भारतीय विमानपत्तन प्राधिकरण
AIRPORTS AUTHORITY OF INDIA

F/No. AAI/JVC/Bhubaneswar -Tariff/2023-24/1148.

Date: -25.01.2024

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

Subject: -Submission of Multi Year Tariff Proposal (MYTP) for 2nd control period (01.04.2023 to 31.03.2028) and True-up of 1st control period (01.04.2018 to 31.03.2023) in respect of Bhubaneswar Airport.

Reference: -Submission of AAI's comments in response to consultation paper no 22/2023-24 in respect of Bhubaneswar Airport issued by Airport Economic Regulatory Authority of India (AERA).

Sir,

This has reference to AERA's consultation paper no 22/2023-24 dated 05.01.2024 in the matter of determination of Aeronautical tariff in respect of Bhubaneswar Airport for the 2nd control period (01.04.2023 to 31.03.2028).

AAI's response to consultation paper No. 22/2023-24 is enclosed.

This issues with the approval of the Competent Authority.

Thanking You.

Yours sincerely,

25/1/24

(V. Vidya)
Executive Director (JVC/Tariff)

Encl: -1. Response to Consultation Paper no 22/2023-24

BHUBANESWAR INTERNATIONAL AIRPORT

Response to Airports Economic Regulatory Authority (AERA)'s Consultation Paper No. 22/2023-24 dated 05th January 2024 Determination of Aeronautical Tariff for Bhubaneswar International Airport (BBI) for the 2nd Control Period (01.04.2023 - 31.03.2028).

Contents

1.Introduction

Airports Economic Regulatory Authority of India ('AERA') has released Consultation Paper No. 22/2023-24 on Aeronautical services in respect of Bhubaneswar International Airport (BBI) for SCP (01.04.2023 to 31.03.2028), ('Consultation Paper' or 'CP') on 05th January 2024.

We hereby present our comments and request in respect of determination of Aeronautical Tariffs for BBI for the Tariff Determination for the SCP – from 1st April 2023 to 31st March 2028 and True Up of 1st Control Period from 1st April 2018 to 31st March 2023.

2. True- Up the First Control Period (FCP)

i. Financing Allowance [Para 4.4.7 of CP]

AERA's Contentions

The Authority has examined AAI's claim towards Financing Allowance and has the following views:

- The Authority considers that providing return on capital expenditure from the very beginning of construction will significantly lower the risks for an airport operator and may require revisiting the return on equity allowed to airport operators as the investment in the asset class will then be equated to risk free rate of return.
- Further, provision of Financing Allowance will disincentivize the Airport Operators from ensuring timely completion of projects and delivery of services to the users. Therefore, the Authority is of the view that a return should be provided only when the assets are made available to the airport users except in the case of certain costs like IDC that will have to be incurred in case debt is used for funding of projects.
- Furthermore, the future returns from the project should generate adequate returns to cover the cost of equity during the construction stage. The AO is adequately compensated for the risks associated with the equity investments in a construction project once the project is capitalized by means of a reasonable cost of equity.
- Developments at greenfield airports inherently take longer durations to commission and operationalize. Thus, airport operators would have to wait for a considerable duration before getting returns on large capital projects. Keeping this in view, the Authority had earlier provisioned for financing allowance in initial stages to such airports. It may be further noted that the Authority has never provided financing allowance in the case of brownfield airports and any airport of AAI, in its any of the Tariff Orders. Further, financing allowance for greenfield airports of BIAL, HIAL, CIAL etc. was allowed only for the initial stages of their development, after which IDC was permitted on the debt portion of the proposed capital expenditure.
- It is pertinent to note that in case of a greenfield airport, investment in regulatory blocks by the Airport Operator would not make the airport facilities available to the passengers. Brownfield and Greenfield airports can't be equated on this issue. In greenfield airports, the tariff is not applicable and no revenue

is available to the Airport Operator till the aeronautical services have been created and put to use. However, in the case of brownfield airports, in a scenario where the AO brings in additional investments, the airport facilities are mobilized and enabled to other functional parts of the airport, which remains functional and the AO keeps on enjoying the charges from the users. In the case of BIA, since new projects have included mobilization of existing operations, the said Airport is ought to be considered as a brownfield airport, which would not be eligible for Financing Allowance on the equity portion of newly funded capital projects.

- Financing Allowance is a notional allowance and different from interest during construction. Therefore, the provision of Financing Allowance on the entire capital work in progress would lead to a difference between the projected capitalization and actual cost incurred, especially when the Airport Operator funds the projects through a mix of equity and debt. Further, the Authority opines that only IDC should be provided on the debt borrowings availed for execution of a project.

Therefore, based on the above analysis, the Authority proposes not to allow the Financing allowance of ₹ 16.65 Crores claimed by AAI for the First Control Period.

