



Airports Economic Regulatory Authority of India

**In the matter of determination of aeronautical tariffs in respect of
Lal Bahadur Shastri International Airport (VNS), Varanasi for the
First Control Period (01.04.2019 to 31.03.2024)**

Date of Issue: 1st June 2020

AERA Building
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Safdarjung Airport
New Delhi – 110003

STAKEHOLDER COMMENTS

The Authority is aware of the fact that the Aviation Sector is undergoing unprecedented turbulence and uncertainty on account of the COVID-19 global pandemic and the associated lockdown situation in the major cities around the world has resulted in restrictions in air travel both domestic and international. The Authority has released this Consultation Paper currently in which the proposals have been put forward based on Authority's analysis and observations on the Multi Year Tariff Proposal (MYTP) submitted by the airport operator. The Authority on account of the expected substantial changes in the prevailing business scenario including the changes in traffic projections and capacity enhancement (CAPEX) going forward shall consider revised submissions by the airport operator at the time of stakeholder consultation process to form a final view on the various aspects forming part of the tariff determination process. Thus, in accordance with the provisions of Section 13(4) of the AERA Act, the written comments on Consultation Paper No. 05/2020-21 dated 01/06/2020 are invited from the stakeholders, preferably in electronic form at the following address;

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Last Date for submission of comments: 29/06/2020

Last Date for submission of counter comments: 10/07/2020

Comments and counter comments will be posted on AERA's website www.era.gov.in

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List of Abbreviations

Abbreviation	Full Form
AAI	Airports Authority of India
AAICLAS	AAI Cargo Logistics and Allied Services
AERA	Airports Economic Regulatory Authority
ANS	Air Navigation Services
ARR	Annual Revenue Requirement
ATM	Aircraft Traffic Movement
AUCC	Airport Users Consultative Committee
AVDGS	Advanced Visual Docking Guidance System
C&AG	Comptroller and Auditor General of India
CAGR	Compounded Annual Growth Rate
CFT	Crash Fire Tender
CHQ	Central Headquarter
CISF	Central Industrial Security Force
DGCA	Directorate General of Civil Aviation
DLP	Defect Liability Period
E&M	Electrical & Mechanical
EB	Electricity Board
FRoR	Fair Rate of Return
GoI	Government of India
GST	Goods and Services Tax
IDC	Interest During Construction
MoCA	Ministry of Civil Aviation
MPPA	Million Passenger per Annum
MYTP	Multi-Year Tariff Proposal
NAR	Non-Aeronautical Revenue
PBB	Passenger Boarding Bridge
PIB	Project Investment Board
PMC	Project Management Consultancy
PPP	Public Private Partnership
PSF	Passenger Service Fee
PTB	Passenger Terminal Building
RAB	Regulatory Asset Base
RHQ	Regional Headquarter
UDF	User Development Fees
YPP	Yield Per Passenger

1. Introduction

- 1.1 Lal Bahadur Shastri Airport (VNS), located in the city of Varanasi is the 20th busiest airport in India with annual passenger traffic witnessing high growth. DGCA granted commercial license to AAI to operate Varanasi Airport on May 25, 2007, which has been renewed every 2 year thereafter. The license was last renewed on November 25, 2019 and is valid up to November 24, 2021
- 1.2 Technical and terminal building details of Varanasi Airport are provided in the table below:

Table 1: Technical details and terminal building details

Technical Details of VNS	
Particulars	Details
Total airport area	774 Acre
Runway orientation and length	09-27 and 2.45 km
No. of taxi tracks	04
No. of apron bays	09
Operational hours	24 hours
Terminal building details (Domestic plus International)	
Particulars	Details
Terminal building area	26823 sq. meters
Arrival conveyors	02
Peak hour passenger capacity	1050 (Domestic – 750 & International – 300)
No. of check-in counters	21
Total area of car parking	8799 sq. meters

- 1.3 As per AERA (Amendment) Act 2019, the annual passenger handling threshold definition of major airports was revised from 1.5 million to 3.5 million annually. Varanasi with a projected throughput of 3.16 million passenger traffic projected for FY 2019-20 and designed capacity of 2.5 mppa doesn't qualify as "Major Airport" as per the new definition. However, Ministry of Civil Aviation vide letter no. AV-24011/141/2015-AD (Vol. V) dated October 30, 2019 directed AERA to determine the aeronautical tariffs for the Varanasi airport as AAI has proposed to include it in the next round of PPP leasing in order to provide a transparent view to various bidders. The AERA vide letter no. AERA/20010/MoCA-Reference/2018-19/Vol-III/13092 dated October 14, 2019 clarified that the tariff determination will be done on the basis of AAI's financial statements including capital expenditure incurred by AAI as on the date of determination and capital expenditure projections for the Control Period along with the capital structure and cost of funds of AAI. AERA clarified that this may change drastically once the Airport is handed over to the prospective bidder and accordingly

the tariff determined may not remain reflective of the changed situation. Further, AERA requested MoCA to issue notification/circular declaring Varanasi Airport as a “Major Airport”, if it so desired to enable the Authority to determine its tariff in the current state. Accordingly, MoCA notified Varanasi Airport as “Major Airport” in the Gazette of India, Extraordinary, Part II, Section 3, Sub-Section (ii) vide letter No. AV-24011/141/2015-AD (Vol. V) dated October 10, 2019.

- 1.4 As discussed above, once the airport is handed over to the prospective bidder and the inputs for tariff determination such as capital expenditure projections for the Control Period, capital structure, cost of funds etc. may change. ***Accordingly, the Authority will direct the Concessionaire, once the privatization takes place, to submit a fresh application for tariff determination based on their financials, within a year of handing over the airport, failing which the applicable tariffs shall be reduced by 25% till fresh application for tariff determination is submitted by the Concessionaire.***
- 1.5 AAI has accordingly submitted its Multi-Year Tariff Proposal dated December 03, 2019 to the Authority for determination of aeronautical tariffs for the 1st Control Period. Based on this MYTP, the Authority reviewed submissions made by AAI with respect to various building blocks. The ensuing chapters in this Consultation Paper present the Authority’s review of the MYTP submitted by AAI. The Authority’s position on various building blocks are on the final submission made by AAI including their inputs on queries raised by the Authority

2. Methodology for Tariff Determination

- 2.1 The Authority vide its Order No. 13/2010-11 dated January 12, 2011 (“Airport Order”) and Direction No. 5/2010-11 dated February 28, 2011 (“Airport Guidelines”), had issued guidelines to determine tariffs at major airports based on Single Till mechanism. Subsequently, the Authority has amended guidelines vide its Order No. 14, 2016-17 dated January 12, 2017 to determine the future tariffs using Hybrid Till.
- 2.2 The Authority had decided the 1st Control Period for the airport to be the five-year period from FY 2019-20 till FY 2023-24. The tariff determination process consists of determination of regulatory building blocks for the 1st Control Period under Hybrid Till.
- 2.3 The Aggregate Revenue Requirement (ARR) under the regulatory framework of the Authority is calculated as under:

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

$$ARR_t = (FRoR \times RAB_t) + Dt + Ot + Tt - \alpha \times NAR_t$$

Where,

t is the tariff year in the control period, ranging from 1 to 5

ARR_t is the Aggregate Revenue Requirement for tariff year ‘t’

FRoR is the Fair Rate of Return for the Control Period

RAB_t is the Aeronautical Regulatory Asset Base for tariff year ‘t’

D_t is the Depreciation corresponding to the Regulatory Asset Base for the tariff year ‘t’

O_t is the Aeronautical Operation and Maintenance expenditure for the tariff year ‘t’

T_t is the Aeronautical Taxation expense for the tariff year ‘t’

α is the cross-subsidy factor for revenue from services other than aeronautical services. Under the Hybrid Till methodology followed by the Authority, α = 30%.

NAR_t is the Non-Aeronautical Revenue in tariff year ‘t’.

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

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

Where,

PV (ARR_t) is the Present Value of ARR for all the tariff years. All cash flows are assumed to occur at the end of the year. Further, the date considered by the Authority for discounting of cash flows is one year from the start of the Control Period, i.e., 1st April, 2019.

VE_t is the passenger traffic in year ‘t’.

3. AAI's Multi-Year Tariff Proposal (MYTP) of Varanasi Airport

- 3.1 AAI made submissions dated December 3, 2019 to the Authority for determination of tariffs for the 1st Control Period (01/04/19 to 31/03/24) on the basis of Hybrid Till.
- 3.2 AAI provides Air Navigation Services (ANS) in addition to landing, parking, and, other aeronautical services at Varanasi Airport. AAI has submitted that the tariff proposal does not consider revenues, expenditure, and, assets, on account of ANS. This consultation paper discusses the determination of tariffs for aeronautical services at the airport excluding ANS.
- 3.3 AAI has further submitted that all cargo operations have been transferred to AAI Cargo Logistics and Allied Services (AAICLAS), its wholly owned subsidiary, and, the tariff proposal does not consider expenditure and assets on account of cargo operations. AAI has considered a revenue share of 30% from AAICLAS as part of the aeronautical revenue as per AAI's internal agreement with AAICLAS. This Consultation Paper discusses the determination of tariffs for aeronautical services at the airport excluding Cargo Operations. The tariffs for cargo operations will be determined separately since the operations are carried out by a separate entity.
- 3.4 AAI has informed that accounts of AAI are audited by C&AG of India as mandated by AAI Act. The C&AG's resident audit party audits the financial records and statements of AAI airports, regional and field offices. However, the C&AG issues the final audit certificate for AAI as a whole and only Trial Balance is available for Varanasi Airport. The Authority has utilized these documents as submitted by AAI for determination of tariffs.

4. Traffic Forecast

4.1 The historical traffic at the airport has been shown in the table below:

Table 2: Historical passenger and ATM traffic at Varanasi Airport

Year	Domestic passengers	International passengers	Domestic ATM	International ATM
2006-07	317449	32563	4137	518
2007-08	401114	47749	5570	703
2008-09	355703	45072	4974	803
2009-10	431962	48975	4958	854
2010-11	500670	56181	5036	844
2011-12	683356	64455	6579	842
2012-13	738506	71442	6672	982
2013-14	735553	90729	6880	1160
2014-15	960388	59730	7926	875
2015-16	1314046	69916	10827	837
2016-17	1811617	104837	14019	1016
2017-18	1936616	150965	14323	1335
2018-19	2586311	198704	19984	1834
Past 10 years CAGR	21.94%	15.99%	14.92%	8.61%
Past 5 years CAGR	28.59%	16.97%	23.77%	9.59%

4.2 The traffic growth rates as submitted by AAI for the 1st Control Period are as follows:

Table 3: Traffic growth rates proposed by AAI as per initial submission

Year	Passenger			ATM		
	Domestic	International	Combined	Domestic	International	Combined
Growth rates						
2019-20	25%	15%	24.3%	25%	12%	23.9%
2020-21	12%	10%	11.9%	11%	9%	10.8%
2021-22	12%	10%	11.9%	11%	9%	10.9%
2022-23	12%	10%	11.9%	11%	9%	10.9%
2023-24	10%	10%	10%	9%	9%	9.0%
Traffic						
2019-20	32,32,889	2,28,510	34,613,98	24,980	2054	27,034
2020-21	36,20,835	2,51,361	38,721,96	27,728	2239	29,967
2021-22	40,55,336	2,76,497	43,318,32	30,778	2440	33,218
2022-23	45,41,976	3,04,146	48,461,22	34,163	2660	36,823
2023-24	49,961,73	3,34,561	53,307,34	37,238	2899	40,137

4.3 AAI submitted that the passenger traffic and aircraft movement projections are based on past trends, econometric and regression analysis, and various economic factors including policy framework.

Authority's Examination:

- 4.4 AAI has submitted the growth rate of 25% and 15% for Domestic and International Passenger Traffic respectively in FY 2019-20 and the growth rate of 25% and 12% for Domestic and International Aircraft Traffic Movement (ATM) in FY 2019-20. The Authority has verified the growth rate of actual Passenger Traffic of initial nine months of FY 2019-20 vis-à-vis initial nine months of FY 2018-19 and found it to be 12.86%. Similarly, the Authority has verified the growth rate of actual Aircraft Traffic Movement of initial nine months of FY 2019-20 vis-à-vis initial nine months of FY 2018-19 and found it to be 10.98%.
- 4.5 The Authority has analyzed the trend of proportion of actual initial nine months passenger traffic data i.e. April - December over the whole years' traffic data for last three years i.e. FY 2016-17 to FY 2018-19 as shown in table below:

Table 4: Passenger traffic data for last three years (FY 2016-17 to FY 2018-19)

Financial Year	Domestic Passenger Traffic Data			International Passenger Traffic Data		
	Apr - Dec	Apr - Mar	Proportion	Apr - Dec	Apr - Mar	Proportion
FY 2018-19	1,869,646	2,586,311	72.29%	124,950	198,704	62.88%
FY 2017-18	1,339,246	1,936,616	69.15%	109,492	150,965	72.53%
FY 2016-17	1,316,873	1,811,617	72.69%	72,730	104,837	69.37%
Average Ratio			71.38%			68.26%

- 4.6 In line with above analysis, the Authority has also analyzed the trend of proportion of actual initial nine months ATM data i.e. April - December over the whole years' ATM data for last three years i.e. FY 2016-17 to FY 2018-19 as shown in table below:

Table 5: ATM data for last three years (FY 2016-17 to FY 2018-19)

Financial Year	Domestic ATM Data			International ATM Data		
	Apr - Dec	Apr - Mar	Proportion	Apr - Dec	Apr - Mar	Proportion
FY 2018-19	14,620	19,984	73.16%	1,160	1,834	63.25%
FY 2017-18	9,880	14,323	68.98%	949	1,335	71.09%
FY 2016-17	10,386	14,019	74.09%	723	1,016	71.16%
Average Ratio			72.07%			68.50%

- 4.7 Based on above analysis, the Authority proposes to compute the passenger traffic for FY 2019-20 by grossing up the actual initial nine months traffic data for FY 2019-20 with the average ratio as determined above. The Authority has determined the Domestic and International passenger traffic as 2,902,772 and 262,427 respectively for FY 2019-20. Similarly, the Authority has determined the Domestic and International ATM as 22,149 and 2,260 respectively for FY 2019-20.
- 4.8 Therefore, for the first year i.e. FY 2019-20, the Authority proposes to consider Domestic passenger traffic at 3.165 million and Aircraft Traffic Movements at 24,409.
- 4.9 The Authority has duly examined the submissions from AAI. As part of its examination of AAI's forecast of traffic at Varanasi Airport, the Authority calculated Compounded Annual Growth Rate, or CAGR, for passenger traffic and ATM from FY 2008-09 to FY 2018-19 (10-year CAGR), FY 2013-14 to FY 2018-19 (5 year CAGR) and FY 2015-16 to 2018-19 (3-year CAGR).
- 4.10 Further, the Authority has computed the revised 10-year CAGR, 5-year CAGR and 3-

year CAGR up to FY 2019-20, using the above calculated traffic data for FY 2019-20.

The details are given in the table below:

Table 6: Revised CAGR for Passenger and ATM as per Authority

Particulars	10 year CAGR	5 year CAGR	3 year CAGR
Passengers:			
Domestic	21.94%	28.59%	25.32%
International	15.99%	16.97%	41.65%
ATM:			
Domestic	14.92%	23.77%	22.67%
International	8.61%	9.59%	29.88%
After considering actuals of FY 2019-20*:			
Passengers:			
Domestic	20.99%	24.76%	17.02%
International	18.28%	34.45%	35.78%
Total Passenger Traffic	20.73%	25.42%	18.20%
ATM:			
Domestic	16.15%	22.82%	16.47%
International	10.22%	20.90%	30.54%
Total ATM	15.43%	22.63%	17.53%

**Based on actuals up to Dec 2019 and linear extrapolation up to March 2020*

- 4.11 The Authority has noted the wide variation in traffic in the recent past, which causes CAGR for 5-year period to be the highest for Domestic passenger profile and CAGR for 3-year period to be the highest for International passenger profile
- 4.12 The Authority proposes to use revised 10-year CAGR for Domestic passenger traffic growth for the 2nd year of the Control Period and onwards; and, revised 5-year CAGR for International passenger traffic growth for the 2nd year of the Control Period and onwards.
- 4.13 With respect to ATM (2nd year of the Control Period and onwards), the Authority proposes the growth rates in line with revised 3-year CAGR, i.e. 16.47% for Domestic ATM and revised 5-year CAGR i.e., 20.90% for International ATM.
- 4.14 The traffic growth rates and the corresponding traffic for Passengers and ATM as considered by the Authority for the 1st Control Period is given in the table below:

Table 7: Traffic forecast as considered by the Authority

Year	Passenger			ATM		
	Domestic	International	Combined	Domestic	International	Combined
Growth rates						
2019-20	12.24%	32.07%	13.65%	10.84%	23.22%	11.88%
2020-21	20.99%	34.45%	22.10%	16.47%	20.90%	16.88%
2021-22	20.99%	34.45%	22.22%	16.47%	20.90%	16.89%
2022-23	20.99%	34.45%	22.34%	16.47%	20.90%	16.91%
2023-24	20.99%	34.45%	22.47%	16.47%	20.90%	16.92%
Traffic in numbers						
2019-20	2,902,772	262,427	3,165,199	22,149	2,260	24,409

Year	Passenger			ATM		
	Domestic	International	Combined	Domestic	International	Combined
2020-21	3,511,961	52,835	3,864,796	25,797	2,732	28,529
2021-22	4,248,996	474,389	4,723,386	30,046	3,303	33,349
2022-23	5,140,710	637,820	5,778,530	34,995	3,993	38,988
2023-24	6,219,562	857,554	7,077,116	40,758	4,828	45,586

4.15 The Authority proposes to true-up the traffic as per actual growth achieved during the 1st Control Period at the time of determination of tariff for the 2nd Control Period.

