File No.: AERA/20010/MYTP/CIAL/CP-II/2016-17/Vol-V
Order No.: 07 / 2017-18

सत्यमेव जयते

Airports Economic Regulatory Authority of India

In the matter of Determination of tariffs for Aeronautical Services in respect of Cochin International Airport, Cochin, for the Second Control Period (01.04.2016 to 31.03.2021)

Date of Order: 13th July 2017

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Airports Economic Regulatory Authority of India
सत्यमेव जयते

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2. List of Abbreviations

AAI	Airports Authority of India	HIAL	Rajiv Gandhi International Airport Limited
AERA	Airports Economic Regulatory Authority of India	HPCL	Hindustan Petroleum Corporation Limited
AERAAT	Airports Economic Regulatory Authority Appellate Tribunal	HVAC	Heating, Ventilation, Air Conditioning
AHU	Air Handling Unit	IATA	International Air Transport Association
ARR	Aggregate Revenue Requirement	ICAO	International Civil Aviation Organization
ASQ	Airport Service Quality	ILS	Instrument Landing System
ATM	Air Traffic Movement	IOCL	Indian Oil Corporation Limited
ATP	Annual Tariff Proposal	KAMCO	Kerala Agro Machinery Corporation Limited
AUCC	Airport User Consultative Committee	KSIDC	Kerala State Industrial Development Corporation
BIAL	Bangalore International Airport Limited	KTDFC	Kerala Transport Development Finance Corporation Limited
BPCL	Bharat Petroleum Corporation Limited	MAT	Minimum Alternate Tax
BWFS	Bird Worldwide Flight Services	MoCA	Ministry of Civil Aviation
CAGR	Compounded Annual Growth Rate	MRO	Maintenance, Repair, Overhaul
CAPM	Capital Asset Pricing Model	MT	Metric Tonnes
CDRSL	CIAL Duty Free and Retail Services Limited	MYTP	Multi Year Tariff Proposal
CIAL	Cochin International Airport Limited	NAR	Non-Aeronautical Revenue
CIL	CIAL Infrastructures Limited	NRI	Non-Resident Indian
CISF	Central Industrial Security Force	NRK	Non-Resident Keralites
CP	Consultation Paper	PHP	Peak Hour Passenger
CSR	Corporate Social Responsibility	PPP	Public Private Partnership
CUTE	Common User Terminal Exchange	PSF	Passenger Service Fee
DIAL	Delhi International Airport Limited	PTB	Passenger Terminal Building
FIA	Federation of Indian Airlines	RAB	Regulatory Asset Base
FRoR	Fair Rate of Return	TDSAT	Telecom Dispute Settlement Appellate Tribunal
GoI	Government of India	UDF	User Development Fee
GoK	Government of Kerala		

3. Introduction

3.1. Background

3.1.1. CIAL was the first airport in India to be built under Public Private Partnership (PPP), with equity participation from the Airport users as well as the general public, Non-Resident Indians (NRIs), Government of Kerala (GoK) and the airport service providers. The Cochin Airport, as it exists today, was an alternative to the then Civil Enclave in the Naval Airport at Cochin. According to CIAL, "the involvement of airport users was a pioneering concept of this project, which was conceived even while a definite policy on private participation in airport infrastructure was not in place".

3.1.2. Cochin International Airport Limited (CIAL) was incorporated on 30th March 1994 as a public limited company, with an Authorized Share Capital of Rs. 90 Crores. The construction work commenced in August 1994. The airport was inaugurated by the President of India on 25th May 1999. CIAL's operations started from June 1999 with Air India operating the first flight to the Gulf.

3.1.3. A significant part of air traffic is driven by strong state-domiciled Non-Resident Indian (NRI) community residing in the Middle East and attractiveness of the state as an international and domestic tourist destination.

3.2. The Existing Airport

3.2.1. The total project cost for the initial phase of airport was around Rs. 315 Crores financed through a paid up equity capital of Rs. 85 Crores and term loan of Rs. 218 Crores. The balance was tied up through interest free security deposits from various airport service providers.

3.2.2. There were two existing centrally air-conditioned terminals for domestic (9381 sq. m) and international operations (46359 sq. m). The integrated cargo complex at the airport is capable of handling perishable/non-perishable and dangerous cargo. CIAL commenced its 'Duty Free' operations in May 2002. Air India and Bird Worldwide Flight Services (BWFS) provide ground handling operations at the airport. Bharat Petroleum Corporation Limited operates the Hydrant Refueling System for the aircrafts.

3.2.3. The company, through its subsidiary company – CIAL Infrastructures Limited (CIL), commissioned Solar Power plants of 15.4 MWp capacity at Cochin International Airport, which enabled the Airport to become the first airport in the world to be fully powered by solar energy. The company has taken steps to augment the solar capacity at the Airport to 28.8 MWp during the financial year 2016-17, with an aggregate power potential of an average of 1,15,000 units a day (42 million units per annum).

3.2.4. Technical Highlights:

- 3400m long, 45m wide, Code E Runway with Boeing-747-400 as critical aircraft
- Full length parallel taxi track, Rapid Exit Taxiway and 3 normal taxi links
- 5 contact bays and 11 remote bays
- CAT – 1 Runway Lighting and ILS facility
- CIAL has a cargo village comprising of 70,000 sq. ft. of International cargo, 40,000 sq. ft. domestic cargo with annual handling capacity of over 100,000 MTs
- 25000 MT storage area for perishables
- Fully equipped CAT -9 fire-fighting and rescue services

- MRO Facility with 2 conventional hangars

3.3. Construction of the New International Terminal

3.3.1. To cater to the projected traffic demand, CIAL undertook construction of New International Terminal from 2013-14 which has been inaugurated in March 2017. The new Terminal has a capacity to handle 4000 pax during peak hours and when fully operational, would have 112 check-in counters, 19 gates and 15 aerobridges.

3.3.2. The car park area adjoining the new International Terminal would be able to accommodate 1,500 cars at a time and will be equipped with access control systems and electric car battery charging facilities. The car parking area would be provided with a solar roof which will add 2.4 MW to the existing solar capacity of the airport.

3.3.3. The completion of the new four-lane railway over bridge which is under construction, adjacent to the existing over bridge would provide seamless four-lane connectivity from the national highway to the Airport.

3.3.4. After the commissioning of the new International Terminal, the existing International Terminal would be converted as the new Domestic Terminal, with a five-fold increase in area.

3.3.5. The capital outlay for the construction of the New International Terminal together with the Apron and Roads is Rs. 1121 Crores. This project was funded by internal accruals, proceeds from rights issue and debt finance.

3.4. Ownership Structure

3.4.1. Cochin International Airport is owned and managed by Cochin International Airport Limited (CIAL) which has an ownership structure involving equity contributions from Government of Kerala, financial institutions, and more than 16,000 individual investors who are mostly non-resident Keralites (NRKs).

3.4.2. The shareholding pattern of equity investors is shown in the table below as at 30th November 2015:

Table 1: Equity Share Holding Pattern

Equity Share	% Share
Government of Kerala	32.40%
Directors, their relatives and associates	31.70%
BPCL	3.40%
National Aviation Company Limited	3.30%
HUDCO	3.30%
State Bank of Travancore	3.30%
KSIDC, Plantation, KTDFC, KAMCO	1.70%
Federal Bank Limited	2.00%
Indian Overseas Bank	0.30%
Others	18.60%
Total	**100.00%**

3.4.3. In June 2015, CIAL raised Rs. 382.60 Crores through a rights issue to existing equity shareholders. The object of this issue was to part finance the construction cost of the new International Terminal Building, other ongoing projects and for the future expansion and diversification projects of CIAL.

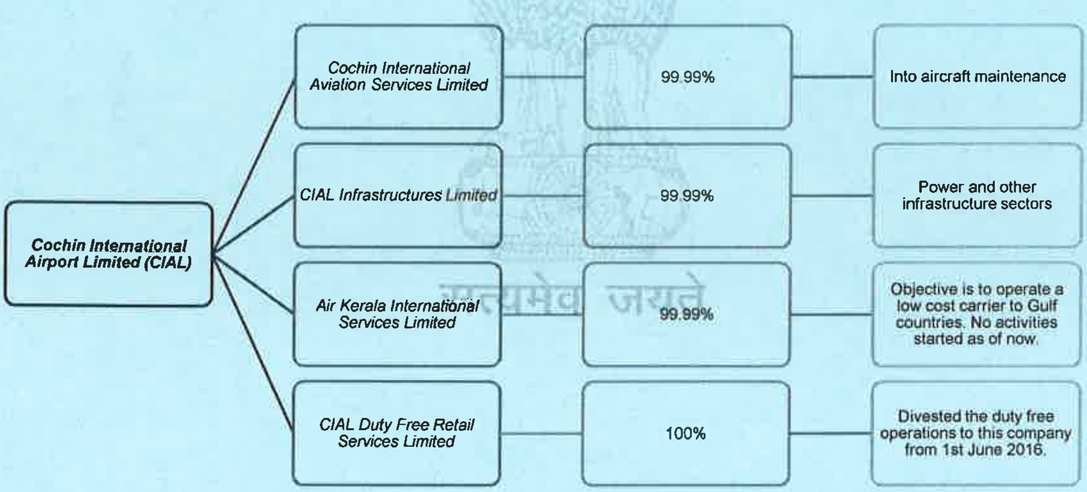
3.4.4. CIAL had for the first time declared dividend to its shareholders in the fifth year of its operation (i.e. 2003-04). It has been regularly declaring dividend to its shareholders ever since.

3.5. Management Structure

3.5.1. The Chief Minister of Kerala is the Chairman of CIAL. As per clause 125 (1) of the Memorandum and Articles of Association of the company, so long as the Government of Kerala and/or its Public Sector Undertakings jointly or severally hold not less than 26% of the paid up equity capital of the company, the Government of Kerala shall have the right to appoint one among the Directors as Managing Director of the Company for such term, not exceeding five years at a time, and will also have the right to withdraw/cancel the appointment so made at their discretion.

3.6. Subsidiaries

3.6.1. The diagram below illustrates the subsidiaries of CIAL and the scope of their activities.



3.7. Cargo Operations

3.7.1. CIAL, in addition to being the Airport operator at Cochin International Airport also manages and operates the Cargo facility at Cochin International Airport.

3.7.2. The Air Cargo Centre at Cochin International Airport was commissioned on 1st December 2000. The facility has more than 100,000 sq. ft. of office and warehouse area space dedicated for the cargo operations.

3.7.3. Key Features as per CIAL are as follows:

- The total area earmarked for the Cargo village is 50 acres.
- Separate areas are dedicated for the storage and handling of Domestic (in bound, out bound including courier) and international Cargo including the Transshipment cargo.
- The entire International air cargo centre is designated as a Customs Bonded area.

3.8. Consultation Paper for Tariff Determination

3.8.1. Pursuant to CIAL's submission of its MYTP for the second control period, a series of discussions/ meetings were held on the tariff proposal based on Authority's review and clarifications were sought.

3.8.2. Subsequently, Consultation Paper 06/2017-18 dated 12th May 2017 in respect of Determination of Aeronautical Tariff in respect of Cochin International Airport for the second control period from 1st April 2016 to 31st March 2021 (hereinafter referred to as "Consultation Paper" in this document) was put up by the Authority and a Stakeholder consultation was held on 7th June 2017 to discuss the views of the various stakeholders on the aforesaid Consultation Paper.

3.8.3. The Authority also invited formal comments from all stakeholders on the issues and proposals presented in the Consultation Paper.

4. Stakeholders' comments on Consultation Paper No. 06/2017-18 and Order structure

4.1. Stakeholders' Responses received

4.1.1. In response to the Consultation Paper No 06/2017-18 dated 12th May 2017, the Authority received several responses from stakeholders, which were uploaded on the website of the Authority vide Public Notice No. 19/ 2017-18 dated 19th June 2017 for information of all the concerned stakeholders. The list of stakeholders, who have commented on the Consultation Paper No. 06/2017-18 is presented below.

Table 2: Summary of Stakeholders' comments

Stakeholder	Issues commented
Federation of Indian Airlines [FIA]	• True up of First Control period • Traffic projections • RAB including additions to RAB • Depreciation • Cost of Equity • Fair Rate of Return [FRoR] • Operating Expenditure • Taxation • Non-Aero Revenues • Aero Revenues • Others such as Act of Determination by the Authority, use of hybrid till, etc.
International Air Transport Association [IATA]	• RAB including additions to RAB • Depreciation • Cost of Equity • Operating Expenditure • Others such as use of hybrid till, quality of service, etc.
Delhi International Airport Limited [DIAL]	• Cost of Equity
Hyderabad International Airport Limited [HIAL]	• Cost of Equity
Bharat Petroleum Corporation Limited [BPCL]	• Aero Revenues – Fuel Throughput Charges
Hindustan Petroleum Corporation Limited [HPCL]	• Aero Revenues – Fuel Throughput Charges
Indian Oil Corporation Limited [IOCL]	• Aero Revenues – Fuel Throughput Charges

4.1.2. The Authority has carefully considered comments made by stakeholders and has obtained response from CIAL on these comments. The tentative position of the Authority in its Consultation Paper No 06/2017-18 dated 12th May 2017, issue-wise comments of the stakeholders on the Consultation Paper, the response from CIAL thereon, Authority's examination and its decisions are given in the relevant sections of the Order.

4.1.3. The Authority notes that certain comments made by FIA relate to certain AAI airports and does not relate to CIAL and accordingly does not merit any consideration in this Order.

4.2. Structure of the Order

4.2.1. Each chapter is structured in the following manner (to the extent applicable) where discussion on each issue has been segregated into six sections:

- First section presents a summary of CIAL's submissions on the relevant issue at the consultation stage.
- Second section presents a summary of the Authority's discussion on the issue, as presented in the Consultation Paper.
- Third section presents the comments made by the Stakeholders to the Authority's proposals stated in the Consultation Paper.
- Fourth section presents the response submitted by CIAL to the comments made by the Stakeholders on the issue.
- Fifth section presents the comments made by CIAL itself on the issue.
- Sixth and final section presents the Authority's examination of Stakeholders' comments, CIAL's responses and CIAL's comments on that issue and decisions thereof.

4.2.2. This Order of the Authority takes into account the Proposals of CIAL, views expressed by the Stakeholders in the meeting, the written submissions received from stakeholders and examination by the Authority with reference to its guidelines for Airport Operators.

4.2.3. Decisions taken by the Authority on various issues in respect of CIAL are summarized in Para 19 below at the end of this Order.

5. Multi Year Tariff Proposal (MYTP) submitted by CIAL:

5.1. CIAL's submission on MYTP

5.1.1. CIAL has, as part of the MYTP submissions for the second control period, submitted the proposal and details and documents in November 2015 and had also submitted the MYTP forms online in AERA's portal.

5.1.2. Further to the review of submissions made by CIAL, details and clarifications were sought for by AERA which have been submitted by CIAL on various dates viz. 8th August 2016, 23rd November 2016, 17th January 2017, 24th January 2017, 10th February 2017, 27th February 2017, 15th March 2017 and 25th March 2017.

5.1.3. CIAL has also, as part of the updated submissions, updated the Business model for actual financial results of March 2016 and submitted the same to AERA. AERA has, for evaluation of the various building blocks, used the said Business model submitted by CIAL.

5.2. Stakeholders' comments on issues pertaining to MYTP submitted by CIAL

5.2.1. FIA in respect of the MYTP submitted by CIAL has stated that:

"…Section 13(1)(a) of the AERA Act requires the Authority to 'determine' the tariff for aeronautical services. Any 'determination' by a statutory authority must clearly show the application of mind and analysis carried out by the Authority. However, in the present case, the Authority has proposed to allow various expenditures like Operating Expenditure, General Capital Expenditure, Tariff Rate Card, etc. merely on the basis of TVM's submission but has failed to provide any justification of its own or analysis for the same. In this regard, judgement of the Hon'ble Supreme Court in the case of Ashok Leyland Ltd. Vs State of Tamil Nadu & Anr. reported as (2004) 3 SCC see 1 (FB) (at Paragraph No. 94) is noteworthy. Hon'ble Supreme Court has held that the word 'Determination' must also be given its full effect to, which pre-supposes application of mind and expression of the conclusion.

It connotes the official determination and not a mere opinion or finding. The Hon'ble Telecom Dispute Settlement Appellate Tribunal ("TDSAT") has also held that determination requires application of mind in the Judgment dated 16.12.2010 in Appeal No. 3(C) of 2010 titled as ZEE Turner ltd. vs. TRAI & Ors. (at Paragraph No. 150).

Section 13(1)(4)(c) of the AERA Act mandates that any decision by the Authority must be fully documented and explained.

To the dismay of the Stakeholders (including airlines), the Authority vide the present Consultation Paper has simpliciter accepted CIAL's claims without conducting its own independent financial study and prudence check or commissioning experts.

It is regrettable that the Authority in the year 2012 i.e. at the time of issuance of DIAL Tariff Order (No.3/2012-13) had decided to commission its own experts has failed to do so till now…"

…..

"…AERA had directed CIAL to submit detailed Annual Tariff proposals in line with the ARR and Yield arrived at by the Authority within 7 days of issue of the Consultation Paper. Same needs to be shared with the stakeholders at the earliest…"

"AERA for the first control period (01.04.2011 – 31.03.2016) had issued its Order 08/2015-16 on 22.06.2015 which was almost 6 months from the closure of the first control period – had vide para 12.1 (iii) directed CIAL to submit MYTP for the second control period well in time as per guidelines by incorporating the actual financials of 2014-15 which would be examined by the Authority along with Aggregate Revenue Requirement for the first control period.

It may kindly be noted that CIAL has submitted its proposal on November 2015 (5 months from the Order) and further AERA allowed CIAL to submit details and clarifications including resubmit of MYTP under Hybrid Till on various dates viz 8th August 2016, 23rd November 2016, 17th January 2017, 24th January 2017, 10th February 2017, 27th February 2017, 15th March 2017 and 25th March 2017 (additional 9 months from first submission). AERA circulated this Consultation Paper on 12.05.2017 (2 months from revised submission). The above can be treated as an intentional delay, allowing CIAL to move from Single Till to Hybrid Till.

Going with the same logic which AERA should determine the tariff under Single Till for 2nd Control Period well before commencement of the 2nd Control period and before release of NCAP"

5.3. CIAL's response to Stakeholders' comments on MYTP submitted by CIAL

5.3.1. CIAL has not submitted any specific response of the above comments.

5.4. Authority's examination of Stakeholders' comments on MYTP submitted by CIAL

5.4.1. The Authority has carefully considered the comments from the stakeholders regarding MYTP submissions.

5.4.2. In response to FIA's comment on act of determination of tariff for CIAL, the Authority has noted that CIAL is a company registered under the Companies' Act and its accounts are audited by statutory auditors. Further, the Authority has examined the tariff proposal submitted by CIAL with reference to such audited financial statements. The Authority has carefully evaluated submissions, sought clarifications where required and accordingly has determined various elements of Regulatory Building Blocks proposed to be considered. The Authority has also proposed to carry out studies wherever relevant. Hence, the submissions of CIAL have not been accepted simpliciter and there is justifying evidence that the elements of the building blocks of the aggregate revenue requirement have been "determined" by the Authority after careful application of mind and analysis in accordance with Section 13(I)(a) of the AERA Act. Besides, the Authority is of the view that it may not be necessary to conduct studies on every building block of every airport. Many a time, conducting studies only delays matters, increases costs and does not lead to any definite conclusions on the efficiency of operations. So far as Cochin Airport is concerned, the Normative Order on Capital Costs was issued based on the costs incurred by CIAL and the very fact that the airport could maintain its charges unchanged for a number of years shows that the airport has been conducting it business in a prudent manner. Therefore the Authority has not found it necessary to conduct any studies to determine whether the operations at Cochin are undertaken in an efficient manner. However, if any evidence is submitted pointing out any inefficiencies at the Airport, the Authority would consider taking up appropriate studies and true up the costs, if necessary.

5.4.3. ATP has already been hosted in the website (www.aera.gov.in) based on which FIA has also commented on certain charges.

5.4.4. The Authority notes FIA's comments on the time between CIAL submission and the Consultation Paper. The delay in issue of Consultation Paper was not intentional and was mainly due to the need for carrying out detailed analysis of the Business Model and various computations and submissions made by CIAL. In the current control period, CIAL had huge cost outlay relating to New Terminal and allied works, which needed detailed analysis and as the new terminal was under construction and not completed, the costs for the same were not frozen.

6. Framework for Determination of Tariff for CIAL

6.1. Authority's Discussion on the Framework for Determination of Tariff for CIAL

6.1.1. 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.

