adani

Ref No: GIAL/CO/AERA-MYTP/2024/2 **Date: 6th July 2024**

To,
The Director (P&S, Tariff),
Airports Economic Regulatory Authority of India,
AERA Building, New Administrative Block,
Safdarjung Airport,
New Delhi- 110003.

Sub: Comments on the Consultation Paper No. 01/2024-25 dated 6th June 2024 in The Matter of Determination of Aeronautical Tariff for Lokpriya Gopinath Bordoloi International Airport, Guwahati (LGBIA) for the Third Control Period (01.04.2022 - 31.03.2027)

Dear Sir,

This is in respect to the Consultation Paper No. 01/2024-25 dated 6th June 2024 in The Matter of Determination of Aeronautical Tariff for Lokpriya Gopinath Bordoloi International Airport, Guwahati (LGBIA) for the Third Control Period (01.04.2022 - 31.03.2027), we hereby submit our written comments chapter-wise.

We shall be pleased to provide any further information that the Authority may require in this regard.

Thanking you

Yours Sincerely,
For **Guwahati International Airport Limited,**

Ashz

Ashu Madan
Authorized Signatory

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Comments on the Consultation Paper No. 1/2024-25 dated 6th June 2024 in The Matter of Determination of Aeronautical Tariff for Lokpriya Gopinath Bordoloi International Airport, Guwahati (LGBIA) for the Third Control Period (01.04.2022 - 31.03.2027)

Disclaimer

This document has been prepared by Guwahati International Airport Limited (GIAL) in response to AERA's Consultation Paper No. 1/2024-25 dated 6th June 2024 in The Matter of Determination of Aeronautical Tariff for Lokpriya Gopinath Bordoloi International Airport, Guwahati (LGBIA) for the Third Control Period (01.04.2022 - 31.03.2027).

The purpose of this document is to solely provide a response to the tentative decisions proposed by AERA in Consultation Paper (CP) and should not be referred to and relied upon by any person against GIAL. This document includes statements, which reflect various assumptions and assessments by GIAL and relevant references to various documents. Same does not purport to contain all the information to support our response.

This document may not be appropriate for all persons, and it is not possible for GIAL to consider particular needs of each party who reads or uses this document.

Whilst every effort has been made to ensure the accuracy of the information provided herein, GIAL cannot be held responsible for any errors or omissions. GIAL shall have no liability to any person under any law for any loss, damages, cost, or expense on account of anything contained in this document.

The response set out below to the CP shall not be construed as an acceptance by GIAL of the various assumptions undertaken by the Authority in the CP.

We request the Authority to follow the previous orders passed in case of other airports by AERA, Hon'ble TDSAT and the Hon'ble Supreme Court of India, as well as orders concerning the points raised in the MYTP and this response. It is settled law that juridical discipline requires the Authority and/or courts of law to follow the previous orders to maintain certainty of things. At the same time, the Airport Operator is always entitled to raise / agitate the points which are not in consonance with the relevant guidelines and judicial pronouncements irrespective of previous orders in this regard.

The response is without prejudice to GIAL's rights, submissions, contentions available to it in accordance with applicable laws.

List of Abbreviations:

Abbreviation	Expansion
AAHL	Adani Airport Holdings Limited
AAI	Airport Authority of India
ACI	Airport Council International
AEL	Adani Enterprises Limited
AERA or Authority	Airport Economic Regulatory Authority of India
AO	Airport Operator
AOCC	Airport Operator Control Centre
ARR	Aggregate Revenue Requirement
ATM	Air Traffic Movement
ATP	Annual Tariff Proposal
AUCC	Airport Users Consultative Committee
AVSEC	Aviation Security
BIAL	Bengaluru International Airport Limited
CA	Concession Agreement signed between AAI and GIAL as on 19th January 2021
CAPM	Capital Asset Pricing Model
COD	Commercial Operation Date
CoD	Cost of Debt
CoE	Cost of Equity
CP	Consultation Paper No. 01/2024-25 dated 6th June 2024
CPI	Consumer Price Index
CPWD	Central Public Works Department
CSS	Corporate Support Services
CWIP	Capital Work in Progress
DGCA	Director General of Civil Aviation
DIAL	Delhi International Airport Limited
EHCR	Employee Head Count Ratio
ERP	Equity Risk Premium
EV	Electric Vehicle
FIDS	Flight Information Display System
FRoR	Fair Rate of Return
FY	Financial Year
GHIAL / HIAL	GMR Hyderabad International Airport Ltd / Hyderabad international Airport Ltd
GIAL or GAU	Guwahati International Airport Limited
GoI	Government of India
HR	Human Resource
HSD	High Speed Diesel
IATA	International Air Travelers Association
ICAO	International Civil Aviation Organization
IDC	Interest during Construction
ILHBS	In-Line Hold Baggage System
IMG	Inter-Ministerial Group
LGBIA	Lokpriya Gopinath Bordoloi International Airport, Guwahati
LOA	Letter of Award
LOI	Letter of Intent
MCLR	Marginal Cost of Funds based Lending Rate

Abbreviation	Expansion
MIAL	Mumbai International Airport Limited
Mm / Mn	Million
MPPA	Million Passenger Per Annum
MYTP	Multi Year Tariff Proposal
NAR	Non-Aeronautical Revenue
NBFC	Non-Banking Financial Company
NCAP	National Civil Aviation Policy, 2016
NITB	New Integrated Terminal Building
O&M	Operation & Maintenance
ORAT	Operational Readiness and Airport Transfer
PAX	Passengers
R&M	Repairs and Maintenance
RAB	Regulatory Asset Base
RCS	Regional Connectivity Scheme
RFPs/RFQs	Request for Proposals / Request for Quotes
RWY	Runway
SCP	Second Control Period
T1	Terminal 1 of Guwahati Airport
TCP	Third Control Period
TDSAT or the Appellate Authority	Telecom Disputes Settlement and Appellate Tribunal
UDF	User Development Fees
VDGS	Visual Docking Guidance System
WACC	Weighted Average Cost of Capital

Airport Operator or AO or GIAL means the same and as has been used interchangeably in this document.

In this document, “Authority” where any clause from Concession Agreement is mentioned it refers to Airports Authority of India (AAI) and for rest of the document Authority refers to Airport Economic Regulatory Authority of India (AERA).

In this document, “The AERA Act” refers to The Airports Economic Regulatory Authority of India Act, 2008 (as updated from time to time).

In this document, “The AERA Guidelines” refers to Airports Economic Regulatory Authority of India (Terms and Conditions for Determination of Tariff for Airport Operators) Guidelines, 2011.

Table of Contents

1 Chapter 1 “Comments on Consultation Paper Chapter 5 - True Up of GIAL for the Period from COD Till March 31, 2022”

1.1 AERA proposal as per 4.5.18, 4.7.3 and 5.4.4 of CP and 4.3.1 of Appendix I relating to True up of RAB

4.5.18

- *Aeronautical assets (e.g. aerobridges, runway, apron etc.) are directly added to RAB and assets identified to be Non-Aeronautical (e.g. commercial complex) are excluded from it. The assets that have been classified as Common assets need to be further bifurcated into aeronautical and non-aeronautical based on a suitable ratio. This ratio has been determined based on the underlying proportion of their expected utilization for Aeronautical and Non-aeronautical services and activities at the Airport.*

4.3.1 of Appendix I – Study on Allocation of Assets

Terminal Building Ratio

It was observed that as per AAI's True up submission for the SCP till COD, had an average terminal building ratio of 91.41:8.59 based on actual utilization. The Authority in its order 38/2017-18 dtd. 16th February, 2018 for Second Control Period for LGBIA had decided to adopt 89.02% as aeronautical area based on actual terminal area ratio calculations submitted by AAI for FY 2015-16.

This is also consistent with the IMG norms, which has recommended the Non-Aeronautical area within the terminal building for airports having passenger traffic less than 10 MPPA to be in the range of 8% to 12% of the total terminal area and for airports having passenger traffic greater than 10 MPPA to be up to 20%. With an actual passenger traffic of ~5.46 MPPA in FY 2019-20 (pre-Covid year), and 5.05 MPPA in FY 2022-23, LGBIA falls into the former category i.e., less than 10 MPPA.

In view of the Tariff Order for Second Control Period and IMG norms, the Study thus proposes to consider the Terminal Building ratio of 89.02:10.98, in respect of LGBIA for the period from FY 2016-17 till COD.

4.7.3

c. Taking cognizance of the above clauses in the Concession Agreement and adjustments & reclassification proposed by the Authority based on the outcome of the independent study conducted by the Independent Consultant appointed by AERA on allocation of assets for LGBIA, including disallowance of Financing Allowance, inclusion of IDC and the left out assets, reclassification of assets and the resulting change in depreciation, the Authority has determined the Deemed Initial RAB as on COD, as follows:

Table 26: Determination of Deemed Initial RAB by the Authority

(₹ crores)

Particulars	Aeronautical assets (A)	Non-aeronautical assets (B)	ANS assets (C)	Total D = (A + B + C)
Net block value of assets handed over by AAI on COD as per JARS	156.60	6.74	3.16	166.50

Particulars	Aeronautical assets (A)	Non-aeronautical assets (B)	ANS assets (C)	Total D = (A + B + C)
Impact due to reclassification of RAB on transferred assets*	(0.96)	0.96	-	
Net assets transferred by AAI to GIAL as on COD*	**155.64**	**7.70**	**3.16**	**166.50**
Deemed Initial RAB as on COD for GIAL (Aero + ANS)				**158.80**

5.4.4

The asset allocation study reviewed the various asset categories and developed a basis for segregation of various assets into Aeronautical, Non-aeronautical and Common assets. Authority noted that GIAL also procured employee related asset which needs to be allocated as per Employee Ratio. The Authority considers the employee ratio derived as part of the Study on Efficient Operation and Maintenance Expenses for LGBIA. As per para 5.2.3. of the said study the Employee Head Count Ratio for GIAL is 95:5 (Aeronautical: Non-aeronautical).

Various references that Assets have been allocated based on Terminal Building Ratio and Employee Head Count Ratio.

Comments by GIAL:-

1.1.1 **The comments on similar matters are provided at 1.3.2 and 3.13 below. The same may be referred hereto.**

1.2 AERA proposal as per 5.7.4 page 75 onwards of CP relating to pre-COD expenses

The Authority notes that GIAL has submitted pre-COD expenses amounting to ₹ 9.85 crores for true-up of the post-COD period. This expense included ₹ 1.08 crores related to payroll costs.

The Authority takes cognizance of the fact that AAI deputed its staff and management personnel to the Airport which was already in operation (being a brownfield airport) during the transition period, including prior to the COD to ensure that the relevant knowledge and experience of the operation and management of LGBIA is transferred to GIAL. Therefore, the deputation of such staff is relevant towards the objective of smooth transition of the airport from AAI to GIAL, and fulfilment of the terms of the CA.

Furthermore, the Authority also notes that as per Clause 15.1.2 of the Concession Agreement, the Concessionaire is mandated to achieve COD within 180 days from the date of the Concession Agreement.

Further, the Authority notes that as per clause 16.5 of the Concession Agreement, the Concessionaire team had to work in tandem for a period of sixty (60) days prior to COD with AAI's team to understand the airport operations.

Based on the above factors, the Authority notes that AAI deputed its staff and management personnel to the Airport during the transition period, including prior to the COD and the cost of such personnel was paid by the Airport Operator. Additionally, Adani Group also deputed its own manpower from other group entities. The Authority has accordingly decided to consider salary expenses pertaining to such Adani Group entities for the period of six months prior to COD, i.e., from 8th April 2021 to 7th October 2021. Further, the salary costs of GIAL's employees for the period 8th August 2021 to 7th October 2021 has been considered for the purpose of tariff determination.

The Authority proposes to consider only this manpower cost for true-up based on the following:

- *The Authority, after making a detailed study on the provisions of the Concession Agreement, decided that there is no provision in the Concession Agreement to include in the true up, the remaining costs incurred by GIAL prior to Letter of Award (LoA). It is to be noted that the bid expenses incurred prior to the date of LoA cannot be considered as pass-through expense by the Authoirty.*

- *The Authority proposes that the bid expenses incurred prior to the date of Letter of Award of GIAL, and expenses incurred between the date of Concession Agreement and COD (other than as specifically considered above), as submitted by GIAL are not considered for tariff determination.*

Based on the above considerations, the total costs pertaining to manpower cost prior to COD, as allowed for the purpose of true-up of LGBIA is as follows:

Table 54: Pre-COD expenses proposed by the Authority for the Third Control Period

(₹ Crores)

Particular	Nature of expense	Total	% Allowable	Proposed Pre-COD Expense
Expense till Letter of Award-setting up Airport business	*Corporate Cost Allocation*	*1.72*	*NIL*	-
Project Cost for setup for Airport Business - Allocation by parent companies	*Corporate Cost Allocation*	*1.86*	*NIL*	-
Other Preliminary expense prior to COD	*Incurred by GIAL*	*5.19*	*NIL*	-
Pre-COD Payroll Cost	*On roll employee cost*	*1.08*	*100%*	*1.08*
Total		***9.85***		***1.08***

Comments by GIAL: -

1.2.1. It is to be noted that the overall claim of the GIAL included salaries, professional consultancies, and other administrative expenses. However, the Authority has only considered the salaries.

1.2.2. We would like to place on record that: -

1.2.2.1. Adani Enterprises Limited (AEL) was announced the successful bidder for Guwahati Airport in Feb-2019. As the Concession agreement was a part of the Bid, AEL was aware of its obligations and responsibilities under the Concession Agreement and activities that were required to be done to achieve the successful Commercial Operations Date (COD). This process was akin to Operational Readiness and Airport Transfer (ORAT) activity which is done when green field facility is commissioned at the Airport. When an old asset is taken over by a new owner with a responsibility to maintain superior service standards which were not supported by the existing infrastructure and bottlenecks, it is akin to a greenfield asset from the operations perspective.

The Authority in case of Bengaluru International Airport Limited (BIAL) has approved cost of Rs. 46 Crs for **ORAT** during tariff determination of third control period (refer page no. 252 of Order No. 11/2021-22 for BIAL Third Control Period).

1.2.2.2. We had earlier submitted to the Authority that various clauses in the Concession agreement mandated certain activities/obligations to be performed by the Airport Operator prior to COD so that the transition from AAI to AO is smooth. These activities covered many areas like operational readiness, familiarization & training, Trial programs, Airport facility assessment, Capability building & human resource management, observation period, financial closure etc. Being an operating Airport, these were important from the perspective of Airport users and passengers as well. It appears from the CP that the same has not been taken cognizance of by the Authority. Hence, we are reproducing the relevant provisions of the CA for your ready reference: -

Extract of relevant clauses from the Concession Agreement:

Clause 16.5 Observation Period prior to COD: - There was a requirement to have 60 days of observation period before COD whereby Concessionaire's team was to work along with AAI's team to understand the Airport operations. In order to have a dedicated Airport team to be ready for participation in the Observation period Concessionaire is required to hire personnel well before the time.

Further As per Clause 5.8 of the CA, Concessionaire is obligated to have trained personnel employed all the time. Before taking over the Airport, the AO is required to hire people who are trained to take care of safe operations of the Airport.

As per Clause 4.1.3 of the CA, as a condition precedent; Concessionaire needs to fulfill the following activities: -

Particular	Details
Submission of PBG within 120 days of signing of CA.	Submission of PBG requires engagement with various Banks, lenders and financial institutions. This also requires a dedicated finance team to work with various financial institutions.
Procure all the applicable permits	All the necessary applicable permits need to be obtained which encompass all the functions of the Airport: - Operational like CTO, Fire NOCs, Clearance of BoD Financial – GST / PAN / TAN Engineering & Maintenance – Travelators, Weights & Measures, Single Line, HR Compliances – Shops & Establishment / ESI / PSF / CLRA Security – Clearance of Aviation Security Program In order to process and obtain the necessary applicable permits adequate manpower had to be onboarded well before the COD so that necessary applications are made timely, and approvals are obtained.
List of construction works to be undertaken in the first seven concession years	In order to provide a list of construction works, Master planning needed to be undertaken which required engagement of master planner, designer, architects, town planners etc. Further under **clause 5.12 of the CA Obligations** relating to aesthetic quality of the Airport it is stated that "The Concessionaire shall engage professional architects and town planners of repute for ensuring that the design of the Airport meets the aforesaid aesthetic standards"
Execution of the escrow agreement as per Schedule M	This requires engagement with banks, lenders, financial institutions to perform the necessary documentation.

Clause 6.4.5 Works in Progress: - Concessionaire is obligated to pay CWIP amounts to AAI. "*The Parties shall constitute a committee comprising representatives of the Concessionaire, Authority and each of the counterparties under such contracts, which committee shall be responsible for: (a) facilitating any discussions and/ or interactions amongst AAI, the Concessionaire and the counterparties under such contracts, including in respect of any modifications to the works, and (b) coordinating, facilitating, and monitoring the progress of such works-in-progress.*"
In order to assess the works in progress both physical and financial, necessary teams were engaged from master planning, designing, asset health check, vendor management and financial experts.

Clause 10.2 Lease, Access, and Right of Way: - Concessionaire is allowed to take necessary surveys, investigations etc. of the property prior to COD to assess various risks associated with the site.
This activity required the engagement of various experts and agencies.

Clause 10.3 Procurement of the Site: - Both AAI and Concessionaire need to undertake joint inspection of site, inventory of buildings, structures, roads works etc.
This required dedicated finance, operations and engineering & maintenance teams in place to do the joint inspection and asset health check.

Clause 15.1 / 26.1 Commercial Operation Date / Financial Close: - In order to achieve COD, financial close is a mandatory requirement.
To make financial projections necessary studies were required to be undertaken like traffic study, revenue potential study, capex planning based on master planning, estimation of capex, operating cost estimation, engagement of financial consultant, financial modelling etc. This required the engagement of consultants and also an in-house corporate finance team.

Clause 18.17 Maintenance Programme :- On or before COD, Concessionaire needs to submit detailed Maintenance Programme which shall include: (a) preventive maintenance schedule; (b) arrangements and procedures for carrying out urgent repairs; (c) criteria to be adopted for deciding maintenance needs; (d) intervals and procedures for carrying out inspection of all elements of the Airport; (e) intervals at which the Concessionaire shall carry out periodic maintenance; (f) arrangements and procedures for carrying out safety related measures; and (g) intervals for major maintenance works and the scope thereof.
In order to prepare the Maintenance Programme a dedicated Engineer's team involvement was required. Further this required investigation and detailed health study of the existing assets. The detailed study was conducted by engagement of both in-house team and expert consultants.

Clause 28.1 Collection of Fees by the Concessionaire: - On and from COD and till the Transfer Date, the Concessionaire has the sole and exclusive right to demand, collect and appropriate Fees from the Users for the provision of the Aeronautical Services and Non-Aeronautical Services, including the airlines and passengers, in accordance with the provisions of the Regulatory Framework.

In order to collect the fees from COD onwards, the necessary IT infrastructure was required to be set up which included SAP, AODB, AOCC, Billing Systems, and Passenger Data Collection System. In addition, it required Engagement of Finance team, assessment of existing IT Infrastructure, engagement of IT experts and experts who understood the regulatory framework.

Clause 28.8 Display of Aeronautical Charges: - Website was required to be ready and necessary aeronautical charges needed to be provided on the website. This required the creation of websites, domains, engaging IT experts, domain experts, experts from regulatory framework etc.

Clause 30.3 Insurances: - No later than 30 (thirty) days prior to commencement of the Concession Period, the Concessionaire shall by notice furnish to the Authority, in reasonable detail, information in respect of the insurances that it proposes to take.

This required engagement of insurance agents, risk measurement, assessment of asset value, risk mitigation plan etc.

Various other requirements under the CA which entailed onboarding of personnel/consultants: -

- Operational SOPs
- Clause 23 - Readiness of Performance Measurement Plan
- Schedule H - to obtain ACI Membership
- Schedule 1 - Submission of Aerodrome Emergency Plan prior to COD
- 18.15.4 Establishing Airport Safety Management Unit (ASMU)
- Formation of various committees - JCC for CNS ATM, MoU, Capex, Right of Way
- Aeronautical Information Services
- Apron Management Unit

1.2.2.3. Further, we had provided the details of various professional consultancies and expenses incurred as part of Pre-COD expenses as below:

Particulars	Amt (Rs. Cr)	Remarks & Comments
Category 1: Expenses till letter of award	**1.72**	
Project cost for Setup for Airport Business (Expenses upto Sep'20) - Allocation by parent companies	1.72	
Category 2: Expenses from letter of award to COD	**8.13**	
Project cost for setup for Airport Business (Munich Airport Service) - Allocation by parent companies	1.86	This was consultancy provided for organization set up, master plan review, Staff Capacity Building & Training Need Analysis, Transition Management.

Particulars	Amt (Rs. Cr)	Remarks & Comments
Consultancy for Traffic Study	1.31	The report was used to make master plan which is mandatory requirement under CA
Pre-COD Payroll Cost (salary cost incurred by GIAL)	1.08	Allowed by the Authority
Project cost for Setup for Airport Business - Allocation by parent companies	0.50	Allocation by parent companies for providing group resources. The similar cost was approved in Ahmedabad, Lucknow, Mangaluru and Thiruvananthapuram Airports
IT Assessment & Transition - M/s Wipro	0.30	The consultant was engaged to assess the AAI existing IT infrastructure and what are the gaps.
Bank Charges for PBG	1.29	These are charges paid to Bank for arranging Performance Bank Guarantee which is to be provided to AAI at least 2 months before the COD as required under CA. The similar cost is approved in Thiruvananthapuram Airport.
Consultancy for verification of CWIP from AAI - M/s Ernst & Young	0.22	The report is used to verify the CWIP works transferred by AAI to GIAL as mandated under clause 4.6.5 of the CA.
Consultancy for Master Planning	0.99	The report was used to make master plan which is mandatory requirement under CA
Misc Exp (incl. beautification of terminals, one-time expenses for handover, Printing-Stationery, Vehicle Hiring etc)	0.58	Miscellaneous Expenses incurred as a run-up to achieve COD.
Total Pre-COD Exp	**9.86**	

As can be seen in the above table, payment for professional consultancy during Pre-COD period included payment for various services including Master Plan review, IT assessment, Traffic Study, Design brief, Verification of CWIP from AAI, Rewards and workplace policies from HR perspective, to name a few. All these services were essential to achieve the successful transition of the airport from AAI to AO. Further, the pre-COD expenses also included the bank charges and commission paid to Woori Bank for Issuance of Performance Bank Guarantee as required under CA.

1.2.2.4. **From the foregoing submissions, the Authority would appreciate that without having proper manpower and professional support, it would not have been possible to achieve transition of airport from AAI to AO as mandated under the CA. These activities were required to be performed prior to COD. Hence, the expenditure incurred by the AO to achieve successful COD are essential, genuine, and legitimate. Hence, allowing salary expenses for a part period only ignoring the other legitimate expenses on professional fees etc. is not logical.**

1.2.3. **In view of the above, we request the Authority to at least take into account the actual expenditure incurred post issue of LOA by AAI till COD i.e. Rs. 8.13 crores against Rs. 9.86 crores claimed.**

1.3 AERA proposal as per 5.7.5 page 76 onwards of CP relating to Rationalization of O&M Expenses

5.7.5

Corporate Allocation Cost

Observation: It is observed that the Aeronautical Corporate Allocation Cost of ₹ 4.24 crores had been incurred by GIAL towards Corporate Support Services received from the Companies, namely, Adani Enterprises Limited (AEL) and Adani Airports Holding Limited (AAHL) for the period from Post-COD till March 31, 2022. This cost includes ₹ 2.07 crores from AAHL and ₹ 2.17 Crore from AEL.

AAHL has been referred as one of the Concessionaire for all NAR activities and the services provided by AAHL & AEL are mainly in the nature of provided specialised resources and knowledge which benefits the whole airport ecosystem, therefore the cost needs to be allocated in the same ratio as the employee cost of GIAL manpower cost has been allocated. The impact of such difference is a decrease of ₹ 0.21 crores

Further, it is noted that the Corporate Allocation Cost claimed by GIAL includes an amount of ₹ 0.03 crores allocated towards In-house Legal department, which is in addition to the cost of one (01) employee of Legal department, already considered under the manpower expenses of GIAL and is not justified. Hence, the Study proposes to exclude this ₹ 0.03 crores from the Corporate Allocation cost submitted by GIAL.

Impact: The impact of the reallocation results in reduction of Corporate Allocation expenses by ₹ 0.24 crores for the period from COD till March 31, 2022.

The impact on the Aeronautical O&M expenses of GIAL on account of the proposed reallocation of expenses is as follows:

Various references that O&M Expenses have been allocated into various allocation ratios (EHCR, Gross Fixed Asset Ratio, Terminal Building Ratio) which has an overall impact of reduction of Rs. 1.65 Cr in O&M Expenses as indicated in Table 55.

Comments by GIAL: -

1.3.1 Regarding the Authority's proposal to exclude cost of legal employees from Corporate Support Services cost, as Authority has allowed corporate cost allocation for other departments like Operations, Finance, etc. it is logical that corporate cost allocation for legal department should also be allowed.

The Authority has mentioned in the CP, example of distinct roles and responsibilities of other functions like Finance, IT etc. at Airport Company and at Corporate Level. Likewise Legal department also has different roles and responsibilities at Airport company and Corporate Level

Roles and Responsibilities at Corporate Level

- Providing business and legal perspective and advice on a wide range of strategic, tactical, and operational issues to all Airports teams
- Determination of legal interests and options and counsel to top leadership on legal matters
- Coordinating and giving directions with external counsels
- Participating in the formulation of general management policy as a member of the executive management team
- Developing and leading internal audit and corporate compliance programs

Roles and Responsibilities at Airport Level

- Transaction support, including in relation to contracting and compliance.
- Drafting and vetting of RFP/RFQs,
- Applicability and compliances of local laws applicable to the Airport and maintaining proper corporate interactions with the relevant local, state and federal governmental bodies, legislatures.

