

File No. AERA/ 20010/ MYTP/ CHIAL/ CP-II/ 2016-17/ Vol.I

Order No. 17/ 2016-17



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Airports Economic Regulatory Authority of India

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In the matter of Determination of Aeronautical Tariffs in respect of Chandigarh International Airport Limited for the First Control Period (01.04.2016 – 31.03.2021)

Date of Order: 27 March, 2017

AERA Building

Administrative Complex

Safdarjung Airport

New Delhi – 110 003

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Table of Contents

1. LIST OF ABBREVIATIONS	5
2. BRIEF FACTS	6
3. MULTI YEAR TARIFF PROPOSAL SUBMITTED BY CHIAL.....	8
a. CHIAL's submissions on Multi Year Tariff Proposal.....	8
b. Stakeholder comments on issues pertaining to Multi Year Tariff Proposal submitted by CHIAL...	8
c. CHIAL's response to stakeholder comments on issues pertaining to Multi Year Tariff Proposal submitted by CHIAL.....	8
d. Authority's examination of stakeholder comments on issues pertaining to Multi Year Tariff Proposal submitted by CHIAL.....	9
4. METHODOLOGY FOR TARIFF CALCULATION.....	10
a. Stakeholder comments on issues pertaining to methodology of tariff determination.....	11
b. CHIAL's response to stakeholder comments on issues pertaining to methodology of tariff determination.....	12
c. Authority's examination of stakeholder comments on issues pertaining to methodology of tariff determination.....	12
5. REGULATORY ASSET BASE (RAB) AND DEPRECIATION	14
a. CHIAL's submission on opening RAB	14
b. Authority's examination of CHIAL's submission on opening RAB	15
c. Stakeholder comments on issues pertaining to opening RAB.....	17
d. CHIAL's response to stakeholder comments on opening RAB	19
e. CHIAL's comments on issues pertaining to opening RAB.....	19
f. Authority's examination of stakeholder comments on opening RAB.....	19
a. CHIAL's submission on additions to RAB.....	20
b. Authority's examination of CHIAL's submission on additions to RAB	21
a. CHIAL's submission on depreciation on opening RAB.....	23
b. Authority's examination of CHIAL's submission on depreciation on opening RAB	24
a. CHIAL's submission on depreciation on additions to RAB	25
b. Authority's examination of CHIAL's submission on depreciation on additions to RAB.....	26
a. CHIAL's submission on RAB	26
b. Authority's examination of CHIAL's submission on RAB.....	27
6. FAIR RATE OF RETURN (FRoR).....	29
a. CHIAL's submission on FRoR	29
b. Authority's examination of CHIAL's submission on FRoR.....	29
c. Stakeholder comments on issues pertaining to FRoR.....	29
d. CHIAL's response to stakeholder comments on FRoR.....	30



e. Authority's examination of stakeholder comments on FRoR.....	30
7. OPERATION AND MAINTENANCE EXPENDITURE	32
a. CHIAL's submission on O&M expenditure	32
b. Authority's examination of CHIAL's submission on O&M expenditure	33
c. CHIAL's comments on issues pertaining to O&M expenditure	35
d. Authority's examination of stakeholder comments on O&M expenditure	35
8. REVENUE FROM NON-AERONAUTICAL SERVICES	37
a. CHIAL's submission on revenues from non-aeronautical services	37
b. Authority's examination of CHIAL's submission on revenues from non-aeronautical services	38
c. CHIAL's comments on issues pertaining to revenues from non-aeronautical services.....	40
d. Authority's examination of stakeholder comments on revenues from non-aeronautical services	40
9. TAXATION.....	42
a. CHIAL's submission on taxation	42
b. Authority's examination of CHIAL's submission on taxation	42
10. AGGREGATE REVENUE REQUIREMENT.....	44
a. CHIAL's submission on ARR.....	44
b. Authority's examination of CHIAL's submission on ARR.....	44
c. Stakeholder comments on issues pertaining to ARR	45
d. CHIAL's response to stakeholder comments on ARR.....	45
e. CHIAL's comments on issues pertaining to ARR	46
f. Authority's examination of stakeholder comments pertaining to ARR.....	46
11. TRAFFIC FORECAST.....	47
a. CHIAL's submission on traffic forecast.....	47
b. Authority's examination of CHIAL's submission on traffic forecast.....	48
c. Stakeholder comments on issues pertaining to traffic forecast	49
d. CHIAL's response to stakeholder comments on traffic forecast.....	49
e. CHIAL's comments on traffic forecast	49
f. Authority's examination of stakeholder comments on traffic forecast	50
12. ANNUAL TARIFF PROPOSAL.....	51
a. CHIAL's submission on annual tariff proposal.....	51
b. Stakeholder comments on issues pertaining to annual tariff proposal.....	51
c. CHIAL's response to stakeholder comments on annual tariff proposal.....	52
d. Authority's examination of stakeholder comments on annual tariff proposal	52
13. REVENUE FROM AERONAUTICAL SERVICES.....	53



a. CHIAL's submission on revenue from aeronautical services	53
b. Authority's examination of CHIAL's submission on revenue from aeronautical services	54
c. Stakeholder comments on issues pertaining to revenue from aeronautical services	54
d. CHIAL's response to stakeholder comments on revenue from aeronautical services	55
e. CHIAL's comments on issues pertaining to revenue from aeronautical services	56
f. Authority's examination of stakeholder comments on revenue from aeronautical services	56
14. COMPARISON OF ARR WITH PROJECTED AERONAUTICAL REVENUE	58
a. CHIAL's submission on comparison of ARR with projected aeronautical revenue	58
b. Authority's examination of CHIAL's submission on comparison of ARR with projected aeronautical revenue	58
c. CHIAL's comments on issues pertaining to comparison of ARR with projected aeronautical revenue	59
d. Authority's examination of stakeholder comments pertaining to comparison of ARR with projected aeronautical revenue	59
15. QUALITY OF SERVICE	60
a. Authority's examination of Quality of Service	60
b. Stakeholder's comments on Quality of Service	60
c. Authority's examination of stakeholder comments on Quality of Service	60
16. ANNUAL COMPLIANCE STATEMENT	61
17. SUMMARY OF DECISIONS	62
18. ORDER	65
19. ANNEXURE II: AIRPORT CHARGES	68

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1. LIST OF ABBREVIATIONS

AAI	Airport Authority of India	HUDA	Haryana Urban Development Authority
AERA or the Authority	Airport Economic Regulatory Authority of India	IAF	Indian Air Force
Aero	Aeronautical	IATA	International Air Transport Association
ANS	Aeronautical services	ICAO	International Civil Aviation Organization
ARR	Aggregate Revenue Requirement	IRR	Internal Rate of Return
ATM	Air traffic movement	JVC	Joint Venture Company
ATP	Annual Tariff Proposal	MOU	Memorandum of Understanding
BAOA	Business Aircraft Operators Association	MT	Metric Ton
BPCL	Bharat Petroleum Corporation Limited	MTOW	Maximum Take Off Weight
CAG	Comptroller and auditor general of India	MYTO	Multi Year Tariff Order
CAGR	Compounded Annual Growth Rate	MYTP	Multi Year Tariff Proposal
CAPEX	Capital Expenditure	NAR	Non-Aeronautical Revenue
CHIAL/ Airport Operator	Chandigarh International Airport Limited	Non-Aero	Non-Aeronautical
CISF	Central Industrial Security Force	NCAP	National Civil Aviation Policy 2016
CNS	Communication Navigation Surveillance	OPEX	Operating Expenditure
CPMS	Corporate Planning and Management Services	O&M	Operating and Maintenance
FIA	Federation of Indian Airlines	P&L	Profit and Loss
F&B	Food and Beverages	p.a.	Per annum
FRoR	Fair Rate of Return	PAX	Passenger(s)
FY	Financial Year	PSF	Passenger Service Fee
Airport Guidelines	AERA (Terms and Conditions for Determination of Tariff for Airport Operators) Guidelines, 2011 dated 28 February 2011	RAB	Regulated Asset Base
GMADA	Greater Mohali Area Development Authority	RCS	Regional Connectivity Scheme
GOI	Government Of India	INR or ₹	Indian rupees
		SLM	Straight Line Method
		Sq.m.	Square Metre
		UDF	User Development Fee
		YPP	Yield per passenger
		K_e	Cost of equity
		Consultation Paper	Consultation Paper No. 3/2016-17 dated 14th February, 2017



2. BRIEF FACTS

- 2.1 Chandigarh International Airport Limited, (CHIAL) was incorporated in 2010 as a company under the Companies Act, 2013 to build and operate a new terminal of international standards at the Chandigarh Airport. It is a joint venture of the Airport Authority of India (AAI), Greater Mohali Area Development Authority (GMADA) and Haryana Urban Development Authority (HUDA).
- 2.2 AAI holds 51.0% of the equity shares and the rest of the equity share capital is held equally by GMADA (24.5%) and HUDA (24.5%).
- 2.3 AAI's contribution to equity was provided by value of the new integrated terminal building and other assets constructed by AAI. The balance equity was equally contributed by GMADA and HUDA by way of cost of land acquired for the project.
- 2.4 AAI completed the construction of the new integrated terminal building and handed it over to CHIAL on 01 September 2015. CHIAL started its operations from 19 October 2015. The responsibility for providing major airside facilities and Air Navigation Services at the Airport rests with the Indian Air Force (IAF).
- 2.5 CHIAL's other facilities include an apron and connecting taxiways for conducting its operations efficiently.
- 2.6 The capacity of the Airport is 4.5 million and the actual throughput during FY15-16 was 1.5 million. Since the terminal building handled 1.5 million passengers in FY 15-16, CHIAL was declared as a major airport w.e.f. FY 16-17 as per section 2(i) of AERA Act. Consequently, CHIAL was mandatorily required to follow the Guidelines issued by the Authority and submit its proposal to the Authority for Tariff determination.
- 2.7 Pursuant to CHIAL's submission of its proposal, a series of discussions/ meetings/ presentations were held on the tariff proposal, including discussions in respect of the financial model developed by CHIAL for this purpose. Subsequently Consultation Paper No. 3/ 2016-17 dated 14.02.2017 in respect of Determination of Aeronautical Tariff in respect of Chandigarh International Airport for the 1st Control Period from 01.04.2016 to 31.03.2021 (subsequently referred to as "Consultation Paper" in this document) was put up by the Authority and a stakeholder consultation was held on 02.03.2017 to discuss the views of various stakeholders on the aforesaid Consultation Paper..
- 2.8 The Authority also invited formal comments from all stakeholders on the issues and proposals presented in the Consultation Paper. The Authority appreciates the responses that it has received from the various stakeholders and has considered their inputs while preparing this Order. The following stakeholders commented on the Consultation Paper:
 - 2.8.1 Punjab Government and Haryana Government
 - 2.8.2 GMADA and HUDA
 - 2.8.3 Business Aircraft Operators Association (BAOA)



2.8.4 Bharat Petroleum Corporation Limited (BPCL)

2.8.5 Federation of Indian Airlines (FIA)

2.8.6 International Air Transport Association (IATA)

2.9 This Order gives the Authority's position on respective building blocks presented in the Consultation Paper. Each chapter is structured in the following manner where discussion on each issue has been segregated into six sections:

2.9.1 First section presents a summary of CHIAL's submissions on the relevant issue at the Consultation stage.

2.9.2 Second section presents a summary of the Authority's discussion on the issue, as presented in the Consultation Paper.

2.9.3 Third section presents the comments made by the Stakeholders to the Authority's position on the issue stated in the Consultation Paper.

2.9.4 Fourth section presents the response made by CHIAL to the comments made by the Stakeholders on the issue.

2.9.5 Fifth section presents the comments made by CHIAL itself on the issue.

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

2.10 Decisions taken by the Authority on various issues in respect of CHIAL are summarized in Chapter 17 at the end of this Order.

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3. MULTI YEAR TARIFF PROPOSAL SUBMITTED BY CHIAL

a. CHIAL's submissions on Multi Year Tariff Proposal

3.1 CHIAL filed its MYTP submissions for the first control period i.e. from 2016-17 to 2020-21, vide their letter dated 15.03.2016. Subsequently, CHIAL filed auxiliary submissions dated 02.11.2016 and 25.11.2016 and additional justifications/ clarifications dated 24.11.2016, 30.11.2016, 01.12.2016, 03.12.2016, 05.12.2016, 09.12.2016 and 22.12.2016 and 10.01.2017.

CHIAL made submissions for the first control period based on actual figures up to the FY 15-16 and projections from FY 16-17 to FY 20-21. CHIAL's Board of Directors approved the budgets for FY16-17 and FY17-18 which form the basis for projections of FY 16-17 and FY 17-18.

3.2 CHIAL in its submission included details for capital expenditure, revenue and operating expenditure along with growth rate estimates and the basis for such estimations.

3.3 The tariff proposal in respect of the airport tariff does not consider the revenues and expenditure on account of landing of aircrafts, runway maintenance, communication, navigation, surveillance / Air Traffic Management (CNS/ATM) services at the airport since these services are being provided by IAF. In case the IAF requests the Authority to revise the landing charges, the Authority shall consider it separately.

3.4 CHIAL's main source of aeronautical revenue at present is from Passenger Service Fee (Facilitation charge) of ₹ 77 per embarking domestic passenger.

3.5 With the commencement of international operations from the new integrated terminal, CHIAL has proposed separate charges for domestic and international passengers.

b. Stakeholder comments on issues pertaining to Multi Year Tariff Proposal submitted by CHIAL

3.6 FIA in respect of Multi Year Tariff Proposal submitted by CHIAL has stated that

"...FIA would like to request that the above mentioned MYTP submissions may be made available to the stakeholders for perusal and comments so as to enable for FIA to submit requisite and consolidated observations / comments to the present CP.

...All requisite agreements executed between CHIAL and AAI / MoCA for operations, management, development and control of the airport may be made available to the stakeholders for their perusal in order to submit requisite and consolidated observations / comments to the present CP"

... CHIAL has not submitted its business plan for airport for the first control period or for the development of the airport with Authority or in public domain till date."

c. CHIAL's response to stakeholder comments on issues pertaining to Multi Year Tariff Proposal submitted by CHIAL

3.7 CHIAL in response to stakeholder comments stated that



"CHIAL submitted its estimated capital & revenue expenditure for full control period (i.e. 01-04-2016 to 31-03-2021) as per AERA guidelines. No further comments"

d. Authority's examination of stakeholder comments on issues pertaining to Multi Year Tariff Proposal submitted by CHIAL

- 3.8 The Authority has noted that FIA's request for CHIAL's submissions and agreements have been uploaded on AERA's website along with the Consultation Paper as **Annexure I**. Further, regarding submission of CHIAL's business plan, it is reflected in CHIAL's proposed additions to RAB which forms part of Tariff proposal. The Authority would also suggest that CHIAL finalize its business plan in consultation with the stakeholders.