6.1.2. The methodology also considers 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).

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

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

$$\text{ARR}_\text{t} = (\text{FRoR x RAB}_\text{t}) + \text{D}_\text{t} + \text{O}_\text{t} + \text{T}_\text{t} - (x\% * \text{NARt})$$

- Where t is the Tariff Year in the Control Period
- Where ARR_t is the Aggregate Revenue Requirement for year t
- Where FRoR is the Fair Rate of Return for the control period
- Where RAB_t is the Regulatory Asset Base pertaining to Aero activities for the year t
- Where D_t is the Depreciation corresponding to the RAB for the year t
- Where O_t is the Operation and Maintenance Expenditure for the year t, which include all expenditures incurred by the Airport Operator(s) pertaining to Aero activities
- Where T_t is the Taxation cost for the year t, relating to the Aero activities
- Where NAR_t is the revenue from Non-Aeronautical Services.

6.1.4. Accordingly, different elements of Aeronautical Tariff are projected for the 5 years in the control period in such a way that the present value of the Aeronautical Revenues over the 5-year period equals the present value of the ARR computed.

6.1.5. 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.

6.1.6. The Authority had proposed to consider Cargo Tariff under Price Cap together with determination of tariff for Airport Operations.

6.1.7. The Authority had also proposed to consider revenues from Cargo, Ground Handling and Fuel Farm services and Rentals from leasing of space to agencies providing Aeronautical services as Aeronautical revenues.

6.2. Stakeholders' comments on Framework for Determination of Tariff for CIAL

6.2.1. IATA has stated the following:

"It is a great disappointment that AERA has proceeded to adopt the hybrid till approach which will make aeronautical charges more expensive and goes against the fundamental

requirements to boost air connectivity as envisaged by the National Civil Aviation Policy 2016 in a sustainable way."

"...support the treatment of Cargo, Ground handling and Fuel Far services and Rentals from leasing of space to agencies providing Aeronautical services as Aeronautical revenues"

6.2.2. FIA has also expressed views regarding hybrid-till approach for determination of tariff as follows:

"Hybrid Till is followed, which is in contravention to AERA tariff guidelines. In this context, the following facts are noteworthy:

It is noteworthy that in a matter pending adjudication before the Honb'le Airports Economic Regulatory Authority Appellate Tribunal ("AERAAT"), MoCA has submitted by way of its Counter-Affidavit that the Authority is an Independent Regulator and suggestions of Government of India/ MoCA are not legally binding on it. Further, it has submitted that MoCA has no role to play with respect to determination of aeronautical tariff. The Authority being a party to the said matter is aware of the contents of MoCA's Counter Affidavit in the said matter.

9. It is submitted that Single Till is premised on the following legal framework being:

(a) Section 13(1)(a)(v) of the AERA Act envisages that while determining tariff for aeronautical services, the Authority shall take into consideration revenue received from services other than the aeronautical services.

(b) Clause 4.2 of AERA Guidelines recognizes Single Till approach which sets out the following components on the basis of which ARR shall be calculated:

i. Fair Rate of Return applied to the Regulatory Asset Base

ii. Operation & Maintenance Expenditure

iii. Depreciation

iv. Taxation

v. Revenue from services other than aeronautical services

(c) AERA in its Single Till Order has held that "Single Till is most appropriate for the economic regulation of major airports in India".

10. It is submitted that determination of aeronautical tariff warrants a comprehensive evaluation of the economic model and realities of the airport -both capital and revenue elements. CIAL approach of Hybrid Till deserves to be discarded.

11. In the Single Till Order, Authority has strongly made a case in favor of the determination of tariff on the basis of "Single Till". It is noteworthy that the Authority in its inter alia Single Till Order has:

(a) Comprehensively evaluated the economic model and realities of the airport -both capital and revenue elements.

(b) Taken into account the legislative intent behind Section 13(1)(a)(v) of the AERA Act.

(c) Concluded that the Single Till is the most appropriate for the economic regulation of major airports in India.

(d) The criteria for determining tariff after taking into account standards followed by several international airports (United Kingdom, Australia, Ireland and South Africa) and prescribed by ICAO.

12. *The Authority in its AERA Guidelines (Clause 4.3) has followed the Single Till approach while laying down the procedure for determination of ARR for Regulated Services. In this respect, the matter must be dealt with by the Authority considering the ratio pronounced by the Constitutional Bench in the Hon'ble Supreme Court Judgment in PTC vs. CERC reported as (2010) 4 SCC 603 (please ref: Paragraph Nos. 58 to 64 at Page Nos. 639 to 641) wherein it is specifically stated that regulation under a enactment/statute, as a part of regulatory framework, intervenes and even overrides the existing contracts between the regulated entities in as much as it casts a statutory obligation on the regulated entities to align their existing and future contracts with the said regulations.*
13. *The fundamental reasoning behind 'Single Till' approach is that if the consumers/passengers are offered cheaper air-fares on account of lower airport charges, the volume of passengers is bound to increase leading to more foot-fall and probability of higher non-aeronautical revenue. The benefit of such non aeronautical revenue should be passed on to consumers/passengers and that can be assured only by way of lower aeronautical charges. It is a productive chain reaction which needs to be taken into account by the Authority.*
14. *FIA therefore submits as under:*

(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.

15. *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"*

6.2.3. IATA has also stated that:

"We call on AERA to 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"

6.3. CIAL's response to Stakeholders' comments on Framework for Determination of Tariff for CIAL

6.3.1. CIAL has not submitted specific response to the above comments of the stakeholders.

6.4. Authority's examination of Stakeholders' comments on Framework for Determination of Tariff for CIAL

6.4.1. The Authority has noted and carefully analyzed the comments of IATA and FIA regarding applicability of Hybrid Till. The Authority has decided to adopt Hybrid Till as per the revised guidelines issued vide its Order No. 14 / 2016-17 dated 12th January 2017 and would consider the Order to be issued by AERAAT at an appropriate time with regards to its applicability of Regulatory Till.

6.4.2. The Authority notes IATA's comments that Airport charges are to be based on cost of delivering the services. Authority's methodology for determination of tariff is also based on the framework of considering the costs incurred by the Operator in rendering the services and providing a return on the same.

Decision No. 1. Regarding Regulatory Till for Tariff determination

1.a. Based on the material before it and its analysis, the Authority decides:

- **i. To compute Aggregate Revenue Requirement under 30% Hybrid Till for the second control period.**
- **ii. To consider Cargo services provided by CIAL as material and non-competitive and determine tariff under "price cap" regulation together with determination of tariff for Airport Operations.**
- **iii. To consider revenues from Cargo, Ground Handling and Fuel Farm services and Rentals from leasing of space to agencies providing Aeronautical services as Aeronautical revenues.**

7. Review of First Control Period

7.1. Authority's examination on review of First Control Period

7.1.1. The Authority noted that it had issued Consultation Paper No. 03/2014-15 with a tentative decision that as the Authority has proposed to continue the existing charges for 2014-15 as well as 2015-16, the question of "truing up" of any element related to regulatory building blocks would not arise at the time of tariff determination for the next control period starting w.e.f. 01.04.2016.

7.1.2. IATA, in their stakeholder comments had also supported this view of the Authority, as long as CIAL maintained this philosophy and airport charges were not increased or brought down over time.

7.1.3. However, the Authority had in its Order 15/ 2015-16 dated 17th April 2015 stated as follows:

"(i) CIAL which is pending determination for the first control period, would continue at the existing levels on an adhoc basis

....

CIAL is advised to submit the MYTP for the Second Control Period well in time as per Guidelines by incorporating the actual financials of 2014-15 which would be examined by Authority along with the Aggregate Revenue Requirement for the first control period..."

7.1.4. CIAL, in its submissions of MYTP for the second control period has requested the Authority to treat the Order dated 17th April 2015 issued by the Authority for the first control period as final and to review only submissions made for the second control period.

7.1.5. CIAL also submitted a letter to the Authority giving reasons and justification for not truing up/ determining the tariff for the first control period, on 14th February 2017. Key reasons provided by CIAL in its submission include:

- Low Cost functionally efficient Airport with emphasis on affordability.
- Continued focus on low cost development.
- Lower historical tariffs – Tariff fixed in 2001 and the 10% interim hike given to all Airports not given to CIAL. Government of Kerala had instructed to withdraw the UDF then prevailing at the Airport.
- Unique business model of Duty free operations and cost-effective airport execution supporting lowest tariffs.

7.1.6. CIAL has also, in its aforementioned letter stated that

"had the Authority determined tariffs in the first control period itself, the business model and the strategic decisions taken by CIAL Management would have been much different and it had a consequential impact on the performance and financials of the company, which cannot be compensated by any dynamics of Regulators determining process".

7.1.7. The Authority noted that there was a shift between the proposal in the Consultation Paper and the final Order of the Authority. The rationale behind this shift had not been elaborated in the Authority's final order.

7.1.8. Aeronautical tariffs at Cochin Airport are among the lowest in India and were determined on par with AAI rates in 2001, and have remained unchanged since then. The Authority noted that the increase of 10% of landing, parking and housing charges that were approved for AAI airports as well as airports of Delhi, Mumbai, Bangalore and Hyderabad in 2009 was also not approved for CIAL.

7.1.9. The Authority noted that CIAL has effectively used the Non-Aeronautical Revenues to cross subsidize the Aeronautical charges and kept them constant for a long period of time. The Authority also noted that the tariff determination or fixation process for CIAL was not in tandem with the Airport's Operational cycle which commenced from 1999 onwards.

7.1.10. Determination of ARR for the first control period now would mean re-determination and changing of tariffs which were prevalent since 2001 and which were collected, without any increase, in the previous control period.

7.1.11. The Authority noted that the stakeholders had also supported Authority's views on the Proposals mentioned in the Consultation Paper for the first control period.

7.1.12. Having regard to the aforementioned factors, the Authority proposed to not revisit and re-compute the Aggregate Revenue Requirement for the First control period.

7.2. Stakeholders' comments on Authority's review of First Control Period

7.2.1. FIA in its comments has stated the following on review of First Control Period:

"...AERA proposes to not revisit and re-compute the Aggregate Revenue Requirement for the First control period. With this AERA has not undertaken the financial study of the first control period and thus allowed CIAL to retain the revenue so earned over and above the ARR for the first control period..."

"CIAL's first control period is not over yet, wherein AERA stated that CIAL rates will continue at the existing level on adhoc basis. It further states that MYTP for the second control period will be determined by incorporating the actual financials of 2014-15, which would be examined by the AERA along with the aggregate revenue requirement for the first control period. This means AERA need to do the true-up of first control period financials, which is pending before finalizing the tariff for second control period..."

7.2.2. IATA has supported the Authority's proposal *"given the comments provided in earlier consultations on the matter."*

7.3. CIAL's response to Stakeholders' comments on Authority's review of First Control Period

7.3.1. CIAL has commented as follows:

"CIAL has represented the following unique features of Cochin Airport while presenting a case for light touch regulatory approach for first control period and the same were considered by the Authority:

a. Aeronautical tariffs at Cochin Airport are amongst the lowest in India and have remained unchanged since 2001.

b. Historical tariffs at Cochin Airport had not been linked to capital investment and other costs. The Aeronautical revenues at Cochin Airport have been much lower than what would have been permissible AERA's under its guidelines.

c. CIAL had kept tariffs low to make travel affordable to passengers.

d. CIAL's investors also had foregone their dividends during the initial period of operations with the expectation of earning higher returns with growth of traffic and profitability.

e. There was a mismatch of investment cycle with regulatory control period cycle resulting in a unique adverse situation for CIAL, unlike for other private or government run airports in the country.

f. It was also pointed out that an abrupt administration of tariff guidelines in the prevailing situation would result in a tariff shock for CIAL

AERA had taken due cognizance of the factors listed above and allowed CIAL to continue with the prevailing tariffs for the first control period. AERA had given detailed reasoning on continuation of existing tariffs in its consultation paper. The consultation paper also underwent a detailed user consultation process during 1st control period.

Moreover, this non-truing up matter was deliberated during the stakeholders meeting for the first control period and none of the stakeholders including FIA has objected to it. It is not clear as to why FIA raises this matter in the stakeholder consultation for the second control period. This matter being discussed and finalized during the first control period, a re-visit on this matter is not required at all..."

7.4. Authority's examination of Stakeholders' comments on Review of First Control Period

7.4.1. The Authority has carefully considered the comments made by FIA on the review of First Control period and CIAL's comments thereon.

7.4.2. The Authority has given detailed reasoning for not truing up the first control period in the Consultation Paper, which are summarized in Para 7.1 above.

7.4.3. The Authority notes that when the Consultation Paper for 1st Control period of CIAL was issued in June 2014, some of the stakeholders supported the proposal of the Authority for not truing up, and no stakeholder had opposed the said proposal.

7.4.4. Hence, the Authority is not persuaded to re-consider the proposal made in the consultation paper.

7.4.5. Accordingly, it is decided to not recalculate the ARR for the first control period.

Decision No. 2. Regarding truing up of First control period Aggregate Revenue Requirement (ARR)

2.a. Based on the material before it and its analysis, the Authority decides

i. To not recalculate the Aggregate Revenue Requirement (ARR) for the first control period.

8. Traffic Projections

8.1. CIAL's submission on Traffic Projections and Authority's analysis in the Consultation Paper

8.1.1. CIAL had submitted in its MYTP, estimates of traffic growth for the control period based on past trends and reasons for changes if any, to the same.

8.1.2. Trend of passenger traffic for the period till March 2016 is as below:

Table 3: Historical Trend in Passenger Traffic (Pax in Mn)

Past Traffic	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	CAGR
Domestic PAX	1.99	2.14	1.97	2.11	2.66	3.13	9.53%
International PAX	2.36	2.59	2.93	3.27	3.74	4.64	* 11.74%
Total PAX	4.35	4.72	4.90	5.39	6.41	7.77	
* International PAX for 2015-16 reduced by 0.53 Mn (Kozhikode traffic diversion) to compute CAGR							

8.1.3. Authority had carefully analysed the submissions made by CIAL, enquired into the rationale and basis for projections. The Authority, after detailed analysis had accepted the projections provided by CIAL for the purpose of calculation of estimated ARR for the second control period and had considered the following for determining the revenue requirement for the second control period:

Table 4: Total Traffic Projection for Second Control Period

Traffic Projections	UOM	2016-17	2017-18	2018-19	2019-20	2020-21
Domestic PAX	Mn	3.43	3.75	4.11	4.50	4.93
International PAX	Mn	4.86	5.14	5.75	6.42	7.18
Total PAX	Mn	8.29	8.90	9.86	10.93	12.11
Domestic ATM	Nos	30,127	32,531	35,134	37,952	41,005
International ATM	Nos	30,985	32,448	35,920	39,768	44,031
Total ATM	Nos	61,113	64,979	71,054	77,720	85,036
Domestic Outbound cargo	MT	3039	3280	3541	3822	4126
Domestic Inbound cargo	MT	9503	10570	11757	13078	14547
Total Domestic cargo	MT	12542	13851	15298	16900	18673
Export cargo	MT	51849	57341	63414	70129	77557
Import cargo	MT	4837	5050	5272	5503	5745
Total International cargo	MT	56687	62391	68685	75633	83302

8.2. Stakeholders' comments on Traffic Projections

8.2.1. FIA has stated the following:

"...AERA proposes to adopt growth rate as proposed by CIAL without taking into consideration that with introduction of new International Terminal, there would be more scope for growth in both domestic and international passenger traffics. If AERA expects a normal growth of 10%, it should justify the introduction of new International Terminal. Further, vide 5.2.5 AERA has accepted that ATM of CIAL in the year 2021 would be in line with the pax per ATM trends at BIAL and HIAL's airports.

Therefore, AERA needs to undertake comparative study of the ATMs between CIAL vis-a-vis BIAL and HIAL before accepting the traffic growth mentioned by CIAL..."

8.3. CIAL's response to Stakeholders' comments on Traffic Projections

8.3.1. CIAL has submitted the following in respect of comments on traffic projections:

"1. The existing old domestic terminal was developed in 1999 and has a maximum peak hour handling capacity of 800 php. The domestic terminal was operating beyond its maximum passenger handling capacity and was facing severe congestion related issues because of which the passenger service quality levels were getting impacted.

2. To address the capacity constraint at the domestic terminal as well as cater to future growth in international traffic, CIAL decided to develop a new international terminal at the airport. The existing international terminal would thereafter be converted into a domestic terminal, thus enhancing both the domestic and international passenger handling capacity at the airport.

3. AUCC was conducted in FY 2013-14 to construct the new international terminal wherein the need for construction of new terminal was justified to all the stakeholders based on the historical traffic growth and capacity of then existing terminals. All the stakeholders had agreed for development of new international terminal. FIA and IATA were also included as the members of AUCC and invited for stakeholders meeting. However, they have informed their inability to attend the meetings due to other preoccupations. All the rest of participants including the operating airlines in this airport has welcomed the expansion program and accordingly we went ahead with the major capital expansion project and we have completed before time and within normative costs and terminal is functioning well. Hence, the apprehensions raised by FIA is a misplaced one."

8.4. Authority's examination of Stakeholders' comments on Traffic Projections

8.4.1. The Authority has carefully reviewed the comments made by FIA on traffic and related Investments and CIAL's response on the same.

8.4.2. Traffic projections are made based on the past trends and the Compounded Annual Growth rates, suitably adjusted for any changes, which has been done by CIAL. The Authority notes that there could be many factors that may influence the traffic, all of which may not be possible to be assessed accurately.

8.4.3. It is to be noted that need assessment and justification for new Terminal has been included by CIAL as part of Stakeholder consultation process before commissioning of the same. Commissioning of new terminal is aimed at providing better facilities, to relieve congestion and to take care of future expansion and growth. It is to be noted that traffic estimates would not reach the capacity of the new terminal within one Control Period and the decision to construct a new terminal has to be made on long term considerations rather than to meet the traffic requirement in a single control period.

8.4.4. CIAL has stated in their submission that it has proposed the Pax per ATM considering BIAL/ HIAL as a comparison. The Authority has also noted that all traffic numbers proposed here are estimated and would also be trued up at actuals.

Decision No. 3. Regarding Traffic projections

3.a. Based on the material before it and its analysis, the Authority decides

i. To consider traffic projections as given in Para 8.1.3 above for determination of tariff for the second control period.

ii. **To true up the traffic of the second control period based on actuals, at the time of determination of tariff for the next control period.**

9. Allocation of Assets between Aeronautical and Non Aeronautical Services

9.1. CIAL's submission on allocation of Assets between Aeronautical and Non Aeronautical Services

9.1.1. CIAL had submitted basis of allocation of Assets – for existing assets and new assets as follows:

Table 5: Basis of Allocation of Existing assets, as per CIAL

Existing Assets	Basis for Segregation
Land	Existing land as on FY 2015 has been segregated based on the land usage by aeronautical and non-aeronautical activities. The land utilization details have been mentioned in Annexure along with land usage for non-aeronautical assets.
Buildings and civil works	Existing buildings & civil works assets as on FY 2015 have been firstly divided into terminal (passenger terminal) buildings and non-terminal buildings. Terminal building assets have been apportioned based on aeronautical and non-aeronautical area in the existing terminals. Total aeronautical area in the existing terminals is 51,518 sqm and total non-aeronautical area in the terminals is 4,222 sqm. For non-terminal buildings, classification of aeronautical & non-aeronautical assets has been done based on usage of each assets as indicated in Annexure.
Golf Course Development	Golf course development assets as on FY 2015 have been considered as 100% non-aeronautical assets. The Gross block value for Golf course development for FY 2014-15 is Rs.26.6 Crores (Refer Asset Allocation sheet in the MYTP Model)
Runway, roads and culverts	Existing runway, roads and culverts as on FY 2015 have been considered as aeronautical assets. The Gross block value for Runway, roads and culverts for FY 2014-15 is Rs.213.9 Crores (Refer Asset Allocation sheet in the MYTP Model)
Plant and Equipment	All these Assets as on FY 2015 have been segregated based on segregation of aeronautical assets and non-aeronautical assets in existing terminals. Total aeronautical area in the existing terminals is 51,518 sqm and total non-aeronautical area in the terminals is 4,222 sqm, i.e. 7.6% Non-Aero Area and 92.4% Aero Area in the terminal. These costs have been apportioned at this ratio. (Refer Asset Allocation sheet in the MYTP Model).
Office Equipment	
Computer and accessories	
Furniture and Fixtures	
Vehicles	
Intangible Assets	

Table 6: Basis of allocation of new assets as per CIAL

New Assets	Basis for Segregation
New International Terminal	New international terminal assets have been apportioned based on aeronautical and non-aeronautical area earmarked for the relevant purposes in the new international terminal. Total aeronautical area in the new terminal is 132,236 Sq.m and total non-aeronautical area in the new terminal is 7,118 Sq.m.
Other than new international terminal assets	Classification of aeronautical and non-aeronautical assets has been carried out based on the usage of such assets.