1.3.1.1 We would like to take reference from Consultation Paper No. 15/2020-21 for Delhi Airport where Corporate Cost Allocation without any deduction of legal corporate cost is allowed by the Authority in tariff order. It is to be noted that DIAL has Legal team employed at Airport Company also and there is no redundancy between the Corporate legal team and Airport Legal team. The extract from DIAL Consultation Paper No. 15/2020-21 is provided as follows:

DIAL Corporate Level Structure

13.6.1 GMR AIRPORTS LIMITED

Table 80Cost Objected allocated from GAL to DIAL

S.NO	DEPARTMENT COST CHARGED	COST TYPE	BASIS OF APPORTIONMENT
1	GCM Office	Fully Chargeable	Weighted Average Ratio of Assets*
2	BCM Office	Fully Chargeable	Weighted Average Ratio of Assets
3	CEO Office	Fully Chargeable	Weighted Average Ratio of Assets
4	Stakeholder Management	Fully Chargeable	Weighted Average Ratio of Assets
5	Commercial and BD	Semi- Chargeable*	Weighted Average Ratio of Assets
6	Legal	Fully Chargeable	Weighted Average Ratio of Assets
7	Sector HR	Semi- Chargeable*	Weighted Average Ratio of Assets
8	Sector IT	Semi- Chargeable*	Weighted Average Ratio of Assets
9	Strategic Planning Group	Fully Chargeable	Weighted Average Ratio of Assets
10	Finance and Accounts	Semi- Chargeable*	Weighted Average Ratio of Assets
11	Regulatory	Fully Chargeable	Weighted Average Ratio of Assets

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Study on Efficient Operation and Maintenance Costs

DIAL Airport Company Structure

Table 42 Manpower Count for DIAL during Second Control Period

S. No	Department	Functions	FY15	FY16	FY17	FY18
1	Operations (DIAL)	Airport Operations	465	437	471	570
2	BCM/CEO Office	Senior Management	12	12	32	60
3	Commercial (Aeronautical & Non-Aeronautical)	Support Functions	88	82	81	89
4	Corporate Communication	Support Functions	12	11	10	14
5	Corporate Relations	Support Functions	24	21	20	21
6	SPG/Business Integration & Planning	Support Functions	20	20	20	20
7	Ethics &Intelligence & GMRVF	Support Functions	26	27	33	37
8	Finance & Accounts	Support Functions	62	69	73	107
9	Human Resources & FMS	Support Functions	34	35	31	73
10	Guest Relations	Support Functions	25	24	23	21
11	IT	Support Functions	19	12	7	6
12	Legal	Support Functions	15	13	13	21
13	MAG	Support Functions	6	5	7	16
14	Project & Engineering	Airport Operations	27	23	21	18
16	Quality, Service & Delivery	Airport Operations	15	14	11	13
17	Baggage Screeners	Airport Operations	438	422	316	319
18	Security	Airport Operations	85	87	91	106
19	Trolley retriever	Airport Operations	215	204	220	226
Total Manpower (Excluding CPD)			**1,588**	**1,518**	**1,480**	**1,737**

1.3.1.2 It is relevant to note that these services are not being provided by a third party and are the employees of GIAL's parent company.

1.3.1.3 **Based on the above facts, we request the Authority to allow the corporate cost allocation, the amount which has been actually incurred and paid, during the period from COD till 31st March 2022 without any downward adjustment for legal department cost.**

1.3.2 **With respect to allocation of O&M Expenses**

1.3.2.1 Under the Shared-Till (or Hybrid Till) model as proposed in National Civil Aviation Policy, 2016, 30% of Non-Aeronautical Revenues are accounted for cross subsidizing the ARR. There is no mention of allocation of RAB, allocation of Operation and Maintenance etc. Therefore, there is no need to apply the allocation ratio whereby capital and operating expenditure is reduced, which acts as a dual burden for the Airport Operator. Also, the AERA Guidelines do not provide for applying the allocation ratio.

Relevant extract of National Civil Aviation Policy, 2016 is reproduced below: "To ensure uniformity and level playing field across various operators, future tariffs at all airports will be calculated on a 'hybrid till' basis, unless otherwise specified for any project being bid out in future. 30% of non-aeronautical revenue will be used to cross-subsidize aeronautical charges."

For ease of reference, the relevant clause regarding the 'Shared Till' approach from the Concession Agreement is reproduced hereunder:

28.3.2. The GOI has, through the National Civil Aviation Policy dated June 15, 2016, approved, ("Shared-Till Approval") the 30% (thirty percent) shared-till framework for the determination and regulation of the Aeronautical Charges for all airports in India, and the same shall be accordingly considered by the Regulator for the purposes of the determination of the Fees/Aeronautical Charges pursuant to the provisions of this Agreement. It is clarified that, for the purposes of this Agreement, the Shared-Till Approval shall apply as on the date of this Agreement notwithstanding any subsequent revision or amendment of such Shared-Till Approval."

1.3.2.2 Further as per AERA Order No. 14/2016-17 issued on 23rd January 2017, the Authority has adopted the Hybrid Till whereas 30% of non-aeronautical revenues are used to cross-subsidize aeronautical charges. The order only provides for cross subsidization of 30% from non-aeronautical revenues. The relevant extract of the order is as : -

The Authority, in exercise of powers conferred by Section 13(1)(a) of the Airports Economic Regulatory Authority of India Act, 2008 and after careful consideration of the comments of the stakeholders on the subject issue, decides and orders that:

(i) *The Authority will in future determine the tariffs of major airports under "Hybrid-Till" **wherein** 30% of non-aeronautical revenues will be used to cross-subsidise aeronautical charges. Accordingly, to that extant the airport operator guidelines of the Authority shall be amended. The provisions of the Guidelines issued by the Authority, other than regulatory till, shall remain the same.*
(emphasized)

1.3.2.3 **The Authority, however, in addition to the cross subsidy of 30% of Non-AERO revenue, has reduced the RAB and O&M expenses by allocating the same to AERO & Non-AERO which is neither provided in the NCAP nor provided in the AERA guidelines. If the intent of the same is to reduce then the same should have been explicitly provided in the NCAP or AERA Guidelines.**

1.3.2.4 **Therefore, we request the Authority to kindly revise all the calculations provided in the consultation paper without allocating building blocks into Aeronautical and Non-Aeronautical, which are not required either in AERA Guidelines or in NCAP.**

1.4 AERA proposal as per 5.7.3 page 75 of CP relating to Working Capital Interest

It is observed that GIAL has included Working Capital Loan Interest amount of ₹ 0.26 crores for ARR computation as Aeronautical. As per GIAL, the working capital interest has been calculated on best estimation basis since the ICD loan is a mix of working capital and other debt. Since, GIAL has not provided calculations for the working capital interest, the Authority therefore proposes that cost towards working capital loan interest cannot be considered at this stage.

Comments by GIAL: -

1.4.1 GIAL has tied up with AAHL for arranging funds through Inter Corporate Deposits for short term as well as long term requirements. The Inter Corporate Deposit are used for various purposes including but not limited to regular working capital requirement.

In respect to the Authority's comment that there is no evidence of working capital interest being incurred, we would like to submit that –

- The interest cost incurred is included in the Interest Expense on Inter Corporate Deposit (refer schedule 27 of the financial statement).
- As per the Inter Corporate Deposit agreement, **the loan amount from AAHL shall be utilized solely for purposes of activities in relation to the Airport**. The overall Inter Corporate Deposit amount received is fungible, and it is not possible to separately bifurcate the amount for respective usage. Hence, on a best estimation basis a calculation of interest is done in the financial model shared along with MYTP.

1.4.2 **The methodology and calculation of interest on working capital can vary based on opinions from different experts, however there is no denial of the fact that GIAL has utilized the funds for various purposes in relation to Airport including but not limited to working capital requirement.**

1.4.3 **In light of above. similar matter was positively considered by AERA in the recently approved tariff order for Thiruvananthapuram International Airport. Therefore, we request the Authority to kindly allow interest on working capital as GIAL has actually incurred costs.**

1.5 AERA proposal as per 5.8.2 page 79 of CP relating to True up Of Non-Aeronautical Revenue

5.8.2 The Authority, on verification of the NAR of GIAL, notes that ₹ 0.16 crores relate to space rentals from airlines. The Authority is of the view that space rentals from agencies providing aeronautical services should be treated as aeronautical revenue. The authority, therefore, proposes to exclude Space Rentals from airlines providing aeronautical services from the NAR for the post-COD period.

Comments by GIAL: -

1.5.1 In respect to the consideration of space rental income from airlines, we would like to submit that The AERA Act, 2008 and the AERA Guidelines ***do not categorize airline space rental as aeronautical revenue.*** As per AERA Act (a) "aeronautical service" means any service provided—

(i) for navigation, surveillance and supportive communication thereto for air traffic management;

(ii) for the landing, housing or parking of an aircraft or any other ground facility offered in connection with aircraft operations at an airport;

(iii) for ground safety services at an airport;

(iv) for ground handling services relating to aircraft, passengers and cargo at an airport;

(v) for the cargo facility at an airport;

(vi) for supplying fuel to the aircraft at an airport; and

(vii) for a stake-holder at an airport, for which the charges, in the opinion of the Central Government for the reasons to be recorded in writing, may be determined by the Authority;

1.5.2 We would also like to draw reference to the definition of Revenues from Non-Aeronautical sources read with Clause 4.23 of the International Civil Aviation Organization ("ICAO") Doc 9562 as below:

"Revenues from non-aeronautical sources: Any revenues received by an airport in consideration for the various commercial arrangements it makes in relation to the granting of concessions, the rental or leasing of premises and land, and freezone operations, even though such arrangements may in fact apply to activities that may themselves be considered to be of an aeronautical character (for example, concessions granted to oil companies to supply aviation fuel and lubricants and the rental of terminal building space or premises to aircraft operators). Also intended to be included are the gross revenues, less any sales tax or other taxes, earned by shops or services operated by the airport itself."

4.23 Rentals. Rentals payable by commercial enterprises and other entities for the use of airport-owned building space, land or equipment. Such rentals should include those payable by aircraft operators for airport-owned premises and facilities (e.g. check-in counters, sales counters and administrative offices) other than those already covered under "air traffic operations"

1.5.3 **In view of the above, it is clear that the space rental income is not an Aeronautical Service as per AERA Act, and also it is specified as Non-Aeronautical Service as per**

ICAO. Hence, we request the Authority to kindly consider revenues from space rentals as Non-Aeronautical.

2 Chapter 2 “Comments on Consultation Paper Chapter 6 – Traffic Projections for the Third Control Period”

2.1 AERA proposal as per 6.2.3 and 6.2.4 on page 85 of CP relating to Exempted Traffic

6.2.3 The Authority notes that GIAL has considered only billable ATM, after excluding ATM traffic that are exempted from landing charges. However, the Authority is of the view that RCS scheme is promoted by the GoI with the objective of making regional air connectivity affordable by supporting airline operators through concessions offered by Central Government, State Government and the Airport Operators. As this scheme is promoted to encourage small aircrafts, therefore the flights operating under this scheme are not eligible to be claimed as a passthrough/ exemption. The Authority notes that, as per GIAL's submission, out of 23% of less than 80-seater capacity category ATMs handled in FY23, approximately 8% of them falls under RCS category. Based on the above fact, the Authority has estimated traffic projections after excluding ATMs that pertain to less than 80-seater capacity flights which fall under non-RCS category and being exempted from landing charges. The Authority further notes GIAL's submission that Guwahati as capital city airport and gateway to North East states. It acts as a hub to destinations like Pasighat (IXT), Shillong (SHL), Rupsi (RUP), Tezpur (TEI) and other small sized airports in the vicinity. This regional connectivity model helps boost demand in the aforementioned destinations, which have restrictions for larger aircraft to operate. Further, limited traffic demand from regional cities restricts the seat loads on these routes and thus do not permit airlines to operate bigger aircraft.

6.2.4 The Authority, after rationalization has derived the exempted traffic as 15% for each tariff year and has considered the same for determining the billable domestic ATM. Based on the above factors, the exempt traffic considered by the Authority (after excluding ATMs that pertain to less than 80-seater capacity flights which fall under non-RCS category) for determining billable domestic ATM for the Third Control Period for LGBIA is as follows:

Table 67: Exempt traffic considered by the Authority for the Third Control Period

Particulars	FY'23	FY'24	FY'25	FY'26	FY'27
Exempt Domestic ATM considered by the Authority	15%	15%	15%	15%	15%

Similarly, Government of India has allowed exemption of UDF to certain categories of passengers through Order No. AIC 14/ 2019 read with AIC 20/ 2019. GIAL cannot claim any passthrough regarding UDF on such categories and this is followed by AERA across at all Major Airports.

Comments by GIAL: -

2.1.1 In respect to exempted passengers, we would like to draw the attention of Authority on the Tariff order for Bangalore Airport for Third Control Period order no. 11/2021-22 dated para 4.5.9 onwards.

Transfer passengers at Bangalore Airport

4.5.9 The Authority noted BIAL's submission related to transit/ transfer passengers at Bengaluru airport. The Authority noted from the Second Control Period order for BIAL that the transit/transfer passengers transiting upto 24 hours are exempted from levy of UDF. The relevant extract is produced below:

"Transit/transfer passengers (this exemption may be granted to all the passengers transiting upto 24 hours "A passenger is treated in transit only if onward travel journey is within 24 hours from arrival into airport and is part of the same ticket, in case 2 separate tickets are issued it would not be treated as transit passenger").

4.5.10 The Authority noted that BIAL has revised its projections of the share of the transit/ transfer passenger in the total passenger based on the actual transit/ transfer passenger share of FY21. The same are produced below:

Table 67: Forecast of share of transit/ transfer passenger in total passenger as per BIAL's MYTP for the Third Control Period

% of Exempt passengers	FY2022	FY2023	FY2024	FY2025	FY2026
Domestic Pax	13%	13%	13%	13%	13%
International Pax	5%	5%	5%	5%	5%

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Table 68: Forecast of share of transit/ transfer passenger in total passenger as per BIAL's ATP for the Third Control Period

% of Exempt passengers	FY2022	FY2023	FY2024	FY2025	FY2026
Domestic Pax	25.75%	17.45%	17.45%	17.45%	17.45%
International Pax	16.07%	11.11%	11.11%	11.11%	11.11%

4.5.11 The Authority examined the submissions made by BIAL related to the transit passengers in its ATP. The Authority is of the view that the increase in the transit passengers during FY21 is on account of the COVID-19 pandemic and thus, it is a short term trend and not likely to sustain in the future. Further, the Authority will be truing up the aeronautical revenues for the TCP based on actuals which will take into the actual transit passengers at BIAL. Therefore, the Authority decides that the share of transit passengers proposed by BIAL as part of its MYTP seem reasonable for the Third Control Period.

4.6 Authority's decisions regarding traffic projections for the Third Control Period

Based on the material before it and based on its analysis, the Authority has decided the following with regards to traffic projections for the Third Control Period:

4.6.1 To consider the passenger traffic, ATM traffic and cargo traffic as per Table 66 respectively which shall be trued up based on actuals.

4.6.2 To consider the share of transit passengers as per Table 67 for the Third Control Period.

2.1.2 In the Bangalore Tariff order, Authority has accepted the contention that transit passengers are exempted from UDF, and the percentage share of transit passenger assumed by Bangalore seems reasonable.

2.1.3 In AERA Order No. 46/2015-16, in respect of Metro Development Fees approval determination of Metro Connectivity Project for Mumbai Airport, Authority has suitably adjusted the billable passengers after deducting the exempted Passengers. The relevant extract from Order is provided as follows: -

Decision 5.b - To estimate the future billable passengers for both domestic and international passengers, as considered in Table 5.

Table 5: Estimated Billable Embarking Passengers for FY 2015-16 to FY 2023-24

Particulars (in millions)	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24
Total domestic passengers (A)	27.15	29.25	31.51	33.95	36.57	36.57	36.57	36.57	36.57
Total international passengers (B)	12.20	13.03	13.91	14.86	15.86	15.86	15.86	15.86	15.86
Embarking Domestic Passengers (C) = (50% of A)	13.58	14.63	15.76	16.98	18.29	18.29	18.29	18.29	18.29
Embarking International Passengers (D) = (50% of B)	6.10	6.52	6.96	7.43	7.93	7.93	7.93	7.93	7.93
Billable domestic passengers (E) = (80% of C)	10.86	11.70	12.60	13.58	14.63	14.63	14.63	14.63	14.63
Billable international passengers (F) = (80% of D)	4.88	5.21	5.57	5.94	6.35	6.35	6.35	6.35	6.35

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2.1.4 As can be seen from above, the Authority has been consistently recognizing the exempted passenger traffic and its impact in collection.

2.1.5 It is to be noted that AO has made adjustment in ATMs and Passengers to calculate only the billable traffic. The adjustment is necessitated to project the correct Aeronautical revenues.

2.1.6 Recent data indicate that ATM of approx. 20% of Domestic Flights are operated through less than 80 seater aircraft which is exempt from landing charges. Refer the data provided below:

Month	Domestic				
	Less than 80 seater (excluding RCS Flight)	RCS Flight	Total Exempted Flights	Other Flights	Total Domestic ATM
Apr-23	553	203	756	3,103	3,859
May-23	510	241	751	3,075	3,826
Jun-23	491	248	739	3,009	3,748
Jul-23	560	249	809	3,125	3,934
Aug-23	530	242	772	3,102	3,874

Sep-23	545	229	774	3,026	3,800
Oct-23	600	172	772	3,273	4,045
Nov-23	502	52	554	3,288	3,842
Dec-23	499	30	529	3,301	3,830
Jan-24	500	22	522	3,087	3,609
Feb-24	586	21	607	2,939	3,546
Mar-24	585	15	600	3,153	3,753
Total	**6,461**	**1,724**	**8,185**	**37,481**	**45,666**
%age	**14%**	**4%**	**18%**	**82%**	**100%**

2.1.7 Similarly, the recent data for Pax indicate that approx. 14% of Domestic Pax and 35% of International Pax pertains to exempt category (transfer, transit and infants), not liable for UDF charges. Refer the data provided below:

Break-up of Domestic Passengers

Month	Exempt Pax - Infant, Transfer, Transit	RCS Pax	Others	Total Domestic Pax	Exempt%
April'23	59,344	6,508	465,903	531,755	12%
May'23	56,616	6,979	429,766	493,361	13%
June'23	54,800	7,193	422,287	484,280	13%
July'23	54,979	7,683	438,518	501,180	13%
Aug'23	65,186	6,853	393,241	465,280	15%
Sep'23	62,795	8,515	387,275	458,585	16%
Oct'23	67,200	6,884	436,577	510,661	15%
Nov'23	69,768	2,212	430,363	502,343	14%
Dec'23	68,326	1,044	455,211	524,581	13%
Jan'24	64,689	1,050	426,849	492,588	13%
Feb'24	63,513	935	382,510	446,958	14%
Mar'24	63,822	1,302	450,592	515,716	13%
Total	**751,038**	**57,158**	**5,119,092**	**5,927,288**	14%

Break-up of International Passengers

Month	Exempt Pax - Infant, Transfer, Transit	RCS Pax	Others	Total International Pax	Exempt%
April'23	498		1,591	2,089	24%
May'23	927		1,115	2,042	45%
June'23	897		914	1,811	50%
July'23	759		1,009	1,768	43%
Aug'23	794		717	1,511	53%
Sep'23	236		116	352	67%
Oct'23	821		1,072	1,893	43%
Nov'23	1,040		1,042	2,082	50%
Dec'23	1,339		2,546	3,885	34%
Jan'24	1,160		3,398	4,558	25%
Feb'24	962		2,809	3,771	26%
Mar'24	1,185		3,374	4,559	26%
Total	**10,618**	**-**	**19,703**	**30,321**	35%

2.1.8 **In the recently approved tariff order for Thiruvananthapuram International Airport, the Authority has recognized that billable passenger is the correct way of projecting the Aeronautical Revenues and hence it will be taken care in true-up accordingly. The relevant portion of Para 6.5.1 and 6.5.2 of the Order No. 02/2024-25 is as follows : -**

The Authority has not considered Exempt Passengers in Tariff orders issued in the recent past. Further, Authority notes that at the time of tariff determination for the next control period, the actual aeronautical revenue, which is based on the actual billable traffic, will automatically take care of the concerns expressed by the stakeholders with respect to exempt passengers.

The Authority has examined FIA's comment that total traffic should be considered without making any adjustments for exempt passengers. The Authority notes that it would not be fair to project aeronautical revenue based on total traffic at the airport as it would not reflect the true revenue potential of the airport. Further, the Authority would like to clarify that the consideration of billable traffic is only for the computation of aeronautical revenue and not for the projection of non-aeronautical revenue. The Authority had finalized its projections of NAR based on the total traffic at the airport.

2.1.9 **We, therefore, request the Authority to consider deduction of exempted Passenger traffic of 14% for Domestic Passenger and 35% for International Passenger and 20% of Domestic Flights as exempted ATM, as per latest trends, while determining billable traffic for projection of aeronautical revenues. Accordingly, GIAL has prepared its ATP after considering only billable traffic. If we do not reduce the traffic which is not billable, the same will result in a known under-recovery since inception as projected ARR will not match with correct projected revenue.**

3 Chapter 3 "Comments on Consultation Paper Chapter 7 – Capital Expenditure (Capex), Depreciation and Regulatory Asset Base (RAB) For the Third Control Period"

3.1 AERA proposal as per clause 7.1.10 on Page 92 of CP relating to optimal planning and execution of capex projects

7.1.10 The Authority's Independent Consultant, interacted with the technical team of GIAL on the aspects of airport planning, traffic estimation and its short, mid and long term impact on Airport Economics as provided in the Concession Agreement.

Based on the response provided by GIAL, the Authority observed that prima facie, GIAL has not demonstrated desired understanding of optimal planning and execution of capex projects related to airport. This is evident from the fact that the proposed CAPEX has not been linked with expected outturn of traffic and is multifold as compared to other airports which handle similar traffic levels. GIAL has projected a CAPEX to the tune of ₹ 6107 crores (including soft cost and CWIP project) for passenger traffic of 6.66 MPPA in FY'25 (forecasted by GIAL) to 13.1 MPPA, which has no rational justification. This approach of the Airport Operator is not in the overall interest of the stakeholders of the airport. It appears that the CAPEX has been projected by GIAL without linking it with the mandate provided under Schedule B of the Concession Agreement.

In view of these facts, the Authority notes that the Capital Expenditure estimates submitted by GIAL are not reasonable / their need is not justifiable. Therefore, the Authority has considered various applicable factors such as current capacity, traffic estimates, normative cost benchmarks, need assessment etc. together with the need for modular development of facilities as mandated by the Concession Agreement and has rationalized the Capital Expenditure.

Comments by GIAL: -

3.1.1 With respect to the Authority's comment on GIAL not demonstrating understanding of optimal planning and execution of capex projects, we would like to submit as below:

3.1.1.1 **It is to be noted that out of total projects proposed by GIAL around 80% of Capex (in value terms) are related to projects planned by AAI or projects mandated by Concession Agreement such as New Terminal Building, Extension of Runway, open access fuel facility at the airport etc.**

3.1.1.2 At present LGBIA has one operational terminal with capacity to handle ~2 mm pax per annum. Last year i.e. FY 24 LGBIA handled around 5.96 mm pax (i.e. around 300% of its capacity). AAI in Second Control Period had envisaged the current Terminal 1 to be saturated and had proposed building New Integrated Terminal Building (NITB). The Authority had even allowed the project on incurrence basis.

<u>Reference from LGBIA SCP Order issued by the Authority.</u>

9.2.4.5. Construction of integrated terminal building (₹ 1,232 crores total, ₹ 616 crores total under Building Terminal in FY 2020-21 and ₹ 616 crores total under Electrical installation in FY 2020-21)

The existing terminal building has saturated. In view of the future traffic growth at Guwahati airport, there is a requirement for construction of integrated terminal building. The integrated terminal building with area of

9.21. The Authority noted that as per AAI submission the capital expenditure for new integrated terminal building is likely to be completed by Feb 2021 and is tentative. The Authority is of the view that there are reasonable chances that the terminal may not be commissioned in the 2nd control period due to time overrun. The tariffs proposed by AAI at Guwahati Airport are lower than the allowable tariffs to recover the ARR determined by the Authority. Hence, the Authority noted that there will be shortfall in the 2nd control period even after excluding the aeronautical capital expenditure of terminal building from RAB and the shortfall will further increase if the capital expenditure for terminal building is included in the 2nd control period and return is given for remaining 2 months of FY 2020-21. Hence, the Authority had proposed to exclude the capital expenditure towards new integrated terminal building from aeronautical RAB while determining the tariffs for 2nd control period. In case, AAI incurs the capital expenditure towards expansion of terminal building and capitalizes the same during the 2nd control period, it will be trued up while determining tariff for 3rd control period.

3.1.1.3 AAI had also proposed other airside projects which were linked to construction of NITB such as extension of runway, construction of part parallel taxi way, shifting of isolation bay, construction of link taxiway, storm water drain etc. These projects were also proposed by erstwhile Airport Operator in second control period.

<u>Reference from LGBIA SCP Order issued by the Authority.</u>

9.24. In the 2nd control period, project works related to construction of parallel taxi track and ancillary works, extension of runway and strengthening of runway, taxiway and apron, perimeter road and lighting watch tower, construction of integrated terminal building, expansion and modification of terminal building, city side expansion of terminal building, construction of E&M work shop, construction of fire station, construction of quarters for AAI's staff and construction of boundary land around acquired land are proposed to be taken up. AAI has provided AUCC document for all the major development works except for construction of quarters for AAI's staff. These require user consultation as per the Guidelines. The Authority expects AAI to provide all the required project information as part of the consultation process with users.

3.1.1.4 Further there was no comment from the Authority with respect to planning and execution of the then Airport Operator being sub-optimal. The Authority had even allowed the projects in second control period.

3.1.1.5 It is to be noted that GIAL as a part of the transition received NITB at CWIP stage as the construction of NITB was already started by AAI prior to COD.

3.1.2 Further, with respect to the Authority's comment about capex not linked with requirements mandated under Schedule B to the Concession Agreement (CA), we would like to submit that GIAL has gone through detailed process of master planning with consideration to various requirements mandated under CA including Schedule B. The same is detailed in following paragraphs.

3.1.3 The Concession Agreements (CA), signed with Airport Authority of India (AAI) for Guwahati Airport in 2021 is the base documents on which planning, and operations of the airport is carried out.

The CA and its schedules mandate the following obligations on the Concessionaire / Airport Operator (AO) which must be mandatorily undertaken while preparing the Master Plan and development of facilities at the Airports: -

a. Para 12.2.2 of CA, requires that the Master Plan for the Airport must be consistent with all the regulatory requirements, and it shall be made pursuant ***to full consultation with all major stakeholders***, in accordance with the terms of the Applicable Laws and this Agreement.

b. Para 12.5.1 of CA, states that the Concessionaire shall undertake construction at the Airport in conformity with Schedule A, Schedule B, the Specifications and Standards set forth in Schedule C, and the Master Plan.
The Master Plan is to be prepared using the ***AAI perspective Master Plan*** as provided in the Para 4 of Annex II of Schedule A.

c. Para 23.1.1 of CA, the AO is required to achieve or exceed the performance indicators specified in Article 23 of the CA and service quality requirements specified in Schedule H ("Key Performance Indicators"). As per Schedule A, the Concessionaire shall plan its development activities and Construction Works for any Phase such that there is ***no breach*** of Key Performance Indicators, IATA Level of Service – C (optimal standards), Safety Requirements and any other statutory and regulatory requirements under the Applicable Laws, which are required to be followed for the operations of the Airport.

d. Para 4.1.3 (h) of the CA, Airport Operator is required to undertake Construction Works within first 7 years of Concession Period (**Phase I**), having due regard to the works (a) currently being implemented by the Authority and (b) proposed to be implemented by the Authority as on the date of signing the Agreement ***(and as set forth in Schedule U).***

Annex II of Schedule A provides that the Concessionaire ***shall plan and develop Phase I*** of the Airport in the manner set out in the Agreement, as well as cater to annual passenger throughput capacity (domestic and international) and annual cargo handling capacity, along with ancillary facilities ***as per its demand projections***.