4.16 In light of the COVID-19 pandemic, GoI's restriction on Domestic and International flights to/from India and the resultant prevailing situation, it would be difficult to accurately assess the Traffic Volume for FY 2020-21 at this instant. AERA has therefore, for the purpose of Consultation Paper, utilized the traffic projections proposed above. However, the Authority proposes to take a final view based on developments of the COVID-19 situation and after considering Stakeholders' views on the subject, in response to this Consultation Paper.

Proposal No. 1: Regarding Traffic Forecast

- 1.a. The Authority proposes to consider the ATM and passenger traffic for the 1st Control Period for Varanasi Airport as per Table 7, while factoring in para 4.16 above.
- 1.b. The Authority proposes to true-up the traffic volume (ATM and Passengers) on the basis of actual traffic in 1st Control Period while determining tariffs for the 2nd Control Period.

5. Allocation of Assets between Aeronautical and Non-Aeronautical

- 5.1 Under Hybrid Till, only aeronautical assets are included as part of the Regulatory Asset Base (RAB). Therefore, all airport assets need to be segregated between aeronautical and non-aeronautical. Further, projections of capitalizations during the Control Period with regard to only aeronautical assets need to be considered as part of RAB.
- 5.2 For the purposes of this segregation, AAI has divided its assets into three components – Aeronautical, Non-aeronautical, and, Common. Common components have been further segregated into aeronautical and non-aeronautical assets by applying one of the following ratios:
- Terminal Area Ratio:** This is a ratio of aeronautical area to non-aeronautical area and is applied for all terminal related common assets.
 - Employee Ratio:** This is a ratio of number of staff providing non-aeronautical services (i.e. commercial and land management) to number of staff providing aeronautical services, excluding ANS and Cargo.
 - Quarter ratio:** This is a ratio based on number of non-aeronautical staff to aeronautical staff residing at the residential quarters at the airport. It is applied to assets pertaining to such residential quarters.
- 5.3 The table below provides the details of these ratios used for allocation.

Table 8: Ratios used by AAI for allocation of assets into aeronautical and non-aeronautical

Particulars	Ratio (FY 2017-18)
Terminal Area Ratio	5.93%
Employee Ratio	3:95
Quarter ratio	1:74

- 5.4 The allocation of gross block of assets as on 01/04/2017 between aeronautical and non-aeronautical services as submitted by AAI is given in the table below:

Table 9: Allocation of opening gross block of assets for FY 2017-18 between aeronautical and non-aeronautical as per AAI (INR Crore)

S. No.	Asset category	Total assets	Pure Aero assets	Common Assets	Common Assets		Total Aero Assets	% Aero
					Aero	Non-Aero		
1.	Leasehold Land	0.31	0.31	0.00	0.00	0.00	0.31	100.0%
2.	Runways, Aprons and Taxiways	44.74	44.74	0.00	0.00	0.00	44.74	100.0%
3.	Road, Bridges & Culverts	2.69	2.69	0.00	0.00	0.00	2.69	100.0%
4.	Building-Others	3.51	3.05	0.47	0.46	0.01	3.51	99.82%
5.	Building – Terminal	88.28	0.62	87.66	82.46	5.20	83.08	94.11%
6.	Building – Temporary	1.18	1.18	0.00	0.00	0.00	1.18	100.0%
7.	Building- Residential	0.46	0.11	0.36	0.35	0.01	0.46	98.96%
8.	Security Fencing-Temp	0.11	0.11	0.00	0.00	0.00	0.11	100%
9.	Boundary Wall – Operational	2.21	2.21	0.00	0.00	0.00	2.21	100.0%

S. No.	Asset category	Total assets	Pure Aero assets	Common Assets	Common Assets		Total Aero Assets	% Aero
					Aero	Non-Aero		
10.	Boundary Wall – Residential	0.08	0.00	0.09	0.08	0.01	0.08	98.65%
11.	Computer - End user	1.03	1.03	0.00	0.00	0.00	1.03	100%
12.	Intangible Assets – Software	1.02	1.01	0.01	0.01	0.0	1.01	99.79%
13.	Plant & Machinery	23.94	23.35	0.22	0.21	0.01	23.56	98.37%
14.	Tools & Equipment	4.00	3.22	0.78	0.73	0.05	3.95	98.85%
15.	Furniture & Fixtures: Other Than Trolley	1.75	1.74	0.01	0.01	0.00	1.75	99.99%
16.	Furniture & Fixtures: Trolley	0.36	0.36	0.00	0.00	0.00	0.36	100.0%
17.	Vehicles	1.15	1.15	0.00	0.00	0.00	1.15	100.0%
18.	Electrical Installations	43.46	7.91	35.55	33.45	2.10	41.36	95.16%
19.	Other Office Equipment	0.48	0.48	0.00	0.00	0.00	0.48	100.0%
20.	X Ray Baggage System	5.62	5.62	0.00	0.00	0.00	5.62	100.0%
21.	CFT/Fire Fighting Equipment	19.06	19.06	0.00	0.00	0.00	19.06	100.0%
	Total	245.44	119.95	125.12	117.75	7.37	237.70	96.84%

Authority’s examination

- 5.5 AAI has submitted the Initial RAB as on April 1, 2017 considering that Varanasi airport became “Major Airport” in FY 2017-18 as defined in Section 2(i) of Airports Economic Regulatory Authority of India (AERA, the Authority) Act. However, the threshold for the definition of Major Airports was revised to 3.5 million passengers per annum as per AERA (Amendment) Act, 2019.
- 5.6 As discussed in Section 1. Introduction, MoCA has directed AERA to determine the aeronautical tariffs for Varanasi Airport while declaring it as a “Major Airport” vide letter AV-24011/141/2015-AD (Vol. V) dated October 30, 2019 as it is proposed to be privatized in next round of PPP leasing by AAI. Accordingly, the Authority has determined the Initial RAB as on April 1, 2019, considering the first Control Period to be from FY 2019-20 to FY 2023-24.
- 5.7 AAI has submitted the details of common assets and their allocation between aeronautical assets and non-aeronautical assets as on April 1, 2017. The Authority for the purpose of calculating the gross Aero assets as on April 1, 2019, proposes to determine gross opening Aero assets as on April 1, 2017 as per AAI submissions and has considered the addition in aeronautical assets and net depreciation for FY 2017-18 and FY 2018-19 to compute the Initial RAB as on April 1, 2019. The depreciation for FY 2017-18 and FY 2018-19 has been computed considering the depreciation rates as per AAI’s internal accounting policies, which shall be discussed in subsequent sections.
- 5.8 AAI submitted the workings for the calculation of the terminal area ratio, i.e., ratio of non-aeronautical portion to the aeronautical portion of the terminal building. This has been presented in the table below.

Table 10: Terminal Area Ratio

S. No.	Category	Area (Sq. meters)
1	Commercial Entities- Restaurant / Snack Bars	269.03
2	Commercial Entities- Retail Facility	559.48
3	Duty Free Shop	0.00
4	Building Non-Residential	715.29
5	Admission Tickets	3.00
6	AAI Commercial office	45.00
	Total non-aeronautical area (1)	1591.80
	Total area of terminal (2)	26822.79
	Terminal area ratio (1/2)	5.93%

- 5.9 The Authority observed that 9,030 sq. ft. or 838.91 sq. mt. of area was used for advertising purposes. However, this area does not occupy any floor space and has therefore, not been considered while calculating Terminal Area Ratio.
- 5.10 The Authority verified the above working, with details of exact area given to various entities – commercial, airlines, and regulatory and allied agencies. However, the Authority believes that AAI should put in more efforts to increase the share of non-aeronautical activities in the terminal building. Considering that the passenger profile at Varanasi Airport, is dominated by tourists, the Authority proposes to consider the terminal building ratio as 10%, in line with the optimum terminal building ratio of 8%-

12% as approved for similar airports.

5.11 The Authority verified the workings provided by AAI for employee ratio. AAI has considered the employee ratio without deducting the cargo employees and ANS share of employees in Finance and HR. The Authority has computed the employee ratio based on above observations as 3/86. **Accordingly, the Authority proposes to consider the employee ratio as 3/86.**

5.12 The Authority observed the use of various ratios for segregation of common assets into aeronautical and non-aeronautical. These are explained in the table below:

Table 11: Allocation of common assets as per Authority

S. No.	Asset category	Common Assets (INR cr.)	Aero Assets (INR cr.)	Non-Aero Assets (INR cr.)	Ratio used for allocation of common assets	Remarks
1.	Building – Terminal	88.28	79.45	8.83	Terminal Building ratio – 10%	All common assets of INR 87.66 crore as per Table 9 have been allocated as per the Terminal Building ratio of 10%. AAI allocated the balance assets as 100% aeronautical. The Authority proposes to allocate these on the basis of Terminal Building Ratio.
2.	Other Buildings	0.46	0.45	0.01	Quarter ratio- 1:74	All common assets of INR 0.46 crore have been appropriately allocated as per the Quarter ratio.
3.	Building – Residential	0.36	0.35	0.01	Quarter ratio- 1:74	All common assets of INR 0.36 crore have been appropriately allocated as per the Quarter ratio.
4.	Boundary wall residential	0.085	0.084	0.001	Quarter ratio- 1:74	All common assets of INR 0.085 crore have been appropriately allocated as per the Quarter ratio.
5.	Tools & Equipment	0.78	0.70	0.08	Terminal Building ratio – 10%	These assets pertain to lifts and hand dryers and has been allotted based on terminal building ratio.
6.	Electrical Installations	35.55	32.00	3.55	Terminal Area Ratio- 10%	The total common assets of INR 35.55 crore as per Table 9 have been allocated on the basis of terminal area ratio.

S. No.	Asset category	Common Assets (INR cr.)	Aero Assets (INR cr.)	Non-Aero Assets (INR cr.)	Ratio used for allocation of common assets	Remarks
7.	Other Office Equipment	0.48	0.46	0.02	Employee Ratio: 3:86	AAI proposed an allocation of 100% aeronautical for these assets. However, because these assets pertain to office equipment used by the employees; the Authority proposes to allocate these on the basis of Employee Ratio.

5.13 On the basis of above observations, the Authority proposes the allocation of gross block of assets in accordance with the table below.

Table 12: Allocation of assets proposed by the Authority (Gross Block as on 1st April 2017)

S. No.	Asset category	Total assets	Pure Aero assets	Common Assets	Common Assets		Total Aero Assets	% Aero
					Aero	Non-Aero		
1.	Leasehold Land	0.31	0.31	0.00	0.00	0.00	0.31	100.0%
2.	Runways, Aprons and	44.74	44.74	0.00	0.00	0.00	44.74	100.0%
3.	Road, Bridges & Culverts	2.69	2.69	0.00	0.00	0.00	2.69	100.0%
4.	Building-Others	3.51	3.05	0.47	0.46	0.01	3.51	99.82%
5.	Building – Terminal	88.28	0.00	88.28	79.45	8.83	79.45	90.00%
6.	Building – Temporary	1.18	1.18	0.00	0.00	0.00	1.18	100.0%
7.	Building- Residential	0.46	0.11	0.36	0.35	0.01	0.46	98.96%
8.	Security Fencing-Temp	0.11	0.11	0.00	0.00	0.00	0.11	100.0%
9.	Boundary Wall – Operational	2.21	2.21	0.00	0.00	0.00	2.21	100.0%
10.	Boundary Wall – Residential	0.08	0.00	0.09	0.08	0.01	0.08	98.65%
11.	Computer - End user	1.03	1.03	0.00	0.00	0.00	1.03	100.0%
12.	Intangible Assets – Software	1.02	1.01	0.01	0.01	0.0	1.01	99.79%
13.	Plant & Machinery	23.94	23.35	0.22	0.20	0.02	23.55	98.37%
14.	Tools & Equipment	4.00	3.22	0.78	0.70	0.08	3.92	98.85%
15.	Furniture & Fixtures: Other Than Trolley	1.75	1.74	0.01	0.01	0.00	1.75	99.99%
16.	Furniture & Fixtures: Trolley	0.36	0.36	0.00	0.00	0.00	0.36	100.0%
17.	Vehicles	1.15	1.15	0.00	0.00	0.00	1.15	100.0%
18.	Electrical Installations	43.46	7.91	35.55	32.00	3.55	39.91	91.83%
19.	Other Office Equipment	0.48	0.00	0.48	0.46	0.02	0.46	96.51%
20.	X Ray Baggage System	5.62	5.62	0.00	0.00	0.00	5.62	100.0%
21.	CFT/Fire Fighting Equipment	19.06	19.06	0.00	0.00	0.00	19.06	100.0%
	Total	245.44	118.85	126.22	113.72	12.51	232.57	94.76%

Proposal No. 2: Regarding allocation of assets between aeronautical and non-aeronautical

- 2.a. The Authority proposes the allocation of gross block of assets as on 1st April 2017 between aeronautical and non-aeronautical assets as detailed in Table 12.

6. Initial Regulatory Asset Base

6.1 As per AAI's submission, the Initial RAB as on 31/03/17 amounted to INR 74.45 crores. AAI submitted the following working for the computation of Initial RAB.

Table 13: Initial RAB on 1st April 2017 as per AAI's submission (figures in INR crores)

Asset Category	Opening Gross Block	Accumulated Depreciation	Opening Net Block
Leasehold Land	0.00	0.00	0.00
Runways, Aprons and Taxiways	44.74	42.80	1.94
Road, Bridges & Culverts	2.69	2.13	0.56
Building-Others	3.51	1.59	1.92
Building – Terminal	83.08	46.35	36.73
Building – Temporary	1.18	1.18	0.00
Building- Residential	0.46	0.37	0.09
Security Fencing-Temp	0.11	0.11	0.00
Boundary Wall – Operational	2.21	2.03	0.19
Boundary Wall – Residential	0.08	0.05	0.03
Computer - End user	1.03	1.02	0.00
Intangible Assets – Software	1.01	1.01	0.01
Plant & Machinery	23.56	19.63	3.92
Tools & Equipment	3.95	2.14	1.80
Furniture & Fixtures: Other Than Trolley	1.75	1.72	0.03
Furniture & Fixtures: Trolley	0.36	0.22	0.14
Vehicles	1.15	0.90	0.25
Electrical Installations	41.36	29.67	11.69
Other Office Equipment	0.48	0.39	0.09
X Ray Baggage System	5.62	3.24	2.38
CFT/Fire Fighting Equipment	19.06	6.38	12.68
Total	237.39	162.93	74.45

Authority's examination:

6.2 AAI has worked out depreciation for FY 2017-18 and FY 2018-19 using rates as per Authority's Order No. 35/2017-18, which is applicable for Major Airports within the economic regulatory ambit of AERA. However, MoCA has directed AERA to determine the aeronautical tariffs for Varanasi Airport, while declaring it as a Major Airport, only on October 30, 2019. Accordingly, the depreciation rates as per Authority's Order No. 35/2017-18 may not be applied for the periods FY 2017-18 and FY 2018-19. Therefore, the Authority proposes to use the depreciation rates applicable as per AAI's internal accounting policies for computing the net block of Initial RAB.

6.3 As discussed in para 5.6, the Initial RAB as on April 1, 2019 has been computed based on opening Aeronautical Assets as on April 1, 2017, addition in assets and net depreciation for FY 2017-18 and FY 2018-19. The depreciation methodology used for FY 2017-18 and FY 2018-19 has been discussed in para 8.7 on Depreciation.

