File No. AERA/20010/MYTP/AAI-Lucknow/2011-12

Order No. 09/2014-15

सत्यमेव जयते

Airports Economic Regulatory Authority of India

In the matter of Determination of Aeronautical Tariffs in respect of Chaudhary Charan Singh International Airport, Amausi, Lucknow for the first Control Period (01.04.2011 – 31.03.2016)

Date of Order: 29th August, 2014

Date of Issue: 29th August, 2014

AERA Building
Administrative Complex
Safdarjung Airport
New Delhi – 110 003

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1. Brief Facts

1.1. Airports Authority of India (AAI) was constituted under the Airports Authority of India Act, 1994 ("AAI Act") and came into being on 01.04.1995 by merging erstwhile National Airports Authority and International Airports Authority of India. The merger brought into existence a single organization for better administration and cohesive management of airports, civil enclaves and aeronautical communication stations in the country.

1.2. According to AAI, it currently manages 125 Airports, which include 18 International Airports, 7 Customs Airports, 78 Domestic Airports and 26 Civil Enclaves[1]. The Chaudhary Charan Singh International Airport, Amausi, Lucknow (CCSIA) is one of the 18 International Airports owned and managed by AAI. During the year 2013-14, against the total throughput in the country of 169.03 million passengers and 2.28 million tonnes of cargo, CCSIA catered to 2.31 million passengers and 4.24 thousand tonnes of cargo.

1.3. A submission was made by the AAI before the Authority for determination of Aeronautical Tariffs in respect of Chaudhary Charan Singh International Airport, Amausi,

[1] AAI website as accessed on 28.07.2014 at 1320 hrs

and Lucknow for the 1st Control period (01.04.2011-31.03.2016). The Authority has examined the proposal and is issuing an order to this effect, which is contained in the subsequent paragraphs.

1.4. The Authority notes that AAI has released an advertisement titled "Request for Qualification for Operation, Management and Transfer of Lucknow Airport through Public Private Partnership", the details of which are available on the AAI website at http://www.aai.aero/tenders/RFQ_Lucknow_Airport_03092013.pdf

2. Airports Economic Regulatory Authority of India (AERA)

2.1. The Airports Economic Regulatory Authority of India (the Authority) was established in May, 2009 under the Airports Economic Regulatory Authority of India Act, 2008, (AERA Act). The functions of the Authority inter-alia include determination of tariffs for aeronautical services and other charges at major airports. The Authority is also required to monitor the set performance standards at these airports.

2.2. After the functions of the Authority were notified, it undertook an exhaustive and comprehensive exercise to arrive at its regulatory philosophy and approach for economic regulation of aeronautical services rendered at major airports. The Authority's philosophy of economic regulation of airports is contained in its Order No. 13/2010-11 dated 12.01.2011 (Airport Order) and the Airports Economic Regulatory Authority of India (Terms and Conditions for Determination of Tariff for Airport Operators) Guidelines, 2011 issued as per its Direction No. 5/2010-11 dated 28.02.2011 (Airport Guidelines). The Authority, through Airport Order and Airport Guidelines, has indicated its position on aspects such as form of regulation, regulatory till, framework for determination of fair rate of return, various Regulatory Building Blocks, traffic forecasting, quality of service and the regulatory process for tariff determination at major airports.

2.3. As per section 2(i) of AERA Act, any airport with annual passenger throughput exceeding 1.5 million has been categorized as a major airport. The passenger throughput at CCSIA exceeds 1.5 million, and therefore CCSIA is a major airport and, thus, is considered for regulation of tariff and other charges by the Authority.

2.4. As per the Airport Guidelines, all operators of major airports were required to submit their Multi Year Tariff Proposal (MYTP) for the first Control Period (set as five year period beginning from FY 2011-12) to the Authority for its consideration. Based on the MYTP submission, the Authority is required to determine tariffs at an airport, by initially determining an yield per passenger, and subsequently reviewing detailed Annual Tariff Proposal(s) (ATP) submitted by the Airport Operators (in consonance with the determined yield per passenger) in order to finalise the different components of the tariff card. In terms of Airport Guidelines, the last date for submission of the MYTP for the first control period was 30.06.2011.

2.5. Conscious of the fact that given the nature of timelines specified in the Airport Guidelines, it would not be possible to determine the tariff in respect of any of the major airports before 01.04.2011, the Authority decided that the airport operators shall continue charging their existing tariffs for aeronautical services in the interim period. The Authority accordingly issued an Order No. 15/2010-11 dated 24.03.2011 in this regard.

3. CCSIA Multi Year Tariff Proposal submitted by AAI

3.1. In respect of CCSIA, AAI had requested the Authority for an extension in time for filing of MYTP on the ground that the process of capturing the information/ data related to economic regulation was in progress and was likely to take some time. The Authority had considered the request of AAI and had extended the timeline for filing of MYTP up to 30.09.2011. Thereafter, AAI had made its MYTP submissions in respect of CCSIA vide its letters dated 30.09.2011, 18.06.2012, 13.09.2013, 18.11.2013, 14.02.2014, 10.07.2014 and latest submissions dated 13.08.2014 and 21.08.2014. Submissions made by AAI have been uploaded on the Authority's website (www.aera.gov.in).

3.2. As a part of its MYTP submission, AAI had submitted key assumptions in respect of CCSIA, including growth rates assumed for various Revenue and Expenditure heads. AAI had further furnished the breakup of the revenue and expenditure and a brief note justifying the growth rates assumed. Based on these assumptions, the projected Profit and Loss Account, Balance Sheet and Cash Flow Statements were prepared for the remaining period of the current control period.

3.3. AAI had submitted clarification on the depreciation policy, traffic forecasting methodology and details of the capital expenditure incurred/ projected for the first control period. AAI had also furnished the methodology and details of allocation of common expenditure of its Corporate Headquarter (CHQ) and Regional Headquarter (RHQ) to an airport on proportionate share basis. Similarly the details of the project cost and expected date of completion of each of its component and means of finance were also provided.

3.4. AAI also submitted to the Authority that the audit for each airport of AAI, including CCSIA, is conducted by Comptroller and Auditor General of India (CAG). It was also informed that the Audit Certificate by CAG is provided to AAI as a whole.

3.5. The Authority held several meetings with AAI to study the MYTP for CCSIA, and to scrutinize the assumptions of the tariff proposal and the underlying details of the submissions. Through the analysis of data submitted by AAI and clarifications at these meetings and discussions, the Authority had arrived at its proposals as contained in Consultation Paper No. 01/2014-15 dated 21.04.2014 that was put up for stakeholders' consultations. The last date for receipt of comments on this Consultation Paper (CP) was 15.05.2014.

3.6. A meeting with the stakeholders was held on 06.05.2014 to hear responses on the proposals contained in the CP. Following Stakeholders were present in the meeting:-

3.6.1. Government of Uttar Pradesh (GoUP)

3.6.2. Airports Authority of India (AAI)

3.6.3. Federation of Indian Airlines (FIA)

3.6.4. Air India

3.6.5. Air India Express

3.6.6. Delhi International Airport (P) Ltd.

3.6.7. Hindustan Petroleum Corporation Limited (HPCL)

3.6.8. Indian Oil Corporation Limited (IOCL)

3.6.9. InterGlobe Aviation Limited (IndiGo)

3.6.10. Spice Jet Airlines Limited

3.7. After a brief presentation by AAI on the physical and financial aspects of CCSIA, comments were invited from the various stakeholders. Minutes of the stakeholders' consultation meeting were uploaded on the website of the Authority i.e. www.aera.gov.in for the information of all concerned.

3.8. During the Stakeholders' meeting held on 06.05.2014, FIA had requested for extension of time for submission of comments in response to the Consultation Paper No. 01/2014-15. They also submitted a similar request for extension vide their letter dated 13.05.2014. The Authority considered the request made by FIA and extended the date for submission of comments up to 22.05.2014 vide Public Notice No. 01/2014-15 dated 15.05.2014. Summary of Stakeholders' Comments on Consultation Paper No. 01/2014-15

3.9. In response to the Consultation Paper No. 01/2014-15 dated 21.04.2014, the Authority received several responses from stakeholders, which were uploaded on the website of the Authority vide Public Notice No. 02/2014-15 dated 29.05.2014. The list of stakeholders and brief issues commented by each of them on the proposals contained in the Consultation Paper is presented in Table 1 below:

Table 1: Stakeholders' Comments

S. No.	Stakeholder	Issues Commented Upon
1	Government of Uttar Pradesh	Annual Tariff Proposal
2	Indian Oil Corporation Limited	Fuel Throughput Charge
3	Hindustan Petroleum Corporation Limited	Fuel Throughput Charge
4	Air India	Annual Tariff Proposal User Development Fee Non–Aeronautical Revenue
5	Federation of India Airlines (FIA)	Regulatory Approach Initial RAB Project Cost User Consultation Depreciation Revenue from Services other than Aeronautical Services Operation and Maintenance Expenditure Fair Rate of Return (WACC) Annual Tariff Proposal Consultation Process Approach to Tariff Determination True-Up Appointment of Consultant Miscellaneous

3.10. The Authority has carefully considered all the above comments made by different stakeholders, and the comments of AAI on the observations/ views thereon. Each of the proposals of the Authority in its Consultation Paper No. 01/2014-15, comments of the stakeholders and response from AAI, Authority's examination thereon and its decision are given in the respective sections.

4. Airport Services at CCSIA - Regulatory Approach

4.1. The Authority had proposed in the Consultation Paper No. 01/2014-15 to determine the Aggregate Revenue Requirement (ARR) for CCSIA, taking into account various aspect of Regulatory Building Blocks of Aeronautical Services.

4.2. The investments and costs for airport services.

4.3. The ARR for the current Control Period has been calculated based on the following Regulatory Building Blocks with reference to the submissions made by AAI:

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

4.3.2. Operation and Maintenance Expenditure (O)

4.3.3. Depreciation (D)

4.3.4. Taxation (T)

4.3.5. Revenue from services other than aeronautical services (NAR) is meant to be included as revenues in the hands of the airport operator.

4.4. The ARR under Single Till for the Control Period (ARR) has been calculated as under:

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

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

Where

4.4.1. t is the Tariff Year in the Control Period;

4.4.2. ARR_t is the Aggregate Revenue Requirement for year t;

4.4.3. FRoR is the Fair Rate of Return for the control period;

4.4.4. RAB_t is the Regulatory Asset Base for the year t;

4.4.5. D_t is the Depreciation corresponding to the RAB for the year t;

4.4.6. O_t is the Operation and Maintenance Expenditure for the year t, which include all expenditures incurred by the Airport Operator(s);

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

4.4.8. NAR_t is the Revenue from services other than aeronautical services for the year t.

Decision No. 1. Regarding Regulatory Approach for Airport Services

1.a. The Authority decides to determine the Aggregate Revenue Requirement (ARR) for CCSIA, Lucknow, taking into account the Capital investments and cost for airport services as per methodlogy mentioned in Para 4.4 above.

5. Initial Regulatory Asset Base (RAB)

5.1. As per clause 5.2.4 of Airport Guidelines, the Initial RAB is to be calculated taking into consideration the original cost of fixed assets as reduced by accumulated depreciation, accumulated capital receipts, subsidies or user contribution.

Table 2 : Calculation of initial RAB as on 1st April 2011 as per AAI Submission

S. No.	Particulars	Amount (In Rs. crore)	
1	Original Cost of Fixed Assets		158.51
2	Air Navigation Surveillance (CNS/ATM) related assets		(17.73)
3	Cost of Airport Assets [(1)-(2)]		140.78
4	Accumulated Depreciation	(71.48)	
5	Accumulated Capital Receipts of the nature of contribution from stakeholders	(Nil)	
6	Assets Value Adjustment for assets excluded from the scope of RAB	(Nil)	
7	Land Value Adjustment for assets excluded from the scope of RAB	(Nil)	
8	**Total (4+5+6+7)**		**(71.48)**
	Initial RAB [(3)-(8)]		**69.30**

5.2. The Authority, in Consultation Paper No. 01/2014-15, had noted that ANS (CNS/ATM) Assets amounting to Rs. 17.73 crore have been deducted from the gross value of fixed assets to arrive at the cost of the Airport Assets. The Authority had proposed to consider the Initial RAB of Rs. 69.30 crore as shown in Table 2 above for determination of aeronautical tariff for the first control period.

Stakeholders' Comments

5.3. FIA has submitted that the Authority has considered Initial RAB (Rs. 69.30 crore for FY 2011-12) as per AAI's submissions which are "*contrary to the principles of AERA Guidelines*". Further, FIA has submitted that Authority *"has failed to carry out the evidentiary assessment of its own"*.

AAI's response to Stakeholders' Comments

5.4. AAI in response to FIA's comment has submitted that Initial RAB as on 31.03.2011 mainly comprises of Assets capitalised prior to issuance of AERA Guidelines dated 28.02.2011. These assets were procured/ constructed as per their capital plan, with the prior approval of competent authority.

5.5. Further AAI has submitted that they have followed competitive and transparent bidding process for award of contracts in respect of major capital investments as per their laid down procedures and rules.

Authority's Examination

5.6. With respect to FIA's comments regarding Initial RAB, AAI has submitted an audit certificate vide letter dated 05.05.2014 from its Internal Audit Department which is reproduced hereunder:

> *"certified that assets forming part of initial regulated assets base (RAB) as on 01.04.2011 in the Multi Year Tariff Proposal (MYTP) for Lucknow Airport amounting to Rs. 69.30 crores (Rs. Sixty Nine Crores and Thirty Lacs) pertains to airport services and security and the same is a part of AAI's assets."*

5.7. The Authority notes that the initial RAB amounting to Rs. 69.30 crore at CCSIA is that part of the historical data forming the financial report of AAI, which has been audited by the CAG and has also been placed before the Parliament. The assets particulars are part of the MYTP as annexed with the Consultation Paper No. 01/2014-15. Hence, the Authority has decided not to conduct a further verification or confirmation of the accounts already audited by CAG. The Authority has therefore decided to consider the figures and calculations as submitted by the AAI in respect of Initial RAB.

Decision No. 2. Regarding Initial RAB

2.a. The Authority decides to consider the amount of Rs. 69.30 crore as Initial RAB of CCSIA, Lucknow as on 01.04.2011, and factor it in determination of aeronautical tariffs for the first control period (2011-2016).

6. Capital Expenditure Details

6.1. In the Consultation Paper No. 01/2014-15, the Authority had proposed to consider the capital expenditure cost amounting to Rs. 172.24 crore. The details submitted by AAI and examined by the Authority in Consultation Paper No. 01/2014-15 dated 21.04.2014 are given in Table 3 below:-

Table 3: Cost of the Capital works at CCSIA as proposed by AAI (Rs in crore)

S. No.	Particulars	Year of Capitalisation	Amount	
	Runways, Apron and Other Air Side Associated Works			
1	Pavement in CAT II light area	2011-12	0.30	
2	Provision of vehicular movement area at Apron	2011-12	0.47	
3	Stop Bar Lighting in Taxiway	2011-12	0.29	
4	Acquisition of land	2012-13	0.21	
5	Provision of Rapid exit taxi way indicator light fittings	2013-14	0.36	
6	Provision of standby CCR for runway edge light and center line fitting	2013-14	0.30	
7	Construction of ramp equipment area	2015-16	1.00	
8	Extension of isolation bay including construction of shoulder	2015-16	5.00	
9	Construction of RCC retaining wall and boundary wall towards runway 27 end	2015-16	1.90	
	Total of Runway, Apron and other air side associated works (A) = (Sum of 1 to 9)			**9.83**
	Fire Station and Other Allied Works			
10	Construction of approach road for fire pit	2012-13	0.06	
11	Strengthening of power cable from power house to fire station	2013-14	0.20	
12	Augmentation of water supply for crash fire tender at runway end	2013-14	0.10	
13	Construction of fire station	2015-16	15.00	
	Total of Fire Station and other allied works (B) = (Sum of 10 to 13)			**15.36**
14	**Construction of integrated cargo complex (C)**	2015-16	15.00	**15.00**
	Integrated Terminal Building and Other Allied Works			
15	Purchase of computers, EPABX and UPS	2011-12	0.15	
16	Electrical Installations (Air-conditioning fans and Lighting)	2011-12	0.37	
17	Purchase of Furniture (Godrej chest, franking machine, seater chairs)	2011-12	0.41	
18	Purchase of Vehicles (ambulance)	2011-12	0.37	
19	Construction of Integrated Terminal Building – Civil works	2012-13	89.71	
20	Construction of Terminal Building - Electrical Works	2012-13	27.82	

S. No.	Particulars	Year of Capitalisation	Amount	
21	Purchase of computers and Installation of LAN	2012-13	0.18	
22	Check in Facilities (digital weighing machine, check-in counters and baggage trolley)	2012-13	1.30	
23	Purchase of Furniture (Including 3 seater chairs)	2012-13	0.22	
24	Purchase of Vehicles (Mahindra Xylo)	2012-13	0.15	
25	Purchase of PA System	2012-13	0.02	
26	Purchase of Fixed information display system (FIDS)	2012-13	1.57	
27	Other Allied Works (water purifier)	2012-13	0.05	
28	Electrical Installations (Generation chillers)	2013-14	0.96	
29	Check in Facilities (External Signage)	2013-14	0.12	
	Total of Integrated Terminal Building and Other Allied Works (D) = (Sum of 15 to 29)			**123.40**
30	**Refurbishing and installation of Passenger Boarding Bridge (PBB) (E)**	2014-15	5.51	**5.51**
	Security Related Works			
31	Construction of Approach Road of CISF Barrack	2011-12	0.17	
32	Provision of Perimeter lighting in Godwara area	2012-13	0.42	
33	Construction of perimeter road towards Goroura Village	2012-13	1.67	
	Total of Security Related Works (F) = (Sum of 31 to 33)			**2.26**
	Other Operational Works			
34	Construction of boundary wall along Bijnour Road C.A. Lucknow Airport	2011-12	0.36	
35	Construction of boundary wall towards Goroura Village	2012-13	0.32	
	Total of Other Operational works (F) = (Sum of 34 to 35)			**0.68**
36	**Augmentation of water supply in Residential colony (G)**	2013-14	0.20	**0.20**
Total Project Cost (A+B+C+D+E+F+G)				**172.24**

6.2. AAI had provided the justification of the major capital works undertaken as well as proposed during the current control period which have been indicated in Para 8.3 of the Consultation Paper No. 01/2014-15.

6.3. In the Consultation paper No. 01/2014-15, the Authority had noted that works amounting to Rs.2.26 crore is purely security related assets.

6.4. As per the Airports Guidelines, the Assets related to mandated security expenditure as laid down by Government/ Bureau of Civil Aviation Security (BCAS), at the time of development of brown field or green field airport is to form part of the project cost and is to be included in the Initial RAB. However, incremental capital expenditure on security is to be met out of passenger service fees (PSF–Security).

Accordingly, in normal course, any additional (incremental) capital expenditure on security related assets is not to be included in the Initial RAB but would be debited to PSF – Security account.

6.5. The Authority had also noted (vide Para 8.6 of the Consultation Paper No. 01/2014-15) that MoCA has issued an order dated 18.02.2014 in the matter of expenditure out of PSF – Security Escrow Accounts. According to this order, PSF – Security funds are meant only for meeting revenue expenditure on security, namely deployment of CISF and other security forces at the airports. In view of this order, the capital expenditure, if any, incurred by the airport operators out of the PSF – Security Escrow Account has to be reimbursed back to the respective Escrow accounts together with interest.

6.6. In view of the above mentioned Government letter, the Authority in its Consultation Paper No. 01/2014-15 had proposed to include the incremental capital expenditure of Rs. 2.26 crore, related to security related assets, in the Regulatory Asset Base (RAB).

6.7. The Authority had also noted in the Consultation Paper No 01/2014-15 that out of certain items of proposed Capital Expenditure, some of the capital expenditure are yet to be incurred, the work of which will start in 2014-15 or 2015-16. The Authority had accordingly proposed to make appropriate adjustment to the RAB of CCSIA at the beginning of the next control period as per the timing of capitalization and the final cost of such capital expenditure.

Stakeholders' Comments

6.8. FIA has raised its concern about the applicability of MoCA's order in respect of expenditure out of PSF – Security Escrow Accounts. FIA has stated that:

> *"Firstly, a perusal of Ministry of Civil Aviation's Order dated 18.02.2014 reflects that the same has been issued with respect to the airports, which are being operated and managed by private concessionaires. There is no clarity as to:-*

(a) Whether the same will be applicable to even the airports operated by AAI or "all the airport operators" irrespective of whether it is operated by AAI or private concessionaires?

(b) What has been the past practice been regarding the expenditure towards security systems and equipment with respect to AAI operated airports?

In this regard, a better approach would have been to first seek clarity from Ministry of Civil Aviation and then the Authority ought to have analysed the impact of such order, which in the present case is incremental capital expenditure of Rs.2.26 crores related to security in Regulatory Assets Base."