"Phase I" means ***<u>all the Construction Works proposed to be undertaken by the Concessionaire pursuant to Clause 4.1.3(h)</u>, as per the Master Plan,*** and shall, for the avoidance of doubt, include the works-in-progress handed over to the Concessionaire by the Authority pursuant to Clause 6.4.5;

Based on above AO has prepared the Master Plan and subsequently MYTP, adopting the following process: -

1. The traffic projections were prepared by an independent global expert (M/s Mott McDonalds) in 2021 which provides detailed analysis with different scenarios of traffic. The traffic projections are an outcome of various factors considered during forecast including Catchment Area Analysis, Airline Analysis, Historical Data Analysis, COVID 19 impact, Design Day Flight Schedule Development and it categorically includes likely impact due to competing airports.
2. Schedule U of the CA provides the list of projects which were planned by AAI before privatization in 2018 and some of those major projects were discussed / approved by the Authority in its tariff order for previous control period. These have been duly considered in Phase I.
3. The Key Performance Indicators, ICAO requirements, DGCA / BCAS observations, applicable laws etc. were analyzed and deliberated in detail.
4. After detailed analysis of obligations mandated under the CA, AO with the support of global experts (Ms AECOM) prepared the phase wise Master Plan. The Master Plan was discussed with all the stakeholders like AAI, DGCA, BCAS, state government, local state bodies etc. for taking their inputs and then submitted to AAI.
5. AO critically assessed the projects planned for Phase I (first 7 years of CA) and accordingly prioritized the projects to be undertaken during the 5 years third control period (from 1st April 2022 to 31st March 2027).
6. A fresh AUCC was conducted to appraise the users and stakeholders about the vision of the Airports, phase wise Master Plan and the upcoming facilities (including the projects which were already approved or discussed in AERA`s previous control period orders).
7. AO prepared the MYTP and submitted it to the Authority for consideration in July 2023.

As evident, AO has done a comprehensive exercise before submission of MYTP.

3.1.4 In view of the above, we request the Authority to kindly consider removing this comment while issuing the final order.

3.2 AERA proposal as per clause 7.3.4 (iv) of CP relating to Inflation-adjusted normative cost of terminal, apron and airside works.

iv. The Authority has derived the inflation adjusted normative rates for the proposed capex in the current Control Period by considering the rate of inflation as follows:

• FY 2021-22 –The Authority observes that FY 2021-22 was an exceptional year due to COVID -19 pandemic, wherein the inflation rate was 12.97%. However, during the period FY 2016-17 to FY 2020-21, the rate of inflation was in the range of 1.31% to 4.26%. Considering this extraordinary situation, the Authority feels that the inflation rate of FY 2021-22 needs to be rationalized. Hence, 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%. The Authority has considered this average rate of inflation for FY 2021-22, in order to smoothen out the volatility in commodity price caused by COVID-19 pandemic and the supply side disruptions.

• FY 2022-23 – 9.42% (considered as per the data published by the Office of the Economic Advisor, Department for Promotion of Industry and Internal Trade) and

• FY 2023-24 to FY 2026-27 – (-)0.70% in FY 2023-24, 3.10% for FY 2024-25 and 3.70% thereafter (considered as per 87th Round of Survey of Professional Forecasters on macroeconomic indicators).

In the Order No.07/2016-17 dated 13th June 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 i.e. 12%. Subsequently, GST has been introduced wherein the GST rate is 18%. Hence, the inflation adjusted normative cost is worked out below by considering the additional 6% resulting in a total GST rate of 18%. The Authority, in this regard notes that the proposed normative cost of ₹ 1,00,000 per sqm is inclusive of GST, Accordingly, the Authority first arrived normative cost excluding of GST and then applied 18% GST which comes to ₹ 1,05,357 per sqm, the amount so arrived is indexed with inflation to arrive normative rates for following years.

The inflation adjusted normative costs, thus derived is presented in the below table:

Table 75: Inflation Adjusted normative rates computed for the Terminal Building by the Authority

Financial Year	Inflation rate	Inflation adjusted normative rates (in ₹ per sqm)	Inflation adjusted normative cost @18% GST (in ₹ per sqm)
FY'21	-	100000	105357
FY'22	7.14%	107140	112880
FY'23	9.42%	117233	123513
FY'24	-0.70%	116412	122648
FY'25	3.10%	120021	126451
FY'26	3.70%	124462	131130
FY'27	3.70%	129067	135981

**Note*
Inflation adjusted base amount (inclusive of 12% GST) (A) = Rs. 1,00,000 per sqm
*Inflation adjusted base amount (exclusive of 12% GST) (B=A*100/112) = Rs. 89,286 per sqm*
*Add GST @ 18% (C=B*18%) = Rs. 16,071 per sqm*
Normative cost including GST (D = B+C) = Rs. 1,05,357 per sqm

The Authority has considered normative cost for the terminal expansion projects considered in this control period. In view of the above, the Authority has considered the applicable normative cost as per the project schedule submitted by GIAL.
Further, the Normative Order also provide normative cost for pavement related works for Apron, taxiway, runway. The normative cost for the Runway/taxiway/Apron (excluding earthwork up to sub grade level) was ₹ 4700/- per sqm based on the project executed in FY 2015-16. The Authority has adjusted the normative cost on account of additional tax impact of 6% on account of GST in line with the adjustment made in arriving normative cost for terminal cost across all Airports uniformly. The inflation adjusted normative rate for Runway/taxiway/Apron excluding earthwork up to sub grade level proposed to be as follows:

Table 76: Inflation adjusted Normative rates computed for runway/taxiway/apron by the Authority

Financial Year	Inflation rate	Inflation adjusted normative rates (in ₹ per sqm)	Inflation adjusted normative cost @18% GST (in ₹ per sqm)
FY'16-Base Year		4700	4952
FY'17	1.73%	4781	5038
FY'18	2.96%	4923	5187
FY'19	4.26%	5133	5408
FY'20	1.67%	5219	5498
FY'21	1.31%	5286	5570
FY'22	7.14%	5664	5968
FY'23	9.42%	6198	6530
FY'24	-0.70%	6155	6484
FY'25	3.10%	6346	6685
FY'26	3.70%	6543	6932
FY'27	3.70%	6746	7188

*Note

Inflation adjusted base amount (inclusive of 12% GST) (A) = Rs. 4700 per sqm Inflation adjusted base amount (exclusive of 12% GST) (B=A*100/112)= Rs. 4196 per sqm

*Add GST @ 18% (C=B*18%) = Rs. 756 per sqm*
Normative cost including GST (D = B+C) = Rs. 4952 per sqm

Comments by GIAL: -

Reconsideration of GST

3.2.1 This is to bring to your kind notice that in view of the increase in the GST rate from 12% to 18%, CPWD had issued O.M. No. 158/SE(TAS)/GST/2022/331-H dtd. 10.08.2022 (attached herewith as Annexure 1) wherein the multiplying factor of 1.0633 (i.e. 6.33%) is provided. Accordingly, the base value for terminal works would be Rs. 106,330 per sqm instead of Rs. 105,357 as calculated in CP.

Reconsideration of Inflation

3.2.2 Further, as indicated in CP, the inflation value for FY22 is considered as 7.14% (i.e. Average of 1.29% (FY21) and 12.97% (FY22) in view of extraordinarily high inflation of FY22. It is observed that AERA guidelines on Normative Costing do not provide for averaging of inflation. **Notwithstanding the AERA Guidelines. if the Authority has considered averaging of inflation for FY21 and FY22, from a consistency and fairness perspective, we request that for FY24 wherein the inflation is extraordinarily low (i.e. negative 0.70% for FY24) similar averaged out inflation for FY24 to be considered. Hence, the inflation factor for FY24 would come to 4.36% (i.e. Average of 9.42% (FY23) and -0.70% (FY24).**

In the said para, the Authority has itself provided range of reasonable and justifiable inflation. For quick reference the statement is reproduced *"However, during the period FY 2016-17 to FY 2020-21, the rate of inflation was in the range of 1.31% to 4.26%. Considering this extraordinary situation, the Authority feels that the inflation rate of FY 2021-22 needs to be rationalized."*

3.2.3 In view of the aforementioned justifications, we request the Authority to consider the inflation-adjusted normative cost as below:

Year	Inflation (%)	Inflation adjusted normative rates (Rs.)	Inflation adjusted normative cost @18% GST*
Base Amount		1,00,000	1,06,333
FY22	7.14%	1,07,140	1,13,925
FY23	9.42%	1,17,233	1,24,657
FY24	4.36%	1,22,344	1,30,092
FY25	3.10%	1,26,137	1,34,125
FY26	3.70%	1,30,804	1,39,087
FY27	3.70%	1,35,643	1,44,234

Thus, Inflation-adjusted normative cost for FY26 is Rs. 1,39,087 per sqm. Revised computation as per normative cost is tabulated below:

Particulars		Amount (Rs Crs)
Proposed Terminal Area (in sqm)	1,46,292	
Normative Cost FY26 (Rs) (A)	1,39,087	
Subtotal (A)		**2035**
Component over and above Normative Cost		
Kerbside		139
Art work		5
Subtotal (B)		144
Total (C=A+B)		**2178**
Additional allowance due to North-east region		
Disturbed area allowance @ 5% over (C)		109
Extra labour cost component @ 12.5% over (25% of C)		67
Sub-Total (D)		**176**

Particulars		Amount (Rs Crs)
Electricity Board deposit (E)		41
Cost towards NITB F=(C+D+E)		**2,395**

3.2.4 Similarly, the inflation-adjusted normative cost for apron works out as indicated in below table:

Financial Year	Inflation rate	Inflation adjusted normative rates (in ₹ per sqm)	Inflation adjusted normative cost @18% GST (in ₹ per sqm)
FY'16-Base Year		4,700	4,998
FY'17	1.73%	4,781	5,084
FY'18	2.96%	4,923	5,235
FY'19	4.26%	5,133	5,458
FY'20	1.67%	5,218	5,549
FY'21	1.31%	5,287	5,621
FY'22	7.14%	5,664	6,023
FY'23	9.42%	6,198	6,590
FY'24	4.36%	6,468	6,877
FY'25	3.10%	6,668	7,091
FY'26	3.70%	6,915	7,353
FY'27	3.70%	7,171	7,625

3.2.5 **We hereby request the Authority to consider the inflation-adjusted normative costs for terminal and apron as explained above after recalculating the Average Inflation and GST Component.**

Notwithstanding the above, our additional points relating to Normative costing are as:

3.2.6 The Authority has been using Rs 1,00,000 per sq mtr as a Normative Costing based on the study conducted which prescribed range from Rs 95,000 to 1,25,000 sq tr. It is also observed that the Authority has never issued the study in the public domain for comments by the stakeholders. The relevant extracts from some of the orders are as: -

Extract from Patna Order No. 13/2019-20 dated 24th Oct. 2019

7.2.2.2 The Authority examined the rationale behind the proposed capital expenditure, along with its status. Further, the Authority sought and observed a detailed break-up of the expected costs for this capital expenditure.

7.2.2.3 The Authority has adopted the 'normative approach' towards determination of cost of terminal building. The Authority has considered a normative cost of INR 100,000 per sq. meters. The Authority has given clarification regarding this normative cost in previous tariff orders pertaining to other airports such as Guwahati, Lucknow. The Authority undertook studies for a few major airports for determining the reasonableness of the capital expenditures for their respective terminal buildings. As per these studies, the cost worked out to be in the range of 0.95 to 1.25 lakhs per sq. meter. Accordingly the Authority decided to adopt INR 100,000 per sq. meter for terminal buildings of this design and specifications. This cost is subject to review during the determination of tariff for the 2nd control period.

Extract from Amritsar order No. 56/2020-21 dated 24.12.2020

7.2 Authority's examination regarding Capital Expenditure for the First Control period at Consultation stage

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

7.2.2 The Authority analyzed the expansion of existing terminal building being proposed including the need and objectives, proposed capital expenditure, and, scope of work. The Authority noted that the CAPEX proposals are in the planning stage and yet to be awarded. Accordingly, the key takeaways noted below.

- As per AAI's submissions, the expansion of existing PTB shall be spread across an area of 16,000 sqm (Ground Level – 8,000 sqm and First Floor– 8,000 sqm) with a cost estimate of INR 243.28 crores. The unit area cost for the expansion of terminal worked out to INR 152,050 per sqm.
- The Authority has adopted the normative approach towards determination of cost of terminal building and has considered a normative cost of INR 100,000 per sq. meters in line with previous tariff orders pertaining to other airports such as Guwahati, Lucknow, Chennai and Patna. The Authority conducted a study of few Major Airports for determining the reasonableness of the capital expenditures for respective terminal buildings. As per these studies, the cost worked out to be in the range of 0.95 to 1.25 lakhs per sqm. Accordingly, the Authority decides to adopt INR 100,000 per sqm for terminal buildings of similar design and specifications.

3.2.7 In respect to inclusion/exclusion of Service Tax/GST in Normative Cost, we submit that-

3.2.7.1 In the Order No. 43/2021-22 dated 15th March 2022 for Kolkata Airport, AAI submitted the Normative Cost benchmarking whereby GST has been excluded in the calculation. The same was duly noted and acknowledged by the Authority.

6.2.43. The cost per sq.m. for the above terminal building work was submitted by AAI vide an email correspondence dated 09.12.2021 ("Normative cost for Capacity Enhancement at Terminal Building"). The Authority had noted that the normative cost working submitted by AAI did not include the cost of modification works pertaining to cut-out fillings, piling foundation work, and basement work. The details of the same are provided in the table below:

Table 85: Normative cost calculation for capacity enhancement at terminal building submitted by AAI

Description	Amount (in Rs. Cr.)	Area (in sq.m.)	Rate per sq.m.
Cost excluding modification work, consultancy charges, Corporate Environment Responsibility, and GST (A)	80.90	11,774	68,711
Cost per sq. m for piling work (B)	-		10,371
Cost per sq. m. (C = A - B)	-		58,340
Normative Cost benchmark	-		1,21,665

3.2.7.2 Refer the extract from RITES report for Analysis of Capital Expenditure on Expansion of Bangalore International Airport (Terminal Building, Taxiway and Apron) for the second control period (01/04/2016 to 31/03/2021) conducted in Jan-2018, where it is mentioned that in order to compare the project cost against the normative costing, **the project cost without Service tax is analyzed**. ***Extract from RITES REPORT***

"The cost of terminal building is proposed at Rs.1,00,800 per sqm at June 2014 price level as against AERA prescribed norms of Rs. 65,000/sqm. This rate has further been adjusted for cost escalation ***and service tax which*** *works out to Rs. 1,30,745/sqm. Inclusive of ICT costs."*

Therefore, the contention of the Authority that Normative Cost includes the erstwhile Service Tax is not correct. Hence, we request the Authority to kindly add GST of 18% instead of adding 6% differential between GST and Service Tax while calculating the Normative Cost benchmark.

3.3 AERA proposal at Clause 7.3.6 B1 page 110-112 of CP relating to Capex cost for Apron-2 (Demolition and new-construction)

The Authority along with its independent consultant has conducted site visit of LGBIA and believes that GIAL should explore innovative ways to revive Apron 2 for operational use. The Authority believes that the Apron-2 can be made fit for use by applying a PQC overlay, adopting new drainage technology with pre-fabricated drains and adopting trenchless technology for underground utilities and pipelines. These advices were agreed in-principle by the AO for necessary examination and consideration, as otherwise dismantling in operational area could have posed an operational hazard and created many operational constraints/issues. Accordingly, the Authority after site visit along with its Consultant and AO has considered re-examining the restoration of existing Apron by providing pre-cast drains, recasting the apron wherever required, and constructing an additional apron area of only 148,447 sqm.

In term of cost, The Authority, through its consultant also verified the estimate provided by GIAL. The Authority notes that the rates adopted by GIAL are more than the inflation adjusted normative rates provided at para 7.3.4. The inflation adjusted normative rates of FY'2026 (based on expected start date of works) has been considered by the Authority for completion of new Apron Area. In case of repair works, the Authority has considered 50% of the rates adopted for new construction. While arriving the normative cost, the Authority has adjusted the normative cost as per para 7.3.4 on account of disturbed area allowance of 5% and extra labour cost component of 12.5% on account of north east region. Following is the adjusted normative cost for FY'2026:

Table 81: Details of normative cost for Runway/Taxiway/Apron works

Particular	***Amount in Rs/Sqm***	
Inflation adjusted normative cost for FY'26		*6932*
Additional allowance due to North-East region		
Disturbed Area allowance @ 5%	*347*	
Extra labour cost component @ 12.5% (It is assumed that project cost comprises 25% labour cost)*	*217*	*564*
Inflation and NER adjusted normative cost		***7496***
Add: Airside working area constraints @ 5%		*375*
Propose normative cost per sqm		***7871***

Similarly, in case of drainage works, the Authority proposes GIAL to optimise cost by adopting innovative technology and design to minimise cost. The Authority for the purpose of drainage works proposes to consider 50% of the rates proposed by GIAL. Further, the Authority notes that as per the normative order the normative cost excludes earth work cost upto sub-grade level and AGL works. Accordingly, these have been considered over and above the normative cost. As per GIAL submission the estimated base cost of the project is ₹ 410.55 crores and inflation adjusted cost is ₹ 466.21 crores. The summary of the Authority's proposal in this regard is detailed below vis a vis GIAL submission:

Table 82: Details of the cost submitted by GIAL and proposed by the Authority towards Apron works

(₹ crores)

Particular	UoM	As pre GIAL			As per the Authority		
		Rate	Qty	Amount	Rate	Qty	Amount
Demolition of flexible Pavement	Sqm	1400	7086*	0.99	-	-	-
Demolition of Rigid Pavement	Sqm	4070	111002*	45.18	-	-	-
New Pavement (Apron)							
Rigid Pavement	Sqm	13800	232339	320.63	7871	121337	95.50
Flexible	Sqm	7800	34196	26.67	7871	27110	21.34
Repair works							
Rigid Pavement	Sqm	-	-	-	3936	111002	43.68
Flexible	Sqm	-	-	-	3936	7086	2.79
Drainage	Rmt	125000	1366	17.08	60000	1366	8.20
Sub-Total (A)				**410.55**			**171.51**
Cost towards earthwork upto sub-grade level				Included above			52.15
AGL cost @15% towards new apron Works				Included above			17.53
Inflation adjustment				**55.66**			Factored in normative cost
Total Cost				**466.21**			**241.19**

**As discussed during site visit, the existing apron dismantling can be avoided by usage of prefabricated drains to optimize this expenditure.*

In view of the above, the Authority proposes to rationalise the cost and the scope of this project. The Authority proposes to consider inflation adjusted cost of ₹ 241.19 crores against ₹ 466.21 crores submitted by GIAL towards Apron-2 works.

Comments by GIAL:

3.3.1 First of all, we would like to mention that we had shared the technical reports from independent consultants (AECOM and JACOBs) during the review process. For quick reference the copies of the same are re-attached as Annexure 2. We observed that Authority has not raised any reference to these reports in the consultation paper.

3.3.2 During site visit in March 2024, the Authority had advised that the following should be examined and considered to restore Apron-2 for operational use:

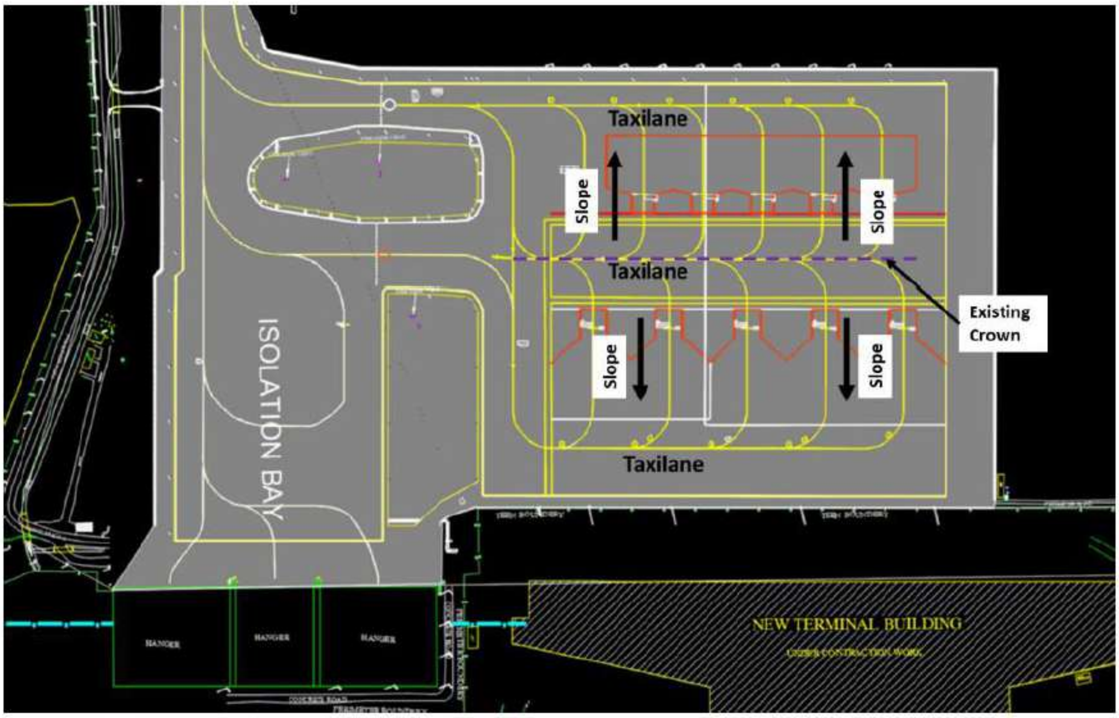
- By applying a PQC overlay;
- Adopting new drainage technology with pre-fabricated drains; and
- Adopting trenchless technology for underground utilities and pipelines.

3.3.3 GIAL got the above examined through IIT-Guwahati (report of IIT-Guwahati enclosed for reference in Annexure 3). Key findings and recommendations of IIT-Guwahati and GIAL are submitted below for consideration of the Authority.

3.3.3.1 Background

Apron-2 was constructed by the AAI in 2008 (i.e. the apron has already served 16 years). While constructing, the crown was kept at the center of the apron and slope towards both ends – this indicates that the apron was designed with an objective of utilizing it as remote parking bays with power in – power out operation, whereas currently, the NITB is under construction with Contact Stands, with power in – pushback arrangement[1]. Therefore, the slope will have to be altered to make the slope away from the NITB to make it compliant. The subsequent section will elaborate if this is technically feasible considering the PQC overlay requirement. The existing arrangement of Apron-2 is indicated in Figure below

Figure: Existing Apron-2 indicating crown and slope



3.3.3.2 Strength of existing Apron 2

Apron-2 was designed with consideration of flexural strength of 3.5 MPa. Confirmatory assessment of strength has been carried out by IIT-Guwahati by means of extracting core and the obtained flexural strength was 2.5 MPa, which is far less than its design value. Detailed methodology of carrying out the Core Test is given in the IIT-Guwahati report.

Further, the existing pavement of Apron-2 was evaluated by IIT-Guwahati using advanced FAARFIELD software to ascertain its suitability for Code-C and Code-E aircrafts. As sample aircrafts, B737-900 ER and A321-Neo were taken as inputs for Code-C and B777-300 ER for Code-E respectively. The inference of the study has been that (i) the existing pavement configuration of Apron-2 is deficient to carry the load of the above-mentioned aircrafts; (ii) the PQC thickness is less than the requirement of the specified aircrafts; (iii) the existing pavement has already reached "end of life", therefore it is neither suitable for Code-C nor Code-E operations.

[1] Construction of NITB was already initiated by AAI at the time of handing over

3.3.3.3 Implications of expansion of Apron-2 (i.e. constructing new apron) as per current slope of existing Apron-2

As briefly mentioned above, the existing slope of the Apron-2 is non-compliant, since the slope is towards the NITB. Provisions of ICAO and NFPA are mentioned below for reference:

- Clause 3.2.6.2 of ICAO Doc 9157 Part 2 specifies the following w.r.t. apron slope:

  "Apron slope should be 0.5 to 1.0 percent in the Aircraft stand away from building or Apron service area"

- Clause 5.1.1 of NFPA 415, (Standard on Airport Terminal Buildings, Fuelling Ramp Drainage, and Loading Walkways)

  "Slope of Apron shall be away from terminal buildings, aircraft hangar, aircraft loading walkways, or other structures, with maximum slope of 1% for first 15 Mtr, beyond this distance, the ramp slope to drainage inlets shall be permitted to be reduced to a minimum of 0.5 percent (1:200)"

Therefore, expansion of Apron-2, i.e. constructing new portion of Apron-2 as per existing slope will render the entire Apron-2 (i.e. existing + new) non-compliant.

3.3.3.4 Rectification of slope through PQC overlay

Rectifying the slope of Apron-2 by means of PQC overlay is not technically feasible. As per the IIT-Guwahati study, PQC overlay of 370mm (unbonded) will be required to retrofit the existing Apron-2 to enhance its strength. However, as can be seen from Figure 2 and Figure 3 below, PQC overlay of 370mm with the required slope on the apron for drainage purpose, will lead to overlay of approx. 1.15m-1.24m towards the aircraft nosewheel (elaboration given in the subsequent paragraph). Technically, PQC overlay of such significant depth is not feasible, since in case of unbonded overlay, concreting is to be done in layers of not more than 50-60mm. The numerous layers of concreting will lead to serious performance issues of the PQC.

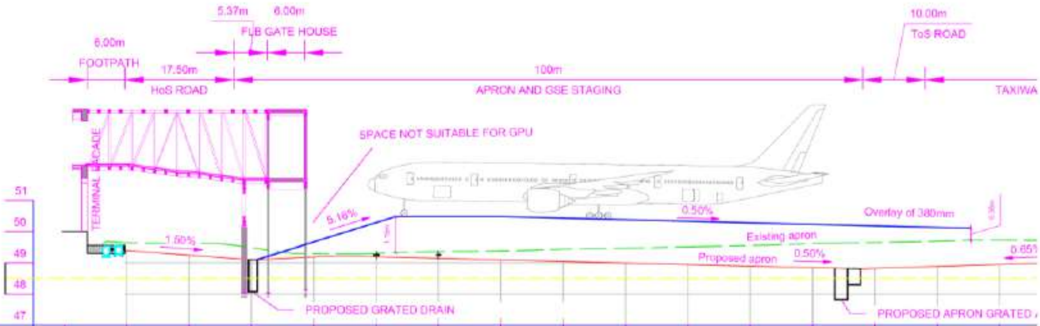
As can be seen from Figure 2, rectifying the slope (i.e. making the slope away from NITB) with PQC overlay of 370mm till the nosewheel point will lead to overlay thickness of 1.15m – this, in turn, will lead to a slope of 5.16% from the HOS Road grated drain top level, since for drainage purpose, the proposed ridge (i.e. nosewheel portion) will have to be connected with nearby storm water drain. This arrangement will not be suitable for GSE vehicles operations, for example, GPU equipment cannot be placed and operated in the space when PBB is docked.

With an objective of addressing the above-mentioned issue, i.e. to ascertain if it is technically feasible to reduce the slope from aircraft nosewheel portion till HOS road drain, GIAL explored the possibility of keeping the ridge away from the NITB. An arrangement is shown in Figure 3 below, where the ridge (blue firm line) location has been optimally ascertained to ensure that there is no fuel spillage towards the HOS road drain (to ensure environmental safeguard requirement). This arrangement is also not technically feasible since the aircraft nosewheel will not touch the apron surface, with the ridge maintained away from NITB (i.e. till a point where PQC overlay of 1.09m).

Accordingly, if the slope is extended (blue dashed line), even with a milder / flat slope till nosewheel, the depth of PQC overlay works out as 1.24m and this leads to a slope of 5.55% from nosewheel portion to the HOS road drain. As mentioned in the preceding paragraph, GSE/GPU operation is not possible in this arrangement.

