F.No.AAI/JVC/Calicut -Tariff/2021 Date : 08/11/2021

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

Sub: - Response to AERA's Consultation Paper No. 17/2021-22 in the matter of Determination of Aeronautical Tariff in respect of Calicut Airport for the Third Control Period (01.04.2021 to 31.03.2026).

Sir,

This has reference to the AERA's Consultation Paper No.17/2021-22 in the matter of Determination of Aeronautical Tariff in respect of Calicut Airport for the Third Control Period (01.04.2021 to 31.03.2026).

AAI's response to the Consultation Paper No.17/2021-22 is enclosed.

Thanking You,

Your faithfully

8/11/2021

(V Vidya)
Executive Director (JVC & PPP)-I

Encl: As above

CALICUT INTERNATIONAL AIRPORT

Response to Airports Economic Regulatory Authority (AERA)'s Consultation Paper No. 17/2021-22 dated 7th October 2021 Determination Of Aeronautical Tariff for Calicut International Airport (CCJ) for the Third Control Period (01.04.2021 - 31.03.2026)

Contents

1 Introduction

Airports Economic Regulatory Authority of India ('AERA') has released Consultation Paper No. 17/2021-22 on Aeronautical services in respect of Calicut International Airport ('CCJ') for Third Control Period (01.04.2021 to 31.03.2026), ('Consultation Paper' or 'CP') on 7th October 2021.

We hereby present our observations, suggestions, and request in respect of determination of Aeronautical Tariffs for CCJ for the Tariff Determination for the Third Control Period – from 1st April 2021 to 31st March 2026 and True Up of Second Control Period from 1st April 2016 to 31st March 2021.

2 True Up for the Second Control Period

2.1 Regulatory Asset Base (RAB)

2.1.1 Disallowance of Financing Allowance

AERA's Contentions

(Para numbers as per CP)

4.4.6 AERA noted that Calicut International Airport has capitalized Financing Allowance of ₹ 7.47 crores (₹ 2.27 crores towards project on recarpeting of runway and ₹ 5.20 crores towards construction of New International Arrival Block (NIAB) in the MYTP submitted for the true up of the Second Control Period. However, at the time of submission of the MYTP for the Second Control Period, such Financing allowance was not proposed by Calicut Airport and AERA also had not approved the same in the Tariff Order issued for Calicut Airport for the Second Control Period. Further, it was noted that the capital expenditure was carried out by Calicut Airport using its own funds. AERA is of the view that Financing allowance is essentially the Interest During Construction (IDC) for a project and should be provided only on the debt borrowings availed for execution of a project.

4.4.7 AERA considers that giving an assured return on the equity investment even on the work-in-progress assets would result in reducing the risks associated with equity investment in capital projects. However, the airport operator is given a fair rate of return on equity when the capital assets are capitalized.

4.4.8 Further, AERA notes that in case of greenfield developments, the airport operator would have to wait for a considerable length of time before getting the return on the large capital outlay incurred by it as these projects take longer durations to commission and operationalise. It was with this consideration that AERA had earlier provided financing allowance in initial stages to such airports. AERA notes that Calicut International Airport is a brownfield airport and has lower construction and traffic risk for new construction at the airport. It may also be noted that financing allowance has never been provided in the case of other airports such as DIAL, MIAL and KIAL. Based on the above analysis, AERA proposes to disallow the Financing allowance of ₹ 7.47 crores.

AAI's Submission

- Direction 5 of AERA (which entails the methodology of aeronautical tariff determination) allows Airport operators to be eligible for Financing Allowance as a return on the value invested in construction phase of an asset including the Equity portion, before the Asset is put to use.

- The concept of Financing Allowance, its computation and how the Work in Progress Asset includes the Financing Allowance is provided in Paragraph 5.2.7 of the Direction No.05-2010-11. Extract of the same is provided below:

  "5.2.7. Work In Progress assets (a) Work in Progress Assets (WIPA) are such assets as have not been commissioned during a Tariff Year or Control period, as the case may be. Work in Progress assets shall be accounted for as:
  WIPAt = WIPAt-1 + Capital expenditure + Financing allowance – Capital receipts of the nature of contributions from stakeholders (SC) - Commissioned Assets (CA)
  Where:
  WIPAt = Work in progress Assets at the end of Tariff Year t
  WIPAt-1 = Work in progress Assets at the end of the Tariff Year t-1
  Capital Expenditure= Expenditure on capital projects and capital items made during Tariff Year t.