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4. METHODOLOGY FOR TARIFF CALCULATION

- 4.1 The methodology adopted by the Authority to determine Aggregate Revenue Requirement ("ARR") is based on AERA Act, 2008 and the Airport Guidelines issued by AERA.
- 4.2 The methodology also takes into account the recent amendments to the Guidelines regarding the Hybrid-Till mechanism, wherein, only 30% of the Non-Aeronautical revenue is to be used for cross-subsidizing the aeronautical charges as against the earlier practice of taking the entire Non-Aeronautical revenues for cross-subsidizing the aeronautical charges (Single Till).
- 4.3 The Authority has determined the Aggregate Revenue Requirement (ARR) for the current control period on the basis of the following Regulatory Building Blocks:
- 4.3.1 Regulatory Asset Base (RAB)
- 4.3.2 Depreciation (D);
- 4.3.3 Fair Rate of Return applied to the Regulatory Asset Base (FRoR x RAB);
- 4.3.4 Operation and Maintenance Expenditure (O);
- 4.3.5 Taxation (T);
- 4.3.6 Revenue from services other than aeronautical services (NAR).
- 4.4 Based on the building blocks provided above, the formula for determining ARR under Hybrid Till is as follows:

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

$$ARR_t = (FRoR \times RAB_t) + D_t + O_t + T_t - 30\% \text{ of } NAR_t$$

Where

- 4.4.1 't' is the Tariff Year in the Control Period
- 4.4.2 ARR_t is the Aggregate Revenue Requirement for year 't';
- 4.4.3 FRoR is the Fair Rate of Return for the control period;
- 4.4.4 RAB_t is the Regulatory Asset Base for the year 't';
- 4.4.5 D_t is the Depreciation corresponding to the RAB for the year 't';
- 4.4.6 O_t is the Operation and Maintenance Expenditure for the year 't', which includes all expenditures incurred by the Airport Operator(s) including expenditure incurred on statutory operating costs and other mandate operating costs;
- 4.4.7 T_t is the corporate tax for the year 't' paid by the airport operator on the aeronautical profits; and
- 4.4.8 NAR_t is revenue from services other than aeronautical services for the year 't'



- 4.5 The present value of total aeronautical revenue that is estimated to be realized each year during the control period at proposed tariff levels is compared with the present value of the ARR during the control period. In case the present value of estimated aeronautical revenue during the control period is lower than the present value of ARR during the control period, the airport operator may opt to increase the proposed tariff. In case the present value of estimated aeronautical revenue is higher than the present value of the ARR then the airport operator will have to reduce its proposed tariff.

a. Stakeholder comments on issues pertaining to methodology of tariff determination

- 4.6 Subsequent to the stakeholder consultation process, the Authority had received comments from stakeholders in response to the material and tentative proposals presented by the Authority in the Consultation Paper. Comments with respect to methodology of tariff determination are presented below:

- 4.7 FIA in respect of issue with hybrid-till methodology of tariff determination submitted that

"(a) Single Till Model ought to be applied to ALL the airports regulated by the Authority regardless of whether it is a public or private airport or works under the PPP model and in spite of the concession agreements as the same is mandated by the statute.

(b) Single Till is in the public interest and will not hurt the investor's interest and given the economic and aviation growth that is projected for India, Fair Rate of Return (FRoR) alone will be enough to ensure continued investor's interest.

(c) MoCA's view(s) with respect to any issue at best can be considered as that of a Stakeholder and by no means are binding to Authority's exercise of determination of aeronautical tariff as is admitted by MoCA itself before the AERAAT.

...In view of the above, it is submitted without prejudice that determination of aeronautical tariff on Hybrid Till basis for the first control period would set the tone and precedent for determination of aeronautical tariff in subsequent control periods contrary to the applicable legal framework. Thus, it is submitted that Authority should discard the option of determination of aeronautical tariff on Hybrid Till and follow Single Till scrupulously."

- 4.8 IATA in respect of issue with hybrid-till methodology of tariff determination stated that

"It is a disappointment that AERA has proceeded to adopt the hybrid till approach. Although the impact in the first four years is marginal as the aero revenues are lower than allowed revenue, in the fifth year they are almost in line, which means that the hybrid till approach is already having an effect. The implications will be even more significant once charges are calculated in the next control period."

- 4.9 FIA also stated that

"Re. Authority is statutorily mandated to scrutinize the claims of CHIAL

It is submitted that the Authority is statutorily mandated under Sections 13 and 14 of the AERA Act to scrutinize each claim/projection of the Airport operator/service provider (in the



present case CHIAL) instead of merely accepting such claims. If required, the Authority can even engage consultants or experts to perform such exercise on its behalf.

However, simply accepting the claims/projections of CHIAL reflects casual approach of the Authority without any independent scrutiny of CHIAL's submission and documents economic assessment, analysis and opinion. It is noteworthy that in the present CP, Authority has proposed to accept most of the claims/forecast of CHIAL..."

4.10 FIA also submitted that

"Re. CHIAL's monopolistic approach and 'Doctrine of Essential Facilities'

...It is submitted that such enormous hike in tariff by a monopolist CHIAL may be viewed as 'abuse of its dominance' and accordingly liable under section 4 of the Competition Act, 2002"

b. CHIAL's response to stakeholder comments on issues pertaining to methodology of tariff determination

4.11 CHIAL's response to FIA and IATA in relation to issue with hybrid-till methodology of tariff determination was as follows

"The Hybrid Till has been followed as per AERA's direction vide letter No AERA/20010/Civil Aviation Policy/2014-15/Vol — 1/9599. The same has been allowed for other private airports also."

4.12 Further, CHIAL's in response to FIA's comment in relation to Authority's scrutiny of CHIAL's claims stated that

"CHIAL is a Company registered under Companies Act, 2013 and accounts are being maintained as per Accounting Standards issued by ICAI or notified by MCA. Further, being a Govt. Co., the accounts are audited by the statutory appointed on the recommendation of the CAG. Supplementary Audit is also being carried out by the CAG Auditors."

c. Authority's examination of stakeholder comments on issues pertaining to methodology of tariff determination

4.13 The Authority has carefully considered the comments from the stakeholders as well as CHIAL's comments and responses to these stakeholders' comments regarding methodology of tariff determination. The Authority's examination and decisions in this regard have been presented below.

4.14 In response to FIA's and IATA's comments on issue with hybrid-till methodology of tariff, the Authority would like to direct the attention of stakeholders towards its order No. 14/ 2016-17 dated 12th January 2017, pursuant to which, the Authority has decided to adopt Hybrid Till for tariff determination for all airports.

4.15 In response to FIA's comment on scrutiny of CHIAL's claims, the Authority has noted that CHIAL is a company registered under Companies Act, 2013 and its accounts are audited by statutory auditors appointed by the CAG. Further, the Authority has examined the tariff

proposal submitted by CHIAL with reference to such audited financial statements and has made its proposals after careful analysis of CHIAL's submissions.

- 4.16 In response to FIA's comment on CHIAL's abuse of its monopolistic position, the Authority finds that there is no abuse of monopoly by CHIAL since even with the revision of tariff rates the airport is unable to recover its ARR completely. Abuse of monopolistic position arises only when the operator charges more than what it is entitled to as per the guidelines.



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5. REGULATORY ASSET BASE (RAB) AND DEPRECIATION

a. CHIAL's submission on opening RAB

- 5.1. As per clause 5.2.4 of Airport Guidelines, opening RAB is to be calculated by taking into consideration the original cost of fixed asset, accumulated depreciation, accumulated capital receipts, the nature of contributions from stakeholders, adjustment for value of assets and adjustment for value of the land excluded from the scope of RAB.
- 5.2. CHIAL in its submission classified the opening gross block into aeronautical, non-aeronautical and common assets as shown in table below:

Table 1: Classification of opening gross block into aeronautical, non-aeronautical and common assets (in ₹ lakhs)

Asset description	Aeronautical	Non-Aeronautical	Common	Total
Freehold land	45,318	-	-	45,318
Building Terminal	-	-	28,590	28,590
Electrical installation/ Air Conditioners	-	-	6,071	6,071
Machinery & equipment	4,568	-	233	4,801
Apron	4,346	-	25	4,371
Roads	1,457	-	62	1,519
Furniture & Fixtures	36	-	458	495
Boundary wall- Operational	350	-	-	350
Boundary wall - Operational - CISF/Security	-	-	227	227
Furniture & Fixtures: Other than office	199	-	18	217
Computers & IT - Security - Servers	-	-	149	149
Electrical installation/Air Conditioners - Security	107	-	-	107
Miscellaneous items (of value less than ₹1 crores)	428	2	10	441
Grand Total	56,810	2	35,843	92,655

- 5.3. Opening common assets were further classified as aeronautical and non-aeronautical in the ratio of 92:08 as shown in table below:

Table 2: Classification of opening common assets into aeronautical and non-aeronautical assets (in ₹ lakhs)

Asset description	Aeronautical	Non-Aeronautical	Total common assets
Building Terminal	26,303	2,287	28,590
Electrical installation/ Air Conditioners	5,585	486	6,071
Machinery & equipment	214	19	233
Apron	23	2	25
Roads	57	5	62
Furniture & Fixtures	422	37	458



Asset description	Aeronautical	Non-Aeronautical	Total common assets
Boundary wall - Operational - CISF/ Security	209	18	227
Furniture & Fixtures: Other than office	16	1	18
Computers & IT - Security – Servers	137	12	149
Building – Temporary (Porta Pre Fab Structure Office)	9	1	10
Grand Total	32,974	2,869	35,843

5.4. Based on the aforesaid allocation of common assets, Opening RAB was as shown in table below:

Table 3: Assets forming part of opening RAB as on 1st April 2016 (in ₹ lakhs)

Aeronautical assets	Cost
Freehold land	45,318
Building terminal	26,303
Electrical installation/ Air Conditioners	5,585
Machinery & equipment	4,782
Apron	4,369
Roads	1,514
Furniture & Fixtures	458
Boundary Wall- Operational	350
Furniture & Fixtures: Other than office	216
Boundary Wall - Operational - CISF/ Security	209
Computers & IT - Security – Servers	137
Electrical installation/ Air Conditioners - Security	107
Miscellaneous items (of value less than ₹1 crores)	436
Grand total	89,784

b. Authority's examination of CHIAL's submission on opening RAB

Land and Project Cost

- 5.5. The Authority noted that total land cost (approximately 51% of the total opening RAB) was considered as an Aeronautical asset for ARR determination.
- 5.6. Historically for development of Airports, land has been provided by State Governments at zero cost to the airport operator. The policy of the GOI also supports this view in case of Airports under the Regional Connectivity Scheme (RCS). In the case of Mopa Airport at Goa, a Golden Share was awarded to the State Government by way of equity participation for the land provided by the Government. Even though the shareholding of the State Governments in CHIAL has been expressed in the form of cost of land, the Authority is not inclined to take the cost of land into the RAB and give a return on it since State Governments normally benefit from the development of the new state-of-the-art airport. The development of the airport would also contribute towards the overall socio-economic development of the city and the State. Therefore the Authority proposed to exclude the cost of land from the RAB.



5.7. As per the Authority's order in the matter of "Normative Approach to Building Block in Economic Regulation of major Airports" dated 06 June 2016 (hereafter referred to as Normative Capital Cost Order), for determination of RAB the project cost ceiling with respect to the Terminal Building is ₹65,000 per sq.m and ₹4,700 per sq.m. for Taxiway/ Apron.

5.8. The Authority noted that as per CHIAL's submission, the project cost per sq.m., for terminal building was ₹66,422 and for apron was ₹5,077 (such costs are inclusive of earth filling costs which cannot be separately identified).

Table 4: Per sq.m. cost of Terminal Building and Apron as per CHIAL's submission

Particulars	Units	Terminal building	Apron
Total Cost as per CHIAL [A]	₹ lakhs	40,246	4,759
Area in Sq.m as per CHIAL [B]	Sq.m.	60,591	93,738
Cost per Sq.m [A] / [B]	₹	66,422	5,077

5.9. The Authority noted that after excluding costs pertaining to CISF/ Security from the cost of terminal building, cost per sq.m. as mentioned above further reduced to ₹65,602. This was within a reasonable range of the normative cost level of ₹65,000 as prescribed by the Authority. Therefore the Authority proposed to accept the cost of Terminal Building as submitted by CHIAL.

5.10. So far as the Apron and Taxiways were concerned, the cost per sq.m. worked out to ₹5,077 including earthwork cost. This was within a reasonable range of the normative cost of ₹4,700 prescribed by the Authority. Therefore the Authority proposed to accept the cost of Apron and Taxiway as submitted by CHIAL.

Terminal Building and other assets

5.11. The Authority proposed to allocate Terminal Building costs between Aeronautical and Non-Aeronautical as per Terminal Building area segregation. CHIAL's submission on Terminal Building area segregation was as follows:

Table 5: Segregation of Terminal Building area into Aeronautical, Non-aeronautical and Common (in sq.m.)

Floor level	Aero area	Non-aero area	Common area	Total area
Basement	12,899	-	65	12,964
Arrival Lower	13,738	1,145	2,617	17,500
Arrival Upper	5,212	303	78	5,593
Departure Lower	10,476	2,732	1,859	15,067
Departure Upper	1,730	443	122	2,295
Total (in sq.m.)	44,055	4,623	4,741	53,419
Allocation of common area	4,291	450	-	4,741
Total	48,346	5,073	-	53,419
% of Aeronautical area to Non-aeronautical area	90.5%	9.5%		

5.12. The Authority proposed to take into account the above calculation and reclassify the Terminal Building cost at ₹27,895 lakhs as shown below:

Table 6: Revised classification of Terminal Building cost into aeronautical and non-aeronautical (in ₹ lakhs)

Asset description	Aeronautical	Non-Aeronautical	Common	Total
Building Terminal	23,006	2,414	2,476	27,895
Add: Allocation of common assets	2,241	235	-	-
Total	25,246	2,649	-	27,895

5.13. The Authority proposed to classify all the other common assets (excluding miscellaneous assets of ₹10 lakhs) of ₹7,937 lakhs as Aeronautical assets. Further, the Authority classified the miscellaneous assets of ₹10 lakhs into Aeronautical and Non-aeronautical as per the revised ratio of 90.5: 9.5. Revised classification of opening gross block into aeronautical and non-aeronautical is shown in the table below:

Table 7: Revised classification of opening gross block into aeronautical, non-aeronautical and common assets (in ₹ lakhs)

Asset description	Aeronautical	Non-Aeronautical	Total
Freehold land	-	-	-
Building Terminal	25,246	2,649	27,895
Electrical installation/ Air Conditioners	6,071	-	6,071
Machinery & equipment	4,801	-	4,801
Apron	4,371	-	4,371
Roads	1,519	-	1,519
Other assets reclassified	694	-	694
Furniture & Fixtures	495	-	495
Boundary wall- Operational	350	-	350
Boundary wall - Operational - CISF/Security	227	-	227
Furniture & Fixtures: Other than office	217	-	217
Computers & IT - Security - Servers	149	-	149
Electrical installation/Air Conditioners - security	107	-	107
Miscellaneous items (of value less than ₹1 crores)	438	3	441
Grand Total	44,684	2,652	47,336

c. Stakeholder comments on issues pertaining to opening RAB

5.14 Stakeholders' comments with respect to opening RAB are presented below:

5.15 The State Governments of Punjab and Haryana and their agencies GMADA and HUDA in respect of exclusion of land cost from RAB have insisted on providing a return on the cost of land since land is expensive and further construction of new Greenfield airports will be affected if land is not taken into RAB. They have also submitted that future Airport infrastructure development will be affected if land is not taken into RAB.

5.16 BAOA in respect of exclusion of land cost from RAB stated that

"It is our considered view that plea of Punjab & Haryana governments on inclusion of cost of land, of around ₹ 450 crores, to be examined with long-term view on development of much-



needed aviation infrastructure all over India. It has to be understood that the land cost incurred by these two government is part of state governments' contribution to public cause of developing efficient transportation infrastructure in the region. Since the land had been acquired by these government in 'public interest', their contribution as cost of land should also be taken as made in public interest and, without causing any additional cost inputs to charges for aeronautical services at the airport."

5.17 In respect of allocation of RAB between Aero and Non Aero, FIA stated that

"...no independent assessment by AERA has been done for RAB and allocation of RAB between Aero and Non Aero..."

5.18 In respect of project cost ceiling, FIA stated that

"... All the building blocks (including operational cost, Non aero revenue) are subject to True Up - No incentive for operator to control costs. 22. The Authority in para 5.9 and 5.10 of the CP No.3/2016-17 has noted that after excluding costs pertaining to CISF/ Security from the cost of terminal building, cost per sq.m. as mentioned above will further reduce to ₹65,602. This is within a reasonable range of the normative cost level of ₹65,000 as prescribed by the Authority. Therefore the Authority has proposed to accept the cost of Terminal Building as submitted by CHIAL. So far as the Apron and Taxiways are concerned, the cost per sq.m. works out to ₹5,077 including earthwork cost. This is within a reasonable range of the normative cost of ₹4,700 prescribed by the Authority. Therefore the Authority has proposed to accept the cost of Apron and Taxiway as submitted by CHIAL.