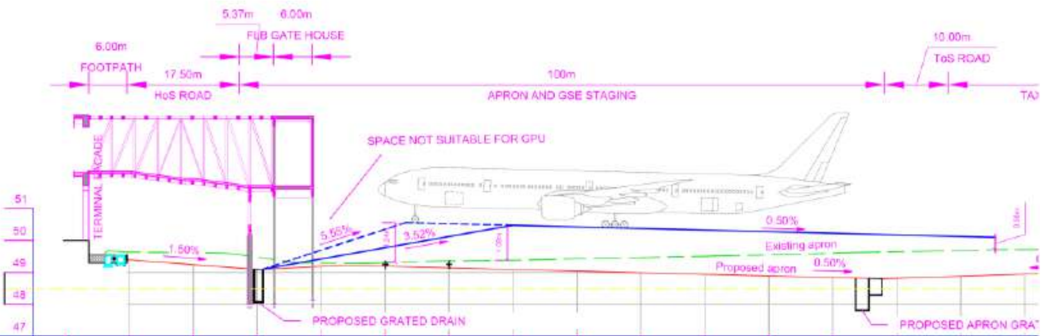
In view of the above, it may be concluded that slope correction of the existing Apron-2 by PQC overlay is not technically feasible, particularly because NITB Plinth Level, as per previous design by AAI, must be kept sacrosanct at 50m AMSL, which governs the drainage design levels nearby.

Figure 1: Implications of slope correction of Apron-2 with PQC overlay: Scenario-I



CHAINAGE	0+000	0+010	0+020	0+030	0+040	0+050	0+060	0+070	0+080	0+090	0+100	0+110	0+120	0+130	0+140	0+150
FG ELEVATIONS		49.395	49.245	49.095	49.189	49.195	49.144	49.094	49.044	48.994	48.944	48.894	48.844	48.820	48.884	48.948
EG ELEVATIONS		49.636	49.617	49.481	49.296	49.302	49.363	49.383	49.436	49.469	49.508	49.551	49.607	49.647	49.688	49.719
LEVEL DIFFERENCE		-0.240	-0.372	-0.385	-0.107	-0.108	-0.218	-0.289	-0.392	-0.475	-0.564	-0.657	-0.763	-0.827	-0.804	-0.771

Figure 2: Implications of slope correction of Apron-2 with PQC overlay: Scenario-II



CHAINAGE	0+000	0+010	0+020	0+030	0+040	0+050	0+060	0+070	0+080	0+090	0+100	0+110	0+120	0+130	0+140	0+150
FG ELEVATIONS		49.395	49.245	49.095	49.189	49.195	49.144	49.094	49.044	48.994	48.944	48.894	48.844	48.820	48.884	48.948
EG ELEVATIONS		49.636	49.617	49.481	49.296	49.302	49.363	49.383	49.436	49.469	49.508	49.551	49.607	49.647	49.688	49.719
LEVEL DIFFERENCE		-0.240	-0.372	-0.385	-0.107	-0.108	-0.218	-0.289	-0.392	-0.475	-0.564	-0.657	-0.763	-0.827	-0.804	-0.771

3.3.3.5 Trenchless Technology for underground utilities and pipelines

Existing Apron-2 does not have any apron furniture and underground utilities such as storm water, AGL, Ducts, Fuel Hydrant, etc. Accordingly, significant area will be required to be demolished. However, as per advice received from the Authority during site visit, GIAL, through IIT-Guwahati has also explored the option of horizontal directional drilling works.

IIT-Guwahati Study has recommended that though main hydrant pipe can pass through existing apron by horizontal boring method, but to connect Fuel Hydrant systems with underlaid main hydrant (through horizontal boring), major panels will be required to be demolished. In addition, this will entail lots of re-work (like cathodic protection, insulation cleaning of main pipes, etc.). To address this, worldwide, Aviation Fuel Hydrant System at Apron is installed through open cut method which will require major demolition and extensive cutting work.

The above said, GIAL will integrate precast premoulded storm water drains, ducts, etc., wherever possible and practicable, as a general practice.

3.3.4 In view of the foregoing section, it is concluded that:

- Retaining existing Apron-2 with existing slope: Constructing new portion of Apron-2, as per slope of existing Apron-2, will render slope of entire Apron-2 (existing + new) non-compliant.
- PQC overlay on existing Apron-2 is not advisable from operation, cost and time perspective.

3.3.5 **In view of the above, we request that the full cost as requested by GIAL in the MYTP for reconstruction of Apron-2 be permitted by the Authority.**

3.4 AERA proposal at Clause 7.3.6 B.4 on page 114-118 of CP relating to Capex cost for Land Development Works

As per GIAL, a significant portion of the LGBIA lies at lower elevation. Accordingly, GIAL has proposed filling and site grading area of around 605,750 sqm to prevent the risk of flooding and to make these areas suitable for various airside and associated facilities. A figure below provides details of low-lying area at LGBIA:

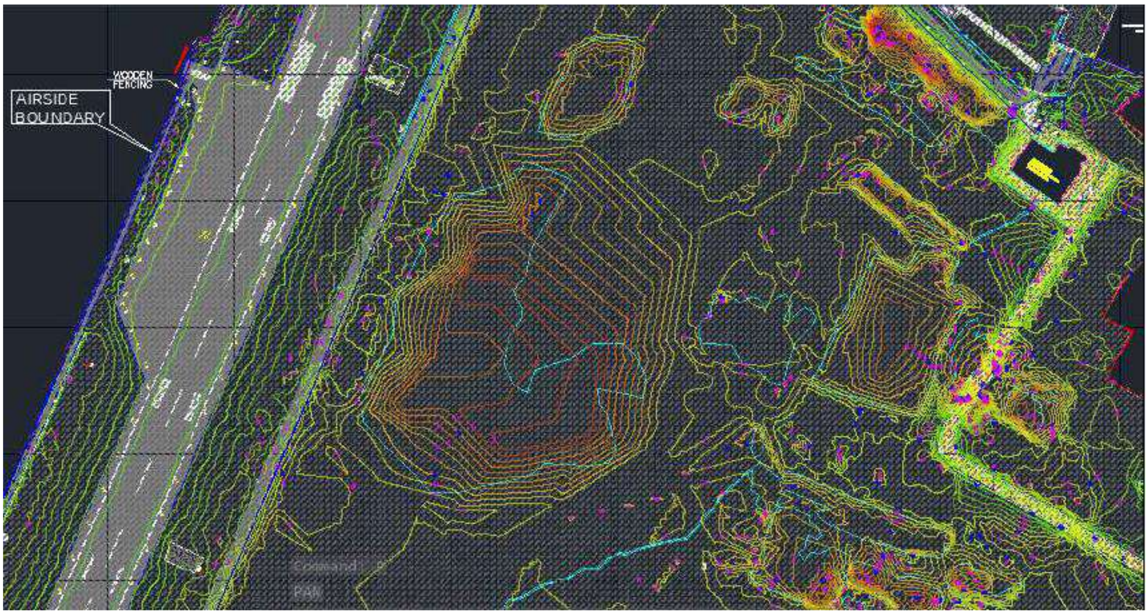


Figure 8: Low lying area at LGBIA

As per GIAL submission and the site visits of LGBIA Airport, the Authority notes that the identified low-lying areas are required in airside works in this control period and may be required for future expansions. GIAL has divided the low-lying areas in four zones. The Authority notes from GIAL submission and also on the basis of the site visit, that the proposed land development work can be done in phased manner and also the AO need to optimise on the proposed cost towards land development. Further, the Airport Operator has not demonstrated the concrete plan to overcome this low lying area, no topographical analysis was shared and possibility of phasing of the proposed plan have not been shared. Upon reviewing the site-level charts, the approach to filling low-lying areas remains unclear. Consequently, the consultant independently identified these areas, as marked in Figure 8. Accordingly, the Authority proposes to consider 25% cost for land development works for the purpose of third control period. AO can plan the land development for the balance portion after assessing the critical operational requirements. Following is the basis of the base cost considered by the Authority towards this project:

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The Authority has further adjusted the base cost derived above on account of inflation. Accordingly, the Authority proposes to revise the inflation adjusted cost to ₹ 43.77 crores against GIAL submission of ₹ 189.73 crores respectively.

Comments by GIAL:

3.4.1 GIAL has divided Land Development Works in four zones. All the four zones are low lying area and are enabling works for important airside works.

3.4.1.1 Zone 1 Landfilling is required for construction of Isolation Bay

3.4.1.2 Zone 2 Landfilling is required for construction second part parallel taxiway and expansion of Apron 2

3.4.1.3 Zone 3 and Zone 4 Landfilling are required for construction of part parallel taxi track.

3.4.2 It is to be noted that Isolation Bay, Expansion of Apron 2, Construction of part parallel taxiway and second part parallel taxiway has been proposed by the Authority for Third Control Period. Refer Para 7.3.6 B1, B3, B6 and B8 of the CP.

3.4.3 Land filling of all the 4 zones are pre-requisite for completion of above-mentioned airside works.

3.4.4 GIAL has shown all the low-lying areas to independent consultant and the Authority during their site visits.

3.4.5 **We request the Authority to allow full cost for Land Development Work as proposed by GIAL instead of 25% proposed by the Authority. This is an enabling cost for the projects for which operational requirement is already established and agreed by the Authority.**

3.5 AERA proposal at clause 7.3.6 E page 127-129 of CP relating to Capex cost for Fuel Farm Infrastructure

GIAL planned new Fuel Farm Facility near to Apron 1 which is very far from upcoming Apron 2. This will require construction of approximately 7 Km hydrant system.

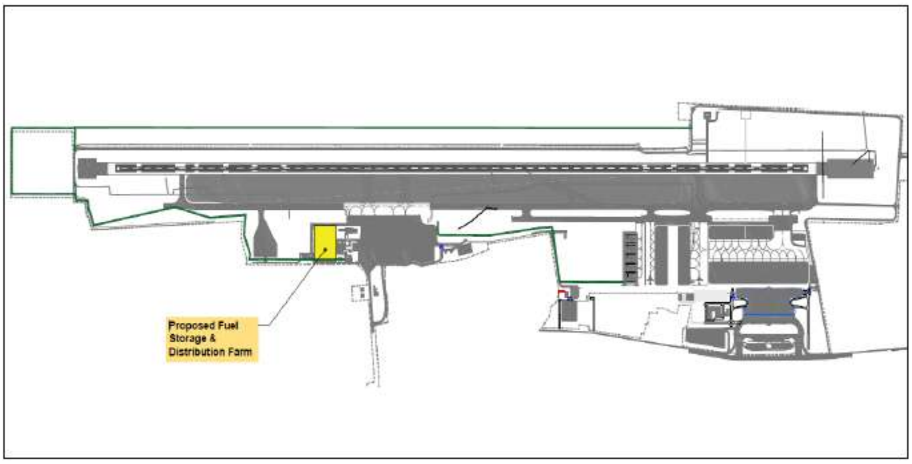


Figure 10: Proposed Hydrant System at LGBIA

The Authority, during the site visit asked GIAL to evaluate alternate location for fuel farm which can be closer to the Apron 2. In case the facility is planned closer to Apron 2, there will be significant saving toward construction of hydrant line. However, GIAL has not proposed any alternative plan or cost benefit analysis.

Secondly, there is a proposal by Petroleum & Natural Gas Regulatory Board (PNGRB) to connect Brown field and Green field Airports with dedicated ATF pipeline network. On such connection, Fuel Tank requirements will reduce substantially.

GIAL is directed to examine shifting of fuel farm near to Apron 2 and proposal of PNGRB. Hence, the Authority proposes not to consider any capital expenditure towards new facility for the fuel farm at this stage. However, if fuel facility is developed after examining both the issues, cost will be trued up in next control Period, subject to reasonability and efficiency.

As CAPEX has been allowed on incurrence basis, subject to reasonability and efficiency, corresponding revenue and OPEX has been considered. In order to support operational requirement, the Authority proposes to consider capex toward procuring of three refueler and procurement of IOCL and RIL assets.
GIAL has considered the cost in line with the similar cost in case of Lucknow and Ahmedabad Airport. The Authority, through its independent consultant has verified the same and found in order. GIAL has estimated ₹ 13.00 crores as base cost and ₹ 13.65 crores inflation adjusted cost. The Authority has adjusted the base cost considering the proposed work will get completed in FY'25. The inflation adjusted cost as per inflation factors considered in para 7.3.4 comes to ₹ 13.31 crores. The Authority proposes to consider ₹ 13.31 crores towards this project against ₹ 13.65 crores estimated by GIAL.

Comments by GIAL:

3.5.1 The proposed location of the Fuel Farm has been earmarked in the Master Plan considering several factors, such as efficient utilization of land, operational safety and efficiency, good industry practice across airports, etc. In pursuance of the provisions of the Concession Agreement, the Master Plan was submitted to the AAI and the

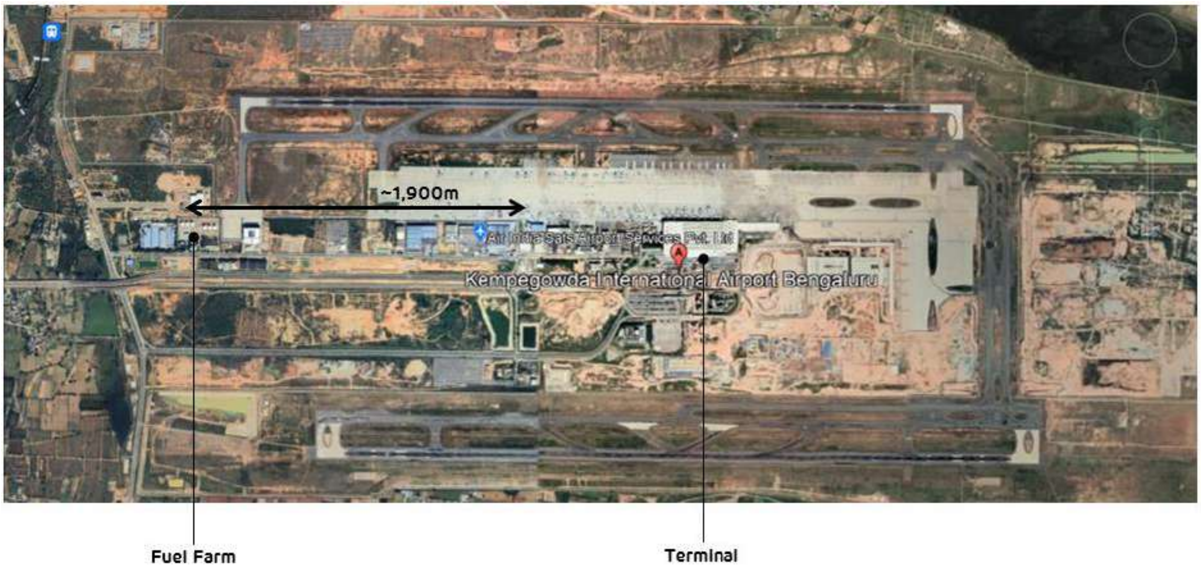
Master Plan stands approved. Subsequently, the location was also presented in the AUCC stakeholder consultation meeting and was accepted by the stakeholders. Further, it may be noted that vendor for installation of the Fuel Farm has already been onboarded and execution works are expected to be initiated soon.

3.5.2 As per traffic forecast, 25 MPPA are projected in Guwahati Airport in the ultimate phase. Out of this, the currently under-construction NITB will have capacity of approx. 13 MPPA. Accordingly, future terminal development needs to accommodate for approx. 12 MPPA. It may be noted that location of the under-construction NITB is at the extreme portion of the available land of LGBIA. Terminal expansion can only take place Southward. Accordingly, GIAL intends to reserve the entire area to the South of the NITB for expansion of terminal and associated uses (such as Main Receiving Sub-station, utility block, etc.). GIAL is in process of discussion with concerned Authorities for making available additional land / swapping of land to ensure that maximum land is available for terminal expansion and associated uses in the future. After reserving land for these uses, there will not be any land available for Fuel Farm.

3.5.3 In addition, it is always advisable to locate the Fuel Storage Facility as far away from the Apron / terminal building. In most of the new greenfield airports, this is the prevalent practice (e.g. Rajiv Gandhi International Airport, Hyderabad and Kempegowda International Airport, Bengaluru, as shown in figures below).

Fuel Farm Location at Rajiv Gandhi International Airport, Hyderabad

Fuel Farm Location at Kempegowda International Airport, Bengaluru



3.5.4 With respect to the Authority's observation on PNGRB's proposal to connect brownfield and greenfield airports with dedicated ATF pipeline network our submission is as follows: -

3.5.4.1 First of all, the proposal is at consultation stage to assess the pipeline integrated network

3.5.4.2 After taking inputs from all the stakeholders, government will assess the feasibility of the project.

3.5.4.3 Once feasibility report is done, then sanction of projects, procedural steps will start.

3.5.4.4 Ultimately the actual construction of project pipeline will start.

3.5.4.5 This will take at least 4-5 years and may be more years for hilly terrain like Guwahati.

3.5.5 Based on IATA Guidance Note, assessment has been made that 8-9 days of storage facility is required. Accordingly, GIAL has proposed overall 6,000 KL facility over next 10 year time frame, out of which 4,000 KL facility is proposed in existing/third control period.

3.5.6 In the last few years, various states have reduced the VAT on ATF (refer below the VAT analysis). In our view, over a period of time Government of Assam will also take necessary steps to increase the passengers' footfalls and one such step is reduction in VAT on ATF. It is to be noted that above fuel consumption demand does not factor the additional fuel uptake demand to be generated if VAT at the state is reduced.

VAT on ATF and various action taken by Govt to reduce the burden

S.No.	Top 10 States[1] (basis pax)	PAX % (FY23)	Current VATF (%)	Remarks
	Maharashtra	17%	18%	Reduced from 25% in 2023
1.	Telangana	7%	1%	Reduced from 16% in 2018
2.	Kerala[2]	5%	1%	Reduced from 5% in 2021
3.	Gujarat	4%	5%	Reduced by 20% in 2022
4.	Uttar Pradesh	3%	1%	Reduced from 21% in 2022
5.	Goa	3%	8%	Reduced from 18% in 2023
6.	Rajasthan	2%	2%	Reduced from 26% in 2023
7.	Punjab	2%	4%	Reduced from 13%
8.	Odisha	1%	5%	Reduction to 1% in RCS Aiports
9.	Madhya Pradesh	1%	4%	Reduced from 25% in 2022
10.	Bihar[3]	1%	4%	Reduced from 29% in 2023

3.5.7 Considering all the above factors, GIAL has proposed to provide the optimal storage of 4,000 KL storage which will take care of requirement for next 4-5 years when the pipeline network is under construction. If Pipeline network eventually happens, then GIAL will re-assess the demand whether to increase the storage further or not in the next phase. **We thereby request the Authority to allow Capex for Fuel Hydrant and Storage as proposed by GIAL in Third Control Period instead of allowing the same on actual incurrence basis.**

3.6 AERA proposal at Various Places in CP for considering 50% of the Capex Proposed for relating to Capex cost for minor projects and sustainable capex

Clause 7.3.6 B.10 at page 122

vi. In certain capex GIAL has not shared detailed BoQ. In view of the same, the Authority proposes 50% of the capex proposed against these heads. These capital expenditures include SITC of Inset fittings for Runway-Taxiway intersection at Guwahati Airport, Runway Graded Strip and RESA strengthening (up to 300mm Depth) and Apron Control.

Clause 7.3.6 C.4 at page 125

C.4 Boundary Wall (₹ 0.21 crores)
GIAL as per MYTP submitted that at some places boundary walls need to be made to protect airport land from illegal encroachment and fencing work needs to be done. GIAL has proposed ₹ 0.20 crores capex against this. The Authority notes that GIAL has not submitted any BoQ against this line item. Accordingly it is proposed to consider only 50% of the capex proposed by GIAL.

Clause 7.3.6 F at page 129

i. GIAL has planned conversion of diesel cars to electric vehicles. It is estimated that total 17 vehicles will be required by GIAL including one large EV i.e. Bus. GIAL has shared online quotation of electric bus which is around ₹ 2.00 crores. GIAL has estimated total cost of ₹ 11.00 crores for these 17 vehicles. The Authority believes that same is on higher side, accordingly, the estimated cost of E-vehicles other than large EV considered to be 50%, i.e. ₹ 4.5 crores. The cost is thus proposed to be ₹ 6.50 crores against ₹ 11.00 crores requested by GIAL.

Clause 7.3.6 G at page 130 and 131
Safety and Security related project – *GIAL has submitted various projects related to safety and security of the Airport. This includes firefighting equipment, disable aircraft removal kit, X-Ray, HHMD, DFMD, ETDs. In view of the safety and security requirement, the Authority proposes to consider this capital expenditure. However, the cost of these items have been corrected on account of inflationary adjustments. Further, GIAL has also proposed capital expenditure towards Security Operational Control Center (CISF), Security Surveillance Centre (SSC), CCTV set up, Container Tubular Shooting range and Video Surveillance system. The Authority notes that GIAL has not shared any further break up or basis against this capex. Further, it is believed that there is scope of cost optimization against these capex. Accordingly, minimize impact on tariff, the Authority proposes 50% cost against GIAL submission.*

Others – *GIAL has also estimated various equipment. However, has not shared any details for the estimates. In view of the absence of further details and optimisation of tariff levels, the Authority proposes 50% cost towards this capex. Further, in view of the project priority and minimal impact on tariff, the Authority proposes not to consider some of the environment related project related to carbon sequestration and biodiversity preservation projects.*

Clause 7.3.6 H at page 134

vi. GIAL has further considered various other building and structures such as airside gates, SMR facilities, fuel/EV station, Modification of MT shop into interim office, Solid waste facility, water supply system, sewerage system, watch tower, earth filling, CISF accommodation, nursery development, horticulture, Anti hijacking Control Room etc. The Authority notes that GIAL has not shared any further details on these capex. There *is scope in cost optmisation and also in view of keeping tariff at optimum level, the Authority proposes 50% of the proposed capex.*

Clause 7.3.6 K at page 136

i. GIAL has proposed procurement of bullet proof jackets, bullet proof helmet, bullet proof shield, bullet proof morcha, binocular device etc. In this regard GIAL has collectively estimated an amount of ₹ 2.62 crores as base cost and ₹ 2.96 crores as inflation adjusted cost. The Authority notes that there is no justification provided by GIAL for the amount estimated. In view of the security requirement and absence of supporting details, the Authority proposes to consider 50% of the capex proposed by GIAL. The inflation adjusted cost proposed to be ₹ 1.34 crores.

iii. As per MYTP, GIAL has estimated ₹ 4.00 crores as base cost (₹ 4.61 crores indexed cost) towards BDDS which are required as per security requirements. GIAL has not shared any further supporting details against this line item. In view of the same, the Authority proposes to consider 50% of the proposed cost by GIAL, the inflation adjusted cost comes to ₹ 2.09 crores.

Comments by GIAL:

3.6.1 In the recent order issued by the Authority for Thiruvananthapuram Airport (Order No. 02/2024-25) and Ahmedabad Airport (Order No.40/2022-23), the Authority has acknowledged that detailed estimated and POs may not be available at this stage thus Authority had partially allowed the capex and mentioned that balance portion of the capex will be considered by the Authority at actual incurrence basis.

Extract of Para 7.3.8 of order for Thiruvananthapuram Airport for TCP:

7.3.8 The Authority observed that TKIAL has submitted various Minor Projects/Works under different heads consisting of numerous sub-projects/procurements planned to be carried out over the Third Control Period. The Authority noted that for certain Minor Projects, TKIAL had provided POs and BOQs for only a portion of the cost. For the remaining amounts, which consist of multiple line items, cost estimates have not been submitted by TKIAL to justify the proposed costs. The Authority noted that these are budgets for various procurements and minor works over the Third Control Period. Therefore, detailed estimates and POs may not be available at this stage. In the absence of such details, it is not possible to assess the reasonableness of these expenses. Thus, the Authority proposed to rationalize the capital expenditure for some of the projects/ capital items at this stage. In the event that such projects are necessary and critical to airport operations, TKIAL may incur the remaining amounts and the same would be taken into due consideration on actual incurrence basis subject to evaluation of efficiency and reasonableness, by the Authority, at the time of determination of tariffs for the Fourth Control Period (refer Annexure 4 for the list of such projects not considered as addition to RAB in the current control period).

Extract of Para 7.3.6 of order for Ahmedabad Airport for TCP:

The Authority noted that for each Minor Project, AIAL has provided POs and BOQs for only a portion of the cost. For the remaining amounts which consist of multiple line items, no documents or cost estimates were submitted by AIAL to justify the proposed costs. The Authority noted that these are budgets for various procurements and minor works over the Third Control Period, therefore, detailed estimates and POs may not be available at this stage. In the absence of such details, it was not possible to assess the reasonableness of these expenses. Therefore, the Authority proposed to rationalise the amount for such projects/items at this stage. In the event that such projects are necessary and critical to airport operations, the Airport Operator may incur the remaining amounts and the same would be taken into due consideration by the Authority for true up at the time of determination of tariffs for the Fourth Control Period subject to cost efficiency and reasonableness.

3.6.2 **In view of the above, we request that similar clause to be mentioned for GIAL.**

3.7 LGBIA Proposes for construction of New ATC building based on request received from ATC

3.7.1 AAI is managing the ATC services at LGBIA. It has informed GIAL regarding various operational hurdles faced by them and requested GIAL to construct new ATC tower at LGBIA Airport in the current control period.

3.7.2 AAI in its mail to GIAL (attached as Annexure 4) has summarized the operational challenges faced by them which are as follows:

- Due to limited space, the workplace of ATC Tower has become very congested. There is not even sufficient space to accommodate chairs for the working controllers.

- Sufficient space is not available to accommodate Meteorological official and meteorological equipment and displays are all kept in a bunch in one corner of the tower.

- Insufficient space has also made it difficult to place the various display monitors which are to be viewed and referred by working controllers.

- Noise Level in Tower is high due to space constraint, as pointed out in DGCA inspection in 2021.

- Lack of basic amenities such as washroom etc.

- No space for keeping almirah for keeping documents which are to be mandatorily kept in tower.

- Tower supervisor cannot be provided with working table and chairs due to space constraint.

- The present state of the tower building is not in good shape. During heavy rain, often the terrace leaks and water enters the tower. Due to the presence of various electrical installations, it may lead to fire incident as well as damage to the various equipment.

- Runway extension, parallel taxiway and new terminal building are likely to be commissioned within one year. With most of the operations shifting to the new apron when the new terminal building is commissioned, the visual reference and monitoring of aircraft and other vehicles in the movement area will not be very clear due to distance, especially during fog and heavy rains. The proposed location of the new ATC tower will give better view of the movement area to the tower controller, thus enhancing safety.

3.7.3 GIAL in its Master Plan has envisaged construction of New ATC building in the next control period i.e. Forth Control Period, but AAI has requested GIAL to prepone the construction of New ATC building to Third Control Period.