6.4 The Initial RAB has been revised mainly on account of change in Terminal building

ratio, employee ratio and depreciation rates as presented in the following table:

Table 14: Initial RAB on 1st April 2019 as proposed by Authority (figures in INR crores)

Asset category	Opening gross block on Apr' 17	Acc. depreciation	Opening net block on Apr'17	Addition for FY 2017-18	Net Depreciated on FY 2017-18	Addition for FY 2018-19	Net Depreciated on FY 2018-19	Opening net block on Apr'19
Leasehold Land	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Runways, Aprons	44.74	42.80	1.94	0.00	1.94	0.57	0.04	0.53
Road, Bridges & Culverts	2.69	2.13	0.56	0.00	0.23	0.00	0.07	0.26
Building-Others	3.51	1.59	1.92	2.79	0.37	0.63	0.50	4.47
Building – Terminal	79.45	44.32	35.13	2.08	6.42	0.26	6.52	24.53
Building – Temporary	1.18	1.18	0.00	0.00	0.00	0.00	0.00	0.00
Building-Residential	0.46	0.37	0.09	0.00	0.02	0.00	0.02	0.05
Security Fencing-	0.11	0.11	0.00	0.00	0.00	0.00	0.00	0.00
Boundary Wall – Operational	2.21	2.03	0.19	0.00	0.05	0.00	0.05	0.09
Boundary Wall – Residential	0.08	0.05	0.03	0.00	0.00	0.63	0.00	0.02
Computer - End	1.03	1.02	0.00	0.22	0.02	0.09	0.05	0.23
Intangible Assets	1.01	1.01	0.01	0.00	0.00	0.00	0.00	0.00
Plant &	23.55	19.63	3.92	1.94	1.85	8.07	2.40	9.68
Tools & Equipment	3.92	2.14	1.78	1.58	0.90	9.06	1.95	9.58
Furniture & Fixtures: Other Than Trolley	1.75	1.72	0.03	0.18	0.02	0.09	0.04	0.25
Furniture & Fixtures: Trolley	0.36	0.22	0.14	0.01	0.02	0.41	0.08	0.46
Vehicles	1.15	0.90	0.25	0.42	0.10	0.00	0.09	0.49
Electrical	39.91	28.68	11.23	1.22	3.49	2.69	4.22	7.43
Other Office	0.46	0.38	0.09	0.00	0.06	0.03	0.03	0.03
X Ray Baggage	5.62	3.24	2.38	0.00	0.19	0.04	0.31	1.92
CFT/Fire	19.06	6.38	12.68	0.00	0.97	5.30	2.24	14.77
Total	232.25	159.58	72.36	10.45	16.64	27.24	18.61	74.80

Proposal No. 3: Regarding Initial RAB

- 3.a. The Authority proposes to consider the initial regulatory asset base for the 1st Control Period for Varanasi Airport as INR 74.80 crores in accordance with Table 14.

7. Capital Expenditure for the 1st Control Period

7.1 AAI has proposed the total expenditure of INR 1223.93 Crores for the 1st Control Period. The item wise capex phasing, physical and financial progress, as submitted by AAI has been shown in table below:

Table 15: Capital expenditure as proposed by AAI for 1st control period (INR Crore)

Sr. No.	Component	Aero Cost (INR Cr)	Total Cost (INR Cr)	Aero Portion (%)	PDC	Capex phasing					Physical Progress (In %)	Financial Progress (INR in Crores)	Remarks
						2019-20	2020-21	2021-22	2022-23	2023-24			
a)	Construction of New Terminal Building	830.45	948.00	87.6	Apr-23	0.00	150.00	300.00	300.00	198	-	-	Planning Stage
b)	Modification of Existing Terminal Building including consultancy work	23.52	25.00	94.07	2021-22	0.00	5.00	20.00	0.00	0.00	-	-	Planning Stage
c)	Construction of Residential Quarters	32.03	74.00	58/134	2021-22	0.00	4.00	70.00	0.00	0.00	-	-	A/A & E/S already accorded
d)	Construction of Additional Parking Bays	9.50	9.50		2022-23	0.00	0.00	5.00	4.50	0.00	-	-	Planning Stage
e)	Surface Grading of entire operational area, construction of drainage system and construction of rain-water harvesting system	14.60	14.60		2020-21	0.00	12.00	2.60	0.00	0.00	-	-	e-NIT called
f)	Provision of 2 nos of Passenger Boarding Bridge (PBB)	2.23	2.23		2020-21	2.00	0.23	0.00	0.00	0.00	50%	0.93	Civil Structure i.e. Fixed work is in progress
g)	Renovation of washrooms and construction of New toilets in International Arrival before Immigration including Electrical PA	4.50	4.50		2020-21	0.50	4.00	0.00	0.00	0.00	11%	0.22	Work in progress

Sr. No.	Component	Aero Cost (INR Cr)	Total Cost (INR Cr)	Aero Portion (%)	PDC	Capex phasing					Physical Progress (In %)	Financial Progress (INR in Crores)	Remarks
						2019-20	2020-21	2021-22	2022-23	2023-24			
	system i/c renovation of VIP lounge (both)												
h)	Construction of New Fire Station & Medical Centre	11.85	11.85		2020-21	0.00	10.00	1.85	0.00	0.00	-	-	A/A & E/S already accorded
i)	Construction of localizer and glide path building hut and antenna platform	3.67	3.67		2020-21	1.00	2.67	0.00	0.00	0.00	10%	-	Work in progress
j)	Extension of existing 2nos arrival carousal	1.31	1.31		2020-21	0.00	1.31	0.00	0.00	0.00	-	-	A/A & E/S already accorded
k)	Provision of one no. additional arrival carousal	3.71	3.71		2020-21	0.00	2.50	1.21	0.00	0.00	-	-	A/A & E/S already accorded
l)	Runway Mechanical Sweeper	7.30	7.30		2020-21	0.00	7.30	0.00	0.00	0.00	-	-	Work in progress
m)	CFT 1 nos	4.50	4.50		2020-21	0.00	4.50	0.00	0.00	0.00	-	-	Work in progress
n)	Construction of R/way End Safety Area (RESA) at both ends of Runway	1.81	1.81		2019-20	1.81	0.00	0.00	0.00	0.00	86%	1.56	Work in progress
o)	Expansion of Apron for 2 nos .4C type of aircraft	7.94	7.94		2019-20	7.50	0.44	0.00	0.00	0.00	80%	5.77	Work in progress
p)	Vertical Extension of CISF Barrack i/c Quarter Guard	2.20	2.20		2020-21	1.50	0.70	0.00	0.00	0.00	38%	0.77	Work in progress
q)	Construction of Administrative Block for AAI Staff	9.62	25.41	95/251	2021-22	0.00	10.00	15.41	0.00	0.00	-	-	Drawing & SOW already approved

Sr. No.	Component	Aero Cost (INR Cr)	Total Cost (INR Cr)	Aero Portion (%)	PDC	Capex phasing					Physical Progress (In %)	Financial Progress (INR in Crores)	Remarks
						2019-20	2020-21	2021-22	2022-23	2023-24			
r)	Purchase of PBB and AVDGS (2 nos)	4.08	4.08		2020-21	2.00	2.08	0.00	0.00	0.00	70%	-	FAT of PBBs completed on 20.12.2019
s)	Provision of way finding signages	1.49	1.49		2019-20	1.58	0.00	0.00	0.00	0.00	100%	1.58	Work Completed
t)	Supply of Passenger Baggage Trolley	2.02	2.02		2020-21	0.00	2.02	0.00	0.00	0.00	-	-	Work Completed
u)	Provision of UPS and GLF System	1.08	1.08		2020-21	0.00	1.08	0.00	0.00	0.00	10%	-	Work awarded
v)	Modification of domestic BHS system for inline X-BIS	3.35	3.35		2019-20	3.35	0.00	0.00	0.00	0.00	100%	3.99	Work Completed
w)	Provision of Inline X-BIS	19.00	19.00		2019-20	19.00	0.00	0.00	0.00	0.00	100%	...	Work Completed
x)	IDC on new PTB	40.01	40.01			0.00	0.00	0.00	0.00	40.01	-	-	
y)	Others	5.38	5.38			5.38	0.00	0.00	0.00	0.00	-	-	Work Completed
	Total	1047.14	1223.93			45.53	219.83	416.07	304.50	238.01			

7.2 AAI has proposed aeronautical capitalization of INR 1047.14 crores for the 1st Control Period. This has been shown in the table below:

Table 16: Aeronautical Capitalization proposed by AAI for 1st Control Period (INR crore)

Asset category	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total
Runways, Aprons and Taxiways	10.00	24.10	0.00	0.00	0.00	34.10
Road, Bridges & Culverts	0.82	1.74	0.00	0.00	0.00	2.56
Building – Terminal	0.85	2.92	23.52	0.00	565.80*	593.09
Building – Residential	0.00	0.00	20.82	0.00	0.00	20.82
Boundary Wall – Operational	0.52	0.00	0.00	0.00	0.00	0.52
Other Building – Unclassified	12.63	12.77	0.00	0.00	0.00	25.40
Plant & Machinery	7.00	12.32	0.00	0.00	0.00	19.31
Electrical Installations	1.72	4.80	11.21	0.00	304.66*	322.39
CFT/Fire Fighting Equipment	22.37	4.50	0.00	0.00	0.00	26.87
Furnitures and Fixtures- Other than trolley	0.05	0.00	0.00	0.00	0.00	0.05
Furnitures and Fixtures – Trolley	2.02	0.00	0.00	0.00	0.00	2.02
Total	57.98	63.15	55.55	0.00	870.46	1047.14

*Includes IDC as per capital structure of 60:40 Debt to Equity

7.3 AAI has submitted that the existing capacity of the airport is 2.5 million passengers while the airport served 2.7 million passengers in FY 2018-19 and it is expected to grow further in future. To accommodate the growing traffic, AAI has proposed to build a new terminal building. AAI has benchmarked the Varanasi Airport traffic ratio with the Jaipur Airport traffic ratio, both being tourist cities. The peak hour to average day traffic ratio at Varanasi airport is assumed as 0.17.

7.4 The proposed new terminal building shall be in integration with existing terminal (area=24,000 sqm) and will span across an area of 52,000 sqm along with 15,000 sqm of basement area.

7.5 AAI has proposed a capital structure with debt to equity of 60%-40% for financing the new PTB and has proposed a one-time ‘interest during construction’ (IDC) of INR 40.01 crores in FY 2023-24.

Authority’s Examination

7.6 The Authority examined the proposed capital expenditure including its rationale, detailed line item wise breakup, current progress including procurement steps and future planning.

7.7 The Authority analyzed the new Passenger Terminal Building being proposed including the need and objectives, proposed capital expenditure, timelines, scope of work and PMC letter of award. Accordingly, the key takeaways are as below:

7.7.1 As per AAI’s submissions, the new PTB shall be spread across an area of 66,970 sqm (Ground Level – 52,000 sqm and Basement – 15,000 sqm) with a cost estimate of INR 948 crore as per PMC consultancy award letter dated February 19, 2019. The unit area cost for

new terminal building worked out to INR 141,492 lakhs per sqm.

- 7.7.2 The Authority has adopted the ‘normative approach’ towards determination of cost of terminal building and has considered a normative cost of INR 100,000 per sq. meters in line with previous tariff orders pertaining to other airports such as Guwahati, Lucknow, Chennai and Patna. The Authority conducted a study of few major airports for determining the reasonableness of the capital expenditures for their respective terminal buildings. As per these studies, the cost worked out to be in the range of 0.95 to 1.25 lakhs per sqm. Accordingly, the Authority decides to adopt INR 100,000 per sqm for terminal buildings of this design and specifications.
- 7.7.3 AAI has also proposed a Utility Building which shall span across an area of 4,800 sqm. The above study allows the cost of utility building separately from the terminal building at the benchmarked cost.
- 7.7.4 Therefore, as per the above benchmarks, the cost of the new terminal building along with utility building works out to INR 717.70 crores. The Authority has considered AAI’s original allocation of 65% for Civil and 35% for E&M works for working out the breakup of PTB cost. Accordingly, the breakup cost of new terminal building would be INR 435.5 for civil work and INR 234.5 crores for E&M installations/works.
- 7.7.5 The Authority also sought item wise cost breakup for the proposed new terminal building from AAI. As per the item wise cost breakup, the Authority proposes following items to be allowed separately considering these were not the part of benchmarking study:

Table 17: Additional cost proposed by Authority for new terminal building (INR crore)

Sr. No	Particulars	Value
1.	Deposit to state EB for power	11.92
2.	Solar Plant	6.44
3.	Total	18.36
4.	Benchmarked cost for proposed new PTB along with Utility Building	717.70
5.	Proposed cost for expansion of existing PTB	736.06

Thus, the Authority proposes the capital expenditure of INR 736.06 crores for the proposed expansion of existing terminal building. Considering AAI’s original allocation of 65% for Civil and 35% for E&M works, the civil cost works out to INR 478.44 crores and the E&M cost works out to INR 257.62 crores.

- 7.7.6 AAI has submitted that 12.40% of the new terminal building will be used for non-aeronautical operations, which is in line with the TB ratio proposed by Authority for similar airports. Therefore, the Authority proposes TB ratio of 12.40% for new terminal building. Accordingly, the aero portion of new PTB capital expenditure works out to INR 644.79 crores.
- 7.7.7 AAI has proposed the date of capitalization to be April 2023 for new PTB. Authority has analyzed the PMC consultancy award letter and found that the total project completion time shall be 60 months including 6 months for pre-award activities including PIB clearance, 30

months for execution, and,24 months for defect liability. However, AAI has proposed capital expenditure as follows:

Table 18: Capital Expenditure phasing for new Terminal building as proposed by AAI (INR Crore)

Asset category	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total
Building – Terminal		150	300	300	198	948
Capex phasing (approx. %)		16%	32%	32%	20%	100%

7.7.8 Authority notes from the PMC consultancy award letter that DLP of the PTB shall be for 24 months and an amount of INR 67 Crore (equivalent of 10% of total cost) shall be withheld for a period of 24 months post the proposed COD in April 2023. Therefore, the Authority proposes to change the capital expenditure phasing as follows:

Table 19: Capital Expenditure phasing for new Terminal building as proposed by Authority (INR Crore)

Asset category	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total – Control Period	FY ending March 31, 2026	Total
Building – Terminal (%)	15%	30%	30%	15%	90%	10%	100%

7.7.9 Authority also notes that AAI has proposed a capital structure with debt to equity of 60%-40% for financing the new PTB, in line with Authority’s previous directions. Accordingly, AAI has proposed a one-time capitalization of interest during construction (IDC) amounting to INR 40.01 Crore as an aero expenditure. AAI has assumed an interest rate of 8.03% but has not proposed any drawl schedule for working out the IDC.

7.7.10 Therefore, Authority proposes to work out the drawl schedule for INR 441.64 Crore (60%) in line with capital expenditure phasing and the benchmarked cost as follows: -

Table 20: Loan drawl schedule for New Terminal Building (INR crore)

Particulars	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	FY ending March 31, 2026
Total Capex Phasing	110.41	220.82	220.82	110.41	73.61
Debt – Opening	0.00	66.25	198.74	331.23	397.47
Addition during the year	66.25	132.49	132.49	66.25	44.16
Debt – Closing	66.25	198.74	331.23	397.47	441.64
Average Debt	33.12	132.49	264.98	364.35	419.55
Interest During Construction – Total Capex	2.66	10.64	21.28	2.44*	NIL

* IDC is for one month only as proposed date of capitalization is April 2023

7.7.11 Accordingly, using the terminal ratio, the IDC for aeronautical portion works out to INR 29.51 Crore with phasing as follows:

Table 21: Interest during construction for New Terminal Building (INR crore)

Particulars	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Interest During Construction – Aero Capex	2.33	9.32	18.64	2.14

7.7.12 Based on the benchmark capital expenditure, revised capital expenditure phasing and IDC calculations, the new PTB aeronautical capital expenditure and capitalization are proposed to be as follows:

Table 22: Capitalization for New Terminal Building including IDC (INR crore)

Asset category	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total – Control Period	FY ending March 31, 2026	Total
New PTB - Total (including IDC)	113.07	231.46	242.10	112.85	699.47	73.61	773.07
New PTB – Capex (Aero, including IDC)	99.05	202.76	212.08	98.85	612.73	64.48	677.21
New PTB – Capitalization (Aero, including IDC)				612.73		64.48	

7.7.13 The Authority notes that should AAI fail to commission the same by the proposed date, the same shall be trued up along with the carrying cost. Also, the amount of 10% withheld for Defect Liability Period of 24 months shall be capitalized in the next Control Period, without any IDC being allowed on this amount.

7.8 The Authority sought the total area of the proposed Apron from AAI. As per the details received from AAI, the Apron shall span across an area of 10850 sqm. The cost breakup includes the demolition and earth work of around INR 0.33 crores, the Authority finds it appropriate to allow the cost in addition to the normative cost as they were not included in the benchmark cost of the Apron as per the Study. For the purpose of prudence check, the Authority has computed the normative cost of the apron as INR 6.53 crores (including the demolition work), as against INR 7.94 crores proposed by AAI. Therefore, the Authority proposes to revise the cost of these assets to INR 6.53 crores. The computation of normative cost has been shown below.

