.00
Courier Revenue	16.05	16.62	17.22	17.83	18.46
Outsourced Cargo Revenues	193.48	222.91	230.84	239.06	247.57
Total Cargo Revenue [C]	**237.56**	**262.13**	**271.59**	**281.39**	**291.55**
Other Income [D]*	**29.74**	**0.00**	**0.00**	**0.00**	**0.00**
Less: Revenue from Non Transfer Assets) [E]	**10.00**	**10.75**	**11.56**	**12.42**	**13.35**
Non-aeronautical Revenues [E=A+B+C+D-E]	**1019.81**	**1092.99**	**1250.20**	**1362.99**	**1495.59**
30% of share of Non-Aeronautical Revenues [F=30% (E)]	**305.94**	**327.90**	**375.06**	**408.90**	**448.68**

** Other income for future years in the 2nd Control Period shall be considered under true-up under the next review*

Decision No.14 The Authority decides to adopt the following approach for consideration of treatment of Revenues from Revenue Share Assets, Cargo Handling, Fuel Throughput, Into Plane and Ground Handling Services towards determination of tariffs for aeronautical services provided by MIAL at CSI Airport, Mumbai

14.a. To consider the projected revenue from Revenue Share Assets, Cargo Handling and Ground Handling Services for the 2nd Control Period as per Table 55 in this Order.

14.b. To consider revenues from fuel concessions and ITP services as aeronautical revenues.

14.c. To consider revenues from CUTE charges as non-aeronautical.

14.d. To consider revenues from Other Income including from interest / investments as non-aeronautical revenues.

14.e. To consider the land lease revenue as a part of revenue from non-transfer asset for the time being in case of MIAL.

14.f. To true-up the actual revenues from Revenue Share Assets, Cargo Handling, Fuel Throughput, Into Plane and Ground Handling Services at the time of tariff determination for the 2rd Control Period based on actuals revenues realized by MIAL during the 2nd Control Period.

14.g. To true-up the "Other Income" based on actual revenue realized by MIAL during the 2nd Control Period at the time of tariff determination for the 3rd Control Period.

9. Traffic Forecast

a MIAL Submission on Traffic Forecast

9.1. MIAL's submission regarding traffic forecast as per its tariff application dated 08.09.2015 is as below,

"Passenger Traffic, Air Traffic Movements (ATMs) and Cargo Forecast

Passenger, ATM and Cargo Tonnage numbers for FY 15 are updated based on actuals. As earlier, 5 year CAGR is used for projecting the traffic from FY 16-FY 19. Updated 5 years CAGR of passenger traffic based on actual numbers of FY 15 is 7.73% for Domestic.

Based on updated 5 years CAGR, projected International passenger traffic growth is 6.78%. However, due to 4 international airlines discontinuing their operations recently from CSIA, and also due to growing International traffic at other cities because of grant of traffic rights from new point of calls, directly competing with CSIA, there is a drop in International traffic growth at CSIA. In FY 16 (up to July 15) there is substantial growth in International passenger traffic at other airports, while it was meagre 3.8% at CSIA, Mumbai. In view of the same projected growth is assumed to be at 3.8% and not 6.78% for International passengers.

ATM

ATM numbers are projected to grow in line with past 5 years CAGR of domestic ATMs growing by 3.48% and International ATMs growing by 2.6% and accordingly revised projections are as under :-

Table: Passenger and ATM forecast - Revised

	FY 15 (Actual)	FY 16	FY 17	FY 18	FY 19
Passengers (in Millions)					
- Domestic	25.21	27.15	29.25	31.51	33.95
- International	11.43	11.86	12.31	12.78	13.27
Total	36.63	39.02	41.57	44.30	47.22
ATMs					
- Domestic	195,370	202,169	209,204	216,485	224,018
- International	74,086	76,012	77,989	80,016	82,097
Total	269,456	278,181	287,193	296,501	306,115

Cargo Forecast

Domestic and International cargo traffic for CSIA is projected from FY16-FY19 based on the updated past 5 years CAGR (3.56% for international and 3.58% for domestic). Same growth is assumed to arrive at cargo forecast for MIAL's concessionaires for second control period. The projected cargo tonnage is as below:

Table: Cargo forecast – Revised ('000 MT)

	FY15 (Actual)	*FY 16*	*FY 17*	*FY 18*	*FY 19*
Domestic Cargo	*69.19*	*71.66*	*74.23*	*76.89*	*79.64*
International cargo	*374.57*	*387.90*	*401.71*	*416.01*	*430.82*
Total	*443.75*	*459.56*	*475.94*	*492.90*	*510.46*

"

b Authority's Proposal on Traffic Forecast in the Consultation Paper No. 10/2015-16

9.2. The Authority had noted the following actual traffic volumes in respect of passengers, ATM, and Cargo, and their CAGR at CSI Airport Mumbai, for the 1st Control Period.

Table 56: Actual traffic and CAGR, at CSI Airport, Mumbai in the 1st Control Period

[Users / Traffic]	FY 09 Base Year	FY 10	FY 11	FY 12	FY 13	FY 14 [End Year]	5 year CAGR
		Control Period 1					
Passengers (in Mn)							
- Domestic	15.32	17.37	20.00	21.04	20.28	21.88	7.39%
- International	8.12	8.23	9.08	9.70	9.93	10.34	4.96%
Total	**23.44**	**25.61**	**29.07**	**30.75**	**30.20**	**32.22**	**6.57%**
ATMs (in '000)							
- Domestic	161.94	165.73	175.36	180.18	173.29	188.44	3.08%
- International	65.57	64.07	67.29	71.31	71.21	72.22	1.95%
Total	**227.51**	**229.801**	**242.651**	**251.49**	**244.499**	**260.666**	**2.76%**
Cargo [000'MT]							
- Domestic	-	.27	22.55	41.65	46.59	57.67	6.81%
- International	213.43	237.46	287.52	329.34	296.03	296.69	*36.34%
- Courier	-	12.51	30.19	40.44	39.30	48.07	*16.59%
Total	**213.43**	**250.24**	**340.26**	**411.43**	**381.93**	**402.43**	**13.52%**

* 3-year CAGR calculated with Base Year as 2010-11 [1st stable year]

9.3. The Authority had also noted that the compounded annual growth (CAGR) in traffic volumes witnessed during the 1st Control Period is not significantly different from the projections made by MIAL for the 2nd Control Period.

9.4. The Authority had noted the explanation for the projected 3.8% international passenger growth projection made by MIAL, mainly due to the withdrawal of a few airlines. However, the Authority was of the view that the withdrawal of the relevant airlines is temporary. Accordingly, the Authority had proposed to consider CAGR of 7.73% for projecting domestic traffic and 6.78% for projecting international passenger traffic between FY 2009-10 and FY 2014-15 as computed in the Order no. 46/2015-16 in the matter of Determination of DF in respect of the Metro Connectivity project for CSIA, Mumbai.

9.5. The Authority had proposed to consider the projected domestic and international ATMs at 3.48% and 2.60% per annum respectively, in each year of the 2nd Control Period with traffic for FY2013-14 as the base.

The Authority had proposed to consider the projected domestic and international cargo volumes at 3.58% and 3.56% per annum respectively, in each year of the 2nd Control Period with traffic for FY2013-14 as the base.

9.6. The Authority had further noted the volatility in traffic forecast at CSI Airport, Mumbai and had also considered the air side capacity constraint at CSIA. Accordingly, the Authority had proposed to make full correction (truing up) of the traffic numbers based on the actual traffic handled by MIAL during the 2nd Control Period.

9.7. The traffic projections considered by the Authority is presented in Table 57 below,

Table 57: Projected traffic considered at CSI Airport, Mumbai in the 2nd Control Period by the Authority in the Consultation Paper No. 10/2015-16

Traffic Category	CAGR	FY15 (Actual)	FY16	FY17	FY18	FY19
Passengers (Mn)						
Domestic	7.73%	25.21	27.15	29.25	31.51	33.95
International	6.78%	11.43	12.20	13.03	13.92	14.86
Total		36.63	39.36	42.28	45.43	48.81
ATM (nos.)						
Domestic	3.48%	195,370	202,169	209,204	216,485	224,018
International	2.60%	74,086	76,012	77,989	80,016	82,097
Total		269,456	278,181	287,193	296,501	306,115
Cargo ('000 MT)						
Domestic	3.58%	69.19	71.66	74.23	76.89	79.64
International	3.56%	374.57	387.90	401.71	416.01	430.82
Total		443.75	459.56	475.94	492.90	510.46

c Stakeholder Comments on Issues pertaining to traffic forecast

9.8. Subsequent to the Stakeholder Consultation process, the Authority has received comments / views from various stakeholders in response to the Consultation Paper No. 10/2015-16 dated 16.03.2016 on the determination of aeronautical tariffs for CSIA airport, Mumbai for the 2nd Control Period.