3.7.4 **Based on request received from AAI, we request the Authority to allow initiating construction for New ATC building in the third control period and true-up the cost on actual incurrence basis, subject to reasonableness and efficiency, during the tariff determination in the next control period.**

3.8 AERA proposal as per 7.3.10 on page 147-149 of CP relating to Soft Cost – Technical Consultancies, Contingencies, Pre-Operative cost, design cost, PMC, Preliminary expenses

ii. The Authority upon review of GIAL's explanation and relevant documents has the following views with respect to soft cost:
a. The Authority notes that for other PPP airports such as HIAL, BIAL, DIAL etc. the above-mentioned costs had been considered in the past in the range of 8% - 11% of the project costs. The Authority is of the view that 16% claimed by GIAL is on the higher side, as compared to other PPP Airports and hence not justified.
b. Many of the capex allowed to GIAL are bought out items, wherein orders are placed on Supply, installation, Testing & Commissioning (SITC) basis, Hence, soft cost such as Project Management Consultancy (PMC), Design etc. need not be incurred on such items.
c. New Capital Expenditure allowed to GIAL includes works on airside. On airside works such as Apron, Taxiway, Runway overlay, Fuel farm etc. PMC charges are normally in the range of 1% to 3% maximum.
d. Soft cost claimed by the GIAL includes, contingencies also, which do not come as a separate line item while capitalizing the assets and is not to be claimed without any contingent activity.
e. GIAL has considered 16% soft cost unilaterally on overall capex items. However, the consideration of soft cost vary asset wise. Following are the observations of the Authority in this regard:
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In view of the above, the Authority proposes to consider the aforementioned costs to the extent of 8% of the Aero CAPEX of the projects allowed by the Authority for the current Control Period. The Authority has thus derived the amount proposed to be allowed towards the aforementioned costs as ₹ 283.62 crores against ₹ 682 crores proposed by GIAL.

Comments by GIAL: -

3.8.1 As per recent released CPWD SOP 2022 dated 13.07.2022 https://cpwd.gov.in/Publication/sop2022.pdf, the Project Estimation should take of the following requirements: -

10. Preliminary estimate (PE) is to be prepared on the basis of Plinth Area Rates or length of road etc. worked out on the rate per unit area/length/number, or such other method adopted for ready and rough calculation, so as to give an idea of the approximate cost involved in the proposal.
11. Prevailing Cost Index over the plinth area rates, effect of ESI & EPF leviable (rates as given in Annexure -14, Contingencies and Departmental Charges (if applicable) are to be added in the PE.

As per CPWD norms the various costs to be considered while preparing the preliminary estimates and should include the following components: -

a. Planning Consultancy 4% and Project Management Consultancy 5% (refer below PART 1 as the relevant extract from CPWD SOP2022)

b. Other Technical Services like Preliminary Sketches, Detailed Drawings, Preliminary Estimates, Structural Design, Execution, Audit & Account etc. is ranging between 7% to 24% depending upon size of the project (refer below PART 2 as the relevant extract from CPWD SOP2022)
c. Contingency cost is 3% (refer below PART 3 as the relevant extract from CPWD SOP2022)
d. ESI & EPF ranging between 0.85% to 4.2%, say average of 2% (refer below PART 4 as the relevant extract from CPWD SOP2022)

3.8.2 As per accounting standards (refer extract as PART 5 below) the costs relating to the Project Team are required to be capitalized. These costs have been approved by AERA in various orders for PPP and AAI Airports ranging between 2-3% of the project cost (refer below PART 6 for few Airports examples). The same is recognized by AERA in its Guidelines Form F11 (b) (refer below PART 7 as the extract from AERA Guidelines).

The overall Soft Costs based on above point 3.8.1 and 3.8.2 above is minimum 18-20%.

3.8.3 As per "Airport Capital Improvements: A Business Planning and Decision-Making Approach" study conducted by Airport Cooperative Research Program (ACRP), Transport Research Board (sponsored by US Government's Federal Aviation Administration). The soft costs range between 10% to 30%. The extract from Page 48 the report is as follows: -

Soft costs typically range from 10% to 30% of total project costs. These include design fees, permitting fees, utilities, costs associated with inspections and land acquisition, costs associated with the bidding and procurement process, and project administration and management costs.

Full study report is provided as **Annexure 5** - ACRP Report - Airport Capex

3.8.4 Further, in Tariff Order No. 27/2023-24 dated 07th December 2023 issued for Goa Airport, "In the matter of determination of aeronautical tariff for Manohar International Airport, MOPA, GOA (GOX) for the First Control Period" the Authority has approved soft cost (design consultancy, PMC expenses, pre-operative expenses and contingencies) at 13%-16%. (refer below table 73 of the Tariff order, the cost approved at Consultation Paper is considered in the tariff order). During the stakeholder consultation meeting held on 21st June 2024, the independent consultant M/s Deloitte has asked to share the information relating to MoPA Airport, which is now duly provided, and it was also provided as the response to consultation paper for Jaipur Airport where Deloitte is supporting the Authority in the assessment of MYTP.

Table 73: CAPEX proposed by the Authority for the First Control Period at Consultation Stage

(Rs. in crores)

S.No	Description	Amount
1	Runway, Taxiways and Apron - (Phase-I, II & III)	526.17*
2	Passenger Terminal Building including Fit Outs (for 7.7 MPPA) (Phase-I, II & III)	1,283.98
3	Airside buildings, Airside roads & Drainage System (Phase-I & III)	346.65
4	Site Preparation/ Earthwork	628.43
5	Administrative building & Site office	50.37
6	ATC Technical Block and Tower	87.43
7	Main Access Road, Spine Road and Car park	104.71
8	Additional Works (Phase-I & III)	63.59
9	Permanent Water & Electricity	20.00
10	ASDC	7.66
11	General Capex	50.00
A	**Sub Total (1 to 11)**	**3,168.99**
12	Design Consultancy & PMC Expenses	120.52
13	Independent Engineer Services	15.07
14	Pre-operative Expenses (Phase-I, II & III)	251.36
15	Contingencies (Phase-I & III)	18.38
B	**Sub Total (12 to15)**	**405.33**
16	Financing Allowance	321.88
17	DSRA	-
C	**Sub Total (16 & 17)**	**321.88**
	Grand Total (A+B+C)	**3,896.20**
18	**Phase-I**	**3,225.79**
19	**Phase-II**	**179.28**
20	**Phase-III**	**441.14**
21	**General Capex**	**50.00**

Soft Cost Rs. 405 Crs over the Project Cost of Rs. 3,169 Crs (approx. 13%). If the Site Preparation/ Earthwork of Rs. 628 Crs is removed from the project cost as it is not applicable for GIAL, then the like-to-like soft cost will be approx. 16%.

3.8.5 In the consultation paper, the Authority has mentioned that there are certain items which are relating to Airside works, bought out items or are of operational requirements, which does not require such magnitude of soft cost. If the same logic is applied, then MoPA GoA Airport also has similar items which are bought out and mandatory for operating the Airport, MoPA GoA also has similar Airside works required for operational reasons. then the 16% actual cost allowed would have been more than that if these bought out items are eliminated. We have requested for blended soft cost of 16% based on domestic standards, international standards and actual cost being incurred by Airport Operators.

3.8.6 **Based on information from reputed agencies from India and Overseas and recent tariff orders, it is evident that soft costs requested by GIAL is based on rational estimates and within the acceptable reasonable range. We therefore request the Authority to allow the soft cost which is based on best practices subject to true-up on actual incurrence basis.**

<u>PART 1</u>

SOP No. 8/7: Levy of Fees by CPWD for Consultancy Services (Para 8.20)

CPWD handles consultancy works of planning and designing (with or without construction) of various projects including high-rise buildings, housing complexes etc. of Public Sector Undertakings and other organizations to undertake construction on turnkey basis, or for Mission's buildings abroad, etc. at negotiated rates. Fee for the Consultancy Services is charged by CPWD as given below.

FEES FOR CONSULTANCY SERVICES

(a) Planning 4%
(b) Construction Management 5%
(c) Visits of CPWD Officers from India 1%

For planning and designing work, the following charges is levied:
(i) Development of Master Plan Rs.10000/- per hectare
(ii) Architectural plans and drawings 3 % for original work ½ % for repetition
(iii) Structural designs and drawings 1% for original work ½ % for repetition

<u>PART 2</u>

ANNEXURE- 5

(Reference Para 3.1.1.4 (1))

RATES OF DEPARTMENTAL CHARGES

Objectives of works	All maintenance works, and minor works costing upto Rs. one lakh	Construction works costing upto Rs. Two Crores	Construction works costing between Rs. Two and five Crores	Construction works costing more than Rs. five crores
1	2	3	4	5
(A) Establishment Charges				
1. Preparation of preliminary sketches	½%	¼%	¼%	¼%
2. Preparation of detailed working drawings	1%	¾%	½%	¼%
3. Preparation of preliminary estimates	¼%	¼%	¼%	¼%
4. Preparation of detailed estimates	½%	¾%	½%	¼%
5. Preparation of structural designs	1%	1%	¾%	¾%
6. Execution	19-¼%	7-¾%	4-¾%	4-¼%
Total Establishment charges	22-½%	10-¾%	7%	6%
(B) T&P (Machinery Equipment)	¾%	¾%	½%	½%
(C) Audit & Account	¼%	¼%	¼%	¼%
(D) Pensionary	¼%	¼%	¼%	¼%
	23-¾%	12%	8%	7%

PART 3

SOP No. ¾: Provision for Contingencies and its Utilization (Refer Para 3.1.1.3 (3))

1. *In addition to the provision for all expenditure which can be foreseen for a work, a provision of contingency is kept as follows: (i) Estimated cost up to Rs. 1 Crore .... 5% (ii)* ***Estimated cost more than Rs. 1 Crore ... 3%, subject to minimum of Rs. 5 Lakh***

PART 4

ANNEXURE- 14

(Refer SOP No. 3/2)

STATEMENT SHOWING THE RATES OF EPF and ESI CHARGES TO BE INCLUDIED IN PRELIMINARY ESTIMATE

Category of work	Component of Labour	EPF @12.5 % of labour Component	ESI @ 4.5 %of labour Component	Total of EPF & ESI
Buildings	25%	3.125%	1.125 %	4.25%
Road Works & pavements in airfields	5%	0.625%	0.225%	0.85%
External sewerage	10%	1.25 %	0.45%	1.70%
External water supply	5%	0.625%	0.225%	0.85%
Bridge/Flyover works	25%	3.125%	1.225%	4.25%
Maintenance works engaging only labour component	100%	12.50 %.	4.50%	17.00 %
Other Maintenance work	70%	8.75%	3.15%	11.9%

PART 5

Indian Accounting Standard (Ind AS) 16 ***Property, Plant and Equipment***

Elements of cost

16 The cost of an item of property, plant and equipment comprises:

(a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates.

(b) any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(c) the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

17 Examples of directly attributable costs are:

(a) costs of employee benefits (as defined in Ind AS 19, Employee Benefits) arising directly from the construction or acquisition of the item of property, plant and equipment;

(b) costs of site preparation;

(c) initial delivery and handling costs;

(d) installation and assembly costs;

(e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and

(f) professional fees.

PART 6

Extract from Chennai Airport Order No. 38/2021-22 for the Third Control Period

Grand Total of Capital Additions Proposed in the Third Control Period				
Grand total of capital additions proposed to be considered in	Total	**3,882.58**	**2,139.82**	**(1,742.66)**
	Financing Allowance	51.88	-	(51.88)
	IDC	[illegible]	21.93	(86.27)
	Project division expenses capitalized (Exp. Cap)	87.07	47.58	(39.57)

~2.25%

Order No. 38/2021-22 for the Third Control Period   Page **137** of **231**

Extract from Pune Airport Order No. 38/2021-22 for the Third Control Period

in case there is a delay in completion of the project beyond the timeline proposed, due to any reason beyond the control of Pune International Airport or its contracting agency and is properly justified, the same would be considered by the Authority while truing up the actual cost at the time of determination of tariff for the Fourth Control Period. Further, this proposal was applicable to all the projects forecasted to be capitalized in the Third Control Period given in this Consultation Paper. This will ensure timely adherence to the capital expenditure plan proposed in the Third Control Period.

4.2.33 Based on the discussion above, the total capital additions proposed to be considered by the Authority in the Third Control Period was as tabulated below:

4.2.34 Based on the Authority's analysis of capital expenditure deferred from Second Control Period (Para 4.2.9 to Para 4.2.24) and new capital expenditure proposed to be incurred in the Third Control Period (Para 4.2.25 to Para 4.2.31), the Authority considered a total Capital Expenditure of Rs. 52,540.93 lakhs as given below:

Table 83: Capital Expenditure additions for the Third Control Period considered by the Authority

Reference	Project	No.	Particulars	Submitted by AAI	Proposed by the Authority	Difference
				1	2	3=2-1
I	Capital additions deferred from the Second Control Period to the Third Control Period	I.A	New Integrated Terminal Building	44,621.19	43,694.92	-926.27
		I.B	PMC-Expansion of Terminal Building- (Tensile canopy)			
		I.C	PMC-Expansion of Terminal Building-Electrieal works (aerobridge)			
		I.D	Baggage Trolley & XBIS	508.47	508.47	-
		I.E	Financing Allowance	3,337.57	-	-3,337.57
		I.F	IDC	2,023.22	2,005.96	-17.26
		I.G	Project division expenses capitalized (Exp. Cap)	1,651.26	1,630.60	-20.67
		I	Sub-Total (NITB)	52,141.71	47,839.95	-4,301.77

~3.5%

PART 7

Form P11 (b): Payroll Related Expenditure and Provisions (ref: Section A5.5.5)

S.N.	Particulars - with detailed breakup	Last available audited year^	Financial Year before Tariff Year 1*	Tariff Year 1	Tariff Year 2	Tariff Year 3	Tariff Year 4	Tariff Year 5
A	*Salaries and Wages*							
B	*PF Contribution*							
C	*Medical Expenses*							
D	*Overtime*							
E	*Staff Welfare Fund*							
F	....							
1	Grand Total							
2	Employee expenses capitalised							
3	Net Employee expenses (1)-(2)							

* Projected values to be provided
\# Fields in italics are indicative only
^ Information for last financial year for which audited accounts are available

3.9 AERA proposal as per 7.3.11 on page 149 of CP relating to re-adjustment in ARR in case any particular capital project is not completed/capitalised as per the approved capitalisation schedule.

7.3.11 The Authority proposes to readjust (reduce) 1% of the uncapitalised project cost from the ARR / target revenue as re-adjustment in case any particular capital project is not completed/ capitalized as per the approved capitalisation schedule. It is further proposed that if the delay in completion of the project is beyond the timeline given in the capitalization schedule, due to any reason beyond the control of GIAL or its contracting agency and is properly justified, the same would be considered by the Authority while truing up the actual cost at the time of determination of tariff for the next Control Period. The re-adjustment in the ARR/ Target Revenue is to protect the interest of the stakeholders who are paying for services provided by GIAL and is also encouragement for GIAL to commission/ capitalize the proposed assets as per the approved CAPEX plan/schedule.

Comments by GIAL:-

3.9.1 The Authority has proposed to disincentivize the AO by reducing 1% of the project cost in case of delay in implementation of the project. Such a proposal puts GIAL in double jeopardy because any delay in completion of project implies denial of return on such asset and depreciation and added to it will be this reduction in cost. It is abundantly clear that it is in the interest of GIAL to complete the project as per schedule, however there could be delays due to various uncertainties. There may be shortage of manpower, funds, force majeure, and unforeseen event, for any reason including but not limited to the scarcity of raw material, finished goods and manpower due to after effect of Covid-19.

3.9.2 One of the principles for tariff fixation stipulates incentive for undertaking investment in a timely manner. Instead of providing an incentive for timely completion of the project the Authority is proposing a disincentive due to delay.

3.9.3 As per TDSAT Judgement dated 06th October 2023 in MIAL SCP and TCP
At the outset, this Hon'ble Tribunal decided the present issue in the MIAL SCP & TCP Judgment whereby it has been held that the decision of the Authority of carrying out 1% re-adjustment is improper and not justified. The relevant portion of the MIAL SCP & TCP Judgment is extracted below:

"308. Moreover, in absence of any provision for penalty under OMDA or SSA or AERA Act, 2008, no such penalty can be imposed, otherwise highly discriminatory position will prevail because today 1% of project cost penalty is imposed and subsequently it may be increased to 1.5%. If 1% penalty is allowed then 1.5% penalty would also have to be allowed then in forth coming years, as there are unguided powers, the penalty might be 3% also and, thereafter it can be 5% or more also. There will be no end to penalty in absence of any provision under OMDA, SSA and AERA Act, 2008. It ought to be kept in mind that unguided and uncontrolled power always leads to discrimination. In case of one airport operator penalty imposed will be 1% and in case of another airport operator it can be 2% because there is no law, there is no contract, there is no provision and there are no guidelines. The balance has already been created under OMDA and SSA in

the methodology of true up in next control period and as stated hereinabove, as per the said methodology, excess amount recovered shall be trued up with carrying cost in next control period. Therefore, in the aforesaid example, if Rs.83 Crores has been recovered, the true up amount in the next control period, if the project is not commenced or completed within the time bound schedule, would be at Rs.121 Crores which is in fact more than sufficient revenue clawed back from the airport operator and perhaps for this very reason no powers have been given to AERA for imposing penalty. Hence, we hereby quash and set aside the decision of AERA of carrying out 1% of readjustment to project cost and applicable carrying cost in the target revenue at the time of determination of tariff for next control period.

309. Here in the facts of the present case, AERA has failed to appreciate the prevailing pandemic situation of COVID-19 and its aftermath. Curfew type situation or lockdown type situation was prevailing. Labourers were not available and hence, there is bound to be delay in execution of the project work. Such a big factor ought to have been appreciated by AERA. The genuine difficulty of airport operator ought to have been appreciated.

310. Thus, Issue No. XVII is answered in negative i.e. the decision of AERA of carrying out 1% re-adjustment to Project Cost and applicable carrying cost in the Target Revenue at the time of determination of Tariff for 4th Control Period is incorrect, improper and not justified."

3.9.4 Also, as per the HIAL TDSAT order dated 14th February 2024, a similar pronouncement has been made. Refer below extract from the TDSAT order.
508. AERA has penalized for delay in execution of projects, the airport operator – Appellant which is equal to reduction of 1% of the total cost of project from ARR.

509. Much has been argued out by the counsels for both the sides on this issue, it has also been submitted by Learned Senior Counsel for the Appellant that the issue of imposition of penalty has already been decided by this Tribunal by a detailed judgment and order dated 06.10.2023 in AERA Appeal No.2 of 2021 and AERA Appeal No.9 of 2016, in a discussion in Issue No. XVII of that Judgement.

510. Looking to the facts and circumstances of the present case and also keeping in mind the AERA Act, 2008 and Concession Agreement under dated 20.12.2024 (Annexure-A3 to the memo of this appeal) there is no provision under the AERA Act, 2008 nor in there is any provision in the Concession Agreement which contemplates the levy of penalty much less levy of penalty 1%there is no provision in the AERA Act nor in the Concession Agreement which contemplates the levy of any penalty and as such the levy of 1% penalty on delayed execution is beyond the power of AERA.

3.9.5 **In light of the above reasons, we request the Authority not to include this proposal in the final Order.**

3.10 AERA proposal as per 7.3.12 on page 149-150 of CP relating to Financing Allowance

The Authority examined GIAL's claim as well as the justification provided for the same in detail and has summarized its view as shown below:

i. The Authority considered 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.

ii. 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.

iii. Furthermore, the future returns from the project should generate adequate returns to cover the cost of equity during the construction stage. GIAL 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.

iv. 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 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.

v. 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, where GIAL brings in additional investments, the airport facilities are mobilized and enabled to other functional parts of the airport, which remains functional and GIAL keeps on enjoying the charges from the users. In the case of LGBIA, since new projects have included mobilization of existing operations, the said Airport is ought to be considered as a brownfield airport, which in the opinion of the Authority would not be eligible for an allowance on the equity portion of newly funded capital projects.

vi. 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.*

vii. AERA Guidelines, 2011 does not specifically state that Financing Allowance is to be provided on equity portion of the capital expenditure. The proviso to Section 13 (1) (a) of the AERA Act states that "different tariff structures may be determined for different airports having regard to all or any of the above considerations specified at sub-clauses (i) to (vii) of Section 13 (1) (a)".

Comments by GIAL: -

AERA Guidelines provides Financing Allowance for all Airports

First and foremost, whatever is not specifically mentioned in AERA Guidelines, the same cannot interpreted otherwise. AERA Guidelines does not specifically mention that Financing Allowance is to be provided only to the Greenfield Airports. No distinction has been carved out regarding the applicability of the Financing Allowance under greenfield or brownfield airport.

As per Authority HIAL, BIAL and CIAL are Greenfield Airports. In the recent tariff orders for various airports, the Authority has considered cost of equity as average of cost of equity considered for DIAL (15.41%), MIAL (15.13%), HIAL (15.17%), BIAL (15.03%) and CIAL (15.16%). The cost of equity for these Airports ranges between 15.13% to 15,41% and while considering average of both sets of Airports (brownfield and greenfield) Authority itself has implicitly treated both set of Airports as equal. This makes it further obvious that financing allowance is applicable for all categories of Airports.

3.10.1 Clause 5 of The AERA Guidelines (which entails the methodology of aeronautical tariff determination) allows Airport operators to be eligible for Financing Allowance as a return on the value invested during the construction phase of an asset including the equity portion, before the asset is put to use.

3.10.2 Thus, Clause 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. For your kind reference the relevant extracts from The AERA Guidelines are reproduced below:

AERA

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:

$$WIPA_t = WIPA_{t-1}$$
$$+ Capital\ Expenditure\ (Capex)$$
$$+ Financing\ Allowance$$
$$- Capital\ Receipts\ of\ the\ nature\ of\ contributions\ from\ stakeholders\ (SC)$$

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$$-Commissioned\ Assets\ (CA)$$

Where:

WIPA$_t$: Work in Progress Assets at the end of Tariff Year t

WIPA$_{t-1}$: Work in Progress Assets at the end of 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 R_d is the cost of debt determined by the Authority 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.

3.10.3 AERA Guidelines also provides illustration for RAB and Financing Allowance calculation. Refer illustration 4 and 7 of the AERA Guidelines as provided below.

3.10.3.1 It is clear from the Illustration that Commissioned Assets (CA) are identical numbers in (1) Addition during the year and (2) Calculation of Financing Allowance. **Financing allowance is computed on the Work in Progress balance based on capital expenditure *(irrespective of how it is funded)*** and is capitalized as part of commissioned assets for RAB computation.

3.10.3.2 The Illustration starts with Opening RAB (Rs. 22,750) available as on Year 2010-11 and then new commissioned assets including financing allowance are getting added over Year 1 to Year 5.. As per Para 5.2.4 the Opening RAB (Initial RAB) is to be calculated as Original Cost of fixed assets less accumulated depreciation. So, the example itself is of Brownfield Airport where Opening RAB (Initial RAB) is available and future projected asset cost along with Financing Allowance is added.

Illustration 4: The following example illustrates the approach for forecasting RAB for the Control period. The numbers in the illustration have been rounded to the nearest integers.

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 example illustrates that RAB_{t-1} for the first Tariff Year of the first Control Period is equal to the forecasted RAB at the end of the financial year 2010-11 and the Initial RAB, as calculated in Clause 5.2.4, is used as the opening RAB for 2010-11.*
- *The example also illustrates that the RAB value, to be considered for the calculation of ARR for a Tariff Year t, shall be the average of the RAB value at the end of Tariff Year t and the RAB value at the end of the preceding Tariff Year t-1, as explained in the Clause 5.2.3.*

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.*

3.10.4 Further, Form No. F15 (b) of the AERA Guidelines requires that the airport operator has to submit project-wise Financing Allowance. The AERA Guidelines mandate the airport operator to include the Financing Allowance in the claim. As per Clause 5.2.7, the value of a commissioned asset (which includes Financing Allowance) shall be used for the determination of forecasted RAB.

AERA has provided Financing Allowance to brownfield revenue generating Airport.

3.10.5 It is pertinent to note that the Authority has allowed Financing allowance for Cochin Airport in AERA Order No. 07/2017-18 dated 13th July 2017 when it was operational, and it was generating revenues too. Cochin Airport made the first significant investment during Second Control Period when the Financing Allowance was provided. Further, it is important to note that at that time, the Cochin Airport was operational (Cochin Airport has been in operation since 1999 refer para 3.1.2 of Cochin Tariff Order) and generating revenues while the New Terminal Building was being constructed. Hence, the reason provided by the Authority that it has never provided Financing Allowance to non-revenue generating Airports is not correct.

3.10.6 The regulatory principles laid down by AERA by means of guidelines provide a fundamental foundation of regulatory clarity to the stakeholders on the manner in which different components of costs and revenues are treated.

When the airport such as Guwahati is transitioned to a PPP model and handed over to the private operator for operation, management and development, the expectation from the private AO is to invest substantially in enhancing the infrastructure facilities. Having regard to the size of investment being made by AO vis-a-vis the investments made by AAI in the past several years, the proposed investment by AO is akin to development of greenfield airport facilities and financing allowance must be allowed for such projects. *It is similar to Cochin Airport when it made the first significant investment during Second Control Period.*

Concession Agreement mandates AERA Act and AERA Guidelines to be followed

3.10.7 As per the Concession Agreement, the tariffs are to be calculated as per the AERA Act, AERA Guidelines. Refer below the definitions from the Concession Agreement. AERA Guidelines provides for Financing Allowance without any differentiation for Greenfield or Brownfield Airport and hence Financing Allowance are to be provided to all Airport.

> *"Fee" means the charge levied on and payable by a User for availing any or all of the: (a) Aeronautical Services, as per the rates determined or revised and approved by the Regulator, in accordance with the provisions of Regulatory Framework; and (b) Non-Aeronautical Services;*
>
> *"Regulatory Framework" means the framework adopted by the Regulator as per the Applicable Laws, including the AERA Act and Airports Economic Regulatory Authority (Terms and Conditions for Determination of Tariff for Airport Operators) Guidelines, 2011;*

Non-application of AERA Guidelines will lead to Non-Adherence of Concession Agreement. It is a settled position in various jurisdiction that Concession Agreement need to be honored by the regulatory authority.

Notional concept is introduced by the Authority at various places in the CP (refer below the examples) where the actual result would be different than what is projected for the regulatory purposes. Hence the Authority`s intention that financing allowance being notional should not be provided is contrary to the certain matters in the CP.

3.10.8 Refer Para 10.2.23 "In case such report is not submitted by GIAL, the Authority proposes to consider power recoveries at a **notional rate** while issuing the tariff order of the Third Control Period."

3.10.9 Refer Para 7.3.12 "Further, the Authority proposes to consider the **notional** gearing ratio (debt-equity ratio of 48:52) followed for other PPP airports and cost of debt @ 9% (refer para 8.2.5 onwards) for the Third Control Period for calculating the value of IDC."

3.10.10 **In light of above explanations, we request that the financing allowance should be computed as per formulae prescribed in the AERA Guidelines.**

3.11 AERA proposal as per 7.3.12 on page 150 of CP relating to Interest During Construction

viii. In respect of IDC, the Authority is inclined to allow the same and accordingly, the Authority has considered IDC to be provided on the debt portion of the value of average CWIP derived on the basis of revised Capitalization schedule proposed by the Authority. Further, the Authority proposes to consider the notional gearing ratio (debt-equity ratio of 48:52) followed for other PPP airports and cost of debt @ 9% (refer para 8.2.5 onwards) for the Third Control Period for calculating the value of IDC. Based on the same, the Authority has derived an amount of ₹ 179.42 crores and proposes to allow the same as against ₹ 660.10 crores (as Financing Allowance and IDC) claimed by GIAL for the Third Control Period. Following is the asset category wise IDC for the proposed capex programme.