  The Financing allowance shall be calculated as follows:

$$\text{Financing Allowance} = R_d \times \left(\text{WIPA}_{t-1} + \frac{\text{Capex} - \text{SC} - \text{CA}}{2}\right)$$

  Where
  Rd is the cost of debt determined by AERA according to Clause 5.1.4.
  SC are capital receipts of the nature of contribution from stakeholders (including capital grants and subsidies) pertaining to the capital expenditure incurred in Tariff year t.
  CA are Commissioned Assets which pertain to the accumulated value of the WIPA attributable to all assets that have been put into effective operation during Tariff Year t.

- AERA has further provided an Illustration on Page 28 detailing the working. The extract of the illustration is as under:

Illustration 7: The following example illustrates this approach for calculation of Work in progress assets, financing allowance and commissioned assets. The numbers in the illustration have been rounded to the nearest integers.

Forecast Work in Progress Assets

		2010-11	Tariff Year 1	Tariff Year 2	Tariff Year 3	Tariff Year 4	Tariff Year 5
Opening WIP: $WIPA_{t-1}$	OW	-	-	-	558	638	-
Capital Expenditure	CE	-	833	521	-	-	-
Financing Allowance	FA=R_d x (OW+(CE-CA-SC)/2)	-	-	37	80	43	
Capital Receipts	SC	-	200	-	-	-	-
Commissioned Assets	CA	-	633	-	-	681	-
Closing WIP: $WIPA_t$	CW = OW + CE + FA - SC – CA	-	-	558	638	-	-

- *The cost of debt, R_d, used for calculation of financing allowance, is the cost of debt determined by the Authority under Clause 5.1.4.*
- *The example illustrates that those assets, which have been acquired or commissioned within the same Tariff Year (i.e. Tariff Year 1), have been included both in Capital Expenditure and Commissioned Assets.*
- *The value of commissioned assets, as calculated, shall be used for forecasting RAB for the Control Period.*

- Further, Para 5.2.5 of Direction No. 05 details the forecasting of RAB wherein the commissioned assets (including the Financing Allowance on the assets, when it was in Work in Progress stage) has been added to RAB and forms part of the closing and average RAB workings. The Illustration 4 in Page 23 is given below:

Forecast RAB

		2010-11	Tariff Year 1	Tariff Year 2	Tariff Year 3	Tariff Year 4	Tariff Year 5
Opening RAB_{t-1}	OR	22,750	20,500	18,826	16,462	13,998	12,277
Commissioned Assets	CA	-	633	-	-	681	-
Depreciation	DR	2,250	2,307	2,364	2,364	2,402	731
Disposals	Di	-	-	-	100	-	-
Incentive Adjustments	IA	-	-	-	-	-	-
Closing RAB_t	CR=OR+CA-DR-Di+IA	20,500	18,826	16,462	13,998	12,277	11,547
RAB for calculating ARR	RA=(OR+CR)/2		19,663	17,644	15,230	13,138	11,912

- The Clause (d) of Para 5.2.6 defines Commissioned Assets as below:

  "Commissioned Assets: Represents investments brought into use during Tariff Year t, consistent with Clause 5.2.7 herein below."

- Thus, from the above clauses it is clear that the Financing Allowance is computed on the Work in Progress balance based on Capital Expenditure incurred which is funded by Equity/Internal accruals and is capitalized as part of Commissioned assets for RAB Computation. In the case of AAI, financing allowance is computed on the equity portion and IDC is computed on the debt portion of the capital spend.

- Thus, Direction 5 provides an explicit, detailed elaboration of Financing allowance. Manner and formulae of computation and addition of the “commissioned assets” into RAB including the Financing allowance are elucidated in detail with examples is contained in the same Direction.

The regulatory principles laid down by AERA and based on which the tariff orders are determined provide a fundamental foundation of the regulatory clarity to the stakeholders on the manner in which different components of costs and revenues are treated. Following are the examples and extracts of inclusion of financing allowance in RAB by AERA in various Orders:

- **CIAL TCP Order:** Vide para 4.4.52 of CIAL order for third control period, for true up of SCP, AERA noted that, in the tariff order for the SCP, it was decided that FA would be trued up based on the final capex. In its MYTP submission, CIAL had proposed an addition of Rs. 11.9 crores in FY 2021 only as Financing Allowance for true up of SCP. Accordingly, AERA recomputed FA based on actual WIP capitalized and allowed for inclusion in the Order.

- **BIAL TCP Order:** Vide para 3.3.78 of BIAL Order for the third control period, AERA has agreed to allow the financing allowance for the second control period.

- Financing allowance was approved and given by AERA in the First and Second Control period for BIAL and in second control period order of CIAL.