AAI's Submission

- Direction 5 of 2010-11 of AERA, which entails the methodology of aeronautical tariff determination, allows Airport operators to be eligible for Financing Allowance as a return on the value invested in construction phase of an asset including the Equity portion, before the Asset is put to use.
- The concept of Financing Allowance, its computation and how the Work in Progress Asset includes the Financing Allowance is provided in Paragraph 5.2.7 of the Direction No.05-2010-11. Extract of the same is provided below:

  "5.2.7. Work In Progress assets (a) Work in Progress Assets (WIPA) are such assets as have not been commissioned during a Tariff Year or Control period, as the case may be. Work in Progress assets shall be accounted for as:

  WIPAt = WIPAt-1 + Capital expenditure + Financing allowance – Capital receipts of the nature of contributions from stakeholders (SC) - Commissioned Assets (CA)

  Where:

  WIPAt = Work in progress Assets at the end of Tariff Year t

  WIPAt-1 = Work in progress Assets at the end of the Tariff Year t-1

  Capital Expenditure= Expenditure on capital projects and capital items made during Tariff Year t.

  The Financing allowance shall be calculated as follows:

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

Where

Rd is the cost of debt determined by AERA according to Clause 5.1.4.

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

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

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

Forecast Work in Progress Assets

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

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

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

Forecast RAB

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

- The Clause (d) of Para 5.2.6 defines Commissioned Assets as below:
"Commissioned Assets: Represents investments brought into use during Tariff Year t, consistent with Clause 5.2.7 herein below."
- Thus, from the above clauses it is clear that the Financing Allowance is computed on the Work in Progress balance based on Capital Expenditure incurred which is funded by Equity/Internal accruals and is capitalized as part of Commissioned assets for RAB Computation. In the case of AAI, financing allowance is computed on the equity portion and IDC is computed on the debt portion of the capital spend.
- Thus, Direction 5 provides an explicit, detailed elaboration of Financing allowance. Manner and formulae of computation and addition of the "commissioned assets" into RAB including the Financing allowance are elucidated in detail with examples is contained in the same Direction.
- The regulatory principles laid down by AERA and based on which the tariff orders are determined, provide a fundamental foundation of the regulatory clarity to the stakeholders on the manner in which different components of costs and revenues are treated. Following are the examples and extracts of inclusion of financing allowance in RAB by AERA in various Orders:

- **CIAL 3rd CP Order:** Vide para 4.4.52 of CIAL order for third control period, for true up of SCP, AERA noted that, in the tariff order for the SCP, it was decided that FA would be trued up based on the final capex. In its MYTP submission, CIAL had proposed an addition of Rs. 11.9 Crore in FY 2020-21 as Financing Allowance for true up of 2nd CP. Accordingly, AERA recomputed FA based on actual WIP capitalized and allowed for inclusion in the true up amount.

- **BIAL 3rd CP Order:** Vide para 3.3.78 of BIAL Order for the third control period, AERA has agreed to allow the financing allowance for the SCP.

- Financing allowance was approved and given by AERA in the First and SCP for BIAL and in SCP order of CIAL.

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

AAI's Request

- The AERA Act requires AERA to consider *"timely investment in improvement of airport facilities"*; and *"economic and viable operation of major airports"*. The statement of objects and reasons of the AERA Act requires Authority to encourage investment in airport facilities, create a level playing field and foster healthy competition. The Airports Infrastructure Policy of 1997 and NCAP 2016 also emphasize the need to provide a commercial orientation and encourage private sector participation in the airport sector.
- Financing allowance computation is fully in compliance with Direction 5, affirmed by Authority in its various Orders in the past.
- Based on the above submissions, AAI submits that non-consideration of Financing allowance amounts to contradiction of AERA's own guidelines Further, by treating the Financing Allowance proposed by private airports and AAI airports differently vitiates the services expected to be provided by the airport and violates

the principle that allows a level playing field for all airports. Also, AAI airports would be denied of revenues that they are rightfully entitled to.

- **AAI therefore requests AERA to consider the financing allowance of Rs. 16.65 Crore computed for FCP additions.**

ii. Fair Rate of Return [Para 4.5 of CP]

AERA's Contentions

The Authority notes that AAI has claimed 14% as Fair Rate of Return, as part of its True up submission for the First control period and also notes that AAI has availed debts of ₹ 15.23 Cr. during the First Control period (from FY 2020-21 to FY 2022-23).

The Authority has computed FRoR for the First Control Period by considering cost of Equity as 14%.

The Authority proposes to consider 13.60% as FRoR for true up of the First Control Period for BIA.

AAI's Submission

- The Equity estimation can also yield a range of values depending on the assumptions employed.
- COE depends on ownership structure, Comparable Airports & Revenue Till
- Asset Beta plays an important role in determination of Equity Beta even if Debt/Equity Ratio is low (low gearing). Cost of Equity depends on both Asset Beta and Equity Beta.
- In 1st Control Period of Chennai Airport, AAI had submitted a study conducted by M/s KPMG in regards to calculation of Cost of Equity wherein, Estimated Asset Beta was 0.92 and corresponding Equity Beta works out to 0.98. The cost of Equity submitted by AAI works out to 16.82%.
- In MIAL, DIAL, HIAL and CIAL the Cost of Equity has been considered @ 15+%. Thus AERA is requested to consider the Cost of Equity @ 16% as submitted by AAI.
- It is also requested to consider the FRoR as submitted by AAI instead of an Average FRoR @ 13.60% for FCP.

iii. True up of Administation & General expensews [Para 4.7.4 of CP]

AERA's Contention

- AERA has noted there is significant variance between the Administration Expenses approved in the Tariff Order of the First Control Period (₹ 25.56 Crores) and actual expense claimed by AAI (₹ 41.06 Crores) for true up of the First Control Period. The Authority notes that that such increase in Administration Expenses is due to incurrence of higher upkeep expenses, installation of " May I Help You" counters and introduction of Airport Terminal assistant facility in Terminal 1 and 2. The Authority notes that AAI has paid Municipal Taxes worth ₹ 3.38 Crores for period FY 2005-06 to FY 2019-20, out of which ₹ 1.93 Crores have been claimed as part of true up of the First Control Period.