Comments by GIAL: -

3.11.1 To avoid repetition of comments on Cost of Debt, please refer comments provided in point 4.2.

3.11.2 Further it is to be noted that IDC is calculated considering certain projected cash outflows. Whereas in actual, the cash outflows could be different.

3.11.3 **Therefore, we request authority to provide necessary true-up for actual IDC capitalized in the financial statements at the time of tariff determination of next control period, in addition to recalculation of IDC as requested above.**

3.12 AERA proposal as per Table 106 on page 150 of CP relating to Interest During Construction

Table 106: Asset category wise details of Interest During Construction as per the Authority

(₹ crores)

Particular	FY'23	FY'24	FY'25	FY'26	FY'27	Total
Land Development Works	-	-	0.38	1.14	-	1.52
Airside Improvement Works	-	0.04	7.78	25.32	5.03	38.17
Ancillary Building Development Works	-	-	-	0.46	0.27	0.73
ATF storage and distribution system	-	-	0.13	-	-	0.13
Development of Cargo Facilities	-	0.01	-	0.49	-	0.50
Environment Related	-	-	0.17	0.56	0.02	0.75
Passenger Terminal & Associated works	-	23.46	50.03	64.02	-	137.51
Utilities	-	-	-	0.08	0.03	0.11
Total	-	**23.51**	**58.49**	**92.08**	**5.34**	**179.42**

Comments by GIAL: -

3.12.1 The amount of Rs 179.42 Crs for IDC as proposed in the CP does not appear to be correct. Based on our calculation (considering the same assumptions as per CP), the IDC of NITB itself comes to Rs 205 Crs (refer calculation in the Table below) as against Rs 179 Crs proposed by the Authority for entire capex. It appears that the Authority has not considered IDC for FY23 and preceding years.

Particulars	Rs in Crs
Cost of NITB as proposed by the Authority	2132
Kerbside development	128
Total	**2260**

Rs in Crs

Year	Year wise CWIP	Cumulative CWIP	Aero Portion	Opening CWIP	Closing CWIP	Debt Potion	Interest Rate	IDC
	A	B	C=A*90%	D	E	F	G	H=(D+E)/2*F*G
FY22	443	443	399	399	399	48%	9%	17
FY23	267	710	240	399	639	48%	9%	22
FY24	374	1,084	336	639	976	48%	9%	35
FY25	588	1,672	529	976	1,505	48%	9%	54
FY26	588	2,260	529	1,505	2,034	48%	9%	76
Total	**2,260**	**2,260**						**205**

3.12.2 **We request the Authority to recalculate IDC taking into considerations comments provided as above.**

3.13 AERA proposal at clause 7.3.14 on Page 151- 154 of CP relating to Allocation Ratios including Terminal Building Ratio

b. The Authority has examined GIAL submission and have following observations:

i. As per tariff guidelines 2011 for Airport Operators the tariff for an Airport needs to be calculated as per single till methodology. According to which all building block of ARR considered 100% as aeronautical.

ii. The Authority in order to adopts uniform tariff policy across all major airports had amended its tariff guideline to the extent of adoption of Hybrid Till instead of Single Till prescribed in the guidelines vide order 14/2016-17. The Hybrid Till in principle considers only aeronautical portion of OPEX and CAPEX as pass through in tariff with 30% cross subsidy from Gross Non-Aero Revenue.

iii. The revenue, cost and asset are interlinked and should be aligned in accordance with the till methodology adopted for tariff determination. Thus, as part of asset allocation exercise, we would require identification and allocation of Assets and OPEX into Aero and Non-Aero

iv. The Authority has adopted following basis for allocation of RAB addition during third control period: v. It is to be further noted that the Authority has considered above ratios to allocate assets planned to be procured as part of third control period, the allocation ratio will be revised as per asset allocation exercise undertaken by the Authority in the next control period.

Terminal Building Ratio - *It was observed that GIAL has classified the entire area of the terminal building as aeronautical. Upon enquiry, GIAL stated that this was done in accordance with the AERA Act.*

Terminal Building Area is planned in an airport considering the facilities to be provided for Aeronautical activities and provision of space for certain Non-Aeronautical activities such as Food & Beverage, Duty Free etc. Also, in case of PPP airports, the focus on Non-Aeronautical activities is expected to be more as these would generate revenues and a part of the same would also cross subsidize the Aeronautical charges. The Non-Aeronautical activities are over 10% of terminal building area at other similar size PPP airports. Prescriptions of IMG norms also provide for non-aeronautical area to be between 8% and 12%, with the range being higher for larger airports. Considering the above, the Authority proposes to consider the ratio of 90:10 towards Aeronautical and Non-Aeronautical in line with its decision in Order No. 03 /2017-18 dated 2nd June 2017 for GIAL for the Third Control Period and recommendation in independent study on asset allocation.

Employee Ratio- *GIAL has submitted expected deployment of employees during third control period. Basis on employment schedule and rationalization, the employee ratio has been calculated at operating expense chapter (please refer Table 140 of O&M chapter of this consultation paper for detailed calculation). The effective employee ratio for third control period comes to 96.01%.*

Gross Block Asset Ratio – *As per the asset allocation study the gross block asset ratio is 95.39% as on 31st Mar'2022, same has been considered for third control period for the purpose of asset allocation.*

Following is the asset wise allocation for asset addition proposed in third control period:

Comments by GIAL: -

AERA Act or AERA Guidelines do not provide allocation

3.13.1 In respect to Terminal Building Ratio, It is observed that as per The AERA Guidelines, 5.2.1 (vi) all the assets which are part of the terminal building shall be considered as part of RAB. Therefore, terminal building as a whole should be considered as RAB / Aeronautical asset and not to be allocated into Aero and Non-Aero. For quick reference the relevant clause from the guidelines is reproduced as follows as *"Notwithstanding the principles mentioned under points (i) to (v) above, assets with fixed locations inside terminal buildings shall be considered within the scope of RAB."*

3.13.2 Further, in respect to allocation of various capex and Operation & Maintenance expenses, we would like to submit that: -

3.13.2.1 Under the Shared-Till (or Hybrid Till) model as proposed in National Civil Aviation Policy, 2016, 30% of Non-Aeronautical Revenues are accounted for cross subsidizing the ARR. There is no mention of allocation of RAB, allocation of Operation and Maintenance etc. Therefore, there is no need to apply the allocation ratio whereby capital and operating expenditure is reduced, which acts as a dual burden for the Airport Operator. Also, the AERA Guidelines do not provide for applying the allocation ratio.

Relevant extract of National Civil Aviation Policy, 2016 is reproduced below:
"To ensure uniformity and level playing field across various operators, future tariffs at all airports will be calculated on a 'hybrid till' basis, unless otherwise specified for any project being bid out in future. 30% of non-aeronautical revenue will be used to cross-subsidize aeronautical charges."

For ease of reference, the relevant clause regarding the 'Shared Till' approach from the Concession Agreement is reproduced hereunder:

28.3.2.
The GOI has, through the National Civil Aviation Policy dated June 15, 2016, approved, ("Shared-Till Approval") the 30% (thirty percent) shared-till framework for the determination and regulation of the Aeronautical Charges for all airports in India, and the same shall be accordingly considered by the Regulator for the purposes of the determination of the Fees/Aeronautical Charges pursuant to the provisions of this Agreement. It is clarified that, for the purposes of this Agreement, the Shared-Till Approval shall apply as on the date of this Agreement notwithstanding any subsequent revision or amendment of such Shared-Till Approval."

3.13.3 As per AERA Order No. 14/2016-17 issued on 23rd January 2017, the Authority has adopted the Hybrid Till whereas 30% of non-aeronautical revenues are used to cross-subsidize aeronautical charges. However, it does not mention that capital and operating expenditure need to be allocated into Aeronautical and Non-Aeronautical which tantamount to cross subsidization of aeronautical charges to the extent non-aeronautical allocation is eliminated. The order only provides for cross subsidization of 30% from non-aeronautical revenues. The relevant extract of the order is as: -
The Authority, in exercise of powers conferred by Section 13(1)(a) of the Airports Economic Regulatory Authority of India Act, 2008 and after careful consideration of the comments of the stakeholders on the subject issue, decides and orders that:

The Authority will in future determine the tariffs of major airports under "Hybrid-Till" wherein 30% of non-aeronautical revenues will be used to cross-subsidize aeronautical charges. Accordingly, to that extant the airport operator guidelines of the Authority shall be amended. The provisions of the Guidelines issued by the Authority, other than regulatory till, shall remain the same.

IMG Norms are not applicable to PPP Airports

3.13.4 Notwithstanding the above, it is submitted that norms of IMG report are not applicable to PPP airports, as per clause no. G of IMG Report. reproduced below:
"In case of airports developed through Public Private Partnerships the project authorities may adopt a case-by-case approach with respect to norms relating to unit area and unit costs. Based on the judicious consideration of international best practices and financial viability, the norms may be specified in each case prior to inviting bids for private participation."

3.13.5 No norms with respect to unit area and costs were mentioned in the bidding documents and Concession Agreement of Guwahati Airport. The Concession Agreement does not mention regarding the applicability of the IMG Norms. Therefore, we request the Authority not to apply IMG norms in the case of Guwahati Airport.

3.13.6 **In view of the foregoing, we request the Authority to apply the Terminal Building Ratio, wherever it is factored in CP, as 100% Aeronautical which is in line with the Guidelines of 2011.**

3.13.7 Without prejudice to the above and in the alternate, terminal building is built with certain length, breadth and height considering the passenger throughput and service level requirements. The structure of the terminal includes façade, ceiling, columns etc. which have no relation with leasable floor area. The commercial activities like retail, food and beverage, etc. require limited works where the cost is much lower than the cost required to build the terminal building. GIAL submits that terminal building allocation ratio should, at best, be based on cost of floor plate of commercial leased area in the terminal vis-à-vis total cost of the terminal building, instead of allocating entire terminal cost based on leasable area.

3.13.8 Without prejudice to the above, it is submitted that the terminal building allocation ratio cannot be a notional number as has been done in the Consultation Paper. The Authority has applied the actual capital expenditure and Operating Expenditure for FY22-23 while projecting the expenses for the control period, and it is logical that it should have used the actual terminal building ratio. The terminal building allocation ratio should not be different than actual.

3.13.9 **Therefore, we request the Authority to kindly revise all the calculations provided in the consultation paper without allocating building blocks into Aeronautical and Non-Aeronautical, which are not required per se either in AERA Guidelines or NCAP.**

3.14 AERA proposal as per 7.5.6 to 7.5.8 on page 159-160 of CP relating to Depreciation

7.5.6 The Authority has observed the recommendations given in the study report for adopting shorter useful life and noted the following:

• The Independent Expert appointed by GIAL has considered the various components of the Terminal Building such as False Ceiling, Sanitation works, Glass façade, Flooring works etc. for assessing the useful life of the Terminal Building. The Expert has calculated the contribution of each of the components to the overall structure of the Terminal Building along with the estimated useful life of such components wherein shorter useful lives have been adopted for False Ceiling, Sanitation works, Glass façade and Flooring works due to frequent renovation works in the building, weather conditions, wear and tear, etc., and arrived at the weighted average useful life of the entire structure of Terminal Building as approximately 25 years Further, the Authority notes that GIAL has adopted the same shorter useful life of 25 years for the projected capital expenditure on construction of new Cargo Terminal Building.

• Similarly, the Independent Expert has recommended shorter useful life for Runways, Taxiways and Apron based on the useful life followed by various international regulators and associations.

• Further, in respect of Plant and machinery items, as per the technical report, these items are broadly used at LGBIA for 24 hours per day as the Airport is working all three shifts and hence, as prescribed under the Companies Act 2013, Schedule II for assets used during the year for double shift or triple shift, the Expert has recommended to adopt useful life of 7.5 years instead of 15 years. The Authority also notes that GIAL has adopted the same shorter useful life of 7.5 years for Cargo and Security Equipment.

• GIAL has adopted shorter useful life of 3 years for Flight Information Display System (FIDS) and AOCC Equipment (included under the category of 'Information and Technology equipment') in its MYTP submission.

7.5.7 Apart from the above, the Authority notes that in respect of Fuel Farm facility, GIAL has adopted 'weighted average' useful life of 7.5 years. Since the major portion of the assets are in the nature of Plant and Machinery, GIAL has estimated the useful life of the Fuel facility as 7.5 years and adopted higher depreciation of 13.33% for the entire capital expenditure projected for this facility.

7.5.8 The Authority on perusal of all the above, has summarized its view as under:
Asset class - Building: The Expert has recommended shorter life for False Ceiling, Sanitation works, Glass façade and Flooring works which appear to be integral part of the Airport Terminal Building. The Authority's Order No.35 does not provide for reducing the life of assets under Asset class -Buildings. The Authority observes that various components mentioned above are also an integral part of the Terminal Building and should be added to the Terminal Building cost by applying the same rate of depreciation as that of buildings. While the technical report provided by GIAL has determined the shorter life to be adopted, it has not provided sufficient rationale for adopting such shorter useful life. Since these assets are all part of the building, the Authority is of the view that the same rate applicable to building should be applied to these assets and no

reduction in life of these assets are called for. Further, the Authority notes that adequate maintenance expenditure is allowed to enable GIAL to maintain the assets in good working condition during its entire life. The Authority has issued Order No.35 as part of its normative approach to various Building Blocks in Economic regulation of Major Airports where it has stated that, "The Authority has been of the considered view, that it would be preferable to have as far as practicable, a broad year to year consistency in what Depreciation is charged by the companies as certified by the relevant statutory auditors and what the Authority would take into account in its process of tariff determination. Issue of a notification will ensure this objective." In view of all the above, the Authority is not inclined to deviate from ensuring this objective and therefore proposes not to consider the shorter useful life of 25 years claimed by GIAL for both the Terminal Building and newly projected Cargo terminal building.

<u>Asset Class -Runways, Taxiways and Aprons:</u> The Expert has recommended adopting a shorter life of 20 years based on useful life followed by certain international associations and regulators, like, Federation Aviation Administration -US Department of Transportation, Civil Aviation Authority – UK, Australian Airports Association – Australia etc., which the Authority feels does not provide proper justification for adopting a shorter useful life. Therefore, the Authority finds no reason to reduce the life of the Runway which enhances the burden of Airport users by increasing the tariff.

<u>Other Asset Classes:</u> Order No.35 provides for specific determination of life through technical evaluation for specific assets other than those listed in the Order based on specific requirement of the Airport. The Authority finds that none of the asset in these classes where a shorter life has been adopted as specific assets are based on specific requirement of the Airport. Therefore, the Authority finds no merit in reducing the life of such asset for tariff purposes.

Comments by GIAL: -

3.14.1 In this regard, reference is made to the Useful life of Assets Order No. 35/2017-18 dated 12th January 2018, *"… if the period of useful life of assets is considered differently, the Airport Operator shall document and provide the reasons/justification and the basis for the period considered in determining the useful life of assets for the purpose of tariff determination which shall be examined and considered by the Authority."*

3.14.2 GIAL has considered the depreciation for the assets based on the useful life of the assets as per the Companies Act and useful life of various assets as recommended by independent technical evaluation for Lucknow and Ahmedabad Airports. The said technical report provided reasons as to why a shorter lifespan should be considered. GIAL also submits that the same is consistent with Authority's Order No. 35/2017-18 dated 12th January 2018 and amendment to the Order dated 09th April 2018.

3.14.3 **We request the Authority to kindly allow the depreciation rates as assessed by the technical auditor, which is in line with the AERA Order.**

4 Chapter 4 “Comments on Consultation Paper Chapter 8 - Fair Rate Of Return (FRoR) For The Third Control Period”

4.1 AERA proposal as 8.2.1 to 8.2.4 on page 165 of CP relating to Cost of Equity

8.2.1 The Authority had commissioned independent studies for the evaluation of cost of capital separately, in case of each PPP Airport, namely DIAL, MIAL, GHIAL, BIAL and CIAL through a premier institute, namely IIM Bangalore and proposes to use these study reports as a basis, to the extent applicable and relevant, to ascertain the Cost of equity of LGBIA for the Third Control Period.

8.2.2 The independent study reports have drawn from the international experience of airports and their conclusions have been evaluated to the extent comparable with LGBIA in terms of hybrid till, ownership structure, size, scale of operations and regulatory framework. The median and average Cost of equity arrived at by the independent study reports are 15.16% and 15.18%, respectively, as shown in the table below:

Table 122: Computation of Cost of equity as per IIM Bangalore independent study reports

Particulars	CIAL	MIAL	BIAL	DIAL	GHIAL	Average
Risk-free rate (A)	7.56%	7.56%	7.56%	7.56%	7.56%	7.56%
Equity beta (B)	0.9427	0.9391	0.9262	0.9732	0.9442	0.94508
Equity risk premium (C)	8.06%	8.06%	8.06%	8.06%	8.06%	8.06%
Cost of equity *A + (B * C)*	15.16%	15.13%	15.03%	15.41%	15.17%	**15.18%**
Average Cost of equity						**15.18%**

8.2.3 The Authority notes that the Cost of Equity for the purpose of determination of FRoR has to be fairly consistent in case of PPP airports across India as the factors considered by the Independent Study in CAPM formula such as Risk Free Rate, Market premium are in Indian context and do not vary significantly among the Airports as these are operated under similar environment. Further, the averaging out exercise normalises the risk factors across Airports in Cost of Equity computation.

8.2.4 Based on the above reports, the Authority proposes the Cost of equity of 15.18% for LGBIA for the Third Control Period. This is also in line with the considerations of the Authority for other similar airports including Lucknow.

Comments by GIAL: -

4.1.1 As per AERA Guidelines, Authority is expected to estimate cost of equity by using CAPM for each AO subject to consideration of such factor as the Authority may deem fit. However, in the instant CP, the Authority has not estimated the cost of equity for GIAL. Rather it has taken reference from Cost of Equity calculated for other PPP Airports (mix of Greenfield and Brownfield Airports) and applied it to GIAL. This is not in line with the AERA Guidelines.

Extract from the AERA Guidelines

"5.1.3 Cost of Equity

*Cost of Equity – The Authority shall estimate the cost of equity, for a Control Period, **by using the Capital Asset Pricing Model (CAPM)** for **each** Airport Operator, subject to the consideration of such factors as the Authority may deem fit."*

4.1.2 GIAL had adopted the study undertaken by LIAL through services of PriceWaterhouse Coopers Services LLP (PwC) on evaluating the applicable Cost of Equity (CoE). Based on this study, the AO considered the CoE as 17.30%.

4.1.3 The methodology used to compute the CoE of LIAL (as well as GIAL) is the Capital Asset Pricing Model (CAPM), as mentioned in AERA Guidelines. The three components to be estimated in the CAPM are (a) the beta of the CCSIA, (b) the risk-free rate and (c) the equity risk premium. Following assumptions related to above three components which appropriately capture the risks of CCSIA have been used to calculate the CoE:

4.1.4 Identification of comparable airports: Various airports were identified which are listed on stock exchanges across the globe or have regulated betas. A set of airports were removed from the list because of either lack of data for the required time period or unreliable data.

4.1.5 Determination of equity and asset beta for the selected airports: Beta is indicative of the systematic risk of the project. In order to calculate this, the analysis regresses the movement of the stock prices (of respective airports) on the movement of an index representing the market portfolio. The beta values pertaining to this regression are called the 'equity' betas. Once the equity beta is calculated, the analysis 'un-levers' the beta (i.e., purges off the effects of the capital structure) by using the Hamada equation. Unlevered beta is called the 'asset' beta for the respective airports.

4.1.6 Computing the proximity scores for each airport and asset beta of CCSIA: Once the asset betas have been computed, quantifiable assessment has been undertaken for identified airports to determine the proximity/ relevance scores. All the airports have been compared with Lucknow airport based on the following airport characteristics:

- Regulatory Environment
- Operational Structure
- Payment Structure
- Ownership Structure

4.1.7 Numeric values of 1 to 3 have been assigned to each factor wherein lower the score, more comparable is the airport to CCSIA. Furthermore, an inverse of the proximity scores is used to calculate the 'asset' beta of CCSIA

4.1.7.1 ***Re-lever the asset beta to obtain the equity beta:*** *The asset beta of the CCSIA is relevered using the Hamada equation to obtain the equity (re-levered) beta. As the re-levered beta is a function of D/E or gearing ratio, the beta value changes whenever the D/E or gearing ratio changes. A gearing ratio of 48:52 is considered. This has been derived from the gearing ratios set by the regulators at different comparable international airports.*

4.1.7.2 ***Risk Free Rate:*** *An average of daily yield for 10 years of the 10-year Government of India security has been considered as the risk-free rate.*

4.1.7.3 ***Equity Risk Premium:*** *To avoid any bias, an average of equity risk premiums computed by a list of studies and standard market indices are taken for the analysis. The list of the same is provided as follows:*

- Prof Damodaran's estimate of ERP as of January 2021 based on ratings of sovereign bonds.
- Prof Damodaran's estimate of ERP as of January 2021 based on ratings of sovereign bonds.
- Forward looking ERP of India as estimated in a study conducted in April 2019 by Grant Thornton
- ERP published by Incwert Valuation Chronicles in June 2020
- ERP computed based on Nifty 50
- ERP computed based on Sensex.

4.1.8 As is clear from above, a well-defined systematic approach which appropriately captures the risks specific to CCSIA has been used for computing reasonable rate of CoE for CCSIA.

4.1.9 Further we would like to point out that IIM B study considered 12 airports, out of which only two airports belong to developing countries. Airports in developing markets are exposed to each of these risks differently when compared to developed markets. Following are the risks which the airports in developing market have to face:

4.1.9.1 ***Demand Risk*** *– Apart from the economic conditions which affect demand, demand for air travel is also highly elastic with respect to air fare in India and other developing economies. Any increase or decrease in air fare due to fuel prices or other input costs results in relatively higher traffic volatility.*

4.1.9.2 ***Counterparty Risk*** *– Airports in developing countries typically derive a major part of their revenue from aeronautical services, as against the developed markers where non-aeronautical revenue is higher.*

4.1.9.3 ***Regulatory Risk*** *– Regulations in developing countries are still evolving and are not stable.*

4.1.10 Asset beta of airports in developing countries is consistently higher than the asset beta of airports in developed economies. This can be demonstrated by the data provided in the IIM B study in which the asset beta for Sydney airport is 0.40 whereas the asset beta for Airport of Thailand is 0.86. This shows the quantum of variation in risk perception between developed and developing countries.

4.1.11 Study done by PwC includes airports from both developed economies like France, Spain and Switzerland and developing economies like Mexico, Malaysia, Thailand. Following are the asset betas of various airports as per study:

S.No	Airport Operator	5-year asset beta on 5 year average DER	5-year asset beta on latest DER
1.	Sydney Airport Holdings Private Limited	0.692	0.719
2.	Auckland International Airport Limited	1.030	1.052
3.	Flughafen Zurich	0.865	0.838
4.	Groupe Aeroports De Paris	0.922	0.922
5.	Aena	0.102	0.121
6.	Asur (Aeroporto Del Sureste)	1.338	1.340
7.	Københavns Lufthavne	0.423	0.416
8.	Grupo Aeroportuario Del Centro Norte S.A.B. De C.V. Adr	0.960	1.020
9.	Grupo Aeroportuario Del Pacifico, S.A.B. De C.V	1.430	1.428
10.	Aeroporto Guglielmo Marconi Di Bologna S.P.A	0.642	0.649
11.	Fraport Ag	0.686	0.669
12.	Airport Of Thailand Public Limited Company	0.984	1.002
13.	Malaysia Airport Holdings Berhad	0.848	0.893
14.	Flughafen Wien Ag	0.527	0.610
15.	Gruppo Toscana Aeroporti	0.457	0.455

4.1.12 As is evident from table above, asset betas of airports in Mexico like Grupo Aeroportuario Del Centro Norte, Grupo Aeroportuario Del Pacifico, in Thailand like Airport of Thailand have asset betas of more than 1.

4.1.13 Further, we would like to give reference to para 15.6.2 of the Cochin Airport's Second Control Period Tariff Order No.7/ 2017-18 wherein Authority has taken the stance that newer airports which have higher risks need to be **adequately compensated by higher cost of equity and one size does not fit all**. Contents of the order are reproduced below

> 15.6.2. Cost of Equity: – The Authority notes that DIAL and HIAL started operations recently as compared to CIAL and the Authority has taken a slightly higher cost of equity presuming that newly started companies have a greater risk. The Authority notes that Cochin is a well-established airport paying dividends and the risk profile is very low, investment are not heavy, cost is lower, traffic is stabilized and there is no volatility. The authority opines that "One size fits all" view for calculating CoE is not appropriate since each Airport is unique. The Authority also notes from a

4.1.14 The same point is again acknowledged by the Authority in Tariff Order No 08/2021-22 for CIAL for the Third Control Period. The relevant extract is provided as: -

> 4.6.20. The Authority has noted CIAL's comments regarding cost of equity for the Second Control Period. However, it would not be prudent to compare CIAL with other private airport operators like DIAL and HIAL which have started operations more recently as compared to CIAL. The Authority had noted at the time of determining tariffs for the Second Control Period that it is reasonable to presume that newer companies would have a greater risk when compared to a well-established, investment-light and dividend paying airport like Cochin International Airport. This is also evident from the high contribution

GIAL is a new Concession Agreement and by the logic of the Authority, GIAL has to have higher return than the Cochin Airport (CIAL).

4.1.15 **We hereby request the Authority to accept the CoE as submitted by GIAL in the MYTP supported by an in-depth study conducted by an independent consultant PwC as per CAPM methodology prescribed under AERA Guidelines.**

4.2 AERA proposal as 8.2.5 to 8.2.11 on page 165-167 of CP relating to Cost of Debt

8.2.5 GIAL has considered Cost of Debt for the Third Control Period at 12% based on its current borrowing rate from a related party and based on Adani Airport Holdings Limited's all-in borrowing cost of 12.10%.

8.2.6 Since the Airport has not obtained any credit rating from an external rating agency, there is no direct comparable entity or market data for determining cost of debt for LGBIA.

8.2.7 The Authority recommends that the Airport bring in further efficiencies in its cost of borrowing by leveraging its parent entity's financial strength in order to reduce the interest rates. This suggestion is also in keeping with the spirit of PPP whereby it is expected that the financial strength of PPP airports will be maintained at an optimal level and their cost of capital will be within reasonably allowable limits. GIAL should avail the synergies and benefits owed to it by its strong shareholding and balance sheet of its Parent companies and therefore work towards bringing down the cost of debt to the same level as other PPP airports.

8.2.8 The Authority also notes that the cost of debt for airport operators forms vital part of the Return on Capital Employed / Fair Rate of Return provided to the airport operators on the investment towards creation of the capital assets w.r.t the airport project.

It is imperative that the cost of debt that is considered in the calculation of FRoR is reflective of the current cost of debt that the airport operator incurs towards debt financing the airport infrastructure.

