581

File No. AERA/20010/MYTP/MIAL/CP-II/2013-14/Vol-III
Airports Economic Regulatory Authority of India

Minutes of the Stakeholder Consultation Meeting held on 06.04.2016 (Consultation Paper No. 10/2015-16 dated 16.03.2016)

Determination of Aeronautical Tariff in respect of the Chhatrapati Shivaji International Airport, Mumbai for the Second Control Period (01.04.2014 – 31.03.2019)

A Stakeholder Consultation meeting was convened by the Authority on 06.04.2016 at 1500 hrs. in the Conference Room, first Floor, AERA Building, Administrative Complex, Safdarjung Airport, New Delhi to elicit the views of the stakeholders on the Consultation Paper No. 10/2015-16 dated 16.03.2016 issued by the Authority setting out its tentative position in respect of Determination of Aeronautical Tariff for Chhatrapati Shivaji International Airport, Mumbai. The list of the participants is enclosed at **Annexure – I**.

2. Chairperson, AERA welcomed the participants in the Consultation meeting and highlighted that detailed arguments/justification for each proposal has already been furnished by Authority. He requested the stakeholders to make their written submissions to AERA by the timeline fixed in the Consultation Paper. He requested MIAL to start with the presentation about the MYTP and related submissions.

3. Sh. R. K. Jain, CEO of MIAL, thanked AERA for the opportunity given to MIAL and informed that there will be a detailed presentation by Mr. Vinod Hiran, Regulatory Head. He highlighted that there are certain serious issues that MIAL have come across in the consultation paper and hoped that the Authority would consider their response in the final order.

3.1 He brought out that MIAL expected an increase of 104.00% from 1st January, 2016 as against which MIAL is getting a reduction of minus 7.20% from 1st April 2016, which is a significant gap. As there are certain issues which are under litigation at the Tribunal, which have not been taken up in the presentation. However the outcome of the appeal is applicable to this Control Period also.

3.2 He stated that the major issues which require reconsideration by Authority are with regard to allocation of expenses between aero and non-aero, calculation of WACC, asset allocation ratio, Hangar of Air India, disallowances of certain operational expenditure, condition w.r.t exemption to less than 80 seater aircraft etc. He submitted that Shri Vinod Hiran would make a detailed presentation to the Authority. The Presentation made by MIAL is at **Annexure – II.**

4. Shri Vinod gave a small brief about the structure of MIAL the relevant agreements OMDA provision etc. He brought out the principles of tariff fixation as outlined under Schedule 6 of SSA. He highlighted details of various awards and accolades received by MIAL.

5. Shri Vinod further drew attention of Authority/stakeholders to various proposals of Authority outlined in the Consultation Paper as below:

5.1 **Disallowance of Project Cost by Authority viz increased IDC of Rs 55 crs. on account of delayed capitalisation of new terminal** - Mr. Hiran submitted the following reasons for reconsideration:

- The construction of New Terminal & associated apron pertaining to International Operations was completed on 31st August, 2013 as per schedule. Independent Engineer also confirmed the same and issued completion certificate accordingly. Commencement of operation (hence capitalisation) was delayed to February 2014, due to following issues which were clearly beyond control of MIAL:
  a) Delay in settlement of issue of placement of immigration counters after security check
  b) Delay in receipt of security clearance from BCAS for new Terminal
  c) Delay in completion of MMRDA portion of Sahar Elevated Access Road

d) MIAL had taken all the necessary steps and proactively coordinated with all the agencies for early resolution of the issues and as such delay in commissioning of Terminal is not attributable to MIAL. Thus, increase in IDC cost (Rs. 55 Cr) on account of delay in capitalization was beyond control of MIAL and hence, MIAL requests Authority to consider this cost.

5.2 **Disallowance by Authority of site overheads due to time delay for T2 (Rs 39 cr)-** Mr.Hiran submitted the following reasons for reconsideration:

- Site overheads provision of Rs 233 Cr for period up to August 2014 was made in the Project Cost of Rs 12,380 Cr assuming works for International Operations will be completed by August 2013 & Operations will commence from September 2013, works for Domestic Operations will be completed by August 2014 and Operation will commence from September 2014, within one year from commencement of International operations.

- Due to delay in commencement of International Operations as explained above, MIAL could not take up the works for Phase III portion of T2 Building and Apron works for Domestic Operations as planned, which itself impacted planned completion of the Phase III works.

- IE issued commencement certificate with 28thFebruary 2014 as commencement date.

- Additionally, completion of Phase III works was further impacted due to various reasons such as 7 months delay in shifting old Air India Hangar & Annex facilities by AI and this handover excluded Live Reliance Power Substation in AI Hangar premises. Demolition of old Air India Hangar & associated facilities was immediately taken up by MIAL for the available area. The remaining Reliance Power substation area was cleared for demolition after the sustained efforts from MIAL by end May'14. Demolition works were finally completed by MIAL & the balance area was made available for apron construction on 17th Jun'14. Further there was a 4 months delay in handing over of old International Terminal T2 back to MIAL for demolition by various stakeholders which was finally vacated and handed over completely for demolition by end Jun'2014, resulting in 4 months delay in Phase III construction works. Mr. Hiran further submitted that there was a 10 months delay in shifting of prayer area (mosque) located below old International Terminal T2 B/C Up ramp. He stated that due to this delay in completion, MIAL had incurred additional cost on account of site overhead of Rs. 39 Cr over and above budget provision.

- Mr. Hiran stated that as can be seen from the details indicated, there were external constraints which were beyond control of MIAL and delay was not attributable to MIAL. Hence MIAL should not be penalized without any of its fault and Authority should allow this cost.

5.3 **Disallowance by Authority due to change in scope of T2 – Rs 184 cr-** Mr.Hiran indicated that the increase in cost was due to increase in scope, quantities and rates of some of the items / works and additional scope which arose on account of site conditions and due to many unforeseen events due to complexities of project. He stated that the overall % age of this cost vis-à-vis total project cost of Rs 12,630 Cr works out to be 5.97%, which is reasonable considering quantum & magnitude of the project. He thus requested Authority to consider and allow this cost of Rs. 184 Cr as part of approved project cost.

5.4 **Pre-operative expenses allocated to Metro stations of Rs. 44 Crs. not considered by Authority as part of project cost-** Mr. Hiran requested Authority to consider the total Pre-operative expenses of Rs. 96crs. for the new projects in the Second Control Period including Rs 44 Crs considered towards Metro station and disallowed by the Authority.

5.5 **Authority has allowed only Rs. 857 Crores as Operational Capital Expenditure for the Second Control Period, disallowing Rs.655 Crores-** Mr.Hiran submitted to Authority to consider and allow above costs / increases otherwise MIAL will not have funds to complete these projects.

5.6 Shri Vinod further highlighted the means of finance as below:

	Current Projects Rs. 12,630 Crs	New Projects and Operational Capex – Rs. 2,760 Crs.
Equity		
a. Paid Up Capital	1,200	
a. Internal Accruals (Reserves)	1,166	1,413**
a. Internal Resource Generation	53	
Real Estate deposits (refundable)*	207	-
DF	3,400	518#
Debt	6,604	829
Total	12,630	2,760

5.7 As regards Authority's proposal to protect the paid-up equity rather than the Net Worth, he submitted that R&S comprises of funds belonging to shareholders / equity investors and once deployed by them into the project, such funding should be protected in the same way as equity share capital is protected. He stated that once invested in the project, in no way these funds can be taken out / reduced and therefore any adjustment to the same subsequently on account of future events is completely incorrect. Any subsequent losses though eat into the Reserves and Surplus as per books of accounts, do not in fact reduce the investment already made by the Shareholders.He thus requested the

Authority to protect the internal accruals generation utilized for funding of the project besides Equity.

5.8 With reference to Authority's Proposal that MAT credit has been removed from R&S on the pretext that these are provisions only and MAT credit entitlement does not arise at this stage, he requested not to reduce the R&S by MAT credit entitlement amount.

5.9 Referring to the proposal in the Consultation Paper wherein the Authority has considered Equity Share Capital as Rs 846.15 Crores for FY 2011-12 by ignoring Rs 200 Crores of share application money pending allotment, he submitted that share application money is always considered part of shareholders' funds. He requested to consider the Equity Share application money as part of Equity Share capital for WACC calculation.

5.10 On Authority's Proposal to adopt return on equity (post tax cost of equity) as 16% for the purpose of calculation of WACC, he submitted that Authority should allow Cost of Equity as per the report of KPMG of 23.12%.

5.11 While referring to Authority's Proposal wherein Authority proposes to consider RSD already raised by MIAL as a means of finance at zero cost, Mr. Hiran was of the view that RSD should be treated as Equity or, at the worst, as loan from one business segment to another.

5.12 With reference to Authority's Proposal vide which Authority tentatively decided to consider weighted average cost of debt at 11.64% for FY 2014-15 and 11.06% for FY 16 to FY 19 and the same capped at 11.56%, he submitted that Authority should consider not capping the cost of debt for FY 16 and FY 19 at 11.56% and allow true up based on actual cost.

5.13 Shri Vinod stated that Authority has tentatively decided not to consider Upfront Fee of Rs 153.85 cr. paid to AAI towards Equity. He submitted that SSA precludes Upfront Fee from forming part of the project cost and regulatory asset base but not from Equity and thus excluding Upfront Fee from both project cost and Equity is a case of double jeopardy.

5.14 He therefore requested that Upfront fees should not be reduced from equity share capital. As regards Authority's Proposal wherein Authority proposes that in the year that the terminal 2 is commissioned (FY 2013-14) the remaining balance of DF allowed by the Authority would be adjusted in the RAB, he submitted that Proportionate adjustments should be followed in each year, with balance DF adjustment to be done in FY 16 when project got completed.

5.15 He further submitted that the Authority has tentatively decided to consider RAB for 2014-15 by subtracting Gross value of assets disposed off and without adding back the accumulated depreciation on assets disposed. While the Consultation Paper states that the adjustment pertaining to assets disposed off has been done by reducing WDV from the Gross additions, during the reconciliation process it was noticed that Gross block value and not WDV of assets disposed has been reduced from the Gross additions. The same needs to be rectified.

5.16 With reference to Authority Proposal vide which Authority has proposed the asset allocation ratio of 84.52% for FY 14 against 88.68% submitted by MIAL, he submitted that the revised allocation ratio based on Commercial area for T2 and correct cost of NACIL/Air India relocation should be considered.

5.17 Shri Vinod drew attention to Authority's proposal wherein the Authority has not considered carrying cost which MIAL may have to pay to MoCA when repayment is done. Further, Authority has asked MIAL to reimburse the amount to PSF (SC) Escrow account before release of the Order. He submitted that the Authority while agreeing to consider allowing these reimbursements has not considered carrying cost on Rs.309 crores which MIAL may have to pay. Thus he submitted that the Authority should not insist for reimbursement prior to release of Tariff Order. He submitted that the Authority has not considered reimbursement to be made by MIAL for Capital Work in Progress as at March 2015 in PSF(SC) books amounting to Rs. 17.19 crs. He submitted that Authority needs to consider Rs. 17.19 crores of CWIP as part of reimbursement to be made to PSF (SC). Wherein Authority has not considered a separate tariff component towards reimbursement of capital and operating expenses towards security to be incurred by MIAL, Shri Vinod stated that Security is a sovereign function and in case airport operator is incurring such expenditure, it is for the purpose of performing a sovereign function. If expenses, both capex and opex, are incurred by the airport operator then there is no reason that any tariff which is determined for the purpose of this expenditure, should be subjected to revenue share. He submitted that this will tantamount to undue enrichment of AAI at the cost of airport operator. He therefore requested that security related expenses, both capex and opex being incurred out of PSF (SC) need to be reimbursed to the airport operator through a separate component of the tariff.

5.18 With reference to Authority's Proposal wherein Authority has decided to consider revenues from fuel concessions and ITP services as aeronautical revenues, he submitted that the airport operators themselves do not provide any aeronautical services under the ambit of section 2(a) of AERA Act, 2008 insofar as FTC or ITP is concerned. He further stated that Fuel Hydrant was present even before the privatizing of CSIA and this activity was not included into the list of activities whose income would be treated as aeronautical income.

5.19 While referring to Authority's Proposal wherein Operating expense allocation ratio for Aeronautical and Non-Aeronautical expenses for First Control Period is considered as allocation ratio for Second Control Period, he stated that as per the study done by Cost Auditor for FY 15, Aeronautical: Non- Aeronautical expenses ratio is 92.08% and thus requested to consider the same for Second Control Period.

5.20 As regards Authority's Proposal wherein Authority tentatively proposed to consider working capital interest as Rs 6.30 Crores for Second Control Period, he submitted that the projections submitted by MIAL be considered and provided for true up at the end of the control period.

5.21 While referring to Authority's Proposal wherein Authority has proposed to consider Financing charges as Rs.9.34 Crores for each year in the Second Control Period, he requested that the projections submitted by MIAL be considered and Authority provide for true up at the end of the control period.

5.22 With reference to Authority's Proposal vide which Authority tentatively decided not to allow any collection charges on DF to be part of operating expenditure, he submitted that Authority should either allow pass through of DF collection charges or consider net DF amount (net of collection charges) for calculations since Airport Operator has no other avenue to adjust this cost.

5.23 As regards Authority's Proposal to True-up the actual non-aeronautical revenue at the time of tariff determination for the next control period subject to the projections considered above in respect of non-aeronautical revenue being treated as minimum / floor for the current control period, he submitted that True- up should be done based upon actuals and projections by MIAL should not be considered as minimum/ floor. While indicating that the Shared Till approach as per the SSA encourages growth in non-aeronautical revenues for the Airport Operator, there is a natural incentive for MIAL to strive to increase, and not stifle, its non-aeronautical revenues. Given the safeguard, it is not necessary to use projections of non-aeronautical revenue submitted by MIAL as a minimum / floor since there could be genuine reasons due to which it may not be possible to achieve projections.

5.24 As regards to Authority's Proposal wherein Other income earned such as interest from banks and others, income from investments and others has been considered for cross-subsidising the aeronautical income, he stated that Other income earned by MIAL mainly includes interest income on fixed deposits and dividends from temporary investments, which does not involve provision of any kind of services. Further, under SSA/OMDA, Other Income does not fall under the definition of Revenue Share Assets and therefore should not be considered for cross-subsidization.

5.25 As regards Authority's Proposal vide which Authority has proposed to consider Annual Fee as aeronautical expenditure for the computation of corporate tax paid by MIAL (on aero), he stated that Authority should follow methodology used in example given in SSA and Annual Fee paid to AAI should not be considered as aeronautical expenditure for computation of Corporate Tax.

5.26 As regards Economic Viability of Operations of the airport , Mr. Hiran highlighted that the Authority has proposed to decrease the tariff by 7.20% due to which reserves of MIAL would completely get eroded by end of FY 18. There would be significant strain on cash flows and MIAL would not be able to repay its debt. In view of above, even after 14 years of investment in airport sector, shareholders would not earn any dividend from this investment. On the contrary; reserves would be completely eroded. It is earnestly requested that Authority reviews its decisions to ensure economic viability of airports.

5.27 As regards Authority's Proposal wherein the Authority has proposed to waive landing charges for aircraft with maximum certified capacity of 80 seats for scheduled domestic operators and helicopters, he submitted that providing such waiver in a capacity constrained airport like CSIA, Mumbai would tantamount to strangulating the growth in passenger numbers. He thus requested the Authority to not waive the landing charges for aircraft with maximum certified capacity of 80 seats for scheduled domestic operators and all helicopters. He further indicated that MIAL proposes to introduce a variable tariff plan during the 2nd Control Period.

6. Shri. Satyan Nayar, Secretary General APAO endorsed and fully supported MIAL's proposal. He further submitted that MIAL is also going the way of Delhi Airport and becoming totally unviable which is not good for the sector operations and growth of the airport shall get affected thereby affecting airlines too. MIAL is one of the two biggest airport in the country and thus there is a need to relook at the entire regulatory frame work in a larger picture and make the airport viable.

6.1 He requested the Authority to relook at Proposals No. 8 with regard to Land Monetization which has two components viz. return on real estate deposit and Cross subsidization from the real estate revenue. He submitted that SSA clearly indicated that 30% revenue share asset is subject to cross subsidization and there is no subsidy from non-transferable assets. However the Authority has considered deposit from Real Estate Development as free money and there is no obligation on the part of airport operator to deposit the same for the airport business. However the airport operator has chosen to utilize the funds for airport development, in the overall interest of airport. Mr. Nayar stated that it is rather unfair nor to give any return on such fund which APAO believes is similar to equity in nature. He stated that return equivalent to cost of debt should at least be considered by Authority. Further, since Real Estate Development i.e. the non-transferable asset does not get qualified as revenue share asset, any revenues proceeds from such assets should completely be kept out of cross subsidizations.

6.2 He requested the Authority to relook at the Proposal wherein annual payment to AAI is not accepted as a cost for calculating aeronautical charges but has been considered for tax calculation.

6.3 Regarding the proposal wherein Authority has treated revenue from Fuel Throughput and ITP services as aeronautical revenue, he stated that this was discussed in 1st control period itself and the matter is subjudice. While indicating that in the bidding process, AAI confirmed that Landing, PSF, parking and x-ray charges are aeronautical revenues, he submitted that the service providers are regulated by the Authority and only the concession fee received by MIAL from the fuel supplier and ITP service provider should be treated as non-aeronautical revenue.

6.4 As regards cost of equity, he referred to Section 13(i)(iv) of AERA Act and submitted that the Authority chose to go with the NIFP report and ignored all other studies by expert entities such as SBI CAPS . He drew attention of the Authority to the Consultation Paper of MIAL and the presentation made by Shri Vinod and expressed concern that it appears that total reserve surplus would be getting completely eroded by 2017-19. He stated that even after six years, the share holders of MIAL have not got any dividend and thus investment in the Airport, is not a good/attractive proposal. He humbly requested the Authority to relook at the economic viability and other aspects of the Airport.

6.5 He supported MIAL in respect of the proposal to have separate tariff component for security related capital. As regards computation of WACC, he objected to the treatment of reserves and surplus considered by Authority and requested Authority to relook at the same. He further submitted that there would be written submissions also.

7. Shri. N. Palaniappan, Company Secretary and Sr. Manager Finance submitted that MIAL has considered all additional capex in the second control period as aeronautical in nature which is not acceptable. Detailed study needs to be done by some independent agency on the said aspect, because, all such assets will be considered for calculation of RAB. Shri Vinod confirmed that only aeronautical capex has been submitted by MIALto the Authority for consideration.

7.1 He stated that new project worth Rs.380 cr has been dropped for the current projects and further study requires to be done on feasibility of dropping additional new projects which are proposed in the 2nd control period and which will not enhance the performance of the airport . The Chairperson advised the official to indicate if any non-aero capex has been submitted by airport operator under the aero category which would require to be relooked at.

7.2 Mr. Palaniappan submitted that the Operational Capital Expenditure for 2nd control period earlier projected at Rs.1156cr has now been revised to Rs.1440 cr. As all operational capex also get added to RAB, MIAL will not have incentive to reduce the expenditure and thus the Operational Capex should be capped.

7.3 While referring to the submission of MIAL that due to introduction of service tax, project cost will go up by Rs. 45 cr, he desired to know the reason for Rs. 45 cr CENVAT credit disallowance and enquired as to why the same cannot be set-off against service tax payment of MIAL.

7.4 Mr. Palaniappan stated that the interest rate for 2nd control period has been increased by additional 50bps on the existing rate i.e from current level of 11.06% to a ceiling of 11.56% which seems to be on a bigher side. He further stated that in India, people are presently looking at a scenario of reduction in interest rate, and hence he desired to know as to why AERA should accept the proposal for increase in interest rate as this will lead MIAL to go for a high cost debt without a guarantee from the promoters.

7.5 Mr.Palaniappan submitted that MIAL has considered CSR cost as operating expenses and 100% of the same is apportioned to Aeronautical O&M which is completely against the logic of CSR expense. As per the Companies Act requirements, CSR needs to be spent by the Company from their profits. As O&M expenses is simply allowed as pass through, he requested Authority to build in a certain mechanism , if possible, to cap the same. If not, MIAL will not have any incentive to control the expense and run the airport in an efficient manner.

8. Sh. Amitabh Khosla of IATA submitted that a detailed written submissions would be made. He stated that IATA is in agreement with the principles of Authority. However, the date of implementation of revised tariff in fact appears very ambitious because of the process involved which includes receiving the comments from stakeholders and issuing the final Order.

8.1 He submitted that while truing up ARR for the first control period for the airport, AERA has proposed asset allocation in the ratio 84.52% to aero activity which is significantly high. (proposal No. 3). IATA is concerned with apportionment of common costs. Mr. Khosla stated that as pointed out by Blue Dart, truing up of each element is not correct as there is no incentive to the airport to lower its operation cost especially with regard to bad debt and legal fees allowed as expense.