- Further, AAI has incurred ₹ 5.01 Crores (₹ 0.34 Crores for FY 2018-19, ₹ 3.80 Crores in FY 2019- 20 and ₹ 0.87 Crores for FY 2020-21) towards CSR expenses. That Authority notes that Bhubaneswar International Airport has incurred losses during all tariff years of the First Control Period. Therefore, the Authority proposes not to consider the CSR expenses claimed by AAI and consider Administration Expenses (other than CHQ/ RHQ) of ₹35.95 Cr. for true up of the First Control Period of BIA

AAI's Submission

CSR expenses: As per the provisions of Section 135 of the Act, the Companies (CSR Policy) Rules, 2014 and the DPE Guidelines, 2014, two percent of the average net profits (to be calculated in accordance with the provisions of the Act) during the three immediately preceding financial years will be allocated for CSR activities every year.

In this regard, it is pertinent to mention that CSR computation based on profit ought to be done for a company as whole and not at station level/standalone basis.

CSR Budget will be utilized for implementing CSR projects approved by the Board on an annual basis. The budget allocation to the CSR Schemes shall be made in the beginning of every financial year after considering the CSR budget for that year.

In View of the facts explained above AERA is requested to consider CSR expenses as submitted in MYTP for FCP by AAI.

iv. Pay & Allowances of CHQ/RHQ
[Para 4.7.4 & 4.7.5 of CP]

AERA's Contentions

With respect to the apportionment of pay and allowance costs incurred at the CHQ, the Authority has the following observations:

All expenses incurred by CHQ and RHQ (like staff costs, Admin and Gen. expenses, Repairs and Maintenance, utilities, outsourcing expenses etc.) is allocated to all the AAI airports, in the ratio of revenues earned by each Airport.

Expenses such as legal costs, interest/ penalties are related to some specific airports. However, these have been allocated to the common pool and apportioned to all the AAI airports. The Authority is of the view that the above process followed by AAI for allocating the expenses is not transparent and necessitates adoption of a scientific/ rational approach for justifiable allocation of expenses to the Airports. The Authority proposes the following towards allocation of CHQ and RHQ expenses: a) Pay and Allowances of CHQ and RHQ:

AAI has considered pay and allowances of Commercial department at CHQ and RHQ as Aeronautical expenses, whereas such expenses are Non-aeronautical in nature.

AAI has excluded pay and allowances of employees involved in ATM, CNS and Cargo departments at CHQ and RHQ while working out the allocation to the airport. However, no exclusion has been done for support services of the departments of HR, Finance, Civil, Terminal Management (Housekeeping), etc.

Manpower of CHQ and RHQ also provide services to Non-aeronautical activities, ATC, and CNS cadres at respective airports. Hence, pay and allowances need to be adjusted accordingly. Considering all the facts and figures as stated above, the Authority is of the view that 20% of pay and allowances of CHQ and RHQ is to be excluded towards the following: i. Support services to ANS, Cargo and Commercial at CHQ, RHQ and Airports. ii. Officials of Directorate of Commercial. Balance 80% of pay and allowances of CHQ and RHQ have been allocated to the Airports. b) Administration & General Expenses of CHQ and RHQ:

AAI has incurred Legal & Arbitration Expenses at both CHQ and RHQ level. The Authority is of the view that this expense should be analyzed and distributed to stations on a case-tocase basis. As the above details have not been provided by AAI, the same has not been allocated to the stations.

AAI has paid interest/penalties to Government of India at both CHQ and RHQ levels. The Authority is of the view that the stakeholders should not be burdened with interest/penalties paid to Government of India, due to various lapses/delays on the part of the Airport Operator. Hence such expenses have not been allocated to the airports. Based on the above methodology, the Authority has derived the revised allocation of CHQ and RHQ expenses and the same is presented in the table below:

	Apportionment of Admn. & General exp of CHQ/RHQ in Ist Control Period (In Crore)					
Year	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**TOTAL**
AAI (Table 17) [A]	39.62	52.84	35.85	37.64	39.53	205.48
AERA (Table 17)	32.64	44.84	30.86	32.41	34.03	174.78
Difference	06.98	08.00	04.99	05.23	05.50	30.70
%						15%

<u>AAI's Submission</u>

- AERA has reduced the allocation of CHQ/RHQ Administration and General Expenses to the tune of 15% for 1st control period (FY 2018-19 to FY 2022-23). It is worthwhile to mention here that AAI has already consider 5% reduction while allocating the CHQ/RHQ expenditure and reducing further by 15% by AERA for the 1st control period is on the higher side. AAI has engaged the Institute of Cost Accountants (ICMA) (as suggested by AERA) to study the methodology CHQ/RHQ allocations.