The following aspects, in this regard has been considered while arriving at the efficient cost of debt to be provided as part of the FRoR:

i Cost of debt financing in the Indian / International context is usually linked to the External Credit Rating of the Airport Operator/ Project SPV. As a result, any cost of debt actually incurred if it must be deemed efficient should be factoring in the External Credit Rating (ECR) of the entity. Usually Banks/ FIs mark a spread over and above their benchmark lending rate (usually published as Marginal Cost of Lending Rate i.e. MCLRs) as the interest rate for funding specific projects. This spread is linked to the ECR of the Borrower which in this case is the airport operator. AERA has follow a similar assessment to arrive at the cost of debt to be provided to the airport operator.

ii Debt must be a senior secured debt raised from financial institutions/ banks private /public or foreign at an arm's length basis. There could be instances wherein the debt raised is subordinated to senior debt and would hence incur a higher cost and thereby deemed inefficient. Such inefficient cost may not be the right indicator of the actual cost of debt and hence appropriate adjustment has to be carried out while allowing such cost in the tariff determination process.

iii There have also been instances wherein senior secured debt have been advanced by promoter/ promoter entities in which case the arm's length criteria could be questioned. It is pertinent to note that similar to the above case such costs also could not be deemed to be efficient and hence adequate adjustments to be carried out to ensure that the costs considered is reflective of the efficient cost. AERA doesn't encourage related party transactions and insists transparency and arm's length criteria in the interest of public.

iv Airport Operators currently in the country baring a few exceptions have managed to retain an ECR of A and above. In some cases where the airport is yet to establish a steady stream of positive cash flows on account of emerging nature of operations, the debt servicing is backed by the strength of the promoter entities which is also factored by the ECR rating agencies. As a result, considering the prevalent MCLRs which are in the range of 8.45%- 8.55%, an interest rate of 9% is usually considered as the cost of debt for these airport operators. However, given the expected softening of rates globally, and the impetus to promote economic growth as inflations fears have slowed down, the MCLRs are expected to gradually reduce over the next 2-3 years bringing down the cost of borrowing further. AERA want Airport Operators to improve ECR by bringing in efficiency and transparency which in turn will reduce MCLRs.

v Arriving at the cost of debt through assessment of the debt raising capacity of the airport operator rather than providing the actual cost of debt as submitted by the airport operator would benefit the airport stakeholders in the long run. The Airport operators would strive to be more efficient in their fund-raising endeavours rather than taking comfort from the true up option available to them considering the actual cost of debt.

8.2.9 The Authority expects GIAL to exercise its best endeavor to undertake the financing towards capital expenditure at competitive rates as in other PPP airports and take all steps as detailed above, with support from its Parent company to optimize the cost of debt and follow all requisite procedures of financing including following all Government guidelines, obtaining efficient credit rating etc. in order to ensure that debt is contracted at optimum rates to ensure that the users of the airport are not burdened.

8.2.10 The Authority also notes that the average cost of debt of the other five PPP airports viz., DIAL, MIAL, GHIAL, BIAL and CIAL is 8.96%.

8.2.11 Accordingly, the Authority has considered the Cost of Debt of 9% for the computation of Fair Rate of Return. The Authority also directs GIAL to ensure that Related Party transactions, if any, with respect to borrowing of funds are benchmarked with most optimum rates available and is well justified.

8.2.14 The Authority notes that the actual gearing deployed by Airport Operators of PPP airports are usually higher than the notional gearing adopted by the Authority, which ultimately benefits the AO. However, since the debt equity mix has been proposed by the Authority considering the efficient capital structure and the interest of all the Stakeholders, the notional gearing ratio of 48: 52 will not be trued up during the tariff determination for the next Control Period.

Comments by GIAL: -

4.2.1 During the Stakeholder Consultation meeting for Lokpriya Gopinath Bordoloi International Airport by the Authority on 21st June 2024, Consultant has asked for additional information substantiating the actual cost of debt. GIAL submits, in reference to MYTP para 12.7 & 12.8 as follows:

In May-2022, AAHL had raised External Commercial Borrowing facility from a consortium of Standard Chartered Bank and Barclays Bank PLC (Attach find the facility agreement in Annexure 6).

The all-in borrowing cost of this facility as on date is 12.59% p.a. (as tabled below).

Parameters	Value	Reference
Secured Overnight Financing Rate (SOFR) reference + Spread over SOFR + Hedging Cost	11.62%	For details please refer below and also refer Annexure 7
Withholding tax gross up (at 5% of SOFR + spread)	0.47%	Refer clause 12.2 of Page 67 of the Facility Agreement provided as attachment in Annexure 6
Upfront fees (annualized)	0.50%	For details please refer below and also refer page no 7 of ECB Form in Annexure 8 Total Fees Paid : USD 6 mm for USD 400 mm loan i.e. 1.50% (6mm / 400 mm *100) for 3 years i.e. 0.50% p.a.
All-in Cost of External Commercial Borrowing	**12.59%**	

Calculation of Secured Overnight Financing Rate (SOFR) reference + Spread over SOFR + Hedging Cost

Tranche 1 - 250 mm

Particular	Reference No	Interest Rate	Weightage	Interest
Hedging of Spread over SOFR + SOFR	**578496**	**11.325%**		
Total (1)		**11.325%**	0.625	7.08%
			250 mm/ 400 mm	

Tranche 2 - 150 mm

Particular	Reference No	Interest Rate	Weightage	Interest
Hedging of Spread over SOFR	89586129/1/2/6	6.620%		
	Sub-total A	**6.620%**		
Hedging of SOFR	89622633/1/2/5	5.570%		
	93231687/1/3/5	5.405%		
	Sub-total B	**5.488%**		
Total 2 (A+B)		**12.1075%**	0.375	4.54%
			150 mm/ 400 mm	
Total				**11.62%**

Details of Upfront fees

Part D: Other Charges					
Nature of charge	Expected Date of Payment	Currency	Amount	In case of multiple equal payments	
				No. of payments in a year	Total no. of payments
Arrangement Fee	2022-05-15	USD	5,000,000	01	01
Trustee Fee	2022-05-15	USD	20,000	02	04
Process Agent Fee	2022-05-15	USD	5,000	01	03
Facility Agent Fee	2022-05-15	USD	50,000	01	03
Others (including Legal Counsel Fee, Legal Fee and other miscellaneous charges etc.)	2022-05-15	USD	925,000	05	05
Total		USD	6,000,000		

The part of the proceeds raised from this facility are being on-lent to GIAL for the purpose of financing its capital expenditure, working capital and other requirements at the rate of 12.25% p.a.
GIAL has considered Cost of debt at 12% for the TCP.
The raising of funds at GIAL was not possible without Corporate Guarantee support from Adani Group and hence borrowing with Corporate Guarantee of Adani Group in turn tantamount to Borrowing at Holding Company level.

4.2.2 AAHL has recently approached bank for seeking finance for payment to AAI on account of differential RAB payment and true-up for second control period by JIAL, GIAL and TIAL. Banks have proposed 12.50% interest p.a. for providing loan (Attached find bank proposal in Annexure 9).

4.2.3 In view of the above, we see two instances wherein GIAL through its parent company has approached banks/ financial institutions for securing debt and in both the cases banks/ financial institutions have proposed interest rates more than 12% whereas AAHL has cascaded the loan to the SPV lower than its actual cost as explained in above table. There is no ambiguity that the bank/ financial institution approached by AAHL are credible and independent, thus the rate so proposed by the bank/ financial institutions are market driven. Hence, GIAL request the Authority to consider the actual cost of debt.

4.2.4 However, the Authority has proposed cost of borrowing to be considered at 9% p.a. being the average of other five PPP airports viz. DIAL, MIAL, GHIAL, BIAL and CIAL is 8.96%.

GIAL would like to reproduce extract of MoPA, Goa FCP Order wherein Authority themselves have acknowledged that adopting generic rate based on another airport for which tariff was determined at the earlier time is not justified and hence the Authority applied latest available data.

GIAL request Authority to maintain its stand in case of Cost of Debt and provide GIAL actual Cost of Debt as incurred by GIAL.

Extract of para 7.4.1 of MoPA, Goa FCP Order no. 27/2023-24

"…Hence, it would not be appropriate to adopt a generic rate based on another airport for which tariff was determined at an earlier time."

4.2.5 It is to be noted that AERA has allowed actual cost of debt of over 12% in the FCP for various PPP airports. So, the cost of debt of 12% for an airport is not unprecedented and based on its credit profile at that particular period of time.

Refer Para 84 TDSAT judgement of BIAL dated 16th December 2020

*84. BIAL is aggrieved by the tariff order for the first control period because the Authority has maintained a ceiling in respect of cost of debt for **Rupee Term loan at 12.5%***

Refer Para 14.5 from FCP tariff order dated 20th April 2012 for DIAL

Decision No. 12. Decision on Cost of Debt (for years 2011-12, 2012-13 and 2013-14)

*12.a. The Authority decided to consider **the actual cost** of Rupee Term Loan, paid by DIAL for the years 2009-10 and 2010-11 for the period 2011-12 to 2013-14. **The cost of debt is taken at 12.17% pa.***

4.2.6 It is to be further noted that tariff orders of above-mentioned PPP airports were issued during the period from December 2020 to August 2021. The interest rates have increased significantly in India and globally after the same. Hence, comparing the same with current GIAL's cost of debt is not logical.

4.2.7 We would also like to highlight the fact that the Borrowing costs for Government owned Entity and Private Sectors entity are different. Lenders are more comfortable in lending to Government entity since repayment is backed by sovereign guarantee (which carries highest Rating). Moreover, even the current coupon rates on PSU bonds across maturities and sectors are between 10.4% and 11.25%. The following list shows the increased yield on PSU bonds:

Name	Issue Size	Maturity	Coupon
NTPC Limited CRISIL AAA • INE733E07CB1	140.00Cr	06 Nov 2023	11.25 %
Central Bank Of India CRISIL AA- • INE483A09286	500.00Cr	29 May 2029	10.80 %
Indian Railway Finance Corporation Limited CARE AAA • INE053F09FP0	615.00Cr	11 Sep 2023	10.70 %
Tamilnadu Generation And Distribution Corporation Limited ICRA A- • INE340M08111	633.50Cr	10 Feb 2024	10.50 %
The Jammu And Kashmir Bank Limited BWR A • INE168A08061	1000.00Cr	31 Dec 9999	10.50 %
Himachal Pradesh State Electricity Board Limited BWR A • INE220H08016	300.00Cr	27 Mar 2026	10.39 %

4.2.8 The cost of borrowing average of other five PPP airports viz. DIAL (CRISIL AA-/Stable), MIAL (CRISIL AA/Stable), GHIAL (CRISIL AA+/Stable), BIAL (CRISIL AA+/Stable) and CIAL (ICRA A+) is 8.96%. This is important to note these international airports have a higher external credit rating which is not comparable to GIAL.

The transition of the Airport from AAI to GIAL happened during the COVID impacted period. This has negatively affected the revenue and cash flow of GIAL and its credit worthiness. The following table is an extract from the financials of GIAL reflecting negative EBITDA for FY23 and FY24 and high capital expenditure. At current performance level and passenger predictions, the SPV profile is not good and option of raising funds at GIAL at entity level is not possible without Corporate Guarantee support from Adani Group.

	FY 22-23 (INR Cr)				FY 23-24 (INR Cr)			
SPV	Capex	Revenue	PAX	EBITDA	Capex	Revenue	PAX	EBITDA
Guwahati	939	155	5.1	(20.8)	549	176	6.0	(38.6)

Considering the current profile of operation and outlook, rating of GIAL at maximum can be in BBB Category or A-/Negative warranting high cost of borrowing. The current coupon rates of BBB-rated bonds in Indian market across sectors are between **12% and 14.2%** while that of A (Negative) rated bonds are between **12% and 14%**. Below are details of some BBB and A (Negative) rated bonds:

BBB rated Bonds

Name	Issue Size	Maturity	Coupon
Jana Small Finance Bank Limited ICRA BBB • INE953L08055	80.00Cr	19 May 2023	14.20 %
Kairos Property Managers Private Limited CARE BBB • INE09BC08019	725.00Cr	01 Jul 2029	14.00 %
Whispering Heights Real Estate Private Limited CARE BBB • INE290W08018	156.00Cr	17 Sep 2037	13.00 %
Varthana Finance Private Limited CRISIL BBB • INE125T07246	15.00Cr	14 Dec 2025	12.75 %
Samunnati Financial Intermediation & Services Private Limited CRISIL BBB • INE551U07100	25.00Cr	17 Jul 2023	12.00 %
Vitp Private Limited ICRA BBB • INE743G08100	330.00Cr	05 Feb 2031	12.00 %

A-rated Bonds

Name	Issue Size	Maturity	Coupon
Jana Small Finance Bank Limited IND A- • INE953L08295	175.00Cr	29 Jun 2025	14.50 %
Jana Small Finance Bank Limited ICRA A- • INE953L08303	50.00Cr	10 Jul 2025	13.15 %
Krazybee Services Private Limited CRISIL A- • INE07HK07700	35.00Cr	13 Sep 2025	12.00 %
Brigade Properties Private Limited ICRA A- • INE454S08083	49.00Cr	19 Mar 2025	12.00 %
Brigade Properties Private Limited ICRA A- • INE454S08042	60.00Cr	03 May 2024	12.00 %
Brigade Properties Private Limited ICRA A- • INE454S08059	30.00Cr	27 Sep 2024	12.00 %

Source: https://www.wintwealth.com/bonds/

4.2.9 The Authority has suggested cost of debt to be linked to the External Credit Rating of the airport operator. However, the ECR of Airport Operator (AAHL) at A+ by CRISIL, does not adequately reflect the operational risk of GIAL (estimated ECR **of BBB or below**) which is higher owing to the regional landscape and the submitted passenger projections.

4.2.10 The **new MCLRs (SBI) at 8.85%** as suggested in the Consultation Paper, is a consequence of uncertain inflation expectations and RBI's stance to increase Repo rates by **2.50%** since 2020. Moreover, the lending rates on fresh loans by PVBs have increased more than PSBs. Considering a credit spread over and above the MCLR to accommodate AAHL's ECR, we find AAHL's cost of debt at **12%** reasonable.

4.2.11 It is also pertinent to note that AAHL's current capital structure has long horizon debt. At a rating of A+ by CRISIL, AAHL's cost of borrowing is at 12.59% (all-in cost). This is in contrast and higher vis-à-vis the comparable airports on account of their higher rating: DIAL (CRISIL AA-/Stable), MIAL (CRISIL AA/Stable), GHIAL (CRISIL AA+/Stable), BIAL (CRISIL AA+/Stable) and CIAL (ICRA A+). The higher ECR allows these airports to avail financing on more favorable terms. To have efficiencies in terms of quantum, maturities, and interest rates, borrowing at AAHL was availed in the form of External Commercial Borrowings for capex requirement of various Airports.

4.2.12 The linking of cost of debt with Weighted Average Lending Rate of Public Sector banks and commercial banks as given in the CP (the trend of which has also changed in June-2022 publication as per RBI website and it is now on increasing trend) is not appropriate because of the following reasons: -

4.2.12.1 Weighted Average Rate means average rate across Rating grades (AAA to BB) and loan duration. It ignores basic premise of lending rate which is based on external rating and internal rating and duration of specific loan. Also, the WALR for fresh rupee loans by commercial banks was at 9.85% in March 2024, rising 13 bps over the last year.

4.2.12.2 Major portion of borrowings by PSU Bank is to State and Central Government Companies and Departments which carries lower interest considering that those are considered as Sovereign rating.

4.2.12.3 The interest rate for lending to priority sectors (which constitutes Agriculture and other Areas) have concessional rate of Interest under various scheme of State and Central Government wherein domestic banks are required to lend 18% of ANBC (Adjusted Net Bank Credit) to agricultural sector and 10% to weaker sections. Differential Rate of Interest Scheme stipulates **4% p.a. ROI**.

4.2.12.4 With inclusion of all the above, the average rates become lower. Comparing the said average with a private corporate borrowing rate will not be appropriate.

4.2.13 Considering the fact that the debts raised by AO are as per RBI guidelines from reputed global Banks, reducing the cost by the Authority than the actual rate of borrowing by the AO is not in line with AERA Guidelines and, according to us, is arbitrary and prejudicial to the interest of AO and airport development.

4.2.14 Further, Clause 5.1.4 of the AERA Guidelines – 'Cost of Debt', categorically lays down that the Authority shall consider forecasted cost of "existing debt" based on a review of its sources, procedures and the methods used for raising such funds. In the instant CP, the Authority has noted the actual cost of debt of AO is 12% which should have been considered as per AERA Guidelines.

4.2.15 **As per the MIAL TDSAT Order for SCP and TCP, it has been decided that actual cost of borrowing should be considered by AERA. Refer Para 313, 320 and 321 of the TDSAT Order**

313. This contention of respondent no.1 is not accepted by this Tribunal mainly for the reason that there cannot be a fixed cost of debt for the entire 3rd Control Period of five years which is from 2019-2024. The cost of debt which is actually incurred by the appellant should have been considered by AERA. The cost of debt depends upon marginal cost of funds based lending rate and the time period within which the loan is to be repaid. Inflation is one of the most important factor for determination of market forces for further determination of MCLR rates. Moreover, the spread for the time within which loan is to be repaid depends upon the credit profile of the entity.

*320. In view of this, **<u>actual cost of debt shall be allowed by AERA for 3rd Control Period especially looking to the provisions of Section 13(1)(a)(i) of the AERA Act, 2008</u>**. For the ready reference, Section 13(1) of AERA Act, 2008 reads as under: - "POWERS AND FUNCTIONS OF THE AUTHORITY*

13. Functions of Authority. - (1) The Authority shall perform the following functions in respect of major airports, namely: - (a) to determine the tariff for the aeronautical services taking into consideration-- (i) the capital expenditure incurred and timely investment in improvement of airport facilities; (ii) the service provided, its quality and other relevant factors; (iii) the cost for improving efficiency; (iv) economic and viable operation of major airports; (v) revenue received from services other than the aeronautical services; (vi) the concession offered by the Central Government in any agreement or memorandum of understanding or otherwise; (vii) any other factor which may be relevant for the purposes of this Act: Provided that different tariff structures may be determined for different airports having regard to all or any of the above considerations specified at sub-clauses (i) to (vii); (b) to determine the amount of the development fees in respect of major airports; (c) to determine the amount of the passengers service fee levied under rule 88 of the Aircraft Rules, 1937 made under the Aircraft Act, 1934 (22 of 1934); (d) to monitor the set performance standards relating to quality, continuity and reliability of service as may be specified by the Central Government or any authority authorised by it in this behalf; (e) to call for such information as may be necessary to determine the tariff under clause (a); (f) to perform such other functions relating to tariff, as may be entrusted to it by the Central Government or as may be necessary to carry out the provisions of this Act." (Emphasis Supplied) e*321. In view of the aforesaid provision, AERA ought to have allowed actual cost of debt incurred by the appellant especially looking to the fact that debt availed by this appellant is from reputed lenders.*

4.2.16 **Looking at above facts and TDSAT judgement, it is evident that the cost of borrowing of 12% requested by GIAL is reasonable, comparable and as per actuals funding raised through third party. We hereby request the Authority to consider the same.**

5 Chapter 5 “Comments on Consultation Paper Chapter 9 - Inflation For The Third Control Period”

5.1 AERA proposal as per clause 9.2 on page 171 of CP relating to Inflation for the Third Control Period

9.2.2 The Authority proposes to consider mean of WPI inflation forecasts (All Commodities) for FY 2023- 24, FY2024-25 and FY 2025-26 as per the recent "Results of the Survey of Professional Forecasters on Macroeconomic Indicators – Round 87" released on April 5, 2024, by the Reserve Bank of India (RBI). An extract of the results is reproduced below:

Table 125: WPI inflation rates as per RBI's annual forecast

Financial Year	*WPI All Commodities*	*Source*
FY22-23 (Cumulative YoY)	*9.42%*	*Index Numbers of Wholesale Price in India for the Month of March, 2023 (Base Year: 2011-12) published by Ministry of Commerce & Industry*
FY23-24	*Mean as -0.7%*	*RBI Forecaster Survey 87th round dated April 5, 2024*
FY24-25	*Mean as 3.1%*	
FY25-26	*Mean as 3.7%*	

9.2.3 The Authority has considered the inflation rate of FY 2025-26 for the subsequent tariff year of the Third Control Period. Accordingly, the following table shows the inflation rates as proposed by the Authority for the Third Control Period.

Table 126: Inflation rates proposed by the Authority for Third Control Period

Particulars	*FY'23*	*FY'24*	*FY'25*	*FY'26*	*FY'27*
WPI inflation	*9.4%*	*-0.7%*	*3.1%*	*3.7%*	*3.7%*

Comments by GIAL: -

5.1.1 In respect to inflation considered by the Authority, we would like to submit as follows:

5.1.1.1 Inflation considered for FY 2023-24 is negative 0.70%, which is abnormally low. To avoid repetition reference is invited to comments at 3.2.2 relating to averaging inflation during the abnormal period.

5.1.1.2 Also, in view of long-term strategy, GIAL has tied up with various vendors with an annual increase in cost ranging from 4% to 5%. Considering 2 main contracts (1. Technical Package (R&M) and 2. Non-Technical package (Housekeeping)) awarded to vendors include a clause of 4% Y-o-y increase. As the main cost element for contractors is the salaries & wages to be paid to their employees, this was the minimum that they expect as an annual increase at the end of various rounds of negotiations. AERA has proposed a 6% growth in Employee cost which is subject to comment raised in this document.

5.1.1.3 In case any inflation cost is considered below 5% would mean that the Airport Operator would be at loss in recovering the genuine and legitimate cost of O&M expenses.

5.1.2 **Hence, we request the Authority to consider at least 5% inflation cost for FY 2024-25 and onwards.**

6 Chapter 6 "Comments on Consultation Paper Chapter 10 - Operation And Maintenance (O&M) Expenses For The Third Control Period"

6.1 AERA proposal as per clause 10.2.2 to 10.2.20 on page 173-177 of CP relating to Allocation of O&M expenses to Aeronautical and Non-Aeronautical activities

10.2.2 GIAL, in their submission proposes 100% of the operating expenses as Aeronautical. The tariff methodology adopted by the Authority, segregates O&M expenses into Aeronautical, Non-Aeronautical and Common considering the nature and purpose of the services for which these expenses are incurred. However, in the absence of any specific information regarding segregation of expenses, due clarifications were sought from GIAL regarding calculation of various allocation ratios such as terminal area. GIAL has maintained that as per the AERA guidelines, airside assets are to be considered as Aeronautical and the Terminal Building is considered as Aeronautical as per the AERA Act. However, if GIAL so desires, they may adopt Single Till methodology wherein all assets and operating expenses are considered as Aeronautical.

10.2.20 The Authority's proposal for allocation of Total Aeronautical O&M expenses of LGBIA as compared to that submitted by GIAL has been summarized in the table below:

Table 133: Allocation of O&M expenses submitted by GIAL and proposed by the Authority for the Third Control Period

Particulars	O&M expense allocation as per		Allocation ratio proposed by the Authority
	GIAL's Submission	The Authority's Proposal	
Manpower Expenses – AAI employees (up to Deemed Deputation Period)	100.00%	99.12%	Employee Headcount ratio of AAI employees
Manpower Expenses – AAI employees (Deficit Employee Cost)	100.00%	100.00%	Aeronautical
Manpower Expenses – GIAL employees	100.00%	96.01%	Employee Headcount ratio of GIAL's employees
Utility expenses	100.00%	100.00%	Aeronautical
IT expenses	100.00%	90.00%	Terminal Building ratio
Rates and Taxes	100.00%	95.39%	Gross Fixed Asset ratio
Security expenses	100.00%	95.39%	Gross Fixed Asset ratio
Security Others	100.00%	95.39%	Gross Fixed Asset ratio
Corporate Allocation Cost	100.00%	97.29%	Total Employee Headcount ratio
Administrative Expenses – Others	100.00%	95.39%	Gross Fixed Asset ratio
Administrative Expenses – Collection Charges on UDF	100.00%	100.00%	Aeronautical
Insurance	100.00%	95.39%	Gross Fixed Asset ratio
Repairs and Maintenance	100.00%	95.39%	Gross Fixed Asset ratio
Other Operating expenses	100.00%	90.00%	Terminal Building ratio
Independent Engineer Fee	100.00%	100.00%	Aeronautical
Amortization of Runway recarpeting expenses	100.00%	100.00%	Aeronautical
Fuel Operating Expenses	100.00%	100.00%	Aeronautical
Cargo Operating Expenses	100.00%	100.00%	Aeronautical

Comments by GIAL: -

6.1.1 **In order to avoid repetition of comment, please refer to 1.3.2 and 3.13 for our request for considering 100% Aero allocation.**

6.2 AERA proposal as per clause 10.2.23 on page 178-187 of CP relating to Manpower Cost of AAI and GIAL Employees

10.2.22

i. Manpower Expenses of AAI employees

....

f. Further, the Authority proposes to revise the 10% Y-o-Y increase in Payroll costs claimed by GIAL to 6% for the remaining three (03) tariff years of the Third Control Period, as approved by the Authority for other similar airports.

ii. Manpower Expenses of Employees of GIAL

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a. Salary cost projected per employee per annum –

The Authority finds the average employee cost submitted by GIAL to be reasonable and proposes to consider the same. Further, the Authority proposes to rationalise the growth rate by considering only 6% Y-o-Y for all the remaining three (3) FYs, starting from FY 2024-25 in line with what has been considered for Manpower Expenses of AAI employees.

Further, the Authority proposes the following revision in Aeronautical Employee Headcount projected by AO for the remaining three (3) tariff years of Third Control Period:

(i) Security department: The Authority observes that certain security and safety activities may be suitably outsourced by GIAL, barring specific activities such as coordination with CISF, BCAS compliance etc. The Authority thus proposes to consider only 50% of the Employee Headcount projected by GIAL in the 3rd tariff year (FY 2024-25) onwards.

(ii) Airside Management: The Authority observes that the headcount projected by GIAL for all the tariff years is not justified considering the projected traffic levels at the airport. The Authority also observes that ground handling activities at the airport have been outsourced. Based on the above factors, the Authority proposes to consider twenty five (25), thirty (30), and thirty five (35) employees in the last three tariff years of the Control Period as against 30 / 35 / 40 employees respectively, claimed by GIAL.

(iii) Terminal Operations: The Authority observes that the number of Employee Headcount projected by GIAL is not justifiable as there are existing employees of AAI (i.e., Select employees deputed to LGBIA) at the Airport till the deemed deputation period. Hence, the Authority has rationalized the manpower for Terminal Operations for the FY2024-25 from 44 employees to 35 employees. The Authority further observes that since NITB shall be commissioned by FY2025-26, as per the CAPEX plan proposed by the Authority for Third Control Period, the manpower may be increased in a staggered manner. The Authority proposes to consider forty (40) employees in FY2025-26 as against 44 employees claimed by GIAL, and forty six (46) employees in FY2026-27 as proposed by GIAL.

(iv) Engineering & Maintenance Department: The Authority observes that there are existing employees of AAI (i.e., 'Select Employees' deputed to LGBIA) at the Airport during the deemed deputation and hence the Authority proposes to consider 75% of the Aeronautical Employee Headcount of Engineering & Maintenance department,

projected by GIAL, for the third tariff year of the Third Control Period. For the remaining two tariff years of TCP, the Authority proposes to consider the number of employees as submitted by GIAL as the Deemed Deputation Period will end in FY 2024-25.