9.8.1. Regarding Proposal 15.a. and 15.b. of the Consultation Paper No. 10/2015-16 on the projection and truing up of passenger, cargo and ATM traffic, IATA has commented that it believes that the Authority's traffic forecast maybe on the lower side given that it had itself forecasted a +9.9% p.a. traffic growth (international and domestic) for the period of 2014 -2019 for India. IATA has also explained that it believes that the airport should hold some level of risk since it is being compensated through a cost of capital allowance and therefore the true up of traffic should not be carried out.

9.8.2. Regarding the projection of traffic, FIA has commented that since, MIAL is controlling a public asset, the comments of the stakeholders, like the passengers, should be taken into account, prior to accepting MIAL's submissions and projections.

9.8.3. FIA further submitted that the Authority should consider commissioning a fresh independent study to get more accurate traffic forecasts for 2nd Control Period which can comprehensively cover all the major dependent factors for calculating the traffic projections. It has highlighted that the Authority has only considered a 5-year CAGR growth for forecasting passengers whereas the traffic forecast for other airports such as Gatwick airport entails considerations of various factors apart from the GDP such as the airlines capacity plans, average aircraft size and passenger load factor, network plans and flight frequency. It has further submitted that pending the submissions of the stakeholders, the Authority should consider the traffic scenario which is beneficial to the consumers and the stakeholders.

d MIAL's response to Stakeholder Comments on Issues pertaining to traffic forecast

9.9. In response to IATA's submission on traffic forecast, MIAL has submitted that Traffic projections based on CAGR methodology is a well-accepted methodology for such forecast, which even-outs any spikes or lows in any stray periods which depend on various factors. It has also pointed out that the true up mechanism ensure that any excess collected by airport operator gets clawed back.

9.10. In response to FIA's comment on traffic and future capital expenditure projection MIAL has commented that the Authority has already considered passenger traffic on the higher side and that any increase in passenger traffic considered by the Authority may not materialize due to capacity constraints at CSIA.

e MIAL's comments on Issues pertaining to traffic forecast in the Consultation Paper

9.11. MIAL did not make any comments on issues related to traffic forecasts.

f Authority's Examination of Stakeholder Comments (including MIAL) on Issues pertaining to traffic forecast.

9.12. The Authority has carefully examined the submissions of all the stakeholders regarding issues pertaining to traffic forecasts.

9.13. Regarding IATA's comment about its forecast of a +9.9% p.a. traffic growth (international and domestic) for the period of 2014 -2019 for India, the Authority is of the view that traffic projection of +9.9% for India as a whole as projected by IATA does not necessarily mean that even at CSI Airport, Mumbai a similar level of traffic growth can be achieved. The Authority has not received any specific traffic forecast from IATA with respect to CSI Airport, Mumbai. Accordingly, the Authority does not find any justification with IATA's recommendation to consider a higher traffic forecast for CSI Airport, Mumbai.

9.14. With respect to IATA's suggestion regarding the true up of traffic, the Authority is of the opinion that given capacity constraints at CSI Airport and because of various measures being attempted by MIAL to increase the traffic that can be handled at the airport, it is difficult to project a traffic growth which is close to actual. Accordingly, it would not be fair to pass on the traffic risk to the airport operator or to the passengers or airlines at this stage.

9.15. The Authority completely agrees with FIA's suggestion regarding the comments of the stakeholders, like the passengers, to be taken into account, prior to accepting MIAL's submissions and projections. The issuance of Consultation Paper No. 10/2015-16 and inviting comments from various stakeholders was an exercise towards addressing the same.

9.16. With respect to FIA's comments regarding considering a traffic scenario which is beneficial to the consumers and the stakeholders, as mentioned in the Consultation Paper No. 10/2015-16, the Authority had considered a higher traffic forecast for international passengers than submitted by MIAL. The Authority believes that there has to be a basis for the Authority to consider any projection and it just cannot arbitrarily consider any growth numbers which are beneficial to the consumers and the stakeholders. Accordingly, the Authority had considered a CAGR of 5 years as the basis for traffic projections. Also, the Authority had proposed to true-up the traffic forecast and therefore, any increase in the traffic forecast beyond the growth considered by the Authority will be captured at the time of tariff determination for the 3rd Control Period.

9.17. Based on above, the Authority has decided to maintain its position on the traffic forecast methodology as per the Consultation Paper No. 10/2015-16. Moreover, the Authority is of the opinion that the true-up mechanism is available to adjust any differences with the actual traffic for the 2nd Control Period.

Table 58: Projected traffic considered the Authority at CSI Airport, Mumbai for tariff determination for 2nd Control Period

Traffic Category	FY15 (Actual)	FY16	FY17	FY18	FY19
Passengers (Mn)					
Domestic	25.21	27.15	29.25	31.51	33.95
International	11.43	12.20	13.03	13.92	14.86
Total	36.63	39.36	42.28	45.43	48.81
ATM (nos.)					
Domestic	195,370	202,169	209,204	216,485	224,018
International	74,086	76,012	77,989	80,016	82,097
Total	269,456	278,181	287,193	296,501	306,115
Cargo ('000 MT)					
Domestic	69.19	71.66	74.23	76.89	79.64
International	374.57	387.90	401.71	416.01	430.82
Total	443.75	459.56	475.94	492.90	510.46

Decision No.15 Regarding traffic forecast to be considered for the 2nd Control Period, based on the material before it and its analysis, the Authority decides:

15.a. To consider the passenger, ATM and cargo traffic as per Table 58 in this Order, for the 2nd Control Period.

15.b. To true-up the passenger, ATM and cargo traffic at the time of tariff determination for the 3rd Control Period, based on the actual numbers during the 2nd Control Period.

10. Inflation

a MIAL Submission on Inflation

10.1. MIAL made the following submission regarding CPI and WPI inflation considered for the purpose of financial projections to determine the aeronautical tariffs in respect of CSI Airport, Mumbai, in its tariff application dated 08.09.2015 for the 2nd Control Period,

> *"MIAL has updated the CPI-IW and WPI numbers for FY 15. Similarly, CPI-IW and WPI forecast has been considered at 5.1% and 3.6% respectively for FY 16-FY19 based on "Results of the Survey of Professional Forecasters on Macroeconomic Indicators - Round 35"."*

b Authority's Proposal on Inflation in the Consultation Paper No. 10/2015-16

10.2. The Authority had noted MIAL's submissions dated 08.09.2015 regarding CPI and WPI inflation rates, considered for the purpose of financial projections to estimate ARR and the aeronautical tariffs in respect of CSI Airport, Mumbai for the 2nd Control Period.

10.3. The Authority had proposed to accept inflation forecasts as per the most recent RBI's Quarterly Survey of Forecasters. As per the 38th round of Results of the Survey of Professional Forecasters on Macroeconomic Indicators1, the CPI and WPI inflation annual average forecast for the next five years is 5.1% and 3.3% respectively. The Authority had proposed to adopt the same for the 2nd Control Period for appropriate year on year tariff rate increase, wherever required, as well as for the projection of various building blocks of the ARR.

Table 59: Inflation forecast – RBI Survey of Professional Forecasters on Macroeconomic Indicators – 38th Round considered by the Authority in the Consultation Paper No. 10/2015-16

Annual Average Percentage Change								
	Annual average percentage change over the next five years				Annual average percentage change over the next ten years			
	Mean	Median	Max	Min	Mean	Median	Max	Min
CPI Combined (Inflation)	5.1	5.0	6.2	4.0	4.8	4.8	6.0	4.0
WPI	3.3	3.0	5.0	1.&	3.6	3.75	5.2	2.4

[1] https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=16731

c Stakeholder Comments on Issues pertaining to Inflation

10.4. Subsequent to the Stakeholder Consultation process, the Authority has received comments / views from IATA in response to the Consultation Paper No. 10/2015-16 dated 16.03.2016 on the determination of aeronautical tariffs for CSIA airport, Mumbai for the 2nd Control Period.

10.5. Regarding consideration of inflation as per the latest RBI forecast for CPI and WPI, IATA had agreed with the Authority's proposal.

d MIAL's response to Stakeholder Comments on Issues pertaining to inflation

10.6. MIAL did not make any comments with respect to IATA's submissions pertaining to inflation.

e MIAL's response on Issues pertaining to inflation in the Consultation Paper

10.7. MIAL did not make any submissions on Authority's proposal pertaining to inflation for the tariff determination for 2nd Control Period.

f Authority's Examination of Stakeholder Comments (including MIAL) on Issues pertaining to Inflation

10.8. The Authority examined the inflation forecasts as per the recent most RBI's Quarterly Survey of Forecasters. As per the 41st round of Results of the Survey of Professional Forecasters on Macroeconomic Indicators[2] dated 09.08.2016, the CPI and WPI inflation annual average forecast for the next five years is 5.0% and 3.8% respectively. The Authority had decided to adopt the same for the 2nd Control Period for appropriate year on year tariff rate increase, wherever required, as well as for the projection of various building blocks of the ARR.