6.9. FIA has also stated that AAI had not undertaken the User Consultation with regard to expenditure incurred from 2011-12 to 2013-14 (primarily related to terminal building). They further stated that the works of construction of New Integrated Terminal Building at CCSI Airport was approved by the relevant Competent Authority under the appropriate delegated powers, and that AAI has not conducted the User consultation on the strength of its approval from the Competent Authority. Further, FIA has submitted that AERA Guidelines are in place since 28.02.2011, and therefore, AAI ought to have undertaken a User Consultation process instead of only relying upon prior approval of the Competent Authority.

6.10. FIA has also submitted that rather than relying on project cost proposed by AAI, the Authority should conduct an independent technical evaluation and in-depth scrutiny of project cost proposed by AAI. Further FIA has proposed that a good industry benchmark with respect to optimal capital expenditure per square meter is established by the Authority and any spend over and above this benchmark should be considered as a business risk of the airport operator.

6.11. FIA has also submitted that for any cost, the Authority is mandated to conduct prudence check in terms of regulatory jurisprudences. It is vital to scrutinise each and every claim made by AAI. As per the settled position of law, a sectorial regulator is empowered to scrutinise the prudent expenditure. It may disallow the expenditure incurred by any utility if the same is imprudent and the direct burden of such imprudent expenditures fall on the consumers/ passengers.

AAI's response to Stakeholders' Comments

6.12. Responding to FIA's comments on applicability of MoCA letter dated 18.02.2014, AAI has stated that:

> *"The para 2 (decision part) of MoCA order 18th Feb. 2014 is applicable to all airport operators, including AAI and it does not restrict the applicability of order to Pvt./JVCs airport operators only."*

6.13. AAI also submitted that the separate account heads have been earmarked to capture the revenue from PSF – Security, Revenue Expenditure and Capital Expenditure on Security.

6.14. Further AAI has submitted that AERA (Terms & Conditions for determination of Aeronautical Tariff for Airport Operators) Guidelines, 2011 dated 28.02.2011 also provides for inclusion of Mandatory Operating Costs or Statutory Operating Cost incurred by the Airport Operators in compliance of the directions given by Regulatory Authorities [Clause 5.4.2.(c)].

6.15. In response to FIA's comments on the issue of User Consultation, AAI has submitted as under:

> *"In the FY 2011-12, there was no major capital work for which User Consultation was required. As regards to FY 2012-13, only major capital work capitalised was New Integrated Terminal Building (Rs. 89.71 crs – capitalised under a/c head – Building, and Rs 27.82 crs under a/c head-Electrical Installations.) The construction work for New Terminal Building was commenced with the approval of competent authority in AAI i.e. AAI Board in 2007-08, well before the issuance of AERA Guidelines on User Consultation."*

6.16. AAI has further stated that:

> *"There has been no violation of AERA Guidelines. AERA guidelines came into force from the date of its issuance i.e. 28.02.2011. Hence, projects already commenced/ capitalised prior to issuance of AERA guidelines can't be construed as violation of Guidelines. In respect of major capital*

> *projects to be undertaken in future, the User Consultation in accordance with AERA shall be undertaken.*
>
> *.....In respect of future project, it is stated that AAI has prepared Cost estimates as per norms. Moreover, the Capex projected is subject to truing-up process which will take care of any variation in project cost."*

Authority's Examination

6.17. The Authority has carefully considered the comments of FIA made in respect of MoCA's letter dated 18.02.2014. The Authority observed that MoCA has advised all the airport operators as follows:

> *"… Accordingly, all the airport operators are hereby directed that they shall reverse/reimburse back to the respective PSF (SC) Escrow account, within a period of one month, the total amount spent (on account of capital costs/expenditure) so far towards procurement and maintenance of security systems/equipment and on creation of fixed assets out of the PSF (SC) Escrow Account, together with the interest that would have accrued in normal course had the said amount not been debited against the PSF (SC) Escrow Account."*

6.18. Therefore, the Authority decides to include the amount of incremental capital expenditure on security in RAB for the current control period.

6.19. The Authority notes that AAI is a board managed statutory organisation with senior level representation from MoCA and Director General of Civil Aviation (DGCA). The audit of AAI is conducted by Comptroller and Auditor General of India (CAG) and the accounts are laid before the Parliament of India.

6.20. The Authority further notes the confirmation of AAI that the construction work for New Terminal Building at CCSIA, Lucknow commenced with the approval of competent authority as per the delegated powers in AAI. The Authority notes that this work started well before the issuance of AERA Guidelines on User Consultation. The Authority has noted AAI's assurance to undertake user consultation as per AERA Guidelines for future capital works.

6.21. The Authority notes that as per Airport Guidelines, the value of capital works for which user consultation is required to be held by the airport operator is a minimum of

Rs. 50 crores or 5% of the opening RAB (in case of CCSIA, this figure comes to 5% of Rs. 69.3 crores, i.e. Rs. 3.47 crores). Therefore, based on AAI's submission, AAI is required to undertake user consultation for the works listed in Table 4 below.

Table 4: Details of projected capex of more than 50 crores or 5% of opening RAB

Name of the Work	Cost (Rs. In Crore)
Construction of Integrated Cargo Complex	15.00
Construction of Fire Station	15.00
2 Nos. Passenger Boarding Bridge (PBB)	5.51
Extension of isolation bay including construction of shoulder	5.00

6.22. The Authority notes that the 2 Nos PBB are part of the Terminal Building Project which has already been initiated prior to issue of AERA Guidelines. The Authority decides that it will review the outcome of the User Consultation undertaken by CCSIA for the said capital works and may make appropriate adjustments to the RAB at the beginning of the next Control Period, depending on the outcome of user consultation, capex incurred and timing thereof.

6.23. The Authority has noted FIA's suggestion to establish a good industrial benchmark for the optimal capital expenditure per square meter. The Authority is aware of the fact that the capital expenditure per square meter at different airports as well as for different kind of projects may vary depending upon a number of factors namely type of construction, facilities, finishes etc. which come into play while undertaking a capital investment project and each of such factor may not be possible to be envisaged or accounted for till completion of the actual works. Moreover, the Authority notes AAI submission that "AAI has proposed cost estimates as per norms." The Authority has also addressed this issue in its Consultation Paper No 05/2014-15 dated 12.06.2014 in the matter of Normative Approach to Building Blocks in Economic Regulation of Major Airports and sought opinion/ views of the stakeholders.

6.24. Based on the above considerations, the Authority decides to consider allowable capital works of Rs. 172.24 crore as an addition to the Initial RAB during the current control period.

Decision No. 3. Regarding Expenditure on Capital Works

3.a. The Authority decides to reckon Rs. 2.26 crores towards security related incremental capital expenditure as mentioned in Table 3 as an addition to RAB in the current control period.

3.b. Accordingly, the Authority decides to consider allowable capital cost of Rs. 172.24 crore as an addition to the Initial RAB during the current control period.

3.c. The Authority further decides that AAI will undertake user consultation for the capital works to be undertaken in the current period which are of values more than Rs. 50 crores or 5% of the opening RAB, the details of which has been mentioned in Table 4.

Truing Up: 1. Correction / Truing up for Decision No. 3

1.a. The Authority also decides that depending on the capex incurred and timing thereof (i.e. the date of capitalisation of the underlying assets in a given year), the Authority will make appropriate adjustments to the RAB at the beginning of the next control period taking into account the accounting policies of AAI regarding depreciation as well as actual expenditure incurred and capitalised.

7. Depreciation

7.1. The Authority has noted that as per Clause 5.3.3 of the Airport Guidelines, the minimum residual value of the asset shall be considered as 10% and depreciation has been allowed up to a maximum of 90% of the original cost of the asset.

7.2. Similarly, as per clause 5.2.5(e) of the Airport Guidelines, for projecting Depreciation on forecast of assets to be commissioned or disposed-off during a control period, it shall be assumed that such assets have been commissioned or disposed off half way through the tariff year and Depreciation related to such assets shall be calculated on pro-rata basis.

7.3. The Authority had noted the fact that the depreciation policy of AAI is not in accordance with the Airport Guidelines of the Authority. However, the Authority had proposed to adopt AAI's depreciation policy on the basis that:

7.3.1. AAI has been established under the AAI Act and the depreciation policy adopted by AAI has been approved by the Board of AAI.

7.3.2. AAI has stated that the assets reflected in the proposal is part of the Initial RAB, and the accumulated depreciation on these assets are as per the figures reflected in the audited accounts of CCSIA, which are subject to the scrutiny of CAG.

7.3.3. As per section 28(4) of the AAI Act 1994, the accounts of AAI, once audited by CAG, are laid before the Parliament.

7.4. The Authority had accordingly proposed to consider the depreciation policy followed by AAI for the purpose of tariff determination in respect of CCSIA for the first control period. The salient features of AAI's depreciation policy are as under:

7.4.1. Method of Depreciation- Straight Line Method;

7.4.2. Charging of Depreciation at 100% in case asset(s) are used in a financial year for 180 days or more. If the assets are used for less than 180 days in a year the depreciation will be charged at 50%. This policy is effective from the financial year 2012-13. Up to 2011-12, for addition to fixed assets, depreciation was provided for full year irrespective of month of capitalization and no depreciation was provided in the year, the asset is disposed off; and

7.4.3. Residual value for each asset is to be taken as Re.1.

7.5. The Authority also noted that the assets capitalized during the financial year 2012-13 onwards have been assumed to be used for more than 180 days.

Stakeholders' Comments

7.6. FIA has commented that Authority has ignored its own Guidelines and proposed to follow AAI's depreciation policy. FIA has further stated that:

> *"It is submitted that Authority should determine the depreciation as per Airport Order and Airport Guidelines for the purpose of computing Annual Revenue Requirement as it is settled position of law that the statutory authority is bound by its own Regulations/Guidelines."*

7.7. FIA has further submitted that:

> *"the depreciation methodology (of using accounting life of assets) being presently considered by the Authority is erroneous and ignores the realty that such an approach will have an unjust inflationary impact on passenger/ airlines by front loading of tariff. Presently, the Authority is considering only the accounting life of assets instead of considering the useful life (at least 30 years). Such reduced accounting life of assets compared to the useful life would result in artificial increased in the depreciation charge and would have an adverse impact of increasing the tariff in the initial years."*

AAI's response to Stakeholders' Comments

7.8. Responding to stakeholders' comments on depreciation policies, AAI has submitted that:

> *"AAI is charging depreciation as per the policy approved by the competent authority, which has been finalised after considering relevant factors such as minimum useful service life of various assets based on technical assessment. Based on the above policy, AAI finalises its annual accounts which is accepted by C&AG. In case the depreciation is to be reworked as per AERA guidelines, then net block of Fixed Assets, which have been 100% depreciated in the AAI books, would need recasting and 10% of asset value*

would have to be added back to RAB and Return on such additional RAB also to be given [@ WACC (14%)] as per AERA guidelines."

Authority's Examination

7.9. The Authority has carefully considered the comments of FIA. As noted in the Consultation Paper No. 01/2014-15, the depreciation policy of AAI is at variance with the Authority's Airport Guidelines. The Authority has generally accepted the depreciation policy of the company unless there are cogent and convincing reasons for not doing so.

7.10. The Authority is conscious of the fact that different companies have different accounting treatments for recognizing revenue and depreciation. The useful life of a project not only depends on the nature of the project but equally on the level of maintenance, periodic up-gradation etc. The Authority therefore has been accepting the accounting policy of the respective companies in this regard. AAI has adopted certain depreciation policies which have not been commented upon by CAG. The accounts of AAI are also laid before the Parliament of India. The Authority therefore finds no reason not to accept the said depreciation policy.

7.11. The Authority has noted that different airport operators have adopted different rates of depreciation over different elements that go into the Regulatory Asset Base (RAB). Though the Authority, by and large, has been of the considered view that it would be preferable to leave depreciation rates for different items to the Board of the airport companies, it however feels that such variation needs to be adequately addressed. The Planning Commission had also felt that some reasonable uniformity in this regard could be considered. The Authority has addressed this issue in its Consultation Paper No 05/2014-15 dated 12.06.2014 in the matter of Normative Approach to Building Blocks in Economic Regulation of Major Airports, wherein it has proposed for a separate consultation paper to be issued subsequently on regulatory depreciation policy to be adopted by the Authority. However for the instant proposal, the Authority decides to accept AAI's policy on depreciation.

Decision No. 4. Regarding treatment of Depreciation

4.a. The Authority decides to consider the approved depreciation policy of AAI in case of CCSIA and allow charging 100% depreciation.

4.b. The residual value for each asset is to be taken as Re.1.

4.c. For the year 2011-12, the Authority, in consideration of the depreciation policy of AAI, decides to charge full depreciation, irrespective of the month of capitalization. Furthermore, the Authority decides not to consider any depreciation in the year 2011-12 if that particular asset(s) was disposed off/ retired during the year 2011-12.

4.d. From the year 2012-13 onwards, the Authority, in consideration of the depreciation policy of AAI decides to follow charging of full depreciation in case asset(s) are used in a financial year for 180 days or more, and if the asset(s) are used for less than 180 days, the depreciation charged will be equivalent to 50% depreciation of that financial year.

Truing Up: 2. Correction / Truing up for Decision No. 4

2.a. The Authority also decides to true up the depreciation considered during the present aeronautical tariff determination exercise for assets which are yet to be capitalized, based on the actual capitalised assets in the current control period (i.e. the date of capitalisation of the underlying assets in a given year), while determining aeronautical tariffs for the next control period.

8. Roll Forward of RAB

8.1. The Authority had proposed to consider the RAB as given in the Table 5 below (Table 5 in the Consultation Paper No. 01/2014-15), for the analysis and determination of aeronautical tariffs for CCSIA. The date of capitalisation of the future capital works has been considered by the Authority as per the submission of AAI. The summary of forecast and Roll forward RAB for CCSIA are as under:

Table 5: Summary of the forecast and Roll forward RAB for CCSIA (Airport Services) as per Authority (Rs. In crore)

	Details	2011-12	2012-13	2013-14	2014-15	2015-16
A	Opening RAB	69.30	62.53	165.88	147.67	132.54
B	Additional Assets capitalized during the year	2.90	123.70	2.24	5.50	37.90
C	Disposals/Transfers	0.00	0.00	0.00	0.00	0.00
D	Depreciation	9.67	20.35	20.45	20.63	23.45
E	Closing RAB(A+B-C-D)	62.53	165.88	147.67	132.54	146.99
	Average RAB (A+E)/2	**65.92**	**114.21**	**156.78**	**140.11**	**139.77**

8.2. The Authority has also proposed to make appropriate adjustments to RAB at the beginning of the next control period, depending on the timing and exact value of asset capitalisation.

Decision No. 5. Regarding Roll forward RAB

5.a. The Authority decides to consider Roll Forward RAB during the Control Period as given in Table 5 above for the purpose of determination of tariffs for aeronautical services at CCSIA.

Truing Up: 3. Correction / Truing up for Decision No. 5

3.a. The Authority decides to true up the average RAB of the current control period while determining aeronautical tariff for the next control period based on the timing and exact value of asset capitalisation in the current control period.

9. Traffic Forecast

9.1. The Authority noted that AAI have in their submissions pertaining to traffic forecast for CCSIA, stated that the same was prepared after taking into account economic & regression analysis, pertinent economic factors and policy framework etc.

9.2. The Traffic Growth rate assumed by AAI was as follows:

Projected Growth Rate as per AAI submission

Particulars	Growth rates adopted (%) from 2013-14 onwards		
	International	Domestic	Combined
Air Traffic Movement (ATM)	12.00%	10.00%	10.30%
Passenger	15.00%	12.00%	12.60%
Cargo	20.00%	15.00%	16.70%

9.3. The Authority has brought out in the Consultation Paper No. 01/2014-15 that according to its general method of forecasting of traffic, it takes the mean of Compounded Annual Growth Rate (CAGR) of the past 10 years and the forecast as provided by the Airport Operator. Based on this calculated mean, the Authority considers the growth for the next five years, which is factored in the tariff determination.

9.4. As presented in its Consultation Paper No. 01/2014-15, the Authority is of the view that by referencing the traffic forecast for CCSIA to last 10-years CAGR, it has followed an approach to arrive at a reasonably realistic traffic forecast.

9.5. For this purpose, the Authority in the Consultation Paper has considered the 10 years CAGR for the period 2002-03 to 2012-13. The Authority further proposed to forecast the traffic according to its general methodology as mentioned in Para 9.3 above.

9.6. In view of the above, the Authority decides to consider the traffic forecasts as per the methodology proposed in the Consultation Paper No. 01/2014-15.

9.7. The Authority observes that the data for 2013-14 for the traffic is now available on AAI's website (www.aai.aero). Therefore, the Authority compared the traffic forecasts of AAI with the 10-years (2003-04 to 2013-14) CAGR in respect of CCSIA as below:

Table 6: CAGR 2003-04 to 2013-14 (10 years) for CCSIA (in %)

CAGR 2003-04 TO 2013-14	International	Domestic	Combined
ATM	18.65%	8.24%	9.26%
Passenger	23.47%	19.12%	19.82%
Cargo	27.24%	4.41%	7.24%

9.8. The Authority observed that the combined (domestic and international) growth rate of ATM and Cargo forecasted by AAI in the tariff proposal is very high as compared to the combined CAGR for ATM and Cargo at CCSIA over the period 2003-04 to 2013-14. But the combined passenger growth forecast factored in by AAI is lower than the CAGR for CCSIA over the period of 10 years. The Authority noted in the Consultation Paper no. 01/2014-15 dated 21.04.2014 that CCSIA had witnessed a negative ATM and Cargo growth at the rate of (-) 0.84% and (-) 23.91% respectively in the year 2012-13. However, positive growth has been noticed in the year 2013-14 as compared to 2012-13 in respect of ATM, Cargo and Passengers throughput.

9.9. The Authority notes that according to its methodology, the forecast for the passenger growth during the current control period would be around 16.21% (refer Table 7). The Authority further notes that CCSIA has in fact witnessed a passenger growth at the rate of 0.19% in 2012-13 in comparison to 2011-12 and 14.33% in 2013-14 in comparison to 2012-13. Having regards to these circumstances, the Authority feels that the growth rate of 16.21% would not be inappropriate for estimation. Hence, the Authority decides to consider the growth rate of 16.21% (Domestic 15.56%, International 19.23%) as per the methodology of forecasting adopted by the Authority.

9.10. The Authority further notes that in case of ATM, the forecast of AAI is not very high as compared to the growth rate arrived by adopting the Authority methodology which is 9.78%. Therefore, the Authority decides to adopt growth forecast of 9.78% for ATM (9.12% for domestic ATM and 15.32% for International ATM).

9.11. As far as Cargo is concerned the Authority notes that the forecast submitted by AAI (16.70%) is more aggressive than 11.97% that would have been arrived at by the Authority's methodology. The Authority therefore decides to adopt growth forecast of 11.97% for cargo (9.70% for domestic and 23.62% for International).

Table 7: Traffic Growth Rate- calculated as the Average of growth projected in MYTP and 10 years CAGR

Particulars	ATM			PAX			Cargo		
	AAI Forecast	CAGR 10Yrs	Avg. of AAI and CAGR	AAI Forecast	CAGR 10Yrs	Avg. of AAI and CAGR	AAI Forecast	CAGR 10Yrs	Avg. of AAI and CAGR
International	12.00%	18.65%	15.32%	15.00%	23.47%	19.23%	20.00%	27.24%	23.62%
Domestic	10.00%	8.24%	9.12% .	12.00%	19.12%	15.56%	15.00%	4.41%	9.70%
Combined	10.30%	9.26%	9.78%	12.60%	19.82%	16.21%	16.70%	7.24%	11.97%

9.12. The Authority had also acknowledged that based on the past data, there is volatility in growth rates of traffic and therefore the Authority in the Consultation Paper No. 01/2014-15 had also proposed to true up the traffic projection on the basis of actual throughput for the current control period, while determining the tariffs for the next control period.

Decision No. 6. RegardingTraffic Forecast

6.a. The Authority decides to consider the growth rates (Average of AAI forecast and CAGR) for traffic for the balance period of 2014-15 to 2015-16 in the current control period as given in Table 7, Para 9.9, Para 9.10 and Para 9.11 above.

Truing Up: 4. Correction / Truing up for Decision No. 6

4.a. The Authority decides to true up the traffic volume (Passengers, ATM and Cargo) based on actual throughput during the current control period while determining aeronautical tariffs for the next control period commencing w.e.f. 01.04.2016.

10. Cargo, Ground Handling and Supply of Fuel to Aircraft Services (CGF)

10.1. As already mentioned in Para 2.2 above, the Authority vide its Airport Order and Airport Guidelines had laid down the regulatory approach and process for tariff determination for aeronautical services provided by the operators of major Airports.