- **In view of the above AAI is requested to consider the CHQ/RHQ expenses as submitted in the MYTP for FCP .**

3. Second Control Period

i. Financing Allowance
[Para 4.4.7 & 6.3.7 of CP]

AERA's Contentions

The Authority notes that AAI for Bhubaneswar International Airport has claimed Financing allowance of ₹ 221.65 Crores, as part of CAPEX proposed for the SCP. The Authority has examined the AAI's claim towards Financing Allowance in detail and the views of the Authority in this regard may be referred to in para no. 4.4.7. Accordingly, the Financing allowance has not been allowed by the Authority in respect of CAPEX allowed for the SCP.

AAI's Submission

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

In view of the above AAI is requested to AERA to consider the Financing Allowance as submitted in MYTP for SCP.

ii. Capital Additions During SCP
[Para 5.2. of CP]

a) A1 – Runways, Taxiways & Apron

i. Construction of PTT, Rapid Exit Taxiway and Apron for Parking of 08 numbers of Code C aircraft. Phase-II

AERA's Contentions

The Authority notes that the project relating to the construction of Parallel Taxi Track, Rapid Exit Taxiway and Apron for parking of 8 Code C aircraft had been approved in the First Control Period for Bhubaneswar International Airport. AAI had proposed to carry out this project in two phases, at a sanctioned costs of ₹147.08 Cr. (Phase I amounting to ₹65.65cr and Phase II - ₹81.43cr). Phase I of the project was completed in FY 2022-23, however, the Phase II could not be executed in the First Control Period. Further, AAI has projected ₹ 65.50 Cr. towards Civil works and electrical works in the MYTP with respect to Phase II of the above project. The Authority further notes that the civil work for the Phase-II of the project has been awarded by AAI for ₹47.95 Cr (excluding GST) and the work is in progress.

The Authority has derived the normative costs of Taxiway, which is as follows:

Table 33: WPI Inflation adjusted Normative rate (per Sq.m.) derived by the Authority for Taxiway for Bhubaneswar International Airport.

Particulars	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24	FY 24-25
Taxiway (A)	4700									
WPI Index(B)	109.70	111.6	114.9	119.8	121.8	123.4				
Inflation		1.73%	2.96%	4.26%	1.67%	1.31%	7.14%	9.42%	.30%	4.10%
Inflation adjusted Rate Per Sq.m.	4,700	4,781	4,923	5,133	5,218	5,287	5,664	6,198	6,217	6,472
Rate Per Sq.m.incl. GST @6%adjusted Rate Per Sq.m.										6,860

Source: Office of The Economic Adviser, Government of India (https://eaindustry.nic.in) ** Source: Reserve Bank of India Publications (https://www.rbi.org.in/Scripts/Publications # Instead of considering the inflation rate of 12.97% for FY 2021-22 (as per press release dated April 18, 2022 by Dept. for Promotion of Industry and Internal Trade, Government of India), the Authority has considered the average rate of inflation of FY 2020-21 (1.29%) and of FY 2021-22 (12.97%), which works out to 7.14%

Note: In the Order No.7/2016-17 dated June 13, 2016 on "In the matter of Normative Approach to Building blocks in Economic Regulation of Major Airports- Capital costs Regarding", the ceiling cost mentioned is inclusive of taxes applicable at that time, which is 12%. Subsequently, GST has been introduced wherein the GST rate is 18%. Hence, on the inflation adjusted normative cost worked out above, differential tax @ 6% will be paid extra.

The Authority has derived the allowable costs of the Phase II of this project, by considering the Normative cost of Civil Works and the Technically sanctioned amount for Electrical Works and the same is detailed in the table below:

Table 34: Cost of Phase II of PTT and other works proposed by the Authority for Bhubaneswar International Airport

(in ₹Crores)

Work	Cost Proposed by AAI	Cost with Normative Rate	Cost proposed to be Considered by the Authority
Civil work			
i. Civil work Above subgrade	65.50	53.51	53.51
Ii add cost of work below subgrade		4.79	4.79
Iii add for dismantling and disposal-existing pavements		.18	.18
Total for Civil works	65.50	58.48	58.48
Electrical works		1.65*	1.65*
Total (in Rs. Crore)	**65.50**	**60.13**	**60.13**

*As per Technical Sanction.

The Authority proposes to consider ₹ 60.13 Cr towards Phase II of this Project, as shown in Table 34 for capitalisation in FY 2024-25. The said work is in progress and at this stage the likely completion cost may not be ascertained. Therefore, the cost will be trued up based on actuals, subject to cost efficiency and reasonableness, at the time of determination of tariff for Third Control Period.