Table 60: Inflation forecast considered by the Authority for the 2nd Control Period– RBI Survey of Professional Forecasters on Macroeconomic Indicators – 41st Round

Annual Average Percentage Change								
	Annual average percentage change over the next five years				Annual average percentage change over the next ten years			
	Mean	Median	Max	Min	Mean	Median	Max	Min
CPI Combined	5.0	5.00	5.5	4.7	4.7	4.8	5.3	4.0
WPI	3.8	3.70	5.0	2.5	3.9	4.0	5.0	3.0

[2] https://www.rbi.org.in/Scripts/PublicationsView.aspx?id=17119

10.9. Regarding the matter of inflation, the Authority has decided to adopt CPI inflation as per the RBI forecasts (41^{st} round) for the 2^{nd} Control Period.

Decision No.16 Regarding the matter of Inflation the Authority proposes

16.a. To adopt CPI inflation forecast of 5.0% and WPI forecast of 3.8% in accordance with the RBI forecasts (41^{st} round) for the next five years of the 2^{nd} Control Period for determination of various building blocks, wherever required.

11. Quality of Service

a MIAL Submission on Quality of Service

11.1. MIAL had not made any submission related to Quality of Service as part of its tariff application.

b Authority’s Proposal on Quality of Service in the Consultation Paper No. 10/2015-16

11.2. The Authority as part of its MIAL Tariff Order 32 / 2012-13 had decided, as specified by the Government, to monitor the performance standards as laid down in the OMDA. The Authority had noted that OMDA provides for liquidated damages to be paid by MIAL to AAI, should the quality of service not be achieved by MIAL in line with requirements under OMDA. The Authority had decided that for the 1st Control Period it will not impose rebate mechanism in addition to the liquidated damages mechanism in OMDA.

11.2.1. The Authority had noted that as per section 13.1 (ii) of the AERA Act, it shall take into consideration the service provided (by the airport operator), its quality and other relevant factors while determining tariff for aeronautical services. Further section 13.1.d of the Act also requires the Authority to monitor the set performance standards relating to quality, continuity, and reliability of service as maybe specified by the Central Government or any other authority authorized by it in this behalf.

11.2.2. In this regard the Authority had made reference to Chapter X of OMDA, which provides that the JVC shall submit various reports to the AAI on a regular basis including *“Reports on various indicators of performance measurement as specified in this Agreement”*. The Authority had thus noted that the JVC is under contractual obligation to report its performance to AAI and based on the performance, the AAI is *“…permitted to inspect at any time but with reasonable prior intimation any part of the Airport Site or any of the assets at the Airport and undertake any survey or other check in order to monitor compliance with the JVC’s obligations under this Agreement, or check the quality of service performance by the JVC or any Relevant Authority,…”*.

11.2.3. In line with the above, the Authority sought advice from the AAI on the performance standards maintained by MIAL during the 1st Control Period and on any liquidated damages levied by AAI on MIAL. However, the Authority was not in receipt of any such information from AAI. In absence of the same, the Authority had noted media reports as well as the ACI website, which stated that CSI Airport, Mumbai has been consistently adjudged the second best airport in the world for its service quality among the airports handling 25-40 million passengers per annum (MPPA), by Airports Council International in 2011, 2012 and 2013 (ASQ Awards).

11.2.4. Based on the information available to it, the Authority found that the ASQ rating awarded to MIAL for FY 2011-12 and FY 2012-13 are 4.83 and 4.84 respectively. The Authority noted that provisions under OMDA require MIAL to *"…achieve a rating of 3.75 in the IATA/ACI AETRA passenger survey or greater and maintains the same throughout the Term."*

11.2.5. The Authority was thus unable to consider any adjustments towards determination of aeronautical tariff on account of service quality maintained by MIAL during the 1st Control Period.

11.3. On balance, the Authority proposed to continue with its earlier decision to monitor the performance standards as laid down in the OMDA for the 2nd Control Period and also not to impose the rebate mechanism in addition to the provision of liquidated damages in the OMDA.

c Stakeholder Comments on Issues pertaining to Quality of Service

11.4. Subsequent to the Stakeholder Consultation process, the Authority has received comments / views from various stakeholders in response to the Consultation Paper No. 10/2015-16 dated 16.03.2016 on the determination of aeronautical tariffs for CSIA airport, Mumbai for the 2nd Control Period.

11.4.1. On the matter of quality of service, IATA has commented that it is a bizarre notion that MIAL would compensate the government for non-performance of OMDA standards, when it is the users of the airport paying for these services, who in the case of airport non-performance, should receive any compensation owed. It has further submitted that an airport service level agreement should only exist to deliver the levels of service and airport performance airline users need in return for the airport charges they pay. IATA recommends that in the consumers interest, the Authority should consult with the airline community and MIAL to introduce a best practice level of service framework, in order to define the airport performance that users need across the airport. IATA has expressed that its approach is to deliver targets and continuous improvements, rather than impose financial penalties. However, IATA has recognised a rebate mechanism as an option to incentivize performance.

11.4.2. Regarding the quality of service, FIA has commented that Clause 9.1.3(c) of OMDA stipulates a mechanism to review the ratings and imposes penalty on default by MIAL. In view of the same, FIA has submitted that with respect to the 2nd Control Period, the Authority may consider the provisions of OMDA and provide for true ups based on the ratings of the Airport. It has further submitted that the Authority may consider the impact of the liquidated damages, if any, imposed on MIAL and MIAL compensate the stakeholders/ consumers, in the event any liquidated damages are levied on MIAL under the terms of OMDA. It has also requested that the Authority ensure that the quality of services should be maintained by MIAL. FIA has submitted that the Authority should also ensure that details pertaining to the service quality in the past and the projections of savings or reduction of losses is made available to the stakeholders.

d MIAL's response to Stakeholder Comments on Issues pertaining to Quality of Service

11.5. Regarding the quality of service, MIAL has responded to FIA's comments as below,

"MIAL would like to state that its ASQ ratings in both 1st and 2nd Control Period (till 2015) are way above 3.75 stipulated in OMDA. It will not be out of place to mention here that in the latest ASQ ratings, CSI Airport Mumbai has been rated the No.l airport in the world."

11.6. With respect to IATA's recommendation regarding adopting IATA Airport Service Level framework, MIAL has submitted that OMDA adequately provides for both Objective and Subjective Quality requirements and penalties for deficiencies in service level at CSI Airport, Mumbai and therefore there is no justification for any additional service framework.

e MIAL's comments on Issues pertaining to Quality of Service in the Consultation Paper

11.7. MIAL did not make any comments on issues related to Quality of Service.

f Authority's Examination of Stakeholder Comments (including MIAL) on Issues pertaining to Quality of Service

11.8. With respect to IATA's suggestion regarding an alternative framework to be adopted for measuring the performance of MIAL at CSI Airport, Mumbai, the Authority is of the view that section 13.1.d of AERA Act requires the Authority to monitor the set performance standards relating to quality, continuity, and reliability of service as maybe specified by the Central Government or any other authority authorized by it in this behalf. Accordingly, as the contracting party, it is the responsibility of AAI to determine if there is any change required in the framework for measuring the service quality.

The Authority had sought advice from AAI in the past, both on the performance standards maintained by MIAL during the 1st Control Period and on any liquidated damages levied by AAI on MIAL. The Authority is still not in receipt of any such information from AAI. In absence of the same, the Authority has noted media reports as well as ACI website, which state that CSI Airport, Mumbai has been consistently adjudged the second best airport in the world for its service quality in its category. On balance, the Authority proposes to continue with its earlier decision to monitor the performance standards as laid down in the OMDA for the 2nd Control Period and also not to impose the rebate mechanism in addition to the provision of liquidated damages in the OMDA.

11.9. The Authority also proposes to devise a methodology for collecting feedback on the service quality of various airports in the country and incorporating the same in its tariff determination process. The service quality at CSI Airport, Mumbai will be monitored based on the above said note, once the same is issued.

11.10. However the Authority would also like to clarify that its decision is exclusive of the decision under the performance clause of the OMDA, whereby MIAL may be liable for liquidated damages.

Decision No.17 Regarding the matter of Quality of Service, based on the material before it and its analysis, the Authority decides:

17.a. As specified by the government, to monitor the performance standards as laid down in the OMDA for the 2nd Control Period.

17.b. To not impose rebate mechanism in addition to the provision of liquidated damages in the OMDA as the same is not applicable.

17.c. To issue a note on the methodology for monitoring service quality at all airports under its purview, including CSIA Airport, Mumbai. The service quality will be monitored in line with this note, for subsequent periods, upon issuance of the note.

12. Target Revenue (ARR) and X-Factor

a MIAL Submission on Target Revenue (ARR) and X-Factor

12.1. In its tariff application dated 08.09.2015, MIAL submitted the following with respect to estimation of CPI-X:

"Authority vide its Order No. 26/2015-16 dated 21st August, 2015, has decided that the Aeronautical tariffs approved by it vide Order no. 32/2012-13 dated 15th January, 2013 shall continue up to 30th November 2015, or until final determination of tariffs for the second control period, whichever is earlier. MIAL has made this revised submission considering change in aeronautical tariffs effective from 1st January, 2016.