Table 23: Benchmarked cost for proposed Apron

Particulars	Phase 1
Area	10,850
Cost per sqm as on 1st April 2016 (INR)	4,700
Inflation % assumed	5%
Number of years of inflation	4
Inflation factor	1.26

Particulars	Phase 1
Normative cost (INR crores) [without demolition cost]	6.20
Normative cost (INR crores) [including demolition cost]	6.53
Cost proposed by AAI (INR crores)	7.94
Cost proposed by Authority (INR crores)	6.53

7.9 Authority has also examined the other capital expenditure proposed by AAI considering the current procurement stage such as Administrative Approval, Expenditure Sanction, status of tendering, Letters of Award and physical and financial progress of capital expenditure already under execution, as applicable. The specific observations as follows:

- Surface Grading of entire operational area – As per AAI submission, the current procurement stage for the project is e-NIT called and the time required to complete the work shall be 12 months as per history sheet. Considering the current status, the Authority proposes to change the proposed date of capitalization to FY 2021-22.
- Construction of New Fire Station & Medical Centre – As per AAI submission, the administrative approval and expenditure sanction has already been accorded. Considering the completion time of 12 months, the Authority proposes to change the proposed date of capitalization to FY 2021-22
- Provision of an additional arrival carousal - As per AAI submission, the administrative approval and expenditure sanction has already been accorded. Considering the completion time of 12 months, the Authority proposes to change the proposed date of capitalization to FY 2021-22
- Provision of Inline X-BIS – As per AAI submission, 100% physical progress is achieved, but no financial progress is done. The Authority proposes to change the proposed date of capitalization to FY 2020-21.

7.10 AAI had conducted AUCC meeting on 25th November 2019. As per the ‘minutes’ of that meeting, the Authority observed that, the discussion was around the growth rate consideration and proposal of new terminal building in order to increase the passenger capacity from existing 2.5 MPPA to 7 MPPA.

Broadly following issues were discussed in AUCC meeting:

- Consideration of 10%-12% growth in passenger traffic
- Justification for proposing huge and expensive new terminal building
- Reasons for higher construction cost vis-à-vis construction cost of Vizag Airport
- Airside capacity enhancement plan
- Expansion of Air-Cargo Infrastructure
- Shifting of fueling base of oil companies

7.11 In accordance with above, the Authority proposes the capital expenditure 1st Control Period as per the table below.

Table 24: Capital Expenditure as proposed by the Authority for the 1st Control Period

Sr. No.	Component	Aero Cost (INR Cr)	Total Cost (INR Cr)	Aero Portion (%)	PDC	Capex phasing					Physical Progress (%)	Financial Progress (INR Crores)	Remarks
						2019-20	2020-21	2021-22	2022-23	2023-24			
a)	Construction of New Terminal Building (including IDC & amount that shall be capitalized in 1 st control period)	612.73	699.47	87.6	Apr-23	0.00	113.07	231.46	242.10	112.85	-	-	Planning Stage
b)	Modification of Existing Terminal Building including consultancy work	22.50	25.00	90	2021-22	0.00	5.00	20.00	0.00	0.00	-	-	Planning Stage
c)	Construction of Residential Quarters	32.03	74.00	58/134	2021-22	0.00	4.00	70.00	0.00	0.00	-	-	A/A & E/S already accorded
d)	Construction of Additional Parking Bays	9.50	9.50		2022-23	0.00	0.00	5.00	4.50	0.00	-	-	Planning Stage
e)	Surface Grading of entire operational area, construction of drainage system and construction of rainwater harvesting system	14.60	14.60		2021-22	0.00	12.00	2.60	0.00	0.00	-	-	eNIT called
f)	Provision of 2 nos of Passenger Boarding Bridge (PBB)	2.23	2.23		2020-21	2.00	0.23	0.00	0.00	0.00	50%	0.93	Civil Structure i.e. Fixed work is in progress
g)	Renovation of washrooms and construction of New toilets in International Arrival before Immigration including Electrical PA system i/c renovation of VIP lounge (both)	4.50	4.50		2020-21	0.50	4.00	0.00	0.00	0.00	11%	0.22	Work in progress
h)	Construction of New Fire Station & Medical Centre	11.85	11.85		2021-22	0.00	10.00	1.85	0.00	0.00	-	-	A/A & E/S already accorded

Sr. No.	Component	Aero Cost (INR Cr)	Total Cost (INR Cr)	Aero Portion (%)	PDC	Capex phasing					Physical Progress (%)	Financial Progress (INR Crores)	Remarks
						2019-20	2020-21	2021-22	2022-23	2023-24			
i)	Construction of localizer and glide path building hut and antenna platform	3.67	3.67		2020-21	1.00	2.67	0.00	0.00	0.00	10%	-	Work in progress
j)	Extension of existing 2nos arrival carousal	1.31	1.31		2020-21	0.00	1.31	0.00	0.00	0.00	-	-	A/A & E/S already accorded
k)	Provision of one no. additional arrival carousal	3.71	3.71		2021-22	0.00	2.50	1.21	0.00	0.00	-	-	A/A & E/S already accorded
l)	Runway Mechanical Sweeper	7.30	7.30		2020-21	0.00	7.30	0.00	0.00	0.00	-	-	Work in progress
m)	CFT 1 nos	4.50	4.50		2020-21	0.00	4.50	0.00	0.00	0.00	-	-	Work in progress
n)	Construction of R/way End Safety Area (RESA) at both ends of Runway	1.81	1.81		2020-21	1.81	0.00	0.00	0.00	0.00	86%	1.56	Work in progress
o)	Expansion of Apron for 2 nos .4C type of aircraft	6.53	6.53		2020-21	6.09	0.44	0.00	0.00	0.00	80%	5.77	Work in progress
p)	Vertical Extension of CISF Barrack i/c Quarter Guard	2.20	2.20		2020-21	1.50	0.70	0.00	0.00	0.00	38%	0.77	Work in progress
q)	Construction of Administrative Block for AAI Staff	9.62	25.41	95/251	2021-22	0.00	10.00	15.41	0.00	0.00	-	-	Drawing & SOW already approved
r)	Purchase of PBB and AVDGS (2 nos)	4.08	4.08		2020-21	2.00	2.08	0.00	0.00	0.00	70%	-	FAT of PBBs completed on 20.12.2019
s)	Provision of way finding signages	1.49	1.49		2019-20	1.58	0.00	0.00	0.00	0.00	100%	1.58	Work Completed
t)	Supply of Passenger Baggage Trolley	2.02	2.02		2020-21	0.00	2.02	0.00	0.00	0.00	-	-	Work Completed
u)	Provision of UPS and GLF System	1.08	1.08		2020-21	0.00	1.08	0.00	0.00	0.00	10%	-	Work awarded
v)	Modification of domestic BHS system for inline X-BIS	3.35	3.35		2019-20	3.35	0.00	0.00	0.00	0.00	100%	3.99	Work Completed

Sr. No.	Component	Aero Cost (INR Cr)	Total Cost (INR Cr)	Aero Portion (%)	PDC	Capex phasing					Physical Progress (%)	Financial Progress (INR Crores)	Remarks
						2019-20	2020-21	2021-22	2022-23	2023-24			
w)	Provision of Inline X-BIS	19.00	19.00		2020-21	19.00	0.00	0.00	0.00	0.00	100%	...	Work Completed
x)	Others	5.37	5.37			5.37	0.00	0.00	0.00	0.00	-	-	Work Completed
	Total	786.99	933.99			44.12	182.90	347.53	246.60	112.85			

7.12 Based on above analysis, the Authority proposes the aeronautical capitalisation for 1st Control Period as per the table below:

Table 25: Aeronautical Capitalization as proposed by the Authority (figures in INR crores)

Asset category	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total
Runways, Aprons and Taxiways	2.06	16.03	14.60	0.00	0.00	32.68
Road, Bridges & Culverts	0.82	1.74	0.00	0.00	0.00	2.56
Building – Terminal	0.85	2.92	22.50	0.00	398.28	424.55
Building – Residential	0.00	0.00	20.82	0.00	0.00	20.82
Boundary Wall – Operational	0.52	0.00	0.00	0.00	0.00	0.52
Other Building – Unclassified	12.63	2.38	10.39	0.00	0.00	25.40
Plant & Machinery	7.00	8.61	3.71	0.00	0.00	19.31
Electrical Installations	1.72	3.35	12.66	0.00	214.46	232.19
CFT/Fire Fighting Equipment	3.37	23.50	0.00	0.00	0.00	26.87
Furniture and Fixtures- Other than Trolley	0.05	0.00	0.00	0.00	0.00	0.05
Furniture and Fixtures – Trolley	2.02	0.00	0.00	0.00	0.00	2.02
Total	31.04	58.52	84.68	0.00	612.73	786.99

Proposal No. 4: Regarding Aeronautical Capitalisation

- 4.a. The Authority proposes to adopt the aeronautical capitalization for the 1st Control Period in accordance with Table 25.
- 4.b. To ask AAI/prospective PPP bidder to submit detailed explanation and justification should the cost incurred exceed 10% over the cost approved by the Authority
- 4.c. To review and true up the Project Management Cost after the project is commissioned based on a study of the actual cost incurred and its reasonableness.
- 4.d. To true-up the Capital expenditure on actuals at the time of determination of tariffs for next Control Period
- 4.e. To impose a penalty of 1% of the cost of new terminal building, if AAI/prospective PPP bidder fails to commission and capitalize the new terminal building by April 2023. To not consider any additional interest during construction (IDC)/Financing Allowance if the project is delayed beyond April 30, 2023.

8. Depreciation

- 8.1 AAI follows rates of depreciation, approved by its Board for different asset classes. While submitting the Multi-Year Tariff Proposal (MYTP) for the first Control Period, AAI has taken cognizance of the rates of depreciation approved by the Authority in previous tariff orders. Accordingly, AAI has proposed three different sets of rates. These are based on three different periods – up to FY 2015-16, from 01/04/16 to 31/03/18, and beyond 01/04/18.
- 8.2 However, for the period, i.e., from 01/04/17 to 31/03/19, AAI has proposed depreciation rates as per the Authority’s notified rates of depreciation considering Varanasi airport as Major Airport. For the 1st Control Period, i.e., FY 2019-20 onwards, the depreciation rates have been proposed as per the Authority’s Order No. 35/2017-18 titled “In the matter of Determination of Useful life of Airport Assets”, describing the normative useful lives for various airport assets.
- 8.3 Further, depreciation has been computed separately on opening block of assets and on proposed additions.
- 8.4 The depreciation rates proposed by AAI have been summarized in the table below.

Table 26: Depreciation rates proposed by AAI

Asset category	Up to FY 2018	Beyond FY 2018	
		For opening block of assets	For proposed additions
Leasehold Land	0.00%	0.00%	0.00%
Runways, Aprons and Taxiways	3.33%	3.33%	3.33%
Road, Bridges & Culverts	3.33%	10.00%	10.00%
Building-Others	3.33%	3.33%	3.33%
Building – Terminal	3.33%	3.33%	3.33%
Building – Temporary	33.33%	33.33%	33.33%
Building- Residential	3.33%	3.33%	3.33%
Security Fencing-Temp	33.33%	33.33%	33.33%
Boundary Wall – Operational	3.33%	10.00%	10.00%
Boundary Wall – Residential	3.33%	10.00%	10.00%
Computer - End user	16.67%	33.33%	33.33%
Intangible Assets – Software	20.00%	20.00%	20.00%
Plant & Machinery	6.67%	6.67%	6.67%
Tools & Equipment	6.67%	6.67%	6.67%
Furniture & Fixtures: Other Than Trolley	10.00%	14.29%	14.29%
Furniture & Fixtures: Trolley	10.00%	33.33%	33.33%

Asset category	Up to FY 2018	Beyond FY 2018	
		For opening block of assets	For proposed additions
Vehicles	12.50%	12.50%	12.50%
Electrical Installations	10.00%	10.00%	10.00%
Other Office Equipment	20.00%	20.00%	20.00%
X Ray Baggage System	6.67%	6.67%	6.67%
CFT/Fire Fighting Equipment	6.67%	6.67%	6.67%

8.5 The depreciation amount proposed by AAI for the 1st Control Period has been presented in the table below.

Table 27: Depreciation proposed by AAI (figures in INR crores)

Particulars	FY ending March 31, 2018	FY ending March 31, 2019	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Depreciation	10.14	11.62	12.17	13.54	15.70	16.32	40.45

Authority's Examination:

8.6 The Authority has noted the submission of two different rates of depreciation by AAI for different periods under consideration and has duly examined these for consideration towards determination of aeronautical tariff.

8.7 AAI has worked out depreciation for FY 2017-18 and FY 2018-19 using rates as per Authority's Order No. 35/2017-18, which is applicable for Major Airports within the economic regulatory ambit of AERA. However, MoCA has directed AERA to determine the aeronautical tariffs for Varanasi Airport, while declaring it as a Major Airport, only on October 30, 2019. Accordingly, the depreciation rates as per Authority's Order No. 35/2017-18 may not be applied for the periods FY 2017-18 and FY 2018-19. Therefore, the Authority proposes to use the depreciation rates applicable as per AAI's internal accounting policies for computing the net block of Initial RAB.

8.8 However, from April 2019 onwards, the Authority has drawn reference to its Order No. 35/2017-18 titled "In the matter of Determination of Useful life of Airport Assets", for working out the depreciation rates which shall be used for computation of Aggregate Revenue Requirement (ARR).

8.9 These normative depreciation rates of airport assets as per the above-mentioned Order, relevant to Varanasi Airport, are given in the table below:

Table 28: Depreciation rates as per Authority's Order No. 35 / 2017-18 dated January 12, 2018

Asset category	Beyond FY 2018
Leasehold Land	0%
Runways, Aprons and Taxiways	3.33%

Asset category	Beyond FY 2018
Road, Bridges & Culverts	10.00%
Building – Terminal	3.33%
Building – Temporary	33.33%
Building – Residential	3.33%
Boundary Wall – Operational	10.00%
Boundary Wall – Residential	10.00%
Computer - End user	33.33%
Computer - Servers and networks	16.67%
Intangible Assets – Software	20.00%
Plant & Machinery	6.67%
Tools & Equipment	6.67%
Furniture & Fixtures: Other Than Trolley	14.29%
Furniture & Fixtures: Trolley	33.33%
Vehicles	12.50%
Electrical Installations	10.00%
Other Office Equipment	20.00%
X Ray Baggage System	6.67%
CFT/Fire Fighting Equipment	6.67%

- 8.10 The Authority observed that the depreciation rates used by AAI for the period beyond 01/04/2019 are in line with the rates as per the above-mentioned order. Therefore, the Authority does not propose any change in the depreciation rate schedule.
- 8.11 Combining its observations across the two periods, the Authority proposes the depreciation rates to be considered for tariff determination in respect of Varanasi Airport as table below.

Table 29: Depreciation rates proposed by the Authority

Asset category	For FY 2017-18 & FY 2018-19		Beyond FY 2019-20	
	For opening block of assets	For proposed additions	For opening block of assets	For proposed additions
Leasehold Land	0.00%	0.00%	0.00%	0.00%
Runways, Aprons and Taxiways	13.00%	13.00%	3.33%	3.33%
Road, Bridges & Culverts	13.00%	13.00%	10.00%	10.00%
Building – Terminal	8.00%	8.00%	3.33%	3.33%
Building – Temporary	100.00%	100.00%	33.33%	33.33%
Building- Residential	5.00%	5.00%	3.33%	3.33%
Security Fencing-Temp	100.00%	100.00%	33.33%	33.33%
Boundary Wall – Operational	8.00%	8.00%	10.00%	10.00%
Boundary Wall – Residential	5.00%	5.00%	10.00%	10.00%
Buildings – Other	8.00%	8.00%	3.33%	3.33%

Asset category	For FY 2017-18 & FY 2018-19		Beyond FY 2019-20	
	For opening block of assets	For proposed additions	For opening block of assets	For proposed additions
Computer - End user	20.00%	20.00%	33.33%	33.33%
Computer – Server & Networks	20.00%	20.00%	16.67%	16.67%
Intangible Assets – Software	20.00%	20.00%	20.00%	20.00%
Plant & Machinery	11.00%	11.00%	6.67%	6.67%
Tools & Equipment	20.00%	20.00%	6.67%	6.67%
Furniture & Fixtures: Other Than Trolley	20.00%	20.00%	14.29%	14.29%
Furniture & Fixtures: Trolley	20.00%	20.00%	33.33%	33.33%
Vehicles	14.00%	14.00%	12.50%	12.50%
Electrical Installations	11.00%	11.00%	10.00%	10.00%
Other Office Equipment	20.00%	20.00%	20.00%	20.00%
X Ray Baggage System	11.00%	11.00%	6.67%	6.67%
CFT/Fire Fighting Equipmen	13.00%	13.00%	6.67%	6.67%

8.12 On account of the above depreciation rates, and the changes in proposed capital expenditure, the Authority proposes the following depreciation during the 1st Control Period.