- **MIAL and DIAL:** It is further to be noted that MIAL and DIAL are governed by tariff determination principles set forth in SSA and OMDA. SSA and OMDA do not contain the concept of financing allowance. Hence, AAI submits that these 2 airports are not comparable with AAI airports.

AAI’s Request

- The AERA Act requires AERA to consider *“timely investment in improvement of airport facilities”;* and *“economic and viable operation of major airports”.* The statement of objects and reasons of the AERA Act requires Authority to encourage investment in airport facilities, create a level playing field and foster healthy competition. The Airports Infrastructure Policy of 1997 and NCAP 2016 also emphasize the need to provide a commercial orientation and encourage private sector participation in the airport sector.

- Financing allowance computation is fully in compliance with Direction 5, affirmed by Authority in its various Orders in the past.

- Based on the above submissions, AAI submits that by non-consideration of Financing allowance it amounts to violating AERA’s own guidelines Further, allowing Financing allowance for private airports and not for AAI airports vitiates the principle of laying a level playing field for all airports – public or private in India and AAI airports would be denied of revenues that they are rightfully entitled to.

- AAI therefore requests AERA to consider the financing allowance of Rs. 7.47 crores computed for SCP additions. Further, AAI requests AERA to also consider these additions by way of financing allowance for depreciation computation and return on RAB accordingly.

2.1.2 Allocation Ratios for Additions in the Second Control Period

AERA's Contentions

AERA proposed to consider the ratio of 92%:8% (Aero : Non-aero) for common assets within the Terminal building during the Second Control Period.

AAI's Submission

- AAI submits that the ratios submitted are based on actual floor space usage and increasing the ratio to 92:8 by comparing with other airports/generally accepted ratios may not reflect the true ground scenario in Calicut Airport.
- Detailed workings for all the aeronautical ratios applied for various assets was submitted during MYTP stage to AERA for its perusal.
- Even in SCP order, the ratio for TBLR was taken as 92.7:7.3 and it was stated that the same would be trued up based on actual aero additions during the SCP.
- Considering the fact that true up of the ratio was decided to be carried out in the SCP Order, AAI has submitted the aero ratio working based on actual aero additions for SCP.

AAI's Request

AAI requests AERA to consider the actual ratios as submitted during the MYTP stage for SCP.

2.2 Return on Land

2.2.1 Return on land not provided

AERA's Contentions

AERA notes that AAI has submitted Rs. 24.68 Cr. for return on land for the First Control Period and Rs. 13.53 Cr. for return on land for the Second Control Period. AERA quoted that the Order No. 42/ 2018-19 dated March 5, 2019 which prescribes methodology for computing Return on Land states that the same will take effect from the next Control Period (section 4.1.8 of the said order). AERA proposes to allow Return on Land only for the Third Control Period and not for the earlier Control Periods. (Para 4.7.2 of CP)

AAI's Request

AAI requests AERA to kindly consider the return on land at least from second control period.

2.3 Opex

2.3.1 Considering Admin CHQ/RHQ expenses

CHQ/RHQ allocation for FY2018-19 & FY2019-20

AERA's Contentions

Reference is invited to para 4.6.4 of the CP which brings as follows. *"AERA examined the actual **Admin & General expenses and repair & maintenance expenses** for the Second Control Period and noted the following:*

***CHQ/ RHQ allocation** –. AERA reviewed the basis adopted by AAI for allocation of CHQ and RHQ expenses to Calicut International Airport and other airports and noted the following:*

- *All expenses incurred by CHQ and RHQ (like staff costs, Admin and Gen. expenses, Repairs and Maintenance, utilities, outsourcing expenses etc.) is allocated to all the AAI airports.*
- *All the above expenses including employee benefit expenses are allocated in the ratio of revenues earned by each Airport.*
- *Expenses also include one-time or extraordinary items which have been allocated to all AAI airports and are not absorbed by CHQ/ RHQ.*
- *Revenues earned from JVCs like DIAL and MIAL are not netted off against the above expenses.*
- *Some common expenses are apportioned between ANS and Airport in the ratio of 50:50, although certain expenses like seminars for Airport development are likely to benefit ANS more than the Airport services.*
- *Expenses such as legal costs, interest/ penalties are related to some specific airports. However, these have been allocated to the common pool and apportioned to all the AAI airports.*

AERA is of the view that the above process followed by AAI for allocating the expenses is not transparent and necessitates adoption of a scientific/ rational approach for justifiable allocation of expenses to the Airports. Towards this objective, AERA has examined the major expense components of CHQ and RHQ for the FY 2018-19 and FY 2019-20 (as the expense wise break up was available only for the above 2 financial years and not for the earlier years) and had proposed the methodology for allocation of expenses in Table no. 14 & 15 of CP."