Based on the above details Target Revenue for the second control period has been computed and the same has been summarized below:

	FY 15	FY 16	FY 17	FY 18	FY 19
Regulatory Base*	7,115	7,768	8,633	8,219	7,946
WACC	14.82%	14.82%	14.82%	14.82%	14.82%
Return on Regulatory Base	1,055	1,152	1,280	1,218	1,178
Operation & Maintenance cost	828	787	897	971	1,057
Depreciation	559	518	597	594	586
Corporate Tax	0	0	150	247	357
30% of Revenue from Revenue Share Assets (RSA)	329	365	413	449	492
Truing up of first control period	17	0	0	0	0
Target Revenue	2,130	2,092	2,510	2,581	2,686
CPI –X	0.00%	104.82 %	5.10%	5.10%	5.10%
Revenue from proposed tariff	1,272	1,664	2,931	3,219	3,537

"

b Authority's Proposal on Target Revenue (ARR) and X-Factor in the Consultation Paper No. 10/2015-16

12.2. The Authority had calculated the target revenue with respect to CSI Airport Mumbai for the 2nd Control Period based on ARR as below. The Authority had computed the resulting CPI-X as negative 7.20%.

Table 61: Target ARR and CPI-X computed by the Authority for the 2nd Control Period in the Consultation Paper No. 10/2015-16

Computation of Target Revenue (in Crores)		FY15	FY16	FY17	FY18	FY19	Total
A	RAB including PSF(SC)	5720.95	6550.34	7222.44	6874.84	6801.49	33170.06
B	WACC	11.75%	11.75%	11.75%	11.75%	11.75%	11.75%
C=A*B	Return on RAB	672.07	769.50	848.45	807.62	799.00	3896.64
D	OM - Efficient Operation & Maintenance cost	723.72	688.05	716.89	770.90	834.42	3733.98
E	Depreciation (Aero Depreciation)	503.28	442.74	499.00	496.13	494.38	2435.54
F	Taxation	0.00	0.00	0.00	0.00	0.00	0.00
G	Share of Revenue from Revenue Share Assets	305.94	327.99	375.24	409.20	449.14	1867.51
H	True-up	(559.10)					(559.10)
X=C+D+E+F+H-G	**Target Revenue**	1034.02	1572.30	1689.11	1665.45	1678.67	7639.55
	Discounted Target Revenue	**1034.02**	**1407.01**	**1352.64**	**1193.49**	**1076.50**	**6063.67**
Computation of Total Aeronautical Revenues							
a	Total Landing Fees	648.20	667.10	638.65	689.20	745.50	3388.65
b	Total Parking & Housing Fess	28.66	29.54	28.26	30.62	33.18	150.27
c	Total UDF (excluding Collection Charges)	547.30	587.98	586.22	661.93	747.43	3130.87
d	FTC	103.80	123.34	128.07	138.83	150.50	644.54
e	Into Plane (ITP) Services	0.32	0.00	0.00	0.00	0.00	0.03
f	Unauthorized Overstay	5.92	5.92	5.92	5.92	5.92	29.60
g	Aerobridge charges	42.10	43.46	44.87	46.33	47.83	224.59
h=a+b+c+d+e+f+g	Total Aeronautical Revenues	1376.01	1457.34	1432.00	1572.83	1730.37	7568.55
Y	**Discounted Total Aeronautical Revenues**	**1376.01**	**1304.14**	**1146.74**	**1127.12**	**1109.66**	**6063.67**
	X-Factor (%)	**12.30%**					
	CPI-X (%)	**-7.20%**					

12.3. The Authority in Order No. 32/2012-13 dated 15.01.2013 had approved the charges for unauthorized overstay beyond the slot allotted period in case General Aviation and Aircraft did not have the usual station at CSIA. The Authority was in receipt of MIAL's submission dated 29.02.2016 regarding non-scheduled aircraft unauthorized overstay tariff to be considered. The principle behind MIAL's submission is that General Aviation Aircrafts, both non-scheduled operators and private aircraft operators, occupy apron that is otherwise needed for regular operations and CSIA being constrained on the airside, MIAL had proposed to charge higher tariff for unauthorized overstay for General Aviation Aircraft. The Authority had noted that charges have been worked out based on cost of return journey to the nearest airport.

12.4. The Authority had also noted that as per MoCA's letter no G-17018/7/2001-AAI, for scheduled aircraft with less than 80 seat capacity, the landing and parking charges are not to be charged. Accordingly, the Authority had proposed that the tariff card for the 2nd Control Period shall be as per MoCA's policy on this matter. The Authority had proposed a waiver of landing charges for (a) aircraft with a maximum certified capacity of less than 80 seats, being operated by domestic scheduled operators, and (b) Helicopters of all types as per the Govt. of India vide Order no. G-17018/7/2001-AAI dated 09.02.2004 in order to encourage and promote Intra regional connectivity at CSIA, Mumbai.

c Stakeholder Comments on Issues pertaining to Target Revenue (ARR) and X-Factor

12.5. Subsequent to the Stakeholder Consultation process, the Authority has received comments / views from various stakeholders in response to the Consultation Paper No. 10/2015-16 on the determination of aeronautical tariffs for CSIA airport, Mumbai for the 2nd Control Period.

12.6. On the matter of target revenue, IATA has commented that a number of points have been raised in this submission which suggest that the CPI- X factor should be lowered.

12.7. Blue Dart has submitted that it supports the Authority's proposal to of an increase of CPI-X of (-7.20%). It has also submitted that it differs from MIAL's submission that if increase in charges are not considered, then private operators in future would not be inclined to invest in any new airport. It has outlined that MIAL has a revenue stream of non-aero revenue which has good potential to increase substantially and of which it has to surrender only 30% for determination of aeronautical revenue.

12.8. Blue Dart has also submitted that capital appreciation should be considered while considering return on investment and that due to the growth potential of private airports, investors' capital has substantially appreciated. It has submitted that the passing of the said revenue share payable to AAI as charges to users of the airport is not acceptable and that MIAL needs to increase their efficiency and control their costs in order to achieve their break even, rather than passing on the cost and consequence of their business decisions to users of the airport.

12.9. Regarding the Authority's proposal to reduce aeronautical tariffs by 7.2%, APAO has submitted that the proposed reduction in aeronautical tariff would lead to great stress on the cash flows of MIAL and would result in the wiping off of the total retained earnings accumulated over the period of 1st Control Period. It has highlighted that this would make it impossible for MIAL to meet its contractual obligations and that the shareholders of MIAL would not be getting any returns from their investment over the last eight years and for the next five years. APAO has thus requested the Authority to review its proposals for reduction in tariff and instead provide a reasonable increase in tariff to ensure the economic and viable operations at CSIA coupled with sufficient revenue to cover efficient operating costs, obtain return of capital over its economic life and achieve a reasonable return on investment commensurate with the risk involved. It has stated that in the absence of such a review it is certain that a wrong message would be getting conveyed to the investors / industry which shall discourage any investments in future PPP projects in the Airports sector.

12.10. ACI, ASSOCHAM and DIAL have made comments/suggestions similar in nature to APAO and have requested the Authority to review and determine the tariff for MIAL for the 2nd Control Period in such a way so as to ensure that the Authority continues to incentivize investment in the airport sector, as well as ensure economically viable operations at the airport together with generation of sufficient revenue to cover operating costs, obtain a return on capital over its economic life and achieve a reasonable return on investment commensurate with risks.

12.11. With respect to effective date of tariff application, FIA has commented that the delay in tariff fixation due to inordinate delays in submission of relevant information by the airport operator had already diminished the effective Control Period from 60 months to 36 months. FIA is, thus, seeking urgent reconsideration of certain issues by the Authority and has also requested the Authority to load the additional burden on account on delay in tariff fixation on airport operator/MIAL instead of loading it on passengers.

12.12. Blue Dart and FIA have commented that the computation of the X factor has not been provided.

12.13. With regards to the proposal of the Authority to waive landing charges for aircraft with maximum certified capacity of 80 seats for scheduled domestic operators and helicopters, APAO has requested the Authority to not recommend the application of the waiver as it would be counter-productive to the would also be counterproductive to the efforts and objective of MIAL to maximize the passenger handling at the capacity constrained CSI Airport, Mumbai.

12.14. Further to the submissions given above, APAO has requested the Authority to include MIAL's Variable Tariff Plan in the Tariff Order, the implementation of which would maximize the passenger handling within the existing constraints at CSI Airport.

12.15. Regarding the waiver for landing charges, IATA has commented that although it understands the efforts to encourage and promote Intra-regional connectivity at CSIA, it does not agree with the fact that airlines not benefitting from the exemption to cross-subsidize aircraft benefitting from it. It has stated that if the government wishes to establish these kind of promotions, then it should fund it itself.

d MIAL's response to Stakeholder Comments on Issues pertaining to Target Revenue (ARR) and X-Factor

12.16. MIAL has submitted that it is in agreement with the comments/suggestions of ACI, APAO, ASSOCHAM and DIAL regarding the reduction of aeronautical tariffs and has requested the Authority to ensure the viability of airports.