... It is submitted that although under the Normative Approach to Building Block in Economic Regulation of major Airports dated 06 June 2016, Authority has determined RAB of the project cost ceiling with respect to the Terminal Building as ₹65,000 per sq.m and ₹4,700 per sq.m. for Taxiway/ Apron.

... However, in the present CP the determination of RAB project cost ceiling is without any reason or explanation and even in the account of failure of submission of supporting document. The decision of the Authority to accept the cost of terminal building, apron and taxiway as submitted by CHIAL is contrary to the Authority's Normative Capital Cost Order. Further, no explanation is given for the decision of Authority about 'within the reasonable range of the normative cost level'. Authority even failed any justification or reasons or study to justify its decision to accept the cost of the terminal building, apron and taxiway as submitted by CHIAL.

...The Normative Capital Cost Order cannot be treated as a benchmark in absence of any document, study and proof of the actual cost incurred towards terminal building, apron and taxiway by CHIAL."

5.19 FIA in respect of project cost further stated that

"... It is to be noted that para 2.4 of the CP categorically stated that AAI completed the construction of the new integrated terminal building and handed it over to CHIAL on 01 September 2015. CHIAL started its operations from 19 October 2015.

Therefore, in view of the same no expenditure is incurred by CHIAL to complete the construction of the terminal building."

d. CHIAL's response to stakeholder comments on opening RAB

5.20 In response to BAOA's comment on exclusion of land cost from RAB, CHIAL stated that

"As per clause no. 2.2 of JV agreement between the stakeholders, it was the responsibility of GMADA to acquire the land and hand over it to the JVC for the development of the Airport and cost of that land would be shared between GMADA & HUDA equally which is to be counted towards equity contribution. The land was acquired from private parties by paying cash. Hence, cost of land has been capitalised in the books of accounts. Therefore, this should also be considered in RAB of the Company for MYTP."

5.21 In response to FIA's comment on project cost, CHIAL stated that

"As per J.V. agreement between AAI, Punjab Govt and Haryana Govt. land was provided by these two governments through acquisition process from the farmers and Terminal building & other infrastructure facilities were created by AAI. The actual cost of the same is capitalised in the books of CHIAL through equity contribution which has been taken as project cost."

e. CHIAL's comments on issues pertaining to opening RAB

5.22 CHIAL's comment on exclusion of land cost from RAB was as follows

"Cost of Land has been treated as part of RAB since land has been contributed by GMADA & HUDA in the form of Equity. GMADA & HUDA acquired the land from the private owners and brought it as their respective equity contribution by paying cash. The land has been brought neither through grant or subsidy but actually bought by paying cash by the stakeholders. Hence AERA is requested to consider the value of land cost in RAB."

f. Authority's examination of stakeholder comments on opening RAB

5.23 The Authority has carefully considered the comments from the stakeholders as well as CHIAL's comments and responses to these stakeholders' comments regarding methodology of tariff determination. The Authority's examination and decisions in this regard have been presented below.

5.24 In response to the comments of State Governments, GMADA, HUDA, BAOA and CHIAL on exclusion of land cost from RAB, the Authority has observed that land normally appreciates in value and no depreciation on land is permissible. If FRoR on land value is applied in calculation of ARR, it leads to a higher aeronautical tariff perpetually. At the same time benefit of increase in market value of land will never be passed on to the passengers as the land will never be sold separately by the airport operator.

The Authority is of the view that a proper study is to be conducted to determine the return to be provided on cost of land before a final view can be taken.

5.25 Regarding FIA's comment on the need for an independent study for allocation of RAB into Aero and Non Aero, it is to be noted that the allocation ratio as proposed by CHIAL has been revised by the Authority after an analysis of CHIAL's submissions.

5.26 Regarding FIA's comment on accepting the project cost and the ceiling on project cost, the Authority notes that the entire project cost was undertaken by AAI, and accounted in AAI's books until completion and the same were audited by CAG. After completion of project, the project cost pertaining to Chandigarh Airport was transferred to CHIAL and as such there was no requirement to further scrutinize the project cost. Further, as per normative cost order, the Authority normally conducts a detailed evaluation when the project cost significantly exceeds the prescribed normative costs.

5.27 In response to FIA's comment that CHIAL should not take into account the cost of construction of terminal building incurred by AAI into RAB, the Authority has noted that the cost of construction of terminal building transferred by AAI has been capitalized in the books of CHIAL. Further, it is to be noted that CHIAL discharged the consideration for the cost of such terminal building by way of issue of its equity shares to AAI.

a. CHIAL's submission on additions to RAB

5.28. CHIAL in its submission classified the additions to gross block during the control period into aeronautical, non-aeronautical and common assets as shown in table below:

Table 8: Classification of additions to gross block during the control period into aeronautical, non-aeronautical and common assets (in ₹ lakhs)

Asset description	Aeronautical	Non-Aeronautical	Common	Total
Building Terminal	515	150	1,171	1,836
X Ray Baggage System	1,174	-	-	1,174
Electrical installation/Air Conditioners	782	-	223	1,005
Machinery & equipment	898	-	35	933
Building - Temporary	670	-	-	670
Computers & IT hardware & access	-	-	90	90
Roads, bridges & culverts – CISF/ Security	44	-	-	44
Apron	-	-	43	43
Electrical installation/Air Conditioners - Security	-	25	-	25
Furniture & Fixtures: Other than office	20	-	-	20
Vehicles - Security	16	-	-	16
Tools & equipment - Security	11	-	-	11
Tools & equipment	5	-	6	11



Grand Total	4,135	175	1,569	5,879
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5.29. Additions to common assets during the control period were further classified into aeronautical and non-aeronautical in the ratio of 92:08 as shown in table below:

Table 9: Classification of additions to common assets during the control period into aeronautical and non-aeronautical assets (in ₹ lakhs)

Asset description	Aeronautical	Non-Aeronautical	Total
Building Terminal	1,077	94	1,171
Electrical installation/Air Conditioners	205	18	223
Machinery & equipment	32	3	35
Computers & IT hardware & access	83	7	90
Apron	40	3	43
Tools & equipment	6	0	6
Grand total	1,443	125	1,569

5.30. Year-wise additions to RAB after classifying common assets as aeronautical during the first control period is shown in table below:

Table 10: Additions to RAB during control period (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	Total
Building - Terminal	555	1,038	-	-	-	1,592
X Ray Baggage System	114	1,060	-	-	-	1,174
Electrical Installation/ Air Conditioners	274	173	540	-	-	987
Machinery & Equipment	255	676	-	-	-	931
Building – Temporary	570	100	-	-	-	670
Computers & IT hardware & access	27	56	-	-	-	83
Roads, bridges & culverts - CISF security	44	-	-	-	-	44
Apron	40	-	-	-	-	40
Electrical Installation/ Air Conditioners – Security	-	-	-	-	-	-
Furniture & Fixtures: other than office	5	15	-	-	-	20
Vehicles - Security	1	16	-	-	-	16
Tools & Equipment - Security	1	10	-	-	-	11
Tools & Equipment	6	5	-	-	-	10
Grand Total	1,891	3,148	540	-	-	5,579

b. Authority's examination of CHIAL's submission on additions to RAB

5.31. The Authority proposed to classify the following common assets as aeronautical assets:

Table 11: Revised classification of additions to common assets as Aeronautical (in ₹ lakhs)

Asset head	Asset description	Original cost
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Building terminal	Canopy at entry point along with shed for parking QRT vehicle of Punjab police Mono Rail System for Façade Maintenance	603
Machinery & equipment	Access Control System (Bio Metric)	35
Computers & IT hardware & access	Computers & Other IT Items Creation of Website Miscellaneous Works - Airport System - Networking/LAN etc.	90
Apron	Ramp Equipment Area	43
Electrical installation/Air Conditioners	Miscellaneous- Electrical Work Providing Carbon Flooding System Providing electrical connection for CHIAL offices at Upper Level	223
Tools & equipment	Office equipment	6
Grand total		1,000

5.32. Revised classification of additions to gross block into aeronautical, non-aeronautical and common assets after reclassifying common assets as aeronautical is shown in table below:

Table 12: Revised classification of additions to gross block during the control period into aeronautical, non-aeronautical and common assets (in ₹ lakhs)

Asset description	Aeronautical	Non-Aeronautical	Common	Total
Building Terminal	1,118	150	568	1,836
X Ray Baggage System	1,174	-	-	1,174
Electrical installation/Air Conditioners	1,005	-	-	1,005
Machinery & equipment	933	-	-	933
Building - Temporary	670	-	-	670
Computers & IT hardware & access	90	-	-	90
Roads, bridges & culverts - CISF /Security	44	-	-	44
Apron	43	-	-	43
Electrical installation/Air Conditioners - Security	-	25	-	25
Furniture & Fixtures: Other than office	20	-	-	20
Vehicles - Security	16	-	-	16
Tools & equipment - Security	11	-	-	11
Tools & equipment	11	-	-	11
Grand Total	5,136	175	568	5,879

5.33. The Authority proposed to reclassify the additions to common assets into aeronautical and non-aeronautical in the revised ratio of 90.5:9.5 as shown in the table below:

Table 13: Revised classification of additions to common assets into aeronautical and non-aeronautical (in ₹ lakhs)

Asset description	Aero	Non-Aero	Total
Terminal Building	514	54	568

5.34. Revised additions to RAB during the first control period is shown in table below:



Table 14: Revised additions to RAB (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	Total
Building - Terminal	589	1,044	-	-	-	1,632
X Ray Baggage System	114	1,060	-	-	-	1,174
Electrical Installation/ Air Conditioners	285	180	540	-	-	1,005
Machinery & Equipment	256	677	-	-	-	933
Building – Temporary	570	100	-	-	-	670
Computers & IT hardware & access	29	61	-	-	-	90
Roads, bridges & culverts - CISF security	44	-	-	-	-	44
Apron	43	-	-	-	-	43
Electrical Installation/ Air Conditioners – Security	-	-	-	-	-	-
Furniture & Fixtures: other than office	5	15	-	-	-	20
Vehicles - Security	1	16	-	-	-	16
Tools & Equipment - Security	1	10	-	-	-	11
Tools & Equipment	6	5	-	-	-	11
Grand Total	1,943	3,167	540	-	-	5,650

a. CHIAL's submission on depreciation on opening RAB

5.35. CHIAL followed straight line method of depreciation and depreciation rates applied to various assets were as per AAI's approved accounting policy considering the useful life of the assets. Further, CHIAL stated that the assets considered in opening RAB and the accumulated depreciation pertaining to such assets were as per audited financial statements of CHIAL.

Table 15: Depreciation on assets forming part of Opening RAB as on 1 April 2016 (in ₹ lakhs)

Rate	Asset head	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
3.2 %	Boundary wall - CISF/security Boundary wall - Building- terminal Other buildings - CISF/security	376	835	835	835	835	835
6.3 %	Plant & machinery X ray baggage system	138	308	308	308	308	308
9.5 %	Elec. Installation/Air Conditioners - Security Electrical installations Furniture & fixtures-other than office Furniture & fixtures - security Office furniture Vehicles – security	294	658	658	658	658	658
15.8 %	Computers & I.T. - security - servers Intangible assets- software	12	27	27	27	27	27

Rate	Asset head	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
19.0 %	Aprons Office appliances Road, bridges & culverts Roads, bridges & culverts - CISF security Tools & equipment - security Tools & equipment	502	1,139	1,139	1,139	1,139	931
31.7 %	Building - temporary Building - temporary - CISF/security Computer & peripherals Computers & I.T. hardware & access - CISF/security Roads, bridges & culverts - non-carpeted - CISF security	18	39	39	28	0	-
	Grand Total	1,340	3,007	3,006	2,996	2,968	2,759

b. Authority's examination of CHIAL's submission on depreciation on opening RAB

- 5.36. As per Clause 5.3.3 of the Airport Guidelines, the minimum residual value of the asset is considered at 10% and depreciation is allowed up to a maximum of 90% of the original cost of the asset.
- 5.37. Further, as per clause 5.2.5(e) of the Airport Guidelines, to project depreciation on assets to be commissioned or disposed-off during a control period, it is assumed that such assets have been commissioned or disposed-off half way through the tariff year and depreciation related to such assets shall be calculated on pro-rata basis.
- 5.38. In relation to above, the Authority has separately commissioned a study to determine appropriate rates of depreciation to be adopted for the regulation of all the airports in line with the provision of the Companies Act 2013 and revised useful life of various assets based on appropriate residual value of respective assets. The Authority will consider the recommendations from the Study, and take an appropriate decision for adjustment in RAB or true up in the next control period.
- 5.39. The Authority noted that CHIAL in its submission has assumed an asset life of 5 years for Aprons and taxiway which is similar to the asset life of 'Carpeted Roads – Other than RCC' as per the Companies Act 2013. However, as per tariff orders for other major airports, a rate of 3.33% based on useful life of 30 years for Taxiway and Apron (added during the first control period has been adopted). Accordingly, the Authority proposed to consider the same in case of CHIAL.
- 5.40. The Authority also noted that CHIAL in its submission is considering 5% residual value of the asset for total useful life.
- 5.41. Further, in case of depreciation on assets forming part of opening RAB, residual asset balance or depreciation amount, whichever is lower was considered as depreciation amount in the final year of useful life, which means effectively 100% depreciation was charged on



certain assets. Such treatment was not in line with the treatment prescribed under the Airport Guidelines.

- 5.42. Accordingly, the Authority proposed to consider minimum residual value of the asset at 10% and depreciation was to be allowed up to a maximum of 90% of the original cost of the asset. This implies that RAB was to be adjusted by the amount of disposals of assets (10% of original cost) at the end of useful life of each asset.

Table 16: Revised depreciation on Opening RAB of each year during the control period (in ₹ lakhs)

Rate	Asset head	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
3.0 %	Aprons Boundary wall - CISF/security Boundary wall - Building- terminal Other buildings - CISF/security	434	964	983	1,015	1,015	1,015
6.0 %	Plant & machinery X ray baggage system	131	291	313	418	418	418
9.0 %	Elec. installation/air conditioners - security Electrical installations Furniture & fixtures-other than office Furniture & fixtures - security Office furniture Tools & equipment - security Vehicles – security	278	622	648	668	717	717
15.0 %	Computers & I.T. - security - servers Intangible assets- software	12	27	27	27	27	27
18.0 %	Office appliances Road, bridges & culverts Roads, bridges & culverts - CISF security Tools & equipment	121	293	302	303	303	182
30.0 %	Building - temporary Building - temporary - CISF/security Computer & peripherals Computers & I.T. hardware & access - CISF/security Roads, bridges & culverts - non-carpeted - CISF security	17	37	217	249	138	24
	Grand Total	994	2,236	2,492	2,680	2,618	2,383

a. CHIAL's submission on depreciation on additions to RAB

Table 17: Depreciation on additions to RAB during the control period (in ₹ lakhs)

Rate	Asset head	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
3.2 %	Building- Terminal	-	18	50	50	50	50
6.3 %	Plant & Machinery X Ray Baggage System	-	23	133	133	133	133
9.5 %	Electrical Installations Furniture & Fixtures-Other than office Vehicles – Security	-	27	46	97	97	97

19.0 %	Aprons Roads, Bridges & Culverts - CISF Security Tools & Equipment - Security Tools & Equipment	-	17	20	20	20	20
31.7 %	Building - Temporary Computer & Peripherals	-	189	238	238	79	8
	Grand Total	-	274	488	539	380	309

Table 18: Total depreciation during control period as per CHIAL (in ₹ lakhs)

Particulars	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Depreciation on opening RAB as per Table 15	1,340	3,007	3,006	2,996	2,968	2,759
Depreciation on additions to RAB as per Table 17	-	274	488	539	380	309
Total depreciation as per CHIAL	1,340	3,281	3,494	3,535	3,348	3,068

b. Authority's examination of CHIAL's submission on depreciation on additions to RAB

5.43. The Authority proposed to consider depreciation on additions during a particular year of the control period for half year in the year of addition and for full year in subsequent years.