AERA has reduced the CHQ/RHQ cost for Second Control Period by Rs. 54.71 crores.

AAI's Submission

In this regard AAI submitted that:

- AERA has considered the actual CHQ/RHQ expenses for determination of aeronautical tariff charges in case of Amritsar, Varanasi, Trichy and Raipur airports.
- Same methodology/numbers were used in Calicut also. Document detailing the method of allocation of costs was submitted to AERA.
- Further, earlier years data of FY16-17 and FY17-18 were submitted as part of replies to queries to AERA vide email dated 13th July 2021.
- AAI has been consistently following the below given approach methodology/formula for the purpose of allocation of CHQ & RHQ Expenses to all the Profit Centers. It has adopted the same approach while finalising and submitting the tariff proposals for AERA in the past.

i. CHQ Expenses (Net off of Revenue) are allocated to all the profit Centers of AAI on the basis of Revenue earned.
ii. RHQ Expenses (Net off of Revenue) are allocated to all the profit Centers under the respective region on the basis of Revenue earned.
iii. Final allocation of CHQ & RHQ Expenses to the profit Centers

AERA has in the past considered the above approach in its determination of tariffs for Amritsar, Raipur, Trichy and Varanasi Airport. However, a change in the approach in the case of determination of tariffs for Chennai Airport is proposed now as "…………AERA may choose to consider the lower of actual/approved apportionment expenses as per the Second Control Period Order."

As the policy is uniform for AAI as a whole the change in approach / methodology between airports during the Control period would necessarily mean that the CHQ/RHQ apportioned expenses remain under recovered at Chennai Airport.

- The entire process of allocation is based on a metric like revenues/assuming certain allocation percentages.
- AAI submits that one time/extra ordinary costs such as CAD pension are still costs incurred by AAI and requires reimbursement. AERA guidelines do not preclude reimbursement of any one-time costs.
- AERA has stated that Revenues earned from JVCs like DIAL and MIAL are not netted off against the above expenses. Akin to ANS services, this is a separate stream of revenues along with its own costs. The revenue earned by AAI by leasing out the said AAI airports are used to cross-subsidise the loss arising out of the non-major airports , majority of which are making losses. Hence, this has not been netted off while allocating costs. Costs already considered in these revenue streams is about 6% of the net cost of CHQ allocated to all stations for FY 19-20.
- AERA has stated that some common expenses are apportioned between ANS and Airport in the ratio of 50:50, although certain expenses like seminars / travel expenses for Airport development are likely to benefit ANS more than the Airport services. AAI has strived to bring in uniformity in allocation of expenses to various streams of revenue and then allocate costs to various stations. Hence, vide the documented methodology, after studying the trend and pattern of expenses, AAI has arrived at these ratios. Assuming that the seminars and other travel expenses will benefit ANS more may not reflect the true trend in these expense heads. Moreover, AAI has shared the ledger extracts of these costs for perusal by AERA. We have not received any further queries on this data.
- AAI submits that there were inconsistencies observed in changing allocation percentages in some heads and not considering the cost itself in other cases.

<u>CHQ/RHQ allocation for FY2016-17 & FY2017-18</u>

<u>AERA's Contentions</u>

AERA based on its analysis and re-allocation of CHQ & RHQ spends for FY 2018-19, FY 2019-20 and FY 2020-21, the Authority has proportionately reduced the amount allocated by AAI for FY 2016-17 and FY 2017-18 and the same is explained in the table 17 in the CP

<u>AAI's Submission</u>

AAI firstly submits that the workings of FY 2016-17 and FY 2017-18 were already submitted to AERA during the tariff determination process vide email dated 13th July 2021. Hence, citing non-availability of data may not be factual. Due to the foregoing discussion, AAI further submits that it does not agree with the application of a ratio to determine the quantum of deduction of expenses from the total CHQ and RHQ cost for FY 2016-17 and FY 2017-18.

AAI submits that there seems to be a contradiction in the working of the ratio applied by AERA on FY 2016-17 and FY 2017-18. AAI further reiterates that the actual working of FY 2016-17 and FY 2017-18 were submitted to AERA and is unable to comprehend the application of a ratio to actual workings.

While AERA on one hand states that items such as CAD pension are one time/extraordinary in nature, using the same % of deduction as computed for FY 2018-19 and FY 2019-20 (which had such one time/extra ordinary costs) for the years FY 2016-17 and FY 2017-18 may not be a justified basis.

We reiterate that there was no such one time/extraordinary cost in FY 2016-17 and FY 2017-18. However, it may not be reasonable to apply the % computed based on FY 2018-19 and FY 2019-20 which had a one time/extraordinary cost on FY 2016-17 and FY 2017-18 amounts.