9.2. Authority's analysis on allocation of assets between Aeronautical and Non Aeronautical Services

9.2.1. The Authority had carefully reviewed the submission and allocation made by CIAL between Aeronautical and Non-Aeronautical assets.

9.2.2. Authority's analysis on **Existing Assets** (other than land) was detailed in Consultation Paper as follows.

9.2.3. **Building**: The Authority had reviewed in detail, the workings relating to computation of Building area considered as Aeronautical resulting in 76% of the Building costs being considered as

Aeronautical and 24% as Non-Aeronautical. The Authority noted certain calculation errors, which were corrected. Consequently, the Authority proposed to consider the Building allocation ratio to be 71% and 29% between Aeronautical Assets and Non-Aeronautical Assets.

9.2.4. **Other Assets**: The Authority noted that as per CIAL, (other than Golf course considered as Non-Aero and Road, Runways and Culverts considered as Aero), other assets were segregated in the ratio of area of Aeronautical and Non-Aeronautical space in the Terminal Building. The Authority noted that in computing the Terminal Area relating to Non-Aeronautical assets, CIAL considered only the specific area used for Non-Aeronautical activities as Non-Aeronautical Area and the common area was not allocated to Aeronautical and Non-Aeronautical Activities. Hence, instead of the allocation of 7.57% of Terminal as towards Non-Aeronautical services, the Authority proposed to consider 10% of existing Terminal area as towards Non-Aeronautical services. The Authority noted that CIAL is in the process of converting the current integrated terminal to a domestic terminal and hence, the usage pattern of the terminal area is bound to undergo a change, which the Authority proposed to consider and true up at the end of the control period.

9.2.5. Authority's Analysis on allocation of **assets being commissioned** is as follows:

9.2.6. Authority noted that assets relating to Terminal Building were identified and split between Aeronautical and Non-Aeronautical assets based on the area usage and accordingly, based on the proposed usage, 5.1% of the area is allocated towards Non-Aeronautical use. The Authority noted that CIAL had done a segregation of assets in its existing terminal approximately in the ratio of 92.5% to 7.5% which the Authority proposed to adopt, for the new terminal. The Authority accordingly, proposed to consider the allocation provided by CIAL for existing terminal viz – 7.5% as towards Non-Aeronautical, subject to it being trued up based on actuals at the end of the current control period. The Authority also noted that this is a new terminal which is proposed to be commissioned in the control period and the usage pattern of the Terminal area is bound to undergo revisions till the same is standardized.

9.2.7. The Authority noted that costs relating to Runways, Road, and Culverts was fully considered as Aeronautical assets.

9.2.8. The Authority noted that other Capital Expenditure spends were identified by CIAL as Aeronautical or Non-Aeronautical and segregated accordingly. However, the Authority noted certain inconsistencies in classification of certain assets between Aeronautical and Non-Aeronautical assets as given below:

9.2.8.1. Maintenance Capital Expenditure was considered entirely as Aeronautical – without evaluating the nature of assets *(This has not been considered by the Authority as Capital Expenditure. See section on Regulatory Asset Base).*

9.2.8.2. Expenses relating to alterations/ changes to Terminal was considered entirely as Aeronautical instead of segregating the same based on Terminal Area.

9.2.8.3. Parking Management system outside terminal was considered as Aeronautical asset, whereas it is a Non-Aeronautical service.

9.2.8.4. Certain Furniture/ Office Equipment were considered entirely as Aeronautical without segregating the same between Aeronautical and Non-Aeronautical services.

9.2.9. The Authority had a detailed discussion with CIAL on these and sought clarifications on the same. CIAL clarified that these are Aeronautical assets. The Authority, however, proposed to consider a part of the same as towards Non-Aeronautical services, in proportion of the terminal area.

9.2.10. The Authority had recomputed the ratio of Aeronautical and Non-Aeronautical assets. Table showing asset allocation as per CIAL and as recomputed by the Authority, (at Gross block level) for the second control period is as given below:

Table 7: Aeronautical Asset allocation ratio as per CIAL and as per Authority

Particulars (Gross block)	As per CIAL	As per Authority
Land	89.06%	Not considered as part of RAB. Refer below
Buildings & Civil Works	73.42%	69.28%
Golf Course Development	0.00%	0.00%
Runway, Roads and Culverts	100.00%	100.00%
Plant and Equipment	89.60%	86.79%
Office Equipment	81.95%	74.22%
Computers and Accessories	96.50%	91.85%
Furniture and Fixtures	93.22%	86.50%
Vehicles	96.34%	94.81%
Intangible assets	90.05%	84.21%

9.2.11. The Authority noted that actual asset costs could change from the projections made herein, based on which the allocation of costs between Aeronautical and Non-Aeronautical is also likely to change. Authority also noted that the allocation of assets depends on various factors including the value of Capital Expenditure, year of capitalization, actual usage of area etc. The Authority hence proposed to consider the above for the purpose of computation of ARR now and true up the same at the end of the second control period based on actuals.

9.2.12. The Authority also noted that area segregation done between Aeronautical usage and Non-Aeronautical usage of Terminal building needs to be technically validated and confirmed.

9.3. Stakeholders' comments on allocation of Assets between Aeronautical and Non-Aeronautical Services

9.3.1. IATA has stated thus in respect of asset allocation:

"...While the proposed asset allocation of asset seems more reasonable than determinations for other airports, we remain skeptical whether the arrived percentage is the right one, particularly on the treatment of common areas (which are used as much by "aeronautical" and "non-aeronautical" customers). A fairer distribution mechanism would be to allocate such assets on a 50:50 ratio. In any case, we support proposal 4.a.ii for a review of the cost allocation of the new terminal once the operations are commissioned and stabilized..."

9.3.2. FIA has stated as follows:

"AERA notes that area segregation done between Aeronautical usage and Non-Aeronautical usage of Terminal building needs to be technically validated and confirmed. AERA should share the timelines of the study and likely date of the report."

9.4. CIAL's response to Stakeholders' comments on allocation of Assets between Aeronautical and Non Aeronautical Services

9.4.1. CIAL had not submitted specific response to the Stakeholders' comments.

9.5. CIAL's views on Authority's proposal on Allocation of Assets between Aeronautical and Non Aeronautical Services

9.5.1. In respect of asset allocation, CIAL has submitted the following:

"...1. The existing terminal civil and building works assets have been allocated based on actual aeronautical and non-aeronautical usage and the ratio worked out is 7.57% as towards non-aeronautical services.

2. In addition to allocation of terminal civil and building works, CIAL has allocated all other assets such as plant and equipment, office equipment, computer and accessories, furniture and fixtures, vehicles and intangible assets on basis of 7.57% ratio towards non-aeronautical assets.

3. The Authority has proposed to consider 10% of existing terminal area as towards non-aeronautical services which is on the higher side.

4. Some of the assets which have been allocated based on 10% ratio may not be even related to terminal buildings

5. The asset allocation should not be done on hypothetical basis and should reflect the actual use which assets are put to. Hence, CIAL requests the Authority to consider asset allocation as submitted by CIAL..."

"...1. The allocation of assets related to new terminal building has been done based on actual projected use towards aeronautical and non-aeronautical services and the ratio worked out is 5.1% towards non-aeronautical services.

2. The Authority has proposed to allocate new terminal assets based on 7.5% ratio towards non-aeronautical services. CIAL submits that the increased non-aeronautical area (10% of total terminal area) as proposed by the Authority may not be realized without ensuring proper utilization of area for non-aeronautical services.

3. CIAL's estimation of 5.1% area towards non-aeronautical services has been worked out keeping in mind the optimum area utilization during the 2nd control period and hence the Authority is requested to consider the asset allocation as submitted by CIAL for new terminal related assets.

4. CIAL proposes to update the ratio towards non-aeronautical services in new terminal building as and when the increased area is allocated for non-aeronautical services..."

"1...The furniture/office equipment and other new terminal related assets have already been allocated based on ratio 5.1% towards non-aeronautical services.

2. Certain furniture/office equipment assets other than new terminal related furniture/office equipment have been considered 100% aeronautical based on actual usage for aeronautical activities only.

3. CIAL requests the Authority to consider asset allocation of certain furniture/office equipment assets as submitted by CIAL..."

9.6. Authority's examination of Stakeholders' comments pertaining to allocation of Assets between Aeronautical and Non Aeronautical Services

9.6.1. The Authority has carefully reviewed the comments of Stakeholders on the allocation of assets between Aeronautical and Non-Aeronautical services.

9.6.2. Authority's analysis and reasons for considering changes in asset allocation were elaborated in the Consultation Paper and have been reproduced in Para 9.2 above. The Authority had also noted that the ratios considered would need to be updated based on technical study on the area used in Terminal once the New Terminal operations are commissioned and stabilized.

9.6.3. Hence, the Authority has decided to consider the allocations proposed by it in the Consultation Paper.

9.6.4. Authority notes FIA's comment that the timelines of the study should be shared. The Authority would commission this study once the operations and usage of the Terminal buildings stabilize.

Decision No. 4. Regarding allocation of assets between Aeronautical and Non-Aeronautical services

4.a. Based on the material before it and its analysis, the Authority decides

i. **To consider allocation of assets and between Aeronautical and Non-Aeronautical services as detailed in Para 9.2.10 above for determination of tariff for the second control period.**

ii. **To carry out a technical study on the area used between Aeronautical and Non-Aeronautical in the existing and new terminal once the operations are commissioned and stabilised.**

iii. **To true up the details considered in Para 9.2.10 above based on the actuals and consider the same in the next control period.**

10.Regulatory Asset Base (RAB) including Additional Capital Expenditure

10.1. CIAL's submission on RAB including Additional Capital Expenditure

10.1.1. Regulatory Asset Base of CIAL as a whole, for the first control period and the Opening RAB as at 1st April 2016, beginning of the second control period, as submitted by CIAL was as follows:

Table 8: Regulatory Asset Base at the beginning of the second control period of CIAL (Rs. Crores)

Existing RAB	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Gross block as per books	553.58	574.13	640.12	711.15	732.10	771.73
Net block as per books	387.84	389.12	434.10	484.86	457.35	467.43

10.1.2. The break-up of the Net block of Assets as of 1st April 2016, as submitted by CIAL, is as given below:

Table 9: Breakup of Opening Net Block of assets- 1st April 2016 (Rs. Crores)

Asset Type	Net block as of 1st April 2016	RAB for Hybrid Till as per CIAL
Land	125.02	111.34
Buildings	143.71	109.22
Golf Course	16.62	0.00
Roads, Runways etc.	66.06	66.06
Other Assets – Plant & Machinery, Furniture, Office Equipment etc.	116.02	107.23
TOTAL	**467.43**	**393.85**

10.1.3. CIAL had in their submissions stated that Cochin airport has been developed over an area of 1,275 acres. The land was progressively acquired during the period 1993-1999 in multiple phases and aggregation of fragmented land parcels was done under the State Land Acquisition Act. CIAL has stated that the entire land was acquired at market rates by the Government of Kerala (GoK) and transferred to Cochin International Airport Limited at cost. CIAL has submitted that the total cost of land acquisition was Rs. 124 Crores (approximately) and no subsidy was provided by GoK or Government of India (GoI).

10.1.4. CIAL had, as part of its MYTP proposed a total of Rs. 2781 Crores worth assets to be capitalized in the second control period as given below.

Table 10: Assets proposed to be capitalized, as submitted by CIAL

Project details	Total cost proposed (Rs. Crores)	Year of Capitalization
New Terminal, related works. proposed to be commissioned in March 2017	926.93	2017-18
Apron works, Roads proposed to be commissioned in March 2017	200.46	2017-18
Maintenance Capital Expenditure proposed	206.75	2019-20 and 2020-21
Commercial projects - Commercial complex, Family Entertainment Centre, Product display showrooms	353.63	Largely in 2020-21
New Cargo Warehouse and allied works	131.34	2018-19
Runway recarpeting and Code F Correction	175.90	2019-20
Additional Parking Bays, Code F upgradation, Approach Road and other road works	310.85	Over 5 years of control period
Ground Handling related	70.45	
Other works - Including Terminal modification, new equipment	405.14	

Project details	Total cost proposed (Rs. Crores)	Year of Capitalization
purchase etc.		
TOTAL	2,781.45	
Of the above, addition considered as Aeronautical	2372.32	
Financing Allowance added under Hybrid Till (See Para 10.2.3 below)	101.42	
TOTAL ADDITION TO RAB UNDER HYBRID TILL	2473.74	

10.2. Authority's analysis of CIAL's submission on RAB including Additional Capital Expenditure

10.2.1. The Authority had analysed the Opening RAB and based on changes in asset allocation ratios as detailed in Para 9.2.2 above, the Opening RAB considered by the Authority for the computation of Average RAB in the second control period is as follows:

Table 11: Opening RAB as of 1st April 2016 computed by the Authority under Hybrid Till (Rs. Crores)

Asset Type	RAB for Hybrid Till as per CIAL	RAB for Hybrid Till as recomputed by Authority
Land *	111.34	102.39
Buildings	109.22	102.03
Golf Course	0.00	0.00
Roads, Runways etc.	66.06	66.06
Other Assets – Plant & Machinery, Furniture, Office Equipment etc.	107.23	104.42
TOTAL	**393.85**	**374.90**
**** Land has not been considered as part of RAB by the Authority in computations. Refer analysis below***		

10.2.2. CIAL had submitted that CIAL has carried out Airport User Consultation for the New Terminal and allied works in 2013 and has submitted the minutes of the meetings to the Authority.

10.2.3. The Authority noted that apart from the asset cost, Rs. 117.1 Crores which is computed as Financing Allowance on the Work In progress assets (of which Rs. 101.42 crores pertains to Aero Assets) at the beginning of the Control period and on the assets proposed to be capitalized was added as per Airport Guidelines.

10.2.4. In respect of cost of land, the Authority noted that land is not a depreciable asset and if taken into RAB, the return over it has to be paid perpetually. Besides, if the principle of FRoR based on cost of capital is applied on cost of land, the aeronautical charges may have to be fixed at high rates. Since the Authority had so far not come across instances where the land cost is significant part of the RAB, it is necessary to examine all the ramifications of taking the value of cost of land into RAB. The Authority recognized that unless some kind of return is given on future land acquisitions for airport purposes, it could become a major hurdle for airport development. Therefore, it was proposed to conduct a study based on which the treatment to be given to cost of land can be determined on a sound footing. Therefore, it was proposed to exclude the cost of land from the RAB till a final decision is taken on the issue.

10.2.5. The Authority noted that CIAL had carried out User Consultation for the New Terminal and allied works in 2013. The Authority noted that while cost projected at the time of AUCC was around Rs. 850 Crores for Terminal, Apron and Roads being commissioned now, the actual cost was above Rs. 1000 Crores. The Authority had asked CIAL to submit details regarding the same. CIAL had provided major reasons for increase in cost.

10.2.6. The Authority noted that apart from new Terminal to be capitalized, a large value of Capital Expenditure was proposed to be spent during the second control period.

10.2.7. The Authority had asked CIAL to submit detailed workings for projects individually costing above Rs. 5 crores, on the need justification and break-up workings.

10.2.8. The Authority noted that apart from the above projects costing above Rs. 5 crores, a total of Rs. 206.75 crores was proposed to be spent as Maintenance Capital Expenditure, the justification for which was as provided below:

"Maintenance capital expenditure is required throughout the second control period from FY 2017 to FY 2021 to sustain the business and for efficient operations. The estimated total gross block for the second control period without the maintenance expenditure is INR 13,315 Cr. The proposed maintenance capex is around 1.5% of the total gross block for second control period. To minimize the burden on passenger through increase in aeronautical tariffs, the maintenance for the entire second control period has been planned only in FY20 and FY21"

10.2.9. The Authority noted that CIAL had listed the Individual assets proposed to be created and that the costs to be spent, including replacements/ replenishments etc. have been budgeted in detail, and asked CIAL to explain the need for the maintenance capital expenditure and break-up/ detail of items on which this was proposed to be spent. CIAL had responded that since there were generally some minor Capital expenditures that come up, CIAL had estimated a cost for the same.

10.2.10. The Authority noted that Maintenance Capex costs listed do not have a detailed break-up/ basis at this point of time and would need to be evaluated in detail and proposed to not consider this for the purpose of considering Capital Expenditure cost projections. The Authority will review this after the same is incurred and capitalized by CIAL.

10.2.11. The Authority had asked CIAL to provide details on how the terminal cost and the cost for proposed airside works viz Recarpeting, Additional Parking Bays, Rapid exit taxiways etc. were within the costs approved as per Normative Order of the Authority. CIAL had submitted as follows:

1. *... the estimate for Code E to Code F corrections was taken Rs 4750/- sq meters. In fact, there is no prescribed rates given in the normative order for Code F type of runway. However, our estimates are more or less similar to Code E category works.*
2. *The estimate for rapid exit and vertical links are taken at Rs 5400/sq mtrs and these works is scheduled to be conducted on FY 2017 and FY 2018.This rate is an inflation adjusted figure on the price levels of 2015 and it was estimated within the normative rate of Rs. 4700/- sq mtr itself.*
3. *Similarly, the estimate for construction of phase II parking bays is taken @Rs. 6500/-sq meters based on the fact that the cost of similar project just concluded at this airport is completed at Rs 6500/sq meters. However, it may please be noted that this figures includes the earthwork, soil stabilization works and stone column works upto subgrade level and the pavement cost alone would work out well below the normative figure of Rs. 4700/- per sq meters."*

10.2.12. The Authority noted that CIAL has projected for Dummy Aircraft and Aircraft Recovery equipment, which the Authority proposed to not consider for the purpose of estimating the additions to RAB. The Authority had requested CIAL to reconsider the need and the responsibility on who is required to provide for these, before these costs are actually incurred. The Authority also proposed to correct the cost of Aerobridges considered incorrectly in one of the capital expenditure estimations.

10.2.13. The Authority also noted that Financing allowance and the methodology for computation of the same was detailed in the Airport guidelines and would need to be provided to the Airport Operator. The Authority however proposed to consider only the Financial allowance on the Work in progress assets available as per the March 2016 financial statements and not on the future capital expenditure, as the financing allowance would be dependent on the period in which the amounts are spent, length of asset construction etc. The Authority also noted that the Interest cost capitalized to Opening CWIP had been additionally considered in the Opening WIP assets for computing Financing allowance, which was rectified by the Authority.

10.2.14. Considering the above, the revised total Capital expenditure proposed to be considered by the Authority for the second control period and the amount to be considered as addition to RAB under Hybrid Till, out of the above, was as given below:

Table 12: Recomputed addition to RAB as per Authority (Rs. Crores)

	As per CIAL	As per Authority		
Project details	**Total**	**Total**	**Aero**	**Non-Aero**
New Terminal, related works proposed to be commissioned in March 2017	926.93	926.93	857.41	69.52
Apron works, Roads proposed to be commissioned in March 2017	200.46	200.46	200.46	0.00
Maintenance Capital Expenditure proposed	206.75	0.00	0.00	0.00
Commercial projects - Commercial complex, Family Entertainment Centre, Product display showrooms	353.63	353.63	0	353.63
New Cargo Warehouse and allied works	131.34	131.34	131.34	0.00
Runway recarpeting and Code F Correction	175.90	175.90	175.90	0.00
Additional Parking Bays, Code F upgradation, Approach Road and other road works	310.85	310.85	310.85	0.00
Ground Handling related	70.45	70.45	70.45	0.00
Other works - Including Terminal modification, new equipment purchase etc.	405.14	369.78	346.17	23.61
TOTAL	**2,781.45**	**2,539.34**	**2,092.59**	**446.75**
Of the above, addition considered as Aeronautical	**2,372.32**	**2,092.59**		
Financing Allowance added for Hybrid Till	**101.42**	**66.43**		
Total addition - Hybrid Till	**2,473.74**	**2,159.01**		

10.2.15. The Authority noted that other than the New International Terminal and allied works which have commenced before the beginning of second control period, no user consultation was initiated for the other projects. The Authority expected that CIAL will carry out user consultations with all stake holders at appropriate time for projects beyond the limit of Rs. 50 Crores as detailed in the Airport Guidelines.

10.2.16. The Authority notes that the RAB computed above was subject to changes based on the actual value of assets capitalised, the period of capitalization and changes in asset allocations. The Authority therefore proposed to true up the Capital Expenditure and the Average RAB based on actuals, at the end of the Control period.

10.3. Stakeholders' comments on RAB including Additional Capital Expenditure

10.3.1. Following comments were received from IATA in respect of RAB:

"The cost control aspect is an issue which AERA should pay attention to as it seems most projects are costing higher than budgeted such as the railway overbridge. In addition, the cost

overrun of the commissioning of the new terminal, apron and roads was around Rs. 150 crore (from Rs 850 Crores to Rs. 1000 Crores). It was only noted by AERA that CIAL has provided major reasons for the increase in cost. There is no clear governance with respect to consultation with stakeholders on such cost overruns. In principle, cost overruns that have not been consulted (and agreed by users in advance) should not be allowed. Otherwise, there is no incentive for the airport to deliver assets in the most efficient manner. We recommend that AERA have mechanism in place to ensure effectiveness in cost control by CIAL (or any other airports under the purview of AERA).