12.17. In response to Blue Dart's comments regarding an increase of CPI-X of (-7.20%) MIAL has submitted that the comments of Blue Dart are not factually correct as Into Plane service is considered by the Authority as aeronautical and not non aeronautical as commented by Blue Dart. It has also stated that Blue Dart's comments that the revenue share of 38.7% of MIAL revenue to AAI is being charged to users is not acceptable as it has nowhere claimed the pass through of Annual fees paid to AAI.

12.18. In response to issues regarding the delay in tariff determination leading to burden on passengers, MIAL has commented that inspite of the Tariff determination being a very complex exercise, MIAL had submitted its MYTP to the Authority on 26.12.2013, well before the start of 2nd Control Period. It has also stated that delays in tariff determination of CSIA, do not benefit it.

12.19. MIAL has submitted that it is in agreement with APAO on issues regarding the rate card and Variable Tariff Plan and has requested the Authority to not waive the landing charges for aircraft with maximum certified capacity of 80 seats for scheduled domestic operators and all helicopters.

12.20. MIAL has also submitted that any of its response to stakeholder comments is without prejudice to its rights and contentions in other proceedings before the Authority or other forums and any omission to deal with any specific contention or averment of the stakeholders should not be construed as an admission of the same.

e MIAL's comments on Issues pertaining to Target Revenue (ARR) and X-Factor in the Consultation Paper

12.21. Regarding the Authority's proposal to decrease the tariff by 7.20%, MIAL had submitted extracts from the AERA Act and the State Support Agreement have been reproduced below,

> *"to determine the tariff for the Aeronautical services taking into consideration: (iv) economic and viable operation of major airports "*
>
> *"In undertaking its role, AERA will (subject to Applicable Law) observe the following principles:*
>
> *2. Commercial: In setting the price cap, AERA will have regard to the need for the JVC to generate sufficient revenue to cover efficient operating costs, obtain the return of capital over its economic life and achieve a reasonable return on investment commensurate with the risk involved. "*

12.22. MIAL had submitted that if the Authority's reduces tariffs for the 2nd Control Period by 7.2%, MIAL's reserves would erode by the end of FY 2017-18. MIAL has further submitted that in view of such reduction in tariffs, shareholders would not earn any dividend from their investment even after 14 years of investment in airport sector. MIAL has thus requested the Authority to follow the Concession Agreements holistically and consider the principles of tariff determination in letter and spirit, so that CSIA could function with economic and viable operations and is able to earn reasonable rate of return on its investment commensurate with the risk involved.

12.23. MIAL has further cited Schedule 1 and Schedule 6 to substantiate its request for an increase in Base Airport Charges (BAC) in each year from the fourth year to the end of the Term so as to ensure that the Aeronautical Charge is at least subject to a 10% BAC increase.

12.24. Regarding the reduction in aeronautical tariffs, MIAL has commented that Authority’s decision to reduce tariffs by 7.2%, would result in the reserves of MIAL completely get eroded by end of FY 18. It has stated that the Authority is aware of the details of profitability and cash flow for the 2nd Control Period which clearly shows that there would be significant strain on the cash flows of MIAL. It has earnestly requested that Authority to reviews its decisions to ensure economic & viable operations of CSI Airport, Mumbai.

12.25. With regard to the Authority’s proposal to waive landing charges for aircrafts with maximum certified capacity of 80 seats for scheduled domestic operators and helicopters, MIAL has commented that such a waiver at CSI Airport, Mumbai, would be counterproductive and be at the expense of other aircraft with higher capacity and interest of passengers. It has also stated the provision of such a waiver in a capacity constrained airport like CSIA, Mumbai would tantamount to strangulating the growth in passenger numbers as the growth of the number of such aircraft due to proposed exemption, will result in taking up the landing slots.

12.26. MIAL further submitted that such a waiver was appropriate 12 years back when it was passed and may be a suitable incentive for certain other airports but not for capacity constrained CSIA. MIAL has also mentioned that the Government of India Circular dated 09.02.2004 quoted by the Authority was issued much before the CSIA was leased to MIAL and was not applicable to Defence Enclaves and the Cochin International Airport. Additionally MIAL has mentioned that it has proposed a Variable Tariff Plan in the consultation meeting held on 06.04.2016, with the aim to encourage the airlines to start new routes, increase frequencies, and increase ATMs etc.

12.27. MIAL has therefore requested the Authority to not waive landing charges for aircrafts with maximum certified capacity of 80 seats for scheduled domestic operators and all helicopters.

f Authority's Examination of Stakeholder Comments (including MIAL) on Issues pertaining to Target Revenue

12.28. The Authority has shared the reasons for delay in tariff determination as part of para para 2.38.

12.29. Regarding comments from FIA and Blue Dart, that the computation of the X factor has not been provided, the Authority would like to emphasise that all pertinent details regarding the computation of the same have been included in the relevant sections of the Consultation Paper No. 10/2015-16, and the current Order.

12.30. On MIAL's request for an increase in Base Airport Charges, the Authority would like to emphasise that the computation of the 'CPI – X' factor as well as the building blocks for the aeronautical tariff determination have been done as per the appropriate application of regulatory principles and provisions of the AERA Act, SSA, OMDA etc.

12.31. On the issue pertaining to the viability of CSI Airport due to reduction in aeronautical tariffs, the Authority has followed the principles of aeronautical tariff determination that have been proposed in previous consultations for DIAL and MIAL. The Authority understands that the losses of MIAL are attributable to its revenue sharing arrangements, which are internal to its functioning and not enforced upon MIAL by the Authority. Hence, the Authority cannot be expected to increase aeronautical tariffs in violation of these principles and thus enhancing MIAL's viability to the detriment of the interests of passengers.

12.32. The Authority has decided to consider 01.11.2016 as the date for the application of revised tariffs. Accordingly, the Authority has calculated the actual target revenue based on ARR for the 2nd Control Period as below and the resulting CPI-X is an increase of -4.65%.

Table 62: Target Revenues considered by the Authority for the 2nd Control Period

Computation of Target Revenue (in Crores)		FY15	FY16	FY17	FY18	FY19	Total
A	RAB including PSF(SC)	5743.83	6377.75	7122.06	6853.30	6792.35	32889.29
B	WACC	11.78%	11.78%	11.78%	11.78%	11.78%	11.78%
C=A*B	Return on RAB	676.34	750.98	838.63	806.98	799.80	3872.74
D	OM - Efficient Operation & Maintenance cost	761.60	719.59	812.53	827.36	896.40	4017.47
E	Depreciation (Aero Depreciation)	416.95	430.73	484.33	482.04	481.91	2295.96
F	Taxation	0.00	0.00	0.00	0.00	0.00	0.00

Computation of Target Revenue (in Crores)		FY15	FY16	FY17	FY18	FY19	Total
G	Share of Revenue from Revenue Share Assets	305.94	327.90	375.06	408.90	448.68	1866.48
H	True-up	(505.76)					(505.76)
X=C+D+E+F+H-G	**Target Revenue**	1043.19	1573.40	1760.43	1707.48	1729.44	7813.93
	Discounted Target Revenue	**1043.19**	**1407.65**	**1409.06**	**1222.70**	**1107.96**	**6190.56**
Computation of Total Aeronautical Revenues							
a	Total Landing Fees	648.20	667.10	673.27	707.46	764.53	3460.56
b	Total Parking & Housing Fess	28.66	29.54	29.87	31.44	34.03	153.53
c	Total UDF (excluding Collection Charges)	547.30	587.98	619.45	679.47	766.51	3200.71
d	FTC	103.80	123.34	128.07	138.83	150.50	644.54
e	Into Plane (ITP) Services	1.00	5.70	6.73	7.27	9.81	30.51
f	Unauthorized Overstay	5.92	5.92	5.92	5.92	5.92	29.60
g	Aerobridge charges	42.10	43.46	44.87	46.33	47.83	224.59
h=a+b+c+d+e+f+g	Total Aeronautical Revenues	1376.98	1463.04	1508.18	1616.72	1779.13	7744.05
Y	**Discounted Total Aeronautical Revenues**	**1376.98**	**1308.91**	**1207.16**	**1157.71**	**1139.80**	**6190.56**
	X-Factor (%)	**9.65%**					
	CPI-X (%)	**-4.65%**					

12.33. On the proposal to waive landing charges for aircrafts with maximum certified capacity of 80 seats for scheduled domestic operators and helicopters, the Authority has carefully considered the submissions of the stakeholders. The Authority has decided to continue its approach outlined in the Consultation Paper No. 10/2015-16, as per Govt. of India vide Order no. G.17018/7/2001-AAI dated 09.02.2004 with regards to the waiving of landing charges for (a) aircraft with a maximum certified capacity of less than 80 seats, being operated by domestic scheduled operators, and (b) Helicopters of all types.