10.2. Further, the Authority vide its Order No. 12/2010-11 dated 10.01.2011 (CGF Order) and Direction No. 04/2010-11 (CGF Guidelines) issued on 10.01.2011, had laid down the regulatory approach and process for tariff determination for (i) ground handling services relating to aircraft, passengers and cargo at an airport; (ii) the cargo facility at an airport; and (iii) supplying fuel to the aircraft at an airport.

10.3. AAI in its MYTP submission have stated about cargo, Ground Handling and Fuel Supply at CCSIA as under:

10.4. **Cargo Services at CCSIA:**

10.4.1. As per AAI, the Cargo Services at CCSIA are provided by AAI itself. AAI has submitted that they have been charging for these Cargo Services at the rates applicable at other AAI major airports. AAI has considered the revenue from Cargo Services as aeronautical revenue which has been accordingly factored in the calculation of Aeronautical Tariff.

10.4.2. AAI in their MYTP submissions, have proposed that cargo services is not material and therefore, the tariff fixation of cargo can be considered on Light Touch Approach as per the Authority's CGF Order and Guidelines. AAI has proposed that the tariff for Cargo Services at CCSIA may be determined w.e.f. 01.04.2011 as per the rates being charged by AAI. AAI has further proposed that for the remaining two years of the current control period the same rates be continued, without escalation.

10.5. **Ground Handling Services at CCSIA:**

10.5.1. As per AAI, the Ground Handling services at CCSIA are provided by M/s Indo Thai Airport Management Services Private Limited and AAI has considered the revenue share received from such activities as aeronautical revenue.

10.6. **Supply of Fuel to Aircraft:**

10.6.1. Fuel Throughput Charges at CCSIA is determined by a commercial agreement between AAI and Oil companies providing services at AAI's Airports.

10.6.2. In the case of CCSIA, the fuel is supplied to the aircraft directly by the Oil Marketing Companies through Oil Tankers. AAI charges FTC from these Oil Marketing Companies, under an agreement, towards the entry/ supply of fuel into the airport.

10.6.3. AAI in their MYTP submission have proposed continuation of existing Fuel Throughput charges of Rs. 361.83 per KL for the current control period. AAI has considered the throughput fee received from oil marketing companies as aeronautical revenue for the purpose of current tariff determination, which is in line with the Authority's approach.

10.7. The Authority had, in response to Consultation Paper No. 14/ 2013-14 dated 26th June 2013 in respect of tariff determination of Kempegowda International Airport, Bengaluru, received the comments of MoCA vide letter No. AV 20036/19/2013-AD dated 24.09.2013 wherein MoCA had, inter alia stated that:

> *"….Furthermore, in view of the various provision of AERA Act, 2008 with respect to the Aeronautical Services, the Fuel Throughput Charge that is levied by Airport Operator may be considered as Aeronautical revenue in the hands of the Airport Operator. The revenues from cargo, ground handling services and fuel supply which are defined as Aeronautical Services in the AERA Act, 2008 may be reckoned as Aeronautical Revenues and considered accordingly irrespective of the providers of such Aeronautical Services."*

10.8. Considering the provision of the AERA Act as well as the comments received from MoCA, the Authority had decided to treat the revenue receipts of AAI from cargo service irrespective of the cargo service provider at CCSIA as aeronautical revenue. In the CP 01/2014-15, the Authority had also proposed to determine the charges for Cargo Services and Fuel throughput at CCSIA as proposed by AAI, w.e.f 01.04.2011.

Stakeholders' Comments

10.9. FIA has, in response to the consultation paper no. 01/2014-15, submitted that;

> *"…the Authority being an independent regulator ought to act within the four corners of law and not on the basis of suggestions of Ministry of Civil Aviation. It is noteworthy that in a matter pending adjudication before the Hon'ble Airport Economic Regulatory Authority Appellate Tribunal ("AERAAT"), Ministry of Civil Aviation had submitted by way of its counter affidavit that the Authority is an independent regulator and suggestions of the Govt. of India / Ministry of Civil Aviation are not legally binding on it. Further, it has submitted that Ministry of Civil Aviation has non 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 Ministry of Civil Aviation's Counter Affedavit in the said matter. Ministry of Civil Aviation '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 the Authority's exercise of determination of aeronautical tariff as is admitted by Ministry of Civil Aviation itself before the Hon'ble AERAAT."*

10.10. Indian Oil Corporation Limited has submitted that:

> *"…vide DO letter no. AERA/20010/2(i)/2011-12 dt. 30.07.2011, we are informed that Lucknow Airport comes under the purview of AERA and advise AAI to file necessary Multi-Year Tariff Proposal for Lucknow Airport in terms of Authority' s Guidelines on tariff determination for airport operators.*
>
> *Since then, Indian Oil has been paying the throughput charges of Rs. 112.10 per KL for the year 2010-11 onwards, even though, AAI has demanded payment of throughput charges of Rs. 344.60 per KL for the year 2010-11, Rs. 361.83 per KL for the year 2011-12, Rs. 379.92 per KL for the year 2012-13 and Rs. 398.91 per KL for the year 2013-14.*
>
> *There is no agreement signed between Indian Oil and AAI to make a demanded payment of AAI towards throughput charges.*
>
> *…The proposed increase in throughput charges, from Rs. 112.10 per KL to Rs. 361.83 per KL is very high, therefore it may be reduced, since, it is a pass through item to airlines."*

10.11. Hindustan Petroleum Corporation Limited, in response to the Consultation Paper No. 01/2014-15, vide its communication dated 13.05.2014, has commented as below:

> *".....HPCL is of the opinion that the Fuel Throughput Charges as proposed by AAI are on higher side as compared to many other airports in India like Varanasi, Ahmedabad, Goa, Guwahati, Pune, Trivandrum, Indore, Trichy and Mangalore etc. Hence Fuel Throughput Charge at Lucknow may also be reviewed and brought at par with the other airports which fall in the same category of Lucknow."*

10.12. IOCL and HPCL have requested the Authority to approve the proposal for FTC on prospective basis.

AAI's response to Stakeholders' Comments

10.13. AAI has responded that the Revenue from Cargo, Ground handling and Fuel Supply has already been considered as Aeronautical Revenue and MYTP has been finalised accordingly as per AERA guidelines.

10.14. AAI has responded to IOCL's comment regarding difference in fuel throughput rates that:

> *"The Rate of Throughput charges at Lucknow airport was decided on the basis of market competition (tendered rate) prior to Lucknow airport became major airport in terms of AERA Act, 2008. Hence, all Oil companies at Lucknow airport, including IOC are required to settle Throughput charges on the basis of tendered rate. However, AAI has proposed TPC at Rs. 361.83/KL for the entire control period."*
>
> *The rate of TPC i.e. Rs. 112.10/KL for FY 2010-10 claimed by IOCL is not applicable at Lucknow airport. In respect of Lucknow airport, TPC determined on the basis of tendered rate is applicable.*

10.15. AAI, in response to the observations made by IOCL and HPCL, has submitted that:

> *"The TPC @ Rs. 361.83 for Fy 2011-12 onwards for Lucknow airport has been determined on the basis of competitive tenders. If the rate of TPC is reduced, then the revenue loss thereon, would have to be recovered by way of increase in tariff of other revenue streams.*
>
> *.....The ATP proposed by AAI for remaining period of control period is on prospective basis."*

Authority's Examination

10.16. The Authority, in its CGF order and CGF guidelines, had considered Cargo, Ground Handling and Fuel Supply to the aircraft as Aeronautical Services as per the provisions of the Section 2(a) of the AERA Act. Further, Ministry of Civil Aviation (MoCA) vide its letter no. AV.20036/19/2013-AD dated 24.09.2013 has also proposed to consider the revenue from Cargo, Ground Handling and Supplying Fuel Services as aeronautical revenue irrespective of the providers of such Aeronautical Services.

10.17. The Authority in the Consultation Paper No. 01/2014-15 mentioned that Cargo, Ground Handling and Fuel Throughput are aeronautical services in terms of the AERA Act, 2008. MoCA's views for considering revenue from Cargo, Ground Handling and Fuel Throughput Services as aeronautical revenue irrespective of the service provider of such services are in line with the AERA Act, 2008 and the Airport Guidelines.

10.18. During the stakeholders' consultation, FIA has also commented that the revenue from cargo, ground handling and fuel supply must be treated as aeronautical revenue as these services are defined in section 2(a) of the AERA Act as Aeronautical Services.

10.19. The Authority decides to continue considering cargo, ground handling and fuel supply as Aeronautical Services during the aeronautical tariff determination in respect of CCSIA, Lucknow for the current control period. The Authority further decides to consider the revenue from these Services as Aeronautical Revenue, irrespective of providers of such Aeronautical Services.

10.20. The Authority notes that the tariff for Cargo Services being provided by AAI itself has been submitted by AAI for determination by the Authority as part of AAI's MYTP submission. As for the Ground Handling Services are concerned, its tariff was separately determined by the Authority on the proposal submitted by the Independent Service Provider, namely Indo Thai Airport Management Services Pvt. Ltd., vide Authority's Order No. 20/2012-13 dated 26.10.2012.

10.21. The Authority has carefully examined the comments made by the stakeholders in respect of the Authority's position on revenue from Fuel Throughput Charge, presented in the Consultation Paper No. 01/2014-15. The Authority in the Consultation Paper had proposed to accept the Fuel Throughput Charges of Rs. 361.83 w.e.f 01.04.2011, which had been market discovered by AAI through tender process, which was completed before 01.04.2011, and AAI had been charging the Oil Marketing Companies at this rate since 01.04.2011. As far as the suggestion of the oil companies for reviewing these charges and considering the proposal on prospective basis is concerned, the Authority feels that the rates so determined by AAI through market discovery mechanism is already effective from 01.04.2011 and AAI has been billing the Oil Marketing companies at this rate ever since 01.04.2011, i.e. the beginning of the current control period. Hence the contention of the oil marketing companies for considering throughput charges from prospective date is irrelevant.

10.22. The Authority notes that the fuel throughput charges at CCSIA, and many other airports operated by AAI are determined on the basis of competitive tender process and are subject to the commercial agreement between the airport operator and oil companies. Having considered all these factors, the Authority decides to determine Fuel throughput Charges as proposed by AAI during the current Control Period w.e.f. 01.04.2011

Decision No. 7. Regarding Revenue from Cargo, Ground Handling Services and Supply of fuel to aircraft

7.a. The Authority decides to consider the revenues accruing to AAI on account of the aeronautical services of Cargo Services, Ground Handling Services and Supply of fuel to aircraft, as aeronautical revenue irrespective of the providers of such Aeronautical Services.

7.b. The Authority decides to determine the charges of Cargo Services w.e.f. 01.04.2011 as per the MYTP submission of AAI for the current control period. The ATP for the remaining period of the current control period w.e.f. 01.10.2014 is attached as Annexure I.

7.c. The Authority decides to determine the fuel throughput charges for CCSIA at Rs. 361.83 per KL with effect from 01.04.2011 without any escaltion during the control period.

11.Revenue from services other than aeronautical services:

11.1. In the Consultation Paper No 01/2014-15, AAI had submitted the forecasts of various components of non-aeronautical revenue and the basis of assumptions which are as under:

Table 8: Assumptions taken by AAI for each item of Non Aeronautical Revenue at CCSIA

S. No.	Item	Assumptions	
1	Restaurants and Snack bars	5% increase in the year 2013-14 and 10% increase for the years 2014-15 onwards have been considered.	The increase from 2013-14 onwards is based on the normal annual escalation.
2	TR Stalls	10% growth rate has been considered from the year 2013-14 onwards	The increase is based on the normal annual escalation.
3	Hoarding and Display	Growth rate of 10% has been considered for hoarding and display from the year 2014-15 onwards.	The increase is based on the normal annual escalation.
4	Other Income (Trading Concessions)	Growth rate of 11% has been considered for miscellaneous income from the year 2014-15 onwards.	The increase is based on the normal annual escalation.
5	Rent & Services (Land Rent & Space Rent)	7.5% increase from the year 2014-15 onwards in rent from land lease and building (non-residential). No increase has been considered for Building (Residential)	The increase is based on the normal trend.
6	Royalty from Cute Counter charges	5% increase has been considered from the year 2013-14 onwards	It is based on the normal trend.
7	Miscellaneous Income (including duty free shops, car parking, admission ticket etc)	10% increase from the year 2014-15 onwards has been considered in duty free shops, car rentals, car parking etc, 9.5% increase for airport admission ticket from the year 2014-15 onwards.	Growth rate of Misc. Income is expected to increase nominally or normal escalation.

11.2. The Authority noted that the projections made by AAI, incorporates the revenues that AAI receives or is expected to receive from the third party concessionaires for providing services of CUTE (Common User Terminal Equipment). AAI in their submission have considered the revenue from CUTE counter as non-aeronautical revenue.

11.3. The Non-aeronautical revenue as considered by AAI was Rs. 88.54 crore for the entire control period (Table 12 of Consultation Paper No. 01/2014-15), which is reproduced below:

Table 9 Revenue from Non-Aeronautical Source actual/projected by AAI (Rs. in crores)

	Details	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
A	Restaurants and Snack Bars	0.36	0.40	1.47	1.54	1.70	1.87
B	TR Stalls	0.45	0.55	0.58	0.64	0.71	0.78
C	Hoarding and Display	3.64	5.24	4.01	4.78	5.26	5.76
D	Other Income (Trading Concessions)	0.00	0.00	0.23	0.32	0.36	0.40
E	Rent & Services (land lease, building)	3.95	5.15	5.71	4.73	5.09	5.47
F	Royalty from Cute Counter Charges	0.00	0.36	0.97	1.02	1.07	1.12
G	Miscellaneous income	3.95	4.52	3.76	4.12	4.32	4.53
	Total	12.35	**16.22**	**16.73**	**17.15**	**18.51**	**19.93**
	Total Non-Aeronautical Revenue during the current control period						**88.54**

11.4. The term CUTE is not as such defined in the AERA Act. However, as per Section 2(a)(iv) of the Act, "Aeronautical Services" means any service provided for ground handling services relating to aircraft, passengers and cargo at airport. The Authority considered CUTE as an integral part of service related to ground handling for check-in of passengers. Hence, the Authority in the Consultation Paper No. 01/2014-15 considered CUTE service as part of ground handling service for passenger and treated it as aeronautical service.

11.5. Considering the revenue from CUTE as aeronautical, the revenue from non-aeronautical sources has been reassessed by the Authority which works out to Rs. 84.00 crore, the details of which is given in the Table 10 below.

Table 10: Revenue from Non-Aeronautical Sources as re-assessed by the Authority (Rs. In crore)

	Details	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
A	Restaurants and Snack Bars	0.36	0.40	1.47	1.54	1.70	1.87
B	TR Stalls	0.45	0.55	0.58	0.64	0.71	0.78

	Details	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
C	Hoarding and Display	3.64	5.24	4.01	4.78	5.26	5.76
D	Other Income (Trading Concessions)	0.00	0.00	0.23	0.32	0.36	0.40
E	Rent & Services (land lease, building)	3.95	5.15	5.71	4.73	5.09	5.47
F	Miscellaneous income	3.95	4.52	3.76	4.12	4.32	4.53
	Total	12.35	15.86	15.76	16.13	17.44	18.81
	Total Non-Aeronautical Revenue during the current control period						**84.00**

11.6. The Authority further proposed to true up the revenues from Non-Aeronautical services at CCSIA based on actual revenues for the current control period while determining the aeronautical tariffs for the next control period.

Stakeholders' Comments

11.7. FIA in response to the Consultation Paper No. 01/2014-15 submitted that:

> *"45. In CP No.1/2014-15, the Authority has proposed that for the first control period it may consider the forecast of Non-aeronautical Revenue provided by AAI for determination of tariffs and true up the actual receipts from Non-aeronautical revenue while determining tariffs for the next control period. Review of the present Consultation Paper indicates that for the purpose of determining forecasted Non-aeronautical revenue, Authority, has not dealt with the commercial and financial details and placed its absolute reliance on assumptions provided by AAI.*
>
> *46. It is pertinent to note that Non-aeronautical revenue is also one of the major components for determining Annual Revenue Requirement, which off-sets the same by 18% reduction in the context of CCSI Airport for the current control period.*
>
> *47. It is noteworthy that as per Clause 5.6.1 of the AERA Guidelines, the Authority's review of forecast of revenues from services other than aeronautical services may include scrutiny of bottom-up projections of such revenues prepared by the Airport Operator, benchmarking of revenue levels, commissioning experts to consider where opportunities for such revenues are under-exploited, together with the review of other forecasts for Operation and Maintenance Expenditure, traffic and capital investment plans that have implications for such activities, etc.*
>
> *48. However, review of the present Consultation Paper indicates that for the purpose of determining Non-aeronautical Revenue, Authority, rather*

than evaluating the same in detail as per AERA Guidelines, has relied on projections and basis provided by AAI. Considering there has been terminal expansion during review period, it is submitted that Authority should reasonably estimate or appoint a Consultant to determine revenue from new premises as it may not be appropriate to burden the airlines and passengers with higher tariff in this control period and provide relief for the same in subsequent period."

11.8. Air India in response to the Consultation Paper No. 01/2014-15 suggested that AAI may explore the possibility of generating non-aeronautical revenue to partially take care of the increased costs at Lucknow so that lesser burden of increased costs is passed on to the airlines and the passengers, which will make Lucknow airport cost effective for the airlines, enabling them to increase the frequency of operations to and from Lucknow, thereby attracting more passengers.

AAI's response to Stakeholders' Comments

11.9. AAI in response to FIA's comment on forecast of non-aeronautical revenue stated that:

"*the forecasted Non-Aeronautical Revenue is based on the past trend, addition to commercial area, traffic growth and future potential etc. Further AAI submitted that the method adopted for projecting Non-Aero revenue is appropriate*".

11.10. AAI in response to the Air India's comments has submitted that steps are being taken to increase the non-traffic revenue at the airports.

Authority's Examination

11.11. The Authority has carefully noted the comments made by the Stakeholders and the response of AAI thereon.

11.12. The Authority has noted that non-aeronautical revenues are an important part of the airport operations and these revenues are generated predominantly by the passengers. Hence, the issue, of proper estimation of non-aeronautical revenue, has been engaging the attention of the Authority.

11.13. The Authority has also noted that in the current as well as the next control period, it is not possible to project the non-aeronautical revenues with substantial degree of precision due to various factors like volatility in the passenger traffic, large size of newly commissioned terminal buildings that have not been populated by non-aeronautical services and the airport operator is still in the process of awarding commercial contracts, etc. Airports like Mumbai, Bangalore, Chennai, Kolkata, Guwahati, Goa, etc. have recently completed large new terminal buildings which are yet to be fully populated by the non-aeronautical concessionaires. The trend of how and when they would be completely populated is therefore, at the moment, unclear.

11.14. The Authority has addressed the issue of enhancement of non-aeronautical revenues in its Consultation Paper No 05/2014-15 dated 12.06.2014 in the matter of Normative Approach to Building Blocks in Economic Regulation of Major Airports. The Authority has put forward an incentivisation scheme, for stakeholders' consultation, proposing to incentivize the airport operator only for his "efforts" to increase the non-aeronautical revenues at the airport.

11.15. As regards comments of FIA on scrutiny of bottom up projections of such non-aeronautical revenues projected by the airport operator, benchmarking of revenue levels, commissioning experts to consider where opportunities for such revenues are under-exploited, etc. are concerned, the Authority has already given its careful considerations to various assumptions and projections made by AAI and had proposed in its Consultation Paper No. 01/2014-15 to consider the projections made by AAI for the Tariff calculation for the current control period.

11.16. In view of the above, the Authority on balance decides not to change its position from that expressed in the Consultation Paper No. 01/2014-15 and hence would consider AAI's projections of Non Aeronautical Revenues for the remaining period of the Control Period while determining the aeronautical tariffs. The Authority, further decides to true up the Non-Aeronautical Revenue considered by the Authority in the present aeronautical tariff determination exercise, based on the actual non-aeronautical revenue earned by AAI during the current control period, while determining aeronautical tariffs for the next control period.

Decision No. 8. Regarding Non-Aeronautical Revenues

8.a. The Authority decides to consider the CUTE as Aeronautical Services, the same being an intergral part of ground handling services. The Authority further decides to consider the revenue accuring to the airport operator on account of CUTE as Aeronautical Revenue.

8.b. The Authority also decides to consider the Non-Aeronautical Revenue, as given in Table 10, for determination of Aeronautical Tariffs for the current control period.

Truing Up: 5. Correction / Truing up for Decision No. 8

5.a. The Authority decides to true up the Non-Aeronautical Revenue considered by the Authority in the present aeronautical tariff determination exercise, based on the actual non aeronautical revenue earned by AAI during the current control period, while determining aeronautical tariffs for the next control period.