8.2 He submitted that in the absence of any effective process of benchmarking, IATA supports capping construction cost proposed by Authority to discourage any airport from incurring high construction cost and gold plating. He submitted that AERA should introduce a more advanced approach to assess capital efficiency in major projects through user consultation process and stressed that the protocol for user consultation requires to be reviewed and made extensive.

8.3 Mr. Khosla stated that on project cost escalations, MIAL has submitted that cost increase is out of their control. He submitted that AERA should reject any cost increase, interest during construction and further scrutinize other inflationary costs mentioned. As regards comments of IATA on specific projects proposed in 2nd Control Period, Mr. Khosla indicated that they would submit a detailed written submission. However with specific reference to the project relating to Tunnel under Runway 14/32 which connects T2 and T1 aprons and bussing large volumes of pax, he was of the view that it may not be an effective long term solution. He stated that it may require a redoing of the Master Plan because otherwise it might entail larger costs than required. The Chairperson enquired if IATA has any solution to the problem. Shri

Vinod , MIAL said that IATA was involved in the stakeholder consultation carried out by the airport. IATA reiterated that this was the reason why they are seeking for a review of Consultation Protocol. He further enquired if this project would take care of the long term requirement of the airport or is just an interim measure proposed by the airport. The Authority advised IATA to give a detailed submission and suggest alternates.

8.4 Mr. Khosla supported Blue Dart with regard to cost of debt for 2nd Control Period and queried as to why higher cost of debt is required. He recommended that AERA should look at cost of debt of other infrastructure projects and take a considered view and not true up the cost of debt.

8.5 Mr. Khosla indicated that IATA also supports AERA on treatment of RSD but does not support the proposal on treatment of the balance i.e. to true up the values as and when land is monetized. He was of the view that this does not give any incentive to the airport operator to monetize the balance. As regards cost of equity, Shri Khosla referred to various studies carried out by AERA recommending cost of equity in the range of 11.6 to 14% and indicated that, thus the proposal of Authority to consider 16% as cost of equity in the case of MIAL appears very high.

8.6 With regard to WACC, Mr. Khosla submitted that the same should suitably be reduced in view of comments indicated above regarding cost of debt and equity. On the revenue from non aeronautical services, he was of the view that the forecast could be higher than what is projected by AERA in the Consultation Paper. He noted that AERA acknowledges that non aero revenue from new T2 would be much higher than that projected by MIAL. He requested that such forecast should be considered for tariff determination by Authority instead of a true up later.

8.7 On traffic forecast,, Mr.Khosla stated that IATA believes that it is on the lower side as IATA's analysis for India for the period 2014-19 is around +9.9% per annum average growth in domestic and international sector.

8.8 Mr. Khosla further brought out that IATA supported MIAL's request for exemption from waiver of charges for less than 80 seater aircrafts as he was of the opinion that this would get loaded on to bigger aircrafts and the airport being a constrained one, it would not be a feasible option for the operator.

9. Representative of Kale Logistics stated that he had no specific comments on the Consultation Paper. He however requested the Authority to ensure viability of the airport as it otherwise would hamper growth in cargo sector.

10. Mr. Ujwal Dey of FIA stated that they would be submitting their written submissions. He however stated that there are generally viable and unviable situations such as increase in operating costs etc. faced by airports which should not be passed on to passengers for eg. the metro connectivity line for which DF has been sought and approved is just a line passing though the airport. He was further of the view that the airport operator should explore more means to increase non aeronautical revenue. He expressed that charges such as UDF, DF etc. should be directly collected by the airport and not airlines. Chairperson responded that this would be a new concept and requires to be relooked at, as it would create lot of hassles in collections. Shri Trehan of Jet Airways endorsed FIA's view that the collection charges paid to airlines on account of UDF, DF are minimal. He stated that detailed written submissions would be made by Jet Airways along with FIA.

11. Shri. Samanta, ED Finance of AAI stated that though total figure of RAB has been indicated in the Consultation paper, individual assets wise details of RAB is not available .Presently, as per policy, total DF is being apportioned to all the assets. However, there are certain assets created as part of rehabilitation for either AAI/Air India such as certain assets like control tower created by MIAL in place of the existing tower, cost of which is partly apportioned to MIAL, partly through DF and

partly to AAI. While stating that the asset being partly in the books of MIAL and partly in that of AAI, he desired to know how DF is to be apportioned. He stated that similar problem would be in respect of Air India Installation also. He submitted that DF amount should therefore be apportioned on specific assets basis.

12. Shri Ranjeet Walia of EICI submitted that there are certain revenues which are not always regulated. He stated that as a concessionaire, the concession fees payable to operator is an input cost which is not regulated while as an ISP they are regulated. But there should be guidelines in treating such concession fee.

13. As a response to MIAL's submissions Shri Devaraj, Member stated that the allocation recommended by ICWAI based on Delhi Airport has been considered only because the information submitted about area allocation by MIAL is incomplete. Regarding security cost not included in RAB, he stated that the same could be considered subject to reimbursement to Escrow account by the operator. Shri Bajaj, Member endorsed the same. He said that viability of airport requires to be considered for which he sought justification.

14. Chairperson thanked all the stakeholders for their participation and requested for submission of comments by the timeline fixed by Authority in Consultation Paper.

ANNEXURE - I

List of Participants:-

Airport Economic Regulatory Authority Of India:

1. Shri S. Machendranathan, Chairperson – in Chair
2. Shri Dinesh Chander Bajaj, Member
3. Shri D. Devraj, Member
4. Smt. Radhika R., OSD-II
5. Shri Joy Kuriakose, Deputy Chief
6. Shri R.K Gupta, AGM (F)
7. Shri S. Dey, AGM (F)
8. Shri Mohit Kaushish, Manager (F)

Airport Authority of India(AAI)

9. Shri S. Samantha, ED (F)
10. Smt. V. Vidya, GM (F)
11. Shri Ranjeet Kumar Das, AGM (F)

Association of Private Airports Operators (APAO)

12. Shri Satyan Nayar, Secretary General

Blue Dart Aviation Limited

13. Shri Arun Ahlawat
14. Shri N. Palaniappan, Company Secretary, Manager (F)

Cambata Aviation Pvt. Limited (Cambata)

15. Shri Ram Sahai Verma, Manager (F)
16. Shri C.S Madan

Federation of Indian Airlines

17. Shri Ujjwal Dey, Associate Director

International Air Transport Association (IATA)

18. Shri Amitabh Khosla, Country Director

Jet Airways

19. Shri Mukesh Trehan, GM (F)
20. Ms. Poonam, DGM (F)
21. Shri K. Subramaniam, GM

Mumbai International Airport Pvt. Lmt., (MIAL)

22. Shri Rajeev Jain, CEO
23. Shri Vinod Hiran, Executive VP
24. Shri Sanjiv Bhargawa, VP
25. Shri Raveen Pinto, VP
26. Shri Alok Patni, Senior Manager
27. Ms. Nivritti Bhatt
28. Shri. Ravindra Dalani
29. Shri Rahul Banerjee, GM

Kale Logistics

30. Shri Amar More, CEO

Deloitte

31. Shri Amit Gupta, Consultant
32. Shri Deepankar Malik, Consultant

ANNEXURE-II

Chhatrapati Shivaji
INTERNATIONAL AIRPORT
MUMBAI

GVK

Determination of Aeronautical Tariffs in respect of CSIA, Mumbai for FY15 to FY19

690

Stakeholders' Consultation

T2
MUMBAI

6th April 2016

Appreciation

GVK

We thank the Authority for issuing the comprehensive Consultation Paper on determination of aeronautical tariffs in respect of CSI Airport, Mumbai for the Second Control Period (01.04.2014 - 31.03.2019) for Stakeholders' consultation, after detailed analysis of issues involved.

109

We thank the Authority for giving us an opportunity to present our views on various issues before the Stakeholders.

Caveat

GVK

- This response is based upon our understanding of the Consultation Paper so far and is subject to change on receipt of further / necessary information and clarifications from the Authority.
- This presentation only covers major issues and should not be construed as our acceptance of the other issues not included here.
- MIAL will file its written response to the Consultation Paper on all issues.
- This response is without prejudice to MIAL's stand taken before AERAAT on various matters which are pending.

Issues pending with AERAAT

GVK

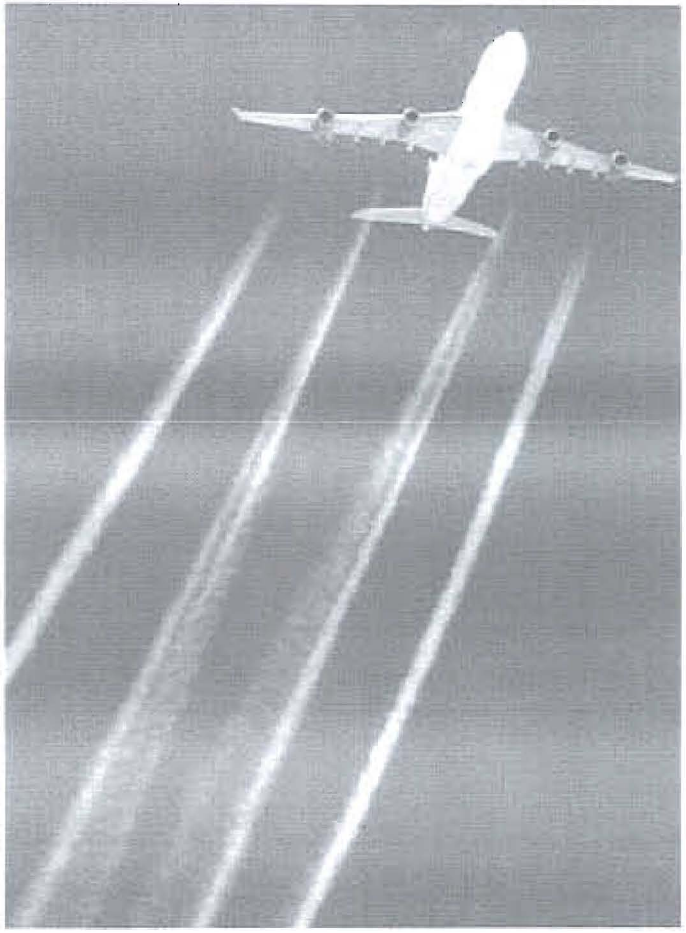
The Authority issued Order No.32/ 2012-13 dated 15th January, 2013 in the matter of determination of aeronautical tariff in respect of CSIA for first control period.

MIAL had approached Hon'ble Airports Economic Regulatory Authority Appellate Tribunal (hereinafter referred as "AERAAT") for certain issues emerging from the aforesaid Order vide Appeal No. 4 of 2013. This presentation is without prejudice to the contentions raised and submissions made by MIAL in appeal before AERAAT. Major issues raised by MIAL in Tariff appeal and still pending are as under :

a) Cost of Equity is considered at 16%.
b) Computation of Hypothetical Asset Base without considering revenue from Revenue Share Assets
c) Considering Demurrage as part of Cargo Income
d) No Return on Real Estate Security Deposits
e) Computation of corporate tax after considering Annual Fee as an expense
f) Upfront Fees paid is reduced from Equity Share capital
g) Treatment of Fuel Throughput Charges as Aeronautical income

Agenda

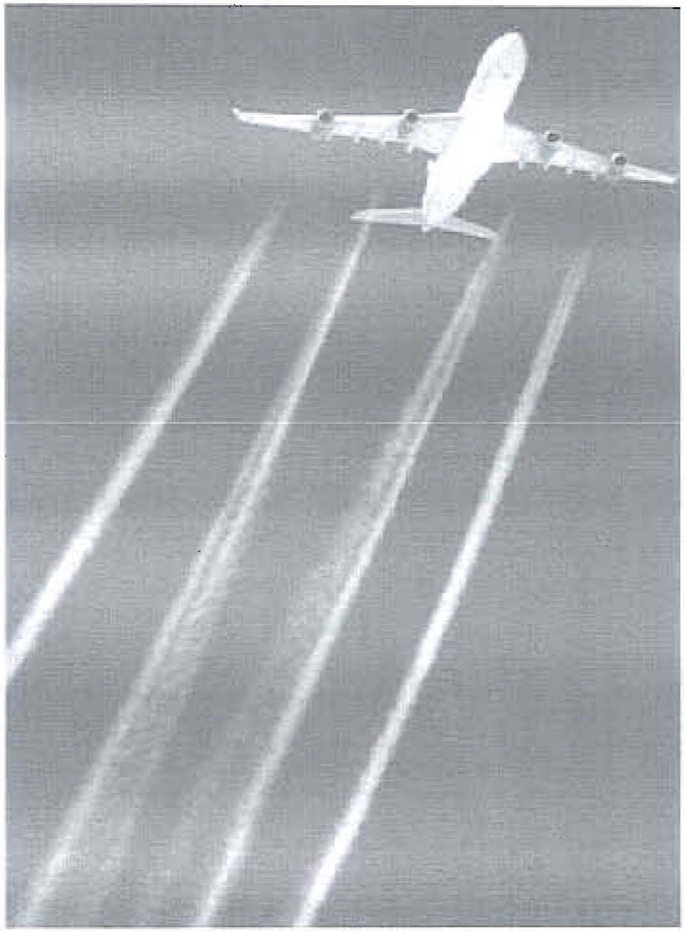
GVK



- Background & CP highlights
- Project Cost & Means of Finance
- Regulatory Asset Base
- Expenditure pertaining to security
- Fuel Throughput Charges & Into Plane
- Operating Expenditure
- Revenue from Rev. Share Assets
- Economic Viability of Operations
- Tariff Rate card and Other Issues

Agenda

GVK



- Background & CP highlights
- Project Cost & Means of Finance
- Regulatory Asset Base
- Expenditure pertaining to security
- Fuel Throughput Charges & Into Plane
- [illegible]
- Revenue from Rev. Share Assets
- Economic Viability of Operation

Background

GVK

- MIAL took over the functions of operation, maintenance, development, design, construction, up-gradation, modernization, finance and management of the CSI Airport, Mumbai (CSIA) from AAI w.e.f. 3rd May 2006

- As part of the Concession granted, the following Project Agreements were executed:
  - Operation, Management and Development Agreement (OMDA);
  - The State Support Agreement (SSA) ;
  - Shareholders' Agreement;
  - CNS-ATM Agreement;
  - Airport Operator Agreement;
  - State Government Support Agreement;
  - The Lease Deed;
  - Substitution Agreement and
  - Escrow Agreement.

606

Background

GVK

- The SSA read with other Project Agreements including OMDA provides the framework for Tariff Determination for CSI Airport, Mumbai

- **Concession Term :** 30 years + 30 years

- **Revenue Share :** MIAL shares 38.7% of Gross Revenue with AAI

607

Principles of Tariff Fixation

GVK

- As per Schedule 6 of the SSA, the Authority is required to set Aeronautical Charges as per principles laid down in Schedule 1, SSA

- As per Schedule 1, the Aeronautical Charges shall be set as per the following principles:
  - **Incentive Based**
  - Commercial – to cover efficient costs**, reasonable return on investment commensurate with risks involved**
  - Transparency in the regulatory process
  - **Consistency** in underlying principles
  - Economic efficiency – tariff regulation limited to areas where monopoly power is exercised
  - Independence of regulator
  - Ensure service quality
  - Acceptance of Master Plan and MDP by Authority as submitted to Government and AAI
  - Major stakeholders to be involved during the consultation process
  - Pricing responsibility

809

SSA Provisions: Tariff determination

GVK

Methodology to calculate Target Revenue (TR) for Aeronautical Services	$TR_i = RAB_i \times WACC_i + OM_i + D_i + T_i - S_i$
Regulatory Base (RB_i) for year i of control period	$RB_i = RB_{i-1} - D_i + I_i$
Hypothetical Regulatory Base (HRAB)	'Computed using the then prevailing tariff and revenues, operations and maintenance cost, corporate tax pertaining to Aeronautical Services at the airport'
Upfront Fee and Annual Fee	No pass through available
Calculation of Tariff increase and X Factor	Existing aeronautical tariffs assumed to increase each year by (CPI-X) X factor calculated such that it equates the present value of the Target Revenue over the control period with the present value of aeronautical revenue at forecast traffic volume
Submission by MIAL	MIAL filed its MYTP on **26th December, 2013** and made changes / presentations on MYTP to Authority as required from time to time. Consultation Paper was released on 16th March 2016

609

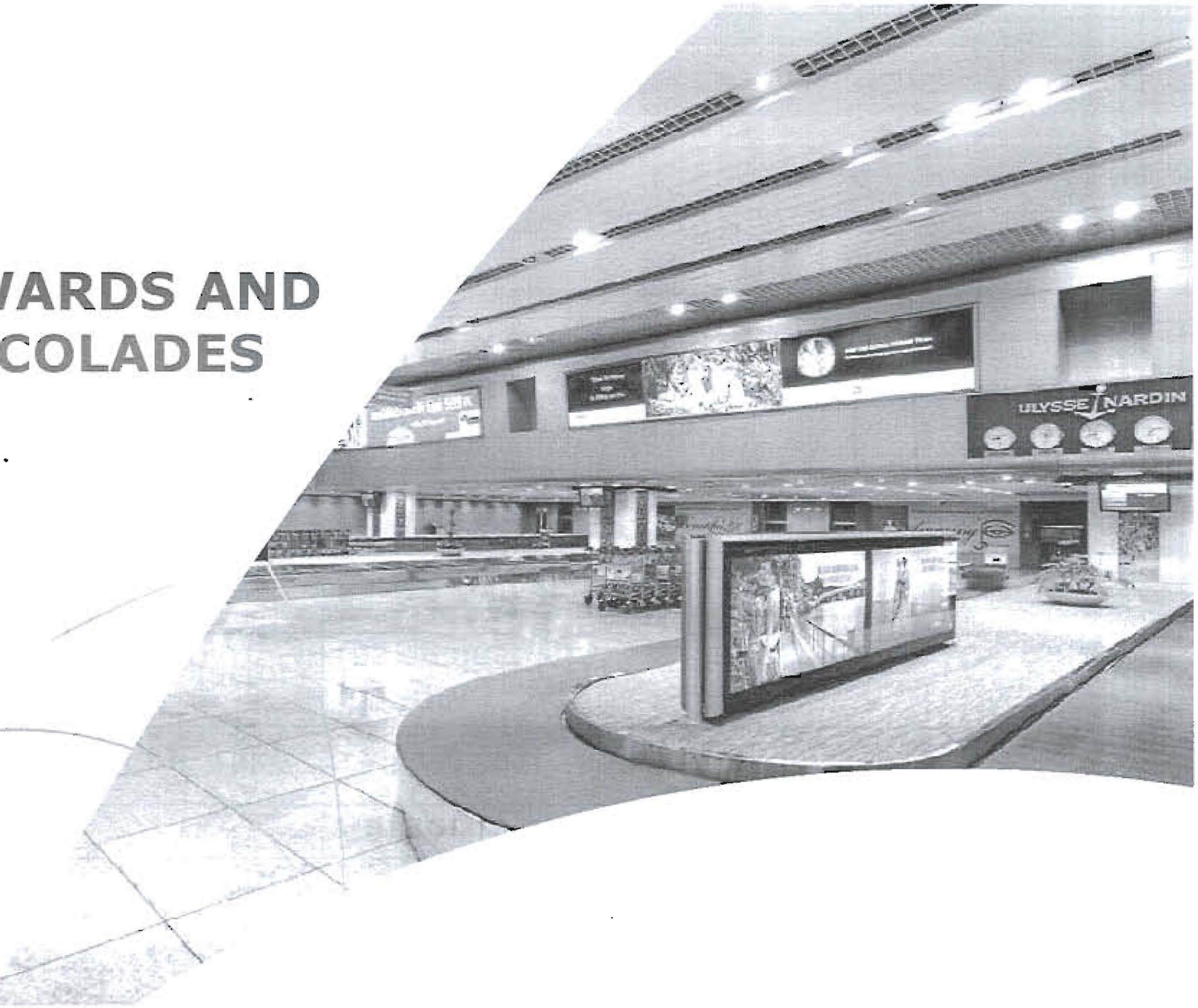
Consultation Paper – Highlights

GVK

Issue	Authority's Proposal
Start date of Tariff Hike	1st May 2016
Tariff Hike (CPI-X factor)	**-7.20%** (as against MIAL's submission of **+ 104.60%**)
Total Project Cost	Rs. 12,630 cr.
Approved Project Cost	Rs. 12,092 cr.
Return on means of finance	Cost of Equity – 16% Debt – At actuals, subject to a ceiling of 11.56% Real Estate Security Deposits – 0%

610

AWARDS AND ACCOLADES



611

Chhatrapati Shivaji
INTERNATIONAL AIRPORT
MUMBAI

GVK

ASQ
2015
WINNER

WORLD'S
#NUMBERONE
AIRPORT

25-40 MILLION PASSENGERS PER YEAR CATEGORY
AIRPORT SERVICE QUALITY AWARDS 2015

THANK YOU
PASSENGERS & STAKEHOLDERS!