AAI's submission:

As per AERA's tariff order 40/2022-23 for Ahmedabad International Airport the inflation adjusted normative costs are as follows: -

Particulars	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24	FY 24-25
Taxiway (A)	4700									
WPI Index(B) (as per Table 108 of 40/2022-23)	109.70	111.6	114.9	119.8	121.8	123.4				
Inflation		1.73%	2.96%	4.26%	1.67%	1.31%	12.97%	9.42%	0.30%	4.10%

Particulars	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	FY 23-24	FY 24-25
(as per Table 184 of 40/2022-23)										
Inflation adjusted Rate Per Sq.m.	4,700	4,781	4,923	5,133	5,218	5287	5973	6535	6555	6824
Rate Per Sq.m.incl. GST @6%adjusted Rate Per Sq.m.										7233

Based on the above normative cost the total cost of Phase II of PTT works out for Bhubaneswar International Airport is as follows:

Work	Cost Proposed by AAI	Cost with Normative Rate (AS per AERA)	Revised Cost at Rs. 7233 per sq.m for consideration
Civil work			
i. Civil work Above subgrade	65.50	53.51	**56.42**
Ii add cost of work below subgrade		4.79	4.79
Iii add for dismantling and disposal-existing pavements		.18	.18
Total for Civil works (i+ii+iii)	65.50	58.48	61.39
Electrical works		1.65*	1.65*
Total (in Rs. Crore)	**65.50**	**60.13**	**63.04**

It is requested that AERA consider the cost of Phase II of PTT and other works amounting to Rs. 63.04 Crore for SCP.

b) A5 – Electrical Installation

i. SITC of Smoke Cabin

<u>AERA's Contentions</u>

The Authority notes that separate Smoking areas with appropriate smoke exhaust is generally provided in the Airports. AAI has proposed Smoke Cabin amounting to ₹1 Cr. for capitalisation in FY 2024-25. The Authority observes that the work has been awarded by AAI for this project for ₹0.70 Cr. and the same is reserved only for the passengers. Based on the above factors, the Authority proposes to consider this project for ₹0.70 Cr. for capitalization in FY 2024-25.

AAI's submission:

It is submitted that the tendering process for the asset is completed the work has been awarded for Rs 0.74 Crore. has This asset shall be capitalized in FY 2023-24 only.

Hence, AERA is requested to include the SITC for smoke cabin in the RAB for FY 2023-24

c) B3 – Plant & Machinery

i. Body Scanner

AERA's Contentions

The Authority notes that BIA is categorised as a sensitive airport and as per BCAS guidelines Full Body Scanners (FBS) to be provided in hypersensitive and sensitive airports. AAI has proposed to capitalize 4 numbers of FBS for ₹ 13.20 Cr in FY 2024-25. The Authority is of the view that Body Scanner is a relatively new technology and the same can be implemented in a phased manner. Based on the above factors, the Authority proposes to consider capitalization of 2 numbers of FBS for ₹6 Cr (in line with the cost considered by the Authority for other similar airports) in FY 2025-26.

AAI's submission:

As per BCAS Direction/Guidelines AAI has planned procurement of 04 number of full body scanner for BIA. In order to ensure the compliance of BCAS Direction/Guidelines to cater to the increased passenger traffic of 8.8 MPPA.

In view of the above AERA is requested to consider the cost of 04 Full Body Scanner (FBS) amounting to Rs. 13.20 Crore in FY 2024-25.

ii. SCCTV

AERA's Contentions

The Authority notes that SCCTV is an essential requirement of Airport Security and Surveillance. However, an SCCTV system is already available at BIA. The Authority notes that AAI projected ₹ 1.50 Cr. in FY 2027-

28 to procure 1 no of SCCTV and details are not available. The Authority through its independent consultant reviewed the said capital item and due to non-availability of sufficient details at this stage, proposes to consider 2/3rds of the total cost projected by AAI for this project for capitalization in FY 2027-28, as this project has been proposed by AAI only in the last tariff year and is currently under planning stage. The actual costs incurred by AAI during the Current Control Period towards this project, would be assessed by the Authority based on efficiency and reasonableness and trued up during the determination of tariff for the next Control Period.

AAI's submission:

As per BCAS Direction/Guidelines AAI has planned procurement of 01 number of SCCTV for BIA. In order to ensure the compliance of BCAS Direction/Guidelines to cater to the increased passenger traffic of 8.8 MPPA.

Hence, AERA is to consider the amount for RAB of Rs. 1.50 Crore towards SCCTV in FY 2027-28.

iii. Fair Rate Of Return

AERA Contention

The Authority expects AAI to consider appropriate debt financing for its expansion and capitalization project, so as to optimize its overall cost of capital and FRoR, while also ensuring that its financial leverage is within reasonable limits. The costs of equity and debt both influence the FRoR. The balance between these financing sources, their associated costs, and the overall capital structure of the entity, collectively determine the impact on the FRoR.

7.2.7 The Authority hereby recommends that AAI may follow the practice of availing 48% debt for capital projects of Bhubaneswar International Airport, as followed in other similar airports of AAI.