Decision No.18 Regarding Target Revenue (ARR) and X-Factor , based on the above decisions, the Authority decides

18.a. To follow the formulation specified in the SSA and calculate the "X" factor accordingly. The Authority has decided an X factor of 9.65% and a resultant increase of CPI-X of (-4.65%) for CSI Airport Mumbai for the 2nd Control Period.

18.b. To waive landing charges for (a) aircraft with a maximum certified capacity of less than 80 seats, being operated by domestic scheduled operators, and

(b) Helicopters of all types as per the Govt. of India vide Order no. G.17018/7/2001-AAI dated 09.02.2004.

13. Summary of Decisions

14. Order

In exercise of powers conferred by Section 13(1)(a) of the AERA Act, 2008 and based on the above decisions, the Authority hereby determines the aeronautical tariffs to be levied at CSI Airport, Mumbai for the second control period (01.04.2014 to 31.03.2019), effective from 1st November, 2016 and the rate card so arrived at as of 01.11.2016 up to 31.03.2019 has been attached as at Annexure-I , II, and III to the Order. The UDF rates indicated in the tariff card are also approved as per Section 13(i) (b) read with Rule 89 of the Aircraft Act, 1937.

The rates approved herein are the ceiling rates, exclusive of taxes, if any.

By the Order of and in the
Name of the Authority

(Puja Jindal)
Secretary

To

Mumbai International Airport Private Limited,
Chhatrapati Shivaji International Airport,
1st Floor, Terminal 1B, Santacruz (E),
Mumbai-400009.
(Through: Shri R. K. Jain, Chief Executive Officer)

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15. List of Tables

Annexure -I

Chhatrapati Shivaji International Airport

Mumbai International Airport Private Limited

Airport Charges- effective for FY 2016-17 from 1st November 2016

Contents

1. Landing and Parking charges

1.1. Landing Fees per single landing

Domestic Landing charges

Weight of Aircraft	Rate Per Landing – Domestic flight (other than International flight)
Upto 100 MT	Rs. 690.00 per MT
Above 100 MT	Rs. 69,000/- + Rs. 925.00 per MT in excess of 100 MT

International Landing charges

Category of Aircraft	Rate Per Landing – International flight (Rs.)
Code C	Rs. 100,000
Code D	Rs. 110,000
Code E	Rs. 200,000
Code F	Rs. 320,000

Note:

a) Charges shall be calculated on the basis of next Metric Ton (MT) (i.e. 1000 kgs.) of the aircraft.

b) No Landing charges shall be payable in respect of aircraft with a maximum certified capacity of less than 80 seats, operated by domestic scheduled operators and helicopters of all types as approved by Government of India.

c) Subject to (b) above, a minimum fee of Rs. 35,000 and Rs. 50,000 shall be charged per single domestic and international landing respectively for all types of aircraft, including but not limited to domestic landing, international landing and general aviation landing.

d) Weight of aircraft means Maximum Take Off Weight (MTOW) as indicated in the Certificate of Airworthiness filed with Director General of Civil Aviation (DGCA).

e) All domestic legs of International routes flown by Indian Operators will be treated as domestic flights as far as landing fees is concerned, irrespective of the flight number assigned to such flights.

f) New International Direct route - Landing fees for any carrier (Indian or Foreign) establishing a new direct route to/from CSIA on an international sector shall be waived for first 12 months of operations from the date of commencement of operation.

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1.2. Parking charges

Remote parking :

Weight of Aircraft	Parking Charges Rate per MT per Hour	
	For 2-3 hours	> 3 hours
Upto 100 MT	Rs. 16.51 per MT	Rs. 24.76 per MT
Above 100 MT	Rs. 1651/- + Rs.21.86 per MT per hour in excess of 100 MT	Rs. 2476/- + Rs.32.79 per MT per hour in excess of 100 MT

In contact stand parking:

Weight of Aircraft	Parking Charges Rate per MT per Hour	
	For 2-3 hours	> 3 hours
Upto 100 MT	Rs. 16.51 per MT	Rs. 49.52 per MT
Above 100 MT	Rs. 1651/- + Rs.21.86 per MT per hour in excess of 100 MT	Rs. 4952/- + Rs.65.58 per MT per hour in excess of 100 MT

Note:

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

b) For calculating chargeable parking time, any part of an hour shall be rounded off to the next hour.

c) Charges shall be calculated on the basis of next MT.

d) Parking charges for each parking period shall be rounded off to nearest Rupee.

2. Aerobridge Charge (Passenger Boarding Bridges)

Aerobridge charges are payable for each usage as per the rates given below

Rate Per Hour – Domestic Flight / other than International Flight (For Code C aircraft)	Rate Per Hour – International Flight (For Code C Aircraft)
Rs. 2,500 per hour or part thereof	Rs. 5,000 per hour or part thereof

Note:

a) Aerobridge charges for Code D and Code E aircraft shall be 2 times of the charges mentioned above. For Code F aircraft, Aerobridge charges shall be 3 times of the charges mentioned above.

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b) For calculating chargeable Aerobridge usage time, any part of an hour shall be rounded off to the next hour.

c) Charges for each usage shall be rounded off to nearest Rupee.

d) Parking charges shall be levied separately as mentioned in the para 1.2 above.

3. User Development Fee (UDF)

The User Development Fee per departing international passenger shall be payable as under

International Flight	Rate per departing Passenger
For ticket issued in Indian Rupee	Rs. 227
For ticket issued in foreign currency	USD 3.49

Note:

a) There shall be no UDF for domestic passengers.

b) In respect of tickets issued in foreign currency, the UDF shall be levied in US Dollars. (Assumption : 1 USD = Rs. 65.07 based on 12 months average)

c) Collection Charges: If payment is made within 15 days from receipt of bills, then collection charges at Rs 2.5 per departing international passenger shall be paid by MIAL to the collecting airlines. No collection charges shall be paid in case the airline fails to pay the UDF to MIAL within the credit period of 15 days or in case of any part payment. To be eligible to claim this collection charges, the airlines should have no overdue on any account with MIAL.

d) No collection charges are payable to Non-Scheduled and General Aviation Aircraft operators.

e) For conversion of USD into INR, RBI reference rate as on the 1st day of the weekly period i.e. Monday shall be adopted.

4. Fuel Throughput Charges

The Fuel Throughput charges shall be payable as under:

Charges per KL of Fuel
Rs. 729.31 w.e.f from 1st April 2014*
Rs. 765.77 w.e.f from 1st April 2015#
Rs. 804.06 w.e.f from 1st April 2016^

*The above fuel throughput charges will be applicable retrospectively from 1st April 2014

The above fuel throughput charges will be applicable retrospectively from 1st April 2015.

^ The above fuel throughput charges will be applicable retrospectively from 1st April 2016.

5. Cute Counter Charges

The Cute Counter charges shall be payable as under:

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Domestic per departing flight	International per departing flight
Rs. 500/-	Rs. 1500/-

6. **Charges for Unauthorized Overstay in case of General Aviation**

Charges for unauthorized overstay to be levied, for unauthorized stay beyond the slot allotted in case of General Aviation (including non-scheduled operators) Aircraft not having CSI Airport as usual station.

Schedule of charges for Unauthorized Overstay

Sl no	Aircraft Type	Charges for Unauthorized Overstay Per Hour (Rs.)
1	Airbus 319 – 115	15,000
2	ERJ 190 – 100 ECJ Lineage 1000	13,000
3	Global Express XRS BD700 -1A-10	9,000
4	Global 5000 Model BD700 –1A11	9,000
5	Gulfstream G V	9,000
6	Falcon 900 EX	6,000
7	Challenger CL – 600 – 2B16 (CL-604)	6,000
8	Challenger 605	6,000
9	HS7	6,000
10	Embraer 600	6,000
11	Falcon 2000 EX Easy	5,000
12	BD 100-1A10 Challenger 300	5,000
13	Hawker Beechcraft 4000	5,000
14	Falcon 2000	5,000
15	Gulfstream – 200	5,000
16	Hawker 800XP	5,000
17	Hawker 850XP	5,000
18	HS125 700 D 2500	5,000
19	Gulfstream G-100 (Astra SPX)	4,000
20	Learjet 60 XR	4,000
21	Cessna Citation 560 XL5	4,000
22	Beech 1900-D	4,000
23	Cessna Citation 550 Bravo	2,000
24	Hawker 400 XP- (400A)	2,000
25	Beechcraft Super King Air B300	2,000
26	Cessna 525A	2,000
27	Cessna Citation 556	2,000
28	Super King Air B 200	2,000
29	Premier 1 A 390	2,000
30	PIAGGIO P-180 Avanti II	2,000
31	Pilatus PC12/45	2,000
32	Beechcraft King Air C-90B	2,000

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Sl no	Aircraft Type	Charges for Unauthorized Overstay Per Hour (Rs.)
33	King Air C-90 A	2,000
34	Beechcraft Super King Air B200	2,000
35	PIAGGIO P-180 Avanti II	2,000

Notes:

1. For initial 2 days (48 hours) of Unauthorised Overstay at rates proposed above.
2. For next 5 days (120 hours) beyond initial Unauthorised overstay of 2 days at 1.5 times of the rates proposed above.
3. For period beyond 7 days (168 hours) of Unauthorised Overstay at 2 times of the rates proposed above.
4. Any Aircraft type not listed above will be subject to charges for Unauthorized Overstay as may be applicable to nearest equivalent MTOW of aircraft listed above.