12. Operation and Maintenance Expenditure

12.1. In the Consultation Paper No 01/2014-15, the Authority had considered the projection for operation and maintenance expenditure for the first control period as submitted by AAI as under:

Table 11: Summary of O&M expenditure actual/projected by AAI (Rs. in crore)

S. No.	Particulars	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
1	Payroll expenditure of CCSIA	16.61	18.41	20.72	22.59	24.63	26.84
2	Apportioned CHQ/RHQ- staff provision (pension, gratuity, etc.)	3.49	3.85	4.05	4.25	4.46	4.68
3	Total Pay roll Expenditure (1+2)	20.10	22.26	24.77	26.84	29.09	31.52
4	Administration & General Expenditure directly related to CCSIA	0.77	0.65	1.75	1.79	1.82	1.87
5	Apportioned Administration & General expenditure of CHQ/RHQ	20.10	23.44	24.61	25.84	27.14	28.49
6	Total Administration and General Expenditure (4+5)	21.87	24.09	26.36	27.63	28.96	30.36
7	Repair and Maintenance Expenditure	3.07	5.31	6.85	7.54	8.29	9.13
8	Utility and Outsourcing Expenditure	2.56	3.04	5.71	6.50	7.04	7.62
9	Other Miscellaneous Expenditure (PSF collection charges and Landing discount)	0.84	0.85	0.54	0.13	0.14	0.16
	Total (3+6+7+8+9)	48.44	**55.55**	**64.23**	**68.64**	**73.52**	**78.79**

12.2. The Authority had also noted the assumptions made by AAI for each item of Operation and Maintenance Expenditure which are as under:

Table 12: Assumptions made by AAI for each item of Operation and Maintenance Expenditure

S no.	Item	Assumption
1	Pay roll Expenditure	Combined effect of annual increments, promotions, increase in DA, HRA, PF Contribution, medical expenses and staff welfare expenses comes around 9% approx. Hence the payroll expenses have been assumed to increase at the rate of 9% from 2013-14 onwards. This does not cater for any increase due to increase in the staff strength.
2	Administration and General Expenditure	Normal increase of 5% from the year 2013-14 onwards has been considered in case of rent, rates and taxes, Insurance, telephone charges, printing and stationary and apportioned administration expenses of CHQ/RHQ.
		10% growth rate has been considered in case of advertising and

S no.	Item	Assumption
		publicity, office expenses, legal expenses, travelling expenses and other expenses from the year 2013-14 onwards.
		No increase in case of municipal taxes and airport licence fee has been considered.
3	Repair and Maintenance Expenditure	An increase of 10% p.a. has been considered in case of civil works, electrical works, vehicles and equipment and furniture. An increase of 12% has been considered in case of electronics from 2013-14 onwards.
4	Utility and outsourcing Expenditure	8% increase in electricity units consumed and 10% increase in consumption of stores and spares, fees paid to outsiders and hire charges have been considered from the year 2013-14 onwards.
5	Other Miscellaneous Expenditure	Other Expenses mainly include PSF collection charges and discount on landing charges. No provision in landing discount has been considered for the year 2013-14 onwards. However 10% growth has been considered for PSF collection charges.

12.3. The Authority had proposed to generally accept the operating and maintenance expenditure as submitted by AAI. However, considering high proportion of Central Headquarter/ Regional Headquarter (CHQ/ RHQ) expenses allocated to CCSIA, Lucknow, the Authority expected AAI to clearly indicate its procedure and principles for apportionment of administrative and general expenses of CHQ/ RHQ across different airports.

12.4. AAI has submitted the policy in vogue for allocation of HQ/RHQ expenses to airports which is approved by the competent authority of AAI, which has been uploaded at the Authority's Website www.aera.gov.in vide Public Notice No. 06/2014-15 dated 01.08.2014.

12.5. AAI further submitted that:

> *"All the common expenditures are first allocated to regions proportionate to the revenue earned by each region to the total revenue of AAI.*
>
> *The expenditure of Regional office along with apportioned common expenses is subsequently apportioned to airports within the region proportionate to the revenue earned by airports to the total revenue of the region."*

12.6. Later AAI have submitted revised/ modified amount of the apportioned cost to CCSIA vide their letter No. AAI/CHQ/REV/AERA/MYTP/LUCKNOW dated 10.07.2014. AAI has mentioned that reasons for the revised submission are on account of modification in apportionment of RHQ expenses between ANS Services and Airport Services for CCSIA.

12.7. The Authority notes that AAI has apportioned the common expenditure (CHQ/RHQ expenditure) to each airport based on the revenues of that airport. In their submissions dated 10.07.2014 and 13.08.2014, AAI has modified the total amount of salary/ wages and overhead expenses apportioned to CCSIA in the year 2011-12 from Rs. 27.29 crore to Rs. 22.15 crore. Accordingly, the total amount of apportionment in respect of overhead expenses to CCSIA for the entire control period has been brought down from Rs. 129.53 crore to Rs. 110.28 crore. The Authority has considered the revised cost of apportioned expenses while determining the tariff at CCSIA for the current control period.

12.8. The Authority had brought out in the Consultation Paper No.01/2014-15 that:

> *"......the CAG is the auditor of all the accounts of AAI – including the expenditures incurred. The audit of the accounts by CAG is comprehensive and the Audit report thereof is placed before the Parliament of India. The Audit Report of the CAG is not only on the mathematical accuracy of accounts or their incurrence in accordance with the set procedure, but also on the propriety of such expenditure......"*

12.9. With respect to future projections of O&M Costs, the Authority had proposed to:

12.9.1. Accept AAI's projection of staff cost in order to determine tariffs and noted that certain elements of Staff Cost have been adjusted for inflation,

12.9.2. Consider AAI's submission for Administrative and General Expenditure at CCSIA for the purpose of tariff determination,

12.9.3. Consider the Repairs & Maintenance costs as projected by AAI for the tariff determination exercise for CCSIA,

12.9.4. Consider AAI's submission for Utility & Outsourcing Expenditure at CCSIA, which included uniform unit rate for power charges.

12.9.5. Not to consider AAI's submission of Landing Discount as a component of other outflows.

12.10. The Authority had proposed to consider operational and maintenance expenditure of Rs. 339.56 crore for the entire control period in the Consultation Paper No. 01/2014-15 which is now revised to Rs. 312.90 crore in view of revised apportioned CHQ/RHQ expenses for the first control period as submitted by AAI.

12.11. The Authority considered this revised operational and maintenance expenditure as provided in the Table 13 below for the purpose of determination of aeronautical tariffs.

Table 13: Summary of O&M expenditure assessed by Authority (Rs.crore)

Particulars	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**
Pay roll Expenditure	20.10	20.60	23.20	25.43	27..70	30.14
Administration and General Expenditure	18.74	20.60	22.70	23.79	24.93	26.13
Repair and Maintenance Expenditure	3.07	5.31	6.85	7.54	8.29	9.13
Utility and Outsourcing Expenditure	2.56	3.04	5.71	6.50	7.04	7.62
Other Miscellaneous Expenditure (Excluding landing discount)	0.10	0.10	0.12	0.13	0.14	0.16
Total	**44.57**	**49.65**	**58.58**	**63.39**	**68.10**	**73.18**

12.12. The Authority had also proposed that the following factors be considered for the purposes of corrections (adjustments) to tariffs for the current control period while determining tariff in the next control period:

12.12.1. True up the apportionment of administrative and general expenses of CHQ/RHQ for CCSIA;

12.12.2. Mandated cost incurred due to directions issued by regulatory agencies like DGCA, CERC, etc.;

12.12.3. Cost of actual O&M expenses;

12.12.4. All statutory levies in the nature of fees, levies, taxes and other such charges by Central or State Government or local bodies, local taxes, levies directly imposed on and paid by AAI on final product/service provided by AAI will be reviewed by the Authority for the purpose of corrections (adjustments) to tariffs on a tariff year basis. Furthermore, any additional expenditure by way of interest payments, penalties, fines and such penal levies associated with such statutory levies which AAI has to pay, for either any delay or non-compliance, the same may not be trued up.

Stakeholders' Comments

12.13. FIA has submitted that:

> *"In order to assess efficient Operating Expenditure, the Authority should conduct independent study and evaluate the claimed expenses in detail rather than broadly relying on projections and basis provided by AAI.*
>
> *Further, the Authority, has accepted to true up the Operating Expenditure based on the actual costs. It is submitted that instead of leaving operating expenditure for truing up, price cap should be mandated by the Authority otherwise the airport operator would not make palpable efforts to contain the costs. It is submitted that the Authority should establish some optimal operating benchmarks be laid down for the airports to keep operation efficient e.g. Operating expenditure per passenger or per landing. The same can be based on some model efficient airports. In absence of such a benchmark, there is no check and balance mechanism to ensure that users of the airport are not bearing extra cost on account of non-efficient operations.*
>
> *It is submitted that operating expenditure is one of the major component for determining Annual Revenue Requirement (73% in the present case). Hence, the Authority should evaluate these expenses in detail rather than only relying on projections provided by AAI."*

AAI's response to Stakeholders' Comments

12.14. AAI, in response to the comments from FIA, has stated that:

> *"AAI has a well-established system of formulating Capital & Revenue Budgets. Operating Expenditure has been forecasted based on current & future capex, Revenue & Operational Budget of AAI approved by competent authority etc.*
>
> *…….the operating expenditure is subject to truing up process which will take care of variations in actual expenses vs projected expenses."*

Authority's Examination

12.15. The Authority has carefully considered the comments of the stakeholders. The Authority is of the view that for the purpose of a meaningful calculation of ARR, all the building blocks should be considered on some basis (either estimation or actual). Since the projected yield per passenger takes into account the impact of inflation, the building blocks for the determination of ARR including the operation and maintenance expenses would need to be considered on a nominal basis (i.e. inflation adjusted) as well.

12.16. The Authority has noted that AAI had provided various details and assumptions for projecting operation and maintenance expenditure. The Authority is thus of the view that the use of nominal operating expenses for the purpose of determination of aeronautical tariff is in consonance with the Airport Guidelines.

12.17. Moreover, the Authority has in its experience in determining the aeronautical charges for various airports observed that the O&M costs per passenger or the per Sqm of each airport could differ on account of the operation & maintenance policy in providing aeronautical services i.e., either given by the Airport Operator himself or the concessionaire, level of capacity utilization etc. O&M may or may not linearly depend on passengers, as there may be some element of fixed cost that may be invariant with respect to passenger throughput across a range of number of passengers. Besides, new terminal buildings of large dimensions are built in most of the major airports and the capacity utilisation of each of these terminal buildings may be at different levels. Hence, benchmarking of O&M expenditure for airports in the first control period may not be feasible due to the above constraints. Authority may review it later once the benchmarking of O & M expenditure is evolved.

12.18. The Authority therefore decides to consider the operational and maintenance expenditure as given in Table 13 above, for the purpose of determination of aeronautical tariffs for the first Control Period.

12.19. The Authority, in its Consultation Paper No. 01/2014-15, noted that AAI may have to pay higher input cost on account of change in the per unit rate of cost as well as consumption of electricity and mandated cost incurred due to directions issued by Regulatory Agencies like DGCA etc. The cost on account of mandatory requirements may be trued up in the next control period. The projections of other operational expenses may also undergo a change considering the new additional assets namely terminal building etc. The Authority decides to true up the operating expenses of first control period while determining the aeronautical tariff of the next control period. However, any additional payment by way of interest payment, penalty, fine and such other penal levies for any delay or non-compliance, the same may not be trued up. If AAI has to pay higher input cost on account of change in levies or taxes on any procurement of goods and services, the same may not be trued up.

12.20. Authority therefore decides that the for the purposes of corrections (adjustments) to tariffs for the current control period while determining tariff in the next control period, the factors to be reviewed would be as mentioned in para 12.12 above.

12.21. The Authority has also noted that AAI has apportioned the common expenditure (CHQ/RHQ expenditure) to each airport based on the revenues of that airport. The Authority has, presently, accepted the figures arrived by the above approach, in the current determination. The Authority is of the opinion that AAI shall evolve a more scientific approach in apportioning the common expenditure (CHQ/RHQ expenditure) to each airport. The Authority also expects AAI to bring more clarity and objectivity in the apportionment process.

Decision No. 9. Regarding Operation and Maintenance Expenditure

9.a. The Authority decides to consider the operational and maintenance expenditure as given in Table 13 above, for the purpose of determination of aeronautical tariffs for the first Control Period.

Truing Up: 6. Truing up of Operation and Maintenance Expenditure

6.a. The Authority decides that the following factors be reviewed for the purpose of corrections (adjustments) to tariffs for the current Control Period while determining tariffs in the next Control Period, commencing w.e.f. 01.04.2016:

i. ***True up the apportionment of administrative and general expenses of CHQ/RHQ for CCSIA;***

ii. ***Mandated cost incurred due to directions issued by regulatory agencies like DGCA, CERC, etc.;***

iii. ***Cost of actual O&M expenses;***

iv. ***All statutory levies in the nature of fees, levies, taxes and other such charges by Central or State Government or local bodies, local taxes, levies directly imposed on and paid by AAI on final product/service will be reviewed by the Authority for the purpose of corrections (adjustments) to tariffs on a tariff year basis. Furthermore, any additional expenditure by way of interest payments, penalties, fines and such penal levies associated with such statutory levies which AAI has to pay, for either any delay or non-compliance, the same may not be trued up. On the input side, if AAI has to pay higher input cost on account of change in levies / taxes or any procurement of goods and services, the same may not be trued up.***

13.Taxation

13.1. The Authority, in the Consultation Paper No.01/2014-15 dated 21.04.2014, had proposed to consider corporate tax @ 32.445%, as considered by AAI, for the purpose of the determination of tariffs during the current Control Period.

13.2. The Authority had also proposed to true up the difference between the projected corporate tax for CCSIA and the actual corporate tax paid by AAI ascribed to CCSIA, while determining the aeronautical tariffs in the next Control Period.

Stakeholders' Comments

13.3. FIA has raised concerns regarding the Authority's proposal to true up the corporate tax for actual while determining the aeronautical tariffs in the next Control Period commencing w.e.f. 01.04.2016. FIA has submitted that the Authority should not leave everything to true up and attempt to make all the projections and assessments as accurately possible on the basis of the available data. Further, FIA has mentioned that no computation has been provided for the tax amount considered during the control period.

Authority's Examination

13.4. The Authority has noted FIA's comment to make all the projections and assessments as accurately as possible on the basis of available data. While the Authority expects AAI, the Airport Operator, to accurately project the corporate tax to be paid and ascribed to CCSIA, the Authority observes that any future projections at this stage would still be a projection.

13.5. The tax is a component of the building block in the determination of aeronautical tariffs. The amount of corporate taxes to be paid by the airport operator, i.e. AAI for this airport, namely CCSIA, was estimated by the Authority as is available in Table 19 of the Consultation Paper No. 01/2014-15 dated 21.04.2014. However, now due to the revision in the effective date of revised tariff, the Corporate Tax has been reworked based on the calculations made by the Authority of other regulatory building blocks as indicated in Table 15. The re-worked Corporate Tax figures are given as under:

Table 14: Calculation of Corporate Tax

Particulars	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**2015-16**
Aeronautical Revenue	**25.43**	**27.82**	**30.31**	**66.67**	**120.75**
Revenue from Services other than Regulated Services	15.86	15.76	16.13	17.44	18.81
Total Revenue	**41.29**	**43.58**	**46.44**	**84.11**	**139.56**
Operating Expenditure	49.65	58.58	63.39	68.10	73.18
Depreciation	9.67	20.35	20.45	20.63	23.45
Total Expenditure	**59.32**	**78.93**	**83.84**	**88.73**	**96.63**
Excess of Revenue Over Expenditure	**-18.03**	**-35.35**	**-37.4**	**-4.62**	**42.93**
Corporate Tax @32.445%	**0.00**	**0.00**	**0.00**	**0.00**	**13.93**

13.6. The Authority notes that for the year FY 2011-12 and 2012-13, the corporate tax attributed to CCSIA by AAI is zero. For the year FY 2013-14 to FY 2015-16, the Authority decides to consider corporate income tax @ 32.445% to estimate the taxes that are likely to be paid by AAI. The Authority understands that the corporate tax eventually paid by AAI for the current control period could vary due to a number of factors. While the Authority decides to take the projection of AAI on Corporate Tax as indicated in Table 14 for ARR calculation, it also decides to true-up the corporate tax based on actual corporate tax paid by AAI and ascribed to CCSIA for the current control period, at the time of determination of aeronautical tariffs for the next control period.

Decision No. 10. Regarding Taxation

10.a. The Authority decides to consider tax as actually paid by AAI in FY 2011-12 and 2012-13 towards calculations of Aeronautical Tariff determination.

10.b. The Authority decides to consider corporate income tax @ 32.445%, for the remaining period (2013-14 to 2015-16) of the current control period to estimate the taxes that are likely to be paid by AAI.

Truing Up: 7. Correction / Truing up for Decision No. 10

7.a. The Authority decides to true up the difference between the actual corporate tax paid and that used by the Authority for determination of tariff for the current control period, while determining the tariff for the next control period commencing 01.04.2016.

14. Cost of Equity, Cost of Debt, Leverage, and Weighted Average Cost of Capital

14.1. In the Consultation Paper No.01/2014-15, the Authority had proposed a WACC at the rate of 14% for the purpose of tariff determination at CCSIA.

14.2. The Authority had noted that the AAI has not apportioned any debt for CCSIA. CCSIA has no separate capital structure as financing activities are located centrally at AAI. Therefore, the cost of capital to be applied to the airports should be estimated based on capital structure of AAI as a whole.

14.3. The Authority had also suggested that AAI should gradually attempt over time to move from all equity finance structure to a more efficient capital structure of 60:40 as debt/equity ratio. Since the cost of the debt is lower than the cost of the equity, this would result in lowering of WACC thereby benefiting the passengers.

14.4. The Authority had proposed to consider WACC at the rate of 14% for CCSIA for the first control period as considered in the tariff determination process in respect of Chennai, Kolkata and Guwahati Airports.

Stakeholders' Comments

14.5. FIA in response to the Consultation Paper No. 01/2014-15 stated that the Authority has proposed to consider WACC @ 14% which is at par with the WACC considered for tariff determination at Chennai and Kolkata Airports. However, WACC at other airports namely Delhi, Mumbai, Hyderabad and Bangalore is in the range of 10.3% to 11.7%.

14.6. FIA has also submitted that:

> *"It is pertinent to note that higher WACC at CCSI Airport (and other AAI owned airports) is primarily due to low gearing ratio of 9% (approximately) of AAI. Though Authority has recognized that AAI's current means of financing is not efficient and accordingly advised AAI to take steps to move towards efficient means of financing (viz. 60:40) over time, but it may not be appropriate to pass the burden of AAI's inefficient means of financing on the users of the airport. Accordingly, the Authority*

is requested to revisit the WACC computation of CCSI Airport as airport users should not be penalized for the inefficiencies of the utility."

14.7. FIA has also submitted a table showing the impact on annual revenue if WACC is computed at the rate of 10.5% instead of 14.5%, annual revenue requirement will reduce by 21.59 crores i.e. 5% (approximately).

AAI's response to Stakeholders' Comments

14.8. With respect to FIA's comment of considering high WACC for CCSIA, AAI stated that:

"As per the AERA methodology, WACC for CCSI Airport works out at 14.72%, however, AAI has decided to consider WACC for CCSI Airport at 14% as per the rate of WACC allowed by AERA for Chennai and Kolkata airports."

14.9. AAI, in response to FIA comment on low gearing ratio of AAI airports, stated that:

"The WACC for CCSI Airport appears higher than the WACC allowed to Pvt. Airport Operators (Delhi, Mumbai Hyderabad), however when the component of WACC i.e. Cost of Equity & Cost of Debt is compared, it can be seen that Cost. of Equity allowed to Pvt. Airport Operators i.e. 16% is higher than the Cost of Equity proposed for CCSI Airport, Lucknow i.e. 14%. The Cost of equity considered is much lower than the range recommended by SBI Capital Market Ltd.(SBI CAPS) i.e. between 18.5% to 20.5 %. As per AERA methodology, Cost of Debt is determined as weighted average cost of Debt for the control period considering the actual rate/likely rate of Debt proposed to be undertaken. Since, there is no debt for Lucknow airport hence Cost of Equity becomes the WACC at 14%"

"Higher proportion of debit in the capital structure may be appropriate in case of new companies formed for the purpose of undertaking the new projects. This is not the case in case of AAI, which is already in existence and managing the airports and generating the internal resources from airport operations. As such AAI opted to finance the project from internal resources. Further, in case of higher debt also, there would be outflow on account of servicing the debt. Further, reliance on equity financing & absence of Debt for Lucknow airport allows AAI necessary leverage to rollover the part of ARR recovery to next control period. Had there been a debt in capital structure of Lucknow airport, AAI would had gone for full ARR recovery like other private operators.

….Moreover, comparing Lucknow airport with other Pvt Airport only one parameter i.e WACC will not give a true picture. If the total cost of providing services to User is to be compared, then the right yardstick would be comparing Required Yield Per pax of Lucknow airport with other airports".

