



भारतीय विमानपत्तन प्राधिकरण  
AIRPORTS AUTHORITY OF INDIA

F.A. AAI/JVC/Pune-Tariff/2022-23

Dated 28.01.2022

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

Subject :- Submission of Multi Year Tariff proposal (MYTP) for 3<sup>rd</sup> control period (01.04.2021 to 31.03.2026) and True-up of 2<sup>nd</sup> control period (01.04.2016 to 31.03.2021) in respect of Pune International Airport.

Reference: Submission of AAI's Comments in response to Consultation Paper No. 26/2021-22 issued by Airports Economic Regulatory Authority of India (AERA).

Dear sir,

This has reference to AERA's Consultation Paper No. 26/2021-22 dated 30<sup>th</sup> December, 2021 in the matter of determination of Aeronautical tariff in respect of Pune Airport for the 3<sup>rd</sup> Control period (01.04.2021 to 31.03.2026).

AAI's response to Consultation Paper No. 26/2021-22 is enclosed.

This issues with the approval of Competent Authority.

Thanking you,

Your faithfully,

(V. Vidya)

Executive Director (JVC & PPP)-I

Enclosed: *As Above*



## **PUNE INTERNATIONAL AIRPORT**

Response to Airports Economic Regulatory Authority (AERA)'s Consultation Paper No. 26/2021-22 dated 30<sup>th</sup> December 2021 Determination of Aeronautical Tariff for Pune International Airport (PNQ) for the Third Control Period (01.04.2021 - 31.03.2026)

**INDEX**

<b>S.No.</b>	<b>Particulars</b>	<b>Page No.</b>
1.	Introduction	3
2	True-up of Second Control Period (SCP)	3
2.1	Financing Allowance	3
2.2	Allocation Ratios for Additions in the Second Control Period	7
2.3	Depreciation	8
3	CHQ/RHQ Expenses	8
3.1	Pay & Allowances of CHQ/RHQ	8
3.2	Administration & General Expenses	14
3.3	Cost Relatedness	15
3.4	Repairs & Maintenance – Actuals not allowed and taken @ 6% of Opening RAB	16
3.5	CSR Cost-Disallowed for 3 Tariff Years (2016-17 to 2018-19)	18
3.6	Consideration of Non-Aeronautical Revenue from Airlines space as Aeronautical Revenue	20
3.7	Reclassification of Assets in Aero, Non-Aero & Common assets by AERA	22
4	Third Control Period (TCP)	24
4.1	Traffic	24
4.2	Financing Allowance	25
4.3	Airports User Consultative Committee (AUCC)	26
4.4	Capital additions During TCP	26
4.5	Allocation Ratios for Additions in TCP	28
4.6	Depreciation for the TCP	29
4.7	Fair Rate of Return (FRoR)	29
4.8	1% Adjustment to the RAB if Project Not Completed	31
4.9	Operating Expenses for the TCP	31
4.10	General & Administration Expenses	33
4.11	CHQ & RHQ – Administration Expenses	33
4.12	Utility Expenses	34
4.13	CSR Expenses	34
4.14	R&M Expenses	35
4.15	Working Capital Interest & Interest on Term Loan	35
4.16	UDF Collection Charges	35
4.17	Non-Aeronautical Revenue for TCP	36
4.18	Aggregate Revenue Requirement (ARR) for TCP	39
5	Abbreviations	40

## 1. Introduction

Airports Economic Regulatory Authority of India ('AERA') has released Consultation Paper No. 26/2021-22 on Aeronautical services in respect of Pune International Airport ('PNQ') for Third Control Period (01.04.2021 to 31.03.2026), ('Consultation Paper' or 'CP') on 30<sup>th</sup> December, 2021.

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

## 2. True Up for the Second Control Period

### Regulatory Asset Base (RAB)

#### 2.1 Disallowance of Financing Allowance

##### **AERA's Contentions**

##### **[Para 2.4.10- K]**

- The Authority noted that AAI has computed Rs. 212.95 Lakhs as Financing allowance on the asset additions capitalized in the Second Control period.
- Financing allowance has been computed by AAI considering a return equivalent to cost of debt during the period in which the assets were still in CWIP. This has led to addition of the financing allowance over and above the value of capitalized assets in the books of account of Pune.
- 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. Further, the airport operator is given a fair rate of return on equity when the capital assets are capitalized. Thus, the locked-up equity in the CWIP assets cannot be given the assured return of cost of debt.
- Further, the Authority 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 operationalize. It was with this consideration that the Authority had earlier provided Financing allowance in initial stages to such airports. The Authority notes that Pune International Airport is a brownfield airport and has lower construction and traffic risk.
- Therefore, the Authority proposes that only the IDC, if any that gets capitalized would be considered as part of RAB. It may also be noted that financing allowance has never been provided in the case of other AAI airports. The Authority proposes not to consider this amount in AAI's assets capitalized during the second control period.

**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:*

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

*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: $WIP_{t-1}$	OW	-	-	-	558	638	-
Capital Expenditure	CE	-	838	521	-	-	-
Financing Allowance	$FA = R_d \times (OW + (CE - CA - SC) / 2)$	-	-	37	80	43	-
Capital Receipts	SC	-	200	-	-	-	-
Commissioned Assets	CA	-	633	-	-	681	-
Closing WIP: $WIP_t$	$CW = OW + CE + FA - SC - CA$	-	-	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: $RAB_{t-1}$	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: $RAB_t$	$CR = OR + CA - DR - Di + IA$	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 is not in line with AERA 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.

- It is to be noted that AAI has started making capital expenditure for Construction of New integrated Terminal Building at Pune Airport from F.Y. 2018-19 whereas, AERA has mentioned that “Pune International Airport is a brownfield airport and has lower construction and traffic risk”. The building will be completed in the F.Y. 2022-23 amounting to Rs. 500 crores (approximately). It includes both Term Loan and Internal accruals.
- AAI therefore requests AERA to consider the financing allowance of Rs. 2.12 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.

## 2.2 Allocation Ratios for Additions in the Second Control Period

### **AERA's Contentions**

#### **[Para 2.4.14]**

Terminal Building Ratio: The Authority notes that the Terminal Building Ratio (TBLR) as per the MYTP submission is changing on an annual basis. Since, Pune International Airport has not witnessed capitalization/added new areas in the terminal buildings, the TBLR is unlikely to undergo any changes. Thus, the Authority proposes to use the approved TBLR as decided in the Second Control Period Order.

AERA proposed to consider the ratio of 91.37% : 8.63% (Aero : Non-aero) for common assets within the Terminal building during the Second Control Period.

### **AAI's Submission**

- AERA proposed to consider the ratio of 91.37% : 8.63% (Aero : Non-aero) for common assets within the Terminal building during the Second Control Period.
- AAI submits that the ratios submitted are based on actual floor space usage and considering the ratio of SCP i.e. 91.37% : 8.63% (Aero : Non-aero) by comparing with other airports/generally accepted ratios may not reflect the true ground scenario in Pune Airport.
- Detailed workings for all the aeronautical ratios applied for various assets was submitted during MYTP stage to AERA for its perusal.
- In SCP order, the ratio of 91.37% for TBLR was based on actuals of 2015-16. Same has submitted on actual basis for the period from 2016-17 to 2020-21.
- The design capacity for commercial activities at the existing Terminal Building comes out to 6% (approx.).
- Considering the fact that true up of the ratio, AAI has submitted the aero ratio working based on actual aero additions for SCP.



## 2.3 Depreciation

### **AERA's Contentions**

#### **[Para 2.5.6]**

The Authority noted that AAI has depreciated assets @ 50% of depreciation rates in the year of capitalization of assets as per the decision in the Second Control Period Order. The Authority proposes to consider the depreciation based on the date of capitalization and compute the depreciation charge accordingly, instead of considering 50%.

### **AAI's Submission**

- There is inconsistency by AERA in the method of computation of depreciation for Pune and other Major Airports. In respect of all other AAI airports, depreciation was computed @ 50% of rates in the first year of capitalization. For subsequent years the depreciation is calculated for full years.
- But in Pune, AERA has proposed to compute depreciation on the date of capitalization of the asset.
- AERA is requested to consider a uniform methodology to be followed in this regard for determination of tariff of all the major airports of AAI.

## 3.1 Pay & Allowances of CHQ & RHQ

### **AERA's Contentions**

#### **[Para 2.8.16 to 2.8.20 of CP]**

#### **Pay and Allowances of CHQ & RHQ:**

- AAI has considered pay and allowance of Commercial department at CHQ & RHQ as Aeronautical expenses, whereas such expenses are non-aeronautical in nature.
- AAI has excluded pay and allowances of employees involved in ATM, CNS & Cargo department at CHQ & RHQ while working out the allocation to airport. However, no exclusion has been done for support services of department relating to HR, Finance, Civil, Terminal Management (Housekeeping), etc.
- AAI has considered 5% of Expenses (after excluding revenue) towards non-aeronautical income. The Authority is of the view that percentage share of expenses should be worked out on total outflow of pay and allowances.
- Manpower of CHQ & RHQ is also providing services to non-Aero activities i.e. ATC, CNS cadres at respective airports. Hence, pay and allowances needs to be adjusted accordingly.
- Considering all the facts and figures as stated above, the Authority is of the following view:
  - *20% of pay and allowances of CHQ and RHQ is to be excluded towards the following:*
  - *Support services to ANS, Cargo & Commercial at CHQ, RHQ and airport*
  - *Officials of Directorate of Commercial*
  - *Balance 80% of pay and allowances of CHQ & RHQ can be allocated to Airport*

### **AAI's Submission**

- AERA has considered the actual CHQ/RHQ expenses for determination of aeronautical tariff charges in case of Amritsar, Varanasi, Trichy and Raipur airports.
- AAI has resubmitted the CHQ/RHQ Allocations for the F.Y. 2016-17 to 2020-21 vide e-mail dated 24.12.2021 after a detailed analysis which has not been considered in CP.