7. Others

7.1. General Conditions

a) Invoice for the above charges shall be raised by Airport Operator on weekly basis.

b) For all the above charges, credit period allowed by Airport Operator is 15 days, subject to approval of credit limits by MIAL.

c) If the invoice for any of the airport charges is not paid within the credit period, interest shall be charged as per Company's policy from time to time.

d) Payment received from the airlines shall first be appropriated towards the interest due in case of overdue and unpaid invoices. Thereafter, surplus/remaining amount, if any, shall be applied towards the principal dues in chronological order.

7.2. Taxes

All applicable taxes, including Service Tax, Goods and Services Tax, shall be payable over and above the above charges at the prevailing rates from time to time.

Annexure -II

Chhatrapati Shivaji International Airport

Mumbai International Airport Private Limited

Airport Charges- effective for FY 2017-18

Contents

1. Landing and Parking charges

1.1. Landing Fees per single landing

Domestic Landing charges

Weight of Aircraft	Rate Per Landing – Domestic flight (other than International flight)
Upto 100 MT	Rs. 724.50 per MT
Above 100 MT	Rs. 72,450/- + Rs. 971.25 per MT in excess of 100 MT

International Landing charges

Category of Aircraft	Rate Per Landing – International flight (Rs.)
Code C	Rs. 105,000
Code D	Rs. 115,500
Code E	Rs. 210,000
Code F	Rs. 336,000

Note:

a) Charges shall be calculated on the basis of next Metric Ton (MT) (i.e. 1000 kgs.) of the aircraft.

b) No Landing charges shall be payable in respect of aircraft with a maximum certified capacity of less than 80 seats, operated by domestic scheduled operators and helicopters of all types as approved by Government of India.

c) Subject to (b) above, a minimum fee of Rs. 36,750 and Rs. 52,500 shall be charged per single domestic and international landing respectively for all types of aircraft, including but not limited to domestic landing, international landing and general aviation landing.

d) Weight of aircraft means Maximum Take Off Weight (MTOW) as indicated in the Certificate of Airworthiness filed with Director General of Civil Aviation (DGCA).

e) All domestic legs of International routes flown by Indian Operators will be treated as domestic flights as far as landing fees is concerned, irrespective of the flight number assigned to such flights.

f) New International Direct route - Landing fees for any carrier (Indian or Foreign) establishing a new direct route to/from CSIA on an international sector shall be waived for first 12 months of operations from the date of commencement of operation.

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1.2. Parking charges

Remote parking :

Weight of Aircraft	Parking Charges Rate per MT per Hour	
	For 2-3 hours	> 3 hours
Upto 100 MT	Rs. 17.34 per MT	Rs. 26.00 per MT
Above 100 MT	Rs. 1734/- + Rs.22.95 per MT per hour in excess of 100 MT	Rs. 2600/- + Rs.34.43 per MT per hour in excess of 100 MT

In contact stand parking:

Weight of Aircraft	Parking Charges Rate per MT per Hour	
	For 2-3 hours	> 3 hours
Upto 100 MT	Rs. 17.34 per MT	Rs. 52.00 per MT
Above 100 MT	Rs. 1734/- + Rs.22.95 per MT per hour in excess of 100 MT	Rs. 5200/- + Rs.68.86 per MT per hour in excess of 100 MT

Note:

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

b) For calculating chargeable parking time, any part of an hour shall be rounded off to the next hour.

c) Charges shall be calculated on the basis of next MT.

d) Parking charges for each parking period shall be rounded off to nearest Rupee.

2. Aerobridge Charge (Passenger Boarding Bridges)

Aerobridge charges are payable for each usage as per the rates given below

Rate Per Hour – Domestic Flight / other than International Flight (For Code C aircraft)	Rate Per Hour – International Flight (For Code C Aircraft)
Rs. 2,500 per hour or part thereof	Rs. 5,000 per hour or part thereof

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Note:

a) Aerobridge charges for Code D and Code E aircraft shall be 2 times of the charges mentioned above. For Code F aircraft, Aerobridge charges shall be 3 times of the charges mentioned above.

b) For calculating chargeable Aerobridge usage time, any part of an hour shall be rounded off to the next hour.

c) Charges for each usage shall be rounded off to nearest Rupee.

d) Parking charges shall be levied separately as mentioned in the para 1.2 above.

3. User Development Fee (UDF)

The User Development Fee per departing international passenger shall be payable as under

International Flight	Rate per departing Passenger
For ticket issued in Indian Rupee	Rs. 218
For ticket issued in foreign currency	USD 3.35

Note:

a) There shall be no UDF for domestic passengers.

b) In respect of tickets issued in foreign currency, the UDF shall be levied in US Dollars. (Assumption : 1 USD = Rs. 65.07 based on 12 months average)

c) Collection Charges: If payment is made within 15 days from receipt of bills, then collection charges at Rs 2.5 per departing international passenger shall be paid by MIAL to the collecting airlines. No collection charges shall be paid in case the airline fails to pay the UDF to MIAL within the credit period of 15 days or in case of any part payment. To be eligible to claim this collection charges, the airlines should have no overdue on any account with MIAL.

d) No collection charges are payable to Non-Scheduled and General Aviation Aircraft operators.

e) For conversion of USD into INR, RBI reference rate as on the 1st day of the weekly period i.e. Monday shall be adopted.

4. Fuel Throughput Charges

The Fuel Throughput charges shall be payable as under:

Charges per KL of Fuel
Rs. 844.26 w.e.f from 1st April 2017

5. **Cute Counter Charges**

The Cute Counter charges shall be payable as under:

Domestic per departing flight	International per departing flight
Rs. 550/-	Rs. 1650/-

6. **Charges for Unauthorized Overstay in case of General Aviation**

Charges for unauthorized overstay to be levied, for unauthorized stay beyond the slot allotted in case of General Aviation (including non-scheduled operators) Aircraft not having CSI Airport as usual station.

Schedule of charges for Unauthorized Overstay

Sl no	Aircraft Type	Charges for Unauthorized Overstay Per Hour (Rs.)
1	Airbus 319 – 115	15,000
2	ERJ 190 – 100 ECJ Lineage 1000	13,000
3	Global Express XRS BD700 -1A-10	9,000
4	Global 5000 Model BD700 –1A11	9,000
5	Gulfstream G V	9,000
6	Falcon 900 EX	6,000
7	Challenger CL – 600 – 2B16 (CL-604)	6,000
8	Challenger 605	6,000
9	HS7	6,000
10	Embraer 600	6,000
11	Falcon 2000 EX Easy	5,000
12	BD 100-1A10 Challenger 300	5,000
13	Hawker Beechcraft 4000	5,000
14	Falcon 2000	5,000
15	Gulfstream – 200	5,000
16	Hawker 800XP	5,000
17	Hawker 850XP	5,000
18	HS125 700 D 2500	5,000
19	Gulfstream G-100 (Astra SPX)	4,000
20	Learjet 60 XR	4,000
21	Cessna Citation 560 XL5	4,000
22	Beech 1900-D	4,000
23	Cessna Citation 550 Bravo	2,000
24	Hawker 400 XP- (400A)	2,000
25	Beechcraft Super King Air B300	2,000
26	Cessna 525A	2,000
27	Cessna Citation 556	2,000
28	Super King Air B 200	2,000
29	Premier 1 A 390	2,000

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Sl no	Aircraft Type	Charges for Unauthorized Overstay Per Hour (Rs.)
30	PIAGGIO P-180 Avanti II	2,000
31	Pilatus PC12/45	2,000
32	Beechcraft King Air C-90B	2,000
33	King Air C-90 A	2,000
34	Beechcraft Super King Air B200	2,000
35	PIAGGIO P-180 Avanti II	2,000

Notes:

1. For initial 2 days (48 hours) of Unauthorised Overstay at rates proposed above.
2. For next 5 days (120 hours) beyond initial Unauthorised overstay of 2 days at 1.5 times of the rates proposed above.
3. For period beyond 7 days (168 hours) of Unauthorised Overstay at 2 times of the rates proposed above.
4. Any Aircraft type not listed above will be subject to charges for Unauthorized Overstay as may be applicable to nearest equivalent MTOW of aircraft listed above.