Table 30: Depreciation proposed by the Authority (figures in INR crores)

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total
Depreciation	9.44	11.33	14.63	15.88	32.90	84.18

Proposal No. 5: Regarding depreciation

- 5.a. The Authority proposes to adopt depreciation rates for Varanasi airport as per Table 29 for the 1st Control Period.
- 5.b. The Authority proposes depreciation amounts as per Table 30 for the 1st Control Period.

9. Regulatory Asset Base (RAB) for the 1st control period

9.1 AAI has submitted RAB for the 1st Control Period as follows:

Table 31: RAB for the 1st Control Period as per AAI's submission (INR crores)

S. No.	Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
1.	Opening RAB	90.37	136.19	185.80	225.61	209.29
2.	Capitalizations	57.98	63.15	55.55	0.00	870.46
3.	Disposals	0	0	0.0429	0	0
4.	Depreciation	12.17	13.54	15.70	16.32	40.45
5.	Closing RAB	136.19	185.80	225.61	209.29	1039.29
6.	Average RAB	113.28	161.00	205.70	217.45	624.29

Authority's Examination:

9.2 The Authority has duly examined each element of RAB in the previous chapters. The Authority proposes to adopt the Initial RAB as per Table 14, the capital expenditures in accordance with Table 25, and the depreciation amounts in accordance with Table 30.

9.3 Combining all its propositions, RAB to be considered by the Authority for determination of aeronautical tariff for the 1st Control Period in respect of Varanasi Airport is as follows:

Table 32: RAB for the 1st Control Period after Authority's examination (INR crores)

S. No.	Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
1.	Opening RAB	74.80	96.40	143.60	213.61	197.73
2.	Capitalizations	31.04	58.52	84.68	0.00	612.73
3.	Disposals	0.00	0.00	0.04	0.00	0.00
4.	Depreciation	9.44	11.33	14.63	15.88	32.90
5.	Closing RAB	96.40	143.60	213.61	197.73	777.57
6.	Average RAB	85.60	120.00	178.60	205.67	487.65

Proposal No. 6: Regarding average RAB

6.a. The Authority proposes to consider average RAB for the 1st Control Period for Varanasi airport as per Table 32.

10. Fair Rate of Return (FRoR)

- 10.1 AAI has considered Fair Rate of Return (FRoR) as 14% at par with the decision taken by the Authority for other AAI airports, including Chennai, Jaipur, Patna, among others.
- 10.2 AAI has submitted that all project financing activities are undertaken centrally by AAI's Corporate Office, New Delhi. The funds are then apportioned among airports by the Corporate Office, New Delhi. AAI has proposed a financing structure of 60%-40% debt to equity for the proposed new terminal building. Accordingly, the Fair rate of return (FRoR) has been considered at 12.03% for last year in Control Period, assuming cost of debt as 8.03%. The workings for the same as submitted by AAI is shown in table below:

Table 33: Calculation of FRoR for FY 2023-24 as submitted by AAI (INR Crore)

Sr. No	Particulars	Formula	Value
	Assumptions:		
a.	Closing RAB		1000.42
b.	Additions made in FY 2023-24		830.45
c.	Portion of Debt		60%
d.	Portion of Equity		40%
e.	Cost of Debt		8.03%
f.	Cost of Equity		16%
	Calculation of FRoR:		
g.	Cost of Debt (b x c x e)	$830.45 * 60% * 8.03%$	40.01
h.	Cost of Equity on last year additions (b x d x f)	$830.45 * 40% * 16%$	53.15
j.	Cost of Equity on balance assets { (a - b) x f }	$(1000.42 - 830.45) * 16%$	27.20
k.	Total Capital (a)		120.36
	FRoR-% (k/a)		12.03%

Authority's Examination:

- 10.3 The Authority has recognized that AAI's capital structure may not be regarded as an efficient one in that it doesn't optimize the cost of funds from a regulatory perspective. The Authority desires that the FRoR allowed to AAI should come down over a period of time by optimizing capital gearing. In this respect, AAI has proposed to finance the new terminal building with 60% debt. AAI has submitted that they are still in process of finalizing the loan conditions at the corporate level and shall be allotting the debt in respect of the new terminal building from the same. The Authority would like to highlight that it may also consider a normative capital structure to determine the FRoR at a later date.
- 10.4 The Authority had earlier considered the Fair Rate of Return at 14% for similar airports such as Jaipur, Patna, Chennai etc. Accordingly, the Authority proposes to consider the Fair Rate of Return at 14%.
- 10.5 The Authority notes that AAI has considered cost of equity as 16% for last year of the Control Period on opening RAB and additions as well. The Authority would like to highlight that adding the leverage doesn't affect the risk level of initial RAB and proposes to consider cost of equity of 16% for addition in RAB only for FY 2023-24. Accordingly, the Authority proposes to consider FRoR at 11.96% as shown in table below:

Table 34: Calculation of FRoR for FY 2023-24 as per Authority (INR Crore)

Sr. No	Particulars	Formula	Value
	Assumptions:		
a.	Opening RAB for FY 2023-24		210.84
b.	Additions made in FY 2023-24		579.13
c.	Portion of Debt		60%
d.	Portion of Equity		40%
e.	Cost of Debt		8.03%
f.	Cost of Equity (Additions)		16%
g.	Cost of Equity (Initial RAB)		14%
	Calculation of FRoR:		
h.	Cost of Debt (b x c x e)	$579.13 * 60% * 8.03%$	27.90
i.	Cost of Equity on additions in FY 2023-24 (b x d x f)	$579.13 * 40% * 16%$	37.06
j.	Cost of Equity on balance assets {a x g}	$210.84 * 14%$	29.52
k.	Total Capital (a+b)	$210.84 + 579.13$	789.97
	FRoR-% (k/a)		11.96%

10.6 Based on the above, the Authority proposes to consider FRoR as per table below for Varanasi Airport for the 1st Control Period:

Table 35: Fair Rate of Return (FRoR) as proposed by the Authority

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Fair Rate of Return (FRoR)	14%	14%	14%	14%	11.96%

Proposal No. 7: Regarding Fair Rate of Return (FRoR)

7.a. The Authority proposes to consider FRoR for Varanasi Airport for the 1st Control Period as per Table 35.

11. Non-aeronautical revenue

11.1 AAI has forecast revenue from services other than aeronautical services as below.

Table 36: Non-aeronautical revenue projections as per AAI (INR crores)

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
1. Trading concessions					
Restaurant / snack bars	3.89	4.28	4.71	5.18	6.22
T.R. stall	5.68	6.25	6.87	7.56	9.07
Hoarding & display	3.77	4.15	4.57	5.02	6.03
2. Rent and services					
Land leases	0.04	0.04	0.04	0.04	0.04
Building (residential)	0.02	0.02	0.02	0.02	0.02
Building (non-residential)	1.75	1.93	2.12	2.33	2.80
3. Miscellaneous					
Car rentals	0.77	0.84	0.93	1.02	1.23
Car parking	2.34	1.80	1.98	2.18	2.61
Admission tickets	0.31	0.34	0.38	0.42	0.50
Other income/ sale of scrap etc.	2.96	3.10	3.26	3.42	3.59
Total	21.54	22.76	24.88	27.20	32.11

11.2 The growth rates assumed by AAI have been presented in the table below.

Table 37: Growth rates assumed by AAI for non-aeronautical revenue

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
1. Trading concessions					
Restaurant / snack bars	10%	10%	10%	10%	20%
T.R. stall	10%	10%	10%	10%	20%
Hoarding & display	10%	10%	10%	10%	20%
2. Rent and services					
Land leases	0.0%	0.0%	0.0%	0.0%	0.0%
Building (residential)	0.0%	0.0%	0.0%	0.0%	0.0%
Building (non-residential)	10%	10%	10%	10%	20%
3. Miscellaneous					
Car rentals	10%	10%	10%	10%	20%
Car parking	-14%	-23%	10%	10%	20%
Admission tickets	10%	10%	10%	10%	20%
Other income/ sale of scrap etc.	5%	5%	5%	5%	5%
Total	6%	6%	9%	9%	18%

Authority's Examination:

- 11.3 The Authority examined the non-aeronautical revenues for FY 2018-19 submitted by AAI and found the figures to be in line with the trial balances for FY 2018-19.
- 11.4 **Car Parking:** AAI has submitted that car parking contract of INR 24.25 lakhs per month has expired on May 9, 2019, subsequent to which it is being presently maintained by AAI with monthly revenue of INR 19.50 lakhs. As per the new AAI's Car Park Policy, the revised MRLF of INR 15 lakhs per month has been proposed for new award, which shall increase by 10% each year.
- 11.5 **Car Rentals:** AAI has submitted that two new contracts for prepaid taxi booth have been awarded in FY 2018-19 resulting in high growth in FY 2018-19, thus normal growth of 10% has been assumed for FY 2018-19 onwards.
- 11.6 **T.R. Stall:** AAI has submitted that it has increased the number of T R Stalls at the airport, which has resulted in the substantial increase in the revenue from TR stalls in FY2018-19. For projections during the 1st Control Period, AAI has considered the escalation of 10% in the revenue from TR Stalls.
- 11.7 **Land Leases:** AAI has submitted that land leases in FY 2017-18 represents arrear bills of INR 38 lakhs for Air India and INR 58 lakhs for Met Department for prior period which were raised in FY 2017-18. AAI has also submitted that shutting down of Jet Airways operation has impacted the land lease revenue in FY 2018-19.
- 11.8 The Authority verified the above-mentioned concession agreements and found the projections to be in line with the same.
- 11.9 The Authority observed that AAI has proposed additional 10% escalation in last year of the Control Period considering operationalization of the new terminal building in FY 2023-24. However, the proposed new terminal building shall spread across an area of 67,000 sqm, which is 2.5 times the area of the existing terminal building. Therefore, the Authority proposes to change the growth rates in FY 2023-24 assumed for:
- “Trading Concessions” – from 20% to 30%
 - Building (non-residential) – from 20% to 30%
 - Car rental and car parking – from 20% to 30%
 - Admission Tickets – on the basis of proposed passenger traffic growth rate (as per Table 7)
- 11.10 The revised growth rates as per Authority's examination have been presented in the table below.

Table 38: Growth rates in non-aeronautical revenue considered by the Authority

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Trading concessions					
Restaurant / snack bars	10%	10%	10%	10%	30%
T.R. stall	10%	10%	10%	10%	30%
Hoarding & display	10%	10%	10%	10%	30%
Rent and services					

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Land leases	0.0%	0.0%	0.0%	0.0%	0.0%
Building (residential)	0.0%	0.0%	0.0%	0.0%	0.0%
Building (non-residential)	10%	10%	10%	10%	30%
Miscellaneous					
Car rentals	10%	10%	10%	10%	30%
Car parking	-14%	-23%	10%	10%	20%
Admission tickets	13.65%	22.10%	22.22%	22.34%	22.47%
Other income/ sale of scrap etc.	5%	5%	5%	5%	5%
Total	6%	6%	9%	9%	18%

11.11 The revised non-aeronautical revenues as per Authority's examination have been presented in the table below:

Table 39: Non-aeronautical revenues proposed by the Authority (INR crores)

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total
Trading concessions						
Restaurant / snack bars	3.89	4.28	4.71	5.18	6.74	24.82
T.R. stall	5.68	6.25	6.87	7.56	9.83	36.18
Hoarding & display	3.77	4.15	4.57	5.02	6.53	24.04
Rent and services						
Land leases	0.04	0.04	0.04	0.04	0.04	0.21
Building (residential)	0.02	0.02	0.02	0.02	0.02	0.10
Building (non-residential)	1.75	1.93	2.12	2.33	3.03	11.17
Miscellaneous						
Car rentals	0.77	0.84	0.93	1.02	1.33	4.89
Car parking	2.34	1.80	1.98	2.18	2.83	11.13
Admission tickets	0.32	0.39	0.48	0.59	0.72	2.51
Other income/ sale of scrap etc.	2.96	3.10	3.26	3.42	3.59	16.34
Total	21.55	22.81	24.98	27.37	34.66	131.38

Proposal No. 8: Regarding Non-Aeronautical Revenues

8.a. The Authority proposes to consider non-aeronautical revenues for the 1st Control Period for Varanasi airport in accordance with Table 39.

12. Operation and maintenance expenditure

- 12.1 Operation and Maintenance (O&M) expenditure submitted by AAI is segregated into the following:
- Payroll expenses;
 - Admin and general expenditure;
 - Repair and maintenance expenditure;
 - Utilities and outsourcing expenditure;
 - Other outflows i.e. collection charges on UDF.
- 12.2 The expenses related to AAICLAS, ANS and CISF security have not been considered by AAI.
- 12.3 AAI has segregated the expenses into aeronautical expenses, non-aeronautical expenses, and common expenses. The common expenses have been further segregated into aeronautical and non-aeronautical on the basis of relevant ratios.
- 12.4 AAI submitted that the allocation of CHQ/RHQ expenses among individual airports has been done on the basis of revenue.
- 12.5 The summary of growth rates assumed by AAI for the operation and maintenance expenses have been presented in the table below:

Table 40: Growth rates in O&M as per AAI

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Payroll expenses - non CHQ/RHQ	8.0%	7.0%	7.0%	7.0%	16.9%
Payroll expenses - CHQ/RHQ	14.0%	7.2%	6.7%	7.2%	17.2%
Administration and General expenses - non CHQ/RHQ	10.9%	9.3%	10.1%	9.8%	116.0%
Administration and General expenses - CHQ/RHQ	5%	5%	5%	5%	5%
Repairs and maintenance	16.4%	6.2%	6.4%	-24.4%	16.1%
Utilities and outsourcing expenses	2.5%	37.1%	0.8%	0.9%	91.6%
Other outflows - Collection Charges on UDF & PSF (F)	158.4%	11.9%	11.9%	11.9%	10.0%
Total	10.15%	9.01%	5.88%	-2.22%	28.30%

- 12.6 The summary of aeronautical expenses proposed by AAI for the 1st Control Period has been presented in the table below:

Table 41: Operation and Maintenance (O&M) expenditure (in INR crore) as per AAI

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Payroll expenses - non CHQ/RHQ	13.97	14.95	16.00	17.12	20.02
Payroll expenses - CHQ/RHQ	1.95	2.09	2.23	2.39	2.80
Administration and General expenses - non CHQ/RHQ	3.55	3.88	4.27	4.69	10.13

Administration and General expenses - CHQ/RHQ	16.23	17.05	17.90	18.79	19.73
Repairs and maintenance	15.40	16.35	17.40	13.16	15.28
Utilities and outsourcing expenses	4.88	6.69	6.74	6.80	13.02
Other outflows - Collection Charges on UDF	0.88	0.98	1.10	1.23	1.35
Total	56.86	61.98	65.63	64.17	82.33

12.7 Further, summary of allocation of expenses between aeronautical and non-aeronautical as proposed by AAI is given in the table below:

Table 42: Allocation of O&M expenses as per AAI in 2018-19

Particulars	Aeronautical	Non-aeronautical
Payroll expenses - non CHQ/RHQ	97.96%	2.04%
Payroll expenses - CHQ/RHQ	95.0%	5.0%
Administration and General expenses - non CHQ/RHQ	94.15%	5.85%
Administration and General expenses - CHQ/RHQ	95.0%	5.0%
Repairs and maintenance	98.36%	1.64%
Utilities and outsourcing expenses	100%	0%
Other outflows - Collection Charges on UDF	100%	0%

Authority's Examination:

12.8 The Authority examined the trial balances for FY 2018-19 and discrepancies are detailed below:

- a) An amount of INR 2.27 lakhs in item titled "Civil works" pertaining to ANS has been included erroneously as part of Repair & Maintenance Expenses;

The Authority accordingly proposes to revise the same.

12.9 The Authority examined the allocation of expenses between aeronautical and non-aeronautical and compared the allocation proposed by AAI to its recent orders for other AAI airports. A summary of these has been presented in the table below.

Table 43: Comparison of allocation of O&M expenses as aeronautical with other AAI airports

Expense category	Patna	Kolkata	Jaipur
Payroll expenses - non CHQ/RHQ	97%	88%	94%
Payroll expenses - CHQ/RHQ	95%	88%	95%
Administration and General expenses - non CHQ/RHQ	99%	96%	88%
Administration and General expenses - CHQ/RHQ	95%	85%	90%
Repairs and maintenance	95%	89%	93%
Utilities and outsourcing expenses	90%	91%	93%
Other outflows - Collection Charges on UDF	100%	93%	100%

12.10 The Authority observes that AAI has allocated 95% of Payroll expenses – CHQ/RHQ and Administration and General expenses - CHQ/RHQ to aeronautical expenses. The Authority finds it to be appropriate based on AERA's decision in other AAI airports.