CHQ/RHQ- Cost-relatedness

AERA is of the view that the users should pay only for the services availed by them. Further, in line with section 13 of the AERA Act, 2008 the Authority has a scope of determining tariff in respect of Aeronautical services provided/ capital expenditure incurred only by that particular airport. This view is also consistent with ICAO's principle of 'Cost-relatedness'.

AAI's Submission

- AAI submits that AAI is in full agreement that there ought to be 'cost relatedness' while allowing it to be included in the ARR, AAI submits that not considering costs on account of being 'extra ordinary', 'one time', considering part of the costs due to non-availability of details, considering a different ratio for allocation without basis, etc may not be reasonable. Further, AAI reiterates that one time/extra ordinary costs such as CAD pension are still costs incurred by AAI and requires reimbursement. AERA guidelines do not preclude reimbursement of any one-time costs.

AAI's Request

In view of above, it is requested to go through the submission of CHQ/RHQ allocation and same may be considered in the true up exercise of 2nd control period. AAI submits that based on the above computation, the expenses for TCP may also be considered by AERA as per MYTP.

2.3.2 Upkeep Expenses – actuals not allowed from FY 18-19 and taken 10% increase only over the FY 17-18 costs

AERA's Contention

AERA has stated in page no. of 30 of CP as follows - *"AERA noted that Upkeep expenses have been increased by 10% in the projections made by AAI for the Second Control Period. However, AERA reviewed the tender document of the contractor (MESS -for upkeep expenses) and noted that the contracted rates are effective for 3 years and the same is extendable for 2 more years. Further, there is no clause on escalation of the contracted rates during the above period. AERA noted that the actual Upkeep expenses for FY 2016-17 was for ₹ 1.56 Crores and the same has increased to ₹ 5.57 Crores in FY 2020-21. AERA proposes to consider the actual expenses of FY 2017-18 (of ₹ 3.03 Crores) as the base, as the same is reflective of the increase in the minimum wages revised by the GoI and other contractual requirements w.r.t maintenance of necessary equipment. Considering the actual expenses of FY 2017-18 as the base, AERA proposes to consider a 10% increase in the upkeep expenses for the last 3 tariff years of the Second Control Period viz., FY 2018-19 to FY 2020-21."*

AAI's Submission

AAI submits that:

- Every station of AAI is subject to C&AG audit on a yearly basis. Hence, the costs captured by the airports in their respective trial balances are based on the actual spend. These costs are market driven arrived at by clearly defined tendering mechanisms. Hence, no costs in addition to what is incurred is accounted for in stations.
- The reason for increase in the upkeep costs from FY 16-17 to FY 19-20 is as follows:
    - The new method of QCBS MESS and ESS covering costly machines were implemented for the betterment in Airport cleaning as well as increase in statutory wages, bonus etc also resulted in major hike in cost.
    - Time to time Minimum wages rate increase is also considered apart from the contract cost.
    - The station award MESS (Mechanized Environmental Support Services) Up-Keep contract on the basis of tender and it is an integrated estimate-based contract for men, material and machines.
    - Detailed reasons, documents and workings have been submitted to AERA as part of replies to queries.

AAI's Request

- AAI requests the Authority to consider the actual costs incurred for the second control period without restricting it based on a 10% increase after FY 2017-18.

2.3.3 Repair and maintenance - actuals not allowed and taken at 6% of opening RAB

AERA's Contentions

AERA has stated in page no. of 30 of CP as follows-"*The Authority noted that projection for Repairs and Maintenance expenses were done for the Second Control Period by escalating the expenses by 10% year on year. However, the actual expenses under each head under Repairs and Maintenance (Civil, Electrical, Computer, IT, Electronics, etc.) has increased across all the tariff years in the Second Control Period. Further, the spend during FY 2017-18 (₹ 22.28 Crores) is phenomenally higher than the other years (variance ranging from 25% to 45%).*
The Authority is of the view that AAI should estimate its expenses towards Repairs & Maintenance based on an analysis of its need, essentiality and in accordance with the other physical conditions (such as the current Covid-19 pandemic), such that the variance between the projections and the actual expenses is within the acceptable limits (such as say within 10%)
The Authority is of the view that Calicut International Airport has constructed NIAB, performed recarpeting of runway and installed electrical fittings during the Second Control Period. As most of these assets are newly constructed/ installed during the last 5 years and are also covered under warranty clauses, the same may need only minimum repairs and maintenance. Hence, the Authority proposes to allow repairs and maintenance expenses for the Second Control Period to the extent of 6% of the RAB (opening net block of the Second Control Period)".