Authority's Examination

14.10. The Authority has given careful consideration to the comments of the stakeholders and notes that in the calculation of cost of equity is based on the Capital Asset Pricing Model (CAPM) as the Airport Guidelines. The WACC is calculated by taking into consideration the actual cost of debt as per the audited balance sheet figures. The Authority has followed this policy consistently in respect of aeronautical tariff determinations of the Airports at Delhi, Mumbai, Chennai, Kolkata and Guwahati. It does not find any cogent reason to deviate from the same in respect of CCSIA.

14.11. As far as the issue of notional apportionment of some debt to CCSIA, is concerned, the Authority notes that AAI has only recently initiated the process of taking on some debt/ bonds. However, owing to the organizational structure and the legal provisions, determining any timeline for attaining efficient capital structure is, in the considered opinion of the Authority, therefore not feasible at this stage.

14.12. Having regard to these considerations, the Authority believes that its determination both of the cost of equity as well as WACC, as indicated above, is reasonable and is in the best interest both of the airport as well as that of the passengers.

14.13. The Authority has noted that the actual debt equity ratio in respect of different airports vary widely. The Authority has addressed this issue in the Consultation Paper no. 05/2014-15 dated 12.06.2014 in the matter of Normative Approach to Building Blocks in Economic Regulation of Major Airports wherein the Authority proposed to take normative debt equity ratio.

Decision No. 11. Regarding WACC (FRoR)

11.a. The Authority decides to consider the WACC at 14% for CCSIA for the first control period.

15.Quality of Service

15.1. The Authority had proposed in the Consultation Paper No.01/2014-15 to use the rebate mechanism as indicated in the Airport Order and Airport Guidelines for AAI. The Authority had also considered providing a one year transition period from the date of tariff determination as reasonable for AAI to appropriately align their processes/ procedures and make any other required interventions.

15.2. The Authority notes that this is the first Control Period for CCSIA, a period of more than three years of which has already elapsed.

15.3. Hence the Authority in the Consultation Paper No. 01/2014-15, proposed that the implementation of the rebate mechanism would be applicable from the fifth Tariff year of the Current Control Period i.e., 2015-16 and the rebate for year 2015-16 would be carried out in 2017-18, which is the Second tariff year of the next Control Period.

15.4. Accordingly, the Authority decides to use the rebate mechanism as indicated in the Airport Order and the Airport Guidelines for CCSIA. Further, the Authority decides that the implementation of the rebate scheme would be applicable from the fifth Tariff year of the Current Control period i.e., 2015-16, which would be carried out in 2017-18, being the second tariff year of the next control period

Decision No. 12. Regarding Quality of Service

12.a. The Authority decides to use the rebate mechanism as indicated in the Airport Order and the Airport Guidelines for CCSIA.

12.b. The implementation of the rebate scheme would be applicable from the fifth Tariff year of the Current Control period i.e., 2015-16. Rebate for year 2015-16 is proposed to be carried out in 2017-18, which is the second tariff year of the next control period.

16.Matters regarding Error Correction and Annual Compliance Statement

16.1. The Authority had proposed in the Consultation Paper No.01/2014-15 to make adjustment to the RAB at the beginning of next control period in respect of actual capitalisation of investments. It had also proposed to consider the depreciation policy of AAI, the depreciation calculated in accordance thereof and roll forward RAB during the current control period. The Authority had also proposed to true up the traffic projection based on the actual growth. It had also proposed that Non-Aeronautical revenue would be trued up.

16.2. The Authority in the Consultation Paper No. 01/2014-15 had proposed that in view of all corrections/Truing up to be carried out at the end of the control period, there may not be any requirement for CCSIA to submit annual compliance statements as per the timelines indicated in the Airport Guidelines. CCSIA should submit the annual compliance statements along with MYTP for the next control period.

16.3. Accordingly, the Authority decides that CCSIA should submit the Annual Compliance Statements for the individual tariff years of the first control period along with the MYTP for the next Control Period.

Decision No. 13. Regarding Error Correction and Annual Compliance Statement

13.a. The Authority decides that CCSIA should submit the Annual Compliance Statements for the individual tariff years of the first control period along with the MYTP for the next Control Period.

17.Aggregate Revenue Requirement

17.1. The ARR as proposed by the Authority in the Consultation Paper No. 01/2014-15 is presented in the table below:

Table 15: ARR and Yield as proposed by the Authority (Rs. in crore)

Details	Tariff Year 1 2011-12*	Tariff Year 2 2012-13*	Tariff Year 3 2013-14	Tariff Year 4 2014-15	Tariff Year 5 2015-16
Average RAB	65.92	114.21	156.78	140.11	139.77
Return on Average RAB @14%	9.23	15.99	21.95	19.62	19.57
Operating Expenditure	54.80	63.81	68.64	73.52	78.79
Depreciation	9.67	20.35	20.45	20.63	23.45
Corporate Tax @32.445%	0.00	0.00	0.00	8.49	19.85
Less- Revenue from Services other than Regulated Services	15.86	15.76	16.13	17.44	18.81
ARR	**57.84**	**84.39**	**94.91**	**104.82**	**122.85**
Total ARR as per Authority					464.81
No. of Passengers (as per actual/projected)**	2018554	2022414	2298097	2697395	3170025
Yield (Rs./ Passenger)	286.54	417.27	412.99	388.6	387.54
Present Value Factor	**1.000**	**0.8772**	**0.7695**	**0.6750**	**0.5921**
Discounted ARR as on 01-04-2011	**57.84**	**74.03**	**73.03**	**70.75**	**72.74**
PV of ARR for the Control period as on 01-04-2011					**348.39**
Total Passengers during the control period (No.)					**12206485**
Yield per Passenger for the Control Period (PV of ARR for control period /Total Passengers during the control period (in Rs)					**285.41**
*** Actuals ** Actuals April to October in 2013-14**					

17.2. The Authority had noted in the Consultation Paper No. 01/2014-15 that the proposal was to revise the tariff w.e.f. 01.06.2014. However, the proposed date has already passed during the consultation process of the proposal. Therefore, considering the timeline required for the implementation of the revised tariff, the Authority, decides to revise the tariff w.e.f. 01.10.2014.

17.3. The Aggregate Revenue Requirement (ARR) after taking into consideration the revised date of implementation of tariff and revised apportioned CHQ/RHQ expenses under the head of O&M expenses has been re-computed in the Table 16below:

Table 16: ARR and Yield as recomputed by the Authority (Rs. in crore)

Details	Tariff Year 1 2011-12*	Tariff Year 2 2012-13*	Tariff Year 3 2013-14	Tariff Year 4 2014-15	Tariff Year 5 2015-16
Average RAB	65.92	114.21	156.78	140.11	139.77
Return on Average RAB @14%	9.23	15.99	21.95	19.62	19.57
Operating Expenditure	49.65	58.58	63.39	68.10	73.18
Depreciation	9.67	20.35	20.45	20.63	23.45
Corporate Tax @32.445%	0.00	0.00	0.00	0.00	13.93
Less- Revenue from Services other than Regulated Services	15.86	15.76	16.13	17.44	18.81
ARR	**52.69**	**79.16**	**89.66**	**90.91**	**111.32**
Total ARR as per Authority					423.74
No. of Passengers (as per actual/projected)**	2018554	2022414	2312291	2688219	3125746
Yield (Rs./ Passenger)	261.03	391.41	387.75	338.18	356.14
Present Value Factor	**1.000**	**0.8772**	**0.7695**	**0.6750**	**0.5921**
Discounted ARR as on 01-04-2011	**52.69**	**69.44**	**68.99**	**61.36**	**65.91**
PV of ARR for the Control period as on 01-04-2011					**318.39**
Total Passengers during the control period (No.)					**12167224**
Yield per Passenger for the Control Period (PV of ARR for control period /Total Passengers during the control period (in Rs)					**261.68**
*** Actuals ** Actual pax up to 2013-14**					

18. Annual Tariff Proposal (with under recovery of ARR)

18.1. In the Consultation Paper No. 01/2014-15, the indicative rate card as submitted by AAI for CCSIA, Lucknow was put up for stakeholder consultation along with the proposal that the tariff increase and UDF may be given effect from 01.06.2014.

18.2. However, as stated in Para 17.2 above, it would not be possible to revise the tariff from the proposed date i.e. 01.06.2014. Therefore, the Authority decides to revise the tariff w.e.f. 01.10.2014.

18.3. The Authority has received the comments from the various stakeholders on the ATP as submitted by AAI.

Stakeholders' Comments

Landing Charges

18.4. Air India submitted that:

> *"The proposal of AERA is to have an uniform tariff rate for landing, parking charges etc for domestic international flights. Different Tariff for International and Domestic operations are being followed in many airports at present, such as Delhi, Amritsar, Jaipur etc. Even in Lucknow, existing tariff is segment wise. This basis of tariff fixation will result in steep hike in domestic flights to the extent of 90% to 120% and 17% to 32% for International flights. Considering that the domestic yields are different from international yields, the fixation of uniform rate for domestic and international flights, will put extra pressure on domestic operations and also operations to Lucknow Airport will become costly as compared to other domestic airports in India.*
>
> *The proposed tariff for domestic sectors will result in the charges being higher than the applicable charges for similar type of aircraft at different airports, including IG Airport, Delhi. For i.e. A-320 aircraft, the current applicable charges at Delhi are Rs. 22,315/- per landing and at Lucknow the proposed charges work out to Rs. 27,820/- per landing as compared to the existing charges of Rs. 14,322/-........"*

18.5. Air India has also submitted the comparative chart for Airbus Fleet showing per landing charges at Lucknow vis-à-vis Delhi and Other Airports. Air India has requested the Authority to review the proposal of applying uniform rate for domestic and international flights and the proposed steep hike for landing, housing and parking charges.

Exemption from Landing Charges for aircraft with maximum certified capacity of less than 80 seats:

18.6. FIA has submitted that:

> *"In the present Consultation Paper, there is no discussion on the exemption from landing charges for aircraft with a maximum certified capacity of less than 80 seats which are operated by domestic scheduled airline operators. It is noteworthy that at present, AAI exempts the aircrafts with a maximum certified capacity of less than 80 seats, being operated by domestic scheduled operators from landing charges at the CCSI Airport. It is submitted that absence of such exemption affects the scale of operations and financial feasibility for operator who operate less than 80 seater aircraft. It is one of the major factors in deciding fleet mix and operations at a particular airport. Therefore, it is submitted that the exemption of landing charges for the aircraft with a maximum certified capacity of less than 80 seats, should be continued."*

User Development Fee:

18.7. FIA in response to the Consultation Paper No. 01/2014-15 submitted that the Authority has introduced absolutely new stream of revenue in favour of AAI, which is not envisaged under the Airports Authority of India Act, 1994 ("AAI Act") or AERA Act.

18.8. It has also submitted that:

> *"It is a settled position of law that any levy or compulsory exaction which is in the nature of tax/cess cannot be levied without a statutory foundation/charging section, as laid down in a catena of judgements by the Hon'ble Supreme Court. It is well settled principle of law that no tax, fee or any compulsory charge can be imposed by any bye-law, rule or regulation unless the statute under which the subordinate legislation is made specifically authorises the imposition as in such cases there is no room for intendment".*

18.9. Air India also submitted that:

> *"UDF is proposed to be introduced at Lucknow. UDF for domestic operation has been pegged at Rs. 509/- per embarking passenger for 2014-15 which is on a higher side as compared to the other recently renovated AAI airports such as Jaipur, Udaipur, Amritsar and Varanasi etc where a more reasonable rate of Rs. 150/- per pax is applicable. A reasonable rate of UDF for domestic passenger at Lucknow may please be considered."*

Regulatory Period and Recovery of ARR:

18.10. FIA in response to the Consultation Paper No. 01/2014-15 submitted that the Authority is overlooking that though AAI had submitted its multi-year tariff proposal on 30.09.2011 but has submitted the requisite information vide its submissions dated 18.06.2012, 13.09.2013, 18.11.2013 and 14.02.2014. FIA also submitted that in determining the tariff in the year 2014 for the control period of 01.04.2011 to 31.03.2016, the Authority will be compressing the recoverable period of legitimate 60 months to merely 22 months.

18.11. FIA further submitted that this approach is unacceptable as it would increase the operational expenditure of the airlines and render its operations economically unviable. It has also submitted that Authority's proposal for tariff determination for the period of 5 years and compressing the recovery period to less than 2 years is imprudent and detrimental to the interests of stakeholders including the airlines and passengers.

Other Comments

18.12. The Government of Uttar Pradesh (U.P.) in response to the Consultation Paper No. 01/2014-15 stated that:

> *"The state Government has signed a Memorandum of Understanding with Airports Authority of India to transfer its airstrips located at Meerut, Moradabad and Faizabad and also to provide additional land free of cost necessitated for development as a regular airport. The State Government has released the funds necessitated for purchase of land.*
>
> *The State Government has also signed a Memorandum of Understanding to provide land free of cost for construction of Civil Enclave at Agra, Allahabad, Kanpur and Bareilly. The State Government has released the funds necessitated for purchase of land."*

18.13. The Government of U.P. has further stated that:

> *"The Aeronautical tariffs proposed by Airports Authority of India which are under consideration of Airports Economic Regulatory Authority of India are basically different component of total fare charged by an airline operator from a passenger. More Aeronautical tariff means higher air fare on a route. This Aeronautical tariff is constant for every passenger in respect of the distance supposed to be travelled by him. It means that even for a shorter route, the Aeronautical tariff will remain the same. It further means that for a passenger of business/executive class and for a passenger of economic class, there shall not be any difference so far as the charges of Aeronautical tariff are concerned. As mentioned here-In-above, the State Government is contemplating to start intra-state regional airlines. This Aeronautical tariff will also be applicable to them. Since the distance travelled by the passenger by regional airlines will be very shorter, this Aeronautical tariff will unnecessary enhance the air fare and ultimately, the viability of an airline is bound to be adversely affected. As stated here-in above, the State Government has not been given sufficient time to react on the proposal, we would like to request the Authority to consider the proposal of the Airports Authority of India on different parameters of International, inter-state and intrastate transportation relating with the distance supposed to be travelled by a passenger. Similarly, the charges for business/executive class and for economic class should be different so that a common man can afford to travel by air. The routes connected within the State should either be exempted from the payment of Aeronautical tariffs or they should be charged at a negligible rate so that the goal of regional air transportation can be achieved. We would further like to submit that the Lucknow is very well connected with Delhi which is hardly 500 kms. away. Whereas the places like Bangalore, Patna, Kolkata and Mumbai are connected with very few flights. Lucknow needs to be connected with a number of places from India. Similarly, so far International traffic is concerned Lucknow is only connected with the Sharjah, Dubai and Kathmandu. It needs to be connected with more destinations like Rome, London, New York and far-East. We think that emphasis should be to increase flights from Lucknow so that the generation of Aeronautical tariff/revenue will automatically increase. So we think that the thrust should be to increase the traffic by linking different places both internationally and nationally and within the State so that connectivity of Lucknow should be increased which will result into the enhancement of Aeronautical revenue generation at the Lucknow airport."*

AAI's response to Stakeholders' Comments

18.14. AAI responded to the comment of Air India and stated that the cost of providing services (Landing, parking, and Housing of Aircrafts) is same for both Domestic and International Airlines. AAI further stated that IATA & ICAO have all along been advocating for non-discriminatory and equal User Charges for both foreign and domestic aircraft operations. The level of services provided to Foreign and Domestic aircraft operations is almost similar.

18.15. AAI also stated that it has therefore taken an initiative to apportion Airlines related aeronautical charges equally between the foreign and domestic airlines.

18.16. AAI, in response to the Air India's comment on comparability of charges with Delhi Airport, stated that the Delhi and Lucknow Airports have different Traffic, Investment & Commercial profiles. These two airports are not comparable. Instead of comparing airports on one or two parameters, they may be compared with common denominator like Required Yield per Pax for the control period. The required Yield Per per Pax of Lucknow Airport is lesser than the Delhi Airport.

18.17. AAI in response to the FIA's comment submitted that the existing exemption from landing charges for the aircrafts with a maximum certified capacity of less than 80 seats and operated by Domestic Scheduled Operators has been proposed to be withdrawn.

18.18. Further, AAI submitted that;

> *"the terms and conditions relating to ATP, including exemptions/ concessions etc., wherever applicable, are indicated in the ATP placed at Annexure-III. Since, there is no exemption in landing charges, hence the same is not indicated in the ATP."*

18.19. AAI has further stated that;

> *"the UDF has been proposed to bridge the revenue gap of the airport, in case the UDF is not levied, then the tariff of other revenue streams would have to be increased. In either case, AAI is merely recovering the ARR allowed as per the AERA Guidelines."*

18.20. On the permissibility of levy of UDF charges, AAI submitted that:

> *"The levy of User Development Fee (UDF) proposed is fully compliant with the statutory laws and Rules……*
>
> *……The proposed levy of UDF is fully complies with Rule 89, Aircraft Act, 1937 & AERA Act, 2008."*

18.21. With response to Air India's comment on comparability of UDF with other airports, AAI has submitted that rates of UDF vary from airport to airport, depending upon Target Revenue, Aircraft and Passenger Traffic, Revenue deficit etc.

18.22. Further, AAI has stated that it has considered the call of the Authority, i.e. two alternative domestic UDF figures, as proposed at Para 21 of the Consultation Paper No. 01/2014-15 and has submitted that:

> *".......it is agreed to reduce the burden on the domestic passengers embarking from Lucknow Airport. Thus, domestic UDF may be determined at Rs. 370/- (Rs. 350/- for the year 2013-14 + 6% annual increase) per embarking passenger (domestic) for the year 2014-15 and Rs. 392/- (Rs. 370/- + 6% annual increase) for the year 2015-16. The resultant increase in the under recovery shall be carried forward at the time of determination of ARR for the next control period."*

18.23. In response to the comments of Government of U.P., AAI has stated that the transfer of Land free of cost to AAI has been duly considered in MYTP, resulting in lower value of RAB leading to lower ARR for the control period and the same has been passed on to passengers in the form of lower Tariff (UDF).

18.24. Further AAI, with reference to the comments relating to considering different parameter has stated that:

> *"AAI is levying aeronautical charges (Landing, Housing & Parking Charges) to Airlines, which are charged on the basis of weight of the aircraft. Aircrafts, irrespective of distance travelled, use same facilities while landing/ parking. Hence, charging Users based on distance is not considered desirable. Further, so far as distribution of aeronautical charges on economy and business/executive class passengers is concerned, it is at the discretion of the airlines how equitably/rationally they do it.*

Similarly, all passengers, whether traveling on short or longer route, use same facilities in terminal building, hence they are charged uniformly for PSF & UDF, irrespective of their travelling distance."

18.25. Further AAI has also submitted that:

"AAI is already having a shortfall in ARR recovery for the first control period. It is not feasible to exempt Intra-State traffic from levy of aeronautical charges. Moreover, if Intra-State Traffic is exempted from aeronautical charges, the likely revenue loss to AAI thereon would have to be shared by the other Users, leading to increase in Tariff.

It is for airlines to add more destinations in their network depending on demand and market conditions etc."

Authority's Examination

18.26. The Authority has carefully examined the comments received from Air India with regard to applying of uniform rate for domestic and international flights and also the hike in landing, parking charges of the flights. As per the Airport Guidelines, the Authority is required to determine the ARR on the basis of projection of various regulatory building blocks and corresponding Yield per Passenger for an airport for a control period of five years. The airport operator has the flexibility to propose a Tariff Rate Card for different aeronautical revenue stream based on the Yield per Passenger as finalised by the Authority.

18.27. The Authority notes the concern of Air India on domestic landing charges of Lucknow being more than that of Delhi. In this regard, the Authority observes that the MYTP for the second Control Period in respect of Delhi Airport, which commenced w.e.f. 01.04.2014, is under examination by the Authority, and the tariffs for Delhi may itself undergo a change. Further, the Authority observes that if one component of tariff item is increased or decreased, then other elements of tariff may need to be decreased or increased simultaneously to recover the determined ARR. The Authority has already proposed to allow certain portion of ARR to be carried forward to next control period. The Authority also notes that even with the enhanced tariff at CCSIA, the under recovery during the current control period is Rs. 128.75 crore (i.e. PV as on 01.04.2011), and therefore lower tariffs may not be feasible.

18.28. The Authority observes that revision in fares is a business decision of the airlines which might be impacted by many other factors apart from the Airport Charges.

18.29. The airport charges are required to be determined in accordance with the provisions of the AERA Act and the Authority has undertaken the exercise accordingly. Further, IATA in response to the Consultation Papers, issued earlier by the Authority, has always advocated uniform level of aeronautical charges for operation of both domestic and international aircrafts of same type at an airport. The Authority notes that AAI's proposal for uniform rates for both domestic and international operation at CCSIA is in line with IATA's position.

18.30. The Authority has considered the Annual Tariff Proposal submitted by AAI and, on balance, has broadly agreed to it, including the uniform rate for domestic and international flights.