- In respect of 20% of exclusion of Pay and Allowances excluded by AERA, AAI has submitted 5% of the Net Expenses of CHQ & RHQ to be considered as non-aero expenses that includes commercial, Land and Common Staff those who are working for ANS as well for land and Commercial departments.
- As per AERA view, that percentage share of expenses should be worked out on total outflow of pay and allowances. AAI has calculated/worked on same. The detail of workings for the F.Y. 2016-17, 2017-18 & 2020-21 are as under:

**Refer CHQ RHQ Allocations for the F.Y.2016-17, 2017-18, 2019-20 and 2020-21 provided to AERA vide e-mail dated 24.12.2021**

**Statement showing that AAI has considered Expenditure in the Ratio of 50:50 instead of 30:70 among ANS & Airport respectively.**

PARTICULARS	2016-17				2017-18			
	11000 CHQ		11000 CHQ		11000 CHQ		11000 CHQ	
	Ratio		Ratio		Ratio		Ratio	
	0.50	0.50	0.30	0.70	0.50	0.50	0.30	0.70
	ANS	APT	ANS	APT	ANS	APT	ANS	APT
<b>ADMN. AND GENERAL EXPENSES</b>								
INSURANCE	312.63	312.64	187.58	437.69	530.85	530.95	318.53	743.27
ADVT. AND PUBLICITY	346.83	346.83	208.10	485.56	317.71	317.71	190.63	444.79
TELEPHONE CHARGES	29.46	29.46	17.67	41.24	33.03	33.03	19.82	46.24
PRINTING AND STATIONARY	64.75	64.75	38.85	90.65	103.61	103.61	62.17	145.06
LEGAL EXP.	167.89	167.89	100.73	235.04	872.21	872.21	523.33	1221.09
TRAVELLING EXP.	889.46	889.46	533.68	1245.25	1141.61	1141.61	684.97	1598.26
UPKEEP EXP.								
MUNICIPAL TAXES	29.49	29.49	17.69	41.28	29.49	29.49	17.69	41.28
WATCH & WARD EXP.	3.35	3.35	2.01	4.69	8.73	8.73	5.24	12.22
HIRING OF MANPOWER	6.78	6.78	4.07	9.49	20.96	20.96	12.58	29.34
FUEL TO AIRCRAFTS								
METEOROLOGICAL CHARGES	12296.08	0.00	12296.08	0.00	12877.54	0.00	12877.54	0.00
IMPORT LICENSE,ETC	0.00	124.59	0.00	124.59	6.85	241.50	6.85	241.50
ADMISSION FEE					-522.44	-223.90	-522.44	-223.90
INTEREST	812.66	1577.51	812.66	1577.51	512.70	911.47	512.70	911.47
AOCC EXP.								
PRIOR PERIOD EXP.	-216.93	-216.93	-130.16	-303.70	-9.25	-9.25	-5.55	-12.95
OTHER EXP.	890.56	876.42	528.32	1238.65	815.95	818.32	490.79	1143.48
<b>TOTAL</b>	<b>15633.01</b>	<b>4212.23</b>	<b>14617.29</b>	<b>5227.95</b>	<b>16739.54</b>	<b>4796.43</b>	<b>15194.82</b>	<b>6341.16</b>
<b>REPAIR &amp; MAINT. EXP.</b>								
R&M CIVIL	200.18	200.18	120.11	280.25	282.62	307.07	169.57	420.12

R&M ELECTRICAL	129.47	129.47	77.68	181.26	152.87	152.87	91.72	214.02
R&M VEHICLES	19.61	38.03	15.45	42.20	5.44	15.56	5.29	15.71
R&M FURNITURE & FIXTURES	7.00	7.00	4.20	9.80	22.87	22.87	13.72	32.01
R&M ELECTRONICS	6961.18	37.48	6946.18	52.47	6011.67	60.90	5987.32	85.25
R&M IT Hardware	439.33	439.33	263.60	615.06	482.83	482.83	289.70	675.96
R&M IT S/W	486.43	486.43	291.86	681.00	875.29	875.29	525.18	1225.41
<b>TOTAL</b>	<b>8243.20</b>	<b>1337.92</b>	<b>7719.08</b>	<b>1862.04</b>	<b>7833.59</b>	<b>1917.39</b>	<b>7082.49</b>	<b>2668.49</b>
<b>UTILITIES AND OUTSOURCING</b>								
ELECTRICITY EXPENSES	182.64	182.64	109.59	255.70	202.69	202.69	121.61	283.77
CONSUMPTION OF STORES AND SPARES	1008.28	1.76	1008.28	1.76	1.53	1.53	0.92	2.14
WATER CHARGES	0.00	0.00	0.00	0.00				
FEES PAID TO OUTSIDERS/CONSULTANCY CHARGES	3016.41	3016.41	1809.84	4222.97	1856.66	1856.92	1113.89	2599.69
HIRE CHARGES CAR/JEEP & OTHERS	17.74	51.64	17.42	51.96	10.11	24.75	8.99	25.87
<b>TOTAL</b>	<b>4225.07</b>	<b>3252.45</b>	<b>2945.14</b>	<b>4532.39</b>	<b>2070.99</b>	<b>2085.89</b>	<b>1245.42</b>	<b>2911.46</b>
<b>DEPRECIATION</b>	668.91	670.65	401.69	937.86	810.09	810.40	486.11	1134.37
<b>Total</b>	<b>668.91</b>	<b>670.65</b>	<b>401.69</b>	<b>937.86</b>	<b>810.09</b>	<b>810.40</b>	<b>486.11</b>	<b>1134.37</b>
<b>CSR</b>	1695.23	3290.73	1695.23	3290.73	803.19	1427.89	803.19	1427.89
<b>TOTAL</b>	<b>1695.23</b>	<b>3290.73</b>	<b>1695.23</b>	<b>3290.73</b>	<b>803.19</b>	<b>1427.89</b>	<b>803.19</b>	<b>1427.89</b>
<b>RESEARCH AND DEVELOPMENT EXPENSES</b>	0.00	641.60	0.00	641.60	64.74	0.00	64.74	0.00
<b>TOTAL</b>	<b>0.00</b>	<b>641.60</b>	<b>0.00</b>	<b>641.60</b>	<b>64.74</b>	<b>0.00</b>	<b>64.74</b>	<b>0.00</b>
<b>TOTAL EXPENDITURE</b>	<b>30465.41</b>	<b>13405.59</b>	<b>27378.43</b>	<b>16492.57</b>	<b>28322.14</b>	<b>11038.00</b>	<b>24876.77</b>	<b>14483.37</b>
	43871.00		43871.00		39360.14		39360.14	
		3086.99	lakhs			3445.37	lakhs	
		16.00	lakhs			18.00	lakhs	
Employees considered for CHQ Allocations		192.94	No. of Employees			191.41	No. of Employees	
Employees should have been considered		100.2	No. of Employees			164.0	No. of Employees	
<b>Actual Employees for Airport Segment</b>								
Segment	Employees	No. of Fin & HR common employees	REVISED STRENGTH		Employees	No. of Fin & HR common employees	REVISED STRENGTH	
<b>ANS</b>	<b>245.0</b>	<b>28.0</b>	<b>217.0</b>	<b>217.0</b>	<b>330.0</b>	<b>23.0</b>	<b>307.0</b>	<b>307.0</b>
<b>Airport</b>	<b>1360.0</b>	<b>776.0</b>	<b>584.0</b>	<b>1388.0</b>	<b>1281.0</b>	<b>737.0</b>	<b>544.0</b>	<b>1304.0</b>

				1605.0			1611.0
<b>Cargo</b>	<b>0.0</b>		<b>0.0</b>		<b>11.0</b>		<b>11.0</b>
<b>Commercial</b>	<b>9.0</b>		<b>9.0</b>		<b>18.0</b>		<b>18.0</b>
<b>land</b>	<b>6.0</b>		<b>6.0</b>		<b>12.0</b>		<b>12.0</b>
				1403.0			1334.0
<b>Total</b>	<b>1620.0</b>	<b>804.0</b>	<b>816.0</b>		<b>1652.0</b>	<b>760.0</b>	<b>892.0</b>
	1620.0				1652.0		
	0.0				0.0		
<b>Proportion of HR &amp; Fin to ANS</b>		104.9	No. Employees			140.4	No. Employees
<b>Proportion of HR &amp; Fin to Non-aero</b>		8.3	No. Employees			16.6	No. Employees
<b>Total No. common employees salary should have been gone to ANS &amp; NON AERO</b>		100.2	No. Employees			164.0	No. Employees

**Refer CHQ RHQ Allocations for the F.Y.2016-17, 2017-18, 2019-20 and 2020-21 provided to AERA vide e-mail dated 24.12.2021**

**Statement showing that AAI has considered Expenditure in the Ratio of 50:50 instead of 30:70 among ANS & Airport Respectively.**

Amount in Lakhs				
PARTICULARS	2020-21			
	11000 CHQ		11000 CHQ	
	Ratio		Ratio	
	0.50	0.50	0.30	0.70
	ANS	APT		
<b>ADMN. AND GENERAL EXPENSES</b>				
INSURANCE	1967.74	1968.06	1180.71	2755.09
ADVT. AND PUBLICITY	94.16	94.16	56.49	131.82
TELEPHONE CHARGES	22.37	22.37	13.42	31.32
PRINTING AND STATIONARY	38.86	38.86	23.32	54.40
LEGAL EXP.	923.94	923.94	554.37	1293.52
TRAVELLING EXP.	176.33	176.33	105.80	246.86
UPKEEP EXP.	0.65	0.65	0.39	0.90
MUNICIPAL TAXES	29.57	29.57	17.74	41.40
WATCH & WARD EXP.	7.75	7.75	4.65	10.86
HIRING OF MANPOWER	58.11	58.11	34.87	81.36
FUEL TO AIRCRAFTS				
METEOROLOGICAL CHARGES	13913.69	0.00	13913.69	0.00
IMPORT LICENSE,ETC				