AAI's Submission

AAI submits that:

- Every station of AAI is subject to C&AG audit on a yearly basis. Hence, the costs captured by the airports in their respective trial balances are based on the actual spend. To determine the costs, there are detailed tendering mechanisms for every contract. Hence, no costs in addition to what is incurred is accounted for in stations.
- The reason for increase in the repair and maintenance cost is as follows:
  - The Special Repairs were carried out for the safety of table-top runway as part of safety as advised by government agencies.
  - The R&M Security Equipment's increased mainly due to ILBHS Expenses.
  - Detailed reasons for each GL head on a year on year basis have been submitted to AERA as part of replies to queries.

AAI's Request

AAI requests the Authority to consider the actual costs incurred for the second control period without restricting it to 6% on opening RAB. Terminal Buildings were built more than 20 years back and AAI submits that with ageing of the building and associated equipment, the R&M will only increase over the years. Moreover, applying a ratio on the depreciated WDV will further reduce the cost whereas in reality, the costs will only increase over the years to make good the wear and tear over the years.

2.3.4 CSR – allowed based on aero profit of station instead of actuals

AERA's Contentions

AERA submits that "*Calicut International Airport has shown the amount contributed towards CSR activities (amounting to ₹ 3.34 Crores) as Aeronautical expenses, categorized under Admin and General expenses. AERA has considered the statutory requirement under the Companies Act, 2013 for computation of CSR expenses, which states that CSR spend should be 2% of the of the average net profits of the company made during the 3 immediately preceding financial years. AERA derived the Regulatory Profit (before tax) for each tariff year in the Second Control Period for Calicut International Airport and the CSR that may be allowed as per the above mandatory spend values (2% of the average profits) and proposes to allow CSR expenses of ₹ 0.88 crores for the Second Control Period.*"

AAI's Submission

AAI submits that:

- The details of activities on which CSR was spent is as follows:
- *Construction of motorable roads to tribal colonies in Malappuram district devasted by historical rains and flooding; Construction of Hospital building (Homeo dispensary), Kalpakanchery Grama Panchayat"; Unnyalpaparamba water supply scheme for ward no: 6, Pallikkal Grama Panchayat''*
- *Construction of School building to GMPL School Melangai ,kondotty muncipality ; Improvement of infrastructure for Govt High School, Meppadi, Wayanad District*
- *Cancer Detection cum Community Health Centre, Kondotty*
- Further these are actual costs spent. It is also to be noted that CSR costs are allocated to a station from the CHQ and hence AAI submits that the CSR computation based on an aero profit ought to be done on a company as a whole basis and not station wise.

AAI's Request

AAI requests the Authority to consider the actual costs incurred for the second control period and not restrict it to CSR working based on the profits of the station.

2.4 Non-Aeronautical Revenue

2.4.1 Reclassification of ledgers related to TR stalls, Space Rent and Building Non-Residential

AERA's Contentions

AERA is of the view that AAI may provide its comments pertaining to the reclassification/ remapping of the ledgers relating to TR Stall, Space Rent and Building Non-residential, as explained under para 4.5.4 of CP.

AAI's Submission & Request

AAI submits that replies were provided as part of MYTP which have been adequately captured in the CP.

3 Regulatory Asset Base for Third Control Period

3.1 Allocation Ratios for Additions in the Third Control Period

AERA's Contentions

AERA proposes to consider a revised terminal building ratio of 8% as reasonable, in line with the optimum terminal building ratio of 8%-12% as approved for similar airports for apportioning the common assets within the terminal building.

AAI's Submission & Request

The ratios have been computed based on the actual space in the terminals. Hence, AAI submits that assuming a different ratio based on international benchmarks when there is no substantial change in the terminal building composition during TCP may not be justified.

Hence, AAI requests AERA to consider the ratios as submitted during MYTP.

3.2 Financing Allowance

AERA's Contentions

AERA noted that Calicut International Airport has claimed Financing allowance of ₹ 0.99 crores towards project on recarpeting of Runway in the MYTP submitted for the Third Control Period. However, as the capital expenditure is proposed to be carried out by AAI using their own funds and not with any debt funds, AERA proposes to disallow the above Financing allowance

AAI's Submission

AAI submits that Direction 05 does not state FA is only for greenfield airports**.** Irrespective of whether it is brownfield or greenfield airports, there is outlay of funds for significant time when developing new terminals/runways/large project works. Even in CIAL and BIAL, FA has been considered till SCP. In this regard, level playing field may be ensured for AAI and private airports.