Regarding the study on the treatment to be given to cost of land, IATA would appreciate a consultative approach with adequate advance notice to provide stakeholders with sufficient time to seek clarification and provide our comments for consideration by AERA.

In addition to the comments provided earlier in asset allocation (which would affect the RAB calculations), it would be essential that any future true ups of capital expenditure are also accompanied with a capital efficiency study. Otherwise, CIAL will not be incentivised to deliver its capital program efficiently (moreover, such analysis should have been done ex-ante and ex-post)."

10.3.2. FIA has stated as follows:

"...AERA has mentioned that after the commissioning of the new International Terminal, the existing International Terminal would be converted as the new Domestic Terminal, with a five-fold increase in area. However, projected growth of pax during the second control period is only 44% (for Domestic) and 48% (for International). Thus, there is no significant justification of the proposed expansion..."

10.4. CIAL's response to Stakeholders' comments on RAB including Additional Capital Expenditure

10.4.1. In respect of Capital Efficiency Study as detailed by IATA, CIAL has represented the following:

"1. Cochin International Airport is widely recognized as a low cost functionally efficient airport. Historically, the interest of travelers has always been given due consideration. The world-class infrastructure is provided at affordable rates to the users.

2. CIAL has been successful in developing a low cost airport with a relatively low capital expenditure. This has been made possible through:

a. Modular expansion philosophy

b. Award of multiple contracts competitively tendered as opposed to a single large turnkey contract

c. Simple and no-frills development model

d. Use of locally available materials

e. Prudent financial management

CIAL's focus on efficient cost for development of infrastructure has not been compromised even for construction of the new international terminal. The cost of the new international terminal and associated infrastructure is almost half of comparable airport terminals built in the country on a cost/sqm basis and well within the normative benchmark provided by AERA. Cost per square meter of newly constructed airport is Rs. 62,917 which is below the normative rates prescribed by AERA.

CIAL will continue to focus on developing affordable infrastructure for its customers as specified in the normative norms of the Authority."

10.4.2. Further, CIAL has submitted the following in respect of FIA's comment on comparison of expansion in area with growth in pax:

"The existing domestic terminal was commissioned in 1999 with a peak hour handling capacity of 800 php. The terminal was operating beyond its capacity leading to congestions and lower passenger service quality levels.

The existing old international terminal had a peak hour capacity of 2400 php.

CIAL could have built a new domestic terminal to handle the increased domestic traffic with significant capital expenditure. After few years, existing international terminal would have become congested and required additional capital expenditure towards construction of new international terminal.

Instead, to manage the capital expenditure prudently and use the terminal assets effectively, to lower the burden on passengers and to address the capacity constraint at the domestic terminal as well as to cater to future growth in international traffic, CIAL decided to develop a new international terminal at the airport. The existing terminal would therefore be converted to a domestic terminal thus enhancing both the domestic and international passenger handling capacity at the airport.

CIAL submits that the comparing the 5 years traffic growth in second control period with the increased terminal area is not correct as the existing old terminals were already congested and the increased terminal area will support the traffic growth beyond second control period as well ."

10.5. CIAL's views on Authority's analysis of RAB including Capital Expenditure.

10.5.1. Following comments were received from CIAL in respect of RAB:

"Cost of Land:

...1. Cochin airport is different from other airports with respect to the nature of ownership and possession of land asset.

2. In case of CIAL, the entire land was acquired at market rates by the Government of Kerala (GoK) and transferred to CIAL at cost. No subsidy/grant was provided by GoK or Government of India (GoI)

3. If land is removed from RAB, CIAL will not earn any return on the asset it has invested from its own money and the investors will be penalized for uncertainty over treatment of land owned by CIAL.

4. Not giving any return on land assets also impacts CIAL adversely as in near future there is a further requirement to acquire land for second runway.

5. CIAL requests the Authority to include land as part of RAB for 2nd control period..."

Financing Allowance:

"...1. Some of the capital expenditure in 2nd control period will be part of WIP till the assets are commissioned and put to use.

2. CIAL has calculated financing allowance on forecast WIP of capital expenditure in 2nd control period.

3. As per AERA guidelines, WIP assets are such assets which have not been commissioned during a tariff year and the Authority shall determine a forecast for WIP assets and calculate financing allowance in the determination of forecast RAB and ARR.

4. Therefore, CIAL requests the Authority to consider financing allowance on the future capital expenditure."

10.6. **Authority's examination of Stakeholders' comments pertaining to RAB including Additional Capital Expenditure**

10.6.1. The Authority has carefully evaluated the comments of Stakeholders on RAB.

10.6.2. **Cost of Land**: As detailed in the Consultation Paper, a study will be conducted on manner of providing return on land investment and Authority will decide based on the same, which will then be applied for CIAL also.

10.6.3. **Financing Allowance**: Authority has noted in the Consultation Paper that this would be dependent on the manner and timing of Capital Expenditure. This will be trued up based on the final capital expenditure incurred at the end of control period.

10.6.4. The Authority has noted Stakeholder comments with respect to efficiency studies. It is with this in mind that AERA has issued the Normative order prescribing different thresholds and costs in excess of that would need specific explanation and review.

10.6.5. On cost overruns, Authority notes that the reasons were due to changes in design, site conditions etc. A tabulation of major reasons for change submitted by CIAL is as given below:

Table 13: Tabulation of key reasons provided by CIAL for cost overruns

Name of work	Reason for deviations in value of work
Civil works for the construction of new International Terminal	Introduction of PT slab in Grid 1 & 3 replacing Polycarbonate roofing. Deletion of Skylight in the PTB and its modifications. GSB was provided below flooring to stabilize the sub-grade. Increased scope in Water Proofing and screening due to introduction of RCC/PT slabs. Quantity increased in Block Masonry due to Architectural revisions creating additional space. Bison board partition works Painting and finishing works
MEP package	Additional fire detection & alarm system. Revision in architectural plan and hence deviation in electrical and HVAC. Plumbing line variations as per site requirement.
Civil Works for the Construction of Service Building & Utility Substation.	Sump and Pump house was separated due to Soil condition and piling was introduced for the sump. Additional bay was introduced for placing Cooling Tower. Construction of New Gate House structure which was not in the original contract.
Flooring & Toilet Finishing	Cost impact is mainly due to price difference between the selected Tiles/Toilet fittings and fixtures when compared to the base price specified in the tender. Quantity of screed increased due to design change (thickness) to accommodate electrical and Communications cables. Scope increase due to introduction of Tiles in food court and Kitchen area which was not envisaged in the contract. Tiling work in additional rooms carved out of AHUs and Electrical rooms .Additional Paver block works in Ground Floor. Additional Granite works for Dadoing and wall cladding, Carpet laying in ramps
Metal False ceiling work	Additional Ceiling area due to carving of space from AHUs and Electrical rooms. Additional works in food court area, Introduction of Ceiling between Grid 2 & 3.
Façade & Glazing works.	ACP area increased due to Architectural revisions. Glazing and the outer structure for the Glass lift were additionally entrusted. ACP for the shade in the Pier was introduced to enhance the Aesthetical appeal.
Interior Works	Introduction of New Scope due to Architectural/Functional requirement and for creating new commercial space like Airline office, retail shops, custom and CISF rooms,

Name of work	Reason for deviations in value of work
	etc. results a deviation in aluminum framework, rockwool, BWP grade ply, laminated ply, lacquered glass, doors and its accessories, windows, lipping etc. Ceiling works increased due to the introduction of new rooms. Introduction of Kite shaped structure in the PTB to enhance the Aesthetic appeal resulting in the increase of aluminum framework, gypsum and LED strip installation. Introduction of additional doors for all toilets to meet the functional requirements. Additional partition works using gypsum was operated for meeting the functional requirements.
Cladding & Finishing works.	Scope increased due to Architectural revisions - Additional Spider Glazing and Free standing works entrusted. Canopy above Check-in Counters and finishing works were entrusted. Finishing works connected with Retail shops in PTB & Pier. Finishing of A/c Kiosks in PTB & Pier.
CCTV	Cabling length is exceeded as per site requirement.
Construction of parking bays, Connectivity taxi links from Taxiway & associated airfield ground lighting	The above works were required to be carried out because of the terrain/geographical specific reasons. There was a river under the name chengalthod was flowing through the site for apron , initially we have estimated that the influence area of the river was in the laying area only for which stone columns and rubble packing is required. However during the actual execution stage the influence area of the chengal river was much more which necessitated introduction of stone columns for a wider area, further there were abundant wells and sands filled with M sand and rubble for subgrade preparations
Construction of approach portion of Flyover of the new International Terminal Building	White Topping was done as an extra item. Flyover painting was not considered in original scope.

10.6.6. The Authority notes that IATA has suggested that the Original cost estimates should be used to calculate RAB. This would be unfair since normally, the cost estimates for projects of this magnitude and complexity cannot be accurately forecast. However, the increase in costs should be reasonable considering the change in the scope of work undertaken and the increase in costs of equipment, materials and labour. The Authority has noted the reasons adduced by CIAL and is of the view that the increase in capital costs has been reasonable. The Authority also notes that CIAL has submitted that the cost per square meter of the newly constructed terminal is within the normative rates prescribed by AERA.

10.6.7. The Authority notes that need assessment and justification for new Terminal has been included by CIAL as part of Stakeholder consultation process before commissioning of the same. The Authority also noted CIAL's submission that the peak hour passenger throughput in the domestic terminal at CIAL was over 1000 as against the planned capacity of 800 passengers. Commissioning of new terminal is aimed at providing better facilities, to relieve congestion and to take care of future expansion and growth. It is to be noted that traffic estimates would not reach the capacity of the new terminal within one Control Period.

Decision No. 5. Regarding Capital Expenditure

5.a. Based on the material before it and its analysis, the Authority decides

i. To not consider Land as part of RAB for computing return, as detailed in Para 10.6.2 above, pending study to be conducted.

ii. To consider Capital Expenditure detailed in Para 10.2.14 above for computing the Average RAB and return for the second control period.

iii. To true up the actual Capital Expenditure on actuals at the time of determination of tariff for the next control period.

11.Depreciation

11.1. CIAL's submission on Depreciation

11.1.1. CIAL had submitted that Depreciation on assets has been provided on the basis of rates prescribed in Schedule II of the Companies Act 2013 and for assets where useful life is not available in Schedule II, these are adopted based on the technical assessments made by the technical team of CIAL /Consultants and have been consistently following its useful life in its annual financial statements duly audited and certified by statutory auditors.

11.1.2. Accordingly, the useful life for computation of rates considered by CIAL for key assets are as below:

Table 14: Useful lives and depreciation rates adopted by CIAL

Asset Category	Useful Life (Years)	Depreciation Rate (after salvage value) %
Land	NIL	NIL
Buildings / Civil works	60	1.58
Roads	5	19.00
Runways , Roadways and Culverts – Runway, Parking Bay etc.	15	6.33
Plant and Equipments *	15	6.33
Office Equipments	5	19.00
Computers and Accessories - End use	3	31.67
Computers and Accessories - Servers	6	15.83
Furniture & Fixtures	10	9.50
Vehicles	8	11.88
Intangible Assets	5	19.00
Maintenance Capex Expenditure	21	4.43
** Some minor value of assets depreciated at lower useful lives*		

11.1.3. Accordingly, the total Depreciation considered by CIAL for the assets, under Hybrid Till, for the control period was as given below:

Table 15: Depreciation considered by CIAL in its submissions (Rs. Crores)

Depreciation - Hybrid Till	2017	2018	2019	2020	2021
Land	0	0	0	0	0
Buildings & Civil Works	9.57	13.92	15.13	16.75	19.88
Golf Course Development	0.00	0.00	0.00	0.00	0.00
Runway, Roads and Culverts	21.15	32.68	34.71	42.44	50.87
Plant and Equipment	24.36	41.25	48.76	56.38	65.59
Office Equipment	1.22	2.46	2.57	2.70	2.85
Computers and Accessories	4.76	9.72	11.61	10.77	8.05
Furniture and Fixtures	1.12	1.36	1.42	1.49	1.59
Vehicles	0.60	0.78	0.84	0.88	0.94
Intangible assets	3.10	3.18	2.71	1.06	1.14
TOTAL	**65.89**	**105.36**	**117.75**	**132.46**	**150.90**

11.2. Authority's Examination of CIAL's submission on Depreciation

11.2.1. The Authority noted that CIAL had adopted depreciation rates as per Companies Act. The Authority noted that useful life for airside works relating to Runway, Taxiway, Apron etc. and upgrades to these structures were considered as 15 years and these are adopted in the Financial statements of the Company.

11.2.2. The Authority noted that useful lives and depreciation rates charged vary for certain assets among different airport Operators. In this regard, the Authority had separately commissioned a study to determine appropriate depreciation rates for regulation of airports in line with the provisions of the Companies Act 2013 and the Authority will consider the recommendations of the study as and when a decision is taken on the study and the computations will be updated accordingly in RAB and true up depreciation.

11.2.3. Pending the above, in the interim, for the purpose of computing the depreciation rate in this consultation paper, the Authority proposed to consider the following useful lives and update the depreciation computations accordingly.

Table 16: Different useful lives considered by the Authority

Category of asset	Useful life as per CIAL (Years)	Useful life considered by the Authority (Years)
Runway, Taxiway, Apron	15	30
Roads	5	30
Baggage Inspection System	10	15
Crash Fire Tender	8	15

11.2.4. Accordingly, the recomputed value of Depreciation (also considering other changes to Capital Expenditure etc.) as per the Authority was as below:

Table 17: Depreciation recomputed by the Authority (Rs. Crores)

Depreciation on Existing Assets	2017	2018	2019	2020	2021
Land	-	-	-	-	-
Buildings & Civil Works	2.44	2.44	2.43	2.38	2.38
Golf Course Development	-	-	-	-	-
Runway, Roads and Culverts	10.26	9.27	7.14	6.28	3.92
Plant and Equipment	10.17	9.77	9.42	8.61	8.24
Office Equipment	0.03	0.03	0.01	0.00	0.00
Computers and Accessories	0.83	0.65	0.58	0.50	0.23
Furniture and Fixtures	0.65	0.38	0.34	0.28	0.24
Vehicles	0.43	0.40	0.36	0.33	0.28
Intangible assets	2.82	2.59	1.97	0.22	0.08
TOTAL	**27.62**	**25.52**	**22.25**	**18.61**	**15.37**

Depreciation - New Assets	2017	2018	2019	2020	2021
Land	0.00	0.00	0.00	0.00	0.00
Buildings & Civil Works	6.20	10.21	11.06	11.64	12.89
Golf Course Development	0.00	0.00	0.00	0.00	0.00
Runway, Roads and Culverts	4.03	8.39	9.80	13.67	18.40
Plant and Equipment	12.03	26.66	33.60	41.21	48.75
Office Equipment	1.08	2.20	2.31	2.42	2.54
Computers and Accessories	3.71	8.60	10.45	9.68	7.26

Depreciation - New Assets	2017	2018	2019	2020	2021
Furniture and Fixtures	0.42	0.88	0.97	1.07	1.18
Vehicles	0.15	0.37	0.47	0.53	0.62
Intangible assets	0.18	0.44	0.58	0.70	0.86
TOTAL	**27.79**	**57.74**	**69.25**	**80.93**	**92.51**
Grand Total	**55.41**	**83.27**	**91.50**	**99.54**	**107.88**

11.3. Stakeholders' comments on Depreciation

11.3.1. IATA had noted that the Authority is carrying out a study on depreciation for airports and has stated the following:

"...Regarding the depreciation study, IATA would appreciate a consultative approach with adequate advance notice to provide stakeholders with sufficient time to seek clarification and provide our comments for consideration by AERA. In the meantime, we support the asset lives proposed by AERA..."

11.4. CIAL's response to Stakeholders' comments on Depreciation

11.4.1. CIAL has not submitted any specific comment on the Stakeholder comments.

11.5. CIAL's views on Authority's proposal on Depreciation

11.5.1. CIAL has stated the following in respect of depreciation:

Depreciation on Roads – *"...The useful life for roads to be capitalized in the 2nd control period has been considered based on the Companies Act 2013 for non RCC carpeted road. As per companies act 2013, RCC carpeted roads have useful life of 10 years and non RCC carpeted roads have useful life of 5 years. The Authority has proposed to consider useful life of roads as 30 years which is too high and a deviation from the Companies Act 2013..."*

Depreciation on Specific Items – *"...Additionally, CIAL submits that the useful life for baggage inspection system and crash fire tender is estimated by technical team of CIAL based on actual usage. Therefore, CIAL requests the Authority to consider the useful life of roads, baggage inspection system and crash fire tender as submitted by CIAL..."*

11.6. Authority's examination of Stakeholders' comments on Depreciation

11.6.1. The Authority has carefully reviewed the comments of stakeholders on issue relating to Depreciation.

11.6.2. Authority had proposed that a study will be conducted and rates determined. Further to the proposal in the Consultation Paper, the Authority has issued a Consultation Paper No 9/ 2017-18 dated 19th June 2017 on Useful life lives of Assets and has had consultation with the stakeholders on 3rd July 2017. Once the outcome of the study is finalized, the useful lives so determined will be considered for true up at the end of the current control period.

11.6.3. Hence, the Authority has decided to consider the useful lives based on the proposal stated in the Consultation Paper, subject to the same being trued up after the Order on useful lives is issued.

Decision No. 6. Depreciation for the second control period

6.a. Based on the material before it and its analysis, the Authority decides

i. To consider depreciation as per Para 11.2.4 above to compute Average RAB and depreciation to be considered in ARR.

ii. To true up the Depreciation based on the actual Capital Expenditure and the change in useful lives/ rates as per the results of the Depreciation study.

12. Regulatory Asset Base

12.1. CIAL's submission on Regulatory Asset Base

12.1.1. Based on the above, Average RAB computed by CIAL for the second control period under Hybrid is as given below:

Table 18: Average RAB computation as per CIAL, under Hybrid Till (Rs. Crores)

Particulars	2017	2018	2019	2020	2021	TOTAL
Opening RAB	393.85	1521.91	1564.05	1714.23	1926.31	
Additions during the year	1193.95	147.50	267.93	344.54	519.82	**2473.74**
Depreciation during the year	65.89	105.36	117.75	132.46	150.90	**572.36**
Closing RAB	1521.91	1564.05	1714.23	1926.31	2295.24	
Average RAB	**957.88**	**1542.98**	**1639.14**	**1820.27**	**2110.77**	

12.2. Authority's Analysis of CIAL's Submissions on Regulatory Asset Base

12.2.1. The Authority's individual decisions on Capital Expenditure, Land and Depreciation are as detailed in earlier paragraphs.

12.2.2. Considering the above, the Authority's computation of Average RAB under Hybrid Till (considering allocation of assets between Aeronautical and Non Aeronautical as detailed in Para 9 above) is as given below:

Table 19: Recomputed Average RAB as per Authority under Hybrid Till (Rs. Crores)

Particulars	2017	2018	2019	2020	2021
Opening RAB	374.90	1461.48	1508.52	1669.27	1820.92
Additions during the year	1142.00	130.31	252.25	251.18	383.28
Depreciation during the year	55.41	83.27	91.50	99.54	107.88
Closing RAB	1461.48	1508.52	1669.27	1820.92	2096.32
Average RAB	918.19	1485.00	1588.90	1745.10	1958.62
Less: Land excluded from RAB (Relating to Aero included in Opening RAB)	-102.39	-102.39	-102.39	-102.39	-102.39
RAB to be used for computing ARR	**815.80**	**1382.61**	**1486.50**	**1642.70**	**1856.23**

Decision No. 7. Regulatory Asset Base for the second control period

7.a. Based on the material before it and its analysis, the Authority decides

- **i. To consider Regulatory Asset Base as given in Para 12.2.2 above for the purpose of computation of Aggregate Revenue Requirement.**
- **ii. To true up the Regulatory Asset Base at the end of the Control period based on actuals, at the time of determination of tariff for the next control period.**

13.Operating Expenditure

13.1. CIAL's submission on Operating Expenditure

13.1.1. Basis of allocation of Operating Expenses between Aeronautical and Non-Aeronautical Expenses as per CIAL in MYTP submissions is as given below:

Table 20: Basis of allocation of O&M expenses as per CIAL

O&M Expense Head	Basis for segregation of O&M cost
Employee cost	Total employee cost has been segregated into aeronautical and non-aeronautical in the proportion of number of employee providing aeronautical and non-aeronautical services. Employees working in commercial department, duty free department and golf course have been considered as employees providing non-aeronautical services.
Administration and General costs	Segregated into aeronautical and non-aeronautical in the proportion of number of employee providing aeronautical and non-aeronautical services.
Utilities Costs	Power, water and fuel charges have been prorated in the proportion of actual usage by aeronautical activities and non-aeronautical activities
Repair and maintenance costs	Repair and maintenance costs have been prorated in the proportion of gross block for aeronautical and non-aeronautical assets for buildings, runway, roads & culverts and plant & equipment.
Other operational expenses	These expenses pertain to safety & security expenses, vehicle operations & maintenance, housekeeping expenses, consumables and other miscellaneous expenses. Expenses have been segregated in the proportion of number of employee providing aeronautical and non-aeronautical services.
CUTE expenses	CUTE operational expenses incurred are considered to be aeronautical expenses.