Table 19: Revised depreciation on additions to RAB (in ₹ lakhs)

Rate	Asset head	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
3.0 %	Aprons Building- Terminal	-	9	16	-	-	-
6.0 %	Plant & Machinery X Ray Baggage System	-	11	52	-	-	-
9.0 %	Electrical Installations Furniture & Fixtures-Other than office Tools & Equipment - Security Vehicles – Security	-	13	10	24	-	-
18.0 %	Roads, Bridges & Culverts - CISF Security Tools & Equipment	-	4	0	-	-	-
30.0 %	Building - Temporary Computer & Peripherals	-	90	24	-	-	-
	Grand Total	-	128	102	24	-	-

Table 20: Total revised depreciation during the control period as per the Authority (in ₹ lakhs)

Particulars	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Revised depreciation on opening RAB as per Table 16	994	2,236	2,492	2,680	2,618	2,383
Revised depreciation on additions to RAB as per Table 19	-	128	102	24	-	-
Total revised depreciation	994	2,364	2,594	2,704	2,618	2,383

a. CHIAL's submission on RAB



5.44. RAB during the control period as per CHIAL is shown in the table below:

Table 21: RAB as per CHIAL's submission (in ₹ lakhs)

Particulars	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Opening RAB	89,784	88,443	87,053	86,707	83,712	80,364
Additions	-	1,891	3,148	540	-	-
Disposals	-	-	-	-	-	-
Depreciation	(1,340)	(3,281)	(3,494)	(3,535)	(3,348)	(3,068)
Closing RAB	88,443	87,053	86,707	83,712	80,364	77,296
Average RAB	-	87,748	86,880	85,209	82,038	78,830

b. Authority's examination of CHIAL's submission on RAB

5.45. Revised RAB during the control period as per the Authority after considering the above decisions has been summarized in the table below:

Table 22: Revised RAB (in ₹ lakhs)

Particulars	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Opening RAB	44,684	43,690	43,269	43,842	41,666	38,988
Depreciation on Opening RAB	994	2,236	2,492	2,680	2,618	2,383
Additions	-	1,943	3,167	540	-	-
Depreciation on Additions	-	128	102	24	-	-
Disposals	-	-	-	12	60	179
Closing RAB	43,690	43,269	43,842	41,666	38,988	36,426
Average RAB	-	43,480	43,556	42,754	40,327	37,707

Decision No. 1 Based on stakeholder comments and the analysis done by the Authority in Consultation Paper and this Order regarding RAB the Authority has decided to:

- 1.a Remove land cost from RAB for the time being and will take a view based on the study to be conducted on the return to be provided on land cost in future.
- 1.b Accept the cost of the Terminal Building, Apron and Taxiways as submitted by CHIAL since they are within a reasonable range of the rates prescribed in the Normative Capital Cost Order of the Authority on capital cost.
- 1.c Allocate the common area in the Terminal Building into Aeronautical and Non-aeronautical in the revised ratio of 90.5 to 9.5.
- 1.d Allocate the project cost and additions to project cost between Aeronautical and Non-Aeronautical as per revised allocation ratio of 90.5 to 9.5.
- 1.e Consider ₹43,690 lakhs as opening RAB as on 1 April 2016 for the First Control Period as shown in Table 22.
- 1.f Consider additions to RAB during the control period as ₹5,650 lakhs as shown in Table 14.



- 1.g Adopt a rate of 3.33% based on useful life of 30 years for taxiway and apron (added during the first control period), depreciation rates as specified under the Companies Act 2013 shall be provided on the other assets till the Authority revises its depreciation rates based on the study commissioned to determine depreciation rates.
- 1.h Provide depreciation on additions during the control period for half year in the year of addition and for full year in the subsequent years during the control period.
- 1.i Consider depreciation on RAB as shown in *Table 20*.
- 1.j Consider revised average RAB during the control period for calculation of ARR as shown in *Table 22*.
- 1.k True up the average RAB to be based on the actual date of capitalization.
- 1.l True up the depreciation, as and when the decision to revise the depreciation rates is taken.

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6. FAIR RATE OF RETURN (FRoR)

a. CHIAL's submission on FRoR

6.1 CHIAL in its submission proposed the capital structure, funding mechanism, and FRoR as provided below:

Table 23 : Historical & Projected summary of Capital structure of CHIAL (in ₹ crores)

	Actual	Projected				
Particulars	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Additions to RAB	926.6	21.1	32.27	5.4	-	-
Ratio of additions to Debt & Equity	0:100	50:50	50:50	50:50	50:50	50:50
- Equity funding	926.6	10.6	16.1	2.7	-	-
- Debt funding	-	10.6	16.1	2.7	-	-
Total Equity	926.6	937.1	953.3	956.0	956.0	956.0
Total Debt	-	10.6	26.7	29.4	29.4	29.4
Debt-Equity ratio	0:1	0.01:1	0.03:1	0.03:1	0.03:1	0.03:1
Cost of equity (% p.a.)	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%
Cost of debt (% p.a.)	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%
Tax rate (% p.a.)		34.6%				
FRoR (% p.a.)	14.0%	13.9%	13.8%	13.6%	13.6%	13.6%

b. Authority's examination of CHIAL's submission on FRoR

6.2 The Authority has proposed to continue with the return on equity at 14% p.a. as considered in the tariff determination process for other AAI airports in Chennai, Kolkata, Guwahati and Lucknow for the first control period.

6.3 The Authority noted that the capital as on 31 March 2016 (FY 15-16) amounting to ₹ 926.6 crores has been funded entirely by equity. Further, CHIAL proposed to fund the additions to the gross block during the control period equally through debt and equity.

6.4 It was further noted by the Authority that internal accruals of CHIAL would be sufficient to fund the entire amount of additions to the gross block. This was clear from the cash flow statement as worked out in Table 33. Hence, there will be no requirement of debt in any of the financial years during the first control period.

6.5 Regarding FRoR, based on the material before it and its analysis, the Authority proposed to:

6.5.1 Consider the Cost of Equity at 14% p.a. and FRoR at 14% p.a. for CHIAL for the first control period considering that it would have sufficient internal accruals to fund proposed additions to RAB during the control period and consequently no debt will be required.

6.5.2 True up the FRoR based on the actual debt-equity ratio and the cost of debt and equity as determined at the time of next tariff determination.

c. Stakeholder comments on issues pertaining to FRoR

6.6 FIA stated the following in respect of cost of equity, that



"Authority in table 23, has accepted the historical and projected summary of capital structure of CHIAL in totality. Since, the equity shareholders of CHIAL is AAI, GMADA and HUDA which admittedly falls under the definition of State under Article 12 of Constitution of India, therefore the cost of equity at 14% pa for State is unreasonable and without any justification. CHIAL and its shareholders being a State are under the Constitutional obligation to cater the public interest and not commercial interest. Therefore, cost of equity of 14% pa is very high and are arbitrary."

6.7 On the matter of debt equity ratio, IATA commented that,

"The assumption of a 98% equity funded airport is unsubstantiated. This increases unnecessarily the WACC. AERA had in the past proposed in its normative approach to use a target debt/equity ratio of 60:40. Why is this not adopted but instead using the actual capital structure approach?"

6.8 Similarly, FIA commented that, "...CHIAL and its shareholders being a State cannot recluse themselves for not availing debt but instead relied on the equity to the tune of Rs 926.6 crores as actual equity for FY 2015-16. There is a deliberate attempt on the part of CHIAL and its shareholders not to avail debt but rely on equity to bring the FRoR at a higher rate. Admittedly the facility of debt by CHIAL and its shareholders is much easier than a private entity."

d. CHIAL's response to stakeholder comments on FRoR

6.9 In response to FIA's comments regarding cost of equity, CHIAL stated

"CHIAL had proposed to continue with the normative fair return on equity @ 14% p.a. as considered in tariff determination process for the other airports in India"

6.10 In response to IATA's and FIA's comments regarding the debt-equity ratio, CHIAL stated that

"CHIAL had considered a Debt Equity ratio of 50:50 for capital expenditures during the period 2016-17 to 2020-21. However, AERA has assumed that the internal accruals of CHIAL would be sufficient to fund capital additions during the control period and as such Debt is not required. Therefore, Debt Equity ratio of 60:40 is not applicable during control period"

e. Authority's examination of stakeholder comments on FRoR

6.11 The Authority has carefully considered the comments from the stakeholders as well as CHIAL's comments and responses to these stakeholder's comments regarding Fair Rate of Return for the first control period in respect of the Chandigarh Airport. The Authority's examination and decisions in this regard have been presented below.

6.12 In response to FIA's comments on cost of equity, the Authority notes that CHIAL's capital structure may not be regarded as efficient and CHIAL should move towards a more efficient financing structure. The Authority understands that change in capital structure has to be a gradual transition process and would not like to lay down a timeline at present. However,



considering the current economic scenario the Authority shall conduct a study and decide on the cost of equity to be adopted for tariff determination.

- 6.13 The Authority has noted IATA's and FIA's comments on the matter of debt-equity ratio. The Authority is yet to decide on the normative capital structure for funding the project cost/ capital expenditure. Further, the Authority has noted that the internal accruals of CHIAL would be sufficient to fund capital additions during the control period. Moreover, the debt proposed to be raised by CHIAL for funding additional capital expenditure during the control period is relatively low and will not have a significant impact on the FRoR and Tariffs. Accordingly, the Authority has decided to maintain FRoR at 14% as proposed in the Consultation Paper.

Decision No. 2 Based on stakeholder comments and the analysis done by the Authority in Consultation Paper and this Order regarding FRoR, the Authority has decided to:

- 2.a Consider the Cost of Equity at 14% p.a. and FRoR at 14% p.a. for CHIAL for the first control period considering that it would have sufficient internal accruals to fund proposed additions to RAB during the control period and consequently no debt will be required.
- 2.b True up the FRoR based on the actual debt-equity ratio and the cost of debt and equity as determined at the time of next tariff determination.
- 2.c Conduct a study and decide on the cost of equity to be adopted for tariff determination.

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7. OPERATION AND MAINTENANCE EXPENDITURE

a. CHIAL's submission on O&M expenditure

- 7.1 As provided in Clause 5.4 of the Airport Guidelines, the operational and maintenance expenditure shall include all expenditures incurred by the Airport Operators including expenditure incurred on statutory operating cost and other mandated operating costs.
- 7.2 Operation and Maintenance expenditure submitted by CHIAL were segregated into:
- 7.2.1 Payroll related Expenditure
 - 7.2.2 Administration and General Expenditure
 - 7.2.3 Repair and Maintenance Expenditure
 - 7.2.4 Utilities and Outsourcing Expenditure
- 7.3 CHIAL submitted details and basis for each of the above proposed expenditure in their submission. The details of the assumptions made by CHIAL for each item of Operation and Maintenance Expenditure are provided in the table below:

Table 24: Assumptions made by CHIAL for each item of Operation and Maintenance Expenditure

S. No.	Item	Assumption	Basis for assumption
i	Payroll related Expenditure	Salaries & Wages, including Dearness Allowances, House Rent Allowance, P.F. Contribution and Medical Expenses are estimated for 47 employees. The same is expected to grow at 13% p.a. for FY18 and at 9% p.a. thereafter. The outsourced manpower has been assumed at ₹ 2 crore in FY18 and a 10% increase has been considered from FY19 to FY21.	An increase of 13% for FY18 has been assumed considering wage revision w.e.f., 01.01.2017. The expenses are expected to grow at 9% p.a. thereafter based on average growth rate over the years. The outsourced manpower is towards FMS Services. Expenses for FY17 and FY18 are as per approved budget estimates by CHIAL board.
ii	Administration and General Expenditure	Expenses for the FY 2015-16 have been considered as per audited accounts. The expenses for the FY17 and FY18 have been considered as per budgeted estimates for the years. An increase of 5% p.a. FY19 onwards has been estimated for all items.	Increase of 5% p.a. for Administration and General Expenses from FY19 onwards is based on normal trend and projected expenditure.
iii	Repair and Maintenance Expenditure	Expenses for FY 2015-16 have been considered for a period of 5.5 months as explained above. The expenses for the FY17 has been considered as per budgeted estimates for the year. An increase of 10% p.a. FY18 onwards has been estimated for all items.	An increase of 10% for Repair & Maintenance expenses is based on normal trend and projected expenditure.
iv	Utilities and Outsourcing Expenditure	Expenses for FY 2015-16 are as per audited accounts. The expenses for FY17 and FY18 have been considered as per the budgeted estimates for the years. An increase of 5-10% p.a. FY19 onwards has	Power Charges - Per unit rate has been considered for FY 2015-16 as per the latest electricity bills available. The per unit rate has been reduced for the FY18 considering the provision of solar plant which will help in



S. No.	Item	Assumption	Basis for assumption
		been estimated for all items.	reduction of per unit cost. The increase of 10% in POL for DG set and 5% for Stationery Expenses is based on the normal trend and projected expenditure.

7.4 A summary of costs proposed by CHIAL for the first control period is detailed below:

Table 25: Actual and projected aeronautical O&M expenditure by CHIAL for the first control period (in ₹ lakhs)

S. No.	Particulars	FY 15-16*	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
A	Payroll related Expenditure	252	467	708	774	846	924
B	Administration and General Expenditure	89	206	531	558	586	615
C	Repair and Maintenance Expenditure	192	619	777	855	941	1,035
D	Utilities and Outsourcing Expenditure	198	889	796	840	886	935
	Total (A+B+C+D)	730	2,181	2,813	3,027	3,258	3,509

**Actuals for 5.5 months*

7.5 The allocation of O & M expenditure between aeronautical and non-aeronautical services has been summarized in the following table.

Table 26: O&M expenditure apportionment between aeronautical & non-aeronautical services as per CHIAL (in %)

S. No	Cost Description	Aero	Non-aero	Basis of apportionment
1	Payroll related Expenditure	96%	4%	Based on Details of Employees present in Form 11, part of the submission
2	Administration and General Expenditure			
a	Rent Residential & Hired Vehicles, Travelling Expenses	96%	4%	Based on Details of Employees present in Form 11a of the submission
b	Insurance, Advertisement & Publicity, Other Misc. Expenses	92%	8%	As per Capex Allocation Ratio
c	Legal & Professional Expenses	91%	9%	Not applicable
d	Raj Bhasha Expenses & Financial Charges	100%	0%	Not applicable
3	Repair and Maintenance Expenditure except Conservancy MESS	92%	8%	As per Capex Allocation Ratio
4	Conservancy MESS cost	100%	0%	Not applicable
5	Utilities and Outsourcing Expenditure - Electricity & POL DG Set	100%	0%	Considered 100% Aero as this is on reimbursement basis to Commercial Activities
6	Utilities and Outsourcing Expenditure - Stationery	96%	4%	Based on Details of Employees present in Form 11a of the submission

b. Authority's examination of CHIAL's submission on O&M expenditure

- 7.6 The Authority carefully examined CHIAL's submissions regarding the components of operating expenses and presented its findings as detailed below.
- 7.7 The Authority examined the projected items of operating expenses and the classification in to aeronautical services and non-aeronautical services as submitted by CHIAL, based on which, it accordingly proposed the following:
- 7.7.1 Payroll related expenditure would be increased by 7% p.a. (including annual increments) from FY19 to FY21 instead of CHIAL's proposed increase of 9% p.a. and such expenditure would be subsequently reclassified into aeronautical services and non-aeronautical services in the ratio of 95% and 5% respectively.
- 7.7.2 Finance charges considered under Administration and General Expenditure are to be excluded from the total O&M expenditure in the absence of any debt.
- 7.7.3 The annual increase in Repair and Maintenance Expenditure from FY17 to FY21 was proposed to be assumed as 5%, 8%, 10%, 10% and 10% per annum respectively considering newly constructed assets would have lower repair costs in initial years. Since data for FY 15-16 was available only for 5.5 months, this was annualized to calculate the projected data based on the proposed increase during the control period. Further such Repair and Maintenance Expenditure except Conservancy expenses were re-apportioned between aeronautical services and non-aeronautical services as per the apportionment ratio of RAB of 90.5 to 9.5 as discussed above.
- 7.7.4 Power Charges were high, considering CHIAL owns and operates a 3MW solar power plant, and low cost electricity from this type of solar power plant would reduce the total Power Charges. Annual power production (kWh) from solar plant has been estimated as 91,98,000 kWh per annum. Solar power was valued at ₹4.64/kWh and balance annual power requirement was valued at ₹6.67/kWh as considered by CHIAL.
- 7.7.5 The Authority also noted that O&M expenditure for FY16-17 and FY17-18 was based on the budget approved by CHIAL's Board of Directors, which considered a significant increase in O&M expenditure during the first 2 years of the control period. The Authority proposed to accept the budget approved by CHIAL's Board of Directors (subject to proposals discussed above), as there would be significant expenditure requirement for the new larger terminal building.
- 7.8 After considering the above factors, the total operational and maintenance expenditure was reworked as follows.