- 12.11 The Authority observes that AAI has allocated 2.04% of Payroll expenses – non CHQ/RHQ to Non-Aeronautical expenses. The Authority proposes to revise this in proportion of employee ratio for FY 2018-19, 2/88 i.e. 2.27%.
- 12.12 The Authority observes that AAI has allocated 94.15% of Administration and General expenses – non CHQ/RHQ to aeronautical expenses. The Authority proposes to modify this ratio based on the terminal building ratio and employee ratio for allocation of various components of these expenses. Accordingly, 92.75% of Administration and General expenses – non CHQ/RHQ may be allocated to aeronautical expenses.
- 12.13 AAI has proposed almost 100% of the Utilities and outsourcing expenses as aeronautical expenses. However, since the Utilities and related expenses shall be proportionately utilized for Non-Aeronautical functions also, the Authority proposes to allocate 90% of Utilities and outsourcing expenses to aeronautical expenses, in line with the Terminal Building ratio.
- 12.14 For other outflows, i.e., collection charges on UDF, AAI considered the growth rate to be the same as that of ATM traffic. The Authority proposes to use the same fundamental approach, as it finds them reasonable for projection.
- 12.15 The Authority proposes the following allocation of O&M expenses into aeronautical and non-aeronautical as shown in table below:

Table 44: Allocation of O&M expenses as per the Authority

Particulars	Aeronautical	Non-aeronautical
Payroll expenses - non CHQ/RHQ	97.73%	2.27%
Payroll expenses - CHQ/RHQ	95.0%	5.0%
Administration and General expenses - non CHQ/RHQ	92.75%	7.25%
Administration and General expenses - CHQ/RHQ	95.0%	5.0%
Repairs and maintenance	98.36%	1.64%
Utilities and outsourcing expenses	93%	7%
Other outflows - Collection Charges on UDF	100%	0%

- 12.16 AAI considered a growth rate of 7% in payroll expenses beyond FY 2019. This rate is consistent with other AAI airports and the Authority finds it to be reasonable. AAI has also considered a growth rate of 17% in payroll expenses in FY 2023-24 due to operations of new terminal building i.e. an additional 10% over and above annual growth rate of 7%. The Authority has found the same to be appropriate.
- 12.17 AAI considered a 40% increase in electricity charges in FY 2020-21 due to commencement of 24-hour operations at the airport with effect from 1/02/2019. Considering the fact that the additional five hours will be during the night, the increase of 40% is found to be reasonable. AAI has also considered an additional increase of 100% in electricity charges in FY 2023-24 due to operations of new terminal building. The Authority has found the same to be appropriate.
- 12.18 AAI has proposed expenses pertaining to re-carpeting of runway at INR 26.85 crores. Further, the expense has been deferred equally in five years, three of which fall in the 1st control period. The Authority evaluated the cost computations and found the same to be reasonable. Further, last portion of the re-carpeting expense shall be paid in FY 2021-22, thus resulting in

negative growth in R&M Expenses in FY 2022-23.

- 12.19 AAI has proposed a trajectory for Repair and maintenance expenses in their MYTP. The Authority examined actual growth trend of expenses for the past few years at the airport and examined AMC and other contractual agreements with vendors on a sample basis, to understand the escalation dynamics. On the basis of these checks, the Authority has found the considered growth rates to be reasonable.
- 12.20 Based on above considerations, the Authority proposes the following growth rates in operation and maintenance expenses.

Table 45: Growth rates in O&M expenses considered by the Authority

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Payroll expenses - non CHQ/RHQ	7%	7%	7%	7%	17%
Payroll expenses - CHQ/RHQ	7%	7%	7%	7%	17%
Administration and General expenses - non CHQ/RHQ	10%	10%	10%	10%	10%
Administration and General expenses - CHQ/RHQ	5%	5%	5%	5%	5%
Repairs and maintenance	16.40%	6.20%	6.40%	-24.40%	16.10%
Utilities and outsourcing expenses	2.50%	37.10%	0.80%	0.90%	91.60%
Other outflows - Collection Charges on UDF	13.65%	22.10%	22.22%	22.34%	22.47%
Total	8.67%	8.86%	5.94%	-2.38%	20.09%

- 12.21 After incorporating the above observations by the Authority, the revised O&M expenses are given in the table below.

Table 46: Revised Operation and maintenance (O&M) expenses as proposed by the Authority (INR crores)

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024	Total
Payroll expenses - non CHQ/RHQ	13.80	14.77	15.80	16.91	19.78	81.06
Payroll expenses - CHQ/RHQ	1.83	1.96	2.09	2.24	2.62	10.74
Administration and General expenses - non CHQ/RHQ	3.27	3.60	3.96	4.36	4.79	19.98
Administration and General expenses - CHQ/RHQ	16.23	17.05	17.90	18.79	19.73	89.70
Repairs and maintenance	15.36	16.31	17.35	13.12	15.23	77.37
Utilities and outsourcing expenses	4.39	6.02	6.07	6.12	11.73	34.32
Other outflows - Collection Charges on UDF	0.37	0.45	0.55	0.67	0.82	2.85
Total	55.25	60.14	63.72	62.20	74.70	316.01

Proposal No. 9: Regarding O&M expenses

- 9.a. The Authority proposes to consider O&M expenses for the 1st Control Period for Varanasi Airport as per Table 46.

13. Aeronautical Revenue

13.1 AAI has proposed to increase the aeronautical tariffs as applicable from 1st January 2020 as per below schedule:

- Landing Charges- For Domestic ATM, one-time hike of 41% and 4% year on year thereafter. For International ATM, one-time hike of 18% and 4% year on year thereafter;
- Parking and housing charges - For Domestic ATM, one-time hike of 120% and 4% year on year thereafter. For international ATM, one-time hike of 91% and 4% year on year thereafter;
- User Development Fee – AAI has proposed to subsume the PSF(F) charges to UDF charges. AAI has also sought a hike of 52% in resulting Domestic UDF charges only to recover the shortfall in ARR;
- Fuel Throughput Charges – AAI has proposed to increase the through put charges at 5% year on year basis.

13.2 As per AAI's submission, table below represents the Aeronautical revenue:

Table 47: Aeronautical revenue as proposed by AAI (INR crore)

S. No.	Particulars	Apr-Dec 2019	Jan -Mar 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
1.	Landing charges	13.62	6.26	28.85	33.24	38.29	43.41
2.	Parking & Housing charges	0.06	0.04	0.20	0.23	0.26	0.29
3.	UDF/PSF	37.34	17.46	77.92	86.97	97.07	106.78
4.	Fuel Throughput Charges	1.68	0.59	2.60	2.88	3.19	3.48
5.	Extension of Watch hours	0.00	0.00	0.00	0.00	0.00	0.00
6.	Ground Handling Charges	1.02	0.34	1.51	1.67	1.86	2.02
7.	Cute Charges	1.86	0.47	2.11	2.36	2.64	2.90
8.	Land Lease	0.46	0.15	0.61	0.61	0.61	0.61
9.	Revenue share from AAICLS	0.07	0.02	0.10	0.11	0.12	0.12
10.	Total Revenue	56.10	25.33	113.90	128.07	144.04	159.62

Authority's Examination:

13.3 The MYTP for Varanasi Airport was submitted by AAI on 13th December 2019. However, GoI's restrictions on Domestic and International flights entering / exiting the country, in view of the COVID19 pandemic, have negatively impacted the aviation sector in general and traffic in particular.

13.4 Considering the present scenario as discussed in para 4.16, the Authority is inclined not to increase the Landing, Parking & Housing charges both for domestic and international traffic

in the current financial year 2020-21 and proposes to revise the Landing, Parking & Housing charges with effect from April 1, 2021 and the User Development Fees (UDF) from July 1, 2020.

- 13.5 The Authority proposes to allow a one-time increase of 10% and 5% respectively in Domestic and International landing charges for FY 2021-22 and thereafter a 6% increase on compounded basis every year, up to FY 2023-24.
- 13.6 The Authority proposes to increase Domestic and International parking and housing charges by 120% and 91% respectively for FY 2021-22 as proposed by AAI. Further, the Authority proposes parking and housing charges to be increased by 6% on compounded basis every year, up to FY 2023-24.
- 13.7 Further, the Ministry of Civil Aviation has discontinued the levy of fuel throughput charge at all airports with effect from 15th January 2020 vide MoCA letter no. F.No. AV-13030/216/2016-ER (Pt.2) dated 8th January 2020.
- 13.8 The Authority proposes to keep all other charges in line with AAI proposal.
- 13.9 The Authority has determined the aeronautical charges with the proposed aeronautical revenue as follows:

Table 48: Aeronautical revenue as proposed by the Authority (INR crore)

S. No.	Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
1.	Landing charges	16.61	19.47	25.10	31.18	38.76
2.	Parking & Housing charges	0.08	0.10	0.24	0.30	0.37
3.	UDF/PSF	36.59	56.56	75.47	95.20	120.40
4.	Fuel Throughput Charges	1.77	0.00	0.00	0.00	0.00
5.	Extension of Watch hours	0.00	0.00	0.00	0.00	0.00
6.	Ground Handling Charges	1.23	1.44	1.68	1.97	2.30
7.	Cute Charges	1.64	2.00	2.45	3.00	3.67
8.	Land Lease	0.61	0.61	0.61	0.61	0.61
9.	Revenue share from AAICLS	0.09	0.10	0.11	0.12	0.12
10.	Total Revenue	58.63	80.28	105.66	132.37	166.23

Proposal No. 10: Regarding Aeronautical Revenue

- 10.a. The Authority proposes to consider Aeronautical revenue for the 1st Control Period for Varanasi Airport as per Table 48.

14. Taxation

14.1 To compute depreciation for tax purposes, AAI has used the depreciation rates in accordance with the following table:

Table 49: Depreciation rates for tax purposes as per AAI

Asset category	IT Depreciation rate - up to FY 18	IT Depreciation rate - from FY 19
Leasehold Land	0%	0%
Runways, Aprons and Taxiways	15%	10%
Road, Bridges & Culverts	10%	10%
Building-Others	10%	10%
Building – Terminal	10%	10%
Building – Temporary	100%	100%
Building- Residential	5%	5%
Security Fencing-Temp	10%	10%
Boundary Wall – Operational	10%	10%
Boundary Wall – Residential	5%	5%
Computer - End user	60%	40%
Intangible Assets – Software	60%	40%
Plant & Machinery	15%	15%
Tools & Equipment	15%	15%
Furniture & Fixtures: Other Than Trolley	10%	10%
Furniture & Fixtures: Trolley	10%	10%
Vehicles	15%	15%
Electrical Installations	10%	10%
Other Office Equipment	15%	15%
X Ray Baggage System	15%	15%
CFT/Fire Fighting Equipment	15%	15%

14.2 The tax calculation as submitted by AAI as given in the table below:

Table 50: Taxation as per AAI (INR crores)

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Aero revenue with revised rates	47.66	60.92	81.44	113.90	128.07	144.04	159.62
O&M expenses	45.44	51.62	56.86	61.98	65.63	64.17	82.33
Depreciation	9.27	10.62	14.86	20.16	23.45	22.88	63.74
Profit before tax	-7.06	-1.32	9.72	31.76	38.99	56.99	13.55
Prior Period Set-off	0.00	0.00	-8.37	0.00	0.00	0.00	0.00
PBT after Set-off	-7.06	-1.32	1.35	31.76	38.99	56.99	13.55
Tax rate (%)	34.61%	34.61%	25.17%	25.17%	25.17%	25.17%	25.17%
Taxes	0.00	0.00	0.34	7.99	9.81	14.34	3.41

Authority's Examination:

- 14.3 The Authority observed that AAI has proposed 01/01/2020 as the implementation date of the tariffs. The Authority proposes to revise the Landing, Parking & Housing charges with effect from 01/04/2021 and the User Development Fees from 01/07/2020. This had an impact on the projected aeronautical revenues, leading to difference in tax computation.
- 14.4 Furthermore, the Authority has considered Varanasi Airport on standalone basis, as it has done for other AAI airports as well. Treatment on standalone basis for computation of aeronautical taxes as a building block for determination of ARR means computing tax based on levels of profitability of these airports individually and not getting clouded by levels of profitability at the corporate or group level.
- 14.5 The Authority observed that AAI has taken the tax rate for FY 2018-19 as 34.608% and as 25.17% for the 1st Control Period i.e. from FY 2019-20 to FY 2023-24. This percentage has been calculated on basis of 22% basic tax, plus 10% surcharge plus 4% cess.
- 14.6 The projected aeronautical revenues for the Control Period are based on the charges proposed by AAI as part of its initial submission of Multi-Year Tariff Proposal.
- 14.7 The Authority proposes to consider the O&M expenses in accordance with Table 46 for computation of tax expense.
- 14.8 The Authority proposes to consider the capital expenditures for computation of depreciation in accordance with Table 25.
- 14.9 After considering all the above observations, the Authority proposes the following tax expense during the 1st Control Period.

Table 51: Tax expense as per Authority (INR crores)

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Aero revenue with proposed rates	58.63	80.28	105.66	132.37	166.23
O&M expenses	55.25	60.14	63.72	62.20	74.70
Depreciation	9.44	11.33	14.63	15.88	32.90
Profit before tax	-6.06	8.80	27.31	54.29	58.62
Set-off of loss	0.00	-6.06	0.00	0.00	0.00
Profit before tax after set-off of loss	-6.06	2.74	27.31	54.29	58.62
Tax rate (%)	25.17%	25.17%	25.17%	25.17%	25.17%
Taxes	0.00	0.69	6.87	13.66	14.76

Proposal No. 11: Regarding tax expense

- 11.a. The Authority proposes to consider the tax expense for the 1st Control Period for Varanasi Airport as per Table 51.

15. Aggregate Revenue Requirement (ARR) for the 1st Control Period

- 15.1 AAI has submitted Aggregate Revenue Requirement (ARR) and Yield Per Passenger (YPP) for the 1st Control Period as per the regulatory building blocks discussed.
- 15.2 All cash flows are assumed to occur at the end of the year. Further, all cash flows are discounted to 1st April 2019.
- 15.3 The summary of ARR and YPP has been presented in the table below.

Table 52: ARR and Yield as per AAI

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Average RAB (INR crores)	113.28	161.00	205.70	217.45	624.29
Fair Rate of Return	0.14	0.14	0.14	0.14	0.12
Return on average RAB (INR crores)	15.86	22.54	28.80	30.44	75.10
O&M expenses (INR crores)	56.86	61.98	65.63	64.17	82.33
Depreciation (INR crores)	12.17	13.55	15.70	16.32	40.45
Tax expense (INR crores)	0.34	7.99	9.81	14.34	3.41
Less: 30% NAR (INR crores)	6.46	6.83	7.46	8.16	9.63
ARR per year (INR crores)	78.77	99.23	112.47	117.11	191.66
Add: True up shortfall/(Surplus)	26.25				
Discount rate	14%	14%	14%	14%	12.03%
PV of ARR (INR crores)	105.05	87.04	86.55	79.05	115.47
Sum Present value of ARR (INR crores)	473.13				
Total traffic (million passengers)	10.92				
Yield Per Passenger (YPP) (INR)	433.22				

Authority's Examination:

- 15.4 The observations and proposals of the Authority across the regulatory building blocks impact the computation of ARR and YPP. With respect to each element of the regulatory building blocks considered by AAI in computation of ARR and YPP in Table 52 above, the Authority proposes as below:
- To consider the average RAB in accordance with Table 32.
 - To consider the FRoR in accordance with Table 35.
 - To consider the O&M expenses as per Table 46.
 - To consider the depreciation as per Table 30.
 - To consider the tax expense as per Table 51.
 - To consider the non-aeronautical revenue as per Table 39.
 - To consider the total traffic in accordance with Table 7.
- 15.5 After considering the above, the Authority proposes the following ARR and YPP, as presented in the table below.

Table 53: ARR and YPP as proposed by the Authority

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Average RAB (INR crores) (Refer Table 32)	85.60	120.00	178.60	205.67	487.65
Fair Rate of Return	0.14	0.14	0.14	0.14	0.12
Return on average RAB (INR crores)	11.98	16.80	25.00	28.79	58.32
O&M expenses (INR crores)	55.25	60.14	63.72	62.20	74.70
Depreciation (INR crores)	9.44	11.33	14.63	15.88	32.90
Tax expense (INR crores)	0.00	0.69	6.87	13.66	14.76
Less: 30% NAR (INR crores)	6.46	6.84	7.49	8.21	10.40
ARR per year (INR crores)	70.21	82.12	102.73	112.33	170.28
Add: True up shortfall/(Surplus)	0.00				
Discount Rate	14%	14%	14%	14%	11.96%
PV of ARR based @ 14% (INR crores)	70.21	72.04	79.05	75.82	108.37
Sum Present value of ARR (INR crores)	405.48				
Total departing traffic (million passengers)	12.30				
Yield Per Passenger (YPP) (INR)	329.54				

Proposal No. 12: Regarding Aggregate Revenue Requirement (ARR)

- 12.a. The Authority proposes to consider the ARR and YPP for the 1st Control Period for Varanasi airport in accordance with Table 53.