13.1.2. The proportion of Aero cost to Total expenses, category wise, as considered by CIAL, is as given below:

Table 21: Proportion of Aeronautical expenses as a % of Total expenses, category wise

Nature of expense	% of Cost considered as Aeronautical				
	2017	2018	2019	2020	2021
Total Repairs Costs	87.67%	87.67%	87.67%	87.67%	87.67%
Safety & Security expenses	96.14%	96.14%	96.14%	96.14%	96.14%
Power Charges	97.74%	97.74%	97.74%	97.74%	97.74%
Water Charges	97.74%	97.74%	97.74%	97.74%	97.74%
Fuel Generator Sets	97.74%	97.74%	97.74%	97.74%	97.74%
Vehicle Running & Maintenance expenses	96.14%	96.14%	96.14%	96.14%	96.14%
House Keeping expenses	96.14%	96.14%	96.14%	96.14%	96.14%
Consumables	96.14%	96.14%	96.14%	96.14%	96.14%
Other operational expenses	96.14%	96.14%	96.14%	96.14%	96.14%
CUTE operational expenses	100.00%	100.00%	100.00%	100.00%	100.00%
Payment to employees	96.14%	96.14%	96.14%	96.14%	96.14%
Admin Expenses	96.14%	96.14%	96.14%	96.14%	96.14%

13.1.3. Details of cost projected by CIAL for the current control period, under Hybrid Till was as follows:

Table 22: Projection of Operating and Maintenance Expenses, under Hybrid Till as per CIAL (Rs. Crores)

Particulars	2017	2018	2019	2020	2021
Payment to Employees	60.66	90.99	100.08	110.09	121.10
Repair cost	18.41	22.67	28.13	34.82	40.50
Safety & Security Expenses	4.73	6.70	7.11	7.54	8.01
Power, Water and Fuel	34.88	51.53	57.42	63.27	69.69
Vehicle Running Expenses	0.84	0.84	0.85	0.85	0.86
Housekeeping Expenses	11.56	18.53	20.16	21.93	23.86
Consumables	3.18	5.42	5.68	5.95	6.24
Miscellaneous Expenses	14.13	16.80	19.98	23.75	28.23
CSR Expenses	4.89	4.10	4.37	5.24	6.06
CUTE Operational Expenditure	3.75	3.91	4.08	4.26	4.45
Administration Expenditure	15.16	16.44	18.05	19.96	22.57
TOTAL OPERATING EXPENDITURE	**172.19**	**237.92**	**265.89**	**297.67**	**331.58**

13.2. Authority's analysis on CIAL's submission on Operating Expenditure

13.2.1. Authority had reviewed the basis of segregation of expenses between Aeronautical and Non-Aeronautical assets and expenditure submitted by CIAL. The Authority's analysis was as follows:

13.2.2. **Employee Costs:** The Authority noted that CIAL has segregated costs relating to Employees as Aeronautical and Non-Aeronautical based on the number of employees working in different departments and not based on the salary costs. The Authority also noted that CIAL had proposed to add team members for 2016-17 for the Terminal Operations, which is only commissioned by March 2017. The Authority also noted that common departments viz. MD's office, Finance, HR etc. have not been segregated between Aeronautical and Non-Aeronautical and they have been totally considered as Aeronautical costs which the Authority proposed to allocate between both Aeronautical and Non-Aeronautical.

13.2.3. Based on these factors, the Authority had prepared revised computations and accordingly, the Authority considered 82% for the first year and 92.5% for the rest of the years in the control period as ratio for allocation Personnel costs and other costs dependent on the ratio of Personnel costs as relating to Aeronautical services (Difference in ratio due to large number of employees being added to Operations from 2017-18, after commissioning of New Terminal).

13.2.4. The Authority noted that CIAL had considered the Power, water related utility charges levied from concessionaires as Non-Aeronautical Revenue. The Authority proposed to consider these recoveries as a reduction to utility cost and therefore consider the net costs relating to utilities as Aeronautical after set-off.

13.2.5. Recomputed Aeronautical Ratio of O&M expenses was as given below:

Table 23: Recomputed allocation ratio of Aeronautical Expenses to total expenses, category wise

Nature of expense	% of Cost considered as Aeronautical				
	2017	2018	2019	2020	2021
Total Repairs Costs	85.36%	85.36%	85.36%	85.36%	85.36%
Safety & Security expenses	82.00%	92.50%	92.50%	92.50%	92.50%
Power Charges	100.00%	100.00%	100.00%	100.00%	100.00%
Water Charges	100.00%	100.00%	100.00%	100.00%	100.00%
Fuel Generator Sets	100.00%	100.00%	100.00%	100.00%	100.00%

Nature of expense	% of Cost considered as Aeronautical				
	2017	2018	2019	2020	2021
Vehicle Running & Maintenance expenses	82.00%	92.50%	92.50%	92.50%	92.50%
House Keeping expenses	82.00%	92.50%	92.50%	92.50%	92.50%
Consumables	82.00%	92.50%	92.50%	92.50%	92.50%
Other operational expenses	82.00%	92.50%	92.50%	92.50%	92.50%
CUTE operational expenses	100.00%	100.00%	100.00%	100.00%	100.00%
Payment to employees	82.00%	92.50%	92.50%	92.50%	92.50%
Admin Expenses	82.00%	92.50%	92.50%	92.50%	92.50%

13.2.6. Authority had carefully analysed each component of the Operating Expenditure. Authority's Analysis, which was detailed in the Consultation Paper was as follows:

Employee Cost

13.2.7. The Authority noted that the movement in employee cost over the past 5 years varies between 6% and 30%. The Authority also noted that the increase in the employee cost by 50% once in 5 years has been factored into the projections in 2018. The Authority enquired about these growth rates and trends considered by CIAL. In response to the above query, CIAL stated that the pay revision of CIAL employees is done on a five year pattern for staff cadre and the revision of officers' salary is done once in 10 years. CIAL represented that incidentally, the revision of salary of both staff and officers' cadre was due in FY 2017, and hence a higher estimate was made for the FY 2017. Thereafter, the annual growth rate was pegged at 10%.

13.2.8. The Authority proposed to moderate the increase in costs considered to 25% in 2017, instead of 50% and at 7% for the other years instead of 10% proposed by CIAL for the purpose of projecting the Personnel cost and compute the costs attributable to Aeronautical services based on its analysis of allocation of expenses detailed earlier.

13.2.9. The Authority further noted that in 2016, the no. of employees in duty free was 72. From 2017, it was reduced to 4. The difference of 68 employees were added to the count of employees in the operations department. The Authority queried CIAL regarding the same. In response to the above query, CIAL stated that the Management has decided that employees in the duty free division would be re-allocated to airport operations as there is a need to increase the Operations Department's strength with the increase in Terminal area and commissioning of a new terminal.

Repairs Cost

13.2.10. The Authority noted that the repair costs were calculated as a % of the new assets which were added on a yearly basis. CIAL was asked to provide the basis for this % applied on the additions to assets. CIAL stated that this basis was arrived through internal assessment of repairs & maintenance costs for new assets. The Authority noted that the repair costs are dependent on the value of assets proposed to be capitalized and the period / year of capitalization. Accordingly, the Authority proposed to consider the Repair costs projected by CIAL and consider the costs relating to Aeronautical Services based on its analysis of allocation of expenses detailed earlier.

Power, Water & Fuel Charges

13.2.11. The Authority noted that the consumption of total units of power had increased from 2.07 Crore units in 2016 to 3.38 Crore units in 2017 (63% increase) followed by an increase thereafter. CIAL stated that increase in power units was calculated based on historical CAGR of unit consumption and increase in operational areas.

13.2.12. The Authority also enquired about the basis of the assumption that the effective unit rate of power supplied by CIAL Infra as 90% of the effective unit rate of power supplied by KSEB, whereas there was a long term fixed agreement to buy power at Rs. 6.80. CIAL clarified that the fixed rate can be used instead of the rate considered by CIAL in projections. Accordingly, the Authority proposed to consider the rate for power supplied by CIAL Infra at Rs. 6.80 instead of the higher rate considered by CIAL.

13.2.13. For Water charges, the Authority noted that CIAL has considered 10% increase in consumption year on year which CIAL clarified was based on internal assessment, keeping in mind the commissioning of new international terminal and increase in passenger traffic. The Authority noted that CIAL has considered 25% increase (once in 5 years) in per unit rate of water consumed. CIAL clarified that this is based on the past trend of step increase charged by the Government.

13.2.14. The Authority proposed to consider Utility cost net of recoveries from concessionaires as Aeronautical costs and proposes to recalculate the expenses accordingly.

Other Expenses

13.2.15. The Authority noted that CIAL had estimated the CSR cost as part of the Operating Expenditure. Being an appropriation from profits, the Authority proposed to not allow CSR expense in the projection of ARR for CIAL.

13.2.16. The Authority noted that advertisement expenses relating to duty free operations were classified as Aeronautical expenses. The Authority proposed to not include the marketing costs relating to duty free operations in the ARR projections under Hybrid Till for the second control period.

13.2.17. The Authority reviewed the CUTE Operational Expenditure with the agreement with M/s SITA. The Authority noted that 7% escalation considered by CIAL was not part of the agreement. Hence the Authority proposed to consider the cost without any escalation.

13.2.18. Considering the changes above, the Authority had recalculated the Operating Expenditure relating to Aeronautical Services as follows:

Table 24: Operating Expenditure recomputed by Authority under Hybrid Till (Rs. Crores)

Particulars	2017	2018	2019	2020	2021
Payment to Employees	58.79	70.96	75.93	81.25	86.93
Repair cost	17.89	21.97	27.23	33.32	37.54
Safety & Security Expenses	4.04	6.44	6.84	7.26	7.70
Power, Water and Fuel	26.05	39.35	43.83	48.25	53.14
Vehicle Running Expenses	0.71	0.81	0.81	0.82	0.82
Housekeeping Expenses	9.86	17.83	19.39	21.10	22.96
Consumables	2.71	5.22	5.47	5.73	6.00
Miscellaneous Expenses	12.06	16.17	19.22	22.85	27.16
CSR Expenses	0.00	0.00	0.00	0.00	0.00
CUTE Operational Expenditure	3.75	3.75	3.75	3.75	3.75
Administration Expenditure	12.46	15.11	16.52	17.92	19.88
TOTAL OPERATING EXPENDITURE	**148.32**	**197.60**	**218.99**	**242.24**	**265.89**

13.2.19. The Authority noted that all components of Operating Expenditure estimated above, could vary, especially considering the New Terminal being commissioned, large scale Capital expenditure being proposed by CIAL and other factors. The Authority, hence proposed to true up the costs based on actuals at the end of the current control period.

13.3. Stakeholders' comments on Operating Expenditure

13.3.1. IATA has stated the following in respect of payroll costs:

"Commend AERA for the rational decision relating to reducing the employee costs attributed to aeronautical from CIAL's 96.4% to 82%. A comment regarding the staff count for non-aeronautical which seems exceptionally low; only 4 staff for duty free and 3 staff for Golf and Country club operation which either imply a small and insignificant operation or an error in correctly identifying the number of staff correctly."

"Salary costs growth projection is brought down by AERA as well to a more reasonable level from 50% to 25% in 2017 and thereafter capped at 7% every year instead of 10%. This is a step in the right direction but more can be done. Again, the focus should be on cost control initiatives to do more safely, securely, efficiently and sustainably..."

13.3.2. Following comments have been made by FIA:

"...1. In addition to the above, there is substantial increase in Salary, Electricity Charges and water charges, which needs rationalization.

2. Administrative Expenses: There is sudden increase of almost 44% in the administrative expenses from the year 2016 to 2017. AERA needs to reexamine the same..."

13.4. CIAL's response to Stakeholders' comments on Operating Expenditure

13.4.1. CIAL has commented as follows in response to the Stakeholders' comments on Operating Expenditure.

"...Employee Cost: At Cochin international airport, majority of the non-aeronautical services are outsourced to more experienced concessionaires to being in efficiency in non-aero revenue generation. Therefore, only few employees are involved in managerial activities for non-aeronautical services and majority of the employees are involved in aeronautical activities. Additionally, with the duty-free operations outsourced to independent entity, the existing duty free employees have been re-allocated to other aeronautical services.

Based on CIAL's estimates, the aeronautical component of employee costs is 96.4% whereas the Authority has taken 82% as aeronautical employees. CIAL requests the Authority to adopt 95% to 5% ratio or allocation of employees' costs in line with the decision taken for similar airports in the region..."

"...CIAL has continuously endeavored to provide reliable and efficient services to users at very reasonable tariffs (lowest compared to other privately managed airports). The revision in personnel costs for staff cadre and officer's salary is as per actual plans of increase by 50% in FY 2018. Additionally, the salaries are increased by 10% year on year and is as per actuals based on past trends. CIAL requests the Authority to consider the payroll growth rates as submitted by CIAL..."

"With the commissioning of new international terminal and significant increase in area of terminal operations, new employees have been recruited which has increased the employee costs. Additionally, the salaries are revised in FY 2017-18 due to revision in pay scale."

"Utility Costs: Increased area of new terminal and scale of operations has resulted in increase in utilities such as water and electricity. Detailed workings and clarifications have been submitted before the Authority in this regard."

"Increased area of new international terminal has also impacted consumption of electricity and water. The growth in consumption of electricity and water has resulted in increase in utility costs at CIAL. The details have been submitted along with the break-up of costs as part of MYTP submissions and clarifications provided thereof"

13.5. CIAL's views on Authority's proposal on Operating Expenditure

13.5.1. CIAL has made the following submissions in respect of Operating Expenditure:

"...1. Payroll Costs: The revision in personnel costs for staff cadre and officer's salary is as per actual plans of increase by 50% in FY 2018. Additionally, the salaries are increased by 10% year on year and is as per actuals based on past trends. Therefore, CIAL requests the Authority to consider the payroll growth rates as submitted by CIAL..."

"...2. CSR Costs: CSR is a mandatory cost to be incurred as per the Companies Act 2013. CSR cost impacts the profit and consequently the returns to the shareholders in form of dividends. If CSR costs are not allowed as pass through, CIAL will not realize the entitled FRoR allowed by AERA based on 30% hybrid till. Therefore, CIAL requests the Authority to consider CSR costs as pass through for determination of ARR..."

13.6. Authority's examination of Stakeholders' comments on Operating Expenditure

13.6.1. The Authority has carefully evaluated the comments from Stakeholders.

13.6.2. In respect of payroll costs, the Authority has evaluated the past trend and accordingly considered the cost increase rates. These will be trued up based on actuals at the end of the control period.

13.6.3. In respect of cost allocation of personnel expenses between Aeronautical and Non-Aeronautical services, as stated in the Consultation Paper, this was computed based on the break-up of cost among various departments as submitted by CIAL.

13.6.4. In the view of the Authority, CSR costs are to be incurred out of the profits of the company and are not part of the Operational Expenditure and hence cannot be considered as Operating Expenditure.

13.6.5. In respect of comments on other Operating Expenditure, the Authority has examined the increase in costs in detail along with the reasoning and basis. In certain cases, estimated costs have been projected based on the requirements of the new terminal and related costs, which will take time to stabilize. Hence while the estimates have been considered in the proposal, these would be trued up based on actuals, at the end of the control period.

Decision No. 8. Regarding Operating Expenditure

8.a. Based on the material before it and its analysis, the Authority decides

i. To consider the allocation of Operating Expenditure relating to Non-Aeronautical services as detailed in Para 13.2.5 above.

ii. To consider Operating Expenditure under Hybrid Till as detailed in Para 13.2.18 above for determination of tariff for the second control period.

iii. To true up the Operating Expenditure for the current control period, at the time of determination of tariff for the next control period.

14. Non Aeronautical Revenue (NAR)

14.1. CIAL's submission on Non Aeronautical Revenues

14.1.1. CIAL's submission on Non-Aeronautical Revenue was classified into the following categories:

14.1.1.1. Duty free revenues

14.1.1.2. Non-aeronautical royalties, license fees and lease rentals

14.1.1.3. Utility service charges

14.1.1.4. Interest income

14.1.1.5. Other income

14.1.1.6. Revenue from Golf Course and other commercial activities

Table 25: Composition of Projected Non Aero Revenues as per CIAL for the Second control period (Rs. Crores)

Non Aero Revenue Projections	2017	2018	2019	2020	2021
Non aero Royalty, license Fees & lease rentals	73.18	99.24	120.26	142.74	152.83
Duty Free Revenues (Revenue Share only)	60.14	68.72	82.98	100.22	121.03
Interest Income	2.69	0.94	0.94	0.94	0.94
Utility services charges	8.88	13.11	14.61	16.10	17.74
Other income	8.20	9.02	9.93	10.92	12.01
Golf Course, Trade center, Commercial Complex	4.61	4.86	6.33	7.94	9.72
Total Non-Aero Revenues	**157.71**	**195.90**	**235.06**	**278.86**	**314.26**

14.2. Authority's Examination of Non-Aeronautical Revenues

14.2.1. Authority's detailed analysis of the Non-Aeronautical Revenues are detailed in the Consultation Paper. Specific changes evaluated and proposed by the Authority are as follows.

14.2.2. The Authority analyzed the trend in the profits from duty free operations on an approximate basis in the past 5 years in the control period, which was around 30%, which was also confirmed by CIAL during discussions with Authority. The Authority noted that CIAL had presently hived off the Duty free operations to a wholly owned subsidiary and revenue share of 25% has been agreed to be paid as per the agreement. However, the Authority considered that since the income would be earned by the wholly owned subsidiary, the entire earnings from that activity should be considered as Non-Aeronautical revenues for computing the Aggregate Revenue Requirement. Hence the Authority proposed to consider 30% of the Revenues of the Duty Free as share of income of the Airport Operator, instead of 25% stated in the agreement.

14.2.3. The Authority also queried CIAL on why, while the fuel throughput royalty was considered as Aero revenue, the lease rentals portion was classified as Non-Aero revenue. In response to this query, CIAL had stated that fuel throughput royalty has been treated as aero revenue as per the AERA guidelines and all other land lease rentals including the land leased to fuel hydrant operator were treated as non-aero revenue. However, as these relate to revenues realized from Aeronautical service providers, the Authority proposed to consider this revenue as part of Aeronautical Revenue. Similarly, the Authority proposed to consider the revenue / rentals collected from Airlines and other agencies allied with the Aeronautical services as Aeronautical Revenue.

14.2.4. The Authority noted that CIAL had not rendered any separate Non-Aeronautical service for considering Utility charges as Non-Aeronautical Revenue. The Authority generally considers these as an adjustment to Utility cost which is a part of Operating and Maintenance Expenses and accordingly proposed to consider the same in case of CIAL also.

14.2.5. The Authority noted that in certain cases, CIAL had taken a conservative estimate on Non-Aeronautical revenues, which, in actuals could be higher. The Authority was also cognizant of the fact that with the new terminal being commissioned in between in the Control Period, the Non-Aeronautical revenues would need to be stabilized. The Authority therefore proposed to true up the Non-Aeronautical Revenue based on actuals at the end of the control period and consider the same at the time of determination of tariffs for the next control period.