Table 27: Total O&M expenditure as per the Authority for the first control period (in ₹ lakhs)

S. No.	Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
A	Payroll related Expenditure	486	738	789	845	904
B	Administration and General Expenditure	221	302	317	333	350



S. No.	Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
C	Repair and Maintenance Expenditure	486	525	577	635	698
D	Utilities and Outsourcing Expenditure	784	611	654	700	749
	Total (A+B+C+D)	1,976	2,175	2,338	2,513	2,701

7.9 The allocation of O&M expenses for aeronautical services specifically has been outlined in the table below.

Table 28: Aeronautical O&M expenditure as per the Authority for the first control period (in ₹ lakhs)

S. No.	Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
A	Payroll related Expenditure	462	701	750	802	859
B	Administration and General Expenditure	206	281	295	310	326
C	Repair and Maintenance Expenditure	454	490	539	593	652
D	Utilities and Outsourcing Expenditure	784	610	653	699	748
	Total (A+B+C+D)	1,905	2,082	2,238	2,405	2,585

7.10 Regarding O&M expenditure, based on the material before it and its analysis, the Authority proposed to:

7.10.1 Consider the operational and maintenance expenditure as given in Table 28, for the purpose of determination of aeronautical tariffs for the first Control Period.

7.10.2 True up the Operating expenses based on the actual expenditure during the Control Period.

c. CHIAL's comments on issues pertaining to O&M expenditure

7.11 CHIAL's comments pertaining to O&M expenditure have been stated below:

"Payroll Expenditure: 9% increase was considered similar to the increase allowed by AERA to AAI airports. Since AAI employees are working for CHIAL and drawing similar salary, increase of 9% p.a. may be allowed.

Repair & Maintenance Expenditure: Approved Budget Figures may be considered for FY 2016-17 and 10% increment YOY basis as submitted may be allowed.

Utilities & Outsourcing Expenditure: The figure submitted by CHIAL may be considered."

d. Authority's examination of stakeholder comments on O&M expenditure

7.12 The Authority has carefully considered CHIAL's comments regarding O&M expenditure for the first control period in respect of the Chandigarh Airport. The Authority's examination and decisions in this regard have been presented below.

7.13 The Authority has decided to review the growth rate assumptions and revision of various O&M expenditure items in the next control period at the time of true up.

Decision No. 3 Based on stakeholder comments and the analysis done by the Authority in Consultation Paper and this Order regarding the Operating & Maintenance Expenditure, the Authority has decided to:

- 3.a Consider the operational and maintenance expenditure as given in *Table 28*, for the purpose of determination of aeronautical tariffs for the first Control Period.
- 3.b True up the Operating expenses based on the actual expenditure during the Control Period.



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8. REVENUE FROM NON-AERONAUTICAL SERVICES

a. CHIAL's submission on revenues from non-aeronautical services

- 8.1 CHIAL submitted the forecasts of various components of non-aeronautical revenue streams as well as the assumptions underlying the forecast.
- 8.2 The assumptions made by CHIAL for projecting each source of non-aeronautical revenue were as under:

Table 29: Assumptions made by CHIAL for revenues from Non-aeronautical services

S.No.	Item	Assumption	Basis
1	Trading Concessions including Restaurant, T.R Stalls, Hoarding & Display, etc.	Revenue has been considered based on contracts awarded till date and expected to be awarded in future (revised budget and budgeted estimates for FY 2016-17 and 2017-18 respectively) with 10% increase in revenue year on year basis up to FY 2020-21.	The rate of increase is based on terms of contracts awarded till date.
2	Rent and Services including Land Leases Inside and Outside Terminal Building	Revenue has been considered based on contracts awarded till date and expected to be awarded in future (Revised Budget and Budgeted Estimates for FY 2016-17 and 2017-18 respectively) with 10% increase in revenue year on year basis up to FY 2020-21.	The rate of increase is based on terms of contracts awarded till date.
3	Car Parking	Revenue has been considered based on contracts awarded till date and expected to be awarded in future (Revised Budget and Budgeted Estimates for FY 2016-17 and 2017-18 respectively) with 10% increase in revenue year on year basis up to FY 2020-21.	The rate of increase is based on terms of contracts awarded till date.
4	Interest Income	Interest Income has been considered on investment of surplus funds in short deposit/flexi deposit with banks.	The income is calculated based on Cash Flow and availability of surplus funds and the current rate of interest available on Short Term Deposits.

- 8.3 Revenue from Non-Aeronautical Services for the first control period submitted by CHIAL were as follows:

Table 30: Revenue from Non-aeronautical services - actual/projected as furnished by CHIAL for the 1st control period (in ₹ lakhs)

	Particulars	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
I.	Revenue from commercial services						
1	Trading concessions (Retails)						
	Food & Beverages	45	103	264	290	319	351
	Retail	-	29	240	264	290	319
	Hoarding & Display	46	296	326	359	394	434
	Others						



	Particulars	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
	- Admission Tickets	11	26	28	31	34	37
	- IBS / WIFI / Communications	36	84	119	131	144	158
	- Taxi Services	-	67	74	81	89	98
	- Miscellaneous	4	78	240	264	290	319
	TOTAL (1)	143	682	1,290	1,419	1,561	1,717
2	Rent & Services						
	Land Leases (Inside TB)	212	251	276	303	334	367
	Land Leases (Outside TB)	27	293	315	347	381	419
	Land for refuelling station	138	338	364	400	440	484
	TOTAL (2)	377	882	954	1,050	1,155	1,270
3	Car Parking	69	273	504	554	610	671
	TOTAL (I)	588	1,838	2,749	3,024	3,326	3,658
II	Miscellaneous						
	Interest Income	139	45	-	-	-	-
	TOTAL (II)	139	45	-	-	-	-
	TOTAL (I+II)	727	1,883	2,749	3,024	3,326	3,658

b. Authority's examination of CHIAL's submission on revenues from non-aeronautical services

8.4 The Authority carefully examined CHIAL's submissions regarding the components of non-aeronautical revenue and presented its findings as detailed below.

8.5 The Authority noted that at present there were no duty free shops at the terminal and therefore no income from duty free was considered by CHIAL. Any income from duty free shops earned during the control period would be considered for true up calculations in the subsequent control period.

8.6 Regarding revenues from non-aeronautical services, the Authority's view was that:

8.6.1 Rental income from "Land for refueling station" as shown in table below, would be excluded from non-aeronautical revenue and considered as revenue from Aeronautical revenues since such rentals from fuel farm operators are essentially in the nature of revenue from Aeronautical services.

Table 31: Rental income from "Land for refueling station" excluded from non-aeronautical revenues and considered as aeronautical revenue (in ₹ lakhs)

Particulars	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Land for refuelling station	138	338	364	400	440	484

8.6.2 The rent from "Land leases" would be increased by 10% p.a. based on the clause in the rental agreements. Further, as per CHIAL's submission, area earmarked for commercial activities inside Terminal Building is 4,623 sq.m., out of which only 804 sq.m., was being utilized at present. It was assumed that CHIAL would be able to utilize at least 40% of total area available i.e., 1,849 sq.m., by the end of control period and rental from "Land Leases (Inside TB)" was proportionately increased for each year



after FY 16-17 during the control period to reflect the increase in area utilization. The table below summarizes the explanation above:

Table 32: Revised lease rental from space inside Terminal Building (TB) as per the Authority

Particulars		Units	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Space rental as per CHIAL	A	₹ lakhs	251	276	303	334	367
Current utilised area for lease rental Inside TB as per CHIAL	B	Sq.m.	804	804	804	804	804
Lease rental rate	C=A/B	₹/ Sq.m.	31,172	34,289	37,717	41,489	45,638
Total available area for lease rental Inside TB as per CHIAL	D	Sq.m.	4,623				
Proposed Area Utilisation in FY21 by the Authority	E=40% of D	%	1,849				
Proposed annual increase in Area Utilisation by the Authority	F=(E-B)/4	Sq.m.	-	261	261	261	261
Revised leased area inside TB	G = Average are used	Sq.m.	804 (as is)	1,065	1,327	1,588	1,849
Revised lease rental inside TB	H=C*G	₹ lakhs	251	365	500	659	844

8.6.3 Interest at 5% p.a on opening cash balance for each year during the control period would be considered. Interest income as per CHIAL vis-à-vis interest income reworked by the Authority is provided below:

Table 33: Cash flow statement and revised interest on cash balance (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Opening cash balance	3,772	2,776	5,852	12,685	20,993
Profit after tax during the year	(2,165)	3,115	3,773	4,814	5,656
Add: depreciation during the year	3,280	3,531	3,648	3,556	2,934
Add/ (Less) : Working capital	1	(344)	(48)	(63)	(72)
(Less): capital expenditure for the year	(2,112)	(3,227)	(540)	-	-
Change in cash	(996)	3,076	6,833	8,308	8,519
Closing cash balance	2,776	5,852	12,685	20,993	29,512
Interest on cash balance - As per CHIAL	45	-	-	-	-
Interest on opening cash balance - Revised as per the Authority	189	139	293	634	1,050

8.6.4 The total revised revenue from Non-aeronautical services after considering the above changes is provided in the table below:

Table 34: Revised revenue from Non-aeronautical services (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Food & Beverages	103	264	290	319	351
Retail	29	240	264	290	319
Advertisements	296	326	359	394	434
Other Concessions	255	460	506	557	613
Car Parking	273	504	554	610	671



Rent & Leases excluding Rental from Fuel Farm	544	591	650	715	786
Interest on Cash Balance	189	139	293	634	1,050
Total	1,688	2,524	2,916	3,520	4,224

8.7 Regarding non-aeronautical revenue, based on the material before it and its analysis, the Authority proposed to:

8.7.1 Consider the Non Aeronautical Revenue as given in Table 34 for determination of aeronautical tariffs for the first control period.

8.7.2 True-up the Non Aeronautical Revenue based on the actual Non Aeronautical Revenue earned during the Control Period.

c. CHIAL's comments on issues pertaining to revenues from non-aeronautical services

8.8 On the matter of revenue from services other than aeronautical services, CHIAL has commented that, "As per definition given by AERA in respect of Aeronautical revenue, Land for refuelling station is not defined as Non-Aero Revenue. Further, rates of only aero revenue are regulated by AERA and rental income does not come under AERA's purview. As such, this component may be added back to Non-Aero revenue."

8.9 Further in respect of lease rental from space inside terminal building, CHIAL stated that

"The authority has assumed that out of 4623 SQM area earmarked for commercial activity, CHIAL has considered only 804 SQM as area utilized for the entire Control Period. AERA has subsequently considered an increase in utilized area up to 40% by the end of the control period. As such the area has been increased to 1849 sqm by the end of the control period and income has been increased by Rs, 10.88 crore for the control period.

The 4623 SQM area earmarked for commercial activity includes F & B (1000 SQM), Retail (1200 SQM) and Rent from Area Leased inside Terminal Building (804 SQM). Thus it does not consist of only 804 SQM for Area Leased inside Terminal Building. Income from F & B and Retail have already been considered."

d. Authority's examination of stakeholder comments on revenues from non-aeronautical services

8.10 The Authority has carefully considered the CHIAL's comments regarding non-aeronautical revenues for the first control period in respect of the Chandigarh Airport. The Authority's examination and decisions in this regard have been presented below.

8.11 In response to CHIAL's comment, the Authority noted that as per the AERA Act, 2008, Aeronautical service means any service provided for supplying fuel to the aircraft at an airport. The land has been provided for carrying out fuel supply services and hence rentals for provision of such land will be considered as Aeronautical revenue.

8.12 Further, in response to CHIAL's comment regarding lease rental from space inside the terminal building, the Authority notes that due to certain ambiguity in CHIAL's original submissions regarding details of leased out space inside terminal building, lease rentals from terminal building space have been determined incorrectly in the Consultation Paper. Hence,



the Authority has corrected the data on rental from leased out space inside terminal building rentals.

Decision No. 4 Based on stakeholder comments and the analysis done by the Authority in Consultation Paper and this Order regarding the revenue from non-aeronautical services, the Authority has decided to:

- 4.a Consider the Non Aeronautical Revenue as given in *Table 34* for determination of aeronautical tariffs for the first control period.
- 4.b True-up the Non Aeronautical Revenue based on the actual Non Aeronautical Revenue earned during the Control Period.



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9. TAXATION

a. CHIAL's submission on taxation

9.1 Clause 5.5.1 and Clause 5.5.2 of the Airport Guidelines state that:

"Taxation represents payments by the Airport Operator in respect of corporate tax on income from assets/ amenities/ facilities/ services taken into consideration for determination of Aggregate Revenue Requirement."

"The Authority shall review forecast for corporate tax calculation with a view to ascertain inter alia the appropriateness of the allocation and the calculations thereof."

9.2 As per the Airport Guidelines any interest payments, penalty, fines and other such penal levies associated with corporate tax, shall not be taken into consideration as expenditure or cost.

9.3 Tax liability during the control period considered by CHIAL is provided below:

Table 35: Tax liability as per CHIAL's submission

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Aeronautical revenues	977	6,557	6,950	7,375	7,834
Non-aeronautical revenues	1,883	2,749	3,024	3,326	3,658
Total revenue	2,860	9,306	9,974	10,701	11,493
Aeronautical Operating Expenditure	2,181	2,813	3,027	3,258	3,509
Aeronautical Depreciation	3,281	3,494	3,535	3,348	3,068
Total Expenditure	5,462	6,307	6,562	6,606	6,577
Profit before tax	(2,602)	2,998	3,412	4,095	4,916
TAX @34.608%	(900)	1,038	1,181	1,417	1,701
Profit after tax	(1,701)	1,961	2,231	2,678	3,215

b. Authority's examination of CHIAL's submission on taxation

9.4 The Authority carefully examined CHIAL's submissions regarding taxation liabilities and presented its findings as detailed below.

9.5 The Authority noted that CHIAL considered corporate tax liability @ 34.608% p.a. on total Profit from Aeronautical services plus revenues from Non-aeronautical services. Further, CHIAL has not considered the impact of benefit from unabsorbed tax losses and unabsorbed depreciation and MAT liability on net tax liability. Also, CHIAL considered negative tax of ₹900.33 lakhs for FY 16-17.