The FRoR recalculated by the Authority after considering the analysis discussed above is 13.78%. Authority has considered Cost of Equity @ 14%

AAI's submission:

- The Equity estimation can also yield a range of values depending on the assumptions employed.
- COE depends on ownership structure, Comparable Airports & Revenue Till
- Asset Beta plays an important role in determination of Equity Beta even if Debt/Equity Ratio is low (low gearing). Cost of Equity depends on both Asset Beta and Equity Beta.
- In 1st Control Period of Chennai Airport, AAI had submitted a study conducted by M/s KPMG in regards to calculation of Cost of Equity wherein, Estimated Asset Beta was 0.92 and corresponding Equity Beta works out to 0.98. The cost of Equity submitted by AAI works out to 16.82%
- In MIAL, DIAL, HIAL and CIAL the Cost of Equity has been considered @ 15+%. Thus AERA is requested to consider the Cost of Equity @ 16% as submitted by AAI.
- It is also requested to consider the FRoR as submitted by AAI instead of an Average FRoR @ 13.78% for SCP.

iv. Payroll Expenses

(Para 9.2.9 of CP)

AERA Contention

AAI considered a growth rate of 7% in payroll expenses for the period 2023-24 to 2026-27 and 25% increase in FY 2027-28. The Authority notes that AAI has proposed the growth rate 25% in the last tariff year considering the implementation of 8th Pay commission. However, considering the degrowth in passenger traffic caused by the COVID-19 pandemic and the resultant decrease in Aeronautical revenues, including profitability, the Authority proposes to consider a growth rate of 6% year on year in payroll expenses for the SCP from FY 2023-24 to FY 2026- 27 and 25% in the last tariff year i.e. FY 2027-28. The above restriction in the growth rate in payroll expenses, is being proposed with the perspective of rationalising the costs of the Airport. Further, this growth rate of 6% Y-o-Y is being uniformly followed in all AAI and PPP airports.

AAI's Submission

- 7% is the average increase in the payroll due to annual increment of 3% in salary, increase in HRA, quarterly increase in DA and Employer contribution to PF. In all other Airports AERA has considered 7% increase. The figures for the SCP are genuine as submitted by AAI.
- The following illustration clearly shows that there is an average 7.71% increase in the Payroll expenditure. Therefore, AAI requests AERA to consider the figures for the SCP as submitted by AAI.
- The following illustration clearly shows that there is an average 7.71% increase in the Payroll expenditure.

Calculation of incremental increase in salary (in % Terms)											
Particulars (Rs.)	Year 1				Year 2				Total		Difference
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Year1	Year 2	
BASIC	30000	30000	30000	30000	30900	30900	30900	30900	120000	123600	3600
DA	5520	6960	8160	8820	9270	10042.5	10753.2	11494.8	29460	41560	12100
HRA	8100	8100	8100	8100	8343	8343	8343	8343	32400	33372	972
PERKS	10500	10500	10500	10500	10815	10815	10815	10815	42000	43260	1260
EPF	3600	3600	3600	3600	3708	3708	3708	3708	14400	14832	432
Total									**238260**	**256624**	**18364**

Particulars	% Increase							
DA	18.40%	23.20%	27.20%	29.40%	30.00%	32.50%	34.80%	37.20%
HRA	27%	27%	27%	27%	27%	27%	27%	27%
PERKS	35%	35%	35%	35%	35%	35%	35%	35%
EPF	12%	12%	12%	12%	12%	12%	12%	12%

Total Increase (in Rs.)	**18364**
% increase	**7.71**

Assumptions :

- Year 1 Means Previous Year
- Year 2 Means Current Year
- Basic Pay – 3% yearly increase considered.
- Dearness Allowance- Quarterly increase considered.
- HRA, Perks & EPF – Considered Constant
- In the abovementioned example, the Salary expenditure for Year 1 shown as Rs. 238260/- per employee. Whereas, in the year 2 the salary expenditure is shown as Rs. 256624/- per employee. On the basis of above assumptions, the incremental expenditure on the head of salary is Rs. 18364/- per employee which comes out to 7.71% on Year on Year basis.

AAI requests AERA to consider 7% increase on Year on Year basis for the SCP on the basis of above calculations.

v. CHQ/RHQ Administration and General expenses [Para 9.2.10 of CP]

AERA's Contentions

The Authority reviewed the basis for allocation of CHQ and RHQ expenses to Bhubaneswar International Airport for the SCP. Based on the methodology and justification explained under para 4.7.4 (a) and (b) of this Consultation Paper, the Authority has rationalized the CHQ and RHQ- Administration and General Expenses, projected by AAI for Bhubaneswar International Airport for the SCP. The same is presented in Table 51.

AAI's Submission

- AERA has reduced the allocation of CHQ/RHQ Administration and General Expenses to the tune of 15% for SCP (FY 2023-24 to FY 2027-28). It is worthwhile to mention here that AAI has already consider 5% reduction while allocating the CHQ/RHQ expenditure and reducing further by 15% by AERA for the SCP is on the higher side. AAI has engaged the Institute of Cost Accountants (ICMA) (as suggestion by AERA) to study the methodology CHQ/RHQ allocations.

- **In View of the Above AERA is requested to consider the CHQ/RHQ expenses as submitted MYTP for SCP.**

vi. Reduction in Allocation Ratio [Para 9.2.5 of CP]

AERA's Contentions

Upkeep expenses (included under Administrative and General Expenses) and Repairs & Maintenance (Civil and Electrical) have been apportioned in the ratio of Terminal Building by AAI which is 92.47%: 7.53% However, the Authority proposes to re-allocate the above expenses in the Terminal Building ratio of 92%:8%, as detailed in para 6.3.9 of the consultation paper.