18.31. With regard to FIA's submission for exemption of less than 80 seater aircrafts from the landing fees, the Authority notes that in accordance with the GoI letter dated 09.02.2004, less than 80 seater aircrafts of domestic scheduled operators and helicopters are not be charged any landing fees. Extract from MoCA letter dated 09.02.2004 is given below:

> *"… (iii) 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; and*
>
> *(b) helicopters of all types…"*

18.32. The Authority therefore decides to consider the Annual Tariff Proposal as submitted by AAI, *subject to* clause pertaining to 80 seater aircrafts belonging to domestic scheduled operator and helicopters of all types. As noted in Para 18.31 above, the Authority decides to allow the exemption of landing fees to the aircrafts of domestic scheduled operators with less than 80 seats and helicopters. The Government's letter of 09.02.2004 on this subject is also annexed to the Tariff card for CCSIA.

18.33. The Authority observes that the determination of development fees is one of the functions of the Authority under Section 13(1)(b) of the AERA Act, 2008. Rule 89 of the Aircraft Rules, 1937 provides as under:

> *"The licensee may,-*
>
> *(i) Levy and collect at a major airport the User Development Fee at such rate as may be determined under clause (b) of sub-section (1) of section 13 of the Airports Economic Regulatory Authority of India Act, 2008;*
>
> *(ii) Levy and collect at any other airport the User Development Fees at such rate as the Central Government may specify."*

18.34. Hence, levy of UDF is in consonance with the provisions of Section 13 (1)(b) of the AERA Act read with Rule 89 of the Aircraft Rules, 1937 and the Authority has been mandated to determine the same under relevant law.

18.35. Further, in case the comment of FIA not to burden passengers with UDF were to be accepted, then the Authority would have to permit the airport operators to enhance aeronautical charges on Landing, Parking and Housing, and other element of tariffs, so as to enable the airport operators to recover their Aggregate Revenue Requirement. Whereas, on balance, the Authority has permitted ARR to be recovered both through UDF, as well as aeronautical charges.

18.36. With respect to Air India's comment for considering a reasonable rate of UDF (at par with other AAI airports), the Authority in the Consultation Paper No. 01/2014-15 has proposed two different rates of domestic UDF. AAI agreed to reduce the burden on domestic passengers as mentioned in Para 18.22 above. The Authority accordingly decides to impose the reduced UDF as proposed by AAI i.e. Rs. 370/- per domestic embarking passenger and Rs. 1,060/- per international embarking passenger w.e.f. 01.10.2014 with an annual increase of 5.9% (WPI-X) for the year 2015-16, i.e., Rs. 392 and Rs. 1124 per embarking domestic and international passengers respectively.

18.37. The Authority has carefully examined the comments made by FIA on the issue of the compressed recovery period. The Authority notes FIA's submission on truncation of the Control Period from the five year to 22 months on the ground that AAI has delayed submission of the MYTP. The Authority has not found any component of aeronautical tariff presented in the Consultation Paper No. 01/2014-15, which has exponentially increased due to late submission of MYTP by AAI. In any case there may not be any impact on the quantum of ARR as the present value (PV) has been worked out as on 01.04.2011, the date of commencement of the control period.

18.38. Further, the Authority has allowed carry forward of some portion of the ARR to the next control period as per the calculations given in Table 17, resulting in revenue shortfall for each of the years of the current Control Period. Hence technically there is no compressed recovery period. Furthermore, as proposed by AAI, the Authority had also decided to allow for lower UDF, thus reducing the burden on the passengers.

18.39. The Authority has carefully considered the comments received from the State Government of U.P. The Authority believes that it is the business decisions of the airport operator to balance the tariff structure taking into account the reasonable interest of all stakeholders. The Authority agrees with AAI that the cost of providing aeronautical services to different airlines and passengers is same for the airport operator and all are using the same type of the facilities irrespective of the distance travelled by them. The Authority also noted that it is very difficult to review the tariff on different parameters of international, inter-state or intra-state. Further, the Authority notes that if the intra-state traffic would be exempted from the levy of aeronautical tariff, the burden of this would have to be borne by the other traffic (i.e. other than intra-state airlines and passengers).

18.40. The Authority has also noted that the Passenger Service Fee (PSF) being collected at CCSIA comprises of two components namely PSF Security component (SC) – Rs. 130/- per embarking passenger and PSF Facilitation Component (FC) - Rs. 77/-per embarking passenger. The Authority has noted that AAI has also included the facilitation component of the Passenger Service Fee i.e., Rs. 77/- as part of UDF levy while proposing the levy of UDF for passengers at CCSIA. The Authority in its calculation has subsumed the facilitation components of passenger service fees i.e. Rs. 77/- in the proposed UDF. Therefore, with the introduction of the proposed UDF at CCSIA, Lucknow w.e.f. 01.10.2014, PSF will comprise only of the security component and Rs. 130/- per embarking passenger would be charged accordingly.

18.41. In view of the above, the Authority decides to determine the aeronautical charges as at Annexure I.

18.42. Further, on the basis of actual recovery of ARR during the current control period, the Authority decides to true up the amount of under recovery of ARR during the current control period, at the time of determining the aeronautical tariffs for the next control period.

18.43. As the date for implementation of tariff cannot be 01.06.2014 (as proposed in the Consultation Paper), the Authority decides to revise the tariff w.e.f. 01.10.2014.

18.44. The Authority had indicated in the Consultation Paper No. 01/2014-15 that AAI had requested the Authority to allow the recovery of the shortfall in ARR for the first control period, (due to lower recovery of Aeronautical charges) in the next control period. The Authority noted that the tariff card proposed in the Consultation Paper would result in the under recovery of Rs. 119.94 crore (PV as on 01-04-2011) for the current control period as compared to what AAI would have got based on the Regulatory Building Blocks. The Authority had proposed that depending on the AAI submissions during tariff determination for the next control period, the Authority would consider, if and to what extent, the calculated shortfall may be reckoned as additional revenue requirement during the next Control Period (over and above what would be required on the basis of calculations only for the next Control Period).

18.45. However, with the change in the implementation dates for the revised tariff(s), recomputed ARR due to revised submissions made by AAI on the common expenditure (CHQ/RHQ expenditure) apportioned to CCSIA and considering the reduced UDF, the aeronautical tariff(s) now being determined by the Authority in the instant Order (Refer para 18.41 above) would result in the under recovery of Rs. 128.75 crore (PV as on 01.04.2011) for the current control period as compared to what AAI would have got based on the Regulatory Building Blocks. The Authority has reworked the under recovery of ARR in Table 17 below. :

Table 17: Revenue Streams of ARR and its resultant Shortfall during the control period as reworked by the Authority (Rs. in crore)

Components	2011-12*	2012-13*	2013-14	2014-15	2015-16	Total
Estimated ARR for the year	**52.69**	**79.16**	**89.66**	**90.91**	**111.32**	**423.74**
Landing Domestic	9.66	10.24	10.98	14.77	20.30	65.95
Landing International	4.60	5.15	5.45	7.39	10.39	32.98
Parking & Housing	0.08	0.04	0.05	0.08	0.12	0.37
Fuel Throughput Charges	1.71	1.92	2.11	2.32	2.56	10.62
Cargo Revenue	0.53	0.61	0.61	0.75	0.93	3.43
Ground Handling Services	0.72	0.90	0.96	1.06	1.16	4.8
Passenger Service Fee**	7.77	7.99	9.13	5.31	0.00	30.20
UDF **	0.00	0.00	0.00	33.92	84.17	118.09
Cute Counter Charges	0.36	0.97	1.02	1.07	1.12	4.54
Total Aeronautical Revenue	**25.43**	**27.82**	**30.31**	**66.67**	**120.75**	**270.98**
Shortfall	27.26	51.34	59.35	24.24	-9.43	152.76
Present Value Factor (01.04.2011)	**1.000**	**0.8772**	**0.7695**	**0.6750**	**0.5921**	
Discounted Shortfall	**27.26**	**45.04**	**45.67**	**16.36**	**-5.58**	**128.75**
*Actuals for 2011-12 and 2012-13						
**PSF (Facilitation Component) has been merged with UDF w.e.f. 01.10.2014						

Decision No. 14. Regarding tariff rate card and under recovery of ARR

14.a. The Authority decides to allow the exemption of landing fees to the aircrafts of domestic scheduled operators with less than 80 seats and helicopters of all types with reference to the Government of India letter dated 09.02.2004.

14.b. The Authority decides to determine the aeronautical tariff as per the tariff rate card at Annexure I to be effective from 01.10.2014, subject to exemption of landing fees as mentioned in Decision No. 14.a above.

14.c. The Authority decides to determine UDF at Rs. 370/- per domestic embarking passenger and Rs. 1,060/- per international embarking passenger for the year 2014-15 (effective from 01.10.2014) with an

anuual increase @ 5.9% for the year 2015-16 i.e. Rs. 392/- and Rs. 1124/- per domestic and international embarking passenger respectively.

14.d. The Authority notes that the tariffs as indicated in Annexure I would leave an under recovery of Rs. 128.75 crore as of 01.04.2011 (refer Table 17) as per the projection considered by the Authority.

14.e. The Authority notes that PSF (Facilitation) at Rs. 77/- per embarking passenger is merged with UDF w.e.f. 01.10.2014 and therefore separate charges in the name of PSF (Facilitation) stands withdrawn.

14.f. The Authority also notes that PSF (Security) at Rs. 130/- per embarking passenger will continue to be charged during the current control period.

14.g. Depending on the AAI submissions during the tariff determination for the next control period, the Authority decides to consider, if and to what extent, the calculated shortfall may be reckoned as additional revenue requirement during the next Control Period (over and above what would be required on the basis of calculations only for the next Control Period).

Truing Up: 8. Correction/Truing Up for Decision No. 14

8.a. The Authority decides to true up the amount of under recovery of ARR during the current control period, at the time of determining the aeronautical tariffs for the next control period.

19.Sensitivity Analysis

19.1. As per consultation Paper No. 01/2014 -15 dated 21.04.2014, the ARR was Rs. 348.39 crores, Yield per Passenger (YPP) was Rs. 285.41 and Shortfall was Rs. 119.94 crores. . This calculation has undergone change for various factors, analysis of which has been presented below:

Table 18 Summary of Changes- Impact on ARR, YPP and Shortfall against the calculation shown in CP for the current control period

Particulars	Aggregate Revenue Requirement (Rs. Crore)	Yield Per Passenger (Rs.)	Shortfall (Rs. Crore)
As per CP (Refer table 21 of CP No 01/2014-15)	348.39	285.41	119.94
Reduction in O&M Expenditure – apportionment of CHQ/RHQ Expense to CCSIA (Refer para 12.10)	-18.49	-15.14	-18.47
Considering actual traffic for the year 2013-14 and corresponding change in traffic forecast	-1.48	-0.35	+3.26
Considering revision of tariff w.e.f 01.10.2014 instead of 01.06.2014. Deferment in implication of new tariff by four months	-5.85	-4.80	+12.16
Increase in Shortfall due to reduction in UDF @ Rs. 370 instead of Rs. 509 in respect of Domestic Embarking Passengers	-4.18	-3.44	+11.86
Recomputed ARR, Yield per Passenger and Shortfall as per the Authority	**318.39**	**261.68**	**128.75**

19.2. It may be noted that the traffic details include actuals for the years 2011-12 to 2013-14 and forecast for the years 2014-15 to 2015-16 for the purpose of calculation of ARR. Further, tax component has been taken into consideration while reworking the changes as detailed above for calculation of Present Value of Aggregate Revenue Requirement, Yield per Passenger and the corresponding Shortfall in recovery of target revenue for the current control period.

20.Appointment of Independent Consultant

Stakeholders' Comment

20.1. FIA has submitted that all the external consultant have been appointed by AAI which compromise the independence of opinions expressed by them. They further submitted that the Authority is empowered to engage its own consultants or direct any of its officers or employee to make an inquiry in relation to the affairs of any service provider. There is nothing on record which shows that Authority has engaged any such Consultant of its own.

Authority's Examination

20.2. The scope of work of the consultants has been determined by the Authority and not by AAI. This scope included assisting the Authority in its work of tariff determination. The consultants have carried out the tasks assigned to them by the Authority and have worked under the direct control and supervision of the Authority. In this process of tariff determination, the consultants reviewed the relevant documents including those submitted by AAI. Hence, FIA's concerns regarding independence, either of the opinions expressed by the consultants, or of the tariff determination process, is completely misplaced.

21. True Up Exercise

Stakeholders' Comment

21.1. With respect to true-up exercise, FIA has stated that

> *"In the present Consultation Paper, the tariff plan is subject to truing up in the next control period with respect to following tariff components:*
>
> *(a) Project Cost*
>
> *(b) Depreciation*
>
> *(c) Average Regulatory Assets Base*
>
> *(d) Traffic Forecast*
>
> *(e) Revenue accruing to AAI from aeronautical services of Cargo, Ground Handling and Supply of fuel to aircraft (including FTC)*
>
> *(f) Non Aeronautical Revenue*
>
> *(g) Operation and Maintenance expenditure*
>
> *(h) Taxation*
>
> *(i) Shortfall in collection of UDF*
>
> *"It is submitted that in the present case not only Authority has not applied its mind but indiscriminately left aforementioned components for future in the garb of truing up exercise during next control period."*

21.2. Based on the regulatory jurisprudence, FIA further submitted that Authority should not leave everything to true up and attempt to make all the projections and assessments as accurately possible on the basis of available data.

Authority's Examination

21.3. The Authority has noted the concern of FIA that true-up exercise should be conducted sparingly by the Authority. It appears that FIA has not appreciated the importance of the true-up exercise.

21.4. The Airport Guidelines enumerate the components for which the Authority shall provide corrections. These include components related to determination of RAB, Traffic Forecast, Mandated and Statutory Operation and Maintenance Costs as well as change in rate of corporate tax on income. The Authority also notes that FIA had not given any comment on the error-correction or true-up during the consultation of Airport Guidelines.

21.5. Further in the Consultation Paper No. 01/2014-15, the Authority had given its reasoning for carrying out the truing-up exercise at the end of current Control Period. The reasons of the Authority for allowing true-up have been explained in respective section of Regulatory Building Block as well as in the following paragraphs.

21.5.1. Capital Expenditure

21.5.1.a. The Authority has already indicated that some elements of capital cost are yet to be capitalized. As and when they are capitalized, the corresponding value would need to be accounted into the RAB. This is to reflect the true and fair picture of the capitalized airport infrastructure in regulatory order. The meaning of true up is that these capital costs would be considered as capitalized in the respective years and would be factored while calculating ARR.

21.5.2. Depreciation and Average Regulatory Assets Base

21.5.2.a. The roll forward of RAB has a bearing on the opening RAB of the next Control Period. Whatever actual expenditure that has been capitalized, as indicated during current Control Period in the submissions of airport operator, would be taken into account while determining the RAB at the beginning of the next Control Period. This is a standard regulatory practice, as otherwise RAB at the beginning of the next Control Period would not reflect true and fair picture of the investments that have gone into the project. The difference in the expenditure proposed to be capitalised during the current control period and the expenditure that would actually be incurred along-with depreciation thereof will be accounted and opening RAB trued up in the first year of the next control period based on evidential submissions along with auditor certificates.

21.5.3. Traffic Forecast

21.5.3.a. The Authority had made reasonable efforts to estimate future traffic forecasts based on past trends. Authority was also cognizant of the fact that ups and downs in the traffic can be significant in the Aviation sector as has been witnessed for the past couple of years. IATA has also been saying that Aviation business is cyclical.

21.5.3.b. Any forecast by its very nature is only an estimation of as to what is likely to happen in future. If the actual passenger traffic goes much beyond the forecast, this would mean that the airport operator has got much higher returns than was envisaged. Look at it from a different perspective, the passengers have been required to pay UDF that is higher than what they would have been if the higher outturn of the traffic volume was known in advance. Conversely, if the actual traffic falls much below the forecast, this would mean that airport has lost out on some of the revenue that it should get to enable it to earn a fair rate of return. Since the probability of the actual traffic going up or down, as compared to the forecast, may or may not be symmetrical, the Authority felt that truing up the actual traffic is the best and impartial method of balancing the interests both of the passengers as well as those of the airport operator.

21.5.4. Non-Aeronautical Revenue

21.5.4.a. The forecast of non-aeronautical revenue, howsoever made, is also subject to fluctuations on account of many factors including the traffic, the state of GDP, peoples outlook about the future, increase or otherwise of the passengers' spend at the non-aeronautical activities at the airport, composition of domestic and international passengers, composition of international passengers with respect to the nationalities of such passengers, etc. Since all these factors cannot be factored into the forecast, the actual non-aeronautical revenue obtained in future would differ from the forecasted estimate. If the actual non-aeronautical revenue earned is higher than the forecasted figure, it would give undue benefit to the airport operator at the expense of the passengers. The reverse would happen if the actual non-aero revenue were to fall short of the forecasted figure. This is similar to what is already explained in case of traffic forecast. Hence, after considering all these factors, the Authority decided to finally true up the non-aeronautical revenue to balance the interests of both the passengers and the airport operator.

21.5.5. Taxation

21.5.5.a. Based on its estimate of the traffic and consequently the revenue in the hands of the airport operator, the amount of taxes actually paid by the airport operator would be determined. This would invariably differ from the forecast of the taxes. The tax is a component of the building block in the determination of aeronautical tariffs and is a payment to the Government. The Authority believes that any shortfall or excess in such payment should not be a reason for any benefit or otherwise to the airport operator which would arise at the expense of the passengers. That is the reason the Authority decides to true up the taxation based on actual.

21.6. The Authority is, therefore, unable to accept FIA's contention that the Authority has not given due consideration for projecting various factors for the purpose of tariff determination. As mentioned supra, the Authority has carefully considered the projections and assessment of various components as reasonably as possible.

22.Consultation Process

Stakeholders' Comment

22.1. FIA in response to the Consultation Paper No. 01/2014-15 commented that no detailed model has been provided to understand the exact computation of tariff proposed by CCSIA. FIA further submitted that details of assets included in initial RAB, asset wise depreciation computation and computation for tax have not been provided with the consultation paper. FIA has also submitted that in the absence of adequate information makes it difficult to justify the decisions proposed by the Authority.

Authority's Examination

22.2. The details referred to by FIA were provided as Annexure I of the consultation Paper No. 01/2014-15. These documents viz. assets, depreciation, etc., in the opinion of the Authority, are adequate for the stakeholders to enable them to make effective submissions in this behalf. The model followed in computation of ARR and tariff has been elaborated in various sections of the Consultation Paper as well as this Order.

23.Miscellaneous Issues for Tariff Determination

Stakeholders' Comment

23.1. FIA has further raised the following questions for consideration of the Authority:-

(a) Whether the claim of AAI for increase in Aeronautical Tariff is justifiable on financial economic basis?

(b) Can the late submission of relevant information for determination of aeronautical tariff by AAI be ignored which has essentially diminished the effective control period to 22 months from 60 months (5 years)?

(c) Is the computation of Depreciation contrary to AERA Guidelines is justifiable?

(d) Is Authority's reliance only on AAI's data for determining following is justifiable:-

(i) Initial Regulatory Assets Base and project cost which has been capitalized or are to be capitalized during the current control period.

(ii) Operating Expenditure as it is one of the major components for determining ARR?

(iii) Non-aeronautical revenue i.e. revenue generated from services other than aeronautical services.

(e) Is levy of UDF permissible under the relevant law? If so, for what purposes can levy of UDF be termed justifiable?

(f) Can the proposed Aeronautical tariff be considered as a fair, just or reasonable claim of AAI in a prudent, regulated, price cap mechanism as envisaged under the Act read with the AERA Guidelines of the Authority?

23.2. FIA has commented that any 'determination' by a statutory authority must clearly show the application of mind and analysis carried out by the Authority and in the present determination the Authority has proposed increase in various charges (for instance Landing, Parking and Housing Charges, UDF etc.) without any justification or analysis for the same.

23.3. FIA has further submitted that:

"In terms of Section 13(1)(4)(c) of the AERA Act as well as the settled position of law, Authority's decision must be fully documented and explained. Also, order passed by an administrative authority, affecting the rights of parties, must be a speaking order supported with reasons. Therefore, is submitted that the Authority ought to undertake the exercise of 'Determination' by application of mind and pass reasoned order on any issue and the increase in aeronautical tariff as proposed by AERA in the present consultation process should not be given effect to."

AAI's response to Stakeholders' Comments

23.4. AAI, in response to the questions raised by FIA has given their views.

23.5. AAI on the question raised on the justifiability of the increase in aeronautical tariff has stated that:

"The AAI proposal for Aeronautical Tariff increase (ATP) is fully justified as the Tariff increase proposed has been worked out on the basis of MYTP formulated in accordance with AERA Guidelines. It is pertinent to mention that at current level of Aeronautical Tariff, Lucknow airport is not generating sufficient revenue to meet even the operating costs and the airport is running in losses. Unless, Tariff for aeronautical services is increased, as proposed by AAI, Lucknow airport would report operating loss in all the Tariff years of 1st Control period. Further, as per AERA Act, 2008, AERA is duty-bound to ensure economic and viable operations of a major airport."