16. Annual Tariff Proposal

- 16.1 As part of the Multi-year Tariff Proposal, AAI submitted a tariff card for all five years of the first control period. This tariff card has been reproduced in this chapter. The Authority examined AAI's Multi-year Tariff Proposal, along with all regulatory building blocks. The Authority's examination has been discussed in this consultation paper in the previous chapters.
- 16.2 AAI has proposed the implementation date of tariff from 01/01/2020. The Authority has proposed to revise the Landing, Parking & Housing charges with effect from April 1, 2021 and the User Development Fees (UDF) from July 1, 2020.
- 16.3 The tariff card proposed for the first control period has been reproduced here. This is based on tariff card proposed by AAI, revised with the changes proposed by the Authority. For purposes of comparison, the existing aeronautical charges have been provided along with each charge.

D) LANDING CHARGES

Table 54: Existing International landing charges at Varanasi Airport

Weight of the Aircraft	International rate per landing (INR)
Up to 10 MT	141 Per 1MT
Above 10 MT up to 20 MT	1410+ 207.10 per 1MT in excess of 10 MT
Above 20 MT up to 50 MT	3,481 + 409.10 per 1MT in excess of 20 MT
Above 50 MT to 100 MT	15,754 + 477.80 per 1MT in excess of 50 MT
Above 100 MT	39,644+ 545.10 per 1MT in excess of 100 MT

Table 55: Existing Domestic landing charges at Varanasi Airport

Weight of the Aircraft	Domestic rate per landing (INR)
Up to 10 MT	67.10 Per 1MT
Above 10 MT up to 20 MT	671 + 117.70 per 1MT in excess of 10 MT
Above 20 MT	1,848 + 231 per 1MT in excess of 20 MT

Table 56: Landing charges proposed by AAI for the first Control Period

Weight of the Aircraft	International rate per landing (INR)	Domestic rate per landing (INR)
Up to 25 MT	260 Per 1MT	173 Per 1MT
Above 25 MT up to 50 MT	6500+ 487 per 1MT in excess of 25 MT	4325+ 303 per 1MT in excess of 25 MT

Weight of the Aircraft	International rate per landing (INR)	Domestic rate per landing (INR)
Above 50 MT up to 100	18675+ 563 per 1MT in excess of 50 MT	11900+ 346 per 1MT in excess of 50 MT
Above 100 MT to 200 MT	46825+ 649 per 1MT in excess of 100 MT	29200+ 422 per 1MT in excess of 100 MT
Above 200 MT	111725+ 779 per 1MT in excess of 200 MT	71400+ 476 per 1MT in excess of 200 MT

Landing charges are proposed to be increased by 4% on a compounded basis.

Table 57: Landing Charges proposed by Authority for Domestic ATM* (INR)

Weight of the Aircraft	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Up to 25 MT	167 per 1MT	177 per 1MT	188 per 1MT
Above 25 MT up to 50 MT	4175 + 221 per 1MT in excess of 25 MT	4426 + 234 per 1MT in excess of 25 MT	4691 + 248 per 1MT in excess of 25 MT
Above 50 MT up to 100	9700 + 253 per 1MT in excess of 50 MT	10282 + 268 per 1MT in excess of 50 MT	10899 + 284 per 1MT in excess of 50 MT
Above 100 MT to 200 MT	22350 + 264 per 1MT in excess of 100 MT	23691 + 280 per 1MT in excess of 100 MT	25112 + 297 per 1MT in excess of 100 MT
Above 200 MT	48750 + 281 per 1MT in excess of 200 MT	51675 + 298 per 1MT in excess of 200 MT	54776 + 316 per 1MT in excess of 200 MT

* Existing Landing charges as per Table 55 shall be applicable up to March 31, 2021

Table 58: Landing Charges proposed by Authority for International ATM* (INR)

Weight of the Aircraft	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Up to 25 MT	225 per 1MT	239 per 1MT	253 per 1MT
Above 25 MT up to 50 MT	5625 + 437 per 1MT in excess of 25 MT	5963 + 463 per 1MT in excess of 25 MT	6320 + 491 per 1MT in excess of 25 MT
Above 50 MT up to 100	16550 + 502 per 1MT in excess of 50 MT	17543 + 532 per 1MT in excess of 50 MT	18596 + 564 per 1MT in excess of 50 MT
Above 100 MT to 200 MT	41650 + 557 per 1MT in excess of 100 MT	44149 + 590 per 1MT in excess of 100 MT	46798 + 626 per 1MT in excess of 100 MT
Above 200 MT	97350 + 624 per 1MT in excess of 200 MT	103191 + 661 per 1MT in excess of 200 MT	109382 + 701 per 1MT in excess of 200 MT

* Existing Landing charges as per Table 54 shall be applicable up to March 31, 2021

16.4 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 schedule operators at airport, b) helicopters of all types, and c) DGCA approved Flying school/flying training institute aircrafts.

16.5 All Domestic legs of International routes flown by Indian operators will be treated as

Domestic flights as far as landing charges is concerned, irrespective of flight number assigned to such flights.

- 16.6 Charges shall be calculated on the basis of nearest MT (i.e. 1000 kg).
- 16.7 Flight operating under Regional Connectivity Scheme (RCS) will be completely exempted from Landing charges from the date the scheme is operationalization by GOI.

II) PARKING AND HOUSING CHARGES

Table 59: Existing Parking, Housing and Night Parking Charges

Weight of the Aircraft	Parking Charges Rates per Hour (INR) (up to two hours after first two free hours)	Parking Charges Rates per Hour (INR) (beyond first four hours)
Up to 25 MT	3.12 Per Hour Per 1MT	6.24 Per Hour Per MT
Above 25 MT up to 50 MT	78+4.16 per Hour per MT in excess of 25 MT	156+8.32 per MT per Hour in excess of 25 MT
Above 50 MT up to 100	182+8.32 per 1MT per Hour in excess of 50 MT	364+16.64 per MT per Hour in excess of 50 MT
Above 100 MT to 200 MT	598+10.40 per 1MT per Hour in excess of 100 MT	1196+20.80 per MT per Hour in excess of 100 MT
Above 200 MT	1638+11.44 per 1 MT per Hours in excess of 200 MT	3276+22.88 per MT per Hour in excess of 200 MT

Table 60: Parking and housing charges proposed by AAI for the first control period

Weight of the Aircraft	Parking Charges Rates per Hour (INR) (up to two hours after first two free hours)	Parking Charges Rates per Hour (INR) (beyond first four hours)
Up to 25 MT	3.37 Per Hour Per 1MT	6.75 Per Hour Per MT
Above 25 MT up to 50 MT	84.36+4.50 per Hour per MT in excess of 25 MT	168.73+9.00 per MT per Hour in excess of 25 MT
Above 50 MT up to 100	196.85+9.00 per 1MT per Hour in excess of 50 MT	393.70+18.00 per MT per Hour in excess of 50 MT
Above 100 MT to 200 MT	646.80+11.25 per 1MT per Hour in excess of 100 MT	1293.59+22.50 per MT per Hours in excess of 100 MT
Above 200 MT	1771.66+12.37 per 1 MT per Hours in excess of 200 MT	3543.32+24.75 per MT per Hours in excess of 200 MT

Parking and housing charges are proposed to be increased by 4% on a compounded basis every year.

Table 61: Proposed Parking & Housing Charges by Authority for Varanasi Airport from April 1, 2021

Weight of the Aircraft	Parking Charges Rates per Hour (INR) (up to two hours after first two free hours)*	Parking Charges Rates per Hour (INR) (beyond first four hours)*
Up to 25 MT	3.37 Per Hour Per 1MT	6.75 Per Hour Per MT
Above 25 MT up to 50 MT	84.36+4.50 per Hour per MT in excess of 25 MT	168.73+9.00 per MT per Hour in excess of 25 MT
Above 50 MT up to 100	196.85+9.00 per 1MT per Hour in excess of 50 MT	393.70+18.00 per MT per Hour in excess of 50 MT
Above 100 MT to 200 MT	646.80+11.25 per 1MT per Hours in excess of 100 MT	1293.59+22.50 per MT per Hours in excess of 100 MT
Above 200 MT	1771.66+12.37 per 1 MT per Hours in excess of 200 MT	3543.32+24.75 per MT per Hours in excess of 200 MT

**Existing Parking and housing charges as per Table 59 shall be applicable up to March 31, 2021 and the above charges are proposed to be increased by 6% on a compounded basis for FY 2022-23 and FY 2023-24*

- 16.8 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 take-off.
- 16.9 For calculating chargeable parking time, part of an hour shall be rounded off to the nearest hour.
- 16.10 Charges shall be calculated on the basis of nearest MT.
- 16.11 Charges for each period parking shall be rounded off to nearest rupee.
- 16.12 At the in-contact stands and open stands, after free parking, for the next two hours normal parking charges shall be levied. After this period, the charges shall be double the normal parking charges.
- 16.13 Night parking charges (between 2200 hours to 0600 hours) will be similar to the parking and housing charges as per table above. Night parking charges are waived off in principle for all Domestic scheduled operators at Varanasi Airport if the State Government reduces the rate of tax (VAT) on ATF less than 5%. The above waiver of night parking charges will be made applicable from the date of implementation of less than 5% tax on ATF by the State Govt. In the event of upward revision in the tax rate of ATF by the State Govt., 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.
- 16.14 Flight operating under Regional Connectivity Scheme (RCS) shall be completely governed by AIC Sl. No. 19/2017 dated August 30, 2017 issued by DGCA.
- 16.15 For unauthorized overstay of aircraft on ground, an additional charge of Rs. 20.00 per hour per MT beyond 24 hours will be payable.

III) FUEL THROUGHPUT CHARGES

The Ministry of Civil Aviation has discontinued the levy of Fuel Throughput Charges (FTC) from all airports w.e.f. 15th January 2020 vide MoCA letter no. F.No. AV-13030/216/2016-ER (Pt.2) dated 8th January 2020. Accordingly, the Authority has not proposed any Fuel Throughput Charges.

IV) USER DEVELOPMENT FEES (UDF)

Table 62: Existing UDF, UDF Proposed by AAI and Authority (per embarking passenger)

Passenger	Existing UDF*	UDF proposed by AAI	UDF proposed by Authority
Domestic	INR 227/-	INR 346/-	INR 219/-
International	INR 1216/-	INR 1216/-	INR 1216/-

***PSF (F) is proposed to be subsumed in the UDF.**

Notes:-

- a) Collection charges: if the payment is made in accordance within period prescribed under credit policy of AAI, then collection charges at INR Rs. 5.00 per departing passenger shall be paid by AAI. No collection charges shall be payable in case the airline fails to pay the UDF invoice to AAI within the prescribed credit period or in case of part payment. To be eligible to claim this collection charges, the airlines should have no overdue on any account with AAI.
- b) No collection charges are payable to casual operator/non-scheduled operators.
- c) For conversion of UDF in foreign currency, the RBI reference conversion rate as on the last day of the previous month for tickets issued in the 1st fortnight and rate as on 15th of the month for tickets issued in the 2nd fortnight shall be adopted.
- d) Revised UDF charges will be applicable on tickets issued on or after **01/07/2020**.
- e) No UDF/PSF (Facilitation) will be levied for Transit Passengers.

V) Aviation Security Fee: Applicable as prescribed by MoCA vide Order No. AV.13024/659/2015-AS dated May 7, 2019

VI) Exemption from levy and collection from UDF/ASF at the Airports

The Ministry of Civil Aviation, Govt. of India vide order no. AV.16011/002/2008-AAI dated 30.11.2011 has directed AAI to exempt the following categories of persons from levy and collection of UDF/ASF:

- a. Children (under age of 2 years),
- b. Holders of Diplomatic Passport,
- c. Airlines crew on duty including sky marshals & airline crew on board for the particular flight only (this would not include Dead Head Crew, or ground personnel),
- d. Persons travelling on official duty on aircraft operated by Indian Armed Forces,
- e. Persons traveling on official duty for United Nations Peace Keeping Missions.

- f. Transit/transfer passengers (this exemption may be granted to all the passengers transiting up to 24 hrs. “A passenger is treated in transit only if onward travel journey is within 24 hrs. from arrival into airport and is part of the same ticket, in case 2 separate tickets are issued it would not be treated as transit passenger”).
- g. Passengers departing from the Indian airports due to involuntary re-routing i.e. technical problems or weather conditions.

VII) GENERAL CONDITION:

- a) All the above Charges are excluding GST. GST at the applicable rates are payable in addition to above charges.
- b) Flight operating under Regional Connectivity Scheme (RCS) will be completely exempted from charges as per Order No.20/2016-17 dated 31/03/2017 of the Authority from the date the scheme is operationalized by GOI.

Aeronautical revenue under the proposed tariff card:

16.16 The Authority ensured that the proposed tariff card leads to projected revenues in line with the ARR. This has been further detailed in the table below.

Table 63: Computation of shortfall or surplus from proposed aeronautical charges (in INR crores)

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
Total PV of ARR including true up	405.48				
Landing charges:					
Domestic	13.96	16.26	20.83	25.71	31.74
International	2.65	3.21	4.27	5.47	7.01
Parking and housing charges:					
Domestic	0.04	0.05	0.12	0.15	0.18
International	0.04	0.05	0.12	0.15	0.19
Fuel Throughput charges	1.77	0.00	0.00	0.00	0.00
Ground handling charges	1.23	1.44	1.68	1.97	2.30
Land lease - Oil companies & Ground Handling	0.61	0.61	0.61	0.61	0.61
CUTE charges	1.64	2.00	2.45	3.00	3.67
Cargo Revenue	0.09	0.10	0.11	0.12	0.12
Total - before UDF	22.04	23.72	30.18	37.17	45.83
PV factor	1.0000	0.8772	0.7695	0.6750	0.6364
PV of above	22.04	20.80	23.22	25.09	29.17
∑ PV of above	120.32				
Shortfall before UDF	285.16				
UDF:					
Domestic	21.79	35.50	46.63	56.42	68.26
International	14.80	21.06	28.84	38.78	52.14

Particulars	FY ending March 31, 2020	FY ending March 31, 2021	FY ending March 31, 2022	FY ending March 31, 2023	FY ending March 31, 2024
PV of UDF	36.59	49.62	58.08	64.26	76.62
∑ PV of UDF	285.16				
(Surplus) / Shortfall	0.00				

Authority's examination:

16.17 As can be observed from the table above, as per Authority's proposals, AAI is entitled to recover an ARR of INR 405.48 crores from the tariff card proposed and as per Authority's proposals, the present value of total projected aeronautical revenues based on the Authority's proposed UDF charge is INR 405.48 crores.

Proposal No. 13: Regarding tariff rate card

13.a. The Authority proposes the aeronautical tariff for 1st Control Period as follows:

- Domestic Landing Charges in accordance with Table 57
- International Landing Charges in accordance with Table 58
- Parking & Housing Charges in accordance with Table 61
- User Development Fee (UDF) in accordance in Table 62

17. Summary of proposals

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18. Stakeholders' Consultation Timeline

- 18.1 In accordance with the provision of Section 13(4) of the AERA Act, 2008, the proposals contained in the Chapter 17 – Summary of proposals read with the relevant discussion in the other chapters of the paper is hereby put forth for Stakeholders' Consultation.
- 18.2 For removal of doubts, it is clarified that the contents of this consultation paper may not be construed as any Order or Direction by the Authority. The Authority shall pass an order, in the matter, only after considering the submissions of the stakeholders' in response hereto and by making such decisions fully documented and explained in terms of the provisions of the Act.
- 18.3 The Authority welcomes written evidence-based feedback, comments and suggestions from stakeholders on the proposal made in Chapter 17 above, latest by **29/06/2020** at the following address.

Director

Policy & Statistics,

Airports Economic Regulatory Authority of India

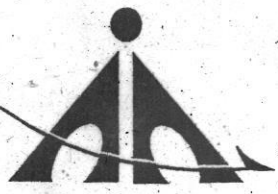
AERA Building, Administrative Complex

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(Chairperson)



भारतीय विमानपत्तन प्राधिकरण AIRPORTS AUTHORITY OF INDIA

FNO- No. AAI/CHQ/AERA/MYTP-Varanasi/2019

dated:03/12/2019

The Secretary,
Airports Economic Regulatory Authority of India,
AERA Building,
Administrative Complex,
Safdarjung Airport
New Delhi-110003

Sub:- Submission of revised Multi Year Tariff proposal (MYTP) in respect of Varanasi Airport for the control period (01/04/2019 to 31/03/2024)

Sir/Madam,

Reference is invited to this office letter dated 08/11/2017 and letter dated 08th March 2019 received from AERA on the subject noted above (Copy enclosed).

AERA declared Varanasi Airport as the major airport vide letter dated 10.01.2019 and further decided to shift control period from 01.04.2017-31.03.2022 to 01.04.2019 to 31.03.2024. Accordingly, the revised proposal of MYTP of Varanasi Airport considering the shortfall of FY 2017-18 and FY 2018-19 in control period 2019-2020 to 2023-2024 has been prepared and enclosed herewith.