Chhatrapati Shivaji
INTERNATIONAL AIRPORT
MUMBAI

GVK

WORLD AIRPORT
SKYTRAX
AWARDS 2016

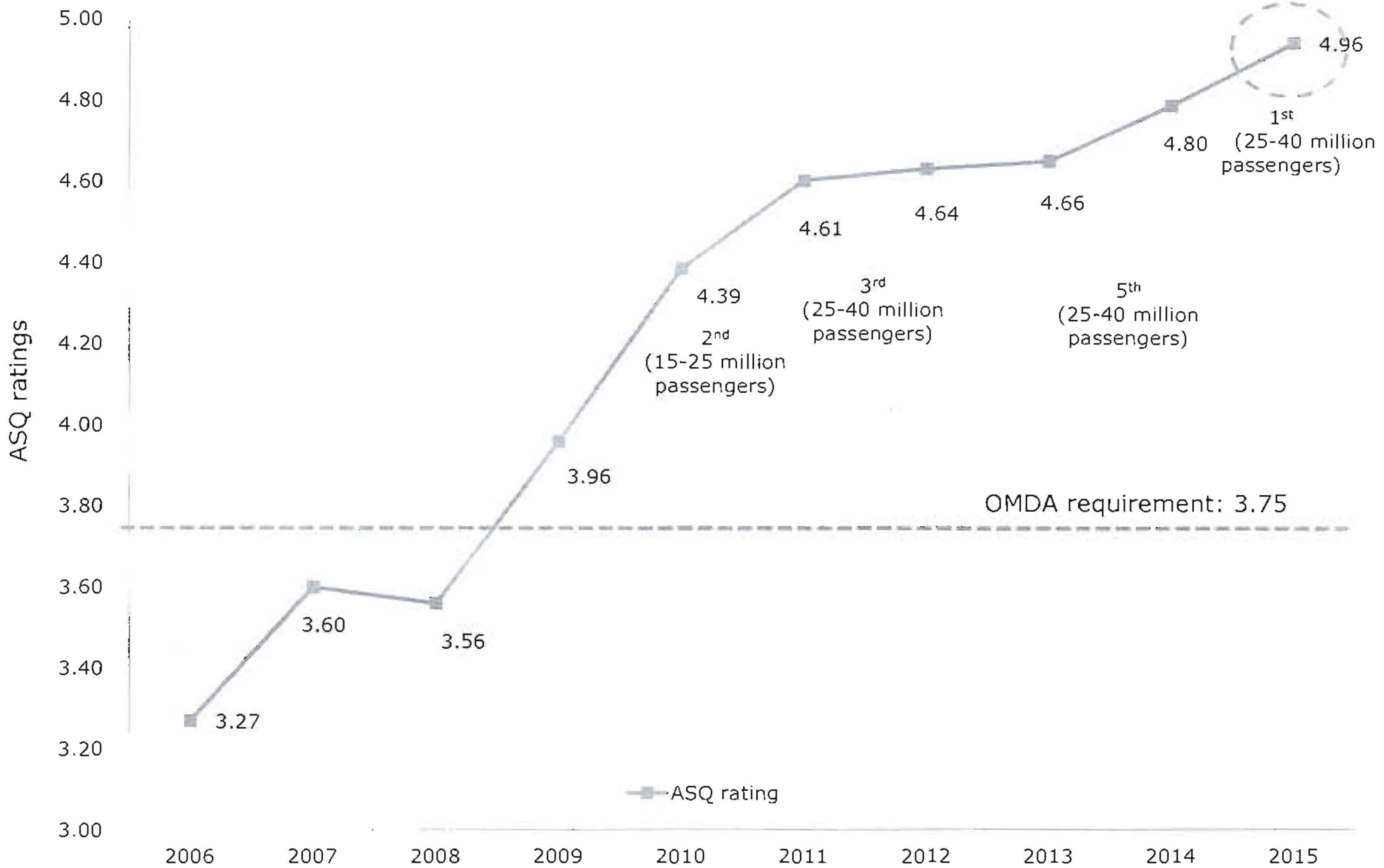
Thank you all for the love.

GVK CSIA has been named THE BEST AIRPORT in Central Asia / India

at the Skytrax World Airport Survey.

613

ASQ Ratings of CSIA



Awards & Accolades

GVK

2015

- Inducted in the elite **ACI Director General's Roll of Excellence for 2015** (amongst the only 3 airports worldwide)
- Rated among the top 5 airports world wide in the category of 25-40 million passengers per annum in ASQ rating by ACI
- Golden Peacock Award for Business Excellence
- Architizer A+ Award in the 'Transportation – Airports' category, 2015 for being one of the best architectural structures in the world
- Platinum A' Design Award 2015 for Architecture, Building and Structural Design of T2
- 'Pranaam-GVK Guest Service' has been awarded the Century International Quality Era award by Business Initiative Directions (BID) Group One
- 3rd among the World's Most Improved Airports and as one of the Top 5 airports in Central Asia by Skytrax World Airports Awards, 2015
- **"India's Best World Class Airport in the Private Sector"** at the Markenomy Awards 2015
- Management Consulting Association (MCA) award for the Best International Project Delivery of 2014

519

Awards & Accolades

GVK

- **'Smart City' - Terminal 2 of Mumbai Airport has helped the city find a place in 'smart city' list of National Geographic**
- 'Smartest Airport Building in India' and the 'Smartest Building in India' at the recently concluded 'Times of India and Honeywell Smart Building Awards' for 2015
- Golden Peacock National Award for Risk Management
- Asia Pacific Airport of the Year 2015 at the CAPA Aviation Awards for Excellence 2015
- Vasundhara Award 2015 by the State Government, for **excellence in environmental conservation**
- **'World's Leading Airport Lounge - First Class' at the World Travel Awards 2015**
- Pranaam GVK Guest Services has been recognized for its service excellence with the 'Best Customer Experience award' by Customer Experience Management (CEM) Asia

616

Airport Charges Worldwide 2014

GVK

No.	Airport	SDR per Passenger
1	London-LHR	58.29
2	New Jersey-EWR	42.29
3	Toronto	40.96
4	Athens	39.31
5	Frankfurt	38.24
6	Zurich	37.05
7	Vancouver	36.24
8	Budapest	34.94
9	Paris-CDG	34.40
10	Auckland	33.85
11	Osaka	33.54
12	New York-JFK	32.20
13	Rome	32.00
14	Moscow	30.88
15	Madrid	30.83
16	Sydney	30.43
17	Amsterdam	30.13
18	Johannesburg	29.16
19	Tokyo	29.12
20	Vienna	28.85
21	Brussels	28.35
22	Mexico City	28.03
23	Milan Malpensa	27.86
24	Berlin	27.68
25	Dublin	25.91

*Source: Leigh Fisher Report on Review of Airport Charges 2014

617

Airport Charges Worldwide 2014

GVK

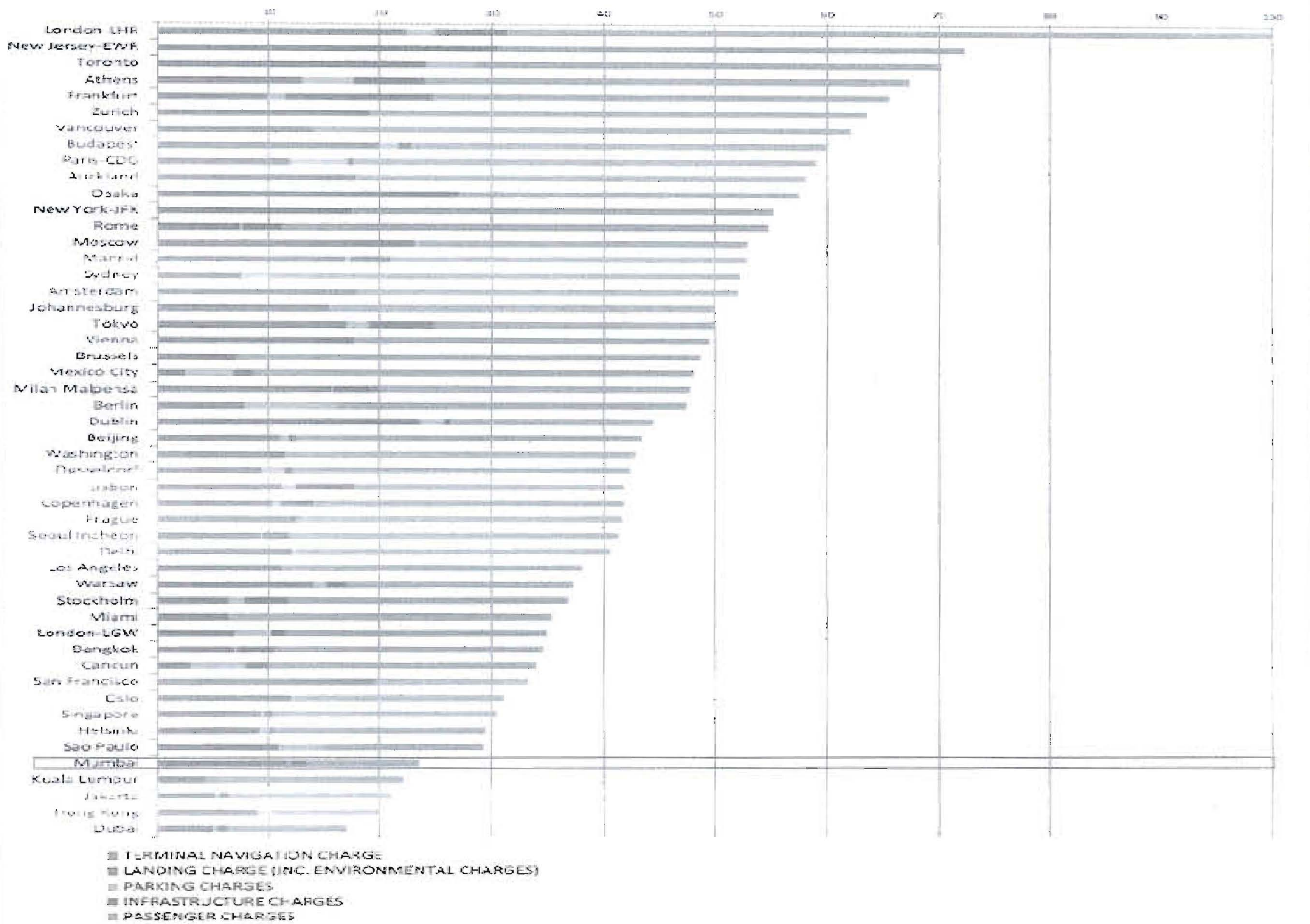
No.	Airport	SDR per Passenger
26	Beijing	25.31
27	Washington Dulles	24.97
28	Dusseldorf	24.70
29	Lisbon	24.41
30	Copenhagen	24.36
31	Prague	24.34
32	Seoul Incheon	24.11
33	Delhi	23.66
34	Los Angeles	22.20
35	Warsaw	21.77
36	Stockholm	21.43
37	London-LGW	20.32
38	Bangkok	20.15
39	Miami	20.15
40	Cancun	19.82
41	San Francisco	19.36
42	Oslo	18.11
43	Singapore	17.77
44	Helsinki	17.10
45	Sao Paulo	16.98
46	**Mumbai**	**13.66**
47	Kuala Lumpur	12.88
48	Jakarta	12.20
49	Hong Kong	11.62
50	Dubai	9.91

618

**Source: LeighFisher Report on Review of Airport Charges 2014*

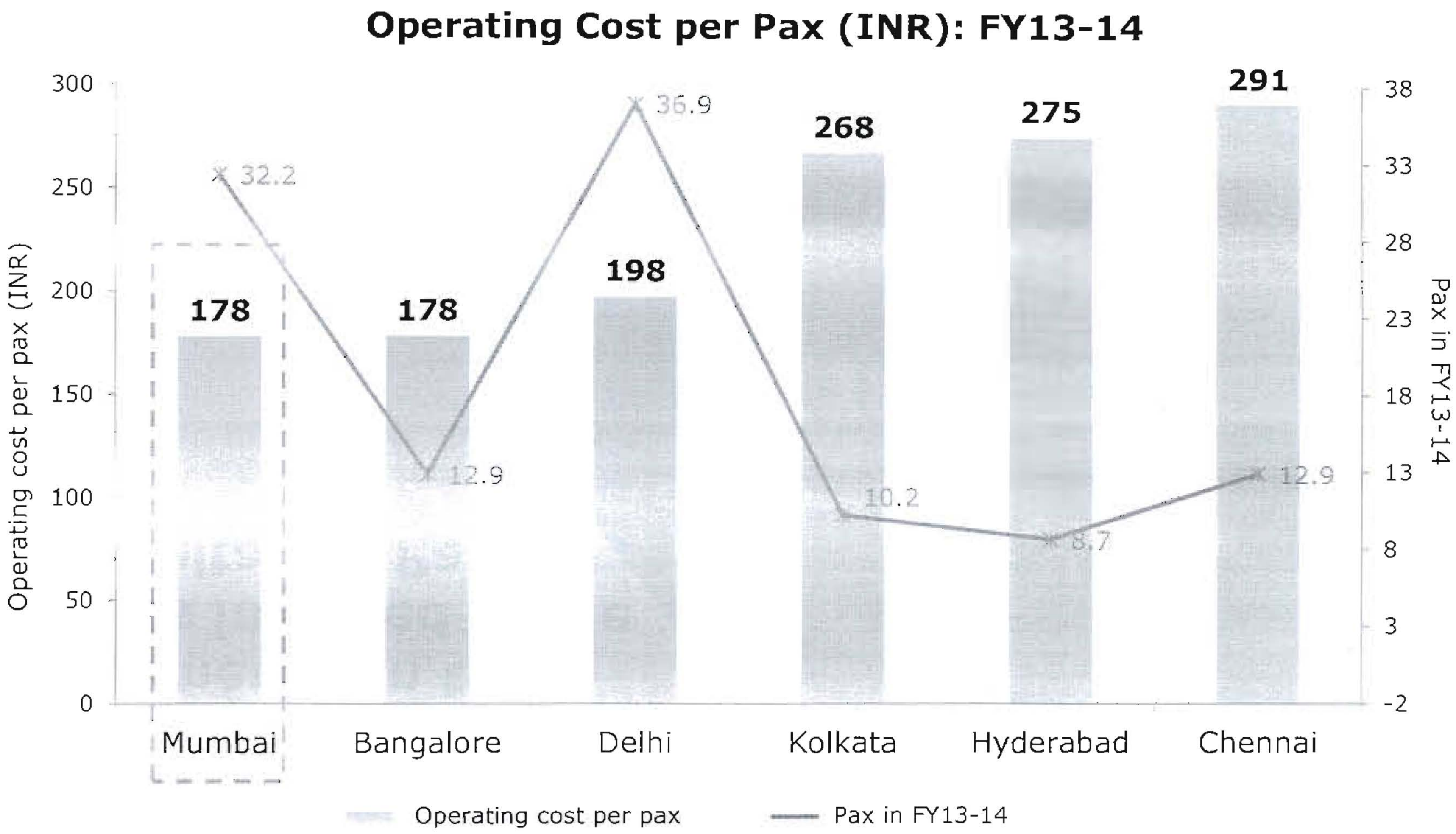
619

Airport Charges Index and Distribution of Charges



Operating Cost of Major Airports in India

GVK



Source: AAI; for PPP Airports: Operating cost as filed with AERA; excludes interest, depreciation and annual fee to AAI

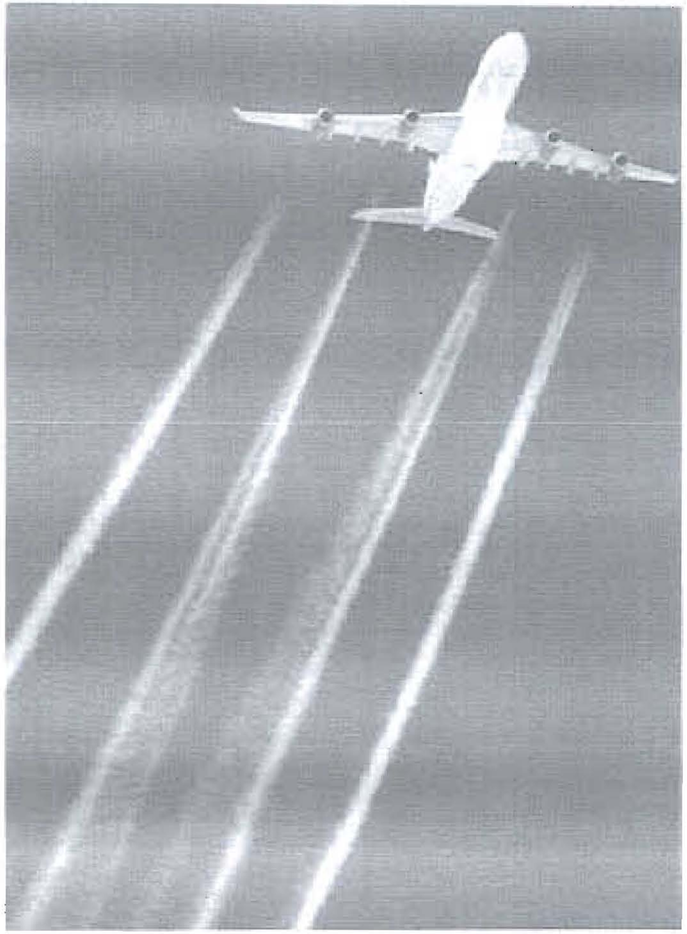
620

Comments on the issues involved in the Consultation Paper

621

Agenda

GVK



- Project Cost & Means of Finance
- Regulatory Asset Base
- Expenditure pertaining to s
- Fuel Throughput Charges &
- Revenue from Rev. Share Asse

622

Agenda

- Background & CP highlights
- Project Cost & Means of Finance
  - Project Cost
  - Means of Finance
  - RAB / Asset Base
- Expenditure pertaining to sec
- Operating Expenditure
- Revenue from Rev. Share Assets
- Economic Viability of Operations
- Tariff Rate card and Other Issues

£23

Project Cost – Disallowance

GVK

In Rs. Cr.

S No	Description	Disallowance	Reasons as per Authority
1.	Increase in IDC	55	Improper planning & co-ordination that resulted in delay
2.	Increase in site overheads for delay from September 2014 to April 2015	39	AAI to justify the detail
3.	Change in scope of T2	184	Cost is in nature of Escalations & Contingencies which was capped by the Authority at Rs. 630 crs. which MIAL has already claimed as increase in Project Cost
	Total	**278***	

*This is in addition to disallowance of Rs. 260 crs (Rs 310- Rs 50 crs) in 1st Control Period

624

Disallowance of Project Cost

GVK

Authority's Proposal No. # 5

1. Disallowance - **Increased IDC of Rs 55 crs. on account of delayed capitalisation of new terminal**

Reasons for reconsideration

- Construction of New Terminal & associated apron pertaining to International Operations was completed on 31st August, 2013 **as per schedule**. **Independent Engineer also confirmed the same and issued completion certificate** accordingly.

- **Commencement of operation (hence capitalisation) was delayed to February 2014, due to following issues which were clearly beyond control of MIAL:**

  a) Delay in settlement of issue of **placement of immigration counters** after security check

  b) Delay in receipt of **security clearance from BCAS** for new Terminal

  c) Delay in completion of **MMRDA portion of Sahar Elevated Access Road**

625

Disallowance of Project Cost

GVK

Reasons for reconsideration

a) Delay in settlement of issue of placement of immigration counter after security check

- The matter could not be resolved at the level of administrative ministry, i.e. MoCA and even in the office of Cabinet Secretary, by Secretary (Coordination). **Ultimately, the matter was taken to Cabinet Committee on Investments chaired by the Hon'ble Prime Minister**.

- Committee decision was taken to continue with configuration implemented by MIAL for which SOPs were to be finalized by BCAS and to be approved by MoCA. **Approved SOPs were issued by MoCA to BCAS on 6th December, 2013** and BCAS forwarded the same to MIAL on 18th December, 2013. There was no possibility of starting operations from the terminal without SOPs being in place.

- Before embarking on new configuration, **all stakeholders including Bureau of Immigration (BoI) were kept informed**. Objections were raised by BoI at very late stage when it was not possible to undo the configuration adopted, resolution of which, took unreasonable time leading to delay in commencement of operations.

626

Disallowance of Project Cost

Reasons for reconsideration

b) Delay in receipt of security clearance from BCAS for new Terminal

- Security clearance from BCAS for new terminal was received only on 24th December, 2013.
- Though application for security clearance was submitted well in advance. BCAS took its own time to give security approval.

627

c) Delay in completion of MMRDA portion of Sahar Elevated Access Road

- Mainly attributable to the **delay in works of Vehicular Underpass at Western Express Highway**, which was dependent on removal and relocation of existing foot over bridge. The foot over bridge was relocated on 13th October 2013 by MMRDA and consequently the vehicular underpass was completed by end December 2013.