23.6. In response to the question raised on late submission, AAI has submitted that:

"AAI has filed MYTP within the stipulated time. MYTP has been further updated/ revised as per the requirement of AERA/ Consultant."

23.7. AAI, on the question of justifiability of Initial RAB and capital works cost as considered by AAI, submitted that:

"Initial RAB considered in the MYTP is as per the books of Lucknow airport and assets pertaining to Airport Services & Security have been included, in accordance with the AERA Guidelines. Similarly, Addition to RAB has been forecasted based on the actual capitalisation /capital plan for the airport approved by the competent authority."

23.8. On the question of forecast made for Operating & Maintenance Expenditure and non-aeronautical revenue, AAI has submitted that:

"Operating Expenditure & non-aeronautical revenue has been forecasted in the MYTP based on the past trend/additional capitalisation/Traffic growth etc."

23.9. AAI, in response to the question raised on levy of UDF has clarified that:

"The proposed levy of UDF is fully complies with Rule 89, Aircraft Act, 1937 & AERA Act, 2008."

Authority's Examination

23.10. The Authority has addressed the questions raised by FIA for the present determination, in respective sections of Regularly Building Blocks.

23.11. FIA has questioned that *"Whether the claim of AAI for increase in Aeronautical Tariff is justifiable on financial/economic basis?"* The Authority has analysed the submissions of AAI with respect to the various building blocks in the tariff determination process including Fair Rate of Return. After its analysis, it had tentatively arrived at certain conclusions which were presented in the Consultation Paper No. 01/2014-15. Based on responses received, the Authority has finalized its determination of aeronautical charges based on sound financial principals and with proper application of mind.

23.12. FIA has also questioned that "Can the late submission of relevant information for determination of aeronautical tariff by AAI be ignored which has essentially diminished the effective control period to 22 months from 60 months (5 years)?" The Authority has addressed the concern of FIA at Para 18.37 above.

23.13. FIA has queried that *"Is the computation of Depreciation contrary to AERA Guidelines is justifiable?"* In this regard, the Authority in the Consultation Paper No. 01/2014-15 had noted that it will generally accept the depreciation policy of the company unless there are cogent and convincing reasons for not doing so. The issue has been addressed in detail at Para 7 above.

23.14. FIA has questioned that "Is Authority's reliance only on AAI's data for determining following is justifiable:-

i. Initial Regulatory Assets Base and project cost which has been capitalized or are to be capitalized during the current control period.

ii. Operating Expenditure as it is one of the major components for determining ARR?

iii. Non-aeronautical revenue i.e. revenue generated from services other than aeronautical services.

23.15. The Authority has not found any cogent reason not to rely upon AAI's data as submitted in the MYTP. Authority notes that AAI data are CAG audited and submitted before the Parliament. As regards the non-aeronautical revenue, the Authority decides to true-up the same on account of detailed reasoning given under relevant sections.

23.16. FIA has also questioned that *"Is levy of UDF permissible under the relevant law? If so, for what purposes can levy of UDF be termed justifiable?"* In this regard, the Authority observes that determination of development fees is one of the functions of the Authority under Section 13(1)(b) of the AERA Act, 2008. Further as per Rule 89 of the Aircraft Rules, 1937:

> *"The licensee may,-*
>
> *(i) Levy and collect at a major airport the User Development Fee at such rate as may be determined under clause (b) of sub-section (1) of section 13 of the Airports Economic Regulatory Authority of India Act, 2008;*
>
> *(ii) Levy and collect at any other airport the User Development Fees at such rate as the Central Government may specify."*

23.17. Hence, levy of UDF is in consonance with the provisions of Section 13 (1)(b) of the AERA Act, 2008 read with Rule 89 of the Aircraft Rules, 1937. Hence, the levy of UDF is permissible under relevant law and the Authority has been mandated to determine the same. As far as its justification is concerned, as mentioned above, it is levied so as to permit the airport operator (AAI in this case) to achieve/recover the computed ARR. In case UDF is not levied, the other aeronautical charges notably landing, parking, housing etc. would need to be increased. Hence, the levy of UDF is based on sound economic and financial considerations.

23.18. FIA further questioned that “Can the proposed Aeronautical tariff be considered as a fair, just or reasonable claim of AAI in a prudent, regulated, price cap mechanism as envisaged under the Act read with the AERA Guidelines of the Authority?” The Authority has already indicated that its determination of aeronautical tariffs is based on sound economic and financial principles including Fair rate of Return to the airport operator and at the same time keeping in view the reasonable interests of passengers and cargo facility users.

23.19. The Authority notes FIA’s submission. The Authority has given its full consideration to each element of the building blocks before arriving at its determined ARR. As per the Airport Guidelines, the increase in various tariffs are based on the determination of Yield per Passenger which is further determined on the basis of projection for various regulatory building blocks, the explanation for which has been clearly articulated and presented in the Consultation Paper No. 01/2014-15 as well as the reasoning given in this order after taking into account the comments of each stakeholder.

24.Doctrine of Infrastructural Essential Facilities

Stakeholders' Comment

24.1. FIA has submitted that:

> *"It is submitted that under the competition law, an enterprise is under an obligation to extend its essential infrastructural facility at a reasonable cost. AAI's control over CCSI Airport renders it a monopolist having control over 'essential infrastructural facility' of the airport in the city of Lucknow and the eastern region of the country.*
>
> *It is submitted that AAI assumes the position of a monopolist since it exercises control over CCSI Airport, Lucknow which is a crucial infrastructural facility for a city like Lucknow and State of Uttar Pradesh due to its political and economic significance at both national and international levels. Airport is an essential facility, and thus, per this doctrine the monopolist should not be allowed to charge an exorbitant price for accessing its facility. Authority is under a bounden duty to check any opportunity which may lead to the abuse of monopolistic power by the airports and that stand in the way of effective economic regulation."*

AAI's response to Stakeholders' Comments

24.2. AAI in response to FIA's comment in charging higher price stated that:

> *"Tariff determination at the airport is as per the Guidelines of the Airport Regulator; hence there is no question of charging exorbitant price. Rather, they have postponed the recovery of the ARR of current control period to the next one in order to reduce the burden on the users."*

Authority's Examination

24.3. The economic regulation of airport the world over (including in USA) is based on the extant laws of the country. In India the economic regulation of major airports is done in accordance with the provision of AERA Act. The Authority has accordingly proceeded with such determination. In the opinion of the Authority, an airport operator provides aeronautical services for the use of Airlines, as well as passenger and cargo. Airport users are defined in the Act to mean any person availing of passenger or cargo facility at an airport. A stakeholder is defined to include "a licensee of an airport, airlines operating thereat, a person who provides aeronautical services or any association of individuals, which in the opinion of the Authority represents the passenger or cargo facility users.”

24.4. In accordance with this mandate of the AERA Act, the Authority, after due consultations has published a list of the stakeholders including association of individuals representing the passengers as well as cargo facility users. FIA is of the view that such enormous hike in tariff by AAI may be viewed as ‘abuse of’ monopolistic power. As has been explained in this order, the hike in aeronautical charges as determined by the Authority is based on sound economic principles and due application of mind. Authority notes the last revision of LPH changes for Lucknow Airport was done in 2009 and the same rate continues till date. The revision in tariffs has been determined by the Authority within the framework of the AERA Act and its own guidelines.

24.5. The Authority had followed a comprehensive and transparent process wherein the Authority determined its regulatory philosophy and approach in economic regulation of Airport Operators which was finalized as per the Airport Order. Further, the Authority also finalized the Airports Economic Regulatory Authority of India (Terms and Conditions for Determination of Tariff for Airport Operators), Guidelines 2011 as per Direction No. 5/2010-11 dated 28.02.2011.

24.6. The increase in tariff proposed for various components of aeronautical services at CCSIA, Lucknow is worked out on the basis of determined Aggregate Revenue Requirements (ARR) for the Control Period following the Airport Guidelines. The Authority notes that the issues regarding competitions fall within the domain of Competition Commission.

25.Summary of Decisions

Decision No. 1. Regarding Regulatory Approach for Airport Services **11**

1.a. The Authority decides to determine the Aggregate Revenue Requirement (ARR) for CCSIA, Lucknow, taking into account the Capital investments and cost for airport services as per methodlogy mentioned in Para 4.4 above. *11*

Decision No. 2. Regarding Initial RAB **13**

2.a. The Authority decides to consider the amount of Rs. 69.30 crore as Initial RAB of CCSIA, Lucknow as on 01.04.2011, and factor it in determination of aeronautical tariffs for the first control period (2011-2016). *13*

Decision No. 3. Regarding Expenditure on Capital Works **21**

3.a. The Authority decides to reckon Rs. 2.26 crores towards security related incremental capital expenditure as mentioned in Table 3 as an addition to RAB in the current control period. *21*

3.b. Accordingly, the Authority decides to consider allowable capital cost of Rs. 172.24 crore as an addition to the Initial RAB during the current control period. *21*

3.c. The Authority further decides that AAI will undertake user consultation for the capital works to be undertaken in the current period which are of values more than Rs. 50 crores or 5% of the opening RAB, the details of which has been mentioned in Table 4. .... *21*

Truing Up: 1. Correction / Truing up for Decision No. 3 .... **21**

1.a. The Authority also decides that depending on the capex incurred and timing thereof (i.e. the date of capitalisation of the underlying assets in a given year), the Authority will make appropriate adjustments to the RAB at the beginning of the next control period taking into account the accounting policies of AAI regarding depreciation as well as actual expenditure incurred and capitalised. *21*

Decision No. 4. Regarding treatment of Depreciation **25**

4.a. The Authority decides to consider the approved depreciation policy of AAI in case of CCSIA and allow charging 100% depreciation. *25*

4.b. The residual value for each asset is to be taken as Re.1. .... *25*

4.c. For the year 2011-12, the Authority, in consideration of the depreciation policy of AAI, decides to charge full depreciation, irrespective of the month of capitalization. Furthermore, the Authority decides not to consider any depreciation in the year 2011-12 if that particular asset(s) was disposed off/ retired during the year 2011-12. .... *25*

4.d. From the year 2012-13 onwards, the Authority, in consideration of the depreciation policy of AAI decides to follow charging of full depreciation in case asset(s) are used in a financial year for 180 days or more, and if the asset(s) are used for less than 180 days, the depreciation charged will be equivalent to 50% depreciation of that financial year. *25*

Truing Up: 2. Correction / Truing up for Decision No. 4 .... **25**

2.a. The Authority also decides to true up the depreciation considered during the present aeronautical tariff determination exercise for assets which are yet to be capitalized, based on the actual capitalised assets in the current control period (i.e. the date of capitalisation of the underlying assets in a given year), while determining aeronautical tariffs for the next control period. 25

Decision No. 5. Regarding Roll forward RAB 26

5.a. The Authority decides to consider Roll Forward RAB during the Control Period as given in Table 5 above for the purpose of determination of tariffs for aeronautical services at CCSIA. 26

Truing Up: 3. Correction / Truing up for Decision No. 5 26

3.a. The Authority decides to true up the average RAB of the current control period while determining aeronautical tariff for the next control period based on the timing and exact value of asset capitalisation in the current control period. 26

Decision No. 6. RegardingTraffic Forecast 29

6.a. The Authority decides to consider the growth rates (Average of AAI forecast and CAGR) for traffic for the balance period of 2014-15 to 2015-16 in the current control period as given in Table 7, Para 9.9, Para 9.10 and Para 9.11 above. 29

Truing Up: 4. Correction / Truing up for Decision No. 6 29

4.a. The Authority decides to true up the traffic volume (Passengers, ATM and Cargo) based on actual throughput during the current control period while determining aeronautical tariffs for the next control period commencing w.e.f. 01.04.2016. 29

Decision No. 7. Regarding Revenue from Cargo, Ground Handling Services and Supply of fuel to aircraft 35

7.a. The Authority decides to consider the revenues accruing to AAI on account of the aeronautical services of Cargo Services, Ground Handling Services and Supply of fuel to aircraft, as aeronautical revenue irrespective of the providers of such Aeronautical Services. 35

7.b. The Authority decides to determine the charges of Cargo Services w.e.f. 01.04.2011 as per the MYTP submission of AAI for the current control period. The ATP for the remaining period of the current control period w.e.f. 01.10.2014 is attached as Annexure I. 35

7.c. The Authority decides to determine the fuel throughput charges for CCSIA at Rs. 361.83 per KL with effect from 01.04.2011 without any escaltion during the control period. 36

Decision No. 8. Regarding Non-Aeronautical Revenues 42

8.a. The Authority decides to consider the CUTE as Aeronautical Services, the same being an intergral part of ground handling services. The Authority further decides to consider the revenue accuring to the airport operator on account of CUTE as Aeronautical Revenue. 42

8.b. The Authority also decides to consider the Non-Aeronautical Revenue, as given in Table 10, for determination of Aeronautical Tariffs for the current control period. 42

Truing Up: 5. Correction / Truing up for Decision No. 8 42

5.a. The Authority decides to true up the Non-Aeronautical Revenue considered by the Authority in the present aeronautical tariff determination exercise, based on the actual non aeronautical revenue earned by AAI during the current control period, while determining aeronautical tariffs for the next control period. 42

Decision No. 9. Regarding Operation and Maintenance Expenditure.................................49

9.a. The Authority decides to consider the operational and maintenance expenditure as given in Table 13 above, for the purpose of determination of aeronautical tariffs for the first Control Period. 49

Truing Up: 6. Truing up of Operation and Maintenance Expenditure 49

6.a. The Authority decides that the following factors be reviewed for the purpose of corrections (adjustments) to tariffs for the current Control Period while determining tariffs in the next Control Period, commencing w.e.f. 01.04.2016: 50

i. True up the apportionment of administrative and general expenses of CHQ/RHQ for CCSIA; 50

ii. Mandated cost incurred due to directions issued by regulatory agencies like DGCA, CERC, etc.; . 50

iii. Cost of actual O&M expenses; 50

iv. All statutory levies in the nature of fees, levies, taxes and other such charges by Central or State Government or local bodies, local taxes, levies directly imposed on and paid by AAI on final product/service will be reviewed by the Authority for the purpose of corrections (adjustments) to tariffs on a tariff year basis. Furthermore, any additional expenditure by way of interest payments, penalties, fines and such penal levies associated with such statutory levies which AAI has to pay, for either any delay or non-compliance, the same may not be trued up. On the input side, if AAI has to pay higher input cost on account of change in levies / taxes or any procurement of goods and services, the same may not be trued up. 50

Decision No. 10. Regarding Taxation...52

10.a. The Authority decides to consider tax as actually paid by AAI in FY 2011-12 and 2012-13 towards calculations of Aeronautical Tariff determination. 52

10.b. The Authority decides to consider corporate income tax @ 32.445%, for the remaining period (2013-14 to 2015-16) of the current control period to estimate the taxes that are likely to be paid by AAI. 52

Truing Up: 7. Correction / Truing up for Decision No. 10 52

7.a. The Authority decides to true up the difference between the actual corporate tax paid and that used by the Authority for determination of tariff for the current control period, while determining the tariff for the next control period commencing 01.04.2016. 53

Decision No. 11. Regarding WACC (FRoR)..57

11.a. The Authority decides to consider the WACC at 14% for CCSIA for the first control period. 57

Decision No. 12. Regarding Quality of Service 58

12.a. The Authority decides to use the rebate mechanism as indicated in the Airport Order and the Airport Guidelines for CCSIA. 58

12.b. The implementation of the rebate scheme would be applicable from the fifth Tariff year of the Current Control period i.e., 2015-16. Rebate for year 2015-16 is proposed to be carried out in 2017-18, which is the second tariff year of the next control period. 58

Decision No. 13. Regarding Error Correction and Annual Compliance Statement 59

13.a. The Authority decides that CCSIA should submit the Annual Compliance Statements for the individual tariff years of the first control period along with the MYTP for the next Control Period..........59

Decision No. 14. Regarding tariff rate card and under recovery of ARR 73

14.a. The Authority decides to allow the exemption of landing fees to the aircrafts of domestic scheduled operators with less than 80 seats and helicopters of all types with reference to the Government of India letter dated 09.02.2004. 73

14.b. The Authority decides to determine the aeronautical tariff as per the tariff rate card at Annexure I to be effective from 01.10.2014, subject to exemption of landing fees as mentioned in Decision No. 14.a above. 73

14.c. The Authority decides to determine UDF at Rs. 370/- per domestic embarking passenger and Rs. 1,060/- per international embarking passenger for the year 2014-15 (effective from 01.10.2014) with an anuual increase @ 5.9% for the year 2015-16 i.e. Rs. 392/- and Rs. 1124/- per domestic and international embarking passenger respectively. 73

14.d. The Authority notes that the tariffs as indicated in Annexure I would leave an under recovery of Rs. 128.75 crore as of 01.04.2011 (refer Table 17) as per the projection considered by the Authority. ..74

14.e. The Authority notes that PSF (Facilitation) at Rs. 77/- per embarking passenger is merged with UDF w.e.f. 01.10.2014 and therefore separate charges in the name of PSF (Facilitation) stands withdrawn. 74

14.f. The Authority also notes that PSF (Security) at Rs. 130/- per embarking passenger will continue to be charged during the current control period. 74

14.g. Depending on the AAI submissions during the tariff determination for the next control period, the Authority decides to consider, if and to what extent, the calculated shortfall may be reckoned as additional revenue requirement during the next Control Period (over and above what would be required on the basis of calculations only for the next Control Period). 74

Truing Up: 8. Correction/Truing Up for Decision No. 14 74

8.a. The Authority decides to true up the amount of under recovery of ARR during the current control period, at the time of determining the aeronautical tariffs for the next control period. 74

26. Order of the Authority

26.1. In exercise of powers conferred by Section 13(1)(a) of the AERA Act, 2008, the Authority hereby determines the aeronautical tariffs to be levied at Chaudhary Charan Singh International Airport, Lucknow for the first Control Period (i.e. FY 2011-12 to 2015-16) with effect from 01.10.2014 as at Decision No. 14 above.

26.2. The rate of UDF as indicated in Decision No. 14 above is determined in terms of the provisions of Section 13(1)(b) of the AERA Act read with Rule 89 of the Aircraft Rules 1937.

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

By the Order of and in the
Name of the Authority

Alok Shekhar
Secretary

To,

Airports Authority of India
Rajiv Gandhi Bhawan
Safdarjung Airport
New Delhi – 110003
(Through Shri Sudhir Raheja, Chairman)

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Annexure I

Airports Authority of India

Chaudhary Charan Singh International Airport, Amausi, Lucknow

Aeronautical Charges for the first control period

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1. Airport Charges for FY 2014-15 effective from 1st October, 2014

1.1. Landing, Parking and Housing charges

1.1.1. Domestic/ International Landing Charges – per single landing

Weight of the Aircraft	Rate Per Landing (In INR)
Up to 20 MT	212.00 per MT
Above 20 MT up to 50 MT	4240.00 + 434.60 per MT in excess of 20 MT
Above 50MT up to 100 MT	17278.00 + 508.80 per MT in excess of 50 MT
Above 100 MT	42718.00 + 577.70 per MT in excess of 100 MT

Note:

1.1.1.a. No 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 type as approved by Govt. of India vide order no. G.17018/7/2001-AAI dated 9th Feb.2004.

1.1.1.b. Weight of the aircraft for calculation of Charges shall be rounded off to nearest Metric Ton (MT) (i.e.1,000 kgs.). For rounding off, fraction of weight below 500 Kgs will be ignored and 500 Kgs & above up to 1000 Kgs will be considered as 1 MT.

1.1.1.c. A surcharge of 25% will be levied on landing charges for supersonic aircraft.

1.1.1.d. Subject to exemption as mentioned at Para 1.1.1.a above, a minimum fee of INR 3000/- shall be charged per single landing for all types of aircraft / helicopter flights, including but not limited to domestic landing, international landing and general aviation landing. However, this will not be applicable to flights operated by Flying Clubs.

1.1.1.e. Weight of the aircraft means maximum takeoff weight (MTOW) as indicated in the certificate of Airworthiness filed with Director General Civil Aviation (DGCA).

1.2. Parking and Housing Charges

Weight of Aircraft	RATES (In INR)	
	Parking Charges Rate per MT per Hour	Housing Charges Rate per MT per Hour
Up to 40 MT	4.50 per hour per MT	8.90 per hour per MT
Above 40 MT up to 100 MT	180.00 + 8.50 per hour per MT in excess of 40 MT	356.00 + 16.50 per hour per MT in excess of 40 MT
Above 100 MT	690.00 + 11.00 per MT per hour in excess of 100 MT	1346.00 +21.20 per MT per hour in excess of 100 MT

Note:

1.2.1.a. 50% rebate in Housing & Parking Charges between 2200 hrs to 0600 hrs at LUCKNOW airport.