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AAI's Submission

AAI has calculated the ratio of 92.47:7.53 based on actual allocations in 1st Control Period and projections for 2nd Control Period whereas R&M expenses (Civil and Electrical) has been allocated by Authority based on the notional ratio of 92:8. By reallocating to a notional ratio AAI will be losing by allocating in 92:8 ratios instead of actual ratio.

AAI requests AERA to consider Allocation ratio of expenses as submitted in MYTP for SCP

vii. CSR expenses
[Para 9.2.13 of CP]

AERA's Contentions

The Authority notes that AAI has claimed ₹ 5.56 Cr. towards CSR expenses for the SCP. The Authority has re-computed the allowable CSR expenses in accordance with the statutory requirements under the Companies Act, 2013 (which is 2% of the average net profits of the preceding 3 Financial Years) calculated Rs. 3.97 Cr. and has presented the same as part of Administration expenses (other than CHQ/ RHQ expenses) in Table 51.

AAI's Submission

As per the provisions of Section 135 of the Act, the Companies (CSR Policy) Rules, 2014 and the DPE Guidelines, 2014, two percent of the average net profits (to be calculated in accordance with the provisions of the Act) during the three immediately preceding financial years will be allocated for CSR activities every year.

In this regard, it is pertinent to mention that CSR computation based on profit ought to be done for a company as whole and not at station level/standalone basis.

CSR Budget will be utilized for implementing CSR projects approved by the Board on an annual basis. The budget allocation to the CSR Schemes shall be made in the beginning of every financial year after considering the CSR budget for that year.

In View of the above, AERA is requested to consider CSR expenses as submitted by AAI in the MYTP for SCP.

[Para 9.2.14 of CP]

viii. Expenses towards Utilities and Outsourcing expenses

AERA's Contentions

The Authority examined the expenses towards utilities and noted the following: Power expenses: AAI has projected the power costs, after netting off the recoveries made from the Concessionaires (which is assumed to be 10% of the total power costs). The Authority notes that the power recovery percentage is significantly lower than that of comparable airports. The Authority is of the view that with the gradual increase in the Non-aeronautical operations, AAI should increase the power recovery from the Concessionaires. Accordingly, the Authority proposes to consider power recoveries at a notional rate of 25%, while determining tariff for the next Control Period. The Authority invites stakeholder comments on the same and proposes to analyse this further in the Tariff Order for the SCP.
The Authority notes that AAI has increased the net power costs of FY 2022-23 by 3% year-on year for the SCP, which the Authority proposes to consider for determining O&M expenses for the SCP.

AAI's Submission

It is submitted that AAI cannot levy electricity charges over and above the units consumed by the concessionaires and the same is approved by the competent Authority.

ix. Upkeep expenses

[Para 9.2.15 of CP]

AERA's Contentions

The Authority observes that for upkeep expenses, AAI has proposed 10% increase year-on-year for the SCP. The Authority notes that these are contractual expenses, wherein the rates have been finalized for the entire contract period (which is 3 years), and it includes the cost of materials and labour (including statutory benefits such as PF, ESI, Bonus etc). Further, there is no escalation clause mentioned in the Contract, with respect to revision of the contracted rates. Based on the above factors, the Authority proposes to consider only the inflationary effect (refer Table 46) on Upkeep expenses year-on-year across the SCP, as followed in other similar airports.

AAI's Submission

AERA has reduced upkeep expenses by Rs. 6.64 cr. as AERA has considered inflation rate whereas AAI has proposed for 10% increase YOY for the SCP. In this regard AAI submits that the 10% increase in consideration of 5-10% increase in contractual obligations including increase in minimum wages.

In view of the above it is requested to AERA to consider 10% increase in upkeep expenses YoY basis as submitted by AAI.

x. Non -Aeronautical Revenue for 2nd Control Period

AERA's Contentions

AAI has projected non-aeronautical revenue of Rs. 30.35 crores in FY 2023-24 whereas, actual non- aeronautical revenue in FY 2022-23 is Rs. 31.17 crores. Therefore, the Authority has considered the actual Non-aeronautical revenues for FY 2022-23 as a basis for projecting Non-aeronautical revenues for the SCP. The Authority reviewed

sample contracts executed with the Concessionaires by AAI during FY 2022-23, to assess the Non-aeronautical revenue projected by AAI for the SCP and found the same to be reasonable.
10.2.2-Further, the Authority notes that the projections towards Operation and Maintenance expenses for the SCP have increased substantially, as compared to the Non-aeronautical revenues. The Authority would like the stakeholders to comment on the above aspect. Revenue from Passenger related services.
10.2.3- Considering the positive outlook of the GDP growth predicted by the GoI, increase in the consumer spending pattern and the growth of the passenger traffic, the Authority proposes to consider the growth in the Passenger related revenue (Trading Concessions and other miscellaneous income) for the SCP, in accordance with the growth rate in domestic passenger traffic as shown in Table 28. Other revenue – Rent and Services.
10.2.4 -The Authority notes that AAI has assumed 5% Y-O-Y increase in revenue from Building (residential) and 7.5% Y-O-Y increase in revenue from Building (Non-residential) from FY 2024-25. The Authority notes that AAI has estimated revenue from land lease for FY 2023-24 and FY 2024-25 at a growth rate of 5% and for FY 2025-26 growth rate of 20% and thereafter 5% Y-O-Y growth rate. The Authority proposes to consider the same for determining NAR for the SCP for Bhubaneswar International Airport.
Authority has considered the non-aero revenue of Rs. 242.53 crores against the AAI submission of 183.55 crores.