Disallowance of Project Cost

GVK

Reasons for reconsideration

- Post resolution of all issues, the New Terminal (T2) was inaugurated by the **Hon'ble Prime Minister of India on 10th January 2014** and has been successfully opened for International operations on 12th February 2014.
- Commissioning of terminal was delayed because of clearances from main regulatory bodies, viz. BoI and BCAS. These reasons were beyond control of MIAL. Further, adequate number of immigration staff were also not available. This issue was also raised by MIAL in 17th OIOC meeting held on 19th December, 2013 under chairmanship of Secretary, MoCA.
- **It is submitted that MIAL had taken all the necessary steps and proactively coordinated with all the agencies for early resolution of the issues and as such delay in commissioning of Terminal is not attributable to MIAL. Thus, increase in IDC cost (Rs 55 Cr) on account of delay in capitalization was beyond control of MIAL and hence, MIAL requests Authority to consider this cost.**

Disallowance of Project Cost

GVK

Authority's Proposal No. # 5

2. Disallowance - **Site overheads due to Time Delay for T2 (Rs 39 cr)**

Reasons for reconsideration

- Site overheads provision of Rs 233 Cr for period up to August 2014 was made in the Project Cost of Rs 12,380 Cr assuming works for International Operations will be completed by August 2013 & Operations will commence from September 2013, works for Domestic Operations will be completed by August 2014 and Operation will commence from September 2014, within one year from commencement of International operations.

- Due to delay in commencement of International Operations as explained above, MIAL could not take up the works for Phase III portion of T2 Building and Apron works for Domestic Operations as planned, which itself impacted planned completion of the Phase III works.

- IE issued commencement certificate with 28th February 2014 as commencement date.

629

Disallowance of Project Cost

GVK

- Additionally, completion of Phase III works was further impacted due to reasons as explained below:

a) <u>7 months delay in shifting old Air India Hangar & Annex facilities by AI</u>:

✓ New Air India facilities : Ready since April'13.

✓ Air India Shifting: Commenced on 26th Nov'13, after delay of 7 months.

✓ Air India shifting & vacating of the existing facilities completed on 30th Jan'14.

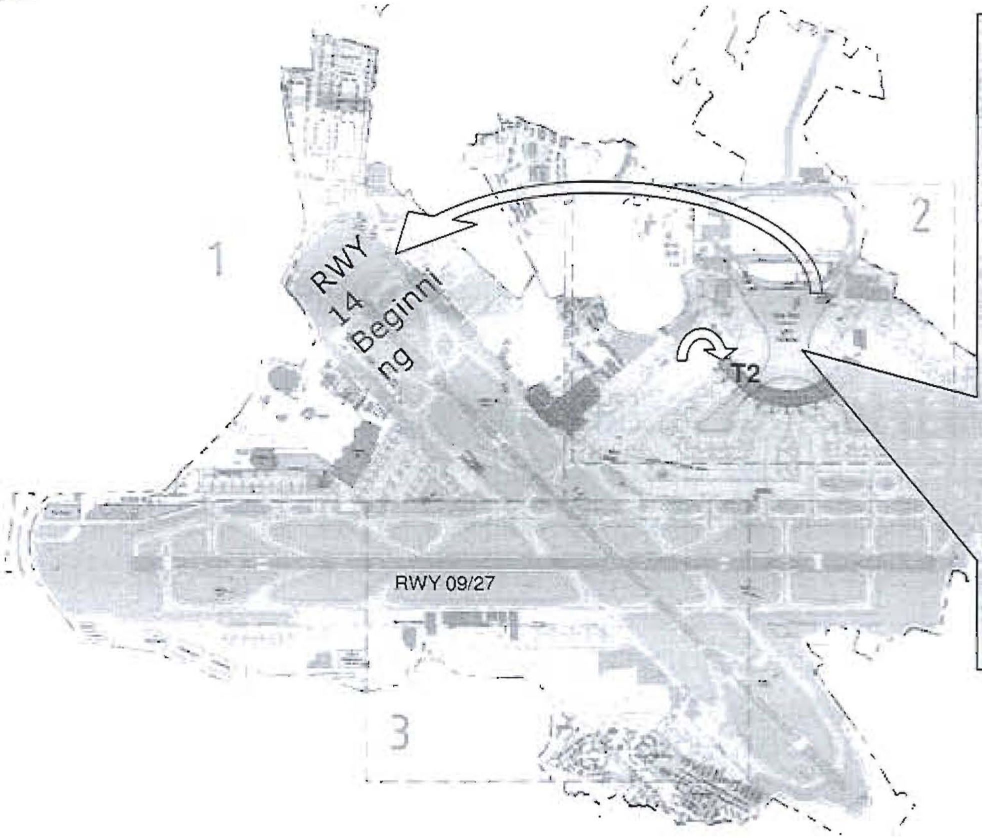
However this handover excluded Live Reliance Power Substation in AI Hangar premises. Demolition of old Air India Hangar & associated facilities was immediately taken up by MIAL for the available area.

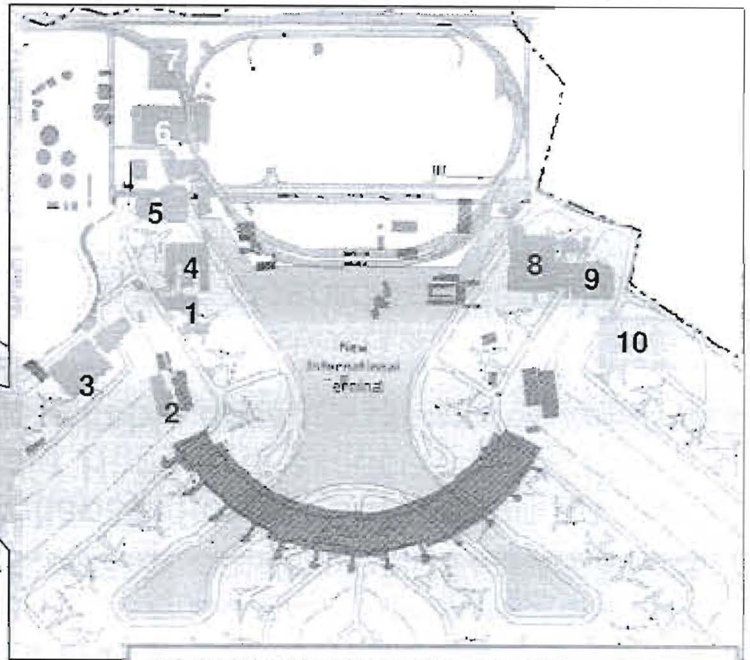
The remaining Reliance Power Substation area was cleared for demolition after the sustained efforts from MIAL by end May'14. Demolition works were finally completed by MIAL & the balance area was made available for apron construction on 17th Jun'14.

630

Overview of AIR INDIA Facilities at CSIA

GVK





STRUCTURES TO BE RELOCATED

1. CENTRALISED KITCHEN (demolished)
2. ROFS BUILDING (relocated)
3. NACIL-A GSD FACILITIES
4. TRANSPORT WORKSHOP
5. ENGINEERING MAINTAINANANCE BUILDING
6. CHEFAIR
7. CABIN CATERING
8. CODE E – AIRCRAFT HANGAR (relocated)
9. CODE C- AIRCRAFT HANGAR (relocated)
10. ENGINE RUN UP BAY (relocated)

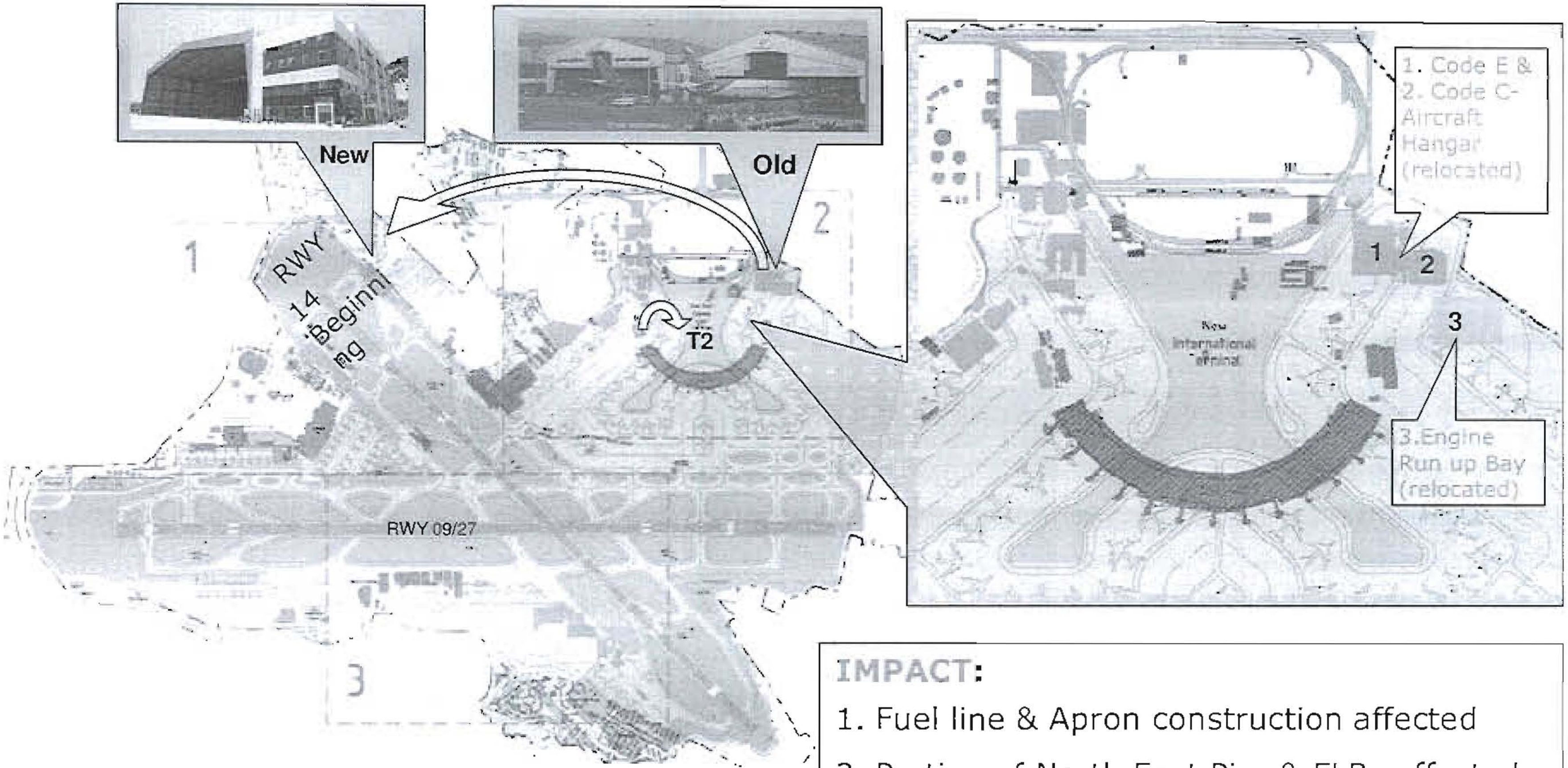
<u>NEED FOR RELOCATION OF AIR INDIA FACILITES</u>

1. AIR INDIA FACILITIES OBSTRUCT AND FALL ON AIRPORT MASTERPLAN
2. THEY ARE FALLING ON THE CRITICAL PATH OF T2 COMPLETION
3. AIR INDIA FACILITIES ARE SCATTERED, HENCE THE LANDUSE IS NOT ECONOMICAL

NEW FACILITIES WILL PROVIDE BETTER AVIATION SUPPORT FOR THE AIRPORT

Delay by Air India in shifting of old AI Hangar & associated facilities on East of T2

GVK



IMPACT:

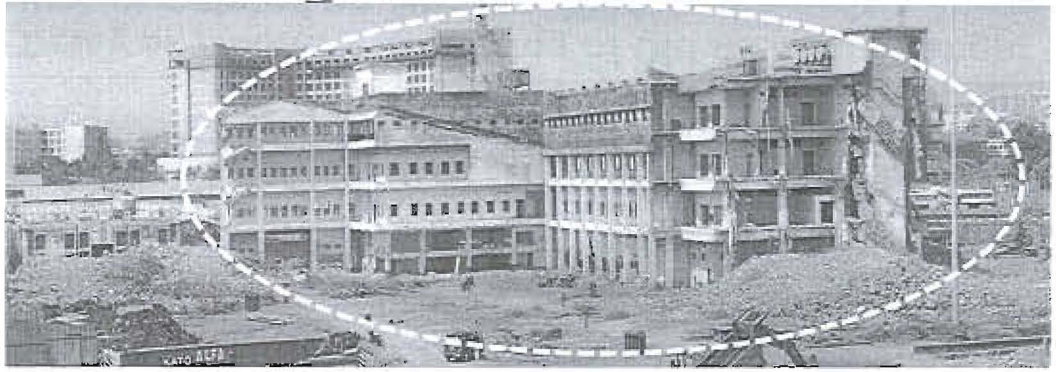
1. Fuel line & Apron construction affected
2. Portion of North East Pier & FLBs affected

Delay of 7months in shifting of Old Air India Hangar & Annex Facilities by Air India which was completed on 30th Jan'2014.

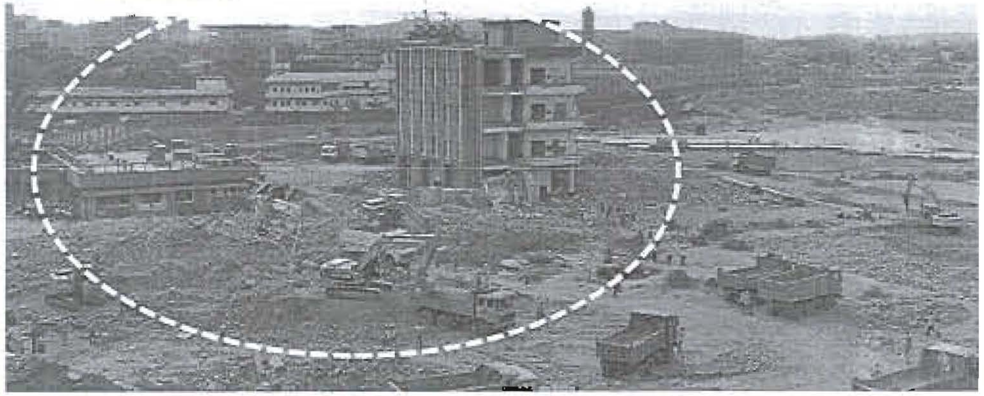
632

Apron area impacted due to old Air India Hangar Facilities

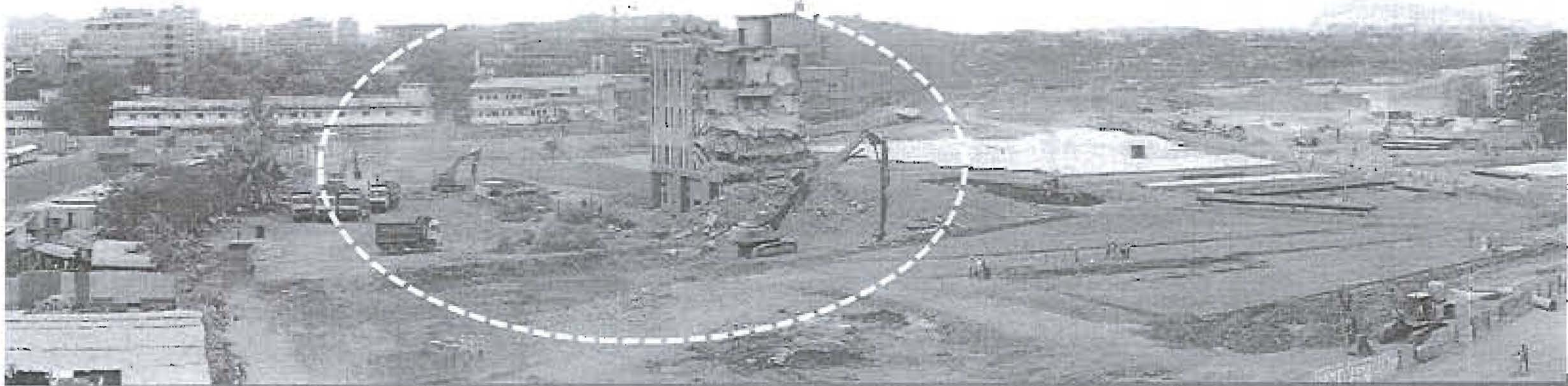
GVK



1



2



3

633

Disallowance of Project Cost

GVK

b) 4 months delay in handing over of Old International Terminal T2 B/C to MIAL for demolition by various Stakeholders:

- Old International Terminal T2 B/C building was planned to be vacated and handed over to MIAL for demolition by 28th Feb'2014. However this building was not completely vacated, since the **assets belonging to Airports Authority** could not be scrapped in time for want of approvals. However MIAL assets had been removed from the building premises, which facilitated the demolition in part portion of old T2 B/C.
- Further there were hindrances like **Police Cabin, RTO Cabin, Customs Strong Room, Prayer Area room** etc. belonging to various stakeholders, which had not been vacated & were impacting demolition/ subsequent construction.
- The Old International Terminal was finally vacated and handed over completely for demolition by end Jun'2014, **resulting in 4 months delay in Phase III construction works.**

C 34

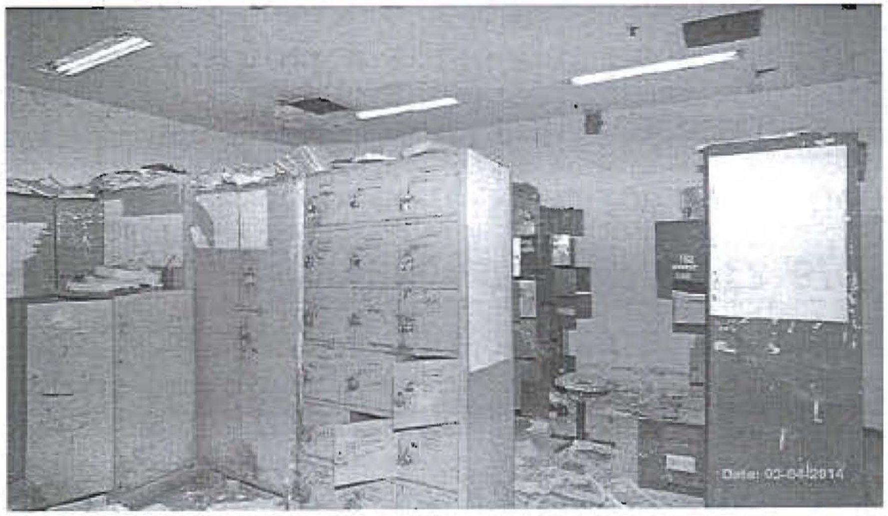
Hindrances in vacating T2 B/C – Area Handing over from stake holders

GVK

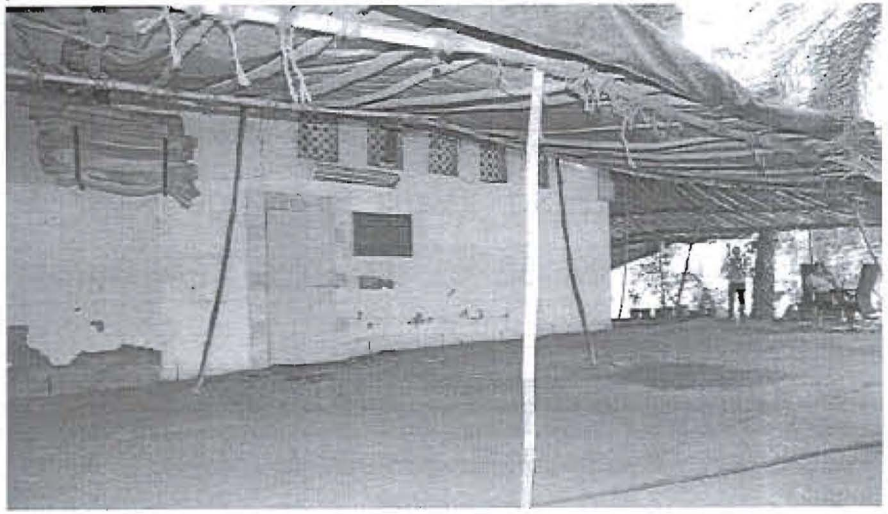
Delay of 4 months in handing over of old International Terminal 2 B/C for demolition by various stakeholders