ADMISSION FEE	461.87	197.94	461.87	197.94
INTEREST				
AOCC EXP.	0.10	0.10	0.06	0.15
PRIOR PERIOD EXP.	-373.74	-373.74	-224.24	-523.23
OTHER EXP.	4975.03	4931.22	2973.86	6932.38
<b>TOTAL</b>	<b>22296.44</b>	<b>8075.34</b>	<b>19117.00</b>	<b>11254.77</b>
<b>REPAIR &amp; MAINT. EXP.</b>				
R&M CIVIL	804.27	804.27	482.56	1125.97
R&M ELECTRICAL	342.21	342.21	205.33	479.10
R&M VEHICLES	4.08	9.24	4.03	9.29
R&M FURNITURE & FIXTURES	0.14	0.14	0.08	0.19
R&M ELECTRONICS	8808.79	137.78	8753.67	192.90
R&M IT Hardware	551.81	551.81	331.08	772.53
R&M IT S/W	706.11	706.11	423.67	988.55
<b>TOTAL</b>	<b>11217.40</b>	<b>2551.56</b>	<b>10200.43</b>	<b>3568.53</b>
<b>UTILITIES AND OUTSOURCING</b>				
ELECTRICITY EXPENSES	228.44	228.44	137.06	319.81
CONSUMPTION OF STORES AND SPARES	0.13	0.15	0.08	0.20
WATER CHARGES	0.37	0.37	0.22	0.52
FEES PAID TO OUTSIDERS/CONSULTANCY CHARGES	1141.29	1141.29	684.77	1597.81
HIRE CHARGES CAR/JEEP & OTHERS	3.19	6.70	2.62	7.28
<b>TOTAL</b>	<b>1373.42</b>	<b>1376.94</b>	<b>824.76</b>	<b>1925.61</b>
<b>DEPRECIATION</b>	1527.54	1527.60	916.53	2138.60
<b>Total</b>	<b>1527.54</b>	<b>1527.60</b>	<b>916.53</b>	<b>2138.60</b>
<b>CSR</b>	118.58	304.93	118.58	304.93
<b>TOTAL</b>	<b>118.58</b>	<b>304.93</b>	<b>118.58</b>	<b>304.93</b>
<b>RESEARCH AND DEVELOPMENT EXPENSES</b>				
<b>TOTAL</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>TOTAL EXPENDITURE</b>	<b>36533.38</b>	<b>13836.37</b>	<b>31177.30</b>	<b>19192.44</b>
	50369.74		50369.74	
		<b>5356.07</b>	lakhs	
		<b>25.00</b>	lakhs	
<b>Employees considered for CHQ Alocations</b>		<b>214.24</b>	No. of Employees	
<b>Employees should have been considered</b>		<b>171.4</b>	No. Employees	
<b>Actual Employees for Airport Segment</b>				
<b>Segment</b>	<b>Employees</b>	<b>No. of Fin &amp; HR common employees</b>	<b>REVISED STRENGTH</b>	
<b>ANS</b>	<b>341.0</b>	<b>21.0</b>	<b>320.0</b>	<b>320.0</b>
<b>Airport</b>	<b>1195.0</b>	<b>692.0</b>	<b>503.0</b>	<b>1216.0</b>
				<b>1536.0</b>
<b>Cargo</b>	<b>15.0</b>		<b>15.0</b>	
<b>Commercial</b>	<b>19.0</b>		<b>19.0</b>	
<b>land</b>	<b>12.0</b>		<b>12.0</b>	
				<b>1247.0</b>
<b>Total</b>	<b>1582.0</b>	<b>713.0</b>	<b>869.0</b>	



	1582.0			
	0.0			
<b>Proportion of HR &amp; Fin to ANS</b>			<b>144.2</b>	<b>No. Employees</b>
<b>Proportion of HR &amp; Fin to Non-aero</b>			<b>17.2</b>	<b>No. Employees</b>
<b>Total No. employees salary should have been gone to ANS &amp; AERO</b>			<b>171.4</b>	<b>No. Employees</b>

- Based on the above, detailed workings have been done for the F.Y. 2016-17, 2017-18 and 2020-21 wherein, it has been found that the ANS and Airport Employee Strength is 1620 Nos., 1652 Nos. & 1582 Nos. for the F.Y. 2016-17, 2017-18 & 2020-21 respectively.

Particulars	2016-17	2017-18	2020-21
	<b>No. of Employees</b>		
Airport	1360	1281	1195
ANS	245	330	341
Common (Non-Aero & ANS)	85	123	122
Non-Aero	15	41	49
Total (Common + Non-Aero)	100	164	171
Airport + ANS	1605	1611	1536
Total strength	1620	1652	1582
Ratio of Airport & ANS	78:22	79:21	78.22

The Common Finance & HR Employees for ANS & Non-Aero and Non-Aero i.e. commercial & Land comes out to 100 Nos, 164 Nos., & 171 Nos. for the F.Y. 2016-17, 2017-18 & 2020-21 respectively.

- The Average Salary for the calculation has been taken as Rs. 16 Lakh, Rs. 18 Lakhs & Rs. 25 Lakhs per employee for the F.Y. 2016-17, 2017-18 & 2020-21 respectively.
- The revised ratio of Airport & ANS after considering the common employees are hovering around 78:22.
- In the calculations of CHQ & RHQ allocations, Expenditures (excluding pay & allowance) ratio of 50:50 has been applied among Airport & ANS whereas, the ratio for the sake of convenience is considered as 70:30 among Airport & ANS on the basis of Number of employees.
- By applying 70:30 Ratio instead of 50:50 in the above expenditure, the excess amount in F.Y. 2016-17, 2017-18 & 2020-21 comes out to Rs. 31 crores, Rs. 34 crores & Rs. 54 Crores respectively.
- With Average salary assumed and the excess amount of the expenditure for the above mentioned Financial Years the number of employees comes out to 192 Nos, 191 Nos., & 214 Nos. for the F.Y. 2016-17, 2017-18 & 2020-21 respectively.
- In view of above, it is requested to consider Net expenses of CHQ/RHQ as per SCP order i.e. @ 5% as non-aero and common expenses instead of 20%.
- Also, AAI will undertake a study for CHQ & RHQ allocations to devise a robust methodology for allocation.

### 3.2 Admn. & General Expenses of CHQ & RHQ

#### **AERA's Contentions**

##### **[Para 2.8.21]**

- AAI has incurred Legal & Arbitration Expenses at CHQ & RHQ level. The Authority is of the view that this expense should be analysed and distributed to stations on a case-to-case basis. Such details have not been provided by AAI. In the absence of details, the Authority, proposes to not consider such expenses to be allocated to the respective airport.
- AAI has paid Interest/penalties to Government of India at CHQ & RHQ level. Authority is of considered view that Stakeholders should not be burdened with interest/penalties paid to Govt. of India, due to various lapses/delays on part of the Airport Operator. Hence such expenses have not been allocated to the respective airport.
- The Authority proposes to reduce overall cost by 5% from FY 2019-20 for estimating the figures of FY 2020-21 due to impact of COVID-19 and non-availability of actual data.

#### **AAI's Submission**

AAI has provided all the replies to the queries in respect of CHQ/RHQ allocations from time to time. Further, AAI has provided the General Ledgers of all the expenses sought by the Consultant. In view of this , AAI submits that the Legal & Arbitration Expenses at CHQ & RHQ level may be considered by AERA.

<b>The Impact of Legal &amp; Arbitration Expenses of CHQ (Profit Centre 11000)</b>						
<b>Particulars</b>	<b>Total</b>	<b>2016-17</b>		<b>2017-18</b>		
		<b>ANS</b>	<b>AIRPORT</b>	<b>ANS</b>	<b>AIRPORT</b>	
		<b>TB Figure</b>	<b>50%</b>	<b>50%</b>	<b>TB Figure</b>	<b>50%</b>
OAAI/802001000 LEGAL FEES & EXP	322.91	161.46	161.46	702.43	351.21	351.21
OAAI/800021000 Arbitration Exp.	12.86	6.43	6.43	27.60	13.80	13.80
OAAI/729005050 Arbit-Award Other Cost				1014.39	507.20	507.20
<b>Total</b>	<b>335.77</b>	<b>167.89</b>	<b>167.89</b>	<b>1744.42</b>	<b>872.21</b>	<b>872.21</b>

<b>Particulars</b>	<b>2018-19</b>	<b>2019-20</b>
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	Total	ANS	AIRPORT	Total	ANS	AIRPORT
	TB Figure	50%	50%	TB Figure	50%	50%
OAAI/802001000 LEGAL FEES & EXP	818.25	409.12	409.12	632.08	316.04	316.04
OAAI/800021000 Arbitration Exp.	618.58	309.29	309.29	118.42	59.21	59.21
OAAI/729005050 Arbit-Award Other Cost	912.09	456.05	456.05	7.99	3.99	3.99
<b>Total</b>	<b>2348.92</b>	<b>1174.46</b>	<b>1174.46</b>	<b>758.49</b>	<b>379.24</b>	<b>379.24</b>
<b>Above figures do not include the following expenditure</b>						
2016-17	Rs.4.87 lakhs deducted on account of legal & arbitration pertaining to DIAL & MIAL					
2017-18	Rs.13.74 lakhs deducted on account of legal & arbitration pertaining to DIAL & MIAL					
2018-19	Rs. 118.50 pertains to DIAL & MIAL , Not considered					
2019-20	Rs. 255.64 Lakhs legal and prof expenses of DIAL MIAL					

The Legal and arbitration Expenses details are provided for the F.Y. 2016-17 to 2019-20, wherein, it has been clearly shown that all the expenses are allocated to ANS and Airport in the Ratio of 50:50. The Expenses pertaining to JVC's have been deducted before allocating to ANS and Airport. It is to be noted that the legal and arbitration expenses are mainly for the Airport Segment, but allocations to ANS have been done for 50%.

It is very difficult at this stage to book Legal & Arbitration Expenses to a particular profit centre. Henceforth, AAI will book Legal & Arbitration Expenses specific profit centre from F.Y. 2021-22 onwards.

The impact of Legal & Arbitration Expenses to Airport Segment is only Rs. 26 Crores. Whereas, similar expenses have been shifted to ANS Segment.

In view of above, it is requested to consider the Legal & Arbitration Expenses as provided by AAI for CHQ Allocations.

### 3.3 Cost Relatedness

#### AERA's Contentions

#### [Para 2.8.24] – Cost Relatedness

- The Authority 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'. Based on the above principles, the Authority had tried to rationalize the CHQ/ RHQ expenses being allocated to Pune International Airport. The Authority further would highlight the following issues

for tariff determination in future and recommends AAI to adopt a rational approach while allocating CHQ and RHQ expenses to the individual airports:

- AAI is allocating CHQ & RHQ expenses to airports in the proportion of revenue earned by them.
- AAI is managing around 100 non-Major airports. Tariff determination at these airports is not on regular basis and invariably revenues at these airports do not cover their expenditures. resultantly, substantial portion of CHQ & RHQ expenses of these airports is allocated to major airports.
- AAI is not exploiting non traffic avenues fully. Due to the same, non-traffic revenues remains low at airports. AAI is advised to exploit the potential of non-traffic avenues fully so that 30% of the same by cross subsidization could be used to cover aeronautical expenses.
- Allocation of CHQ & RHQ expenses based on revenue is not transparent and efficient method, as it brings in large variation in such expenses on a YoY basis due to change in revenue and is against the basic principle of cost relatedness in tariff determination. Users of the major airports has to pay higher tariff due to higher allocation of CHQ/RHQ expenses to these airports. Further, as the revenue from these airports go up due to higher tariffs, it further leads to higher allocation of CHQ/RHQ expenses with chain of cascading effect.
- The Authority, therefore, expects AAI to examine these issues in detail and devise robust methodology for allocation of CHQ & RHQ expenses on priority.

#### **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 will undertake a study for CHQ & RHQ allocations to devise a robust methodology for uniformity and standardization of allocations.
- AAI has maintained uniformity & standardization in allocation of CHQ & RHQ allocations as submitted on 24.12.2021.