9.6 The Authority has noted that tax liability should be calculated on profit from Aeronautical services only and that the negative tax should be ignored. To achieve the desired result, the Authority recalculated the net tax liability on CHIAL's reworked profit from aeronautical services after taking into account the impact of benefit from unabsorbed tax losses and unabsorbed depreciation. The table below depicts the net tax liability on profit from aeronautical services:

Table 36: Revised net tax liability as per authority (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Total revised aeronautical revenue as per Table 46	1,403	7,142	7,866	8,669	9,562
Less: Revised aeronautical book depreciation as per Companies Act 2013	3,121	3,368	3,484	3,393	2,771
Less: Revised aeronautical O&M expenditure as per Table 28	1,905	2,082	2,238	2,405	2,585
Net profit from Aeronautical activities	(3,623)	1,693	2,145	2,872	4,206
Revised net tax liability as per IT Act 1961	-	254	458	613	898

9.7 With regard to taxation, the Authority proposed to:

9.7.1 Consider tax as given in Table 36.

9.7.2 The true up amount shall be based on actual tax paid during the control period

Decision No. 5 Based on stakeholder comments and the analysis done by the Authority in Consultation Paper and this Order regarding taxation, the Authority has decided to:

5.a Consider tax as given in Table 36.

5.b Consider the true up amount basis actual tax paid during the control period

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10. AGGREGATE REVENUE REQUIREMENT

a. CHIAL's submission on ARR

10.1 The Aggregate Revenue Requirement (ARR) computed by CHIAL for the first control period was as follows:

Table 37: ARR as per CHIAL for the first control period (in ₹ lakhs)

Details	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	Total
Total Revenue from Regulated Services (1)	1,020	1,092	1,173	1,261	1,356	5,901
Total Revenue from services other than Regulated Services (2)	1,883	2,749	3,024	3,326	3,658	14,639
Hybrid Till (30% of 2 above) (2A)	565	825	907	998	1,098	4,392
Operating Expenditure (3)	2,181	2,813	3,027	3,258	3,509	14,788
Depreciation (4)	3,281	3,494	3,535	3,348	3,068	16,726
Taxation (5)	-	-	-	-	-	-
Total Expenditure (3) + (4) + (5) = (6)	5,462	6,307	6,562	6,606	6,577	31,514
Regulatory Operating Profit (1) + (2) - (6) = (7)	(2,559)	(2,467)	(2,365)	(2,019)	(1,563)	(10,974)
Capital Expenditure (8)	1,891	3,148	540	-	-	5,579
Opening RAB (9)	88,443	87,053	86,707	83,712	80,364	4,26,279
Disposals/ Transfers (10)	-	-	-	-	-	-
Closing RAB (8) - (4) - (10) = (11)	87,053	86,707	83,712	80,364	77,296	4,15,131
Average RAB [(9) + (11)] / 2 = (12)	87,748	86,880	85,209	82,038	78,830	4,20,705
Return on Average RAB (12)*14% = (13)	12,285	12,163	11,929	11,485	11,036	58,899
TAX @ 34.608% (14)	(900)	1,038	1,181	1,417	1,701	4,437
ARR [(3)+(4)+(13)-(2A)+(14)] = (15)	16,281	18,684	18,765	18,511	18,217	90,458

b. Authority's examination of CHIAL's submission on ARR

10.2 After careful examination of the ARR as per CHIAL's submission, the Authority proposed that the date of order shall be considered as 1 April 2017 for calculating discounting factors. However, discounting factors considered by CHIAL are based on the assumption that revenues/ expenses for a particular financial year will be received/ incurred on the first day of that financial year. However, this was not a reasonable assumption. Accordingly, the discounting factors shall be revised to reflect the assumption that revenues/ expenses for a particular financial year will be received/ incurred on the last day of that financial year. For instance, revenues/ expenses for FY16-17 shall be assumed to be received on 1 April 2017 and accordingly the discount factor for FY16-17 will be 1.

10.3 The Revised ARR after considering the above changes is provided in the table below:

Table 38: Revised ARR as per the Authority for the first control period (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	Total
Average RAB [1]	43,480	43,556	42,754	40,327	37,707	2,07,824
FRoR [2]	14.0 %	14.0 %	14.0 %	14.0 %	14.0 %	
Return on Average RAB [1]*[2]	6,087	6,098	5,986	5,646	5,279	29,095
Add: Operating Expenditure as per Table 28	1,905	2,082	2,238	2,405	2,585	11,214
Add: Depreciation as per Table 20	2,364	2,594	2,704	2,618	2,383	12,663
Add: Taxation as per Table 36	-	254	458	613	898	2,223
Less: Hybrid Till (30% of Non-Aero revenue as per Table 34)	506	757	875	1,056	1,267	4,462
Add: Under / (Over) Recovery from Previous Control Period	-	-	-	-	-	-
ARR	9,849	10,271	10,510	10,225	9,877	50,732
Discounted ARR	9,960	9,110	8,178	6,976	5,911	40,135
Σ PV(ARR)		40,135				

10.4 Regarding ARR, based on the material before it and its analysis, the Authority proposed to:

10.4.1 Consider the ARR as determined in Table 38 for determination of aeronautical tariffs for the first control period.

10.4.2 True up of all the building blocks shall be considered in the next control period

c. Stakeholder comments on issues pertaining to ARR

10.5 Stakeholders' comments with respect to FRoR are presented below:

10.6 IATA commented that, "We would require better understanding of how the true-ups would work in case of cost base changes due to construction of the new terminal, and other components as well which AERA has indicated to true-up"

10.7 FIA commented that, "Regulatory Period and Recovery of ARR ought to be determined prospectively. Authority's proposal for tariff determination for the period of 5 years and compressing the recovery in 4 years is imprudent and detrimental to the interests of Stakeholders including the airlines and the passengers."

d. CHIAL's response to stakeholder comments on ARR

10.8 In response to IATA's comments requiring greater understanding of the true-ups, CHIAL stated that

"The cost base for 2016-17 is as per the approved expenditure Budget of CHIAL which is based on contracts awarded, actual payroll expenses etc. All the expenses are subject to truing up on actual basis. Further, even after considering the proposed revenue, there is a shortfall of revenue to the extent of ₹142.50 crore in the 1st Control period (2016-21). The shortfall, if any, after truing up will be carried in the future control periods."

10.9 In response to FIA, CHIAL has stated that

"CHIAL has filed its MYTP for the first control period on 15.03.2016 & subsequently filed auxiliary submissions time to time as per correspondence with AERA."

e. CHIAL's comments on issues pertaining to ARR

10.10 With respect to the ARR, CHIAL has submitted that, "AERA has considered the base year as the first year of the control period i.e. FY 2016-17 for discounting. However, CHIAL has proposed to consider the year from which the new tariff would be applicable i.e. FY 2017-18 as the base year for discounting and compounded rate for 2016-17."

f. Authority's examination of stakeholder comments pertaining to ARR

10.11 The Authority has carefully considered the comments from the stakeholders as well as CHIAL's comments and responses to these stakeholder's comments regarding ARR for the first control period in respect of the Chandigarh Airport. The Authority's examination and decisions in this regard have been presented below.

10.12 In response to IATA's comment, the Authority notes that true up will be done as per AERA Guidelines.

10.13 In response to FIA's comments, the Authority has examined the proposal and decided to keep the regulatory period as 5 years. The tariffs have been determined based on recovery period of such 5 years and not compressed to be recovered in the balance regulatory period. The tariffs decided as per the order will be applicable prospectively

10.14 In response to CHIAL's comments, the Authority notes that it has been consistently following the practice of considering cash flows to accrue at the end of a particular FY, accordingly the existing proposal is in line with the same.

Decision No. 6 **Based on stakeholder comments and the analysis done by the Authority in Consultation Paper and this Order regarding the ARR, the Authority has decided to:**

6.a **Consider the ARR as determined in Table 38 for determination of aeronautical tariffs for the first control period.**

6.b **Consider true up of all the building blocks in the next control period**

11. TRAFFIC FORECAST

a. CHIAL's submission on traffic forecast

11.1 As per the Airport Guidelines, the airport operator is required to submit traffic forecasts as part of the MYTP submissions. The Airport Guidelines further provide that the Authority would reserve the right to review such forecast assumptions, methodologies and processes to determine the final forecast to be used for determination of tariffs. The Guidelines further state that the Authority will also use forecast correction mechanism if the actual traffic happens to fall outside the prescribed bands whilst keeping the upper and lower band percentages equal. As part of the tariff determination process, the Authority would require Airport Operators to provide proposals for the values of the upper and lower bands, support of evidence for the rationale of such bands and will review the operation of the bands and determine the final bands for tariff determination. As per the Guidelines (Clause 6.15.2), any variation outside these bands would be shared equally between the Airport Operator and users.

11.2 As per the traffic statistics provided by CHIAL in its submissions, the historical & projected Passenger & ATM traffic along with their Y-o-Y growth rates is provided in the tables below:

Table 39: Historical & Projected Passenger traffic as per CHIAL submission

Financial Year	Domestic	Y-o-Y growth (Domestic)	International	Y-o-Y growth (International)
FY07	1,54,705	-	-	-
FY08	2,29,608	48%	-	-
FY09	3,64,167	59%	-	-
FY10	4,70,304	29%	-	-
FY11	6,45,036	37%	-	-
FY12	8,02,059	24%	-	-
FY13	8,81,555	10%	-	-
FY14	10,49,397	19%	-	-
FY15	12,06,292	15%	-	-
FY16	15,34,058	27%	-	-
FY17	16,87,464	10%	89,100	-
FY18	18,56,210	10%	2,19,000	146%
FY19	20,04,707	8%	2,19,000	-
FY20	21,65,084	8%	2,19,000	-
FY21	23,38,290	8%	2,19,000	-

Table 40: Historical & Projected ATM Traffic as per CHIAL submission

Financial Year	Domestic	Y-o-Y growth (Domestic)	International	Y-o-Y growth (International)
FY07	2,820	-	-	-
FY08	3,842	36%	-	-
FY09	4,804	25%	-	-
FY10	5,683	18%	-	-
FY11	7,751	36%	-	-
FY12	8,545	10%	-	-
FY13	9,960	17%	-	-
FY14	9,690	-3%	-	-



Financial Year	Domestic	Y-o-Y growth (Domestic)	International	Y-o-Y growth (International)
FY15	10,968	13%	-	-
FY16	13,130	20%	-	-
FY17	14,180	8%	594	-
FY18	15,315	8%	1,460	146%
FY19	16,234	6%	1,460	-
FY20	17,208	6%	1,460	-
FY21	18,240	6%	1,460	-

b. Authority's examination of CHIAL's submission on traffic forecast

11.3 The Authority carefully examined CHIAL's submissions regarding traffic forecast and presented its findings as detailed below.

11.4 The Authority calculated 5-year and 10-year CAGR (Compounded Annual Growth Rate) for Domestic ATM and Domestic Passenger movements (based on Table 39 & Table 40 above), from FY12 to FY16 and from FY07 to FY16 respectively as below:

Table 41: Historical 5-year and 10-year CAGR for Domestic Passenger and ATM traffic

Particulars	Domestic	
	FY12 to FY16	FY07 to FY16
Domestic passenger traffic	17.6%	29.0%
Domestic ATM traffic	11.3%	18.6%

11.5 The Authority has noted that the increase in annual passenger and ATM traffic at other major international airports in Delhi and Mumbai has reached saturation levels. This might lead to a healthy diversion of traffic to CHIAL. However, the traffic increase may not be as high as the 5-year and 10-year historical CAGR figures in the table above, due to restrictions on flying (as CHIAL is built on a civil enclave) and rising fuel costs. Accordingly, after considering the above, the Authority proposed the following revised increase for Passenger and ATM traffic:

11.5.1 The annual increase in Domestic passenger traffic shall be considered at 12% p.a. throughout the first control period and for International passenger traffic at 5% p.a. from FY 18-19 to FY 20-21.

11.5.2 The annual increase in Domestic ATM traffic shall be considered as per the submissions by CHIAL and annual increase for International ATM traffic shall be considered at 2% p.a. from FY 18-19 to FY 20-21.

Table 42: Revised Passenger traffic projections using revised growth rates during control period

Financial Year	Domestic	Y-o-Y growth (Domestic)	International	Y-o-Y growth (International)
FY16	15,34,058	-	-	-
FY17	1,718,145	12%	89,100	-
FY18	1,924,322	12%	2,19,000	146%
FY19	2,155,241	12%	2,29,950	5%
FY20	2,413,870	12%	2,41,448	5%
FY21	2,703,534	12%	2,53,520	5%



Table 43: Revised ATM traffic projections using revised traffic growth rates during control period

Financial Year	Domestic	Y-o-Y growth (Domestic)	International	Y-o-Y growth (International)
FY16	13,130	20%	-	-
FY17	14,180	8%	594	-
FY18	15,315	8%	1,460	146%
FY19	16,234	6%	1,489	2%
FY20	17,208	6%	1,519	2%
FY21	18,240	6%	1,549	2%

11.6 With regard to traffic forecast, based on the material before it and its analysis, the Authority proposed to:

11.6.1 Consider annual increase in domestic passengers at 12% p.a. throughout the first control period and at 5% p.a. from FY 18-19 to FY 20-21 for international passengers.

11.6.2 Accept CHIAL's submission regarding Domestic ATM traffic and consider an increase of 2% p.a. for international ATM traffic from FY 18-19 to FY 20-21.

11.6.3 True up decision shall be based on the actual traffic during the control period.

c. Stakeholder comments on issues pertaining to traffic forecast

11.7 Stakeholder Comments on issues pertaining to traffic forecast are presented below.

11.8 FIA stated that

"Traffic projections submitted by CHIAL has been accepted by the Authority without conducting any independent study. The Authority should note the fact that CAGR for last 5 years of domestic passenger traffic is 17.6%. Given the fact that Delhi and Mumbai airports have reached saturation level and which might lead to healthy diversion of traffic to CHIAL. It is to be noted that the traffic forecast is the base for determining ARR and UDF. In view of the lower traffic forecast as assessed by the Authority, the UDF will go up. Further the admitted growth in passenger traffic at CHIAL from FY08 till FY16 as shown in table 39 of the present CP clearly depicts that the Authority's determination of growth of passenger traffic at 12% PA for domestic passengers and 5% of international passenger is incorrect."

d. CHIAL's response to stakeholder comments on traffic forecast

11.9 In response to FIA's comment, CHIAL stated that

"CHIAL submitted its traffic projections as per CPMS data which is governing body to study the trend & make forecast for the traffic data and international traffic has been considered on the basis of expected international flights in the control period."

e. CHIAL's comments on traffic forecast

11.10 With respect to passenger traffic, CHIAL has commented that:

"Domestic Pax- The increase in domestic pax may be considered as per CHIAL submission because this is as per CPMS data which is the governing body to study the trend and make forecast of traffic data.



International Pax-There is a limit on the length of runway being increased therefore wide body aircraft cannot land at present. In view of above limitation, number of international flights are expected to be constant in future. The current pax for Jan 2017 is 13,783 which work out to 1.56 lac p.a. whereas it has already been considered as 2.19 lacs p.a. throughout the Control Period."

f. Authority's examination of stakeholder comments on traffic forecast

11.11 The Authority has carefully considered the comments from the stakeholders as well as CHIAL's comments and responses to these stakeholder's comments regarding traffic forecast for the first control period in respect of the Chandigarh Airport. The Authority's examination and decisions in this regard have been presented below.

11.12 In response to FIA's and CHIAL's concern regarding traffic growth estimates considered by the Authority, the Authority states that it has examined the traffic projections given by CHIAL and revised the growth rates based on historical CAGR.

11.13 Further, in response to CHIAL's comment on constraints on expansion of runway limiting international flights, the Authority notes that the traffic growth estimates will be trued up in the next control period based on actual traffic data during the current control period.

Decision No. 7 **Based on stakeholder comments and the analysis done by the Authority in Consultation Paper and this Order regarding the traffic forecast, the Authority has decided to:**

- 7.a** Consider annual increase in domestic passengers at 12% p.a. throughout the first control period and at 5% p.a. from FY 18-19 to FY 20-21 for international passengers.
- 7.b** Accept CHIAL's submission regarding Domestic ATM traffic and consider an increase of 2% p.a. for international ATM traffic from FY 18-19 to FY 20-21.
- 7.c** Consider true up basis actual traffic during the control period.