1.2.1.b. AAI has decided in principle to waive off the night parking charges for all domestic scheduled operators at those airports where the State Government levies the rate of tax (VAT) on ATF up to 5%. The above waiver of night parking charges (between 2200 hrs to 0600 hrs) will be made applicable from the date of implementation of levy of tax (VAT) on AFT up to 5% by the respective State Govt.(s). This relief shall be applicable initially for a period of five years and will be reviewed thereafter. In the event of upward revision in the tax rate of ATF by the respective State Govts., the relief of free night parking charges will also be deemed to be withdrawn for all the airports within the jurisdiction of the said State(s).

1.2.1.c. No parking charges shall be levied for the first two hours. While calculating free parking period, standard time of 15 minutes shall be added on account of time taken between touch down time and actual parking time on the parking stand. Another standard time of 15 minutes shall be added on account of taxing time of aircraft from parking stand to take off point. These periods shall be applicable for each aircraft irrespective of actual time taken in the movement of aircraft after landing and before takeoff.

1.2.1.d. For calculating chargeable parking time, any part of an hour shall be rounded off to the next hour.

1.2.1.e. Weight of the aircraft for calculation of Charges shall be rounded off to nearest Metric Ton (MT) (i.e.1,000 kgs.). For rounding off, fraction of weight below 500 Kgs will be ignored and 500 Kgs & above up to 1000 Kgs will be considered as 1 MT.

1.2.1.f. Charges for each period parking shall be rounded off to nearest Rupee

1.2.1.g. Whilst in -contact stands, after free parking for the next two hours, Parking charges shall be levied. After this period, the Housing charges shall be levied.

1.3. Fuel Throughput Charges

Rate Per KL (In INR)
361.83

1.4. User Development Fee (UDF)

Rate (In INR)	
Domestic	370 per embarking passenger
International Passenger	1060 per embarking passenger

Note:

1.4.1. Collection charges: if the payment is made within 15 days of receipt of invoice, then collection charges at INR 5 per departing passenger shall be paid by AAI. No collection charges shall be paid in case the airline fails to pay the UDF invoice to AAI within the credit period of 15 days.

1.4.2. Transit/Transfer passengers: A passenger is treated in-transit/transfer only if the onward journey is within 24 hours from the time of arrival at airport and the onward travel is part of same ticket. In case 2 separate tickets are issued (one for arrival and one for departure), the passenger would not be treated as transfer passenger. Transfer passenger does not include passenger on return journey.

1.5. General Condition

1.5.1. All the above Charges are excluding of Service Tax. Service Tax at the applicable rates are payable in addition to above charges.

1.5.2. PSF (Security) will be continued to be levied at the applicable rate.

1.5.3. PSF (Facilitation) will be continued to be charged till the revised UDF levy is implemented.

2. Airport Charges for FY 2015-16 effective from 1st April, 2015

2.1. Landing, Parking and Housing charges

2.1.1. Domestic/ International Landing Charges – per single landing

Weight of the Aircraft	Rate Per Landing (In INR)
Up to 20 MT	224.70 per MT
Above 20 MT up to 50 MT	4494.00 + 460.70 per MT in excess of 20 MT
Above 50MT up to 100 MT	18315.00 + 539.30 per MT in excess of 50 MT
Above 100 MT	45280.00 + 612.40 per MT in excess of 100 MT

Note:

2.1.1.a. No 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 type as approved by Govt. of India vide order no. G.17018/7/2001-AAI dated 9th Feb.2004.

2.1.1.b. Weight of the aircraft for calculation of Charges shall be rounded off to nearest Metric Ton (MT) (i.e.1,000 kgs.). For rounding off, fraction of weight below 500 Kgs will be ignored and 500 Kgs & above up to 1000 Kgs will be considered as 1 MT.

2.1.1.c. A surcharge of 25% will be levied on landing charges for supersonic aircraft.

2.1.1.d. Subject to exemption as mentioned at Para 2.1.1.a above, a minimum fee of INR 3000/- shall be charged per single landing for all types of aircraft / helicopter flights, including but not limited to domestic landing, international landing and general aviation landing. However, this will not be applicable to flights operated by Flying Clubs.

2.1.1.e. Weight of the aircraft means maximum takeoff weight (MTOW) as indicated in the certificate of Airworthiness filed with Director General Civil Aviation (DGCA).

2.2. Parking and Housing Charges

Weight of Aircraft	RATES (In INR)	
	Parking Charges Rate per MT per Hour	Housing Charges Rate per MT per Hour
Up to 40 MT	4.80 per hour per MT	9.40 per hour per MT
Above 40 MT up to 100 MT	192.00 + 9.00 per hour per MT in excess of 40 MT	376.00 + 17.50 per hour per MT in excess of 40 MT
Above 100 MT	732.00 + 11.70 per MT per hour in excess of 100 MT	1426.00 +22.50 per MT per hour in excess of 100 MT

Note:

2.2.1. 50% rebate in Housing & Parking Charges between 2200 hrs to 0600 hrs at LUCKNOW airport.

2.2.2. AAI has decided in principle to waive off the night parking charges for all domestic scheduled operators at those airports where the State Government levies the rate of tax (VAT) on ATF up to 5%. The above waiver of night parking charges (between 2200 hrs to 0600 hrs) will be made applicable from the date of implementation of levy of tax (VAT) on AFT up to 5% by the respective State Govt.(s). This relief shall be applicable initially for a period of five years and will be reviewed thereafter. In the event of upward revision in the tax rate of ATF by the respective State Govts., the relief of free night parking charges will also be deemed to be withdrawn for all the airports within the jurisdiction of the said State(s).

2.2.3. No parking charges shall be levied for the first two hours. While calculating free parking period, standard time of 15 minutes shall be added on account of time taken between touch down time and actual parking time on the parking stand. Another standard time of 15 minutes shall be added on account of taxing time of aircraft from parking stand to take off point. These periods shall be applicable for each aircraft irrespective of actual time taken in the movement of aircraft after landing and before takeoff.

2.2.4. For calculating chargeable parking time, any part of an hour shall be rounded off to the next hour.

2.2.5. Weight of the aircraft for calculation of Charges shall be rounded off to nearest Metric Ton (MT) (i.e.1,000 kgs.). For rounding off, fraction of weight below 500 Kgs will be ignored and 500 Kgs & above up to 1000 Kgs will be considered as 1 MT.

2.2.6. Charges for each period parking shall be rounded off to nearest Rupee

2.2.7. Whilst in -contact stands after free Parking, for the next two hours Parking charges shall be levied. After this period, the Housing charges shall be levied.

2.3. Fuel Throughput Charges

Rate Per KL (In INR)
361.83

2.4. User Development Fee (UDF)

Rate (In INR)	
Domestic	392 per embarking passenger
International Passenger	1124 per embarking passenger

Note:

2.4.1. Collection charges: if the payment is made within 15 days of receipt of invoice, then collection charges at INR 5 per departing passenger shall be paid by AAI. No collection charges shall be paid in case the airline fails to pay the UDF invoice to AAI within the credit period of 15 days.

2.4.2. Transit/Transfer passengers: A passenger is treated in-transit/transfer only if the onward journey is within 24 hours from the time of arrival at airport and the onward travel is part of same ticket. In case 2 separate tickets are issued (one for arrival and one for departure) , the passenger would not be treated as transfer passenger. Transfer passenger does not include passenger on return journey.

2.5. General Condition

2.5.1. All the above Charges are excluding of Service Tax. Service Tax at the applicable rates are payable in addition to above charges.

2.5.2. PSF (Security) will be continued to be levied at the applicable rate.

3. Cargo Charges for the first control period

3.1. Export Cargo

3.1.1. Terminal, Storage And Processing Charges:

		Rate per Kilogram Rs. / P	Minimum rate per consignment Rs. / P
1	General	0.74	125.00
2	Special	1.47	245.00
3	Perishable	0.74	125.00

3.1.2. Demurrage Charges (Leviable from Shipper)

		Rate per Kilogram Rs. / P	Minimum rate per consignment RS. / P
1	General	0.76	125.00
2	Special	1.50	245.00
3	Perishable	0.76	125.00

3.1.3. **NOTES: [Export Cargo]**

3.1.3.a. The free period for export cargo shall be one working day (24 hours) for examination/processing by the Shippers.

3.1.3.b. 10% discount in the Terminal, Storage and Processing charges will be granted to Exporters, who opt for engaging their own loaders for offloading cargo from their vehicles at Truck Dock and shifting to Custom Examination Area.

3.1.3.c. Terminal, Storage and Processing charges applicable to Newspaper and TV reel consignments shall be 50% of the prescribed charges.

3.1.3.d. Consignments of human remains, coffin including unaccompanied baggage of deceased and Human eyes will be exempted from the purview of Terminal, Storage and Processing charges & Demurrage charges.

3.1.3.e. Terminal, Storage and Processing charges are inclusive of Forklift charges wherever Forklift usage is involved. No separate Forklift charges will be levied.

3.1.3.f. Special cargo consists of live animals, hazardous goods and valuable cargo.

3.1.3.g. 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.

3.1.3.h. For misdeclaration of weight above 2% and up to 5% of declared weight, penal charges @ double the applicable Terminal, Storage and Processing charges and for variation above 5%, the penal charges @ 5 times the applicable Terminal, Storage and Processing charges will be leviable on the differential weight, subject to minimum amount equivalent to the applicable minimum Terminal, Storage and Processing charges. No penal charges will be leviable for variation upto and inclusive of 2%. This will not apply to valuable cargo.

3.1.3.i. All Bills shall be rounded off to the nearest of Rs.5/-. As per IATA Tact Rule Book Clause 5.7.2, the rounding off procedure, when the rounding off Unit is 5.

When the results of calculations are between / and	**Rounded off amount will be**
102.5 - 107.4	105
107.5 - 112.4	110

3.1.3.j. As an incentive to trade to utilize the lean hours, 20% discount in the Terminal, Storage and Processing charges will be granted to Export cargo admitted between 1000 hrs. to 1500 hrs., subject to levy of minimum rate per consignment as given in Scale of Charges.

3.1.3.k. Merchant Over Time (MOT) charges @ Rs.200.00 per consignment for admitting cargo beyond normal working hours.

3.2. **Import Cargo**

3.2.1. Terminal, Storage And Processing Charges:

		Rate per Kilogram Rs. / P	Minimum rate per consignment Rs. / P
1	General	4.96	135.00
2	Special and Valuable	9.89	265.00

3.2.2. Demurrage Charges

3.2.2.a. Free storage period for Import cargo shall be 72 hrs. (03 working days) including the date of the arrival of flight. For the next 48 hrs. (02 working days), demurrage will be charged at "per kg; per day" non-cumulative basis, provided the consignment is cleared within 120 hrs. (05 working days). If clearance is affected after 120 hrs. (05 working days), demurrage will accrue for the entire period from the date / time of the arrival of the flight, as follows:-

			Rate per Kilogram Rs. / P	Minimum rate per consign-ment (Rs. / P.)
1	**General Cargo**	Upto 120 hrs. (5 days working) including free period	1.44	325.00
		Between 120 hrs. and 720 hrs. (6 and 30 days)	2.87	
		Beyond 720 hrs. (30 days)	4.31	
2	**Special Cargo**	Upto 120 hrs. (5 days working) including free period	2.87	640.00
		Between 120 hrs. and 720 hrs. (6 and 30 days)	5.73	
		Beyond 720 hrs. (30 days)	8.60	
3	**Valuable Cargo**	Upto 120 hrs. (5 days working) including free period	5.73	1280.00
		Between 120 hrs. and 720 hrs. (6 and 30 days)	11.47	
		Beyond 720 hrs. (30 days)	17.20	

3.2.3. **<u>NOTES</u>: [Import Cargo]**

3.2.3.a. Consignments of human remains, coffin including baggage of deceased & human eyes will be exempted from the purview of Terminal, Storage and Processing charges & Demurrage charges.

3.2.3.b. No separate Forklift charges will be levied.

3.2.3.c. 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.

3.2.3.d. Special Import Cargo consists of cargo stored in cold storage, live animals and hazardous goods.

3.2.3.e. Valuable cargo consists of gold, bullion, currency notes, securities, shares, share coupons, travelers' cheques, diamonds (including diamonds for industrial use), diamond jewelry, jewelry & watches made of silver, gold platinum and items valued at USD 1000 per Kg. & above.

3.2.3.f. All Bills shall be rounded off to the nearest of Rs.5/=. As per IATA Tact Rule Book Clause 5.7.2, the rounding off procedure, when the rounding off Unit is 5.

When the results of calculations are between / and	Rounded off amount will be
102.5 - 107.4	105
107.5 - 112.4	110

Notes:

1. Minimum de-stuffing charges per IGM shall be Rs 473/=
2. Demurrage charges on Import Transshipment cargo will be as applicable to import Cargo except that no handling charges shall be charged.
3. Demurrage charges on transshipment cargo from domestic to International and from International to International shall be treated as same as applicable for export cargo, are allowing the prescribed free period.
4. The free period for export cargo for the NSOs would be 48 hrs. in the bonded area since the time of bonding.
5. Minimum carting charges shall be Rs 315/= per CTM.
6. All bills preferred by the handling company i.e AAI shall be rounded off to the nearest higher of Rs 5/=.
7. All charges by NSOs shall be on cash and carry basis.

8. No free period may be allowed on second time handling /upliftment of export cargo from cargo terminal .Applicable charges (Storage) shall be levied.
9. In case of transit ULDs brought by the Airlines handed over to AAI for the storage in the bonded area/ETV stacker for any reasons, the storage charges as per para 5 & 6 shall be levied.

3.3. **Domestic Outbound Cargo Charges Leviable on Shippers/Consignor(s) etc.**

ACTIVITY	AAI CHARGES	
	MINIMUM	**PER KG**
1. Standard Charges for processing & Handling (TSP charges inclusive of off-loading / Loading/ Shifting & Forklift Usage)	INR	INR
a) General Cargo	110	0.75
b) Special (AVI) #	220.00	1.50
c) PER/DGR/VAL	220.00	1.50
2. Demurrage Charges / Storage (per day)		
a) General Cargo	110.00	0.75
b) Special (AVI)#	220.00	1.50
c) PER/DGR/VAL(If cold storage is used)	220.00	1.50
3. Courier Handling	120.00	1.00
4. Amendment of Airway Bill	100.00 per AWB	
5. Return Cargo Charges	100.00 per AWB	
6. Strapping Charges	10.00 per Bag	
7. In addition to the above, in the event of mis-Declaration of Weight, following charges based on the difference will apply		
2% - 5% variation	2 times of excess weight	
More than 5% (Not Applicable in VAL Cargo)	5 times of excess weight	

Notes:

3.3.1. The free period for outbound domestic cargo shall be one working day for examination/processing by the shipper/consignor/authorized representative etc.

3.3.2. **10% discount in the domestic cargo handling charges will be granted to the shippers/consignors who opt for engaging their own loaders for offloading cargo from their vehicles at Truck Dock and shifting to the examination/storage area before handing over to the airlines concerned.**

3.3.3. The domestic cargo handling charges applicable to newspaper and TV reel consignments shall be 50% of the prescribed charges.

3.3.4. Consignment of human remains, coffin including unaccompanied baggage of deceased and human eyes will be exempted from the preview of domestic cargo handling & demurrage charges.

3.3.5. The domestic cargo handling charges are inclusive of fork lift charges wherever fork lift usage is involved. No separate fork lift charges will be levied.

3.3.6. #As per IATA definition, Special cargo consists of cold storage, live animals, hazardous goods & valuable cargo.

3.3.7. 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.

3.3.8. For mis-declaration of weight above 2% and upto 5% of declared weight, penal charges @ double the applicable domestic cargo handling charges and for variation above 5%, the penal charges % 5 times the applicable domestic cargo handling charges will be leviable on the differential weight, subject to minimum amount equivalent to the applicable minimum domestic cargo handling Charges. No penal charges will be leviable for variation upto and inclusive of 2%. This will not apply to Valuable Cargo.

3.3.9. All the Bills shall be rounded off to the nearest of Rs.5/- . As per IATA Tact Rule Book Clause 5.7.2, the rounding off procedure, when the rounding off Unit is 5.

When the results of calculations are between / and	**Rounded off amount will be**
102.5 - 107.4	105
107.5 - 112.4	110

3.4. Domestic Inbound Cargo Charges Leviable on Consignee(s) etc.

ACTIVITY	PROPOSED AAI CHARGES	
1.Standard Charges for processing & Handling (TSP charges inclusive of off-loading / Loading/ Shifting & Forklift Usage)	MINIMUM (INR)	PER KG. (INR)
a) General Cargo	110.00	0.75
b) Special (AVI) #	220.00	1.50
c) PER/DGR/VAL*	220.00	1.50
2. Demurrage Charges / Storage (per day)		
a) General Cargo	110.00	0.75
b) Special (AVI)	220.00	1.50
c) PER/DGR/VAL* (If cold storage is used)	220.00	1.50
3. Courier Handling	120.00	1.00

Note:

3.4.1. The free period for inbound domestic cargo shall be one working day for examination/processing/delivery by the consignee/authorized representative etc.

3.4.2. 10% discount in the domestic cargo handling charges will be granted to the consignee/authorized representatives who opt for engaging their own loaders for loading cargo into their vehicles for delivery at designated areas from the airlines concerned.

3.4.3. Consignment of human remains, coffin including unaccompanied baggage of deceased and human eyes will be exempted from the preview of domestic cargo handling & demurrage charges.

3.4.4. The domestic cargo handling charges are inclusive of fork lift charges wherever fork lift usage is involved. No separate fork lift charges will be levied.

3.4.5. 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.

3.4.6. **#**As per IATA definition, Special cargo consists of cargo stored in cold storage, live animals, valuable & hazardous goods.

3.4.7. *****Valuable cargo consists of gold, bullion, currency notes, securities, shares, share coupons, travellers cheques, diamonds (including diamonds for industrial use), diamond jewellery, jewellery & watches made of silver, gold platinum & items valued at US$ 1000 and above.

3.4.8. All the Bills shall be rounded off to the nearest of Rs.5/- . As per IATA Tact Rule Book Clause 5.7.2, the rounding off procedure, when the rounding off Unit is 5.

When the results of calculations are between / and	Rounded off amount will be
102.5 - 107.4	105
107.5 - 112.4	110

3.5. Charges/Discounts/Incentives Leviable/ Payable on/to Airlines for Various Cargo Handling Services Rendered by AAI at the Cargo Terminal

<table>
<tr><th>S. No.</th><th>Particulars</th><th colspan="3">Rates (Rs.)</th></tr>
<tr><td rowspan="2">01.</td><td>(i) Storage Charges for General Export uplifted beyond free period</td><td colspan="3">1.81 per Kg</td></tr>
<tr><td>(ii) Storage Charges for valuable Export Cargo Perishable/Live Animals and Hazardous Cargo uplifted beyond free period shall be two times of normal</td><td colspan="3">3.62 per Kg Rates</td></tr>
<tr><td rowspan="6">02.</td><td rowspan="3">(i) Storage Charges for Import Cargo not handed over and remain unchecked after a free period of 24 hours from time per day of arrival of an aircraft</td><td>General Bulk Cargo</td><td colspan="2">Loaded ULD</td></tr>
<tr><td>(in Rs)(Kg/day)</td><td colspan="2">(in Rs)(ULD/day)</td></tr>
<tr><td>1.81</td><td colspan="2">723</td></tr>
<tr><td rowspan="3">(ii) Storage Charges for 'Val'/ Haz/Perishable/Live Animal Import Cargo</td><td>Valuable</td><td>Haz./Peri/LA</td><td>Per Consgn/ AWB</td></tr>
<tr><td>(per Kg/day)(in Rs.)</td><td>(per Kg/day)(in Rs.)</td><td>(in Rs.)</td></tr>
<tr><td>4.57</td><td>3.00</td><td>252</td></tr>
</table>

NOTES:

3.5.1. Demurrage charges on Import Transshipment cargo will be as applicable to Import cargo except that no handling charges shall be levied on the airlines handled by AAI where the TP cargo handed over to the airlines on airside designated area on the airport

3.5.2. Demurrage charges on Transhipment cargo from Domestic to International and from International to International shall be treated as same as applicable for export cargo, after allowing the normal free period.

3.5.3. The free period for export cargo for the carrier from the date of entry in bonded area till upliftment shall be as per Government Directives.

3.5.4. All bills preferred by the Handling Company shall be rounded off to the nearest Rupee.

3.5.5. No free period may be allowed on second time handling/upliftment of export cargo from cargo terminal. Applicable charges (Demurrage/Storage) shall be levied.

3.5.6. In case of Transit ULDs brought by the Airlines handed over to AAI for Storage in the Bonded Area/ETV stacker for any reasons, the Storage Charges as per para 2(i) & 2(ii) shall be levied.