In view of above, it is requested to go through the submission of CHQ/RHQ allocation which is submitted to AERA on 24.12.2021 and same may be considered in the true up exercise of 2<sup>nd</sup> control period. AAI submits that, based on the above computation, the expenses for TCP may also be considered by AERA as per MYTP.

### **3.4 Repair & Maintenance – Actuals not allowed and taken @ 6% of Opening RAB.**

#### **AERA's Contentions**

##### **[Para 2.8.31]**

The Authority noted that AAI has submitted R&M expenses at actuals for FY 2016-17 to FY 2019-20. The Authority has analysed the R&M expenses and noted that R&M expenses related to Civil is higher in FY 2016-17 as compared to other years and other components of R&M expenses (Vehicles/electrical etc.). Upon enquiry, AAI submitted that specific major works such as tiling at airside of Terminal building and repairing of cracks and potholes at apron side has taken place which is a onetime actual incurrence in 3 to 5 years. The Authority notes that 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**

- There are various heads of R&M expenses which are incurred for Operational Requirements, Regular maintenance of the airport infrastructure and equipment at the airport.
- 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 and approving authorities. Further, the airports are subject to C&AG audit on a yearly basis
- AERA in the SCP has approved Rs. 41.80 Crores for R&M Expenses Whereas, AAI has submitted for true-up of SCP expenses amounting to Rs. 35.28 (includes F.Y. 2020-21 projections). Thus, there is a saving of Rs. 5.5 crores for the SCP true-up.

### ACTUAL REPAIR & MAINTENANCE EXPENSES FOR THE SCP

Amt. in Lakhs

GL Code & Name		F.Y.	F.Y.	F.Y.	F.Y.	F.Y.
		2016-17	2017-18	2018-19	2019-20	2020-21
OAAI/731001000	R & MCivil RUNWAYS	11.44				
OAAI/731002000	R&M-Civil T/w, APRONS	114.19	0.07	0.12		
OAAI/731003000	R&M-TB&OTH.BLDGS-Ops	140.86	130.79	69.20	107.18	127.86
OAAI/731004000	R&M-CARGO BLDg	5.76				
OAAI/731006000	R&M-OTH.BLDG	3.19	0.13			0.00
OAAI/731008000	R&M-FENCING,SEC.B/w	6.64				
OAAI/731009000	R & M: CIVIL:GENERAL	126.23	180.38	67.15	13.73	-0.91
OAAI/731010000	R&M:ROAD&CULVERT	7.54				
OAAI/731011000	R & M: Spl Repairs			0.11		
<b>Sub-total</b>		<b>415.84</b>	<b>311.38</b>	<b>136.58</b>	<b>120.90</b>	<b>126.95</b>
OAAI/731101000	R&M-A/C EQPt	59.29	46.62	82.98	135.59	148.40
OAAI/731102000	R&M:POWR SU.&GEN.SET	3.48	5.96	4.20	3.65	8.83
OAAI/731103000	R&M-GRND LIGHT	7.95				
OAAI/731104000	R & M: ELEC. INSTAL.	80.47	95.55	74.79	90.41	134.75
OAAI/731105000	R & M: ELEC.:OTHERS	48.54	7.07	36.22	39.20	68.67
OAAI/731106000	R & M: Spl Repairs	0.00		0.03		
<b>Sub-total</b>		<b>199.73</b>	<b>155.20</b>	<b>198.21</b>	<b>268.86</b>	<b>360.65</b>
OAAI/731206000	R & M: FF VEH.& EQPT	0.00		0.62	25.97	4.44
OAAI/731207000	R & M: VEHICLE:OTHER	2.20	0.72	0.93	0.72	0.48
OAAI/731209000	R&M-Te.MT.Fire.S.Rep			0.03		
<b>Sub-total</b>		<b>2.20</b>	<b>0.72</b>	<b>1.58</b>	<b>26.69</b>	<b>4.92</b>
OAAI/731302000	R & M: F&F-T.Bldg				1.09	2.95
<b>Sub-total</b>		<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>1.09</b>	<b>2.95</b>
OAAI/731401000	R&M:-Surveillance Eq	2.49		8.55	13.05	21.30
OAAI/731402000	R&M-Comm. Eqpts	1.50	1.19	4.67	2.98	2.32
OAAI/731406000	R&M:-Facil.Eqpts					0.48
OAAI/731407000	R&M-Sec.Eqpts.	6.95	16.13	5.08	0.35	0.71
OAAI/731407005	R&M BOT XBIS LEASE		24.40	68.83	2.26	
OAAI/731407010	R&M-Electron-Spl Rep	1.82	1.58	2.25	3.11	0.91



OAAI/731409000	R&M-Other CNS Eqpt	0.67	0.69	0.74		1.01
OAAI/731501000	R&M: COMP., IT H/W	10.19	21.83	22.39	35.56	37.69
OAAI/733001000	AOCC Expenses	170.40	212.62	170.04	169.19	170.04
<b>Sub-total</b>		<b>194.03</b>	<b>278.43</b>	<b>282.54</b>	<b>226.51</b>	<b>234.44</b>
<b>Grand Total</b>		<b>811.80</b>	<b>745.74</b>	<b>618.91</b>	<b>644.05</b>	<b>729.91</b>

**Note:** Table contains actual figures for the F.Y. 2020-21 submitted to AERA vide e-mail dated 24.12.2021

- Pune Airport is more than 40 Years old. Terminal Building expansion was in two phases, 1st phase during 2006 and then in 2010. Old Apron expansion was in two phases, first in 2007 and then in 2008. New Apron is constructed in 2018 for which no maintenance work other than Apron markings is done till date. Hence the note of AERA vide para 2.8.3.1 that "most of these assets are newly constructed/ installed during the last 5 years and are also covered under warranty clauses" is not correct. On the contrary, the assets are very old and warranty period got over within one year of construction i.e. almost 10 years back from the beginning of second control period.
- AAI submits that with ageing of the building and associated equipment, the R&M will only increase over the years. 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.
- 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.
- AAI requests AERA to consider the actual costs incurred for the second control period without restricting it to 6% on opening Net RAB.

### 3.5 CSR Cost – Disallowed for 3 tariff years i.e.2016-17, 2017-18 & 2018-19.

#### **AERA's Contentions**

##### **[Para 2.8.37]**

- The Authority noted that CSR costs have been considered only in FY 2017-18 and not been included in FY 2016-17, FY 2018-19, and FY 2019-20 as part of Aeronautical Expenditure in AAI's submissions. Upon enquiry, AAI responded it was considered only in FY 2017-18 due to an error and informed that the CSR cost is incurred by AAI as a whole and attributed to airports based on the requirement of activities to be conducted for CSR activities.
- As per Hon'ble TDSAT Order on BIAL, the Authority proposes that CSR expenses would be allowed as cost of the airport operator. The Authority has considered the statutory requirement under the Companies Act, 2013 for computation of CSR expenses, mandating a spend of 2% of the average net profits of the company made during the 3 immediately preceding financial years. The Authority has accordingly computed the average aeronautical profits of the past three years. The actual CSR spend has been allocated between aeronautical and non-aeronautical profits. The Authority proposes to allow the actual cost incurred subject to ceiling of 2% spend as mandated under Companies Act.
- The Authority notes that Pune International Airport has negative average profits of the immediately preceding 3 Financial Years for the 3 tariff years viz FY 2016-17, FY 2017-18 and FY 2018-19. Hence, the Authority proposes not to allow CSR reimbursement for these years

#### **AAI's Submission**

- In accordance with the requirements of the DPE guidelines on CSR and Sustainability and Section 135 of the Companies Act, 2013, two percent of the average net profits (to be calculated in accordance with the provisions of the Act) during the three immediately preceding financial years will be allocated for CSR activities every year.
- AAI has constituted a CSR Committee. The composition and terms of reference of the CSR Committee is provided in the Report on Corporate Governance, which forms part of this Annual Report. AAI has also formulated a Corporate Social Responsibility Policy, which is available on AAI's website.
- The overview of various CSR projects and programme undertaken by AAI and detail amount spent on CSR across India in different projects are there in the Annual Report at AAI website.
- CSR Budget will be utilized for implementing CSR projects approved by the Board on an annual basis. The budget allocation to the CSR Schemes shall be made in the beginning of every financial year after considering the CSR budget for that year. AAI is committed to play a larger role in India's sustainable development by embedding wider economic, social and environmental objectives.
- CSR provisions are made on the basis of 2% of Average profits of preceding 3 financial years at Corporate Headquarter Level.
- CSR calculation for 2<sup>nd</sup> control period of Pune Airport has been carried out on the basis of Aeronautical and Non-Aeronautical Revenue for the F.Y. 2013-14, 2014-15 & 2015-16 (Single Till basis) whereas, Hybrid Till i.e. 30% of the Non-aeronautical Revenue has been considered w.e.f. 2016-17 onwards.
- In case of Pune Airport, the CSR amount to be reimbursed are as under:

Statement of Calculations for CSR Expenditure in respect of PUNE Airport									In Lakhs
Particulars	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Total
Revenue from Regulated Services (a)	2310.00	2620.00	3330.00	4124.07	8147.45	18810.78	17504.58	4800.08	
Revenue from Non-Aeronautical Services 30% (b)	2130.00	1820.00	2160.00	918.20	1048.48	2029.85	1840.48	664.65	
Operating Expenditure (other than CSR included in Admin & Gen Expenses) (c)	4730.00	4960.00	5270.00	5882.78	7705.50	9875.43	10345.46	9542.11	
Working Capital Interest (d)	-	-	-	-	-	-	-	-	
Depreciation (e)	310.00	690.00	760.00	713.86	709.07	795.93	941.13	1118.29	
Total Expenditure (c)+(d) + (f) = (f)	5040.00	5650.00	6030.00	6596.64	8414.57	10671.35	11286.59	10660.40	
Regulatory operating Profit before tax (a+b)-(f) = (g)	-600.00	1210.00	-540.00	1554.36	781.35	10169.27	8058.47	-5195.67	

Average of previous 3 FY's Aeronautical profits (h)				-783.33	1101.45	-437.67	3132.09	6336.36	
2.00% of the average PBT (mandatory spend) (i=2%*h)							62.64	126.73	<b>189.37</b>
Actual Amount Spent on CSR Activities				10.67	21.78	115.4	59.99	59.99	<b>267.84</b>

**NOTE: In the F.Y. 2013-14, 2014-15 & 2015-16 Tariff was determined on the basis of Single Till, therefore 100% Non-Aero Revenue considered for these Years. From F.Y. 2016-17 onwards Hybrid Till is considered.**

On the basis of the above statement, an amount of Rs. 189.37 Lakhss is required to be reimbursed by AERA for Pune Airport as AAI has incurred expenditure on account of CSR as per the provisions of Section 135 of the Act, the Companies (CSR Policy) Rules, 2014 and the DPE Guidelines, 2014.