IMPACT: Construction of Apron & South East Pier of T2 affected

Mumbai Customs Department Offices & Assets



Mumbai Customs Department Assets



Prayer room below T2 B/C Upramp

635

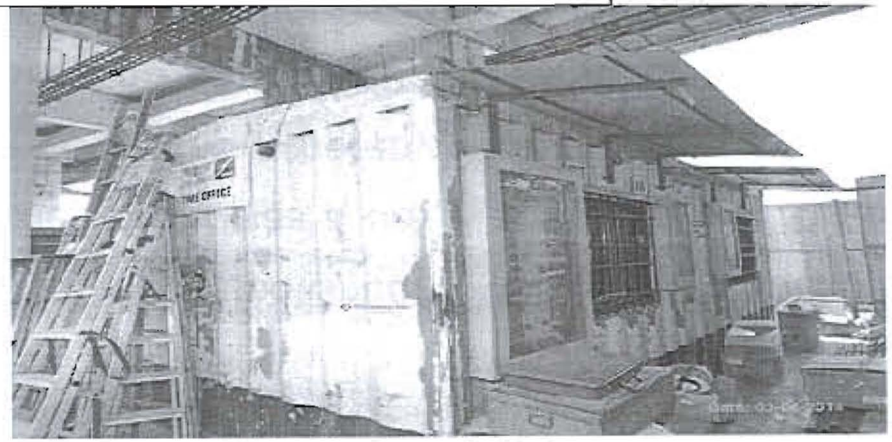
Hindrances in vacating T2 B/C – Area Handing over from stake holders

GVK

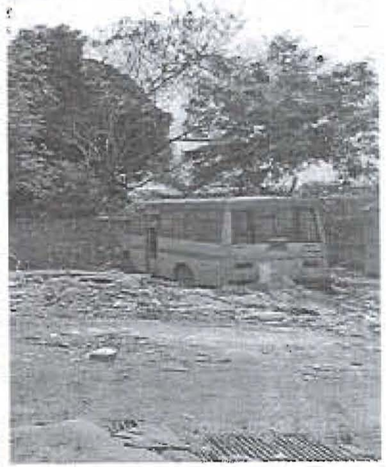
Delay of 4 months in handing over of old International Terminal 2 B/C for demolition by various stakeholders

IMPACT: Construction of Apron & South East Pier of T2 affected

RTO cabin below T2 B/C Upramp & assets



Ground Service Depot Cabins & assets



Other stakeholders material & assets

GVK

c) <u>10 months delay in shifting of prayer area (mosque) located below old International Terminal T2 B/C Up ramp</u>:

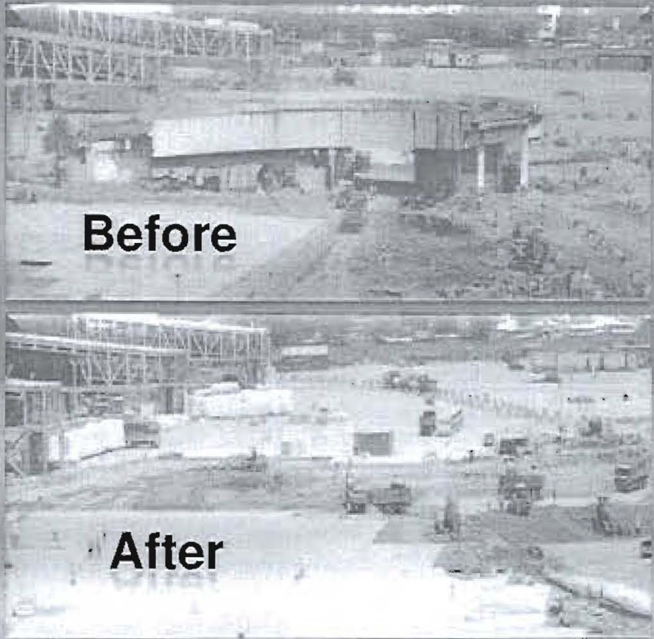
- Demolition of old International Terminal T2 B/C was completed, except for a portion of Up ramp constrained due to the existence of a prayer area (Mosque) underneath. The clearance for demolition of this remaining portion of Up-ramp, was received on 6th Feb'2015. Accordingly demolition works were immediately completed and the area was handed over for construction by 8th Mar'2015.
- The entire Up-ramp was planned to be demolished & handed over for construction by 1st April 2014. Hence there was a delay of more than 10 months in demolition of the Up-ramp thereby **impacting the construction of a portion of Apron on east of T2, fuel line works & completion of FLB V30.**

632

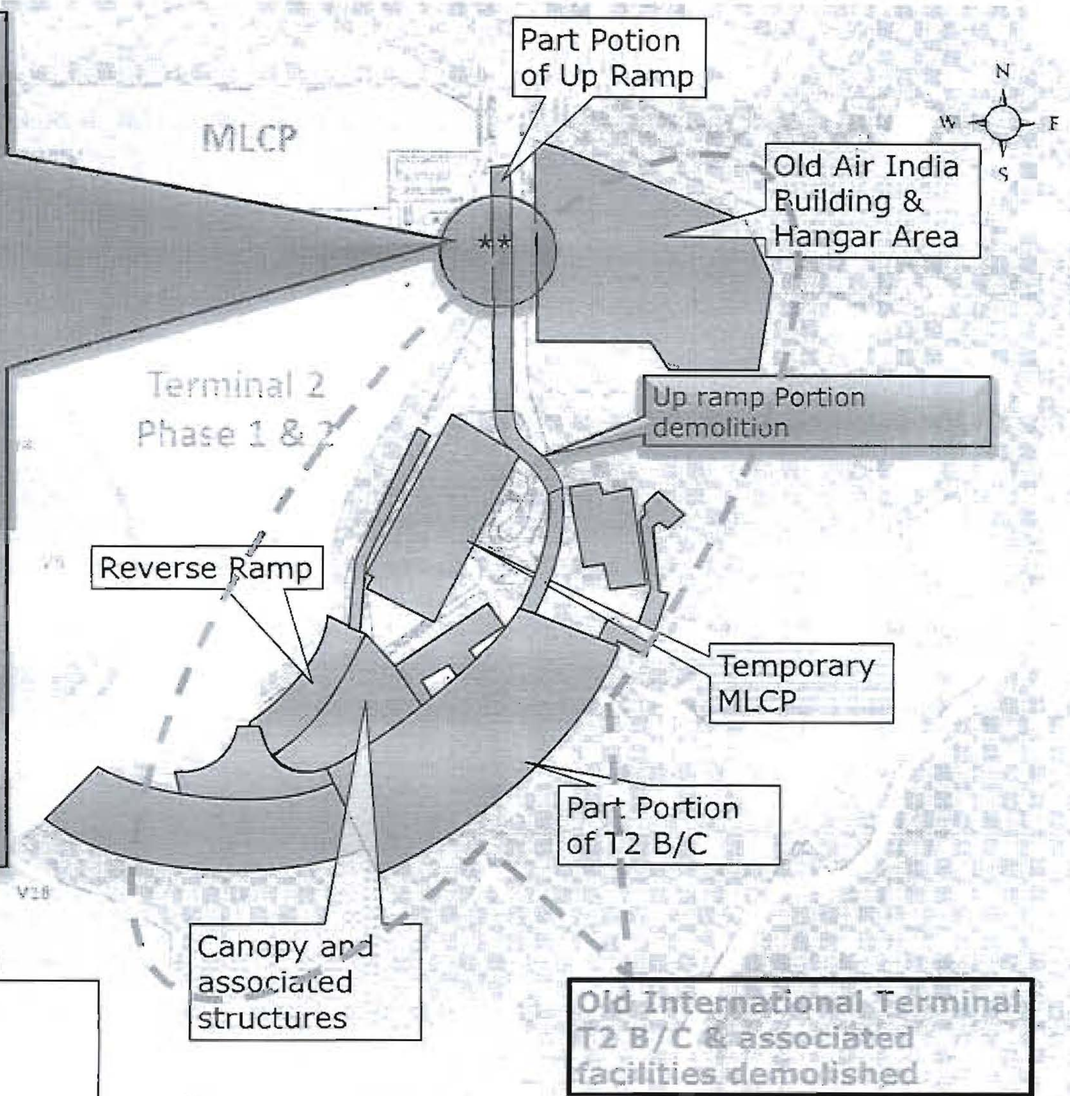
Delay of 10 months in shifting of Prayer Area (Mosque) located below the old T2 B/C Up ramp

GVK

** Part portion of Up ramp delayed due to Prayer area (Mosque), affecting Apron & associated portion of North East Pier.



Up ramp Planned demolition completion – Apr'2014
Up ramp Actual demolition completed – Mar'2015

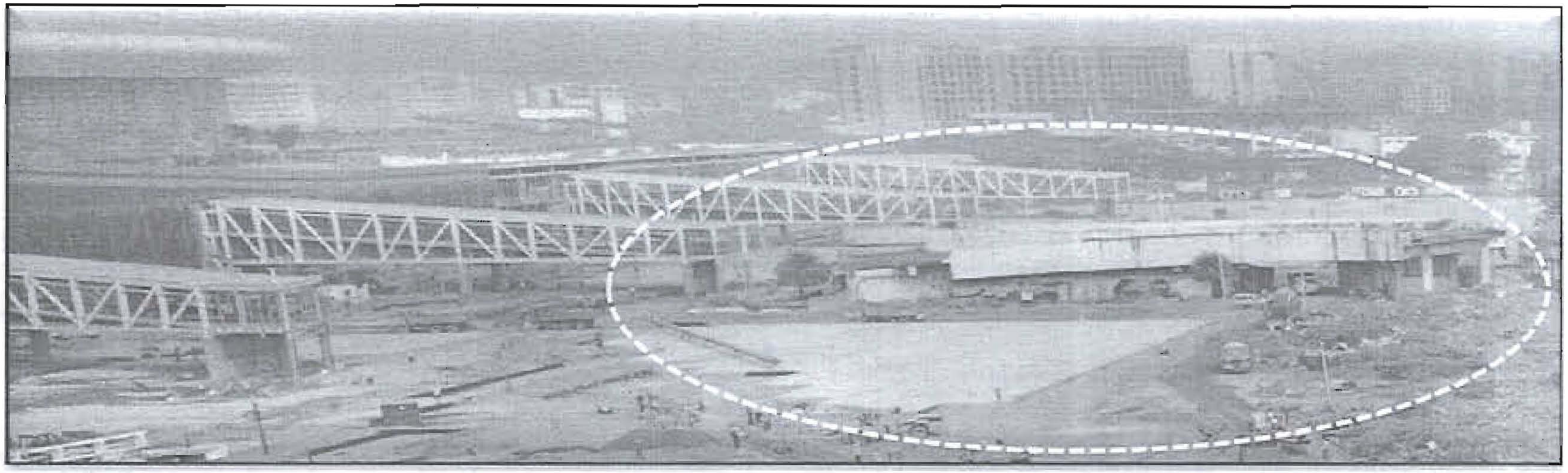


IMPACT:

1. Fuel Line & Apron construction affected
2. Portion of North East Pier & FLBs affected

638

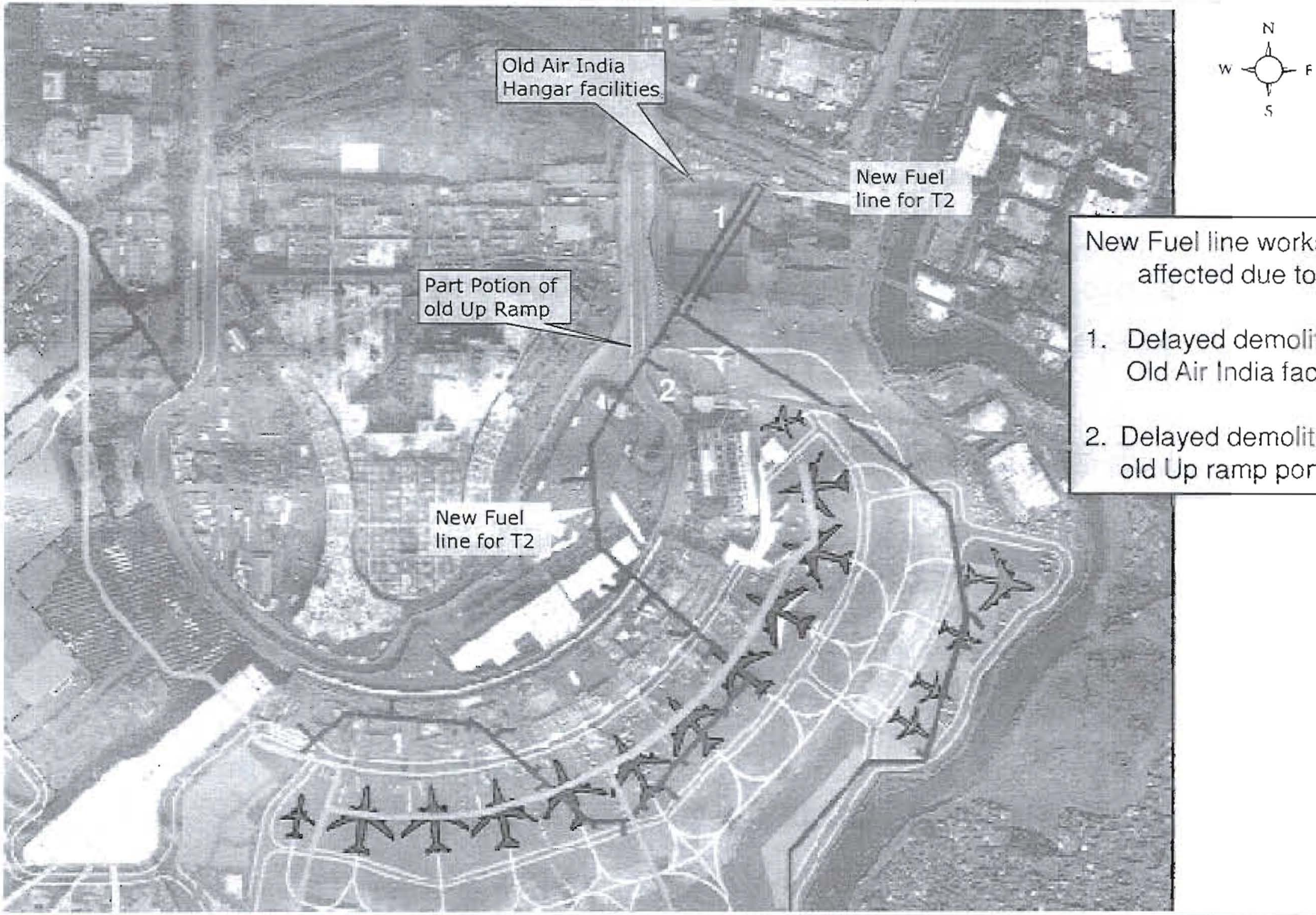
Old T2 B/C Up ramp demolition – Constrained by prayer area (mosque)



639

Impact on Phase III Fuel line works

GVK



New Fuel line works affected due to ;

1. Delayed demolition of Old Air India facilities.
2. Delayed demolition of old Up ramp portion.

049

Disallowance of Project Cost

GVK

- Due to above stated reasons, **Terminal T2 Building & Apron areas required for commencing Domestic Operations got delayed** and were finally completed on 10 September 2015 and 31st August 2015, respectively.

- MIAL have regularly informed about such delays to Independent Engineer / AAI through monthly progress reports and also separately communicated to AAI vide MIAL letters:

  MC0030/M/L/0000/CT/GN/0076 dated 14th May 2014,
  MC0030/M/L/0000/CT/GN/0094 dated 13th November 2014,
  MC0030/M/L/0000/CT/GN/0097 dated 16th December 2014,
  MC0030/M/L/0000/CT/GN/0099 dated 19th February 2015,
  MC0030/M/L/0000/CT/GN/0101 dated 30th April 2015.

- **Due to this delay in completion, MIAL had incurred additional cost on account of site overhead, of Rs 39 Cr over and above budget provision. It can be seen from the details that there were external constraints which were beyond control of MIAL and delay was not attributable to MIAL. Hence MIAL should not be penalize without any of its fault and Authority should allow this cost.**

649

Disallowance of Project Cost

GVK

Reasons for reconsideration

3. Disallowance - Change in scope of T2 – Rs 184 cr.

- Provision of Rs 630 Cr made towards Escalation, Contingencies & Claims in approved Project Cost (Cap by AERA).

- Considering the complexities of the project of such magnitude, reasonableness / reasons of all such actual costs needs be taken into account.

- The increase in cost, due to increase in scope, quantities, and rates of some of the items / works, additional scope which arose on account of site conditions and due to many unforeseen events due to complexities of project. The total cost towards Escalation, Contingencies & Claims now works out to Rs 754 Cr (Rs 630 Cr + increase of Rs 184 Cr – savings of Rs 60 Cr). Thus, effective increase is Rs 124 Cr. only.

- The overall % age of this cost vis-à-vis total project cost of Rs 12,630 Cr works out to be **5.97%, which is reasonable** considering quantum & magnitude of the project.

642

Disallowance of Project Cost

GVK

- While Authority has accepted and appropriated savings of Rs 60 Cr on account of ATC equipment cost, it has disallowed the other increase in costs of Rs 184 Cr. On net basis increase is Rs 124 Cr only and not Rs 184 Cr considered by the Authority

- In order to ensure that project cost does not increase in spite of additional costs an elaborate exercise was undertaken by the MIAL Board and as per its advice, without compromising the overall project capability, the projects aggregating Rs. 380 Cr were dropped. With such increases coupled with savings / reduction, the final project cost upto that stage, has been contained at Rs.12380 Cr

- Details of each and every increase along with justification has already been submitted to the Authority.

- **In view of above, MIAL requests Authority to consider and allow this cost of Rs. 184 Cr as part of approved Project Cost.**

649

Project Cost - New Projects

GVK

Authority's Proposal No. # 5

- Pre-operative expenses allocated to Metro stations is not considered

Reasons for reconsideration

- Authority has not considered the Pre-operative expenses allocated to the Metro stations amounting to Rs. 44 Crs.
- It may be noted that MIAL has considered total Pre-operative expenses of Rs. 96 Crs. for all the new projects and then apportioned onto various projects.
- Total amount of pre-operative expenses to be incurred do not change even if a project is funded through DF since most of them are in the nature of establishment cost. Such Pre-operative expense should be allowed by allocating it over the remaining projects.

MIAL submission

Authority is requested to consider the total Pre-operative expenses of Rs. 96 crs. for the new projects in the Second Control Period including Rs 44 Crs considered towards Metro station and disallowed by the Authority

649

Project Cost - Operations Capital Expenditure GVK

Authority's Proposal No. # 5.d

- Authority has allowed only Rs. 857 Crores as Operational Capital Expenditure for the Second Control Period, disallowing Rs.655 Crores.

Reasons for reconsideration

- MIAL has proposed to the Authority operational capital expenditure amounting to Rs. 1,169 crs. along with CWIP as at 31st March 2015 of Rs. 343 crs.

645

- Authority has not considered the following Operational capital expenditure out of the above:-

Sr. No.	Disallowance by the Authority	Rs. in Crs.
1	Development of Airside perimeter roads	32
2	Provision of 5 MVA sub-station at Gaondevi area	5
3	Terminal 1 refurbishment	85
4	Construction of 2 parallel Code C taxiway - T2 Apron	23
5	Miscellaneous expenses (detailed list submitted)	112
6	Short provision considered for allowed Capex	55
7	Closing CWIP of FY 15 not considered	343
	Total Operational capital expenditure not considered	**655**

Sr. No.	Disallowance by the Authority	Rs. in Crs.	Requirement of the Project
1	Development of Airside perimeter roads	32	Existing Perimeter Roads inside operational area are of Bituminous Pavement & more than 30 years old. During Monsoon at many locations Potholes/Cracks/ Depressions are observed due to Poor Base Course & worn out wearing course. Due to these defects inconvenience is caused to the Vehicular movement of all stakeholders' vehicles. Inconvenience caused to stakeholders shall be minimized with such development. MIAL has proposed to Construct Cement Concrete Roads inside operational area as a Long Term solution to resolve the Pothole/Patches problem on Airside Roads. **Though Authority believes that this expenditure is not capital but revenue in nature** since there is already operational roads, it is reiterated that Repairs shall not be a feasible solution due to generation of FOD which reach apron along with vehicle tyres, are likely to get ingested by the jet engines and cause damage to the engines. Hence even if the Authority does not wish to allow the expense on development of airside perimeter road and allow such expense under Repairs and Maintenance, this entire amount need to be **considered under O&M expenses.**

Sr. No.	Disallowance by the Authority	Rs. in Crs.	Requirement of the Project
2	Cost of construction of MT work shop, Civil stores, GSE area for domestic operators, Civil Maint. facility, Navy facilities with provision of 5 MVA sub-station at Gaondevi area	5	The present location of **MT work shop, Civil stores, GSE area for domestic operators, Civil Maintenance facility, Navy facilities** are coming in the way of runway strip 14-32 **and** is a **DGCA non-compliance** issue and are also **in the alignment of proposed TWY 'W'** hence MIAL needs to relocate these facilities to Gaondevi area. Since currently MIAL does not have any sub-station in Gaondevi area a new sub-station is required so that electricity can be provided to these facilities. The cost includes both civil cost of construction of facilities as well as construction of new sub-station including sub-station equipments.
3	Terminal 1 refurbishment	85	Existing building is very old and there after many modifications were done, presently few portion are structurally unsafe. Refurbishment is necessary in light of realignment of operation after shifting of major domestic operations to T2.