AAI's Request

We request AERA to refer to the detailed explanations provided in comments to the Second Control Period True up for consideration of FA in TCP also.

3.3 Proposes 1% readjustment to the RAB if project not completed

AERA's Contentions

AERA proposes to reduce (adjust) 1% of the project cost from the ARR in case any particular capital project is not completed/capitalised as per the approved capitalisation schedule. The same will be examined during the true up of the Third Control Period, at the time of determination of tariff for the Fourth Control Period.

AAI's Submission & Request

AAI submits and request to take it on case to case basis as due to pandemic/other genuine reasons, work delay is unpredictable.

4 Operating Expenses for Third Control Period

4.1 Payroll Cost

AERA's Contentions

AAI considered a growth rate of 7% in payroll expenses beyond FY 2019-20 However, considering the de-growth in passenger traffic caused by the COVID-19 pandemic and the resultant decrease in Aeronautical revenues, including profitability, and the austerity measures, the Authority proposes to consider a growth rate of 5% in payroll expenses for the Third Control period beginning from FY 2021-22, as was also considered for similar AAI Airports such as Trichy, Raipur etc. The above restriction in the growth rate in payroll expenses, is being proposed with the perspective of rationalizing the costs of the Airport. (Para 10.2.8 in CP)

AAI's Submission

AAI submits that the basis of increasing by 5% in line with other Orders has not been provided in the CP and request the Authority to consider the comments in SCP section where the base of FY 2020-21 has been drastically reduced without considering the actual spend till FY 2019-20. This will have an impact on the projection of the TCP while truing up in the fourth control period.

AAI's Request

AAI requests AERA to reconsider the SCP numbers and accordingly re-estimate TCP number.

4.2 R&M – Increases allowed by AERA

AERA's Contentions

10.2.9 AERA noted the projections made by AAI for Calicut International Airport towards Repair & Maintenance expenses and is of the view that Calicut International Airport has constructed NIAB, performed recarpeting of runway and installed electrical fittings only during the previous Control Period.

As most of these assets were newly constructed/ installed during the last 5 years and are also covered under warranty clauses, the same may need only minimum repairs and maintenance. Hence, AERA proposes to consider Repair & Maintenance expenses to be around 6% of the RAB (opening net block of the Third Control Period) and the same is shown in table 47 of the CP.

AAI's Submission

AAI submits that the basis of considering 6% on opening RAB of TCP has not been provided in the CP and request the Authority to consider the comments in SCP where the base of FY 2020-21 has been drastically reduced without considering the actual spend. Requests AERA to reconsider the SCP numbers and accordingly re-estimate TCP numbers.

Hence, AAI requests AERA to consider the actual costs incurred for the second control period without restricting it to 6% on opening RAB. Terminal Buildings were built more than 20 years back and AAI submits that with ageing of the building and associated equipment, the R&M will only increase over the years. Moreover, applying a ratio on the depreciated WDV will further reduce the cost whereas the reality is that the costs will only increase over the years to make good the wear and tear over the years.

AAI's Request

Hence, AAI requests AERA to consider the amount which has been submitted in MYTP as the R&M expenditure.

4.3 Upkeep Costs – Increases allowed by AERA

AERA's Contentions

10.2.13 AERA has reviewed the tender document of the contractor MESS (for upkeep expenses) and noted that the contracted rates are effective for 3 years and is extendable for 2 more years. There is no clause on escalation of the contracted rates during the above period. AERA is of the view that for each tariff year across the Third control period, an increase of 5% towards inflationary effect should only be considered, instead of the 10% increase year-on-year as proposed by AAI. Hence, AERA proposes to consider a 5% increase in Upkeep expenses year on year across the third control period.

AAI's Submission and Request

Please refer to the explanations provided in the second control period section for requesting for 10% increase in the rates instead of 5%.

4.4 CHQ/RHQ Cost

AERA's Contentions

AERA has derived the allocable expenses of CHQ and RHQ to Calicut International Airport for the Third Control Period, by escalating the spend for each tariff year by 5% based on the CHQ/ RHQ expenses allocated for the FY 2020-21. (CP Para no. 10.2.3)

AAI's Submission and Request

AAI request the Authority to consider the comments in SCP where the base of FY 20-21 has been drastically reduced without considering the actual spend till FY 2019-20. AAI requests AERA to reconsider the SCP numbers and accordingly re-estimate TCP numbers

5 Traffic for Third Control Period

AERA's Contentions

To consider passenger traffic and ATM projections as given in Para 5.4.7 (Table 25) for the determination of tariff for the Third Control Period.