7. Others

7.1. General Conditions

a) Invoice for the above charges shall be raised by Airport Operator on weekly basis.

b) For all the above charges, credit period allowed by Airport Operator is 15 days, subject to approval of credit limits by MIAL.

c) If the invoice for any of the airport charges is not paid within the credit period, interest shall be charged as per Company's policy from time to time.

d) Payment received from the airlines shall first be appropriated towards the interest due in case of overdue and unpaid invoices. Thereafter, surplus/remaining amount, if any, shall be applied towards the principal dues in chronological order.

7.2. Taxes

All applicable taxes, including Service Tax, Goods and Services Tax, shall be payable over and above the above charges at the prevailing rates from time to time.

Annexure-III

Chhatrapati Shivaji International Airport

Mumbai International Airport Private Limited

Airport Charges- effective for FY 2018-19

Contents

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1. Landing and Parking charges

1.1. Landing Fees per single landing

Domestic Landing charges

Weight of Aircraft	Rate Per Landing – Domestic flight (other than International flight)
Upto 100 MT	Rs. 760.73 per MT
Above 100 MT	Rs. 76,073/- + Rs. 1019.81 per MT in excess of 100 MT

International Landing charges

Category of Aircraft	Rate Per Landing – International flight (Rs.)
Code C	Rs. 110,250
Code D	Rs. 121,275
Code E	Rs. 220,500
Code F .	Rs. 352,800

Note:

a) Charges shall be calculated on the basis of next Metric Ton (MT) (i.e. 1000 kgs.) of the aircraft.

b) No Landing charges shall be payable in respect of aircraft with a maximum certified capacity of less than 80 seats, operated by domestic scheduled operators and helicopters of all types as approved by Government of India.

c) Subject to (b) above, a minimum fee of Rs. 38,588 and Rs. 55,125 shall be charged per single domestic and international landing respectively for all types of aircraft, including but not limited to domestic landing, international landing and general aviation landing.

d) Weight of aircraft means Maximum Take Off Weight (MTOW) as indicated in the Certificate of Airworthiness filed with Director General of Civil Aviation (DGCA).

e) All domestic legs of International routes flown by Indian Operators will be treated as domestic flights as far as landing fees is concerned, irrespective of the flight number assigned to such flights.

f) New International Direct route - Landing fees for any carrier (Indian or Foreign) establishing a new direct route to/from CSIA on an international sector shall be waived for first 12 months of operations from the date of commencement of operation. Such landing fee shall be available only during the applicability of the rate card(s) for the Second Control Period applicable till 31st March, 2019 or such extended period as allowed by AERA.

1.2. Parking charges

Remote parking :

Weight of Aircraft	Parking Charges Rate per MT per Hour	
	For 2-3 hours	> 3 hours
Upto 100 MT	Rs. 18.20 per MT	Rs. 27.30 per MT
Above 100 MT	Rs. 1820/- + Rs.24.10 per MT per hour in excess of 100 MT	Rs. 2730/- + Rs.36.15 per MT per hour in excess of 100 MT

In contact stand parking:

Weight of Aircraft	Parking Charges Rate per MT per Hour	
	For 2-3 hours	> 3 hours
Upto 100 MT	Rs. 18.20 per MT	Rs. 54.60 per MT
Above 100 MT	Rs. 1820/- + Rs.24.10 per MT per hour in excess of 100 MT	Rs. 5460/- + Rs.72.30 per MT per hour in excess of 100 MT

Note:

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

b) For calculating chargeable parking time, any part of an hour shall be rounded off to the next hour.

c) Charges shall be calculated on the basis of next MT.

d) Parking charges for each parking period shall be rounded off to nearest Rupee.

2. Aerobridge Charge (Passenger Boarding Bridges)

Aerobridge charges are payable for each usage as per the rates given below

Rate Per Hour – Domestic Flight / other than International Flight (For Code C aircraft)	Rate Per Hour – International Flight (For Code C Aircraft)
Rs. 2,500 per hour or part thereof	Rs. 5,000 per hour or part thereof

Note:

a) Aerobridge charges for Code D and Code E aircraft shall be 2 times of the charges mentioned above. For Code F aircraft, Aerobridge charges shall be 3 times of the charges mentioned above.

b) For calculating chargeable Aerobridge usage time, any part of an hour shall be rounded off to the next hour.

c) Charges for each usage shall be rounded off to nearest Rupee.

d) Parking charges shall be levied separately as mentioned in the para 1.2 above.

3. User Development Fee (UDF)

The User Development Fee per departing international passenger shall be payable as under

International Flight	Rate per departing Passenger
For ticket issued in Indian Rupee	Rs. 278
For ticket issued in foreign currency	USD 4.27

Note:

a) There shall be no UDF for domestic passengers.

b) In respect of tickets issued in foreign currency, the UDF shall be levied in US Dollars. (Assumption : 1 USD = Rs. 65.07 based on 12 months average)

c) Collection Charges: If payment is made within 15 days from receipt of bills, then collection charges at Rs 2.5 per departing international passenger shall be paid by MIAL to the collecting airlines. No collection charges shall be paid in case the airline fails to pay the UDF to MIAL within the credit period of 15 days or in case of any part payment. To be eligible to claim this collection charges, the airlines should have no overdue on any account with MIAL.

d) No collection charges are payable to Non-Scheduled and General Aviation Aircraft operators.

e) For conversion of USD into INR, RBI reference rate as on the 1st day of the weekly period i.e. Monday shall be adopted.

4. Fuel Throughput Charges

The Fuel Throughput charges shall be payable as under:

Charges per KL of Fuel
Rs. 886.48 w.e.f from 1st April 2018

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5. Cute Counter Charges

The Cute Counter charges shall be payable as under:

Domestic per departing flight	International per departing flight
Rs. 600/-	Rs. 1800/-

6. Charges for Unauthorized Overstay in case of General Aviation

Charges for unauthorized overstay to be levied, for unauthorized stay beyond the slot allotted in case of General Aviation (including non-scheduled operators) Aircraft not having CSI Airport as usual station.

Schedule of charges for Unauthorized Overstay

Sl no	Aircraft Type	Charges for Unauthorized Overstay Per Hour (Rs.)
1	Airbus 319 – 115	15,000
2	ERJ 190 – 100 ECJ Lineage 1000	13,000
3	Global Express XRS BD700 -1A-10	9,000
4	Global 5000 Model BD700 –1A11	9,000
5	Gulfstream G V	9,000
6	Falcon 900 EX	6,000
7	Challenger CL – 600 – 2B16 (CL-604)	6,000
8	Challenger 605	6,000
9	HS7	6,000
10	Embraer 600	6,000
11	Falcon 2000 EX Easy	5,000
12	BD 100-1A10 Challenger 300	5,000
13	Hawker Beechcraft 4000	5,000
14	Falcon 2000	5,000
15	Gulfstream – 200	5,000
16	Hawker 800XP	5,000
17	Hawker 850XP	5,000
18	HS125 700 D 2500	5,000
19	Gulfstream G-100 (Astra SPX)	4,000
20	Learjet 60 XR	4,000
21	Cessna Citation 560 XL5	4,000
22	Beech 1900-D	4,000
23	Cessna Citation 550 Bravo	2,000
24	Hawker 400 XP- (400A)	2,000
25	Beechcraft Super King Air B300	2,000
26	Cessna 525A	2,000
27	Cessna Citation 556	2,000
28	Super King Air B 200	2,000
29	Premier 1 A 390	2,000

आर्थिक विनियामक प्राधिकरण भारतीय विमानपत्तन
Airports Economic Regulatory Authority of India
सत्यमेव जयते

Sl no	Aircraft Type	Charges for Unauthorized Overstay Per Hour (Rs.)
30	PIAGGIO P-180 Avanti II	2,000
31	Pilatus PC12/45	2,000
32	Beechcraft King Air C-90B	2,000
33	King Air C-90 A	2,000
34	Beechcraft Super King Air B200	2,000
35	PIAGGIO P-180 Avanti II	2,000

Notes:

1. For initial 2 days (48 hours) of Unauthorised Overstay at rates proposed above.
2. For next 5 days (120 hours) beyond initial Unauthorised overstay of 2 days at 1.5 times of the rates proposed above.
3. For period beyond 7 days (168 hours) of Unauthorised Overstay at 2 times of the rates proposed above.
4. Any Aircraft type not listed above will be subject to charges for Unauthorized Overstay as may be applicable to nearest equivalent MTOW of aircraft listed above.

7. Others

7.1. General Conditions

a) Invoice for the above charges shall be raised by Airport Operator on weekly basis.

b) For all the above charges, credit period allowed by Airport Operator is 15 days, subject to approval of credit limits by MIAL.

c) If the invoice for any of the airport charges is not paid within the credit period, interest shall be charged as per Company's policy from time to time.

d) Payment received from the airlines shall first be appropriated towards the interest due in case of overdue and unpaid invoices. Thereafter, surplus/remaining amount, if any, shall be applied towards the principal dues in chronological order.

7.2. Taxes

All applicable taxes, including Service Tax, Goods and Services Tax, shall be payable over and above the above charges at the prevailing rates from time to time.