647

Project Cost - Operations Capital Expenditure GVK

Sr. No.	Disallowance by the Authority	Rs. in Crs.	Requirement of the Project
4	Construction of 2 parallel Code C taxiway - T2 Apron	23	**Project has already been completed and two code C Taxiways at SE Pier apron have been put into operation.** Due to non availability of dual taxiways at this apron, movement of aircraft to and from this apron would have been severely restricted. Considering the fact that this part of T2 apron would mainly be used by code C aircraft (narrow body), MIAL constructed 2 code C taxiways in addition to the existing code E taxiway. Hence, provision of adequate taxiway network around South East pier will ease operational constraints and ground delays.

Project Cost - Operations Capital Expenditure GVK

5	Miscellaneous expenses	112	MIAL has submitted item wise list to the Authority of miscellaneous expenses of Rs. 112 crs. MIAL requests the Authority to consider these items as detailed below since most of them are very critical for airport operations and non availability of funds for these projects would adversely affect efficient airport operations.

Miscellaneous Capital expenditure for the second control period (FY 15-FY19)

Sl. No.	Project	Amount (Rs. In Crs.)
1	Construction of TWY K1 and K3	25
2	Conversion of taxiway E-1 from Code E to Code F	17
3	Apron A – Re-strengthing	7
4	Energy conservation equipments	6
5	Re-carpeting of RWY 14-32	6
6	Replacement of High Mast	5
7	Ops View and Ops Analyser software applications	4
8	Provision of Ozone deodorizer units in Passenger washrooms at Terminal	3
9	Provision of offices/ stores at New T2	3
10	Domestic Terminal – Gas supply installations and readiness	3
11	Bird scaring sonic automated device	3
12	Others	30
	Total	**112**

649

Project Cost - Operations Capital Expenditure GVK

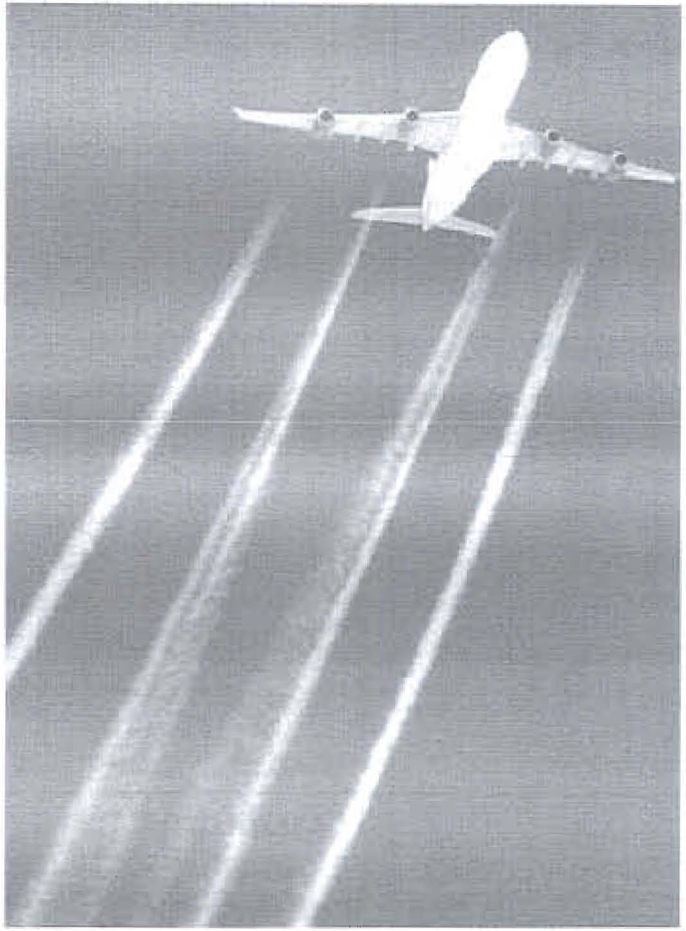
Sr. No.	Disallowance by the Authority	Rs. in Crs.	Requirement of the Project
6	Short provision considered in respect of allowed items	55	Increase in cost, in some of the projects is not being considered by the Authority, as detailed below: (a) Increase in service tax - Tunnel under Runway 14/32 – Rs. 18 crs. (b) Change in scope : i. Reconstruction of Apron "C" Rs. 26 crs. ii. Additional baggage reclaim carousals at T2 Rs. 21 crs. iii. Reduction in other assets- net (Rs. 10 crs.)
7	Closing Capital work in Progress in FY 15	343	Closing CWIP as at March 2015 represents projects which are already under construction, but has not been considered by the Authority. Out of Rs 343 crs, aeronautical assets are about Rs. 120 crs. Major aeronautical capital expenditure are: (a) Mithi River RCC Retaining Wall – Rs. 21.69 crs (b) CPWD Residential Quarters – Rs. 20.41 crs (c) Settlement of Land – Rs. 16.72 crs (d) Yellow Fever Hospital – Rs. 6.59 crs (e) Other - Rs. 54.59 crs
	Total	**655**	

Authority is requested to consider and allow above costs / increases otherwise MIAL will not have funds to complete these projects.

259

Agenda

GVK



Background & CP highlights

Project Cost & Means of Finance

Means of Finance

Expenditure pertaining to security

Operating Expenditure

Revenue from Rev. Share Assets

159

Means of Finance

GVK

	Current Projects - Rs 12,630 Crs.	New Projects and Operational Capex - Rs. 2,760 Crs.
Equity		
a. Paid Up Capital	1,200	-
a. Internal Accruals (Reserves)	1,166	1,413**
a. Internal Resource Generation	53	
Real Estate deposits (refundable)*	207	-
DF	3,400	518#
Debt	6,604	829
Total	**12,630**	**2,760**

*Carrying interest at weighted average cost of debt of MIAL to be charged by Real Estate division to airport division.

** Estimated based on MIAL's MYTP submission.

#Metro rail stations contribution of Rs.518 crores included in the New projects aggregating Rs. 1320 crs. is being funded through Development Fees (DF).

Reserves and Surplus – Reduction due to losses

GVK

Authority's Proposal #Para 10.11

Authority has decided to protect the paid-up equity rather than the Net Worth

Reasons for reconsideration

- A project is funded through a combination of various means of finance such as Equity Share capital, Reserves & Surplus (R&S), Debt, Deposits, etc.
- R&S comprises of funds belonging to shareholders / equity investors and once deployed by them into the project, **such funding should be protected** in the same way as equity share capital is protected.
- **Once invested in the project, in no way these funds can be taken out** / reduced and therefore any adjustment to the same subsequently on account of future events is completely incorrect. **Any subsequent losses though eat into the Reserves and Surplus as per books of accounts**, do not in fact reduce the investment already made by the Shareholders.
- In fact its **double whammy** for airport operator. On one side they incur losses and on the other side their return on RAB gets further reduced due to reduced WACC.
- MIAL **could have used the reserves to pay to its Shareholders as dividends** which could have been ploughed back by them as equity; which Authority in turn would have protected.

MIAL submission

Authority is requested to protect the internal accruals / generation utilized for funding of the project besides Equity.

653

Reserves and Surplus – MAT Credit

GVK

Authority's Proposal #Para 3.11

MAT credit has been removed from R&S on the pretext that these are provisions only and MAT credit entitlement does not arise at this stage

Reasons for reconsideration

- This adjustment is **without any basis and seems to be completely arbitrary** and is **not in accordance with any of the accounting standards or Indian GAAP**. Proposed adjustment has not been done for tariff fixation of **any of the major airports**. Its completely incorrect to **single out** one item from P&L account (MAT Credit) and deduct the same while arriving at PAT to be transferred / added to R&S.
- On one hand, Authority itself in its Proposal No. 10.a has mentioned that WACC would be computed based on audited balance sheet items like debt, equity, reserves and surplus etc. but on the other hand it makes this arbitrary adjustment
- In computation of Target revenue, the Authority has calculated Tax as Nil. If Tax amount which was debited to the Books itself is not being considered where is the question of considering MAT Credit ? You can deduct something only if the same thing has been added at the first place.

MIAL submission

Authority is requested not to reduce the R&S by MAT credit entitlement amount

659

Equity Share Capital

GVK

Authority's Proposal #3

The Authority has considered Equity Share Capital as Rs 846.15 Crores for FY 2011-12, by ignoring Rs 200 Crores of share application money pending allotment.

Reasons for reconsideration

- Share application money is always considered part of shareholders' funds. It is a normal practice where money received from shareholders is first credited to share application money account and later on shares are allotted and equity share capital account is credited. Otherwise there is no difference in terms of character of money in both the nomenclature since in both the cases funds actually received are available to Company at its disposal. Allotment of the shares was completed on 16th April 2012.

- Normally 60 days are allowed for allotment of shares after receipt of share application money. Only because shares were allotted on 16th April instead of 31st March, Authority is denying return on Rs 200 Crs for full year which is neither fair nor justifiable.

- Since the amount was received prior to 31 March 2012, the same should be treated as part of Equity share capital for the purpose of computation of WACC for FY 2011-12.

MIAL submission

Authority is requested to consider the Equity Share application money as part of Equity Share capital for WACC calculation.

Cost of Equity

GVK

Authority's Proposal # 9.a.

To adopt return on equity (post tax cost of equity) as 16% for the purpose of calculation of WACC

Reasons for reconsideration

- Government appointed agency SBI Capital Market has also indicated a range of 18.5% to 20.5% as cost of equity for airport sector.
- MIAL had also appointed the independent consultant, KPMG which in its report has suggested cost of equity for MIAL of 23.12%. Cost of Equity estimates by other consultants are as under:

S No.	Entity	Cost of Equity Estimates
1.	NIPFP	11.64% - 13.84%
2.	AERA	16%
3.	KPMG	20% - 23%
4.	SBI Capital Markets	18.5% - 20.5%
5.	CRISIL	18.16% - 20.44% (CAPM) 21.09% - 23.71% (APM)
6.	Leigh-Fisher	25.1%

MIAL submission

- Authority should allow Cost of Equity as per the report of KPMG of 23.12%.

Refundable Security Deposits against Real Estate (Non Revenue Share Assets)

GVK

Authority's Proposal No. # 8.a.

Authority proposes to consider RSD already raised by MIAL as a means of finance at zero cost

Reasons for reconsideration

- Amount collected as RSD is from lease of Non-Transfer Asset (NTA i.e. assets that are not Revenue Share Assets). **SSA requires cross-subsidy <u>only</u> from RSA and <u>excludes</u> NTA** (i.e. assets other than Revenue Share Assets)
- Authority's decision is **not in line** with the provisions of **Concession Agreement**
- There is an **opportunity cost** associated with RSD as the RSD utilized to fund the capex is expected to have risk inherent to that associated with equity. SD has an opportunity cost and should be treated on par with equity.
- SBI Caps in its report to the government for cost of RSD has mentioned as under: *"On the quasi-equity for the airport sector, the study has concluded that the rate of return would depend on the type and feature of the instrument being used for such form of finance. The report further states that in quasi-equity, **the risk / return profile lies above that of debt and below that of Equity**"*

297

Refundable Security Deposits against Real Estate (Non Revenue Share Assets)

GVK

Reasons for reconsideration

- Practice in other sectors
  - Petroleum and Natural Gas Regulatory Board **allows a return** on '**interest-free security deposits**' available with the concessionaire
  - Moreover, it provides a uniform return on all kinds of capital employed, including deposits. Deposits are not reduced from the capital employed for determination of tariff
- Similarly, TAMP, the regulator for major ports, offers a uniform rate of return on all kind of capital employed including Net Working Capital, which would obviously include amounts collected through deposits
  - Uniform return of **16%** is provided on the entire capital employed including Capital Work in Progress

MIAL submission

RSD should be treated as Equity or, at the worst, as loan from one business segment to another

Cost of Debt

GVK

Authority's Proposal #7

Authority tentatively decided to consider weighted average cost of debt at 11.64% for FY 2014-15 and 11.06% for FY 16 to FY 19 and the same is capped at 11.56%.

Reasons for reconsideration

The cost of debt for the recent loan availed by MIAL was **12.00% pa**. Therefore capping the cost of debt at 11.56% for any reset or fresh borrowing is not appropriate as the interest rates are market and risk driven. **This decision will severely limit MIAL's ability to avail loans for the new projects thereby affecting the projects completion.**

The Authority may review the reasonableness of the cost of debt at the time of true-up

679

MIAL's submission

Consider not capping the cost of debt for FY 16 and FY 19 at 11.56% and allow true up based on actual cost.

AAI Upfront Fee reduced from Equity

GVK

Authority's Proposal No. #9.a.

Authority tentatively decided not to consider Upfront Fee of Rs 153.85 cr. paid to AAI towards Equity

Reasons for reconsideration

- SSA precludes Upfront Fee from forming part of the project cost and regulatory asset base but not from Equity
- Excluding Upfront Fee from **both** project cost and Equity is a case of double jeopardy
- Equity contribution to the project remains unchanged even after exclusion of Rs. 153.85 cr from the project cost
- Based upon the entire Equity contribution of Rs 1200 cr, lenders have agreed to sanction debt of Rs 4231 cr
- Hence, calculating WACC without recognizing total Equity contribution will be erroneous

679

AAI Upfront Fee reduced from Equity

GVK

Reasons for reconsideration

- Rs 153.85 cr should **be treated at par with other exclusions**. This separate treatment is not called for. Authority has not mapped means of finance for other disallowances. **Singling out one component of the project cost and mapping the same against specific means of finance is without any basis and devoid of any merit.** Authority's approach is inconsistent. In fact when we proposed mapping DF adjustment against specific Aeronautical assets, authority did not accept our contention but is doing the same thing for Upfront Fee.
- If MIAL had treated the entire payment as revenue expenditure, which is one of the valid alternative, in that case what would Authority have done?

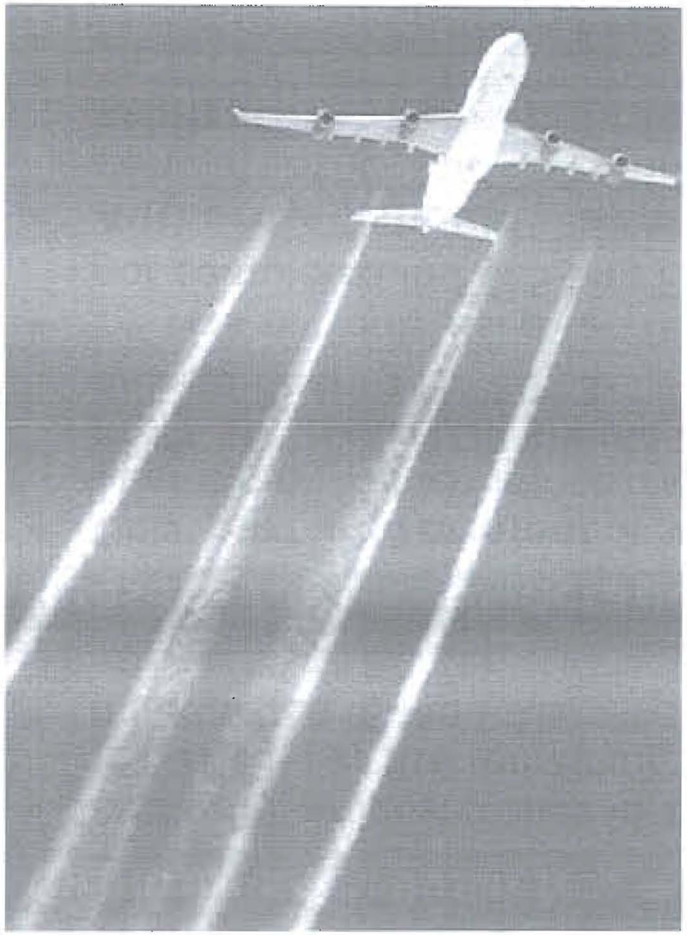
129

MIAL's submission

Upfront fees should not be reduced from equity share capital.

Agenda

GVK



- Regulatory Asset Base

Adjustment to RAB on account of DF

GVK

Authority's Proposal No. # 2.a

- Authority proposes that in the year that the terminal 2 is commissioned (FY 2013-14) the remaining balance of DF allowed by the Authority would be adjusted in the RAB

Reasons for reconsideration

- Only **part of Terminal 2 was commissioned in FY 14** (International operations), which is not completion of the Project. Project got completed in FY 16. Hence DF should be proportionately reduced from **capitalised assets during FY 2013-14 to FY 2015-16**.
- DF was not only used for Terminal 2 but also for airside works etc. which got completed in FY15 and FY16.
- **Authority should apply its philosophy and methodology consistently and should not change the same abruptly and arbitrarily.**

MIAL's submission

Proportionate adjustments should be followed in each year, with balance DF adjustment to be done in FY 16 when project got completed.

Incorrect adjustment for assets disposed

GVK

Authority's Proposal

The Authority has tentatively decided to consider RAB for 2014-15 by subtracting **Gross value of assets disposed off** and **without adding back the accumulated depreciation** on assets disposed.

Reasons for reconsideration

- While the Consultation Paper states that the adjustment pertaining to assets disposed off **has been done by reducing WDV from the Gross additions**, during the reconciliation process it was noticed that **Gross block value and not WDV of assets disposed has been reduced** from the Gross additions. The same needs to be rectified.
- RAB represents the net block of assets as every year depreciation is reduced from it on which WACC is calculated by the Authority
- If there are deletions from RAB, WDV of the disposed off assets has to be reduced from Total RAB and not Gross value
- Since Gross block value of disposed off assets have been reduced from Gross additions during FY 14-15, accumulated depreciation pertaining to such assets has to be added back, to give the correct impact on RAB.

674

Incorrect adjustment for assets disposed

GVK

Example to demonstrate the Correct treatment

Supposing there is only one asset of Rs. 100, and value of RAB is Rs. 70 after 3 years as asset is getting depreciated. If asset is demolished in year 4, following adjustment by authority will lead to -ve RAB which is incorrect as under:

	2014-15 CP method	**2014-15 Rs in Mln**
Additions during the year	0	3,711
Deletion during the year	100	5,195
Net additions	-100	- 1,484
Computation of RAB		
RAB opening	70	52,564
Net Additions	-100	- 1,484
Closing RAB	**-30**	**51,080**

MIAL's submission

Accumulated depreciation has to be added for correct treatment.

	2014-15 CP method	**2014-15**
Additions during the year	0	3,711
Deletion during the year	100	5,195
Net additions	-100	- 1,484
RAB opening	70	52,564
Add: Additions during the year	-100	- 1,484
Add: Accumulated depreciation on disposals	30	1,644
Closing RAB	**0**	**52,724**

Computation of Asset Allocation ratio

GVK

Authority's Proposal No. # 3.a

- Authority has proposed the asset allocation ratio of 84.52% for FY 14 against 88.68% submitted by MIAL.

Reasons for reconsideration

- Reduction is on account of two reasons:-

  (a) Non aeronautical area for T2 is 14.71% based upon detailed area analysis submitted by MIAL. However, Authority has **assumed** it to be 17.50% based on the commercial area of **T3 at IGI Airport, Delhi**. MIAL submits that when actual details of T2 are available, Authority should consider the actual data instead of using any assumption based on other Airport.

  (b) NACIL/Air India relocation costs – Authority has considered **part of the costs incurred for NACIL/ Air India facilities relocation** (Rs 165 crs. only). However, the actual amount incurred is Rs. 210 crs. which should be considered by the Authority.