MoCA vide letter no. AV-24011/141/2015-AD (Vol.V) dt.01.10.2019 directed AERA to determine the Tariff of Varanasi Airport which is proposed for leasing in 2nd phase of PPP (copy enclosed).

MoCA vide letter no. 24033/001/2010-AAI dt. 01.11.2010 had approved UDF at Varanasi airport for 20 years (Copy enclosed).

The Revised proposal has been prepared for Varanasi Airport as per AERA Methodology.

1.Growth

The Traffic data has been updated up to F.Y.2018-19 as actual. Thereafter the growth rate as given by Dte. Of CPMS has been taken which is as under :

Year	Domestic Passenger	International Passenger	ATM (Dom)	ATM (Intl)	Cargo Growth
2019-20	25.0%	15.0%	25.0%	12.0%	10.0%
2020-21	12.0%	10.0%	11.0%	09.0%	08.0%
2021-22	12.0%	10.0%	11.0%	09.0%	08.0%
2022-23	12.0%	10.0%	11.0%	09.0%	08.0%
2023-24	10.0%	10.0%	9.0%	09.0%	06.0%

2.Capex

The details of Proposed Capex are as under:-

- a) Construction of New Terminal Building - Rs. 830.45 cr.(Total Cost Rs.948 crs and aero portion is 87.6%). (PDC:2023-24, April 2023).
- b) Modification of Existing Terminal Building including consultancy work-Rs.23.52 crs (Total Cost Rs.25 crs and aero portion is 94.07%). (PDC 2021-22).
- c) Construction of Residential Quarters- Rs.32.03crs (total cost Rs.74 crs and quarter ratio of aero portion is 58/134). (PDC:2021-22).
- d) Construction of Additional Parking Bays-Rs.9.5crs. (PDC-2022-23).
- e) Surface Grading of entire operational area, construction of drainage system and construction of rain water harvesting system – Rs.14.60crs. (PDC 2020-21).
- f) Provision of 2 nos of Passenger Boarding Bridge (PBB) -Rs.2.23 crs (PDC: 2020-21).
- g) Renovation of washrooms and construction of New toilets in International Arrival before Immigration including Electrical PA system i/c renovation of VIP lounge (both)- Rs.4.50 crs.(PDC 2020-21).
- h) Construction of New Fire Station & Medical Centre-Rs.11.85 crs.(PDC 2020-21)
- i) Construction of localizer and glide path building hut and antenna platform Rs.3.67 crs.
- j) Extension of existing 2nos arrival carousal -Rs.1.31 crs
- k) Provision of one no. additional arrival carousal- Rs.3.71 crs.
- l) Runway Mechanical Sweeper- Rs.7.3 crs
- m) CFT 1 nos -Rs.4.5 crs
- n) Construction of R/way End Safety Area (RESA) at both ends of Runway- Rs.1.81 crs.
- o) Expansion of Apron for 2 nos .4C type of aircraft- Rs.7.94 crs. (PDC:2019-20).
- p) Vertical Extension of CISF Barrack i/c Quarter Guard. Rs. 2.20 crs.
- q) Construction of Administrative Block for AAI Staff. Rs.9.62 crs(total cost Rs.25.41 crs and applied employee ratio i.e 95/251) (PDC 2019-20).
- r) Purchase of PBB and AVDGS (2 nos). Rs.4.08 crs.
- s) Provision of way finding sinages. Rs.1.49 crs
- t) Supply of Passenger Baggage Trolley. Rs.2.02 crs.
- u) Provision of UPS and GLF System. Rs.1.08crs.
- v) Modification of domestic BHS system for inline X-BIS. Rs.3.35 crs.
- w) Provision of Inline Xbis- Rs.19 crs.

3.Airport User Consultative Committee (AUCC)

As per AERA Guidelines, AUCC has already been conducted on 08th November 2019 at Varanasi wherein Major Capex Proposed to be taken in control period was discussed before stakeholders. The copy of the minutes of meeting are enclosed.

4.Operating Expenditure

i.Till :-

Hybrid till as per the guidelines of AERA/National Civil Aviation Policy 2016, has been adopted for calculating operating expenditure. Under Hybrid till, the 30% of Non-Aeronautical Revenue will be used to cross-subsidies the Aeronautical charges. Accordingly, Regulatory Asset Base as on 01.04.2017 has been bifurcated into a) Aeronautical Assets b) Non-Aeronautical Assets and c) Common Assets.

ii.Expenses:-

The expenses appearing in the Trial Balance for the F.Y.2017-18 & F.Y. 2018-19 has been bifurcated into a) Aeronautical Expenses b) Non-Aeronautical expenses and c) Common Expenses.

iii.Data :-

The data for expenses, income and assets are actuals for the F.Y.2017-18 and F.Y. 2018-19 and have been duly audited by CAG.

The space earmarked for Non-Aero activities in existing Terminal Building is 5.93% and 12.40% for proposed New Terminal Building as per details shared by Dte. of Planning/Engg (Scope of Work & Drawing).

iv.Retirement benefit: -

Allocation for retirement benefit has been made on revenue basis and has been allocated for FY 2017-18 on the basis of actual and for FY 2018-19. 7% increase for Executive and 36% increase for Non-Executive (Due to pay revision of Non-Executive) have been taken. Allocations done in FY 2019-20 with 7% increase on year to year basis and additional 10% increase due to start of operation of New Domestic Terminal Building is proposed (total 17%) in F.Y.2023-24. This has been accepted by AERA while determining the Aeronautical tariff of Patna Airport.

v.Overheads: -

Apportionment of CHQ/ RHQ overheads made at CHQ on revenue basis and has been allocated for FY 2017-18 on the basis of actual allocations done in FY 2017-18 with 5% increase on year to year basis. Further 95% of CHQ / RHQ overhead expenses have been considered as Aeronautical activities. (5% considered for Non- Aeronautical activities). The above assumption/basis have been accepted by AERA while determining the Aeronautical tariff of Patna Airport.

The following assumption have been made for projecting increase in Expenditure and Revenue due to operationalize New Domestic Terminal Building(FY23-24):

- a. Additional 10% increase in cost of Pay & Allowances.
- b. Additional increase in cost of Upkeep expenses has been proposed as per proportionate increase in area of the building (213%) and 10% in watch & Ward.
- c. Additional 5% increase in cost of R&M(Civil) and 10% in R&M (Elect. & Electronics).
- d. Additional 100% increase in cost of Electricity.
- e. Additional 10% increase in Non-Aeronautical Revenue.

The above assumptions have been considered as discussed with APD Varanasi and as considered in the tariff proposal of Patna airport where the new terminal building is also proposed in the control period and AERA has accepted the same.

5. Fair Rate of Return (FRoR)

FRoR has been taken 14% for FY 17-18 to FY2022-23 and 12.03% for FY 2023-24 assuming that 60% Debt for construction of New Terminal Building will be taken in the last year i.e. FY 2023-24.

The above rates have been accepted by AERA while finalization tariff of Patna airport.

6. Depreciation

AAI's depreciation rate has been calculated upto March 2017 (F.Y.2016-17). From FY 2017-18 onwards depreciation has been worked out as per rates prescribed by AERA.Half yearly rate of depreciation has been calculated for additions in form 10(a) for 1st year of capitalization.

7. Taxation

Tax Rate have been taken 34.608% for FY2017-18, 34.944% for FY 2018-19 and 25.17% from FY 2019-20 till FY 2023-24 as per Corporate Tax prescribed by CBDT.

The Income tax calculation has been worked out on the basis of depreciation rates as per Income Tax Act.

8. Aggregate Revenue Requirement (ARR)

ARR has been worked out as per the AERA Methodology considering the above building blocks: -

ARR = (FROR on Capex+Opex+Depreciation+Tax)-30% of Non-Aeronautical Revenue.

As per the MYTP, Aggregate Revenue Requirement (ARR) for the first control period on Hybrid Till basis (FY 2019-20 to FY 2023-24) has been worked out to Rs.599.24 crores and PV of Target revenue is Rs.446.87 cr. The shortfall for the FY 17-18 and FY 18-19 works out to Rs.26.84 Cr. The total projected revenue at the proposed rate is 473.28 Cr. against the target revenue of Rs. 473.72 Cr. The short recovery of ARR Rs. 0.44 Cr. is to be adjusted in the next control period.

9. Revenue Stream to recover ARR

The following revenue streams are available to recover the ARR:

- i. **Landing Charges:** - Landing charges have been increased based on the average landing of the aircraft and is proposed to increase by 41% for Domestic landing and by 18% International landing from the existing charges w.e.f. 01.01.2020 till 31.03.2020. An increase of 4% thereafter on year on year basis from FY 2020-21 onwards is proposed. The charges have been proposed in order to have a uniformity with other major airports of AAI and have been approved by AERA in the recent past i.e. Patna Airport.
- ii. **Parking Charges:** -Parking Charges are proposed to increases in Domestic Parking by 120% and International parking charges by 91% from the existing charges w.e.f. 01.01.2020 till 31.03.2020. An increase of 4% thereafter on year on year basis from FY 2020-21 onwards. Existing and Proposed Landing charges are as under:
The charges have been proposed in order to have a uniformity with other major airports of AAI and have been approved by AERA.
- iii. **Fuel Throughput Charges:** - In order to rationalize,5% increase is proposed for FY w.e.f. 01.01.2020. No increase is proposed for the subsequent years. (Proposed Rate-Rs.237.60 per KL and Existing Rate-Rs. 226.29 per KL).

Oil Throughput	Existing	Proposed	Increase (%)
Average Through put Rate Rs.	226.29	237.60	5

- iv. **UDF:**-The above charges have been proposed to recover ARR and balance is proposed to recover from the UDF. The revise UDF for both Domestic and International are proposed w.e.f 01.01.2020.

Per departing passenger	UDF (INR)			Percentage Increase
	Existing		Proposed	
	PSF (F) Rates	UDF Rates	Proposed Rates (01.01.2020 To 31.03.2024)	
Domestic (PAX)	77/-	150/-	346/-	52%
International (PAX)	89/-	1127/-	1216/-	No Increase

PSF(F) is proposed to be subsumed with UDF.

No Increase in UDF for International Passenger is proposed only PSF(F) is subsumed with UDF.

v. **Aviation Security Fee (ASF)** will continue to be charged as rate prescribed by MoCA.

The up-dated MYTP along with the Annual Tariff Proposals is enclosed for your consideration and approval.

This issues with the approval of Competent Authority.

Yours faithfully,

(D.K.Kamra)

Executive Director(JVC/Tariff)

3.12.2019

Encl:- As above

Copy to:

1. Regional Executive Director, AAI, Northern Region, New Delhi
2. Airport Director, AAI, Varanasi Airport.

Copy for information to:

1. OSD to Chairman
2. Member(Planning) | ED Engg NR

AIRPORTS AUTHORITY OF INDIA

VARANASI AIRPORT - PROPOSED RATE CARD FOR AERONAUTICAL SERVICES

FOR F.Y. 2019-20

EFFECTIVE FROM 1st JANUARY 2020 TO 31 MARCH 2020

(I) (a) Landing Charges - International flights	
Weight of the Aircraft	Proposed Rate Per Landing (In INR)
Upto 25 MT	260 Per 1MT
Above 25 MT up to 50 MT	6500+ 487 per 1MT in excess of 25 MT
Above 50 MT up to 100	18675+ 563 per 1MT in excess of 50 MT
Above 100 MT to 200 MT	46825+ 649 per 1MT in excess of 100 MT
Above 200 MT	111725+ 779 per 1MT in excess of 200 MT

(b) Landing Charges – Domestic Flights	
Weight of the Aircraft	Proposed Rate Per Landing (In INR)
Upto 25 MT	173 Per 1MT
Above 25 MT up to 50 MT	4325+ 303 per 1MT in excess of 25 MT
Above 50 MT up to 100	11900+ 346 per 1MT in excess of 50 MT
Above 100 MT to 200 MT	29200+ 422 per 1MT in excess of 100 MT
Above 200 MT	71400+ 476 per 1MT in excess of 200 MT

1. 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 schedule operators at airport and b) helicopters of all types C) DGCA approved Flying school/flying training Institute aircrafts.
2. All domestic legs of International routes flown by Indian Operators will be treated as Domestic flights as far as landing charges is concerned, irrespective of flight number assigned to such flights.
3. Charges shall be calculated on the basis of nearest MT (i.e. 1000 kg).
4. Flight operating under Regional connectivity scheme will be completely exempted from Landing charges from the date of the scheme is operationalized by GOI.

II) PARKING CHARGES

Proposed Rates (In INR)		
Weight of the Aircraft	Parking Charges per Hour(First two hours after free parking period)	Parking Charges per Hour(beyond four hours)
Upto 25 MT	3.37 Per Hour Per 1MT	6.75 Per Hour Per MT
Above 25 MT up to 50 MT	84.36+4.50 per Hour per MT in excess of 25 MT	168.73+9.00 per MT per Hour in excess of 25 MT
Above 50 MT up to 100	196.85+9.00 per 1MT per Hour in excess of 50 MT	393.70+18.00 per MT per Hour in excess of 50 MT
Above 100 MT to 200 MT	646.80+11.25 per 1MT per Hours in excess of 100 MT	1293.59+22.50 per MT per Hours in excess of 100 MT
Above 200 MT	1771.66+12.37 per 1 MT per Hours in excess of 200 MT	3543.32+24.75 per MT per Hours in excess of 200 MT

Notes-

1. 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 take-off.
2. For calculating chargeable parking time, part of an hour shall be rounded off to the nearest hour.

3. Charges shall be calculated on the basis of nearest MT.
4. Charges for each period parking shall be rounded off to nearest rupee.
5. At the in-contact stands and open stands, after free parking, for the next two hours normal parking charges shall be levied. After this period, the charges shall be double the normal parking charges.
6. Night parking charges (between 2200 hours to 0600 hours) will be similar to the parking and housing charges as per table above. Night parking charges are waived off in principle for all domestic scheduled operators at Varanasi Airport if the State Government has brought the rate of tax (VAT) on ATF $\leq 5\%$. The above waiver of night parking charges will be made applicable from the date of implementation of $\leq 5\%$ tax on ATF by the State Govt. In the event of upward revision in the tax rate of ATF by the State Govt., 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.
7. Flight operating under Regional Connectivity Scheme will be completely governed by AIC issued on this subject by DGCA.
8. For unauthorized overstay of aircraft an additional charge of Rs. 20.00 per hour per MT beyond 24 hours is to be payable.

III) FUEL THROUGHPUT CHARGES

Proposed Rate Per KL (IN INR)
Rs. 237.60/-

IV) USER DEVELOPMENT FEES (UDF)

Passenger	Proposed UDF (per embarking passenger)
Domestic	Rs. 346/-
International Passenger	Rs. 1216/-

PSF (F) is proposed to be subsumed in the UDF.

Notes:-

- a) Collection charges: if the payment is made in accordance within period prescribed under credit policy of AAI, then collection charges at INR Rs. 5.00 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 prescribed credit period or in case of part payment. To be eligible to claim this collection charges, the airlines should have no overdue on any account with AAI.
- b) No collection charges are payable to casual operator/non-scheduled operators.

- c) For conversion of UDF in foreign currency, the RBI reference conversion rate as on the last day of the previous month for tickets issued in the 1st fortnight and rate as on 15th of the month for tickets issued in the 2nd fortnight shall be adopted.
- d) Revised UDF charges will be applicable on tickets issued on or after 01/01/2020.
- e) No UDF/PSF (Facilitation) will be levied for Transit Passengers.

V) Aviation Security Fee : Applicable as prescribed by MoCA.

VI Exemption from levy and collection from UDF/ASF at the Airports

The Ministry of Civil Aviation, Govt. of India vide order no. AV.16011/002/2008-AAI dated 30.11.2011 has directed AAI to exempt the following categories of persons from levy and collection of UDF/ASF.

- (a) Children (under age of 2 years),
- (b) Holders of Diplomatic Passport,
- (c) Airlines crew on duty including sky marshals & airline crew on board for the particular flight only (this would not include Dead Head Crew, or ground personnel),
- (d) Persons travelling on official duty on aircraft operated by Indian Armed Forces
- (e) Persons traveling on official duty for United Nations Peace Keeping Missions.
- (f) Transit/transfer passengers (this exemption may be granted to all the passengers transiting up to 24 hrs. "A passenger is treated in transit only if onward travel journey is within 24 hrs. from arrival into airport and is part of the same ticket, in case 2 separate tickets are issued it would not be treated as transit passenger").
- (g) Passengers departing from the Indian airports due to involuntary re-routing i.e. technical problems or weather conditions.

VII) GENERAL CONDITION:

- a) All the above Charges are excluding GST. GST at the applicable rates are payable in addition to above charges.
- b) Flight operating under Regional connectivity scheme will be completely exempted from charges as per Order No.20/2016-17 dated 31/03/2017 of the Authority from the date the scheme is operationalized by GOI.