14.2.6. Considering the above, the recomputed Non-Aeronautical Revenue as proposed by the Authority in Consultation Paper was as given below:

Table 26: Summary of Non Aeronautical revenue recomputed by the Authority (Rs. Crores)

Recomputed Non-Aero Revenues		2017	2018	2019	2020	2021
Duty Free Revenues		72.17	82.46	99.58	120.26	145.23
Non aero Royalty, license Fees & lease rentals						
	Non Aero Royalties	7.71	8.48	9.33	10.26	11.29
	License fee car park	7.90	8.69	9.56	10.52	11.57
	License fee Catering services	2.56	2.74	3.04	3.37	3.73
	Meet and Greet Revenue Share	0.08	0.09	0.10	0.11	0.12
	Revenue sharing Rent (Retail & F&B)	5.68	6.24	6.87	7.56	8.31
	Fixed Rent - Airline office and commercial	12.22	13.44	14.78	16.26	17.89
	Fixed Rent - Retail space rent	4.73	10.40	15.81	21.70	24.46
	Fixed Rent - F&B	0.32	0.63	0.69	0.83	0.92
	Minimum Annual Guarantee	26.55	42.72	53.42	64.41	65.60
	Fuel Throughput rentals	Considered as Aeronautical Revenue				
	Lease Rentals - CIAL Infra	0.07	0.07	0.07	0.07	0.07
Interest Income		2.69	0.94	0.94	0.94	0.94
Utility Service Charges		Reduced from O&M Expenses				
Other Income		8.20	9.02	9.93	10.92	12.01
Golf course, Trade centre, Commercial Complex		4.61	4.86	6.33	7.94	9.72
Non Aero Revenues - Total		**155.50**	**190.72**	**230.39**	**275.08**	**311.78**
30% of above		**46.65**	**57.22**	**69.12**	**82.52**	**93.53**

14.3. Stakeholders' comments on Non-Aeronautical Revenues

14.3.1. FIA stated the following:

"...A 100% subsidiary (CIAL Duty Free and Retail Services Limited CDRSL) was set up which commenced operations in June 2016. This we believe has been set-up, in order to take advantage of Hybrid till approach. Accordingly, there is significant reduction in the revenue that can be charged to cross-subsidize Aero cost from Rs. 212.49 crores in year 2016 to Rs. 60.14 crores in year 2017...."

14.3.2. IATA has stated as follows:

"... commend AERA for recognizing the full profits of wholly owned subsidiary by CIAL for inclusion in the ARR instead of the 25% revenue share arrangement and the lease rentals of aero services treated as aero revenues e.g fuel throughput rentals"

14.4. CIAL's response to Stakeholders' comments on Non-Aeronautical Revenue

14.4.1. CIAL has stated as follows, in respect of FIA's comments on NAR:

"...Historically, CIAL has been managing the duty free operation at Cochin International Airport and has gained significant experience in the same. CIAL wants to build on this experience and develop a new business line to tap the duty free operations at other airports. CIAL is partnering with a specialized agency for operations of duty free business to put in place international best practices for the new international terminal. CIAL is desirous of increasing the volume of the duty free operations significantly and bringing greater operational expertise and efficiencies into the duty free business which will eventually be benefited by all stakeholders as the enhanced revenue earnings will also be used for cross subsidization..."

14.5. CIAL's views on Authority's proposal on Non-Aeronautical Revenue

14.5.1. CIAL has stated as follows:

"1. The revenue share of 25% from duty free operations has been estimated based on arm's length transaction taking into account duty free management fees and profit margin for the operations under the optimum case.
2. Considering 30% revenue share as proposed by the Authority will overestimate the non-aeronautical revenues for CIAL.
3. Therefore, CIAL requests the Authority to consider revenue from duty free operations as submitted by CIAL for the 2nd control period..."

14.6. Authority's examination of Stakeholders' comments on Non-Aeronautical Revenue

14.6.1. The Authority has carefully considered comments received on Non-Aeronautical Revenue.

14.6.2. The Authority notes that FIA has compared the Gross Revenue of the past period (in table 40 of Consultation Paper) with the Revenue share proposed (given in table 41 of the Consultation Paper) which is not a listing of like revenues and hence not comparable.

14.6.3. The Authority noted that CIAL hived off the duty-free operations to a wholly owned subsidiary and revenue share of 25% was agreed to be paid as per the agreement. The Authority had analyzed the trend in the profits from duty free operations on an approximate basis in the past 5 years in the control period, which was around 30% as discussed with CIAL. Since the income would be earned by the wholly owned subsidiary, the Authority sees no reason in a part of the revenue earned by CIAL through the subsidiary to be kept outside the purview of being considered as Non-Aeronautical revenue and hence, the entire profits from that activity should be considered as Non-Aeronautical revenues for computing the Aggregate Revenue Requirement. The Authority has hence decided to consider 30% as Revenue share and true up the same based on actual revenues and profits of the subsidiary.

Decision No. 9. Regarding Non-Aeronautical Revenues

9.a. Based on the material before it and its analysis, the Authority decides

i. To consider Non Aeronautical Revenues as detailed in Para 14.2.6 above for determination of tariff for the second control period.

ii. To true up the actual Non-Aeronautical Revenues on actuals, at the time of determination of tariff for the next control period.

15.Cost of Equity, Cost of Debt and Fair Rate of Return (FRoR)

15.1. CIAL's submission on Cost of Equity, Cost of Debt and FRoR

15.1.1. CIAL has stated in its submissions that the Fair Rate of Return (FRoR) has been calculated as per Tariff Guidelines.

15.1.2. CIAL had considered a cost of equity of 16% to compute FRoR and return on RAB in line with the other Airport Tariff orders issued by AERA. CIAL in its submission, has also requested the Authority to consider a higher cost of equity (say 20%) stating the following reasons:

"During the initial years, the returns to CIAL's investors did not match the expected RoE because of perpetual low tariffs that have benefited the users.
CIAL will also need to acquire additional land and fund the same. Cochin International Airport also needs to plan in advance for the airport expansion given the challenges around land acquisition and financing"

15.1.3. CIAL had submitted its proposed debt structure considering the term loan of Rs. 500 Crores sanctioned by M/s Federal Bank for the New International Terminal project. The weighted average cost of debt (Rd) for the second control period was considered to be 9.63%, which was the rate of interest paid on the existing term loan.

15.1.4. CIAL had submitted that capital expenditure during the second control period would be financed through existing cash with CIAL, funds generated through business operations and fresh debt.

15.1.5. As a result of availing fresh debt, the composition of funds under Hybrid Till and FRoR as projected by CIAL in MYTP was as follows:

Table 27: Projection of Composition of Funds and FRoR for Second Control period by CIAL

FRoR	2017	2018	2019	2020	2021
Total Equity (E)	1,263.49	1,373.14	1,496.78	1,665.91	1,877.71
Total Debt (D)	515.68	521.71	613.37	730.33	881.55
Cost of Debt	9.63%	9.63%	9.63%	9.63%	9.63%
Cost of Equity	16.00%	16.00%	16.00%	16.00%	16.00%

Weighted average Gearing (D/D+E)	29.82%
Weighted average cost of debt	9.63%
FRoR	14.10%

15.2. Authority's Examination of Cost of Equity, Cost of Debt and FRoR

15.2.1. The Authority noted the request for a higher % of cost of equity to be considered while calculating the FRoR. The Authority also noted that CIAL had been established and running the airport for over 15 years with consistent trend of profits and dividends. Considering the past operations, profitability and established traffic base, the Authority proposed to consider return on equity at 14% for CIAL for the second control period.

15.2.2. The Authority also noted that CIAL had received Interest free deposit of Rs. 150 crores from Fuel Farm Operator in 2015-16. The Authority noted that the matter of considering Security Deposit for computing FRoR is sub-judice. Pending decision of AERAAT, the Authority proposes to not give any return on security deposit, in line with the earlier stand of AERA.

15.2.3. The Authority proposed to re-compute FRoR considering the below factors:

15.2.3.1. Exclude Investments in other businesses for computing Equity for FRoR.

15.2.3.2. Excluded Grants received from Government.

15.2.3.3. Compute FRoR considering Shareholder funds, Debts and Interest Free Security Deposit.

15.2.3.4. Compute Average Debt and Equity balance for the year, instead of closing balances considered

15.2.3.5. Change the CoE from 16% to 14%

15.2.4. Based on changes to other factors of the Regulatory Building Block (Changes to Capex etc.) and the changes to FRoR detailed above, the Authority had recomputed the Fair Rate of return as follows.

Table 28: Recomputed FRoR as per Authority

FRoR	2017	2018	2019	2020	2021
Total Equity (E)	899	941	988	1,055	1,147
Total Debt (D)	369	639	775	933	1,086
Security Deposit	150	150	150	150	150

Weighted average Gearing (D/D+E)	39.68%
Weighted average cost of debt	9.63%
Share of Deposit	7.83%
Cost of Deposit	0.00%
Share of Equity	52.50%
Cost of Equity	14.00%
FRoR	11.17%

15.3. Stakeholders' comments on Cost of Equity, Cost of Debt and FRoR

15.3.1. While IATA and FIA, in their comments, (extract of which is reproduced below) have stated that 14% CoE is on the higher side, DIAL and HIAL had submitted that the CoE of 14% is not commensurate with the risks taken by private operators.

15.3.2. Comments of IATA:

"The cost of equity return at 14% determined by AERA is still on the high side, especially in the backdrop of consistent CIAL's profitability and issuance of dividends. Additionally, AERA should consider a notional gearing (one that defines an optimal capital structure), rather than using actuals. As well, care must be taken when truing up the cost of debt, as this practice would not incentivize the airport to manage its finances in the most efficient manner..."

15.3.3. Comments of FIA:

"...AERA has determined Cost of Equity at 14%. However, looking at the healthy balance sheet of CIAL and its ability to fund the projects through internal accruals, the cost of equity is placed at a higher side. AERA should revisit the same accordingly..."

15.3.4. Comments of DIAL and HIAL:

"...The Indian civil aviation industry in particular is on a high growth trajectory as India aims to become the third largest aviation market by 2022. Indian growth story is going to even continue in the future which requires substantial investment. Regulatory environment is a major driver in providing congenial environment for such investments and at the same time attract private investment into airport development. Despite the highest growth rate globally

in the aviation sector, private capital is shying away from India. This is despite 100% FDI being allowed.

The prime mover for the airport development is the policy and regulatory environment. The Regulatory environment ideally should be a combination of cost recovery, fair rate of return and efficient methodology for incentivisation and dis-incentivisation. Investments in the airport sector largely depend on the Government policy and the Regulatory environment. Our experience would indicate that the Regulatory risk is placed amongst the top while evaluating a project in Indian context amongst other financial and commercial risk matrices.

It may also be seen that the Airports are operating in such a complicated environment where there is a perennial need for capital; raising funds is difficult; the cost of capital and risk premiums are high; dispute resolution mechanisms are almost non-existent; and policy and regulatory uncertainty prevails.

Given the above facts the rate of return offered to private operators appears unfair and not commensurate with the associated risks and the complex ground realities. The infrastructure projects as the airports are back ended in terms of the return to the investor. In such a scenario returns not commensurate with the risks involved would further deteriorate the financial position of the Airports.

The Authority in clause 12.2.1 of the subject consultation paper has stated following:

"The Authority noted the request for a higher % of cost of equity to be considered while calculating the FRoR. The Authority also noted that CIAL has been established and running the airport for over 15 years with consistent trend of profits and dividends. Considering the past operations, profitability and established traffic base the Authority proposes to consider return on equity at 14% for CIAL for the second control period."

From above it is evident that Authority has determined the rate of return based on historical financial performance of the company and not considered the methodology defined under the airport operator guidelines 2011 for determination of cost of equity.

As per airport operator guideline for tariff computation, the cost of equity shall be determined by applying Capital Asset Pricing Model (CAPM). Accordingly, Authority should determine cost of equity for Cochin Airport using CAPM method.

Also, authority should consider 5BI Cap report on "Fair Rate of Return of Equity for Indian Airport Sector". SBI Capital was appointed by MoCA to carry out this study. In its study, SBI Caps has recommended that a return of 18.5% to 20.5% is fair rate of return for private airports and has enumerated certain risk factors for airport sector in India in general."

15.3.5. In respect of FRoR, FIA has stated as follows:

"...AERA proposes FRoR of 11.17% to CIAL, whereas the financials submitted by CIAL depicts that there is a substantial jump in Dividend payout from 18% (Rs. 55 crores) to 27% (Rs. 135 crores) during the period 2011 to 2014. Therefore, financial requirement should be first met out from internal accruals rather than increase in tariff charges..."

15.4. CIAL's response to Stakeholders' comments on Cost of Equity, Cost of Debt and FRoR

15.4.1. CIAL has submitted the following in respect of Cost of Equity and FRoR in response to comments from stakeholders:

"...1. The tariff determination guidelines set by AERA provides a return to investors apart from covering costs pertaining to operating expenditure, depreciation, interest and tax. However, in case of older airports like Cochin, tariff determination before the application of regulatory framework was not linked to the capital investment and other costs.

2. In fact, the tariffs charged or aeronautical revenues earned by Cochin airport was much lower than what would have been permissible under a generic cost-plus framework as espoused in AERA's tariff guidelines.

3. Revenues earned by CIAL have not been able to cover its costs entirely in the initial years let alone compensating its investors.

4. Historically, the profitability of CIAL is due to the prudent cost management and focus on increasing non-aeronautical revenues and cannot be linked to applicability of regulatory framework for 2nd control period with lower cost of equity.

5. The Authority has proposed 14% cost of equity for CIAL, whereas it has allowed 16% cost of equity for other airports such as Mumbai, Delhi, Bangalore and Hyderabad.

6. As per the recent order for Trivandrum airport, FRoR allowed for AAI airports is 14% which has no debt whereas the Authority has proposed 14% as cost of equity for CIAL which has used debt for financing developed of new international terminal and other capital expenditure. With the cost of equity of 14%, the resultant FRoR for CIAL is 11.2% only. Given the nature of ownership of AAI and CIAL, cost of equity for CIAL is higher than AAI. However, Authority has provided a lower cost of equity for CIAL.

7. All the airport operators should be allowed reasonable return on equity and the cost of equity should be same and fair for different airport operators in India.

8. Different cost of equity for different airport operators also leads to ambiguity and inconsistency for investors at a time when the Government is focusing on increasing the private sector participation in airports development and operations. Therefore, CIAL requests the Authority to consider cost of equity at 16%. It is a fact that CIAL paid dividend of 25% during FY 2015-16 amounting Rs. 103.60 crores.

9. CIAL has taken debts to finance recent capital expenditure and it is not reasonable to shift to normative capital structure in a short period of time. Using normative capital structure instead of actuals will penalize CIAL for effectively using the internal accruals for capital expenditure. Therefore, CIAL requests the Authority not to adopt normative capital structure in line with decision take for other similar airports in the region."

15.5. CIAL's views on Authority's proposals on Cost of Equity, Cost of Debt and FRoR

15.5.1. In respect of Cost of Equity, CIAL has stated as follows:

"...1. The Authority has proposed 14% cost of equity for CIAL whereas it has allowed 16% cost of equity for other airports such as Delhi, Mumbai, Bangalore and Hyderabad.

2. All the Airports should be allowed the same cost of equity of 16% at least.

3. As per the recent order for Trivandrum Airport, FRoR allowed for AAI Airports is 14% which has no debts whereas the Authority has proposed 14% as cost of equity for CIAL.

4. With the cost of equity of 14%, the resultant FRoR for CIAL is 11.2% only. Given the nature of ownership of AAI and CIAL, Cost of equity for CIAL is higher than AAI.

5. All the Airport Operators should be allowed reasonable return on equity and the cost of equity should be same and fair for different airport operators in India.

6. Different cost of equity for different airports also leads to ambiguity and inconsistency for investors at a time when the government is focused on increasing private sector participation in airports development and operations.

7. Therefore CIAL requests the Authority to consider cost of equity at 16%..."

15.5.2. In respect of treatment of Security Deposit, CIAL has stated thus:

"...1. Security deposits have been invested in airport related activities through subsidiaries and can be treated as capital in nature.

2. There is an opportunity cost for the Security Deposit and cannot be taken as zero cost financing.

3. Therefore, CIAL requests the Authority to consider Security Deposits as quasi equity and cost of equity should be allowed on the security deposits..."

15.6. Authority's examination of Stakeholders' comments on Cost of Equity, Cost of Debt and FRoR

15.6.1. The Authority has carefully evaluated the comments made by Stakeholders and CIAL on Authority's proposals on Cost of Equity, Cost of Debt and FRoR.

15.6.2. Cost of Equity: – The Authority notes that DIAL and HIAL started operations recently as compared to CIAL and the Authority has taken a slightly higher cost of equity presuming that newly started companies have a greater risk. The Authority notes that Cochin is a well-established airport paying dividends and the risk profile is very low, investment are not heavy, cost is lower, traffic is stabilized and there is no volatility. The authority opines that "One size fits all" view for calculating CoE is not appropriate since each Airport is unique. The Authority also notes from a study of Key Economic Indicators published by Airports Council International that the return on Airport sector globally averages only between 6% and 8%. Though this rate needs to be adjusted for India where the cost of funds is higher, a 14% return on Shareholders' funds is quite reasonable. Meanwhile, the Authority shall carry out a study on Cost of Equity and take a view on the rate to be used for true up and for the third control period.

15.6.3. Security Deposit: Authority had considered that Security Deposit has resulted in funds being available for Airport Project and as the cost of the deposit is Zero and hence has been appropriately considered in computation of Weighted Average Cost of Capital. The Authority has noted that this matter, in case of another Airport (though the context in which the deposit was taken could be different) is sub-juice, and will be evaluated based on the results of the same.

15.6.4. On FIA's comment on FRoR, in the opinion of the Authority, computation of FRoR is based on the cost of debt and rate of return on equity, considering the respective gearing of debt and equity and cannot be compared to the past dividend rates. On a going concern basis, the costs cannot be subsidized from the past reserves.

15.6.5. The Authority notes IATA's comments on care needed at the time of truing up the cost of debt. The Authority notes that it will evaluate the reasonableness of the cost of debt based on the rating of the Airport Operator before changes in cost of debt is allowed to be trued up.

15.6.6. On usage of normative capital structure, the Authority is yet to take a view on the normative capital structure and may consider a normative capital structure at a later date for usage in determination of FRoR.

Decision No. 10. **Regarding Cost of Equity, Cost of Debt and Fair Rate of Return**

10.a. **Based on the material before it and its analysis, the Authority decides**

i. **To consider Cost of Equity at 14% for computation of Fair Rate of Return**

ii. **To commission a study on Cost of Equity for CIAL and take a view on the same for true up and for the third control period.**

iii. **To consider Cost of Debt at 9.63% as per the submission of CIAL.**

iv. **To consider the FRoR as detailed in Para 15.2.4 above for the purpose of computing ARR for the second control period**

v. **To true up the Cost of Debt based on any changes to Interest rate and to true up the Cost of Equity based on the study and Fair Rate of Return based on changes to the gearing between Equity and Debt considering actual position for the control period, at the time of determination of tariff for the next control period.**

16.Taxation Matters

16.1. CIAL's submission on Taxation

16.1.1. The corporate tax rate considered by CIAL was 34.60%. The tax for aeronautical services was computed by considering aeronautical revenues, aeronautical expenses, depreciation on aeronautical assets and interest expenses towards aeronautical capital expenditure.

16.1.2. CIAL had submitted that CIAL was under tax holiday for its infrastructure investment till FY 2013-14, and tax was paid as per MAT rates. From FY 2015 onwards, CIAL has started paying tax as per corporate tax rates after setting off required MAT credit.

16.1.3. The calculation of tax for the Second Control Period provided by CIAL in its submission is based on the Corporate Income Tax of 34.6% and the tax estimate submitted by CIAL under Hybrid Till is as given below:

Table 29: Projection of Tax Cost under Shared Till (Rs. Crores)

Particulars	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Income Tax	64.12	40.06	50.38	60.90	72.98

16.1.4. CIAL had also given details of its contingent liability of Rs. 323.92 Crores as on 31st March 2016. CIAL has submitted that although it has not made any provision for the above contingencies in the ARR computation, the same may be allowed as part of revenue requirement for this control period by AERA, if and when CIAL is required to make such payments.

16.2. Authority's analysis of CIAL's submission on Taxation

16.2.1. The Authority had noted that for the second control period, the company had accounted liability under normal corporate tax. The Authority noted that CIAL had entitlement to adjust the MAT paid against this, which was not considered in the workings.

16.2.2. Note 2.41 in the Annual Report for FY 2016 stated as follows:

"Considering the Airport Operation as an infrastructural project, the Company was claiming deduction u/s 80IA of the Income Tax Act, 1961 for the income from airport operations for a period of 10 years ended 31st March 2014. Accordingly, during these years, the payment of tax was based on Minimum Alternate Tax (MAT), which is eligible for set off against future tax liability. However, the Company had not recognized MAT credit as an asset in its books of accounts, as a matter of prudence. During the current year, MAT credit to the extent of Rs. 31,26,62,045 (Rs. 21,13,38,900) is set off against the provision for Income Tax. Claim of deduction u/s 80IA have been disputed by the Income Tax department and these disputes are at various levels of appeals for different years. However, the company based on legal opinion, is confident of getting a favorable decision and hence set off of MAT credit is done during this year."

16.2.3. The Authority proposed to adjust the MAT Credit entitlement in the projection of Income tax payable for the second control period and consider only the difference as tax outflow projections for the control period. In the absence of details, the Authority considered 80% of the MAT credit outstanding as relating to the Aeronautical services.