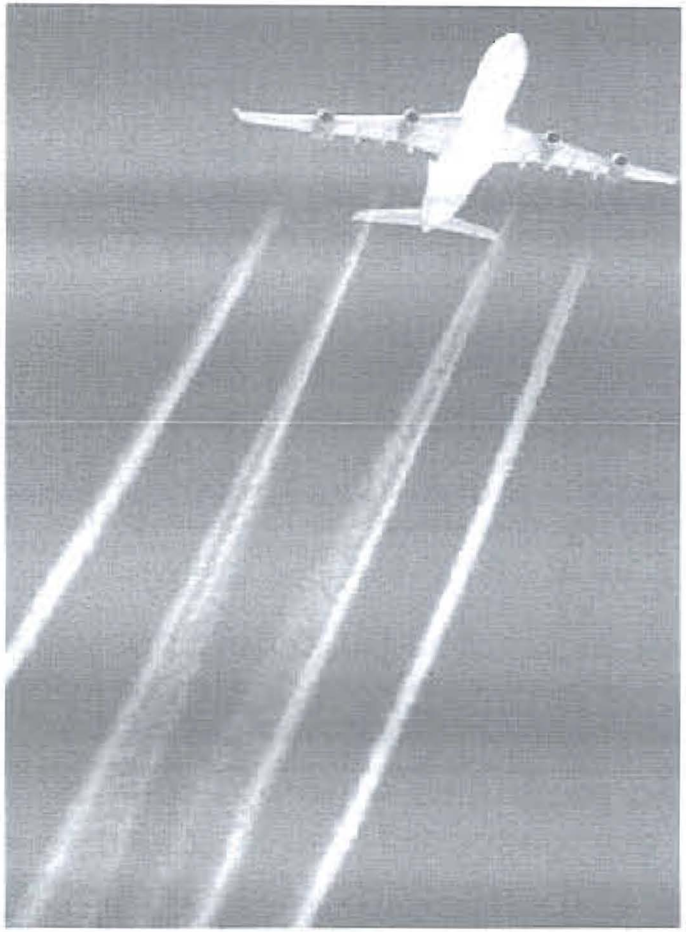
MIAL's submission

Revised allocation ratio based on Commercial area for T2 and correct cost of NACIL/Air India relocation should be considered

279

Agenda

GVK



- Background & CP highlights
- Regulatory Asset Base
- Expenditure pertaining to security
- Fuel Throughput Charges & Into
- Operating Expenditure
- Tariff Rate card and Other Is

677

Expenditure pertaining to Security

GVK

Authority's Proposal No.# 5.e

1. Authority has not considered carrying cost which MIAL may have to pay to MoCA when repayment is done. Further, Authority has asked MIAL to reimburse the amount to PSF(SC) Escrow account before release of the Order

Reasons for reconsideration

- MoCA in its letter dated 18th February, 2014 has required the Airport Operators to reverse / reimburse back the amount incurred towards **procurement and maintenance of security system/ equipment and on creation of fixed assets out of PSF(SC) Escrow account. This amount has to be reimbursed along with interest that would have accrued in normal course.** MIAL has presently appealed against such reimbursement before Hon'ble High Court of Bombay.
- Authority while agreeing to consider allowing these reimbursements has not considered carrying cost on Rs.309 crores which MIAL may have to pay.

Expenditure pertaining to Security

GVK

- Besides Authority has put in requirement to **actually reimburse the amount payable to the PSF(SC) Escrow account, prior to passing of Tariff order** for allowing such reimbursement / expenditure. This is a very difficult condition to be met in such a short time. In fact MIAL would be required to securitize the Tariff in respect of such PSF(SC) expenses to actually make the reimbursement to PSF(SC) account and that would not be possible before receipt of Order.

679

MIAL's submission

Authority should not insist for reimbursement prior to release of Tariff Order.

Expenditure pertaining to Security

GVK

Authority's Proposal No.# 5.e

2. Authority has not considered reimbursement to be made by MIAL for Capital Work in Progress as at March 2015 in PSF(SC) books amounting to Rs. 17.19 crs

Reasons for reconsideration

- Rs.17.19 crores has been incurred out of PSF(SC) Escrow account towards Capital Work in Progress. Authority needs to consider this amount also for the purposes of reimbursement to the PSF (SC) Escrow Account, since the amount needs to be reimbursed.

MIAL's submission

Authority needs to consider Rs. 17.19 crores of CWIP as part of reimbursement to be made to PSF(SC)

Expenditure pertaining to Security – Separate Tariff

GVK

Authority's Proposal No.# 5.e

Authority has not considered a separate tariff component towards reimbursement of capital and operating expenses towards security to be incurred by MIAL

Reasons for reconsideration

- Security is a sovereign function and in case airport operator is incurring such expenditure, it is for the purpose of performing a sovereign function.
- If expenses, both capex and opex, are incurred by the airport operator then **there is no reason that any tariff which is determined for the purpose of this expenditure, should be subjected to revenue share**. This will tantamount to undue enrichment of AAI at the cost of airport operator.
- Consultation paper No. 17/2010-11 dated 24th March, 2011 issued by the Authority proposing guidelines for terms and conditions for determination of PSF at major private airports.
- Purpose of these guidelines was to lay down ground rules for determination of PSF for security expenditure being incurred through PSF (SC).

1829

Expenditure pertaining to Security – Separate Tariff

GVK

- Guidelines clearly mentioned that expenditure being incurred through facilitation component will be considered for remuneration through other tariff components as may be proposed by the airport and approved by the authority.

MIAL's submission

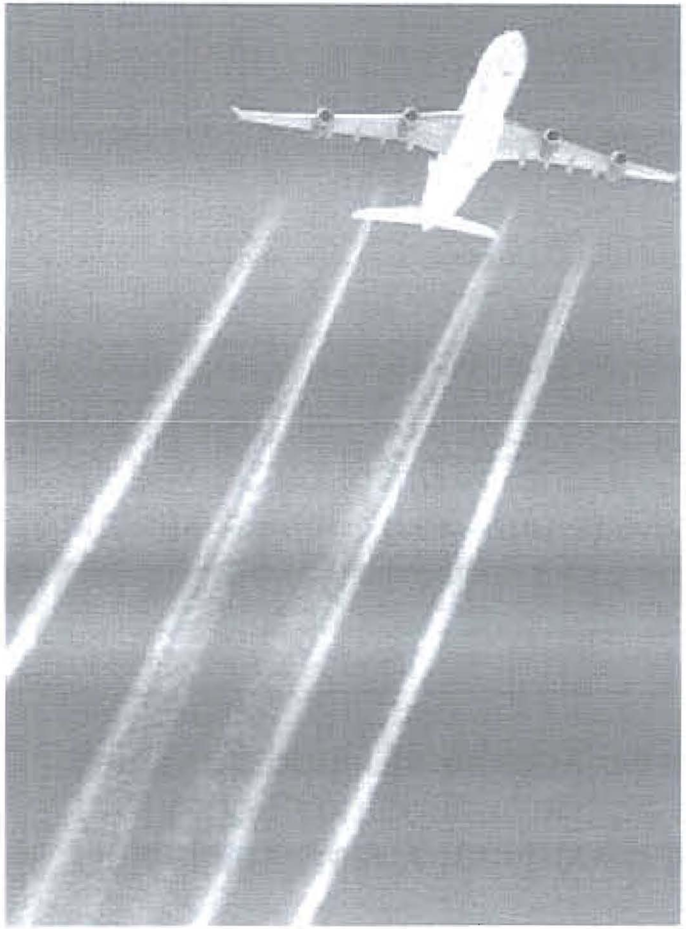
It is quite evident from the above that security related expenses, both capex and opex being incurred out of PSF (SC) need to be reimbursed to the airport operator through a separate component of the tariff.

289

683

Agenda

GVK



- Background & CP highlights
- Project Cost & Means of Fin
- Asset Base
- ... pertaining
- Fuel Throughput Charges & Into Plane
- Revenue from Rev. Share Assets
- Tariff Rate card and Other Issues

Fuel Throughout and Into Plane Charges

Authority's Proposal no. 14.a.ii

To consider revenues from fuel concessions and ITP services as aeronautical revenues

Reasons for reconsideration

- Authority has considered revenue from concessions such as Fuel concession and In-To-Plane (ITP) concession as Aeronautical revenue. Treating revenue from **concessions to allow supply of fuel** (commonly called as Fuel Throughput Charge - FTC) **and fuel infrastructure** (ITP) **as aeronautical is not correct**.
- In both the cases, **no service or infrastructure is provided by the Airport Operator** and common hydrant infrastructure, pipelines, etc. belong to the fuel suppliers / ITP service provider.
- **Service providers are being regulated by the Authority directly** and its well known that MIAL is not providing any service either in the case of FTC or ITP concession.
- The issue of fuel supply **being a monopoly** is relevant to the oil companies providing this service and **not to MIAL which is only a licensor of its premises.**

Fuel Throughout and Into Plane Charges

GVK

Reasons for reconsideration

- The sale of fuel by Oil Companies to Airlines itself is not regulated. **MIAL has only given concession to the oil companies and is not acting as supplier of fuel or service provider. This payment is for grant of access to the airport.** It is beyond the purview of MIAL to oversee whether this charge is passed on to the airline by the fuel suppliers or not.
- If there is true open access to all suppliers then there is all the possibility that suppliers may absorb this charge, in such a case what would be the stand of Authority.
- As per ICAO Document No.9082 (Ninth Edition-2012; Appendix 3-Glossary of Terms) wherein the "revenues from non-aeronautical sources" is defined to include concession granted to oil companies to supply aviation fuel and lubricants and the rental of terminal building space or premises to air carriers. **The privilege/concession for grant of access to airport falls under revenue from non-aeronautical sources.**
- **The airport operators themselves do not provide any aeronautical services under the ambit of section 2(a) of AERA Act, 2008 insofar as FTC or ITP is concerned.**

389

Fuel Throughout and Into Plane Charges

GVK

Authority's Proposal no. 14.a.ii

To consider revenues from fuel concessions and ITP services as aeronautical revenues

Reasons for reconsideration

- Pre bid clarification issued by AAI during privatisation of MIAL

428	**Query:** The heads of Aeronautical Services mentioned in Schedule 5 of OMDA are not separately captured in the format provided for business plan in RFP. Under which head do each of the Aero Services get clubbed?	**AAI Response:** In respect of Aeronautical Services **the only charges levied are Landing Fees, Parking Fees, Housing Fees and the facilitation component of the Passenger Service Fee**.

It can be noted that only income arising from the above activities was proposed to be treated as Aeronautical income while AAI was receiving FTC also that point in time which was considered by it as Non-Aeronautical revenue.

Reasons for reconsideration

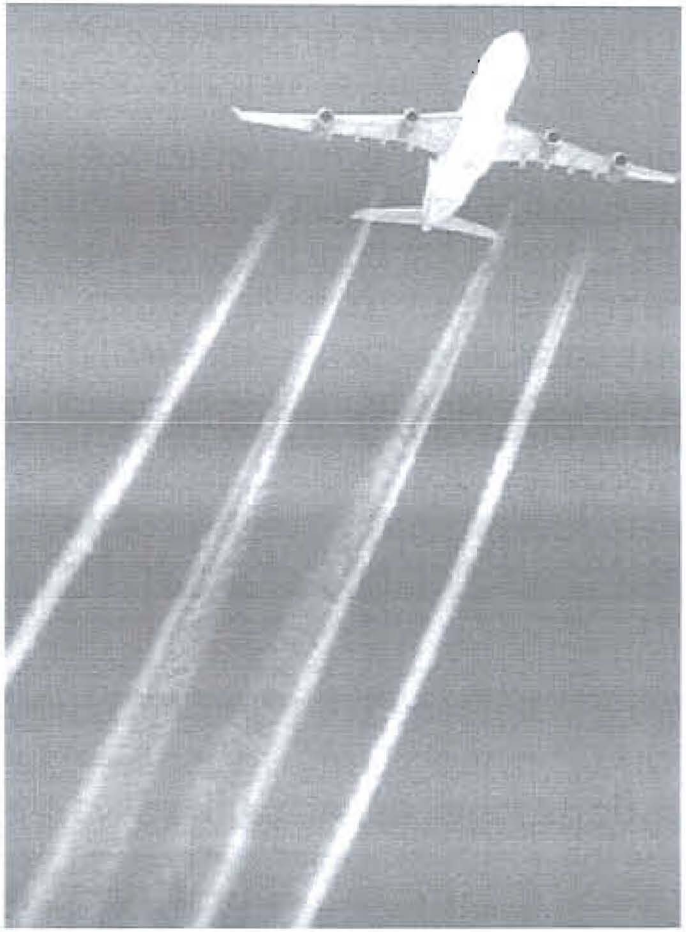
690	**Query:** Oil Companies	**AAI Response:**
	What is the present arrangement with between Oil Companies supplying ATF and AAI. What are the charges received by AAI. Please provide copies of formal arrangements?	1)Presently AAI is charging lease rental from oil companies for allotted land. **However, oil companies (IOC, BPCL, & HPCL) have agreed to pay throughput charges with retrospective effect w.e.f. 1-4-2001.** Quantum of throughput charge is to be agreed between AAI and oil companies.
	Is there any proposal for allowing private oil companies to supply ATF?	2)Yes.
	What is the current arrangement for use of hydrant system and any new proposal for future?	**3)Currently hydrant at Tr-2 IGIA is owned by BPCL and all 3 companies IOC, HPCL, and BPCL share this facility on a common usage basis.**
	Who is responsible for insurance of the Oil supply system ?	4)Oil Company is responsible for oil supply system.

- It may be noted that **Fuel Hydrant was present even before the privatizing of CSIA** and **this activity was not included into the list of activities whose income would be treated as aeronautical income.**

688

Agenda

GVK



- Background & CP highlights
- ...ons of Finance
- Regulatory Asset Base
- ...
- ...out Charg...
- Operating Expenditure
- Revenue from Rev. Share Assets
- Economic Viability of Operations

Operating Expenses

GVK

Authority's Proposal No. 12.a

Operating expense allocation ratio for Aeronautical and Non-Aeronautical expenses for First Control Period is considered as allocation ratio for Second Control Period

Reasons for reconsideration

- Allocation ratio for Aeronautical: Non Aeronautical expenses for FY 14 is based on cargo operations which was being handled by MIAL.
- However, MIAL **concessioned** out the international Cargo Operations to Concor Air Ltd. in Feb, 2014. Since, no Cargo is being handled / operated by MIAL, there is /would be no operating expenditure incurred by MIAL for cargo operations during FY15-FY19, revised and correct expense allocation ratio should be considered.
- As per the study done by Cost Auditor for FY 15, Aeronautical : Non-Aeronautical expenses ratio is 92.08%. **MIAL requests the Authority to kindly consider the same for Second Control Period.**

689

Working Capital

GVK

Authority's Proposal No. 12

Authority tentatively proposed to consider working capital interest as Rs 6.30 Crores for Second Control Period.

Reasons for reconsideration

A. Quantum of working capital

The following are the major reasons for working capital requirement for day to day operations:

- **Significant delay in payment by Air India and other airlines** has led to increased working capital requirement. Outstanding dues from Air India of Rs. 299.59 Crores as at March 2014 was substantially reduced to Rs. 137.41 Crores in March 2015. Hence, working capital requirement was lower in FY 15. The outstanding from Air India has again increased to Rs. 196 Crores in January 2016 (excluding Rs. 134 Crores interest on delayed payments)

- **Service Tax** has to be paid by MIAL to the Government, in advance, on accrual basis irrespective of whether billed amount and Service Tax has been collected or not. Such service tax outstanding are realized from its customers much later.

Working Capital

GVK

Below is the estimated working capital required by MIAL :

Particulars	Average (Rs in Crores)
Outstanding from Air India	200
Outstanding from Other airlines – normal billing cycle	126
Inventories	6
Prepaid expenses	10
Deposit with Government bodies & others	8
Advances to suppliers & other advances	10
Total current assets (a)	**360**
Less :	
Trade payables	75
Total current liabilities (b)	**75**
Working capital (a-b)	**285**

However, MIAL has projected utilization of only Rs 150 Crores as against projected requirement of Rs 285 Crores.

169

Working Capital

GVK

B. Amount and rate of interest:

• Bankers have sanctioned working capital facilities (fund based) of Rs. 250 Crores. MIAL has envisaged that average utilization of working capital facility would be around Rs. 150 Crores.

• Rate of interest payable is "Bank Base Rate + 200 bps" p.a. payable monthly. weighted average interest rate till Sep 2015 is 12.01% and actual working capital interest paid till January 2016 is Rs. 8.82 Crores.

MIAL's submission

Consider the projections submitted by MIAL and provide for true up at the end of the control period.

692

Financing Charges

GVK

Authority's Proposal No. #12

Authority has proposed to consider Financing charges as Rs.9.34 Crores for each year in the Second Control Period.

Reasons for reconsideration

•MIAL already has long term loans, repayment of which is starting from FY 16 itself besides other short term loans. Considering the significant shortfall in cash flows, there would be need for re-financing of existing long term and short term loans. Lenders expect substantial amount towards upfront payment, processing fees and arrangers fees and therefore adequate provision needs to be made for the same. Further these costs cannot be capitalised now since projects are completed.

•It is envisaged that loans aggregating Rs. 923 Crores shall be availed for the period of two/ three years with bullet repayments.

•Loans aggregating Rs. 650 Crores have been sanctioned i.e. Rs. 300 Crores by Axis Bank and Rs. 350 Crores by Yes Bank.

•In view of such requirement for loans there is increase in processing charges/ upfront fees during the year.

293

Financing Charges

GVK

•Finance charges also have to be paid for Bank Guarantees submitted to various authorities, management fees on term loans and finance charges may also be incurred in future years considering short term / medium term loan requirements for meeting funding requirements in respect of various operational capital expenditure, refinancing, etc.

MIAL's submission

Consider the projections submitted by MIAL and provide for true up at the end of the control period.

Collection charges over DF

GVK

Authority's Proposal - Para 3.36.6

Authority tentatively decided not to allow any collection charges on DF to be part of operating expenditure

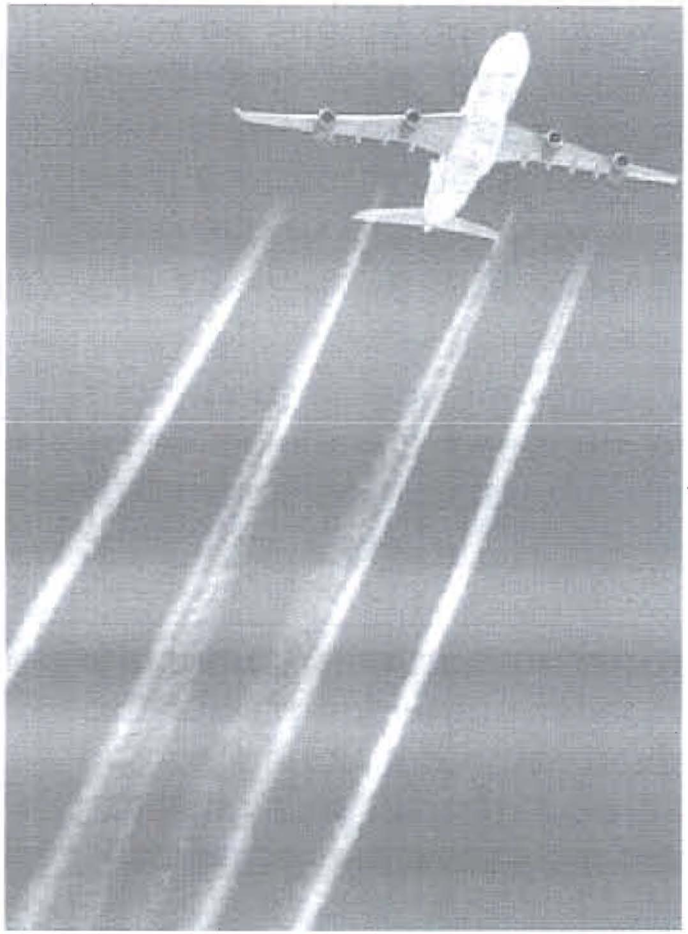
MIAL's submission

- Collection charges for DF should also be allowed as the **same is mandated by DGCA** and needs to be paid as per AIC issued by DGCA, hence it is not an expense but reduction in receipt.
- As per DF Rules, any delayed payment from airlines is subject to penal interest. How would Authority deal with such interest income?
- If collection charges for DF are **not allowed** as an operating expenditure then Authority **should advise DGCA appropriately to withdraw the collection charges**, since the airlines are already being paid collection charges separately for UDF and PSF and DF amount remains with airlines for **at least 3-4 weeks without paying any interest to MIAL**.
- **Authority should either allow pass through of DF collection charges or consider net DF amount (net of collection charges) for calculations since Airport Operator has no other avenue to adjust this cost.**

595

Agenda

GVK



- Background & CP highlights
- Project Cost & Means of Finance
- Regulatory Asset Base
- Expenditure pertaining to security
- Operating Expenditure
- **Revenue from Rev. Share Assets**
- Economic Viability of Operations
- Tariff Rate card and Other Issues

696

Non Aeronautical Revenues

GVK

Authority's Proposal – Truing up No. 8.a.

- True-up the actual non-aeronautical revenue at the time of tariff determination for the next control period subject to the projections considered above in respect of non-aeronautical revenue being treated as minimum / floor for the current control period

MIAL's submission

- True- up should be done based upon actuals and projections by MIAL should not be considered as minimum/ floor.

- The Authority **would derive assurance** from the fact that the Shared Till approach as per the SSA encourages growth in non-aeronautical revenues for the Airport Operator. There is a **natural incentive for MIAL** to strive to increase, **and not stifle**, its non-aeronautical revenues. Given the safeguard, it is not necessary to use projections of non-aeronautical revenue submitted by MIAL as a minimum / floor **since there could be genuine reasons due to which it may not be possible to achieve projections.**

697

Non Aeronautical Revenues

GVK

Authority's Proposal No. 14

- Other income earned such as interest from banks and others, income from investments and others has been considered for cross-subsidising the aeronautical income

MIAL's submission

•As per section 13 (a)(v) of AERA Act, 2008, the Authority shall determine the tariff for aeronautical services taking into consideration revenue received from ***services*** other than the aeronautical services.