AAI's Submission

For determination of tariff for the third control period for Calicut airport, the traffic projections proposed by AERA appears to be highly optimistic.

The submissions of AAI are as furnished below:

1. The forecast for Calicut airport was submitted in the month of December 2020 wherein the traffic for FY 2020-21 was estimated. The same has now been reviewed on the basis of actual traffic for FY 2020-21 and 2021-22 (April-September).
2. The pre-covid level of traffic for domestic and international traffic is likely to be achieved in the year 2023-24 and 2024 respectively.
3. Accordingly, the aircraft movements has also been revised.

TRAFFIC FORECAST - CALICUT AIRPORT						
YEAR	AIRCRAFT MOVEMENTS (in Nos.)			PASSENGERS (in Nos.)		
	International	Domestic	Total	International	Domestic	Total
2019-20 (Actual)	**18660**	**6695**	**25355**	**2700556**	**529354**	**3229910**
2020-21 (Actual)	**5611**	**3327**	**8938**	**712872**	**189140**	**902012**
GROWTH RATE	**70.0%**	**50.0%**	**62.6%**	**75.0%**	**65.0%**	**72.9%**
2021-22	9539	4991	14529	1247526	312081	1559607
GROWTH RATE	**40.0%**	**20.0%**	**33.1%**	**45.0%**	**35.0%**	**43.0%**
2022-23	13354	5989	19343	1808913	421309	2230222
GROWTH RATE	**30.0%**	**15.0%**	**25.4%**	**35.0%**	**25.0%**	**33.1%**
2023-24	17360	6887	24247	2442032	526637	2968669
GROWTH RATE	**12.0%**	**12.0%**	**12.0%**	**15.0%**	**15.0%**	**15.0%**
2024-25	19444	7713	27157	2808337	605632	3413969
GROWTH RATE	**8.0%**	**10.0%**	**8.6%**	**10.0%**	**12.0%**	**10.4%**
2025-26	20999	8485	29484	3089171	678308	3767479

AAI's Request

AAI requests AERA to consider the above traffic projections which have been re-drawn considering the current scenario.

6 ARR for Third Control Period

AERA's Contentions

- AERA has proposed shortfall of Rs 176.32 crores to be carried forward to the next control period
- Revised Tariff commencement date is set to be 1st April 2022

AAI's Submission and Request

- After considering all the above changes, the AERA is requested to consider full recovery of ARR.
- AAI in its MYTP submission proposed to increase the rate from 1st April 2021
- AERA in its CP proposed to increase the rate from 1st April 2022.
- However, AAI requests AERA to consider increase in rate as submitted from 1st January 2022.
- AAI submits to AERA to kindly recompute the IDC, expenses capitalization, interest on working capital, non-aeronautical revenues, R&M and upkeep and other all other building blocks in which there would be consequential changes/impact based on the revised considerations/points submitted in this document.

7 Abbreviations

Abbreviations	Expansion
AAI	Airports Authority of India
Airport Economic Regulatory Authority	Airports Economic Regulatory Authority of India
ARR	Aggregate Revenue Requirement
C&AG	Comptroller and Auditor General of India
CA	Commissioned Assets
CCEA	The Cabinet Committee of Economic Affairs
CHQ	Corporate Head Quarter
CCJ	Calicut International Airport
CIAL	Cochin International Airport Limited
CP	Consultation Paper
CWIP	Capital Work In Progress
DFMD	Door Frame Metal Detector
DIAL	Delhi International Airport Limited
DPR	Detailed Project Report
EQTR	Employee Quarter Ratio
ETD	Estimated Time of Travel
FRoR	Fair Rate of Return
FY	Financial Year
HHMD	Handheld Metal Detectors

Abbreviations	Expansion
IATA	International Air Transport Association
IDC	Interest During Construction
IMG	Inter-Ministerial Group
INR	Indian Rupee
KIAL	Kannur International Airport Limited
MIAL	Mumbai International Airport Limited
MOCA	Ministry of Civil Aviation
MYTO	Multi Year Tariff Order
MYTP	Multi Year Tariff Proposal
NCAP	National Civil Aviation Policy
NITB	New Integrated Terminal Building
OMDA	Operations, Management and Development and Agreement
PCN	Pavement Classification Number
PIB	Pre-flight Information Bulletin
PMC	Project Management Contract
PPP	Public Private Partnership
RAB	Regulatory Asset Base
RET	Rapid Exit Taxiways
RHQ	Regional Head Quarters
SSA	State Support Agreement
STP	Sewage Treatment Plant
TBLR	Terminal Building Ratio
UDF	User Development Fee
WIPA	Work in Progress Assets
XBIS	X-ray Baggage Inspection System