AAI as a whole has incurred CSR Expenses from F.Y. 2016-17 to 2020-21 are as under:

Particulars	In Crores				
	2016-17	2017-18	2018-19	2019-20	2020-21
CSR Expenses	60.19	71.91	83.79	125.70	40.23

In view of above, like income tax reimbursement it is requested to reimburse an amount of Rs 189.37 lakhs for Pune Airport during 2<sup>nd</sup> control period on account of CSR Expenditure.

### 3.6 Consideration of Non-Aero Revenue from Airlines space as Aero Revenue

#### **AERA's Contentions**

##### **[Para 2.3.7]**

Rent from space given to aeronautical service providers such as space given to Airlines has been considered as Non-Aeronautical Revenue by Pune International Airport. The Authority is of the view that the revenues collected from aeronautical services providers such as Airlines are to be treated as Aeronautical Revenues. Therefore, the Authority proposes to consider the rent received from space given to Airlines and other aeronautical concessionaires as aeronautical revenues.

#### **AAI's Submission**

The details of GL Accounts of "Building Non-Residential" of F.Y. 2016-17 to 2020-21 are as under:

<b>Revenue from Building Non-Residential as per AAI Trial Balances</b>					
<b>Particulars</b>	<b>Actual</b>				
	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
OAAI/940011000 T.Bldg Airlines	307.49	264.81	385.17	247.76	106.53
OAAI/940012000 TB Regul. Bodies	191.43	7.15	7.88	6.25	3.52
OAAI/940012500 Oth.BldgRegul.Bodies	0.00	-78.97	0.00	0.00	0.00
OAAI/940013000 TB-Others	86.99	186.62	188.07	173.79	342.83
<b>Total Amount Submitted ( In Lakhs)</b>	<b>585.90</b>	<b>379.61</b>	<b>581.12</b>	<b>427.79</b>	<b>452.88</b>

The actual revenue Airlines wise as submitted by the Pune station is as under:

<b>Calculation of Actual Revenue from Airlines offices for the SCP</b>					
<b>Name of Airline</b>	<b>Total Area allotted to Airlines</b>				
	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>	<b>2020-21</b>
Indigo	226.41	226.41	226.41	226.41	203.76
Indigo-Cargo	66.14	0	0	0	0
Air India	62.46	62.46	62.46	65.43	65.43
Tata Sia Vistara	37.2	37.2	37.2	116.41	100.45
Tata Sia Vistara-Cargo	56.3	0	0	0	0
Air Asia	28.08	28.08	28.08	33.01	33.01
Jet Airways	143.99	143.99	143.99	0	0
Jet Airways -Cargo	66.14	0	0	0	0
SpiceJet	102.89	110.05	110.05	104.3	104.3
SpiceJet - Cargo	38.75	0	0	0	0
Go Air	38.51	38.51	38.51	75	75
Go Air Cargo	92.91	0	0	0	0

Lufthansa Airlines	36.62	36.62	36.62	36.62	0
Total Area Allotted	996.4	683.32	683.32	657.18	581.95
Rate (Per SQM)	1775	1955	2155	2375	2200
Revenue Per Month	1768610	1335890.6	1472554.6	1560802.5	1280290
Annual Revenue	21223320	16030687.2	17670655.2	18729630	15363480
In Lakhs	212.23	160.31	176.71	187.30	153.63

There is misclassification of Revenue of the above-mentioned GL Accounts. The actual revenue of Airlines offices, ticketing counter, back office has been computed by Pune station.

In view of above, it is requested to consider the above figures as "Building Non-Residential" pertaining to Airlines.

### 3.7 Reclassification of assets in Aero, Non-Aero & Common assets by AERA

#### **AERA's Contentions**

#### **[Para 2.4.18]**

Head wise comparison and *Annexure IV* provides individual line items of change in classification of asset.

#### **AAI's Submission**

AAI does not agree with the reclassification of assets as give in CP Annexure-IV for the following assets:-

Particulars	Amount in Lakhs	AERA consideration	AAI Consideration
Provision of Epoxy & Antistatic Flooring at Sub station - completed in 2016-17	25.85	common	Aero asset
Shifting of Structural Glazing Towards City side - completed in 2017-18	315.11	common	Aero asset
Const. of Connecting Corridor to Link SHA-I	22.06	common	Aero asset

In view of the above, it is requested to consider the above assets as Aeronautical assets for determination of tariff.



## 4. Third Control Period

### 4.1 Traffic for the Third Control Period

#### AERA’s Contentions

##### [Para 3.2]

- The Authority after taking into consideration studies conducted by various industry bodies and Govt restrictions on domestic and international flights, reconsidered the traffic levels for the Third Control Period and projected that the domestic traffic would reach pre-COVID levels (FY 2019-20 levels) by FY 2022-23, while the Intl. traffic would reach pre-COVID levels by FY 2023-24.
- The Authority notes that AAI has very conservatively estimated the passenger traffic that does not reflect the reality. Accordingly, the Authority is of the view that the estimate submitted by AAI needs to be revisited. Based on the recent trend, the Authority proposes to consider that traffic in FY 2021-22 will reach 67% of FY 2019-20 level.
- The Authority proposes to use the 3-year CAGR for projecting domestic passenger traffic and ATM for the last 3 tariff years (FY 2023-24 & FY 2025-26), as in the Authority’s view the 3-year CAGR represents normalized economic scenarios, weeding out short-term macro-economic fluctuations. For International passenger traffic and ATM for the last 2 tariff years (FY 2024-25 & FY 2025-26), the Authority has considered a growth rate of 3% considering that the actuals in the past do not project any clear trend for estimation.
- After due consideration of the prevalent condition and review of forecasts made by many bodies, the Authority proposes the following traffic levels for the Third Control Period:
- **Table 55:** Traffic estimate for ATM and Passenger under COVID-19 scenario as proposed by the Authority

% of traffic with reference to traffic of Pre Covid level - FY20					
Particulars	FY 22	FY 23	FY 24	FY 25	FY 26
<b>Passengers</b>					
Domestic Passenger	68%	100%	116%	132%	148%
International Passenger	23%	75%	100%	103%	106%
<b>ATM</b>					
Domestic ATM	68%	100%	114%	128%	142%
International ATM	23%	75%	100%	103%	106%

- **Table 56:** Traffic proposed by the Authority for the Third Control Period

Passenger Traffic	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	Total (FY22 to FY26)
(in millions)								
Domestic	7.93	2.13	5.39	7.93	9.20	10.46	11.73	44.71
% Growth over previous year		-73%	153%	47%	16%	14%	12%	
% of FY 20		27%	68%	100%	116%	132%	148%	
International	0.16	0.00	0.04	0.12	0.16	0.16	0.17	0.64

% Growth over previous year		-97%	646%	226%	33%	3%	3%	
% of FY 20		3%	23%	75%	100%	103%	106%	
Total	8.09	2.14	5.43	8.05	9.35	10.63	11.90	45.35
% Growth over previous year		-74%	154%	48%	16%	14%	12%	
% of FY 20		26%	67%	100%	116%	131%	147%	
ATM (in 000's)	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	Total
Domestic	53.07	19.69	36.08	53.07	60.50	67.92	75.35	292.92
% Growth over previous year		-63%	83%	47%	14%	12%	11%	
% of FY 20		37%	68%	100%	114%	128%	142%	
International	1.20	0.15	0.27	0.90	1.20	1.23	1.27	4.86
% Growth over previous year		-88%	90%	226%	33%	3%	3%	
% of FY 20		12%	23%	75%	100%	103%	106%	
Total	54.26	19.83	36.36	53.96	61.69	69.16	76.62	297.78
% Growth over previous year		-63%	83%	48%	14%	12%	11%	
% of FY 20		37%	67%	99%	114%	127%	141%	

### AAI's Submission

- AAI's projection for Pax and ATM for the F.Y. 2020-21 is almost near to actuals. Pune Airport has achieved 2.46 Million Pax and 21.2 Thousand Aircrafts Movements up to Dec.2021.

Month	Aircraft Movements (in Nos.)			Passenger Movements (in Nos.)		
	International	Domestic	Total	International	Domestic	Total
Apr-21	14	2173	2187	33	177816	177849
May-21	3	841	844	6	61180	61186
Jun-21	4	1307	1311	5	133656	133661
Jul-21	16	2107	2123	46	218222	218268
Aug-21	18	2560	2578	60	276239	276299
Sep-21	11	2900	2911	28	333536	333564
Oct-21	9	1964	1973	31	229942	229973
Nov-21	24	3357	3381	94	476478	476572
Dec-21	22	3940	3962	64	556345	556409
<b>Total</b>	<b>121</b>	<b>21149</b>	<b>21270</b>	<b>367</b>	<b>2463414</b>	<b>2463781</b>

- Pune Airport may achieve approx. 3.60 Million Pax and 30 Thousand Aircrafts Movements for the F.Y. 2021-22 based on the actuals up to December 2021. Whereas, AERA has proposed 67% i.e. 5.43 Million Pax and 36.36 Thousands Aircraft Movements. AAI proposes 55% of the Pax traffic and 45% ATM Traffic to be achieved in the Year 2021-22 in comparison to Pre-Covid period of 2019-20.
- AERA has proposed Pune Airport will achieve pre-COVID period traffic in the F.Y 22-23 whereas AAI has proposed it will achieve in the F.Y 24-25.
- During a pandemic Covid -19 where is so much of uncertainty, CAGR may not be the right basis for growth.
- The projections submitted by AAI for the F.Y. 2022-23 to 2025-26 may be considered as the pandemic has not yet ended and a new variant of Covid-19 and 3<sup>rd</sup> wave of pandemic has again affected severely the Aviation Sector as a whole.
- Therefore, projections made by AAI are as under:
- **Traffic Forecast :**

YEAR	AIRCRAFT MOVEMENT (in nos.)			PASSENGERS (in nos.)		
	International	Domestic	Total	International	Domestic	Total
2021-22	150	29850	30000	1000	35,99,000	36,00,000
2022-23	625	43092	43717	33000	55,22,400	55,55,400
2023-24	750	51710	52460	66000	69,03,000	69,69,000
2024-25	900	56881	57781	112200	79,38,450	80,50,650
2025-26	1260	61432	62692	168300	88,91,064	90,59,364

## Regulatory Asset base for Third Control Period

### 4.2 Financing Allowance

#### **AERA's Contentions**

##### **[Para 4.2.18]**

The Authority notes that the Airport Operator has computed financing allowance on the entire WIP amount being capitalized, whereas the Authority is of the view that such an allowance is essentially the IDC for a project and should be provided only on the debt portion of the project funds. Detailed explanation for the same has been presented in para 2.4.10-K. Accordingly, the Authority has considered IDC to be provided based on revisions in the proposed capital expenditure discussed for the Third Control Period.