12. ANNUAL TARIFF PROPOSAL

a. CHIAL's submission on annual tariff proposal

12.1 CHIAL vide its submission proposed the following tariff(s) (excluding taxes/levies) for the control period starting from 01.04.2016 till 31.03.2021.

12.1.1 Parking charges:

Weight of the Aircraft	PROPOSED RATES (IN INR)
Up to 40 MT	1.80 per hour per MT
Above 40 MT up to 100 MT	72.00 + 3.40 per hour per MT in excess of 40 MT
Above 100 MT	276.00 + 5.20 per MT per hour in excess of 100 MT

12.1.2 Night parking charges

Weight of the Aircraft	PROPOSED RATES (IN INR)
Up to 40 MT	0.90 per hour per MT
Above 40 MT up to 100 MT	36.00 + 1.70 per hour per MT in excess of 40 MT
Above 100 MT	138.00 + 2.60 per MT per hour in excess of 100 MT

Night parking charges have been waived off for all domestic scheduled operators, because the State Government has already brought down the rate of tax (VAT) on ATF to 4%. 50% rebate in Parking & Housing Charges between 2200 hrs to 0600 hrs at airport.

12.1.3 Fuel throughput charges

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
INR Per KL	143	149	155	161	167

12.1.4 Passenger service fee (Facilitation): PSF (Facilitation) of Rs 77 per embarking PAX will be continued to be charged till the revised UDF levy is implemented

12.1.5 UDF

Particulars	PROPOSED RATE (INR)
Domestic Passenger (Up to 165 Nautical Miles)	250 per embarking passenger
Domestic Passenger (Above 165 Nautical Miles)	650 per embarking passenger
International Passenger	1,500 per embarking passenger

12.1.6 Cargo revenue comprises of X-BIS screening charges of cargo consignments based on AAI rates i.e. Rs 0.75 per kg subject to minimum Rs 100 per consignment plus service tax as applicable. Other Cargo charges shall be examined separately when the cargo terminal comes into operation.

b. Stakeholder comments on issues pertaining to annual tariff proposal

12.2 Stakeholder comment on issues pertaining to annual tariff proposal are presented below:

12.3 BAOA in respect of Ground handling charges stated that

"It is brought to kind notice of the 'authority' that Ground Handling being part of aeronautical services as per AERA Act, it is essential to decide on GH charges for operations of small



aircraft flying in and out of CHIAL. As per Supreme Court ruling on existing AIC 3/2010 on 'ground handling', self-handling is permitted for commercial airline operations. MoCA is presently in the process of drafting new GH policy for implementation at national level. As per NCAP 2016, all GH charges would be rationalized to keep cost of operations low. AERA is requested to decide on GH charges for small aircraft operating at CHIAL in accordance with SC ruling and NCAP 'stated commitment to rationalize all such aeronautical charges – strictly in accordance with AERA Act.'

12.4 IATA's comment regarding annual tariff proposal was as follows

"AERA must ensure alignment with ICAO's policy to ensure airport charges are set based on the cost of delivering the services rather than other factors which might not be applicable/relevant when assessing the appropriateness of airport charges.'

c. CHIAL's response to stakeholder comments on annual tariff proposal

12.5 CHIAL's response to BAOA's comment in relation to annual tariff proposal was as follows

"CHIAL will follow NCAP 2016, once the ruling from MOCA & DCGA in respect of defence enclave airports are notified. However, at present there is specific court case pending in Honourable High Court Chandigarh in which Court has allowed all entities which were working at Chandigarh vide its interim order dated 24th Sep 2015 for CWP No. 18628 of 2015. After receipt of rulings from MOCA/DCGA and final outcome of pending case in High Court. CHIAL will direct authorised ground handling agencies to file their tariff charges in AERA for approval."

d. Authority's examination of stakeholder comments on annual tariff proposal

- 12.6 In response to BAOA's comment, the Authority notes that ground handling charges for smaller aircrafts will be looked into while deciding the Ground Handling charges for ground handling service providers operating at CHIAL.
- 12.7 In response to IATA's comment, the Authority states that it has determined the tariff as per AERA guidelines.



13. REVENUE FROM AERONAUTICAL SERVICES

a. CHIAL's submission on revenue from aeronautical services

13.1 As per section 2(a) of the AERA act, aeronautical services include services for Landing, Housing or Parking, Ground handling services, services for Cargo facility, and services for supplying fuel to the aircraft at an airport.

13.2 CHIAL submitted details and basis for each of the revenue item excluding UDF under Aeronautical services in its submission which have been considered for calculating UDF and shortfall in ARR. The details of the assumptions made by CHIAL for each revenue item of Aeronautical services are given below:

Table 44: Assumptions made by CHIAL for each revenue item of Aeronautical services

S. No.	Item	Assumption	Basis for assumption
1	Growth rate for Parking Revenue	Growth rates for Parking Revenue are assumed at 13% for FY 2016-17, 14% for 2017-18, 5% for FY 2018-19 and 6% for 2019-20 and 2020-21.	The growth rates for Parking Revenue are assumed as that for the average of Domestic and International aircraft movements as indicated above.
2	Growth rate for Passenger Service Fee (Facilitation)	Growth rates for PSF (F), Domestic Passengers are assumed at 10% from FY 2016-17 to FY 2017-18 and at 8% from FY 2018-19 to FY 2020-21. The PSF (F) for International PAX has been assumed as 146% for FY 2017-18 and 0% for 2019-20 onwards.	Increase is based on projected growth in Domestic and International pax movements for the control period.
3	Throughput Charges	Growth rates for fuel upliftment have been considered at 13% for FY 2016-17, 14% for FY 2017-18, 5% for FY 2018-19 and at 6% from FY 2019-20 to FY 2020-21.	Growth in Fuel upliftment is as per the average growth rate in Domestic and International aircraft movements as indicated above.
4	Cargo Charges	Growth rates for Cargo Income have been considered at 15% from FY 16-17 to FY 17-18 and at 12% from FY 2018-19 to FY 2020-21.	The increase in Cargo Movements has been considered as per CPMS projections.
5	Ground Handling Services	Growth rates for Ground Handling Charges are assumed at 13% for FY 2016-17, 14% for FY 2017-18, 5% for FY 2018-19 and at 6% from FY 2019-20 to FY 2020-21.	The growth rates for Ground handling Charges are assumed as that for an average of Domestic and International aircraft movements as indicated above.

13.3 Revenue from Aeronautical Services for the first control period submitted by CHIAL were as follows:

Table 45: Revenue from Aeronautical services - actual/projected as furnished by CHIAL for first control period (in ₹ lakhs)

Particulars	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Parking & Housing	1	4	5	5	5	6
Throughput Charges	27	56	61	67	74	81
Cargo Charges	17	55	63	70	79	88
Ground Handling Charges	30	74	80	84	89	94



Particulars	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Cute Charges	59	148	158	169	182	195
PSF (Facilitation)	262	640	-	-	-	-
UDF	-	-	6190	6554	6947	7371
Total	396	977	6557	6950	7375	7834

b. Authority's examination of CHIAL's submission on revenue from aeronautical services

13.4 After careful examination of the various assumptions relating to aeronautical revenues, the Authority proposed the following:

13.4.1 Parking & Housing charges, Ground Handling Charges, Cute Charges and UDF shall be recalculated based on the revised traffic numbers as shown in Table 42 and Table 43.

13.4.2 Revenue from Extension of Watch Hours as per CHIAL's submission shall be included in revenue from Aeronautical services

13.4.3 Lease rental from refueling station as discussed in para 8.6.1 shall be included in revenue from Aeronautical services.

13.5 Total revised revenue from Aeronautical services after considering the above changes is provided in the table below:

Table 46: Revised aeronautical revenues as per the Authority (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Parking & Housing	4	5	5	5	6
Throughput Charges	56	61	67	74	81
Cargo Charges	55	63	71	79	89
Ground Handling Charges	74	84	89	94	100
Cute Charges	138	163	182	202	225
Extension of Watch Hours	42	45	47	50	53
Lease rental from refueling station	338	364	400	440	484
PSF (Facilitation) (excluding collection charges)	696	-	-	-	-
UDF	-	6,357	7,005	7,725	8,525
Total	1,403	7,142	7,866	8,669	9,562

13.6 Regarding passenger traffic forecast, based on the material before it and its analysis, the Authority proposed to:

13.6.1 Consider the Aeronautical Revenue as given in Table 46 for determination of aeronautical tariffs for the first control period.

13.6.2 True up the Aeronautical Revenue based on actual revenue during the Control Period.

c. Stakeholder comments on issues pertaining to revenue from aeronautical services

13.7 Stakeholder comments with respect to revenue from aeronautical services are presented below.



13.8 BAOA stated that,

"CHIAL has plans to build maintenance and parking hangars in 18.6 acre of land earmarked for aeronautical services. It is requested that construction of these hangars be advanced and AERA decide on monthly rental fee for these proposed hangars as aeronautical services in accordance with AERA Act Para 2. The RCS has already been launched by the government and CHIAL will have to provide hangar facility for carrying out essential maintenance activities for small aircraft (<80 seater) involved in RCS operations. Further, it has to be ensured that there are no 'royalty'/'revenue share' charges levied to users of these hangars in accordance with provisions of NCAP 2016."

13.9 IATA stated that,

"The proposed differential charged between domestic & international is discriminatory in nature. Clear cost justification is required that explains why the charges should be different."

13.10 FIA stated that,

"Levy of User Development Fee at CHIAL has no statutory basis

In fact, the UDF which is being levied at the CHIAL to cater the shortfall between the ARR and the projected aeronautical revenue during the control period is in the nature of cess or tax. It is settled position of law that any levy or compulsory exaction which is in the nature of tax/cess cannot be levied without a statutory foundation/charging section, as laid down in a catena of judgements by the Hon'ble Supreme Court. It is submitted that no tax, fee or any compulsory charge can be imposed by any bye-law, rule or regulation unless the statute under which the subordinate legislation is made specifically authorises the imposition. There is no room for intendment.

42. It is also noteworthy that UDF is recovered from each traveling passenger through the air-ticket as a component of the price of such air-ticket and the same is payable by the airlines to the airport operator (CHIAL in the present case). It is reiterated that any increase on fees payable directly by passengers ultimately affects the interests of airlines.

It is submitted that any passenger is concerned with the total cost of his travelling and not with the specific break-up of charges. Such enhancement in the cost of the air-ticket not only works as a deterrent for the prospective traveller but also reduces the ability of the airlines to recover its costs and thus, affecting the business interests inter alia of airlines and aviation industry."

d. CHIAL's response to stakeholder comments on revenue from aeronautical services

13.11 In response to BAOA's comment on hangar rentals, CHIAL stated that has clarified that since there is "no hangar available, therefore CHIAL has not considered income from Hangars in the Current Control Period. Hence, no comments."

13.12 In response to IATA's comment on differential UDF, CHIAL stated that

"Differentials in the Domestic UDF is to keep the cost of travel low to nearby places like Delhi, Amritsar etc. so that the same is comparable with the cost of travel through other modes like rail/road. The infrastructure required for International Travel is more as compared to Domestic Travel hence proposed UDF for international passenger is justified."

e. CHIAL's comments on issues pertaining to revenue from aeronautical services

13.13 CHIAL in respect of reclassifying lease rentals from land for refuelling station as revenue from aeronautical services has commented that

"As per definition given by AERA in respect of Aeronautical revenue, Land for refuelling station is not defined as Non-Aero Revenue. Further, rates of only aero revenue are regulated by AERA and rental income does not come under AERA's purview. As such, this component may be added back to Non-Aero revenue."

f. Authority's examination of stakeholder comments on revenue from aeronautical services

13.14 The Authority has carefully considered the comments from the stakeholders as well as CHIAL's comments and responses to these stakeholder's comments regarding revenue from aeronautical services for the first control period in respect of the Chandigarh Airport. The Authority's examination and decisions in this regard have been presented below.

13.15 In response to BAOA's comment, The Authority has noted that at present there are no Hangars at Chandigarh Airport. Further, the Authority shall consider the impact of Hangar construction costs and revenue from rentals of Hangars as and when the same are built by the Airport Operator.

13.16 In response to FIA's comment on statutory basis for levy of UDF, the Authority has noted that the levy of UDF is a revenue enhancing mechanism as aeronautical tariffs other than UDF are not sufficient to recover the ARR. The Authority has considered sanctioning UDF to generate revenue required for economic and viable operation of major airports. Further, since revenues from tariff rates as submitted by CHIAL and subsequently approved by the Authority are not sufficient to recover the ARR, levy of UDF is in line with the philosophy of tariff determination process as laid out in the AERA Act and AERA guidelines.

13.17 In response to IATA's comments, the Authority has examined the clarification given by CHIAL that the cost of servicing the international passengers is higher and accepted it to be reasonable. Moreover, the Authority has also noted that the domestic travel to nearby places is highly competitive from surface travel and needs to be kept low to encourage people from moving from surface transport to air transport.

Decision No. 8 Based on stakeholder comments and the analysis done by the Authority in Consultation Paper and this Order regarding Aeronautical Revenues, the Authority has decided to:

8.a Consider the Aeronautical Revenue as given in Table 46 for determination of aeronautical tariffs for the first control period.



- 8.b Consider true up of Aeronautical Revenue basis actual revenue during the first control Period.



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14. COMPARISON OF ARR WITH PROJECTED AERONAUTICAL REVENUE

a. CHIAL's submission on comparison of ARR with projected aeronautical revenue

14.1 Shortfall as per CHIAL for the first control period is as follows:

Table 47: Shortfall as per CHIAL for the first control period (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	Total
Total Projected Aeronautical Revenues (including UDF)	977	6,557	6,950	7,375	7,834	29,694
Discount Rate	1.14	1.00	0.88	0.77	0.67	
Present Value of Projected Aeronautical Revenues	1,114	6,557	6,097	5,675	5,288	24,731
Σ PV(Projected Aeronautical Revenues)		24,731				
Aggregate Revenue Requirement	16,281	18,684	18,765	18,511	18,217	90,458
Discount Rate	1.14	1.00	0.88	0.77	0.67	
Present Value of ARR	18,561	18,684	16,461	14,244	12,296	80,244
Σ PV(ARR)		80,244				
Add: Present Value of Shortfall of 1st Control Period		8,527	88,771			
Total Present Value of Projected Aeronautical Revenues			24,731			
Difference			64,040			

b. Authority's examination of CHIAL's submission on comparison of ARR with projected aeronautical revenue

14.2 While calculating shortfall for the current control period, CHIAL has considered ₹8,527 lakhs as shortfall pertaining to operations during the period prior to 1 April 2016. The Authority has proposed to exclude losses in the prior period from shortfall calculations since CHIAL became a major airport only from 1 April 2016.

14.3 Revised shortfall as per the Authority is as follows:

Table 48: Revised shortfall as per the Authority for the first control period (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	Total
ARR	9,849	10,271	10,510	10,225	9,877	50,732
Discount factor	1.01	0.89	0.78	0.68	0.60	
Discounted ARR	9,960	9,110	8,178	6,976	5,911	40,135
Σ PV(ARR)		40,135				
Revised Aeronautical Revenues as per Table 46	1,403	7,142	7,866	8,669	9,562	34,643
Discounted Aeronautical Revenues	1,419	6,335	6,121	5,915	5,723	25,513
Σ PV(Projected Aeronautical Revenues)		25,513				
Shortfall		14,623				

14.4 Regarding shortfall, based on the material before it and its analysis, the Authority proposed that:

14.4.1 It has been observed that there is a shortfall between the ARR and the projected aeronautical revenue during the control period and therefore the Authority proposed to accept CHIAL's Tariff submissions as in para 12.