AAI's Submission

AERA has linked the **Growth of revenue** from TR stall, Car Rental, Car parking, hoarding and display, Admission Tickets and Other Misc. Income to that of **passenger Growth rate**. In this regard it is submitted that major contracts at airports are based on fixed license fees and the License Fees will not be changed due to any increase in the increase in the consumer spending pattern and the growth of the passenger traffic. Further for other miscellaneous Income, growth of 5% has already been considered in the MYTP for SCP whereas AERA has linked with the growth rate of passengers. Other misc. income consists of transfer of overdue EMD/SD and sale scrap which inconsistent with the normal course of business.

AAI has Projected 10% growth for Restaurant/snack bars, Car Rental & Car Parking. For Hoarding & Display Growth rate for FY 2023-24 projected 9.89% and for the remaining years of SCP Growth rate is projected 10%. For TR stall, 8.08% is projected for FY 2023-24 whereas for FY 2024-25 growth rate is projected 13.17% and for the remaining years of SCP growth rate projected 10%. For Other misc. Income 5% is projected for the FY 2024-25 to FY 2027-28. Total Non-Aero revenue has been projected by AAI for SCP amounting to Rs.183.55 crores keeping the annual escalation and other factors into consideration.

In view of above, AERA is requested to consider the growth rate as claim in the MYTP for SCP which amounts to Non-Aeronautical Revenue of Rs. 183.55 Crore instead of Rs. 242.53 Crore.

xi. Tariff Card

Following notes may please be incorporated in Tariff Cards: -
AAI has submitted Tariff Card as requested by the AERA during the evaluation stage. It is to mention that the following points has been left out at the time of issuance of CP no 22/2023-24 in respect of BIA. It Is requested that Following notes may please be incorporated in Tariff Cards

In respect of Landing Charges:-

1. No Landing Charges shall be payable in respect of a)aircraft with a maximum certified capacity of less than 80 seats, being operated by domestic schedule operators at airport, b)helicopters of all types, and c) DGCA approved Flying school/flying training institute aircrafts.
2. All domestic legs of international routes flown by Indian operators will be treated as domestic flights as far as landing charges concerned irrespective of flight number assigned to such flights.
3. Domestic leg of international routes of foreign carriers shall be treated as international flights.
4. Charges shall be calculated on the basis of nearest MT (i.e. 1000 kg).
5. "A minimum Landing charge of Rs.4000/- per Flight in respect of Domestic Non-Scheduled Operators/GA operators or the applicable landing charges whichever is higher will be applicable".
6. Flight operating under Regional connectivity scheme will be completely exempted from Landing charges from the date of the scheme is operationalized by GOI.

Abbreviations

Abbreviations	Expansion
AAI	Airports Authority of India
Airport Economic Regulatory Authority	Airports Economic Regulatory Authority of India
ARR	Aggregate Revenue Requirement
C&AG	Comptroller and Auditor General of India
CA	Commissioned Assets
CCEA	The Cabinet Committee of Economic Affairs
CHQ	Corporate Head Quarter
CCJ	Calicut International Airport
CCU	Netaji Subhash Chandra Bose International Airport
CP	Consultation Paper
CWIP	Capital Work In Progress
DFMD	Door Frame Metal Detector
DIAL	Delhi International Airport Limited
DPR	Detailed Project Report
EQTR	Employee Quarter Ratio
ETD	Estimated Time of Travel
FRoR	Fair Rate of Return
FY	Financial Year
HHMD	Handheld Metal Detectors
IATA	International Air Transport Association
IDC	Interest During Construction
IMG	Inter-Ministerial Group
INR	Indian Rupee
KIAL	Kannur International Airport Limited
MIAL	Mumbai International Airport Limited
MOCA	Ministry of Civil Aviation
MYTO	Multi Year Tariff Order
MYTP	Multi Year Tariff Proposal
NCAP	National Civil Aviation Policy
NITB	New Integrated Terminal Building
OMDA	Operations, Management and Development and Agreement
PCN	Pavement Classification Number
PIB	Pre-flight Information Bulletin
PMC	Project Management Contract
PPP	Public Private Partnership
RAB	Regulatory Asset Base

Abbreviations	Expansion
RET	Rapid Exit Taxiways
RHQ	Regional Head Quarters
SSA	State Support Agreement
STP	Sewage Treatment Plant
SXR	Bhubaneswar International Airport
TBLR	Terminal Building Ratio
UDF	User Development Fee
WIPA	Work in Progress Assets
XBIS	X-ray Baggage Inspection System