**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.
- It is to be noted that AAI has started making capital expenditure for Construction of New integrated Terminal Building at Pune Airport from F.Y. 2018-19 whereas, AERA has mentioned that "Pune International Airport is a brownfield airport and has lower construction and traffic risk". The building will be completed in the F.Y. 2022-23 amounting to Rs. 500 crores (approximately). It includes both Term Loan and Internal accruals.
- 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.

### 4.3 Airports Users Consultative Committee (AUCC) Meeting

**AERA's Contentions****[para 4.2.19]**

NITB was scheduled to be capitalized in FY 2020-21 (SCP). Accordingly, AAI had conducted a stakeholder meeting regarding NITB on 11.03.2017 and the minutes of the meeting was submitted. The Authority notes that AAI has decided to conduct another AUCC meeting for all assets crossing the threshold limit in TCP, together with an update on the progress of NITB project. The Authority is given to understand that the same was fixed by AAI to be conducted before 31.08.2021 but has not yet been conducted. AAI has submitted that it will share the minutes of the meetings as and when the meeting is conducted.

**AAI's Submission**

As per Authority's expectation, the AUCC meeting shall be conducted before the issue of MYTO. As informed by the Pune Airport the AUCC meeting to be conducted within this month. The Minutes of the meeting of AUCC will be provided on receipt of the same from station.

### 4.4 Capital Additions during TCP

**AERA's Contentions****[Para 4.2.28 ]****Digi Yatra - E Boarding Biometric Boarding System (BBS):**

AERA supports digital initiatives aimed at operational efficiency and benefit of the users. However, the costs for this project as per the document submitted by AAI contains three elements- Capex, Opex and O&M, where AAI has considered Opex as Capex in capital additions. Upon enquiry, AAI has not provided detailed clarification on the difference in the three categories of spend and the costs that will be capitalized and those that will be part of O&M costs.

Therefore, the Authority proposed to not consider the cost of this project in the capital expenditure (nor revenue expenditure) for the Third Control Period but proposes that should AAI incur any cost on this project in Third Control period, the same will be trued up in the next control period, based on actual incurrence. AAI shall submit the details in this regard at the time of true up of Third Control Period.

### **AAI's Submission**

- All the clarifications on Capex, Opex and O&M have been provided by AAI vide e-mail dated 11.10.2021, whereas AERA has mentioned that the details have not been provided.

Particulars	2022-23 (in Crs.)	2023-24 (in Crs.)	2024-25 (in Crs.)	2025-26 (in Crs.)
Capex : Cost of procurement of Hardware ,Kiosk, Tablets & E -gates	6.98			
Opex cost of software and network development, helpdesk and hardware installation. It is part of Capex.	7.10			
O&M (Rs. 16.67 Crs. For 7 years)		2.38	2.38	2.38
Total Capex	14.08			

- MoCA launched Digi Yatra Policy in August 2018 aiming at seamless & hassle-free access through designated check points (Entry gate, Self-check-in-kiosks/Check-in counters & Boarding gates) at the Airports using cutting edge Identity management and “Facial Recognitions” technology.
- Ministry of Civil Aviation (MoCA) had published the Digi Yatra policy document covering guidelines for implementation of the Digi Yatra system at Airports, which would ensure paperless and hassle-free journey to all passengers and enhance the security of travel through biometric passenger authentication. Further, DGCA had published the Civil Aviation Requirement (CAR) document mandating the Airports to implement the Digi-Yatra E-Boarding system. AAI had proposed to implement the system in the Third Control Period.
- In this regard, AAI submits that Phase-1 Go-Live at Kolkata, Pune and Vijayawada with Indigo and Air India Airlines is planned by June -2022. Whereas Phase – II, for remaining airlines namely SpiceJet, Go First, Air Asia and Air Vistara will be on boarded to Digi Yatra by September 2022. In view of the above, AERA is requested to consider the above amount of Rs.14.08 crores and O&M expenses from F.Y. 2023-24 onwards.

## 4.5 Allocation Ratios for Additions in the Third Control Period

### **AERA's Contentions**

#### **[Para 4.2.38, 4.2.39 & 4.2.40]**

The Authority has reviewed and reclassified the assets according to the nature of asset after analysing the same. The Authority notes that the Terminal Building area has been increased from 23,560 sqm to 77,455 sqm. AAI has submitted that after commencement of New Terminal Building, the area allocated to concessionaries will increase from 1,509.05 sqm to 4,866.05 sqm which is 6.47% of the total area. The Authority notes that the non-aeronautical component of TBLR is in the range of 5-7%. This is in contrast to the 8-12% that the IATA and IMG norms recommend. Since Pune International Airport attracts a substantial amount of traffic, the Authority encourages AAI to incorporate larger non-aeronautical component at the airport (especially so since a new integrated terminal is being capitalized).

Thus, the Authority proposes to consider a TBLR of 90:10 for the Third Control Period. The Authority seeks stakeholders' comments in this regard.

### **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. AERA has determined the Terminal Building ratio including proposed New Terminal Building as 91.37% in SCP. Now again in TCP, AERA proposes 90% as TBLR for the same Old Terminal Building.
- The earmarked area for commercial activities (design) for proposed Terminal Building works out to 8%
- It is requested to keep the same TBLR Ratio as approved in the SCP in order to maintain consistency and uniformity.

## 4.6 Depreciation for the TCP

### **AERA's Contentions**

#### **[Para 4.4.1]**

AAI has computed depreciation based on the rates prescribed by AERA vide Order No. 35/2017- 18 dated 12<sup>th</sup> January 2018, in the matter of determination of useful life of Airports Assets. For the additions to RAB, AAI has calculated the depreciation during year of capitalization on 50% of the asset value (assuming that the asset is capitalized in the middle of the financial year)

### **AAI's Submission**

- There is inconsistency by AERA in the method of computation of depreciation for Pune and other Major Airports . In respect of all other AAI airports , Depreciation was computed @ 50% of rates in the first year of capitalization but it is considered on the basis of date of capitalization.
- But in Pune , AERA has proposed to compute depreciation on the date of capitalization of the asset.
- AERA is requested to consider a uniform methodology to be followed in this regard for all Airports.

## 4.7 Fair Rate of Return (FRoR) for TCP

### **AERA's Contentions**

#### **[Para 5.2]**

**Debt and Cost of Debt:** The Authority notes that debt was taken by AAI in FY 2020-21 and the same has been considered by the Authority while true up of Second Control Period Order as discussed in Para 3.6. AAI availed a term loan facility of Rs. 2,100 crores from M/s Axis Bank. AAI further explained that the interest rate on this loan is at 6.21% per annum and that the borrowings for Pune International Airport have been allocated from the borrowings for AAI as a whole.

The Authority is of the understanding that parts of the term loan have been availed from FY 2020-21 onwards (in accordance with the capitalization plan).

The Authority also notes that AAI has considered capital expenditure funding based on net block of assets (i.e. Gross Block of assets minus depreciation) where 60% of capital requirement is funded through debt and 40% from internal accruals. The Authority proposes to consider 60% gross capital expenditure requirement to be funded through debt.

In future control periods, like other PPP Airport models, the Authority may consider shifting to notional debt equity ratio for AAI Airports also. The Authority invites stakeholders' comments in this regard.

**Equity and Cost of Equity:** As noted above in para 5.2.3, AAI has computed the Equity portion based on net block of assets requirement. As explained earlier by the Authority in para 2.7.8, equity for Third Control Period has been considered by adding aeronautical profit or losses for the respective years in TCP to the closing equity of FY 2020-21.

The Authority has analysed the cost of equity pertaining to Pune International Airport as submitted by AAI for the Third Control Period. The Authority acknowledges the debt taken by AAI for Pune International Airport in the Third Control Period and its impact on FRoR. However, the Authority is of the opinion that the gearing ratio is still suboptimal and does not justify a cost of equity of 16.00% per annum as submitted by AAI. The Authority has drawn reference to the independent studies conducted in the tariff determination exercise for DIAL (Refer to Order No. 57/2020-21), MIAL (Refer to Order No.64/2020-21), HIAL (Refer Order No.12/2020-21), BIAL (Refer Order No.11/2020-21) and CIAL (Refer Order No.08/2020-21). The independent study considers an optimal gearing ratio of 48%:52% and determined a cost of equity in the range of 15.00% to 15.50%. Given that the debt-equity ratio for Pune International Airport ranges between 20% to 37%% in the Third Control Period, the Authority proposes to maintain a cost of equity of 14.00% across the Third Control Period.

Based on the materials before it and its analysis, the Authority proposes the following with respect to FRoR for the Third Control Period:

- To consider the cost of equity at 14.00% as per Table 83
- To consider the cost of debt at 6.21% as per Table 82
- To consider FRoR of 11.63% for the Third Control Period as per Table 84.
- To true up the actual cost of debt and FRoR during the tariff determination exercise for the Fourth Control Period.



### AAI's Submission

AAI had appointed M/s KPMG to carry out a study on Cost of Equity during 2011 the results of which are given below:

*Table 3: Beta of comparable airports*

Airport / Group	Country	Equity Beta	Tax Rate	Debt (in Billion local currency)	Mkt Cap (in Billion local currency)	Debt /Mcap	Asset Beta
Airports of Thailand PCL	Thailand	1.14	30%	56.2	54.3	1.03	0.66
Beijing Capital International Airport	China	1.03	25%	18.5	14.8	1.25	0.53
Guangzhou Baiyun International Airport	China	0.91	25%	0.0	8.3	0.00	0.91
Shanghai International Airport	China	1.04	25%	2.5	22.0	0.11	0.96
Xiamen International Airport	China	0.95	25%	0.0	4.1	0.00	0.95
Grupo Aeroportuario del Sureste SAB de CV (Group of 9 airports in Mexico)	Mexico	0.94	30%	0.6	21.0	0.03	0.92
Grupo Aeroportuario del Pacifico SAB de CV	Mexico	0.84	30%	1.0	27.2	0.04	0.82
Grupo Aeroportuario Centro Norte, S.A. de C.V.	Mexico	0.99	30%	1.0	9.2	0.10	0.92

The median value of asset beta for the above comparable set is 0.92 which is being used as the asset beta for airport operations business of AAI. This needs to be re-levered as per the expected gearing of AAI in the control period to estimate the equity beta for AAI.