•Other income earned by MIAL mainly includes interest income on fixed deposits and dividends from temporary investments, **which does not involve provision of any kind of services.**

•Authority during determination of tariffs for **first control period has not considered** the revenues realized from "Other Income" for cross subsiding aeronautical revenue. Any deviation from the previously agreed principle is not correct. **Authority should follow its principles consistently.**

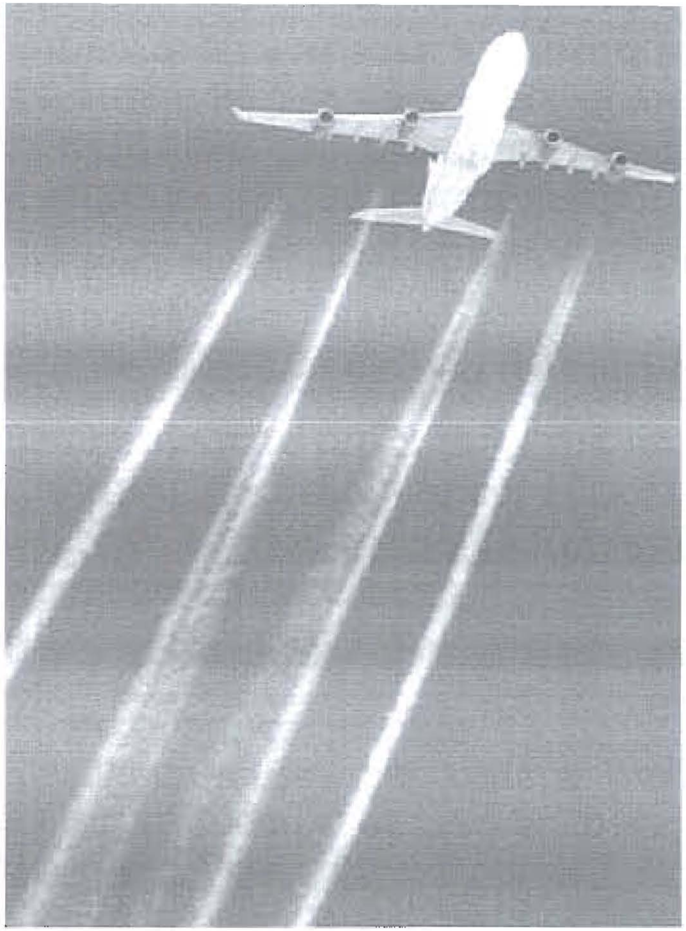
• Similarly under SSA/ OMDA, Other Income does not fall under the definition of Revenue Share Assets and therefore should not be considered for cross-subsidization

868

699

Agenda

GVK



- ...nd & CP highlights
- Project Cost & Means of Financ...
- Regulatory Asset Base
- Fuel Throughout Charges & Into Pla...
- Operating Expenditure
- Corporate Tax
- Revenue from Rev. Sharing Assets
- Tariff Rate card and Other Issues

Corporate Tax

GVK

Authority's Proposal No. 13.a

Authority has proposed to consider Annual Fee as aeronautical expenditure for the computation of corporate tax paid by MIAL (on aero)

Reasons for reconsideration

- Corporate tax is a regulatory building block and therefore has to be first calculated on the basis of Target Revenue Requirement (TRR). **Authority needs to follow the methodology given in the example in SSA for computation of Corporate tax.**
- On one hand Authority has not considered **Annual Fee as cost pass through** for computation of allowable operating expenditure **but on the other hand a contrary approach is adopted and Annual Fee is considered as aeronautical expenditure for computation of aeronautical corporate tax**.
- During the bidding process all prospective bidders were provided draft of the Project Agreements which included SSA. Each bidder quoted Annual Fee (Revenue Share) based on earning prospects envisaged by respective bidders.

706

Corporate Tax

GVK

Reasons for reconsideration

- Negative impact on Target Revenue of MIAL as per the Authority's Order no. 32 dated 15th January, 2013 compared to that as per SSA Schedule 1 are shown by way of an illustration in the table below;

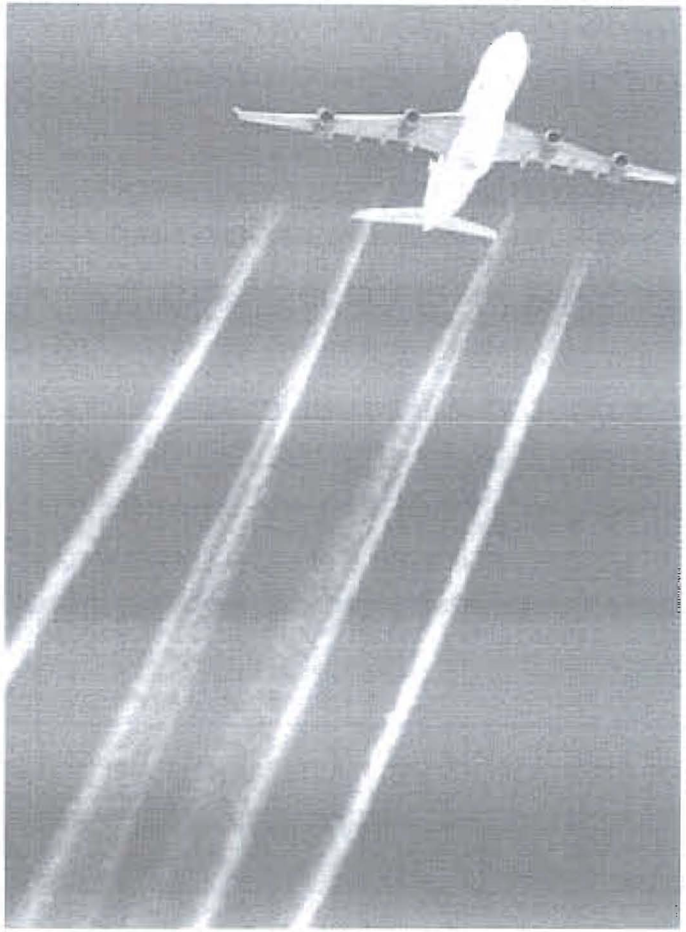
	As per Authority (Rs.)	**As per SSA Rs.**
Aeronautical Revenue	100.00	100.00
Revenue Share @ 38.7%	(38.70)	0.00
Operating exp.	(31.30)	(31.30)
Depreciation	(20.00)	(20.00)
Interest	(30.00)	(30.00)
Profit Before Tax	(20.00)	18.70
Tax @ 30%	**Nil**	**5.61**
Loss to MIAL vis-a-vis SSA provisions	**5.61**	

MIAL's submission

- Authority's approach is **incorrect and unfair because it is making one of the important building block of TRR as redundant** since there would never be a case where positive tax would come if annual fee is included as an expenditure. Authority
- **Authority should follow methodology used in example given in SSA** and Annual Fee paid to AAI should not be considered as aeronautical expenditure for computation of Corporate tax.

Agenda

GVK



- & CP Highlights
- Project Cost & Means of Fin
- Expenditure pertaining to security
- Operating Expenditure
- Corporate Tax
- Economic Viability of Operations
- Tariff Rate card

702

Economic Viability of Operations

GVK

Authority Proposal No. 18 (a)

- The Authority has proposed to decrease the tariff by 7.20% .

Reasons for reconsideration

- AERA act mandates AERA (Authority) to ensure economic viability under Section 13 (1) (a) of the AERA Act which reads as follows:

  "to determine the tariff for the Aeronautical services taking into consideration: (iv) economic and viable operation of major airports"

- Further, Schedule 1 "Principles of tariff fixation" of SSA states as under:

  ***"In undertaking its role, AERA will (subject to Applicable Law) observe the following principles**:*

- ----

  *2. **Commercial:** In setting the price cap, AERA will have regard to the need for the JVC to generate sufficient revenue to cover efficient operating costs, obtain the return of capital over its economic life and **achieve a reasonable return on investment commensurate with the risk involved**."*

203

Economic Viability of Operations

GVK

Reasons for reconsideration

- However, due to Authority's decision to reduce tariffs by 7.2%, reserves of MIAL would completely get eroded by end of FY 18.
- There would be significant strain on cash flows and MIAL would not be able to repay its debt.
- In view of above, even after 14 years of investment in airport sector, shareholders would not earn any dividend from this investment. On the contrary; reserves would be completely eroded. It is earnestly requested that Authority reviews its decisions to ensure economic viability of airports.

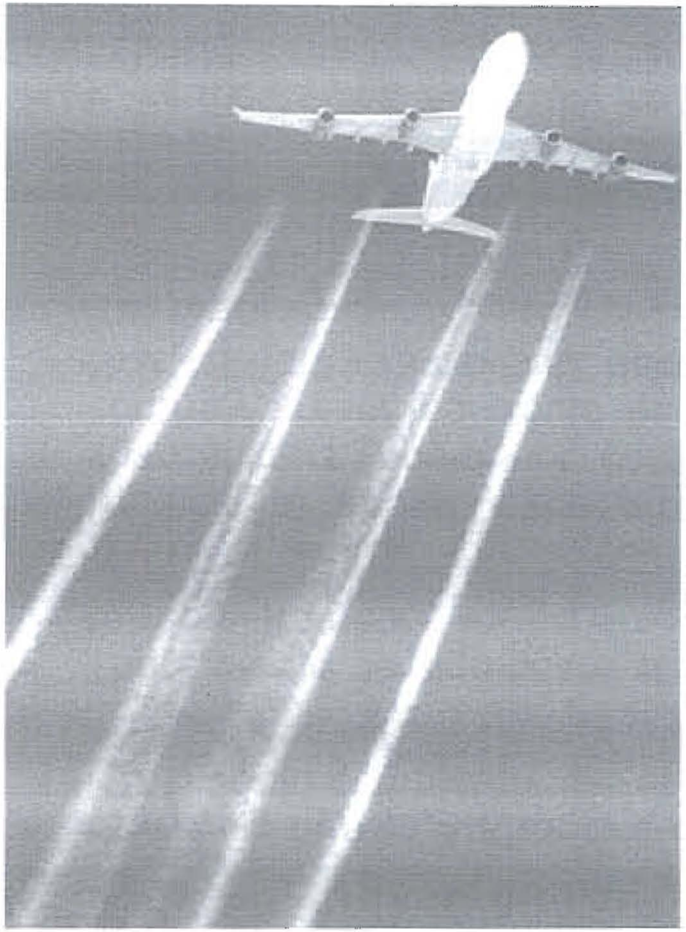
204

MIAL's submission

MIAL requests the Authority to follow the Concession Agreements holistically and consider the principles of tariff determination in letter and spirit, as detailed in earlier slides, so that airports could have viable operations and are able to earn reasonable rate of return on its investment commensurate with the risk involved.

Agenda

GVK



- Background & CP highlights
- Cost & Means of Financ[illegible]
- Regulatory Asset Base
- Expenditure pertaining to security
- [illegible] Charges & [illegible]
-
- Corporate Tax
- Rev. Sha[illegible] Asset
- Economic Viability of Operation
- Tariff Rate card and Other Issues

785

Annual Tariff Proposal for FY 17

GVK

Authority's Proposal No. 18.b.

Landing charges :
The Authority has proposed to waive landing charges for aircraft with maximum certified capacity of 80 seats for scheduled domestic operators and helicopters.

Reasons for reconsideration

- Providing such waiver in a **capacity constrained airport like CSIA, Mumbai would tantamount to strangulating the growth in passenger numbers**.
- **Such waiver** at CSI Airport, Mumbai, would be counterproductive, will be **at the expense of other aircraft with higher capacity and interest of passengers.** This would also be **against the objective to maximize the passenger handling capacity** at CSI airport by encouraging wide body aircraft.
- Such waiver shall **curtail the capacity much earlier than expected** and prove as disaster with inevitable **delay in start of operations at Navi Mumbai Airport.**
- Order of MoCA, in this regard was passed 12 years back, may have been suitable at that time but not at the Mumbai airport of today.

202

Annual Tariff Proposal for FY 17

GVK

MIAL's submission

- MIAL request the Authority to not waive the landing charges for aircraft with maximum certified capacity of 80 seats for scheduled domestic operators and all helicopters

707

Landing charges*

Weight of Aircraft	Rate Per Landing – International flight	Rate Per Landing – Domestic flight (other than International flight)
Upto 100 MT	Rs. 594.01 per MT	Rs. 283.55 per MT
Above 100 MT	Rs. 59,401/- + Rs. 725.71 per MT in excess of 100 MT	Rs. 28,355/- + Rs. 381.00 per MT in excess of 100 MT

***Inflation linked increase for next two years**

1. **20% surcharge shall be levied on landings between 0700-1155 hrs IST and 1600-2055 hrs IST (peak hours) for any types of aircraft/helicopter flights.**

2. A minimum fee of Rs. 16,170 and Rs. 21,560 shall be charged per single domestic and international landing respectively for all types of aircraft/ helicopter flights, including but not limited to domestic landing, international landing and general aviation landing.

208

Parking charges*

Weight of Aircraft	Parking Charges Rate per MT per Hour	
	For 2-6 hours	For > 6 hours
Upto 100 MT	Rs. 14.26 per MT	Rs. 21.39 per MT
Above 100 MT	Rs. 1426/- + Rs.18.88 per MT per hour in excess of 100 MT	Rs. 2139/- + Rs.28.32 per MT per hour in excess of 100 MT

***Inflation linked increase for next two years**

1. At the in-contact stands, after free parking, for the next two hours normal parking charges shall be levied. After this period, twice the normal parking charges shall be levied

209

Aerobridge Charge (Passenger Boarding Bridges)*

Rate Per Hour – International Flight	Rate Per Hour – Domestic Flight / other than International Flight
Rs. 4,851 per hour or part thereof	Rs. 2,156 per hour or part thereof

***Inflation linked increase for next two years**

User Development Fee (UDF) *

Rate per departing Passenger	International Flight	Domestic Flight
For ticket issued in Indian Rupee	Rs. 548	Rs. 274
For ticket issued in foreign currency	USD 8.42	USD 4.21

***Inflation linked increase for next two years**

710

GVK

Fuel Throughput Charges

Charges per KL of Fuel
Rs. 729.32 w.e.f from 1st April 2014*
Rs. 765.79 w.e.f from 1st April 2015#
Rs. 804.08 w.e.f from 1st April 2016

*The above fuel throughput charges will be applicable retrospectively from 1st April 2014.

The above fuel throughput charges will be applicable retrospectively from 1st April 2015.

Cute Counter Charges *

International per departing flight	Domestic per departing flight
Rs. 1500/-	Rs. 500/-

***Inflation linked increase for next two years**

121

Charges for Unauthorized Overstay (per hour)

Aircraft Type	Rs
Airbus 319 – 115	15,000
ERJ 190 – 100 ECJ Lineage 1000	13,000
Global Express XRS BD700 -1A-10	9,000
Global 5000 Model BD700 –1A11	9,000
Gulfstream G V	9,000
Falcon 900 EX	6,000
Challenger CL – 600 – 2B16 (CL-604)	6,000
Challenger 605	6,000
HS7	6,000
Embraer 600	6,000
Falcon 2000 EX Easy	5,000
BD 100-1A10 Challenger 300	5,000
Hawker Beechcraft 4000	5,000
Falcon 2000	5,000
Gulfstream – 200	5,000
Hawker 800XP	5,000
Hawker 850XP	5,000
HS125 700 D 2500	5,000

Aircraft Type	Rs
Gulfstream G-100 (Astra SPX)	4,000
Learjet 60 XR	4,000
Cessna Citation 560 XL5	4,000
Beech 1900-D	4,000
Cessna Citation 550 Bravo	2,000
Hawker 400 XP- (400A)	2,000
Beechcraft Super King Air B300 *	2,000
Cessna 525A	2,000
Cessna Citation 556	2,000
Super King Air B 200	2,000
Premier 1 A 390	2,000
PIAGGIO P-180 Avanti II	2,000
Pilatus PC12/45	2,000
Beechcraft King Air C-90B	2,000
King Air C-90 A	2,000
Beechcraft Super King Air B200	2,000
PIAGGIO P-180 Avanti II	2,000

712

Charges for Unauthorized Overstay

Notes :

- For initial 2 days (48 hours) of Unauthorised Overstay at rates proposed above.

- For next 5 days (120 hours) beyond initial Unauthorised overstay of 2 days at 1.5 times of the rates proposed above.

- For period beyond 7 days (168 hours) of Unauthorised Overstay at 2 times of the rates proposed above.

- Any Aircraft type not listed above will be subject to charges for Unauthorized Overstay as may be applicable to nearest equivalent MTOW of aircraft listed above.

Proposed Variable Tariff Plan

GVK

- **Objective of Differential Pricing Plan**

  Prioritize and leverage CSIA's limited resources, resulting in new international route development, optimize the usage of capacity and airside assets.

- **Following are the categories for the proposed Variable Tariff plan:**
  - **International routes:**
    - New direct routes
    - Frequency increase
    - Wide body operations
  - **Domestic routes:**
    - Wide body operations
    - 'Red-eye' operations

214

Variable Tariff Plan - New Direct International route GVK

- **Objective:** Establish new direct international routes from CSIA

- **Eligibility** : Any carrier (Indian or Foreign) establishing a new direct route to/from CSIA on an international sector.

- **Definition of new route:** A route, not having direct connectivity to/from Mumbai over the period of last 12 months

- **Pricing Policy:** Landing fee would be applicable to the airline, in the following manner:

Year 1	: **No landing fee.**
Year 2 onwards	: 100% of applicable landing fee as per respective ATP.

215

Variable Tariff Plan - Frequency increase on International routes

GVK

- **Objective:** Increase frequency on international routes

- **Eligibility :**

1. Any carrier (Indian or Foreign) increasing the frequency on the routes **beyond 2,000 Nautical Miles from Mumbai**
2. New Airline(s) commencing operations on a route (beyond 2000 nautical miles) already serviced by an existing airlines at CSI Airport, Mumbai

- **Pricing Policy :** Landing fee would be applicable to the airline, in the following manner:

  Year 1: **50%** of applicable landing fee as per respective ATP.

  Year 2 onwards: **100% of** applicable landing fee as per respective ATP.

- The incentive shall be applicable on the increased frequencies only.

Variable Tariff Plan - Wide body operations on International and Domestic routes

GVK

International :

Objective: To encourage international wide body operations

Eligibility :Any carrier (Indian or foreign) upgrading narrow body aircraft to a wide body on an international or domestic route shall be entitled for the variable tariff(i.e. code C to code D/E/F or code E to code F).

- **Pricing Policy:** Landing fee would be applicable to the airline, in the following manner:
  - Year 1: **No landing fee.**
  - Year 2 onwards: 100% of applicable landing fee as per respective ATP.

Domestic :

Objective : To encourage domestic wide body operations

Eligibility : Any Indian carrier that introduces wide body operations on a domestic route shall be entitled for the incentive.

- **Pricing Policy:** Landing fee would be applicable to the airline, in the following manner:
  - **No landing fees for first 6 months**
  - From 7th month onwards, 100% of applicable landing fee as per respective ATP.

Variable Tariff Plan -'Red eye' operations (Domestic)

GVK

Pricing policy for Indian carriers to operate red-eye flights on domestic routes

- **Objective**: to encourage night flights on domestic routes
- **Definition of red-eye operations and eligibility:**
  - Indian carriers to operate domestic flights wherein scheduled time of arrivals is at or after 2300 hours and **scheduled time of** departure is before 0500 hours.
  - It shall be applicable only for code C aircraft and the maximum turnaround for such aircraft have to be 60 minutes.
- **Pricing Policy:** Landing fee would be applicable to the airline, in the following manner:

Year 1: No landing fees.

Year 2 onwards : 100% of applicable landing fee as per respective ATP

8/7

Variable Tariff Plan - Peak hour charges

GVK

- **Objective:** To optimize the peak hour usage of capacity.

- **Definition of peak hours:**
  - Morning 0700 hours-1155 hours
  - Evening 1600 hours-2055 hours

- **Pricing policy:**
  - 20% higher landing charges **over the charges as per** ATP during the defined "Peak Hour".

719

Variable Tariff Plan - Terms and conditions

GVK

- An agreement will need to be signed between MIAL and the respective airline with terms and conditions for availing the variable tariff.
- MIAL reserves the right to withdraw and recall the variable tariff benefit availed by the carrier in case the carrier is not operating as per the terms laid down in the agreement.
- The Scheduled Time of Arrival (STA) / Scheduled Time of Departure (STD) of aircraft shall be considered, for the purpose of determining the variable tariff.
- The timings of the domestic red eye operations shall be declared in December every year for the subsequent financial year (April to March).
- Airline should not default on the payment of airport charges.

720

Chhatrapati Shivaji INTERNATIONAL AIRPORT MUMBAI

GVK

Thank you

T2 MUMBAI

721