14.4.2 Consider 1 April 2017 as the date of implementation of the proposed Tariff rates.

c. CHIAL's comments on issues pertaining to comparison of ARR with projected aeronautical revenue

14.5 In respect of shortfall during pre-control period, CHIAL stated that

"The authority has not considered the short fall of the first control period amounting to ₹ 99.32 crores (PV) since as per the Authority CHIAL became a major airport only from 1 April 2016.

As per sec 2 (i) of the AERA Act, 2008 major airport means any airport which has or is designated to have annual passenger throughput in excess of 1.5 million. Since Chandigarh International Airport is designated to have annual passenger throughput of 4.50 million which is in excess of 1.5 million, it is classified as a major airport since commencement of operation at the airport i.e. FY 2015-16. Hence AERA is requested to consider the short fall of first control period."

d. Authority's examination of stakeholder comments pertaining to comparison of ARR with projected aeronautical revenue

14.6 In response to CHIAL's comment on truing up shortfall pertaining to pre-control period, CHIAL became a major airport with effect from 1st April 2016, and CHIAL's claim that it was designated to have throughput in excess of 1.5 million passengers which rendered it as a major airport during FY15-16 is not tenable without support of evidence. Hence true up of pre-control period shall be ignored.

Decision No. 9 Based on stakeholder comments and the analysis done by the Authority in Consultation Paper and this Order regarding comparison of ARR with projected aeronautical revenue:

9.a It has been observed that there is a shortfall between the ARR and the projected aeronautical revenue during the control period and therefore the Authority has proposed to accept CHIAL's Tariff submissions as in para 12.

9.b The Authority has proposed to consider 01.05.2017 as the date of implementation of the proposed Tariff rates.

15. QUALITY OF SERVICE

a. Authority's examination of Quality of Service

15.1 As per NCAP 2016, AAI will continue to modernize its existing airports, upgrade quality of services and maintain an ASQ rating of 4.5 or more across its major airports. Such norms shall apply to CHIAL as well. CHIAL has achieved a CSI rating of 4.86. ASQ rating for CHIAL is currently awaited. The Authority will review and examine the Quality of Service parameters upon release of ASQ rating for CHIAL.

b. Stakeholder's comments on Quality of Service

15.2 IATA's comments on Quality of Service and greater scrutiny of operating expenditure are as follows,

"Overall benchmark for service quality requirements utilizing the ACI's ASQ which is essentially a passenger experience survey is insufficient. There is a need to better capture the service quality feedback from airport operators using the airport facilities."

"AERA to apply greater scrutiny on the proposed OPEX by the airport operators including cost efficiency targets while delivering optimal level of services to Users."

c. Authority's examination of stakeholder comments on Quality of Service

15.3 In response to IATA's comments, the Authority notes that it is deliberating to conduct a study to finalize various service quality benchmarks and parameters. The results of the study will be considered in future tariff proposals.

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16. ANNUAL COMPLIANCE STATEMENT

- a. The Airport Guidelines issued by the Authority have laid down the error correction mechanism with reference to the adjustment to the Estimated Maximum Allowed Yield per passenger, calculated using the error correction term of Tariff Year t-2 and the compounding factor. The error correction calculated as per the Airport Guidelines indicated the quantum of over-recovery or under-recovery due to increase or decrease respectively of the Actual Yield per passenger with respect to Actual Maximum Allowed Yield per passenger in the Tariff Year.
- b. Accordingly, any under recovery/ over recovery during the first control period will be accounted for in the second control period.
- c. Further, the Authority notes that in view of all the corrections/truing up to be carried out at the end of the control period, CHIAL may submit Annual Compliance Statements for the tariff years FY17 to FY21 of the first control period.

Decision No. 10 Regarding Annual Compliance

- 10.a CHIAL shall submit the Annual Compliance Statements as per the Guidelines for all the tariff years from FY17 to FY21 of the first control period along with the MYTP for the next Control Period.

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17. SUMMARY OF DECISIONS

Decision No. 1 Based on stakeholder comments and the analysis done by the Authority in Consultation Paper and this Order regarding RAB the Authority has decided to:

- 1.a Remove land cost from RAB for the time being and will take a view based on the study to be conducted on the return to be provided on land cost in future.
- 1.b Accept the cost of the Terminal Building, Apron and Taxiways as submitted by CHIAL since they are within a reasonable range of the rates prescribed in the Normative Capital Cost Order of the Authority on capital cost.
- 1.c Allocate the common area in the Terminal Building into Aeronautical and Non-aeronautical in the revised ratio of 90.5 to 9.5.
- 1.d Allocate the project cost and additions to project cost between Aeronautical and Non-Aeronautical as per revised allocation ratio of 90.5 to 9.5.
- 1.e Consider ₹43,690 lakhs as opening RAB as on 1 April 2016 for the First Control Period as shown in Table 22.
- 1.f Consider additions to RAB during the control period as ₹5,650 lakhs as shown in Table 14.
- 1.g Adopt a rate of 3.33% based on useful life of 30 years for taxiway and apron (added during the first control period), depreciation rates as specified under the Companies Act 2013 shall be provided on the other assets till the Authority revises its depreciation rates based on the study commissioned to determine depreciation rates.
- 1.h Provide depreciation on additions during the control period for half year in the year of addition and for full year in the subsequent years during the control period.
- 1.i Consider depreciation on RAB as shown in Table 20.
- 1.j Consider revised average RAB during the control period for calculation of ARR as shown in Table 22.
- 1.k True up the average RAB to be based on the actual date of capitalization.
- 1.l True up the depreciation, as and when the decision to revise the depreciation rates is taken.

Decision No. 2 Based on stakeholder comments and the analysis done by the Authority in Consultation Paper and this Order regarding FRoR, the Authority has decided to:

- 2.a Consider the Cost of Equity at 14% p.a. and FRoR at 14% p.a. for CHIAL for the first control period considering that it would have sufficient internal accruals to fund proposed additions to RAB during the control period and consequently no debt will be required.
- 2.b True up the FRoR based on the actual debt-equity ratio and the cost of debt and equity as determined at the time of next tariff determination.
- 2.c Conduct a study and decide on the cost of equity to be adopted for tariff determination.

Decision No. 3 Based on stakeholder comments and the analysis done by the Authority in Consultation Paper and this Order regarding the Operating & Maintenance Expenditure, the Authority has decided to:

- 3.a Consider the operational and maintenance expenditure as given in Table 28, for the purpose of determination of aeronautical tariffs for the first Control Period.
- 3.b True up the Operating expenses based on the actual expenditure during the Control Period.



Decision No. 4 Based on stakeholder comments and the analysis done by the Authority in Consultation Paper and this Order regarding the revenue from non-aeronautical services, the Authority has decided to:

4.a Consider the Non Aeronautical Revenue as given in Table 34 for determination of aeronautical tariffs for the first control period.

4.b True-up the Non Aeronautical Revenue based on the actual Non Aeronautical Revenue earned during the Control Period.

Decision No. 5 Based on stakeholder comments and the analysis done by the Authority in Consultation Paper and this Order regarding taxation, the Authority has decided to:

5.a Consider tax as given in Table 36.

5.b Consider the true up amount basis actual tax paid during the control period

Decision No. 6 Based on stakeholder comments and the analysis done by the Authority in Consultation Paper and this Order regarding the ARR, the Authority has decided to:

6.a Consider the ARR as determined in Table 38 for determination of aeronautical tariffs for the first control period.

6.b Consider true up of all the building blocks in the next control period

Decision No. 7 Based on stakeholder comments and the analysis done by the Authority in Consultation Paper and this Order regarding the traffic forecast, the Authority has decided to:

7.a Consider annual increase in domestic passengers at 12% p.a. throughout the first control period and at 5% p.a. from FY 18-19 to FY 20-21 for international passengers.

7.b Accept CHIAL's submission regarding Domestic ATM traffic and consider an increase of 2% p.a. for international ATM traffic from FY 18-19 to FY 20-21.

7.c Consider true up basis actual traffic during the control period.

Decision No. 8 Based on stakeholder comments and the analysis done by the Authority in Consultation Paper and this Order regarding Aeronautical Revenues, the Authority has decided to:

8.a Consider the Aeronautical Revenue as given in Table 46 for determination of aeronautical tariffs for the first control period.

8.b Consider true up of Aeronautical Revenue basis actual revenue during the first control Period.

Decision No. 9 Based on stakeholder comments and the analysis done by the Authority in Consultation Paper and this Order regarding comparison of ARR with projected aeronautical revenue:

9.a It has been observed that there is a shortfall between the ARR and the projected aeronautical revenue during the control period and therefore the Authority has proposed to accept CHIAL's Tariff submissions as in para 12.

9.b The Authority has proposed to consider 01.05.2017 as the date of implementation of the proposed Tariff rates.

Decision No. 10 Regarding Annual Compliance

10.a CHIAL shall submit the Annual Compliance Statements as per the Guidelines for all the tariff years from FY17 to FY21 of the first control period along with the MYTP for the next Control Period.



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18. **ORDER**

18.1 In exercise of power conferred by section 13(1) (a) of the AERA Act, 2008 and based on the above decisions, the Authority hereby determines the aeronautical tariffs to be levied at Chandigarh International Airport for the First Control Period (FY 16-17 to FY 20-21), effective from 01.05.2017 and the rate card so arrived at has been attached as Annexure II and III to the Order. The UDF rates indicated in the tariff card are also in accordance with section 13(1) (b) read with rule 89 of the Aircraft Rules, 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

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To:
Shri Sunil Dutt, Chief Executive Officer
Chandigarh International Airport
Limited
Room No.1, Project Office Building, Civil
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Tel No.: 0172-5056451

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Table 1: Classification of opening gross block into aeronautical, non-aeronautical and common assets (in ₹ lakhs).....	14
Table 2: Classification of opening common assets into aeronautical and non-aeronautical assets (in ₹ lakhs).....	14
Table 3: Assets forming part of opening RAB as on 1st April 2016 (in ₹ lakhs).....	15
Table 4: Per sq.m. cost of Terminal Building and Apron as per CHIAL's submission	16
Table 5: Segregation of Terminal Building area into Aeronautical, Non-aeronautical and Common (in sq.m.)	16
Table 6: Revised classification of Terminal Building cost into aeronautical and non-aeronautical (in ₹ lakhs).....	17
Table 7: Revised classification of opening gross block into aeronautical, non-aeronautical and common assets (in ₹ lakhs)	17
Table 8: Classification of additions to gross block during the control period into aeronautical, non-aeronautical and common assets (in ₹ lakhs).....	20
Table 9: Classification of additions to common assets during the control period into aeronautical and non-aeronautical assets (in ₹ lakhs).....	21
Table 10: Additions to RAB during control period (in ₹ lakhs).....	21
Table 11: Revised classification of additions to common assets as Aeronautical (in ₹ lakhs).....	21
Table 12: Revised classification of additions to gross block during the control period into aeronautical, non-aeronautical and common assets (in ₹ lakhs)	22
Table 13: Revised classification of additions to common assets into aeronautical and non-aeronautical (in ₹ lakhs).....	22
Table 14: Revised additions to RAB (in ₹ lakhs)	23
Table 15: Depreciation on assets forming part of Opening RAB as on 1 April 2016 (in ₹ lakhs)	23
Table 16: Revised depreciation on Opening RAB of each year during the control period (in ₹ lakhs).....	25
Table 17: Depreciation on additions to RAB during the control period (in ₹ lakhs)	25
Table 18: Total depreciation during control period as per CHIAL (in ₹ lakhs).....	26
Table 19: Revised depreciation on additions to RAB (in ₹ lakhs).....	26
Table 20: Total revised depreciation during the control period as per the Authority (in ₹ lakhs).....	26
Table 21: RAB as per CHIAL's submission (in ₹ lakhs)	27
Table 22: Revised RAB (in ₹ lakhs)	27
Table 23 : Historical & Projected summary of Capital structure of CHIAL (in ₹ crores)	29
Table 24: Assumptions made by CHIAL for each item of Operation and Maintenance Expenditure	32
Table 25: Actual and projected aeronautical O&M expenditure by CHIAL for the first control period (in ₹ lakhs).....	33



Table 26: O&M expenditure apportionment between aeronautical & non-aeronautical services as per CHIAL (in %)	33
Table 27: Total O&M expenditure as per the Authority for the first control period (in ₹ lakhs)	34
Table 28: Aeronautical O&M expenditure as per the Authority for the first control period (in ₹ lakhs)	35
Table 29: Assumptions made by CHIAL for revenues from Non-aeronautical services	37
Table 30: Revenue from Non-aeronautical services - actual/projected as furnished by CHIAL for the 1st control period (in ₹ lakhs)	37
Table 31: Rental income from "Land for refueling station" excluded from non-aeronautical revenues and considered as aeronautical revenue (in ₹ lakhs)	38
Table 32: Revised lease rental from space inside Terminal Building (TB) as per the Authority	39
Table 33: Cash flow statement and revised interest on cash balance (in ₹ lakhs)	39
Table 34: Revised revenue from Non-aeronautical services (in ₹ lakhs)	39
Table 35: Tax liability as per CHIAL's submission	42
Table 36: Revised net tax liability as per authority (in ₹ lakhs)	43
Table 37: ARR as per CHIAL for the first control period (in ₹ lakhs)	44
Table 38: Revised ARR as per the Authority for the first control period (in ₹ lakhs)	45
Table 39: Historical & Projected Passenger traffic as per CHIAL submission	47
Table 40: Historical & Projected ATM Traffic as per CHIAL submission	47
Table 41: Historical 5-year and 10-year CAGR for Domestic Passenger and ATM traffic	48
Table 42: Revised Passenger traffic projections using revised growth rates during control period	48
Table 43: Revised ATM traffic projections using revised traffic growth rates during control period	49
Table 44: Assumptions made by CHIAL for each revenue item of Aeronautical services	53
Table 45: Revenue from Aeronautical services - actual/projected as furnished by CHIAL for first control period (in ₹ lakhs)	53
Table 46: Revised aeronautical revenues as per the Authority (in ₹ lakhs)	54
Table 47: Shortfall as per CHIAL for the first control period (in ₹ lakhs)	58
Table 48: Revised shortfall as per the Authority for the first control period (in ₹ lakhs)	58

19. ANNEXURE II: AIRPORT CHARGES

Airport charges effective from FY16-17 from 1st May 2017 up to 31st March 2021

19.1 Parking charges:

Weight of the Aircraft	PROPOSED RATES (IN INR)
Up to 40 MT	1.80 per hour per MT
Above 40 MT up to 100 MT	72.00 + 3.40 per hour per MT in excess of 40 MT
Above 100 MT	276.00 + 5.20 per MT per hour in excess of 100 MT

19.2 Night parking charges

Weight of the Aircraft	PROPOSED RATES (IN INR)
Up to 40 MT	0.90 per hour per MT
Above 40 MT up to 100 MT	36.00 + 1.70 per hour per MT in excess of 40 MT
Above 100 MT	138.00 + 2.60 per MT per hour in excess of 100 MT

- a) 50% rebate in Parking Charges between 2200 hrs to 0600 hrs at Chandigarh Airport.
- b) Night parking charges have been waived off for all domestic scheduled operators, because the State Government has already brought down the rate of tax (VAT) on ATF to 4%.

19.3 Fuel throughput charges

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
INR Per KL	143	149	155	161	167

- 19.4 **Passenger service fee (Facilitation):** PSF (Facilitation) of Rs 77 per embarking PAX will be continued to be charged till the revised UDF levy is implemented

19.5 UDF

Particulars	PROPOSED RATE (INR)
Domestic Passenger (Up to 165 Nautical Miles)	250 per embarking passenger
Domestic Passenger (Above 165 Nautical Miles)	650 per embarking passenger
International Passenger	1,500 per embarking passenger

19.6 Cargo charges

X-BIS screening charges of cargo consignments at Rs 0.75 per kg subject to minimum Rs 100 per consignment plus service tax as applicable.