*Table 4: Equity Beta for AAI*

Estimated asset beta for AAI	0.92
Gearing for AAI	8.84%
Tax rate for AAI	32.45%
Equity beta for AAI	0.98

Equity beta for AAI works out to 0.98.

For full Report, please refer Consultation Paper No. 16/2012-13.

Based on the above report, AAI submitted during SCP consultation that the CoE was 16%. AERA in the SCP order had also considered CoE of 16% and since there was low debt, the FRoR was determined to be 14%. AAI submits that the debt was taken only during the end of FY 21 and hence, requests AERA to consider FRoR of 14% for SCP.

- The Equity estimation can also yield a range of values depending on the assumptions employed.
- Cost of Equity depends on ownership structure, Comparable Airports & Revenue Till
- Asset Beta plays an important role in determination of Equity Beta even if Debt/Equity Ratio is low (low gearing). Cost of Equity depends on both Asset Beta and Equity Beta.
- In 1<sup>st</sup> Control Period, AAI had submitted a study conducted by M/s KPMG in regards to calculation of Cost of Equity wherein, Estimated Asset Beta was 0.92 and corresponding Equity Beta works out to 0.98. The cost of Equity submitted by AAI works out to 16.82%

- If AERA considers the debt equity ratio as 48:52 as ideal ratio and provides Asset Beta @ 0.92 then the FRoR will increase to more than 16%.
- In MIAL, DIAL, HIAL and CIAL the Cost of Equity has been considered @ 15+%. Thus AERA is requested to consider the Cost of Equity @ 16% as submitted by AAI.
- It is also requested to consider the FRoR as submitted by AAI instead of an Average FRoR @ 11.63% for TCP.

## 4.8 One (1%)readjustment to the RAB if project not completed

### **AERA's Contentions**

#### **[Para 4.6.1]**

To reduce (adjustment) 1% of the project cost and the applicable carrying cost in ARR at the time of determination of tariff for the Fourth Control Period in case of non-completion of the project as per the proposed timelines.

#### **AAI's Submission & Request**

AAI submits to take on case to case basis as due to pandemic/other genuine reasons beyond the control of AAI, work delay is unpredictable. AAI would always endeavor to ensure that the work is completed in time.

## 4.9 Operating Expenses for Third Control Period [Para 6.1]

### **AERA's Contentions**

#### **[Para 6.2.2, 6.2.3 & 6.2.4]**

#### **Pay Roll Cost :**

The Authority proposes to adopt 3% as the rate of increase for Payroll expenses.

The Authority proposes to consider 10% increase in the employee count instead of 15% as proposed by AAI. This will be subject to true up in the next control period.

Based on this analysis, the Authority proposes to rework total payroll expenditure for Third Control Period and to apply the revised allocation ratios along with a growth rate of 3% for FY 2021-22 & FY 2022-23 based on FY 2019-20.

For FY 2023-24 payroll cost has been increased at 10% to account for increase in the number of employees (as shown below) at the time of commissioning of NITB as explained in Para 6.2.3 along with a growth rate of 3%. For FY 2024-25 and FY 2025-26, a growth rate of 3% over the previous year figures is applied to arrive at the aeronautical payroll expenditure for the Third Control Period.

#### **AAI's Submission**

7% is the average increase in the payroll due to annual increment of 3% in salary, increase in HRA, and quarterly increase in DA and Employer contribution to PF. The figures for the F.Y. 2020-21 are actual as submitted by on 24.12.2021

The following illustration clearly shows that there is an average 7% increase in the Payroll expenditure.

Calculation of incremental increase in Salary (in %age terms)								
Particulars	Per Month	Salary Year 1	Q1	Q2	Q3	Q4	Salary Year 2	(In Rs.) Yearly Incremental
Basic Pay	10000	120000	30900	30900	30900	30900	123600	3600
DA	1800	21600	6798	7725	8343	8652	31518	9918
HRA	2700	32400	8343	8343	8343	8343	33372	972
PERKS	3500	42000	10815	10815	10815	10815	43260	1260
EPF	1200	14400	3708	3708	3708	3708	14832	432
<b>Total</b>	<b>19200</b>	<b>230400</b>	<b>60564</b>	<b>61491</b>	<b>62109</b>	<b>62418</b>	<b>246582</b>	<b>16182</b>
<b>Particular</b>								
<b>%age Increase</b>								
DA	18%		22%	25%	27%	28%		
HRA	27%		27%	27%	27%	27%		
Perks	35%		35%	35%	35%	35%		
EPF	12%		12%	12%	12%	12%		

Total Increase  
(in Rs.) 16182

**% increase 7.02**

**Assumptions :**

Year 1 Means Previous Year

Year 2 Means Current Year

Basic Pay – 3% yearly increase considered.

Dearness Allowance- Quarterly increase considered.

HRA, Perks & EPF – Considered Constant

In the abovementioned example, the Salary expenditure for Year 1 shown as Rs. 230400/- per employee. Whereas, in the year 2 the salary expenditure is shown as Rs. 246582/- per employee. On the basis of above assumptions, the incremental expenditure on the head of salary is Rs. 16182/- per employee which comes out to 7.02% on Year on Year basis.

In all other Airports AERA has considered 5% increase. AAI requests AERA to consider 5% increase on Year on Year basis for the Third Control Period to maintain consistency.

## 4.10 General & Administration Expenses

### **AERA's Contentions**

#### **[Para 6.2.5 & 6.2.6]**

**Upkeep expenses:** The Authority notes that AAI has based its projection for general and administrative expenses other than upkeep expenses and legal expenses on a growth rate of 10% over the previous year figures. The Authority proposes to use a growth rate of 4.9% (benchmarked to inflation as proposed by the Authority for the Third Control Period) for all components of general and administrative expenses other than upkeep expenses.

The Authority has noted that AAI has projected upkeep expense of Rs.1316.30 lakhs for FY 2023-24 (225% growth over FY 2022-23 figures) due to commissioning of NITB. The Authority notes that increase in aeronautical area due to commissioning of NITB with reference to the existing terminal building is 219%. Hence, the Authority proposes a growth rate of 219% for upkeep expenses in FY 2023-24 as opposed to the growth rate proposed by AAI along with inflation of 4.9% from FY 2021-22 and thereafter.

### **AAI's Submission**

The upkeep expenses merely not linked with the area of building but there are other factors like cleaning with modern and high technology equipment, wages of the labor, escalations in the prices of the materials, cleaning of Transparent Glass Facades, Ceilings, Covid-19 protocols etc. The minimum wages of labor plays an important role in deciding the upkeep expenses at airport.

Therefore, AAI requests AERA to allow the expenditure as submitted by AAI instead of restricting it to inflation of 4.9% from F.Y. 2021-22 and thereafter.

## 4.11 CHQ & RHQ - Admn. Expenses

### **AERA's Contentions**

#### **[Para 6.2.7]**

The Authority reviewed the basis for allocation of CHQ and RHQ expenses to Pune International Airport for the Third Control Period. Based on the methodology explained under para 2.8.13 to 2.8.24 above (on true up of expenses for the Second Control Period), the Authority has derived the allocable expenses of CHQ and RHQ to Pune International Airport for the Third Control Period.

### **AAI's Submission**

AAI had submitted the Revised CHQ & RHQ Allocation for the F.Y. 2016-17, 2017-18, 2018-19, 2019-20 & 2020-21 to AERA vide e-mail dated 24.12.2021. Also refer detailed workings provided at the pre-page note of CHQ & RHQ Expenses. AAI requests AERA to consider the revised amount of allocations during these years.

PUNE International Airport (PNQ) : CHQ/RHQ Allocations					
	Amt. in Crores				
Year>	2016-17	2017-18	2018-19	2019-20	2020-21
Actual Amount >	30.67	27.88	57.07	78.33	55.55

## 4.12 Utility Expenses

### **AERA's Contentions**

#### **[Para 6.2.9]**

The Authority notes that AAI has projected power charges of Rs. 2080.02 lakhs for FY 2023-24 (242% growth over FY 2022-23 figures). The Authority also notes that increase in aeronautical area due to commissioning of NITB in relation to the existing terminal building is 219%. Hence, the Authority proposes a growth rate of 219% for power charges in FY 2023- 24 as opposed to the growth rate proposed by AAI along with inflation of 4.9% from FY 2021-22 and thereafter. The Authority notes that AAI has projected increase in water charges at a growth rate of 3 to 3.5% over the previous year, The Authority considers the same to be reasonable.

### **AAI's Submission**

AAI requests AERA to consider the expenses as submitted in the MYT Proposal for the TCP subject to true-up in the Fourth control period.

## 4.13 CSR Expenses

### **AERA's Contentions**

#### **[Para 6.2.10]**

The Authority notes that CSR Cost has not been included as part of Aeronautical operational expenditure in AAI submission in Second Control Period true up and projections in the Third Control Period. The Authority proposes to estimate CSR expenses as 2% of the average of the previous three years' PBT.

### **AAI's Submission**

- As per the provisions of Section 135 of the Act, the Companies (CSR Policy) Rules, 2014 and the DPE Guidelines, 2014, two percent of the average net profits (to be calculated in accordance with the provisions of the Act) during the three immediately preceding financial years will be allocated for CSR activities every year.
- Not considered by AERA in the SCP True up for the F.Y. 2018 & 2019 due to the reason that Pune Airport have negative average profits during these years. It is also to be noted that CSR costs are allocated to a station from 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. In this regard it is further added that a CSR committee headed by Chairman has been constituted by AAI Board for recommendation of the activities for CSR for AAI as a whole based on the profitability of AAI as a whole.
- The CSR Cost for TCP is required to be considered on the same lines as proposed by AAI in the SCP submission.

## 4.14 R&M Expenses

### **AERA's Contentions**

#### **[Para 6.2.12 & 6.2.13]**

The Authority notes that along with increase in 10% growth, AAI has considered AMC charges for New Terminal Building which is being charged from FY 2022-23 to FY 2025-26.

The Authority is of the view that as most of the assets will be newly constructed/ installed during the control period and will also be covered under warranty clauses, the same may need only minimum repairs and maintenance. Therefore, the Authority proposes to consider the same stand as taken at the time of true up of Second Control Period for Repair & Maintenance expenses to be around 6% of the RAB (opening net block of the Third Control Period) till FY 2022-23.

The Authority notes that AAI has estimated R&M on Newly capitalized facility also from FY 2023-24. The Authority notes that Civil-R&M costs are not likely to be incurred for new terminal Building for at least 1-2 years after commissioning. Thus, the Authority proposes to not consider AMC of Civil works. For other regular repairs and maintenance works Authority proposes to consider an inflation of 4.9% instead of 10% as estimated by AAI from FY 2023-24 onwards.