16.2.4. Considering the above, and the other changes in the other elements of Regulatory Building Blocks, the recomputed Tax cost proposed by the Authority was as follows:

Table 30: Tax cost recomputed for computing ARR under Hybrid Till (Rs. Crores)

Particulars	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Income Tax	16.08	2.60	4.88	8.04	13.00

16.2.5. The Authority noted that any change in any building block or change in tax rates would result in a different tax outflow than that projected herein. The Authority proposed to true up the tax cost based on actuals, for the control period, at the time of determination of tariff for the next control period.

16.2.6. The Authority had reviewed the details of contingent liabilities listed by CIAL in its submissions. The Authority noted that these were only contingent in nature which according to CIAL's own submission, may not materialize. These belong to the period before the second control period and also no provisions have been made in the accounts of the company; hence the Authority did not propose to consider any of these in the computation of tariff for the second control period.

16.3. Stakeholders' comments on Taxation

16.3.1. Stakeholders have not commented on Taxation matters.

16.4. CIAL's views on Authority's analysis of Taxation

16.4.1. CIAL, in response to proposed treatment of MAT Credit by the Authority has stated thus,

"...1. The MAT Credit entitlement set off is done for corporate tax and not for tax on aeronautical services.
2. Additionally, MAT credit adjustment is under dispute with tax department and hence CIAL request the Authority to not set off MAT credit while calculating tax for aeronautical services for Hybrid Till.
3. CIAL, therefore, request the Authority to not consider MAT credit set off while calculating tax for aeronautical service in the second control period..."

16.5. Authority's examination of CIAL's submission on issues pertaining to Taxation

16.5.1. The Authority has carefully reviewed the submission made by CIAL.

16.5.2. The Authority notes that MAT Credit is for Corporate tax on profits arising from both Aeronautical and Non-Aeronautical services.

16.5.3. As per CIAL's own explanations in the Annual Report, CIAL is confident of winning and claiming the credit. Hence the Authority decides to consider the MAT credit for the computations, as tax cost outflow will be reduced by MAT credit entitlement, and actual tax costs during the control period will be evaluated at the time of true up at the end of the control period.

Decision No. 11. Regarding Taxation

11.a. Based on the material before it and its analysis, the Authority decides

i. To consider tax outflow estimate after adjusting MAT credit as detailed in Para 16.2.4 above for computation of Aggregate Revenue Requirement.

ii. To true up the projections based on actuals, at the end of the control period, in computation of tariff for the next control period.

iii. To not consider any costs towards Contingent Liabilities in the computation of Aggregate Revenue Requirement.

17. Quality of Service

17.1. Authority's Examination of Quality of Service

17.1.1. The Authority noted that in the recent past, CIAL has maintained consistent ASQ ratings above 4 in the past eight quarters and has recently bagged Service Quality awards – Third Place, from Airport Council International, in the '5 to 15 Million Passenger' category.

17.1.2. The Authority noted that the Authority will review the Quality of service parameters based on the ASQ ratings obtained by CIAL and any study that the Authority may undertake.

17.2. Stakeholders' comments on Quality of Service

17.2.1. IATA has stated in their comments that:

"...Overall benchmark for service quality requirements utilizing the ACIASQ Survey which is essentially a passenger experience survey. There is a need to better capture the service quality feedback/rating from aircraft operators using the airport services/facilities to drive the rebate scheme as well.

An Airport Service Level Agreement Framework (SLA) with airlines should be recommended to deliver consistent levels of service and promote continuous improvement. This will also allow a process to establish a clear link between airport service standards and user costs..."

17.3. CIAL's response to Stakeholders' comments on Quality of Service

17.3.1. CIAL has not submitted any specific response on the same.

17.4. Authority's examination of Stakeholders' comments on issues pertaining to Quality of Service

17.4.1. In response to IATA's comments, the Authority notes that the Authority has proposed to undertake proper monitoring of service quality levels at a few select airports. The study will be objective, technology based and will focus on passenger experience as well as view of the airlines and the results of the study shall be considered in the future tariff proposals.

17.4.2. With respect to IATA's comment on Airport Service Level Agreement Framework, the Authority will examine the matter, consult the stakeholders and take appropriate decision.

18.Aggregate Revenue Requirement (ARR) and Aeronautical Charges

18.1. CIAL's submission and Authority's analysis on ARR and ATP

18.1.1. Based on the individual submissions made by CIAL, CIAL had submitted a total Aggregate Revenue Requirement as follows:

Table 31: Aggregate Revenue Requirement as per CIAL under Hybrid Till (Rs. Crores)

Particulars	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Total
Average RAB	957.88	1542.98	1639.14	1820.27	2110.77	8071.05
FRoR	14.10%	14.10%	14.10%	14.10%	14.10%	
Return on RAB	135.06	217.56	231.12	256.66	297.62	1138.03
Depreciation	65.89	105.36	117.75	132.46	150.90	572.36
Operating Expenditure	172.19	237.92	265.89	297.67	331.58	1305.25
Tax	64.12	40.06	50.38	60.90	72.98	288.43
Less: Non Aero Revenues	-47.31	-58.77	-70.52	-83.66	-94.28	-354.54
Aggregate Revenue Requirement	**389.94**	**542.13**	**594.63**	**664.03**	**758.80**	**2949.53**
Present value of ARR						**2216.54**

18.1.2. Based on the various proposals made by the Authority, the Authority had recomputed the Aggregate Revenue Requirement as follows:

Table 32: Recomputed Aggregate Revenue Requirement under Hybrid Till (Rs. Crores)

Particulars	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Total
Average RAB	815.80	1382.61	1486.50	1642.70	1856.23	7183.85
FRoR	11.17%	11.17%	11.17%	11.17%	11.17%	
Return on RAB	91.13	154.44	166.05	183.49	207.35	802.46
Depreciation	55.41	83.27	91.50	99.54	107.88	437.60
Operating Expenditure	148.32	197.60	218.99	242.24	265.89	1073.04
Tax	16.08	2.60	4.88	8.04	13.00	44.60
Less: Non Aero Revenues	-46.65	-57.22	-69.12	-82.52	-93.53	-349.04
Aggregate Revenue Requirement	**264.28**	**380.69**	**412.30**	**450.79**	**500.59**	**2008.65**
Present value of ARR						**1596.17**

18.1.3. CIAL had submitted the Annual Tariff Proposals after issue of Consultation Paper, which was put up by the Authority as an addendum for Stakeholder Consultation. CIAL has stated that there is an unbridged gap of Rs. 93 crores between the Aeronautical Revenues and the ARR approved by the Authority, which should be permitted to be trued up in the next control period.

18.2. Stakeholders' comments on Aeronautical Revenues

18.2.1. FIA has stated the following on aero revenues:

"…We witnessed a substantial jump in the landing charges of 54% & cargo charges in the very first year, which should rather be increased gradually over the period.
2. X Ray Charges and PSF: CIAL is the only airport, which charges for X-ray in addition to the PSF. In parity with other airports the X-ray charges should be withdrawn, when PSF is being collected.

3. Cute charges @ Rs. 80 per pax is highest in India, whereas in CCU and MAA it is in the range of Rs. 43 per pax. It was also pointed out that all these contracts are awarded to SITA..."

18.2.2. HPCL has stated as follows:

"It is observed that, substantial increase in the throughput charges is proposed as compared to existing charges. We request AERA to review the proposed increase in throughput charges as the increase appears to be steep. We further request that any revision in Fuel Throughput Charges should be approved on prospective basis only"

18.2.3. IOCL has stated that:

"...It may be noted that presently CIAL is charging Fuel Throughput Charges at the rate of Rs. 209.02 per KL. The Fuel Throughput charge has already been increased from Rs. 84/- per KL to Rs. 209.02 per KL in the last 7 years. The proposed increase from Rs. 209.02 per KL to Rs.936.53 per KL wef 01.07.2017 with annual escalation of appox 4.3 % is not acceptable. We suggest that the rates should not be increased. Any new order should only be on prospective basis..."

18.2.4. BPCL has submitted that *"Fuel throughput charges should be revised prospectively only."*

18.3. CIAL's response to Stakeholders' comments on Aero Revenues

18.3.1. In response to FIA's comments on X-Ray charges and increase in Aeronautical charges, CIAL has responded as below:

"1. The Aeronautical Tariff at Cochin Airport are among the lowest in India and have remained unchanged since 2001.
2. The increase in aeronautical tariffs is proposed after 17 years and is due to significant investments for capacity expansion and upgradation. Moreover, unlike in other airport, we have not proposed in increasing the tariffs of all aeronautical tariff heads. In order to mitigate the hardships to passengers, we avoiding charging any UDF too.
3. CIAL therefore submits that the proposed increase in tariffs is justified based on the ARR approved by the Authority.
"...1. X Ray charges are essentially aeronautical charges and are charged to recover significant capital expenditure and operational incurred by CIAL for related systems and equipment over the years. Unlike most of the other airport operators, CIAL renders the service of security screening of baggage at the airport and collect revenues against it. These charges are fixed at the same level when Air India was rendering the security screening services to airlines. This activity was taken over by CIAL by investing capital expenditures and operational expenditure towards maintenance and staff costs. We continue to levy what had been levied by Air India while rendering the same services to airlines. As such we haven't changed any methodology or rates in this regard.
2. Given the nature of X-Ray charges as aeronautical charges, there is no additional impact on total cost to passengers..."

18.3.2. In respect of the issues on fuel throughput charges raised by BPCL, HPCL and IOC, CIAL has submitted as follows:

"...The fuel through put royalty prevailing in the airport is Rs. 209 per Kilo liter receivable from the exclusive right holder namely BPCL. The agreement with BPCL was renewed on financial year 2015 for another period of 30 years.

As per the revised agreement, the royalty receivable from M/s BPCL is Rs. 758.17 per kl w.e.f 1st April 2016 with an annual escalation of 5%.

However, this revision was subject to AERA approval being an aeronautical revenue. Hence, for want of final approval of AERA the revised rates could not be effected from 01-04-2016 and under recovery of this revenue was to the extent of Rs. 16.71 crore. As rightly pointed out by HPCL and IOL, we need to implement the rate revision only on prospective basis as it will be difficult to collect any retrospective charges from the clients. Hence, we reworked the agreed rates on a prospective basis and arrived at the revised royalty figure of Rs. 936.53 for the financial year 2017-18 and 5% escalation thereafter. This was discussed and agreed upon by M/s BPCL with the agreement exists and have the exclusivity contract for next 30 years. As such HPCL and IOC does not have any privy to this agreement. Moreover, as fuel throughput royalty is also classified under aeronautical charges, there is no additional impact on total cost to the passengers and airlines..."

18.4. Authority's examination of Stakeholders' comments relating to Aeronautical Revenues

18.4.1. The Authority has carefully reviewed the comments received from Stakeholders' on Aeronautical Revenues. The Authority has noted the request to revise the rates for fuel throughput charges prospectively and observed that CIAL has proposed only a prospective revision in rates. The Authority notes the comment made by IOCL and HPCL on the sharp increase in charges. CIAL has responded that revision of rates of Fuel Farm Royalty is done based on discussion with the Fuel Farm Operator. The Authority also notes that Fuel Farm in CIAL is a monopoly and CIAL should evaluate a possibility of considering additional service providers and provide common access for all Companies to ensure no exclusivity to any one operator in the long run.

18.4.2. The Authority has noted FIA's comments on X-Ray charges and CUTE charges which have been responded to by CIAL.

18.4.3. As far as Authority is concerned, the break-down of various charges is only a means of recovering the total ARR that is due to the Airport Operator which is computed by the Authority as per the framework and the option is given to the Operator to fix charges within the overall ARR allowed.

18.4.4. The Authority has noted the comment by FIA on steep increase in Landing charges. The Authority notes that tariff has not been revised for CIAL since 2001 and hence the revised rates seem to be a large increase from the current rates. The Authority also notes that he Landing and allied charges are comparable to the other airports in the region.

18.4.5. The Authority notes that CIAL has proposed to collect Passenger Service Fee (PSF) – Security Component (SC) and Facilitation Component (FC) as per the earlier rates prescribed by GoI.

18.4.6. The Authority notes that as per the ATP submitted by CIAL and CIAL's computation, there could be an under recovery of ARR, the details and quantum of which could vary based on changes in various components of the building block. Accordingly, the Authority proposes to true up the ARR and collection of Aeronautical revenues at the beginning of the next control period and recoup the shortfall if any, based on the true up, in the tariff determination for the next control period.

Decision No. 12. Regarding ARR and Aeronautical Revenues

12.a. Based on the material before it and its analysis, the Authority decides

i. **To consider Aggregate Revenue Requirement as detailed in Para 18.1.2 above.**

ii. **To consider the Aeronautical Tariff as proposed by the CIAL in the ATP submitted. (Refer Annexure I to Annexure III). To continue with the waiver of landing charges for (a) aircraft with a maximum certified capacity of less than 80 seats being operated by domestic scheduled operators (b) helicopters of all types**

iii. **Provide waiver of Landing Charges and other charges for flights operating under Regional Connectivity scheme in line with Order No. 20/2016-17 dated 31st March 2017 of the Authority**

iv. **To true up the ARR and Revenues based on actuals, at the end of the control period, in computation of tariff for the next control period and consider shortfall in revenue for the second control period during the determination of tariff for the third control period.**

19. Summary of Decisions

Decision No. 1. Regarding Regulatory Till for Tariff determination 18

1.a. Based on the material before it and its analysis, the Authority decides: 18

i. To compute Aggregate Revenue Requirement under 30% Hybrid Till for the second control period. 18

ii. To consider Cargo services provided by CIAL as material and non-competitive and determine tariff under "price cap" regulation together with determination of tariff for Airport Operations. 18

iii. To consider revenues from Cargo, Ground Handling and Fuel Farm services and Rentals from leasing of space to agencies providing Aeronautical services as Aeronautical revenues. 18

Decision No. 2. Regarding truing up of First control period Aggregate Revenue Requirement (ARR) 21

2.a. Based on the material before it and its analysis, the Authority decides 21

i. To not recalculate the Aggregate Revenue Requirement (ARR) for the first control period. 21

Decision No. 3. Regarding Traffic projections 23

3.a. Based on the material before it and its analysis, the Authority decides 23

i. To consider traffic projections as given in Para 8.1.3 above for determination of tariff for the second control period 23

ii. To true up the traffic of the second control period based on actuals, at the time of determination of tariff for the next control period. 24

Decision No. 4. Regarding allocation of assets between Aeronautical and Non-Aeronautical services 29

4.a. Based on the material before it and its analysis, the Authority decides 29

i. To consider allocation of assets and between Aeronautical and Non-Aeronautical services as detailed in Para 9.2.10 above for determination of tariff for the second control period. 29

ii. To carry out a technical study on the area used between Aeronautical and Non-Aeronautical in the existing and new terminal once the operations are commissioned and stabilised. 29

iii. To true up the details considered in Para 9.2.10 above based on the actuals and consider the same in the next control period. 29

Decision No. 5. Regarding Capital Expenditure 37

5.a. Based on the material before it and its analysis, the Authority decides 37

i. To not consider Land as part of RAB for computing return, as detailed in Para 10.6.2 above, pending study to be conducted 37

ii. To consider Capital Expenditure detailed in Para 10.2.14 above for computing the Average RAB and return for the second control period 37

iii. To true up the actual Capital Expenditure on actuals at the time of determination of tariff for the next control period. 37

Decision No. 6. Depreciation for the second control period 40

6.a. Based on the material before it and its analysis, the Authority decides 40

i. To consider depreciation as per Para 11.2.4 above to compute Average RAB and depreciation to be considered in ARR. 41

ii. To true up the Depreciation based on the actual Capital Expenditure and the change in useful lives/ rates as per the results of the Depreciation study. 41

Decision No. 7. Regulatory Asset Base for the second control period 42

7.a. Based on the material before it and its analysis, the Authority decides....42

i. To consider Regulatory Asset Base as given in Para 12.2.2 above for the purpose of computation of Aggregate Revenue Requirement. 42

ii. To true up the Regulatory Asset Base at the end of the Control period based on actuals, at the time of determination of tariff for the next control period.... 42

Decision No. 8. Regarding Operating Expenditure 48

8.a. Based on the material before it and its analysis, the Authority decides....48

i. To consider the allocation of Operating Expenditure relating to Non-Aeronautical services as detailed in Para 13.2.5 above. 48

ii. To consider Operating Expenditure under Hybrid Till as detailed in Para 13.2.18 above for determination of tariff for the second control period. 49

iii. To true up the Operating Expenditure for the current control period, at the time of determination of tariff for the next control period. 49

Decision No. 9. Regarding Non-Aeronautical Revenues....52

9.a. Based on the material before it and its analysis, the Authority decides....52

i. To consider Non Aeronautical Revenues as detailed in Para 14.2.6 above for determination of tariff for the second control period 52

ii. To true up the actual Non-Aeronautical Revenues on actuals, at the time of determination of tariff for the next control period. 52

Decision No. 10. Regarding Cost of Equity, Cost of Debt and Fair Rate of Return 58

10.a. Based on the material before it and its analysis, the Authority decides....58

i. To consider Cost of Equity at 14% for computation of Fair Rate of Return 58

ii. To commission a study on Cost of Equity for CIAL and take a view on the same for true up and for the third control period. 58

iii. To consider Cost of Debt at 9.63% as per the submission of CIAL. 58

iv. To consider the FRoR as detailed in Para 15.2.4 above for the purpose of computing ARR for the second control period 58

v. To true up the Cost of Debt based on any changes to Interest rate and to true up the Cost of Equity based on the study and Fair Rate of Return based on changes to the gearing between Equity and Debt considering actual position for the control period, at the time of determination of tariff for the next control period. ... 58

Decision No. 11. Regarding Taxation 60

11.a. Based on the material before it and its analysis, the Authority decides....60

i. To consider tax outflow estimate after adjusting MAT credit as detailed in Para 16.2.4 above for computation of Aggregate Revenue Requirement. 60

ii. To true up the projections based on actuals, at the end of the control period, in computation of tariff for the next control period.... 60

iii. To not consider any costs towards Contingent Liabilities in the computation of Aggregate Revenue Requirement. 60

Decision No. 12. Regarding ARR and Aeronautical Revenues 65

12.a. Based on the material before it and its analysis, the Authority decides 65

i. To consider Aggregate Revenue Requirement as detailed in Para 18.1.2 above. 65

ii. To consider the Aeronautical Tariff as proposed by the CIAL in the ATP submitted. (Refer Annexure I to Annexure III). To continue with the waiver of landing charges for (a) aircraft with a maximum certified capacity of less than 80 seats being operated by domestic scheduled operators (b) helicopters of all types 65

iii. Provide waiver of Landing Charges and other charges for flights operating under Regional Connectivity scheme in line with Order No. 20/2016-17 dated 31st March 2017 of the Authority 65

iv. To true up the ARR and Revenues based on actuals, at the end of the control period, in computation of tariff for the next control period and consider shortfall in revenue for the second control period during the determination of tariff for the third control period. 65

20.Order

20.1.1. In exercise of powers conferred by Section 13 (1) (a) of the AERA Act 2008 and based on the above decisions, the Authority hereby determines, the Aeronautical tariffs to be levied at Cochin International Airport for the second control period as placed at Annexure I, Annexure II and Annexure III. These rates will be effective from 1st August 2017. The tariff for subsequent years (i.e. FY 2018-19, 2019-20 and 2020-21) will be effective from 1st April of each Tariff Year, during the current control period.