The Authority also notes that AAI has considered AMC of Capital addition of Digi Yatra from FY 2023-24 to FY 2025-26 amounting to Rs. 714.55 lakhs. The Authority is of the view that the capital addition of Digi Yatra has not been considered in RAB for Third Control Period which will be trued up on incurrence basis in the next control period. Accordingly, the AMC cost for the same will be considered on incurrence basis in the next control period.

### **AAI's Submission**

- Basis of considering 6% on opening RAB of TCP has not been provided in the CP
- AAI requests AERA to consider the projected costs for TCP without restricting it to 6% on opening RAB of the TCP. 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.
- It has been observed that AERA has not considered Digi yatra Opex expenses from F.Y. 2023-24 onwards.
- AERA notes that Civil R&M costs are not likely to incur for new Terminal Building for 1 to 2 years. AAI submits Defect Liability period for the proposed Terminal Building is only for 1 year. It is requested to consider AMC of Civil work of New terminal building.
- AAI request to consider other regular R&M increase by 10% from F.Y 2023-24 onwards as proposed by AAI.

## 4.15 Working Capital Interest & Interest on Term Loan

### **AERA's Contentions**

#### **[Para 6.2.14 to 6.2.17]**

AAI has included claim for Working Capital Interest & Interest on term loan a separate line item in the computation of ARR. The Authority has noted that AAI had availed a short-term working capital facility of Rs. 1,500 crores and had also availed term loan of Rs. 2,100 crores in FY 2020-21 for all AAI Airports. The Authority notes that AAI has computed working capital interest based on the forecasted recovery of revenue and payment of expenses and has considered the entire expense as aeronautical. As per the calculation by AAI, the requirement for working capital will arise in the year of FY 2021-22.

The Authority has reviewed the computation of interest on working capital loan. The Authority has reworked the cash flows based on the revised operating expenses, traffic, non-aeronautical and aeronautical revenues. As per this revised computation, there appears to be no material deficit between the spends and receipts and hence, there is no requirement to avail the WC facility for Pune International Airport. In case of need for Working Capital facility arising in the Third Control Period, the same will be reviewed and trued up at the time of tariff determination for the Fourth Control Period. The Authority proposes to not consider interest on term loans as O&M expenses. This is because the term loan has already been factored in the computation of FRoR, hence this amount is not being considered for reimbursement once again.

#### **AAI's Submission**

- AAI requests AERA to consider the WC Interest based on the re-computations for Capex, Opex, CSR, CHQ & RHQ Allocations etc.
- With regard to Interest on Term Loan, as per Accounting Standard -16: The Borrowing Cost incurred subsequent to the capitalisation of the asset are recognised as financing charges in the period in which they are incurred. It is requested to allow the borrowing cost after the date of Capitalisation in line with the Accounting Standard and the accounting policy.

## 4.16 UDF Collection Charges

### **AERA's Contentions**

#### **[Para 6.2.18]**

For collection charges on UDF under other outflows, AAI has considered the growth rate to be the same as that of passenger traffic. The Authority proposes to use the same approach, considering the same to be a reasonable driver.

#### **AAI's Submission**

- AAI requests AERA to consider the traffic as per AAI submission and accordingly consider the UDF Collection Charges.

## 4.17 Non-Aeronautical Revenue for TCP

### **AERA's Contentions**

#### **[Para 7.2.3]**

**Revenue Related to Passenger Traffic** :The Authority notes that AAI estimated revenue for FY 2021-22 by assuming that the non-aeronautical revenue for the Third Control Period will be in proportion to the projected passenger traffic. As a result, AAI has projected revenues by applying the ratio as per passenger traffic in each tariff year together with considering the space allocated to non-Aeronautical concessionaires in the new Terminal Building. The Authority proposes to consider the revenues for the Third Control Period by applying a combination of the percentage of revised total traffic numbers (based on FY 2019-20 nos. i.e., pre-Covid year) and considering AAI Circulars 24 & 26 for FY 2021-22.



**AAI's Submission**

- Generally, increase in traffic is not proportionate with increase in NAR.
- It is to mention that in view of Covid-19 pandemic, AAI had provided Concessionaire Support Scheme (CSS) to various contractors linked to the passenger traffic till 31/12/2021. Under the CSS, license/concession fee was charged based on actual passenger traffic during a particular month. In addition, additional discount was also given due to adverse impact on buying behaviour of the passenger.
- In view of the above, revenue growth after 31/12/2021 is not to be linked with passenger traffic growth. Most of the commercial contracts have been awarded by AAI on fixed license fee basis having annual escalation provision of 10%. Therefore, AAI projections are based on the consistent revenue increment trend during pre- Covid years
- Hence, projections from FY 2022-23 onwards should be delinked with total traffic numbers and AAI circulars 24&26. Further, in the revenue projection for FY 2021-22, additional discount provided under CSS in license fee due to adverse impact on passenger buying behaviour has also to be factored in.

**Amount in Crores**

Particulars	Proposed by AERA F.Y 21-22	MYTP submission by AAI F.Y 21-22	Actual Achieved by AAI upto Dec' 21	AAI Submission
Restaurants Snack Bar	11.47	1.82	1.05	Projected figures submitted by AAI are reasonable.
TR Stall	5.73	0.06	0.24	Projected figures submitted by AAI are reasonable. AERA to consider pro-rata of the actuals upto December for FY 2021-22.
Duty Free Shop	0.46	0.19	0.02	There is no Int'l flight operation as on date and perhaps will continue till 31.03.2022.
Hoarding & Display	2.64	0.16	1.29	The projections submitted by AAI is reasonable AERA to consider pro-rata of the actuals up to December for FY 2021-22.
Inflight catering	0.76	0.12	0.30	AERA to consider pro-rata of the actuals up to December for FY 2021-22.
Total	21.06	2.35	2.90	

- It is submitted that after operationalization of MCLP, the revenues from the present Car parking facility shall be subsumed under MCLP. Hence, the revenues from Car Parking should not be included from FY 2022-23 onwards.
- **Therefore, AAI submits that the Non-Aeronautical Revenue as submitted in the MYTP may be considered.**

### **AERA's Contentions**

#### **[Para 7.2.4]**

**Multi Level Car Parking (MLCP):** The Authority on perusal of extract of the terms of MLCP contract/RFP, requested AAI for detailed contractual arrangements with respect to the MLCP Contract. Details of same are awaited from AAI. The Authority will review the documents and make necessary updates, if any at the time of issue of Order.

Based on the available data regarding MLPC contract/RFP, the Authority also notes that AAI has only considered the revenue portion and has not considered the Annual Guarantee portion as per MLCP contract. As per the contract, the 5.5% increase is applicable on annual guarantee amount. However, AAI has not considered such increase over the amount ascertained, which is proposed to be corrected. Hence, the Authority proposes to consider both the components of the license fee i.e., Annual Guarantee and Revenue Share together as the revenue from MLCP.

### **AAI's Submission**

**MLCP Revenue:** The License Fee payable by the Developer shall be as below in two parts:

- (i) An amount of Rs.4 Crore as an Annual Guarantee with an Escalation of 5.5% for each Financial Year.
- (ii) Revenue share of 15% of the Project revenue or 50% of the Annual Guarantee i.e. Rs. 4 Crore, whichever is higher.

However, the minimum Annual Guarantee assured shall be Rs. 6 Crore for first financial year after COD and thereafter with an Escalation 5.5 % on Annual Guarantee as above.

The stipulated Commercial operations date (COD ) of MLCP is 18.04.2022, however an extension on account of Force majeure event due to Covid-19 for 105 days has also been granted by AAI which may further cause extension of COD till 31.07.2022 In respect of MLCP . At present more than 75% of work has been completed.

In the MYTP Model, full year Revenue from MLCP has been considered whereas the project would go live from August-2022 onwards. Hence, proportionate Revenue to be considered for MLCP as well as proportionate Revenue to be considered for Car Parking. (Car Parking Revenue up to July-2022 and Revenue from MLCP from August-2022 onwards)

The existing Car Parking contract shall be ceased on COD of MLCP. Therefore, AAI requests AERA not to consider Non-aero Revenue as proposed by AERA on account of Car Parking.

**AERA's Contentions****[Para 7.2.7]**

**Inflight Catering Services:** The Authority notes that AAI has submitted an 89% decrease in flight catering revenue for 2021-22 from 2020-21 levels and has proposed NIL revenues from FY 2022-23 and thereafter until the end of the control period. On enquiry, it was informed by AAI that all the flights from 2022-23 are bound to procure catering services from their respective take-off stations. However, the rationale provided by AAI was not substantiated with any details or documentation. The Authority proposes to consider Flight Catering Revenue projections similar to other revenues related to traffic, increasing the same based on the traffic growth rate and inflation.

**AAI's Submission**

Since, Pune Airport is not a terminal station, AAI requests AERA to consider the reasonable increase of Inflight catering revenue based on actuals up to December 2021 instead of linking it with the traffic as proposed vide table No.56 of CP

## 4.18 ARR for Third Control Period

**AERA's Contentions**

- AERA has proposed shortfall/Surplus to Rs. Nil.
- The Revised Tariff commencement date is set to be 1<sup>st</sup> April 2022

**AAI's Submission and Request**

- The Revised Tariff as proposed by AERA is lower than the existing rates.
- After considering all the above changes, the AERA is requested to consider full recovery of ARR.
- AAI agrees with the Tariff Commencement date as proposed by AERA i.e. from 1st April 2022.
- **AAI requests AERA to revise the Airport Charges w.e.f. 01.04.2022 after incorporating the submissions of AAI in the full recovery model in SCP & TCP.**

## 5. Abbreviations

<b>Abbreviations</b>	<b>Expansion</b>
AAI	Airports Authority of India
AERA	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
CIAL	Cochin International Airport Limited
COD	Commercial Operations Date
CP	Consultation Paper
CSS	Concessionaire Support Scheme
CWIP	Capital Work In Progress
DFMD	Door Frame Metal Detector
DIAL	Delhi International Airport Limited
DPR	Detailed Project Report
EQTR	Employee Quarter Ratio
ETD	Explosive Trace Detector
FRoR	Fair Rate of Return
FY	Financial Year
HHMD	Handheld Metal Detectors
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 Agreement
PCN	Pavement Classification Number
PIB	Pre-flight Information Bulletin
PMC	Project Management Consultancy
PNQ	Pune International Airport
PPP	Public Private Partnership
RAB	Regulatory Asset Base
RET	Rapid Exit Taxiways

<b>Abbreviations</b>	<b>Expansion</b>
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