20.1.2. The tariffs determined herein are ceiling rates, exclusive of taxes, if any.

By the Order and in the name of the Authority

(Puja Jindal)
Secretary

To
Cochin International Airport Limited
Nedumbassery, Kochi Airport P.O.,
Ernakulam – 683111,
Kerala.
(Through Shri V.J.Kurian, IAS, Managing Director)

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22. ATP submitted by CIAL – Annexure I to Annexure III

Annexure 1

	Tariff	Unit	CIAL ATP 2017-18	CIAL ATP 2018-19	CIAL ATP 2019-20	CIAL ATP 2020-21
			Tariff w.e.f 01.08.2017	Tariff w.e.f 01.04.2018	Tariff w.e.f 01.04.2019	Tariff w.e.f 01.04.2020
1	**Landing charges**					
	International					
	Upto 100 MT	*INR per MT*	351	369	387	406
	Above 100 MT	*INR per MT*	35100 + 471 in excess of 100 MT	36900 + 495 in excess of 100 MT	38700 + 520 in excess of 100 MT	40600 + 546 in excess of 100 MT
	Other than international					
	Upto 100 MT	*INR per MT*	255	268	281	295
	Above 100 MT	*INR per MT*	25500 + 341 in excess of 100 MT	26800 + 358 in excess of 100 MT	28100 + 376 in excess of 100 MT	29500 + 395 in excess of 100 MT
	Notes		Charges shall be calculated on the basis of nearest MT (ie. 1000 Kgs.)	Charges shall be calculated on the basis of nearest MT (ie. 1000 Kgs.)	Charges shall be calculated on the basis of nearest MT (ie. 1000 Kgs.)	Charges shall be calculated on the basis of nearest MT (ie. 1000 Kgs.)
1a			A minimum fee of Rs. 2000/- shall be charged per single landing	A minimum fee of Rs. 2000/- shall be charged per single landing	A minimum fee of Rs. 2000/- shall be charged per single landing	A minimum fee of Rs. 2000/- shall be charged per single landing
1b			Domestic aircrafts with an all up weight of 21 MT. and below will be charged @Rs.154/- per MT.	Domestic aircrafts with an all up weight of 21 MT. and below will be charged @Rs. 162/- per MT.	Domestic aircrafts with an all up weight of 21 MT and below will be charged @Rs. 170/- per MT.	Domestic aircrafts with an all up weight of 21 MT and below will be charged @Rs. 179/- per per MT.
1c	For flight operations by Domestic Operators, the flight is classified Domestic or International based on the immediate previous station, irrespective of the flight number assigned to such flights.					
1d	All flight operations of International carriers will be considered International for calculation of airside user charges irrespective of immediate previous station.					
1e	All domestic legs of international routes flown by Indian Operators will be treated as domestic flights as far as landing charges is concerned, irrespective of flight number assigned to such flights.					
1f	No landing charges shall be payable in respect of a) aircraft with a maximum certified capacity of less than 80 seats,being operated by domestic scheduled operators at airport and b) helicopters of all types.					
1g	Charges shall be calculated on the basis of nearest MT (i.e. 1000 kg)					
2	**Housing charges**					
	Upto 100 MT	*INR per hour per MT*	11	12	13	14
	Above 100 MT	*INR per hour per MT*	1100 + 16 in excess of 100 MT	1200 + 17 in excess of 100 MT	1300 + 18 in excess of 100 MT	1400 + 19 in excess of 100 MT

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Annexure 1

	Tariff	Unit	CIAL ATP 2017-18	CIAL ATP 2018-19	CIAL ATP 2019-20	CIAL ATP 2020-21
			Tariff w.e.f 01.08.2017	Tariff w.e.f 01.04.2018	Tariff w.e.f 01.04.2019	Tariff w.e.f 01.04.2020
3	**Parking charges**					
	Upto 100 MT	*INR per hour per MT*	5.5	6.00	6.50	7.00
	Above 100 MT	*INR per hour per MT*	550 + 7.5 in excess of 100 MT	600 + 8.0 in excess of 100 MT	650 + 8.5 in excess of 100 MT	700 + 9.0 in excess of 100 MT
3a	***Note***		When an aircraft is parked in the open, only the housing charges specified above shall be levied, provided that no parking charges shall be levied for the first two hours	When an aircraft is parked in the open, only the housing charges specified above shall be levied, provided that no parking charges shall be levied for the first two hours	When an aircraft is parked in the open, only the housing charges specified above shall be levied, provided that no parking charges shall be levied for the first two hours	When an aircraft is parked in the open, only the housing charges specified above shall be levied, provided that no parking charges shall be levied for the first two hours
3b			For calculating chargeable parking time, part of an hour shall be rounded off to the next hour	For calculating chargeable parking time, part of an hour shall be rounded off to the next hour	For calculating chargeable parking time, part of an hour shall be rounded off to the next hour	For calculating chargeable parking time, part of an hour shall be rounded off to the next hour
3c			Charges shall be calculated on the basis of nearest MT.	Charges shall be calculated on the basis of nearest MT.	Charges shall be calculated on the basis of nearest MT.	Charges shall be calculated on the basis of nearest MT.
3d			Charges for each period of parking shall be rounded off to nearest Rupee.	Charges for each period of parking shall be rounded off to nearest Rupee.	Charges for each period of parking shall be rounded off to nearest Rupee.	Charges for each period of parking shall be rounded off to nearest Rupee.
3e			At the in- contact stands, after free parking, for the next two hours normal parking charges shall be levied. After this period, the charges shall be double the normal parking charges	At the in- contact stands, after free parking, for the next two hours normal parking charges shall be levied. After this period, the charges shall be double the normal parking charges	At the in- contact stands, after free parking, for the next two hours normal parking charges shall be levied. After this period, the charges shall be double the normal parking charges	At the in- contact stands, after free parking, for the next two hours normal parking charges shall be levied. After this period, the charges shall be double the normal parking charges
3f			No landing charges will be levied in respect of Military Aircraft (Government of India) including para-military forces such as BSF, Coast Guard etc. Military aircrafts as mentioned above are also exempted from payment of parking charges.	No landing charges will be levied in respect of Military Aircraft (Government of India) including para-military forces such as BSF, Coast Guard etc. Military aircrafts as mentioned above are also exempted from payment of parking charges.	No landing charges will be levied in respect of Military Aircraft (Government of India) including para-military forces such as BSF, Coast Guard etc. Military aircrafts as mentioned above are also exempted from payment of parking charges.	No landing charges will be levied in respect of Military Aircraft (Government of India) including para-military forces such as BSF, Coast Guard etc. Military aircrafts as mentioned above are also exempted from payment of parking charges.
4	**Night parking charges (Night parking charges between 2200 hours to 0600 hours)**					
	Upto 100 MT	*INR per hour per MT*	2.75	3	3.5	4
	Above 100 MT	*INR per hour per MT*	275+ 3.75 in excess of 100 MT	300 + 4.0 in excess of 100 MT	350 + 4.5 in excess of 100 MT	400 + 5.0 in excess of 100 MT

	Tariff	Unit	CIAL ATP 2017-18	CIAL ATP 2018-19	CIAL ATP 2019-20	CIAL ATP 2020-21
			Tariff w.e.f 01.08.2017	Tariff w.e.f 01.04.2018	Tariff w.e.f 01.04.2019	Tariff w.e.f 01.04.2020
5	X ray baggage rental charges					
	Aircraft Capacity					
	upto 25	Seats	150	Nil	Nil	Nil
	26 to 50	Seats	250	Nil	Nil	Nil
	51 to 100	Seats	500	Nil	Nil	Nil
	101 to 200	Seats	800	Nil	Nil	Nil
	201 and above	Seats	900	Nil	Nil	Nil
5a	The above charges will be levied only until the domestic operations are conducted at the existing Domestic Terminal T2. Once the domestic operation are transferred to renovated T1 terminal having inline x ray faculties, X Ray rental charges will be discontinued and charges as per item 8 will be made applicable.					
6	Passenger service fees					
	Total	INR per dep pax	200	200	200	200
	SC	INR per dep pax	130	130	130	130
	FC	INR per dep pax	70	70	70	70
	Total	USD per dep pax	5	5	5	5
	SC	USD per dep pax	3.25	3.25	3.25	3.25
	FC	USD per dep pax	1.75	1.75	1.75	1.75
6a	PSF SC Rates as determined/revised by Ministry of Civil Aviation will be made applicable from time to time.					
6b	Exemption to Infant (Under 2 Years age), Transit /Transfer passengers					
6c	Exemption to Airlines from paying PSF for Sky Marshals.					
6d	Crew on duty exempted from paying PSF.					
6e	PSF would be based on Operator, For Aircrafts operated by Indian Carriers the charges would be in INR and for Aircraft Operated by International Carriers, charges would be in USD.					

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	Tariff	Unit	CIAL ATP 2017-18	CIAL ATP 2018-19	CIAL ATP 2019-20	CIAL ATP 2020-21
			Tariff w.e.f 01.08.2017	Tariff w.e.f 01.04.2018	Tariff w.e.f 01.04.2019	Tariff w.e.f 01.04.2020
7	**Aerobridge charges**					
	International					
	Single Aerobridge used by an Aircraft					
	Upto 90 minutes	USD	60	60	60	60
	For every 30 min beyond 90 min	USD	20	20	20	20
	Two Aerobridges used by an Aircraft					
	Upto 90 minutes	USD	90	90	90	90
	For every 30 min beyond 90 min	USD	30	30	30	30
	Domestic					
	Upto 90 minutes	INR	2500	2500	2500	2500
	For every 30 min beyond 90 min	INR	1000	1000	1000	1000
7a	Aerobridge charges are payable by Airline Operators to Cochin International Airport Ltd.					
7b	The Aerobridge charges are payable based on the time of usage.					
7c	Usage charges will be billed on the basis of the data recorded by the Aerobridge operator.					
7d	The conversion rate for US Dollar shall be the rate as on 1st of every month for the billing for the first fortnight and the rate applicable on 16th for the billing for second fortnight of every month.					
7e	No Exemptions.					
8	**Inline X ray screening charges**					
	International					
	Aircraft capacity					
	1-100	USD	150	150	150	150
	101-150	USD	180	180	180	180
	151-180	USD	220	220	220	220
	181-300	USD	250	250	250	250
	Above 300	USD	300	300	300	300
	Domestic					
	Aircraft capacity					
	1-100	INR	5000	5000	5000	5000
	101-150	INR	7000	7000	7000	7000
	151-180	INR	9000	9000	9000	9000
	181-300	INR	11000	11000	11000	11000
	Above 300	INR	13000	13000	13000	13000
8a	Domestic Inline X Ray charges will be charged once the existing operations from T2 is fully transferred to renovated T1 Terminal which will be fully equipped with Inline X Ray screening systems.					

Annexure 1

	Tariff	Unit	CIAL ATP 2017-18	CIAL ATP 2018-19	CIAL ATP 2019-20	CIAL ATP 2020-21
			Tariff w.e.f 01.08.2017	**Tariff w.e.f 01.04.2018**	**Tariff w.e.f 01.04.2019**	Tariff w.e.f 01.04.2020
9	**Fuel throughput charges**	INR per kl	936.53	976.58	1018.62	1062.75
10	**CUTE/CUSS/BRS**					
	Domestic	USD per dep pax	1.15	1.15	1.15	1.15
	International	USD per dep pax	1.25	1.25	1.25	1.25
11	**TAXES**					
	All the airport charges and fee are subject to service tax (and cess thereon)/GST as per the applicable rates.					
12	Flight operating under Regional Connectivity Scheme will be completely exempted from charges from the date the scheme is operationalized by GOI.					

Cochin International Airport Limited
Rate Card - Domestic Cargo

Annexure II

Departure Cargo

Rates 1st Aug 2017 - 31st March 2021

1	**TSP Charges (chargeable to the consignor)**		
	General Cargo / perishable Cargo / Courier /PO mails etc	Minimum Rate INR per Consignment	100
		INR per KG	0.75
	Special	Minimum Rate INR per Consignment	200
		INR per KG	2
	Valuable	Minimum Rate INR per Consignment	750
		INR per KG	5
2	**Demurrage Charges (chargeable to the consignor)**		
	First Day		
	General/Special/Perishable	Free	0
	Valuable	Minimum Rate INR per Consignment	150
	Second day onwards General/Special/Perishable	Minimum Rate INR per Consignment	300
	Second day onwards Valuable	INR per KG per day	1
		INR per KG per day	2
3	**X Ray charges**		
	General and Perishable Cargo	Minimum Rate INR per Consignment	100
		INR per KG	2
	Valuables Cargo	Minimum Rate INR per Consignment	100
		INR per KG	2

Arrival Cargo

1	**TSP Charges (chargeable to the consignee)**		
	General Cargo / perishable Cargo / Courier /PO mails etc	Minimum Rate INR per Consignment	100
		INR per KG	0.75
	Special	Minimum Rate INR per Consignment	200
		INR per KG	2
	Valuable	Minimum Rate INR per Consignment	750
		INR per KG	5
2	**Demurrage Charges (chargeable to the consignee)**		
	All cargo		
	General/Special/Perishable	First 24 hours	0
	Valuable	Minimum	150
	2nd day onwards General/Special/Perishable	Minimum	300
	2nd day onwards Valuable	INR per KG per day	1
		INR per KG per day	2

Cochin International Airport Limited
Rate Card - Domestic Cargo

Other charges

Annexure II

Rates 1st Aug 2017 - 31st March 2021

1	**Stuffing/De-stuffing/X Ray charges**		
	Stuffing/De-stuffing charges (chargeable to the airline)	Minimum Rate INR per flight	100
		INR per KG	1
	X Ray charges (chargeable to the airline)	Minimum Rate INR per Consignment	100
		INR per KG	2
2	**Handling Charges on company cargo (Outbound and Inbound)**		
		Minimum Rate INR per Consignment	100
		INR per KG	0.75
3	**Demurrage Charges on Company Cargo (chargeable to the Airlines)**		
	First Day		
	General/Special/Perishable	Free	0
	Second day onwards General/Special/Perishable	Minimum Rate INR per Consignment	150
		INR per KG per day	1
4	**Handling Charges for Misrouted Cargo/ Transit Cargo**	Minimum Rate INR per Consignment	100
	(For Inbound & Outbound cargo will be charged seperately and for mis-routed PO Mail, will be charged only for outbound)	INR per KG per day	1
5	**X ray charges to Postal Dept**	Minimum Rate INR	100
		INR per KG	2

Note: Common for Outbound, Inbound and Airlines.

(a) TSP Charges and Demurrage Charges will be levied on the " gross weight " or the " chargeable weight " of the consignment, whichever is higher.
(b) For mis-declaration of weight of 2% and above of declared weight penal charges @ double the applicable TSP charges will be levied.
(c) Special cargo consists of live animals, hazardous goods, Ornamental fish, Chicks, Etc.
(d) X-Ray and Unitization Charges will be levied on gross weight
(e) Service Tax /GST will be charged extra at applicable rates
(f) Unitization Charges for ULDs will be at par with International Cargo rates
g) Consignments of human remains coffin including unaccompanied baggage of deceased are exempted from the purview of TSP & Demurrage Charges

भारतीय विमानपत्तन आर्थिक विनियामक प्राधिकरण
Airports Economic Regulatory Authority of India
सत्यमेव जयते

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Annexure III

Export Cargo

Rates 1st Aug 2017 - 31st March 2021

1	**Terminal Storage and processing Charges**		
	General Cargo	Minimum Rate INR per Consignment	150
		INR per KG	0.95
	Special Cargo	Minimum Rate INR per Consignment	300
		INR per KG	2
	Perishables	Minimum Rate INR per Consignment	150
		INR per KG (without state of the art facility)	0.70
	Valuable Cargo	Minimum Rate INR per Consignment	1000
		INR per KG	5
2	**Demurrage Charges**		
	General Cargo	Minimum Rate INR per Consignment	150
		INR per KG	0.95
	Special Cargo	Minimum Rate INR per Consignment	300
		INR per KG	1.9
	Valuable Cargo	Minimum Rate INR per Consignment	600
		INR per KG	3.8

Notes:
(a) The free period for export cargo shall be 48 hours for examination/processing by the shippers/Airlines.
(b) Consignments of human remains coffin including unaccompanied baggage of deceased and human eyes are exempted from the purview of TSP & Demurrage Charges.
(c) # Special cargo consists of live animals, hazardous goods, Ornamental fish, Chicks, Etc.
(d) Charges will be levied on the " gross weight " or the " chargeable weight " of the consignment, whichever is higher. Wherever the " gross weight " and (or) " volume weight " is wrongly indicated on the Airway Bill and is found more, charges will be levied on the " actual gross weight " or " actual volumetric weight ", whichever is higher.
(e) For mis-declaration of weight above 2% and up to 5% of declared weight penal charges @ double the applicable TSP charges will be levied. For variation above 5%, the penal charges will be leviable @ five (5) times the applicable TSP charges of the differential weight.

3	**X Ray machine usage charges for Export Cargo**		
	General Cargo	Minimum Rate INR per Consignment	150
		INR per KG	2
	Perishable Cargo	Minimum Rate INR per Consignment	150
		INR per KG	1.5
	P.O. Mails	Minimum Rate INR per Consignment	150
		INR per KG	2
4	**AWB Amendment charges**	INR per AWB	100

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Import Cargo

Rates 1st Aug 2017 - 31st March 2021

1	**Delivery Order Charges**		
	MAWB General Cargo	INR	1500
	MAWB Baggage	INR	1500
	MAWB Baggage - Consolidation	INR	1500
	Break Bulk Charges		
		1st HAWB	2500
		Each additional	1000
2	**Terminal, Storage and Processing Charges**		
	General Cargo	Minimum Rate INR per Consignment	200
		INR per KG	4.5
	Special Cargo	Minimum Rate INR per Consignment	250
		INR per KG	9
	Valuable Cargo	Minimum Rate INR per Consignment	1000
		INR per KG	12
	Courier Cargo	Minimum Rate INR per Consignment	200
		INR per KG	4.5
	Perishable Cargo	Minimum Rate INR per Consignment	200
		INR per KG	4.5
3	**Strapping Charges**	INR per packet	10
4	**Demurrage charges**		
	General/ Perishable	Min	295
		Upto 4 days working including free period	1.3
		Between 5 & 30 days	2.6
		Beyond 30 days	3.9
	Special	Min	580
		Upto 4 days working including free period	2.6
		Between 5 & 30 days	5.2
		Beyond 30 days	7.8
	Valuable	Min	1160
		Upto 4 days working including free period	5.2
		Between 5 & 30 days	10.4
		Beyond 30 days	15.6

Free storage period for import cargo shall be (3 working days including the date of arrival of flight) 48 hours from the time of completion of segregation. For the next two days, demurrage will be charged at "per kg; per day" non-cumulative basis, provided the consignment is cleared within four (4) days. If clearance is effected after 4 days from the time of completion of segregation, demurrage will accrue for the entire period from the time of completion of segregation.

Note:

(a) Consignments of human remains coffin including baggage of deceased and human eyes will be exempted from the purview of TSP, demurrage and DO charges.

(b) Charges will be levied on the "gross weight" or the "chargeable weight" of the consignment whichever is higher. Wherever the "gross weight" and (or) volume weight is wrongly indicated on the Airway Bill and is actually found more, charges will be levied on the "actual gross weight" or "actual volumetric weight" or "chargeable weight" whichever is higher.

(c) Special import Cargo consists of Live Animals, Hazardous Goods, Ornamental Fish, Live Chicks, Etc.

(d) Valuable cargo consists of gold, bullion, currency notes, securities, shares, share coupons, traveler's cheques, diamonds (including diamonds for industrial use), diamond jewelry, jewelry and watches made of silver, gold, platinum, Computer parts, mobile phones and items valued at USD 1000 per Kg. & above.

5	**AWB Amendment charges**	INR per AWB	100
	Other Rates		
1	**Palletisation/Depalletisation & Containerization/Decontainerization**		
	Stuffing Charges		
		Per kg	1.5
		Min	500
	De-stuffing Charges		
		Per kg	1.5
		Min	500
2	**Cold storage charges**	Minimum Rate INR per Consignment	350
		INR per KG	2
3	**Strong room charges**		-

4	**Transhipment Cargo Handling**		
	Air to Road		
	Storage Charges	Minimum Rate INR per Consignment	150
		INR per KG	2
	Stuffing	INR per KG	2.5
	Destuffing		1.5
	Demurrage charges	Minimum Rate INR per Consignment	250
		48 Hours after completion of segregation (INR per kg per day)	1
	Road to Air		
	TSP	Minimum Rate INR per Consignment	150
		INR per KG	0.95
	X Ray charges	Minimum Rate INR per Consignment	150
		INR per KG	2
	Stuffing	INR per KG	1.5
	Demurrage charges	Minimum Rate INR per Consignment	150
	Beyond 48 hours	INR per KG	0.95
	Air to Air		
	Storage Charges	Minimum Rate INR per Consignment	150
		INR per KG	2
	Stuffing	INR per KG	1.5
	De-stuffing	INR per KG	1.5
	Demurrage charges	Minimum Rate INR per Consignment	250
		48 Hours after completion of segregation (INR per kg per day)	1
	Road to Road (Import)		
	De-stuffing charges	Minimum Rate INR per Consignment	150
		INR per KG	2.5
	TSP Charge		Same as Import TSP
	Demurrage charges		Same as Import Demurrage

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	Road to Road (Export)		
	Stuffing charges	Minimum Rate INR per Consignment	150
		INR per KG	2.5
	TSP Charge		Same as Export TSP
	Demurrage charges		Same as Export Demurrage
	ULD Transfer	INR per ULD	500
5	**Forklift charges**		
	For works inside I-ACC		
	(To the exporters/Importers only)	Minimum Rate INR per Consignment	300
		INR per KG	0.3
	For works outside within the Airport premises		Rs.2000 per hour
6	**Documentation charges (Export and Import Both)**	INR per flight	500
	To be paid by Airlines at Exports for providing manifest & envelopes		
	Services provided-Export: Cargo Manifest+ Envelope		
	Import : Segregation Report		

Note: Service Tax /GST will be charged extra at applicable rates