(v) Aircraft Rescue and Fire Fighting (ARFF): The Authority observes that the employee headcount projected by the AO is not justified, with the fact that the same services are being delivered by existing employees of the AAI (i.e., Select employees to LGBIA) at the airport, at a lower manpower strength. The Authority thus proposes to rationalize the manpower in this department for FY2024-25 on the basis of historical manpower deployment. For next two tariff years, manpower has been increased in a staggered manner. Based on the above factors, the Authority proposes to consider sixty (60), seventy (70), and eighty (80) employees in the last three years of the Control Period as against 84 / 84 / 88 employees respectively, claimed by GIAL.

(vi) Inline Hold Baggage Screening System (ILHBS): GIAL had proposed screeners with effect from FY2024-25 considering that NITB will be commissioned in FY2024-25. However, the Authority has proposed commissioning of NITB in FY2025-26. ILHBS will be operationalized along with the commissioning of NITB. Further, the Authority has rationalized the number of screeners and proposes to consider an headcount of fifty (50) and sixty (60) employees in FY 2025-26 and FY 2026-27 respectively.

Comments by GIAL: -

6.2.1 In respect to the Authority's rationalization of Security manpower, we would like to submit as follows:

6.2.1.1 We had submitted detailed justification along with role-wise requirement of number of in-house security team strength.

6.2.1.2 AAI had been running Security only as Pass Section. However there are various activities which need to be performed by GIAL like CISF Documentation, Airport Security Program, Kerb Side Management, Traffic Management, Airport Operator Security Control Room, Tout Management, Security System Maintenance, Encroachment outside and perimeter area, Intelligence and Vigilance Gathering, Avsec Training and Compliances, Landside Operations, BCAS Compliance requirements.
Sovereign agencies and security set up of the airport operator have clearly defined mandates. NACASP 2018 vide Para4.2.2(xxii) stipulates that the Airport Operator is responsible for implementation of security controls at the airports through the CSO. The Asset CSO is bestowed with all the powers to implement security controls at the airport level and overall coordination with other agencies at the airport (Para5.2.1(ii) of NCASP refers).

Further, as per Concession Agreement clause 18.15.4, GIAL is expected to create Airport Safety Management Unit (ASMU) and designate one of its officers to be in-charge of the ASMU.

6.2.1.3 Accordingly, GIAL has planned for on-roll 20 employees for Security function with following composition:
Security Function:

1 CSO, 6 Pass Section, 1 Avsec Audit and Compliances, 7 Loss Prevention and Automation, 5 landside operations and others.

6.2.1.4 The Authority has rationalized the manpower for Security function with clear disregard to the requirement of various roles essential for smooth airport operations. Hence, we request the Authority to consider the manpower for security function as submitted by GIAL.

6.2.1.5 Without prejudice to above, the Authority in Consultation Paper has mentioned that Authority has rationalized security function manpower as Authority is of opinion that certain security function may be suitably outsourced by GIAL. In the said scenario Authority should have allowed balance cost as outsourced manpower. GIAL vide email dated 2nd April 2024 have provided details of composition of security department the need of which has not been commented by the Authority or its consultant.

6.2.2 In respect to the Authority's rationalization of Airside Management manpower, we would like to submit as follows:

6.2.2.1 We had submitted detailed justification along with role-wise requirement of number of in-house Airside Management team strength.

6.2.2.2 GIAL is responsible for maintaining and operating Airside including Runway, Taxiways, Approach Areas, Apron Management Service, Airside safety, aerodrome safeguarding and aeronautical information services.
The composition of planned manpower includes In Charge Airside, Duty Managers, Duty Officers, Airside Executive, Airside Ground Maintenance, Aerodrome Licensing, Aerodrome Safeguarding, Wildlife Hazard Management

6.2.2.3 Authority observes that the headcount projected by GIAL for all tariff years is not justified considering the projected traffic levels at the airport. GIAL would humbly submit that the manpower count as projected by GIAL is in line with manpower count approved by the Authority in similar sized airport. GIAL would like to draw attention towards recently issued order of Authority for Lucknow Airport (which is of similar size) where the Authority has approved airside manpower count of 30 nos for FY24, 35 nos for FY25 and 40 nos in FY26. Extract of Lucknow Order is reproduced hereunder:

Table 121: Aeronautical Employee Head Count of the Airport Operator and the Revised EHCR proposed by the Authority for the Third Control Period at Consultation Stage

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Aeronautical Employee Head count claimed by the Airport Operator	116	213	310	359	407
Chief Airport Officer's office (CAO office)	2	3	3	4	5
Techno Commercial (Procurement department)	5	8	9	10	11
Corporate communication	1	1	2	3	3
Corporate Affairs	1	1	1	2	2
Security	3	5	8	8	8
Legal	1	2	3	3	3
Safety	1	2	2	3	3
Quality	2	3	3	3	3
Customer Engagement	2	3	3	3	3
Information Technology	3	5	8	9	10
Airside Management	11	23	30	35	40
Regulatory	1	1	1	1	1
Terminal and Operation	8	15	26	30	38
Human Resources and Admin	5	6	8	10	10
Finance	3	5	6	7	8
Engineering & Maintenance	10	14	20	23	26
Aviation Rescue and Fire Fighting (ARFF)	4	6	6	6	6
Fire Fighters	9	20	60	75	90
Inline Baggage Screening system	33	40	50	60	83
Aeronautical Employee Head count rationalized by the Authority	**105**	**163**	**249**	**295**	**353**
Non-aeronautical employees	4	7	10	11	13
Revised Total Employee Headcount of AO, derived by the Authority	**109**	**170**	**259**	**306**	**366**

Thus, GIAL request the Authority to provide manpower count as proposed by GIAL in its MYTP as the same in line with those approved by the Authority for similar size airport.

Further it is to be submitted that Lucknow Airport approved by the Authority is for approx. 117,000 sqm, whereas Guwahati Airport NITB is for approx. 146,000 sq mtr. The area itself is higher by 25% whereas manpower proposed is lower than benchmark of Lucknow Airport.

6.2.2.4 With respect to the reason provided by the Authority that ground handling activities at the airport have been outsourced, we would like to submit that the role of airside operations through GIAL manpower is quite different from ground handling operations and thus the reason is erroneous. Hence, we request the Authority to consider the manpower for Airside Management function as submitted by GIAL.

6.2.3 In respect to the Authority's rationalization of Terminal Operations manpower, we would like to submit as follows:

6.2.3.1 We had submitted detailed justification of number of in-house Terminal Operations team strength.
GIAL is expected to maintain and improve quality of service to passengers. In that connection, GIAL will deploy various positions of Terminal Managers, Duty Managers, Shift In-charge, Protocol services.

6.2.3.2 With respect to the reasoning provided by the Authority, we would like to submit the following:

- *FY 24-25 manpower reduced from 29 to 22 in view of AAI employee being available till Deemed Deputation Period* – As the deemed deputation period will be over in Oct'24, GIAL will have to replenish the roles being performed by AAI manpower through onboarding in-house staff at least 3 to 6 months in advance for smooth handover and transition. And hence, the rationalization due to this reason need to be re-considered.

- As Authority has mentioned in Consultation Paper that AAI (Select Employees deputed to LGBIA) at the Airport are available only till deemed deputation period i.e. till 7th Oct'24. Thus, rationalization of manpower by the Authority stating that since AAI employees are present at the Airport is erroneous. As after 7th Oct'2024 GIAL would have to manage the Airport with its own employee. Further as proposed by the Authority that NITB shall be commissioned in April-2025 , it is noteworthy to mention that NITB area is around 1,46,292 sqm as against existing Terminal size of 20,000 sqm i.e. increase of 621%. Manning Terminal of big size require more manpower. Thus GIAL request the Authority to consider manpower count as proposed by GIAL.

6.2.3.3 The Authority has rationalized the manpower for Terminal Operations function with clear disregard to the requirement of various roles essential for smooth airport operations. Hence, we request the Authority to re-consider the manpower for Terminal Operations function as submitted by GIAL.

6.2.4 In respect to the reason provided by the Authority for rationalization of Engineering & Maintenance Department manpower for FY 24-25, we would like to submit that as the deemed deputation period will be over in Oct'24, GIAL will have to replenish the roles being performed by AAI manpower through onboarding in-house staff at least 3 to 6 months in advance for smooth handover and transition. And hence, the rationalization due to this reason may not be appropriate.

6.2.5 In respect to the Authority's rationalization of Aircraft Rescue and Fire Fighting (ARFF) including Fire Fighters, we would like to submit as follows:

6.2.5.1 We had submitted the Task Resource Analysis as required by DGCA and as per the peak hour assessment done, there is requirement for 92 employees in ARFF for Category-8. The same was also attached as Annexure R to MYTP.

6.2.5.2 In view of the statutory requirement, we request the Authority to consider manpower as submitted by GIAL.

6.2.6 In respect to the Authority's rationalization of Screeners for Inline Hold Baggage Screening system (ILHBS), we would like to submit that the Authority has not provided any reason for rationalization. The number of employees proposed by the Authority are on ad-hoc basis. ILHBS is an important function related to security and safety of the airport. We request the Authority to consider the number of employees as provided by GIAL in its MYTP.

6.2.7 Further in paragraph 3.4.8 of Study on Efficient Operation and Maintenance Expenses, Authority has mentioned

Based on global benchmarks, the level of staffing for an airport is generally considered to be optimum when the number of passengers per employee is around 15000-17000[2]. The details for AAI are shown below:

Going by the said benchmark, Employee count proposed by GIAL is better than international benchmark of 15,000 – 17,000 passenger per employee. The same is tabulated as below.

Particulars	FY25	FY26	FY27
No of Pax (mm)	6.66	7.54	9.09
As per Global Benchmark (Non of Pax per employee) as agreed by the Authority (Refer para 3.4.8 of Study on Efficient Operation and Maintenance Expenses)	16,000	16,000	16,000
Optimum number of employee as per the study (Nos)	417	472	568
No of Employee as proposed by GIAL in its MYTP (Nos)	325	350	375

6.2.8 **From the above it can be seen that GIAL's projections of manpower headcount are in line with global benchmarks. Thus, Authority mentioning that projection of manpower headcounts by GIAL for all the tariff years is not justified considering the projected traffic levels is erroneous as Authority itself has relied upon the said report while approving true-up of manpower headcount of AAI for second control period. In view of the above GIAL reiterates that manpower number projected by GIAL is justified and request the Authority to consider the manpower numbers for Security, Airside Management, Terminal Operations, Engineering & Maintenance, ARFF and ILHBS Screeners as submitted by GIAL.**

6.2.9 In respect to Y-o-Y salary increase, we would like to submit our analysis as follows: -

1. All India AAI Employees salary growth
2. LGBIA AAI Employees Salary Growth
3. Analysis of latest orders issued by the Authority

6.2.9.1 All India AAI Employees salary growth

Avg salary per employee of all India AAI employee is Rs. 25 lakhs in FY22-23 and the CAGR increase in avg cost per employee from FY13 to FY23 is 8.8%. After excluding the effect of 2 years' COVID period, the CAGR increase from FY13 to FY23 comes to 11.1%.

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	CAGR FY13 to FY23	CAGR FY13 to FY23
													Excluding impact of COVID
No. of Employees	18,573	18,036	17,465	17,370	17,484	17,536	17,487	17,364	16,779	16,188	16,061		
Cost (Rs Crs)													
Pay & Allowances	1,192	1,696	1,777	1,936	2,011	2,131	2,249	2,731	2,312	2,370	2,779	8.8%	11.2%
Other Staff Cost	469	581	894	625	631	1,375	1,732	1,462	1,003	1,141	1,133	9.2%	11.7%
PF & Other Funds	338	134	143	152	162	185	1,228	329	257	375	381	1.2%	1.5%
Less Recovery of operational funds	-	(14)	(12)	(14)	(16)	(46)	(51)	(41)	(66)	(183)	(288)		
Total Cost (Rs Crs)	**2,000**	**2,397**	**2,802**	**2,699**	**2,788**	**3,645**	**5,158**	**4,481**	**3,505**	**3,702**	**4,006**	7.2%	9.1%
Year on Your Growth in cost		20%	17%	-4%	3%	31%	42%	-13%	-22%	6%	8%		
Avg Cost per employee (Rs Crs)	**0.11**	**0.13**	**0.16**	**0.16**	**0.16**	**0.21**	**0.29**	**0.26**	**0.21**	**0.23**	**0.25**	8.8%	11.1%
Year on Your Growth in avg cost cost		23%	21%	-3%	3%	30%	42%	-13%	-19%	9%	9%		

Source :- AAI Annual Reports

6.2.9.2 LGBIA Airport AAI Employees Salary Growth

6.2.9.2.1 Avg salary per AAI employee at LGBIA is Rs. 20 lakhs in FY19-20 (pre-covid) and the CAGR increase in avg cost per employee is approx. 16% in last 4 years from FY17 to FY20.

Sl No	Particulars	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
A	Total Head Count (as approved by the Authority) (Refer Table 19 of Study on Efficient Operation and Management Expenses) (Nos)	154	162	179	165
B	Total Staff Cost (as approved by the Authority) (Refer Table 25 of Study on Efficient Operation and Management Expenses) (Rs in Crs)	16.62	24	32.05	32.37
C= A/B	Average Salary (Rs in Crs)	0.11	0.15	0.18	0.20
D	**YoY Increase**		**37%**	**21%**	**10%**
E	**CAGR**				**16%**

6.2.9.2.2 Kindly refer Para 4.9.3 of the CP.

a. Payroll Expenditure: For FY 2017-18 - there was an increase of 44% as against 36.19% approved in the tariff order of Second Control Period. The Authority further noted that for FY 2018-19 – there was an increase of 33% as against 23% Y-o-Y approved in the tariff order of Second Control Period. The Authority sought clarification from AAI in this regard. AAI clarified that the variance is due to pay revision as per 7th Pay Commission Report which was implemented from Jan 2017 and payment of arrears were paid to Executives in December 2017 (FY'18) and to Non-Executives in FY'19. The Authority also noted that the total Employee benefit expenses of ₹ 131.82 crores incurred by AAI is lower than the approved amount of ₹ 160.50 crores for the Second Control period. Based on the above factors, the Authority considers the payroll expenditure of LGBIA, as submitted by AAI for the Second Control Period to be reasonable and allow the same.

From the above it can be seen that Authority has themselves acknowledged the growth in cost in the previous years. Thus, providing mere 6% YoY increase to GIAL for Third Control Period is not justifiable when the Authority for past years has approved increase of 33% and 23% for AAI in the same airport. ***In the future there will be further increase due to pay revision from time to time and hence CAGR growth of 10 years as provided by GIAL in above section is a reasonable parameter to take a view for projection purposes, rather than adopting a 6% ad-hoc approvals which has no back-up calculation basis.*** **Hence GIAL request the Authority to provide YoY salary growth of 10% as claimed by GIAL in its MYTP.**

6.2.9.3 Analysis of recent orders for ISPs.

It is important to note that the Authority has allowed a 16% increase in payroll expenses in the recently approved order for ISP Order No. 37/2022-23 dated 06th January 2023. The relevant extract from the said order is as follows: -

5.5.2 The Authority notes from the submission of DCSC that during pandemic period, payroll expenses were low and many welfares activities I trainings etc. were deferred. Now with the improvement in the situation from the pandemic, ex ns in post Co vid period, including FY 2022-23, are expected to reach back to their normal levels. The ISP further submitted that Y-0-Y increase in payroll expenses have been projected after considering the factors like periodic increase in minimum wages notified by the Govt. Authorities from time to time, corresponding increase in other statutory components like EPF, ESI etc. The Authority, also noted at consultation stage that Cargo Handling is a specialized job and requires skilled & trained manpower at the Cargo Terminals. Further, during Covid, there is a shortage of required skill set. ISP further submitted that in order to address the issue of manpower attrition, the annual escalations in payroll expenses are projected in a very holistic manner and paid as per the industry practice.

A similar kind of statement has been made by the Authority in Order No. 32/2022-23 dated 29th December 2022 whereby the increase in cost is allowed by 10% year on year.

5.9.2 The Authority notes from the submission of CDCTM that during pandemic period, payroll expenses were low and many welfares activities I trainings etc. were deferred. Now with the improvement in pandemic situation, expenses in post Covid period, including FY 2022-2 3, are expected to reach back to their normal levels. The ISP further submitted that Y-0-Y increase in payroll expenses have been projected after considering the factors like periodic increase in minimum wages notified by the Govt. Authorities from time to time, corresponding increase in other statutory components like EPF, ESI etc. The Authority, also noted at consultation stage that as per the CDCTM, Cargo Handling is a specialized job and skilled & trained manpower is deployed at the Cargo Terminals. As per the ISP, post Covid, there is a shortage of required skill set. ISP further submitted that in order to address the issue of manpower attrition, the annual escalations in payroll expenses are projected and paid as per the industry practice.

6.2.10 GIAL is a new AO who needs to build its manpower to run the Airport operations. GIAL needs to hire all people from outside who come at 25%-30% higher salaries. According to a recent Michael Page report titled "Talent Trends 2021," better remuneration is the top reason for changing jobs. The report highlights that job seekers on an average expect around 20% salary hike at middle levels and 19% increase at director, Vice President and CXO levels from their current or last salary drawn. Even non-managerial level employees' expectations are an average of 20%."

6.2.11 Further, EY's report on "Future of Pay" issued recently in March 2024 (refer Annexure 10 for full report) mentions the following:

India Inc. is set for an average salary increase of 9.6% in 2024, similar to the actual increase in 2023. Overall attrition dropped to 18.3% in 2023 (from 21.2% in 2022) and is set to gradually decline over the next few years as companies prioritize cost management and employee wellbeing, stabilizing the workforce amidst high talent demand.

In light of India's position as a global hub for technology and outsourcing services, the EY report highlights that e-commerce is expected to have the highest salary growth in

2024, at 10.9%, followed by financial services with a projected growth of 10.1%. Professional services' salary is projected to grow by 10% in 2024, suggesting a rebound as companies invest in strategy alignment to navigate global business complexities. The impact of **real estate and infrastructure** emerging as a growth sector is also visible, as **increments continue to be stable at 10**%.

6.2.12 GIAL would like to highlight the fact that Airport Operators face difficulties while hiring a new workforce. This is because the suitable personnel available for the aviation sector is very limited. While it is comparatively easier to get workforce for accounts, finance, administration etc., it is very difficult to get skilled workforce for airside and terminal operations, engineering and maintenance and safety. To obtain and retain competent employees, it is imperative to compensate them well. The Authority has also supported the same point while providing a 15% increase in payroll cost of ISPs in latest orders as already discussed in 6.2.4.4 above.

6.2.13 Based on the above analysis, we had requested for annual 10% increase in avg cost per employee. However, the Authority has considered an increase of 6% only.

6.2.14 **We request the Authority to provide at least 10% YoY increase in avg cost of salaries for all employees i.e. AAI and GIAL Manpower. Also, we request the Authority to consider the manpower numbers for Security, Airside Management, Terminal Operations, Engineering & Maintenance, ARFF and ILHBS Screeners as submitted by GIAL.**

6.3 AERA proposal as 10.2.23 on page 187 onwards of CP relating to Utilities Expenses

The Authority observes that GIAL has assumed 16% of the total electricity cost as recoveries to be made from the Concessionaires. The Authority further observes that the power recovery percentage is significantly lower than that of comparable airports and proposes that the non-aeronautical operations should increase the power recovery from the Concessionaires, in a gradual manner. Accordingly, the Authority proposes that GIAL shall constitute a Committee to verify the bills relating to Power expenses and submit a report on the same to the Authority as part of Stakeholder comments / feedback. In case such report is not submitted by GIAL, the Authority proposes to consider power recoveries at a notional rate while issuing the tariff order of the Third Control Period.

Comments by GIAL

6.3.1 Please find attached the report as directed by the Authority (refer **Annexure 11**).

6.4 AERA proposal as 10.2.24, 10.2.26 and 10.2.27 on page 188 onwards of CP relating to Year-on-Year growth rate for expenses

10.2.24 GIAL as per the concession agreement is required to upgrade the existing IT capacity infrastructure. GIAL has based its expense projections on the basis of proportionate increase in GIAL's own employee headcount. Further the Authority notes that GIAL has treated the cost as 100% Aeronautical. In respect of the Y-o-Y growth claimed by GIAL, the Authority proposes to revise the same as per inflation rate proposed in Table 83 above and also reallocate the expense based on the Terminal Building ratio of 90% Aeronautical (refer para 10.2.9).
i. The Authority observes that the actual expenses incurred by GIAL on IT expenses for FY 2022-23 and FY2023-24 are ₹ 2.50 crores and ₹ 3.40 crores respectively, and proposes to consider the same. Further, the Authority proposes to consider actual IT expenses for FY 2023-24 as base for future projections Further, the Authority shall consider a one-time increase of 100% on account of increase in Terminal Area. The Authority further proposes to apply Y-O-Y increase towards inflation for the remaining three (3) tariff years on the derived expenses of FY 2023-24 (refer growth rates mentioned in Table 157).

10.2.26 As per GIAL's submission expenses related to security includes outsourced manpower, security guards, security operation maintenance, surveillance vehicles, access controls and expenses related to other automation systems. GIAL has based their security cost increase in line with the forecasted growth in passenger traffic. In addition, GIAL has considered a one-time increase of 50% in expense on account of commissioning of NITB leading to increase in the terminal area. Further the Authority notes that GIAL has treated the cost as 100% Aeronautical. The Authority notes the dual escalation in the expenses wherein GIAL has considered both increase in traffic and terminal area. The Authority proposes to revise the Y-o-Y growth in security expenses, as per inflation rate proposed in Table 126 and also reallocate the expense based on the Gross Fixed Asset ratio of 95.39% Aeronautical (refer para 10.2.11) in line with similar airports.

10.2.27
vii. GIAL has escalated expenses related to corporate allocation YoY basis growth in employee count. The Authority observed that salary cost constitutes the major portion of the Corporate cost and hence, proposed to rationalize the increase claimed by GIAL to 6% Y-o-Y across the last three (3) tariff years of the Third Control Period which is in line with the increase proposed for manpower expenses of AAI and GIAL.

Comments by GIAL

6.4.1 GIAL, in its MYTP submission, had claimed that the Corporate Allocation expenses and IT expenses increase with the increase in line with increase in employee expenses as these costs are driven primarily based on employee headcount numbers. Accordingly, increase in Corporate Allocation expenses and IT expenses as submitted by GIAL based on the same proportion as the increase in GIAL employee headcount may please be allowed.

6.4.2 Further, as the Corporate Allocation expenses mainly consists of salary cost and accordingly, the increase in corporate allocation expenses should be two-factored:

One, for increase in the Y-o-Y increase in salary cost
Two, for increase in headcount at the corporate level

In this case, the Authority has missed out applying the ratio for increase in employee headcount at the corporate level (which can be considered in line with increase in GIAL employee headcount).

6.4.3 GIAL, in its MYTP submission, had considered employee headcount increase ratio as growth ratio for IT expenses as majority of the IT expenses were linked to the number of employees (e.g. IT system licenses, IT end-user services etc.). Also, in view of various recent initiatives of MOCA for digitalization including the esteemed project on DigiYatra which aims to provide a seam-less, contact-less and hassle-free paperless journey, the IT Operations cost tends to increase by a great proportion.

In this case also, the Authority has missed out applying appropriate expense growth ratio for increase in IT expenses.

6.4.4 Similarly, GIAL had claimed that the Security Expenses increase in line with increase in passengers at the airport as these costs are driven primarily based on security services required for passengers.

6.4.5 Authority in case of Bhubaneswar International Airport has provided 10% YoY increase for certain expenses as against YoY inflation of 3.80% mentioning that Authority follows the said practice in similar Airports.

Extract of para 9.5.2 (iv) from Order number 35/2023-24 for Bhubaneshwar International Airport

iv. Administration expenses (other than CHQ/ RHQ allocation and upkeep expenses) include office expenses, travelling, legal, telephone expenses etc, wherein the Authority had considered a 10% Y-o-Y increase, as followed generally in other similar Airports.

Similar stand was taken by the Authority in case of Patna International Airport. Extract of Order No. 38/2023-24 of the said order is reproduced hereunder:

iv. Administration expenses (other than CHQ/ RHQ allocation and upkeep expenses) include printing and stationary, travelling, telephone and other office expenses, wherein the Authority had considered a 10% Y-o-Y increase, as followed generally in other similar Airports.

GIAL request the Authority to maintain uniformity and provide YoY increase of 10% as was allowed for Bhubaneswar International Airport and Patna International Airport.

6.4.6 Further, in view of recent initiatives of MOCA/BCAS on increase in security screening infrastructure the operational cost of security expenses increases. Further, as the security related services are manpower intensive services, the same increases in line with increase in salary and wages cost.

6.4.7 **Therefore, we request the Authority to consider reasonable expense growth ratios, based on relevant cost driver of such expenses (i.e. Applying Employee Headcount Growth similar to GIAL and Salary growth of at least of 10% per annum for Corporate Allocation Expenses, Growth factor equivalent to Employee Headcount Growth for IT expenses in addition to terminal area increase, Growth factor equivalent to Passenger**

Growth for Security Expenses) subject to true-up on actual basis, instead of applying only terminal area or inflation increase.

6.5 AERA proposal as 10.2.21 on page 177 of CP relating to One Time escalation claimed by the AO

10.2.21 One-time escalation claimed by GIAL for various Operating expenses in FY 2025-26 have been analyzed by the Authority. In this regard, the Authority considers Capitalization schedule proposed by it (refer Table 110), in which commissioning of NITB has been considered during the Third Control Period. Accordingly, the Authority proposes to consider proportionate increase for determining the one-time escalation in the expenses for the current Control Period. Further, the Authority notes that the escalation in operating expenses such as Utilities, Housekeeping and Upkeep expenses, Horticulture expenses and Outsourced manpower / Hiring expenses may not be directly proportional to the increase in the Terminal Building area due to technological innovation, advancements, and economies of scale. Hence the Authority proposes to consider 2/3rd (i.e. 66.67%) of the increase in total terminal area (2/3 621%) for one-time escalation of expenses related to Terminal Building.*

Comments by GIAL

6.5.1 It is to be noted that it is a practice whereby the Authority has allowed increase in utilities, security and other operating expenses (housekeeping) in proportion to increase in terminal area for the Airports which enjoys economies of scale and are future technology ready. For your kind reference the details are tabled below:

Airport	Control Period	AERA Order No.	Reference
Hyderabad	Third Control Period	12/2021-22 dated 31st August 2021	Utilities and Housekeeping expenses increased in proportion to the increase in Terminal Area whereas 50% of area increase was considered for security expenses. Terminal area is increasing from 117,000 sq mtr to 365,809 s mtr i.e. 213% *Extract from the order* *Utility Costs* *7.2.27 The Authority had reviewed the submissions made by HIAL with regard to the utility expenses and is of the opinion that there is a merit in the argument that expansion at the airport shall result in increase in utility related expenses. The Authority proposed to consider the utility cost projected with FY2020 as the base year.* *7.2.40 The Authority proposed to consider the aforementioned revision in the projection methodology for housekeeping expenses for projections of aero housekeeping cost with FY2020 as the base year.* *Further, the Authority approved expansion of the terminal as a driver for the housekeeping cost and therefore*

Airport	Control Period	AERA Order No.	Reference
			accepts HIAL's consideration that increase in housekeeping cost due to expansion has to be factored for the operational months for expanded terminal. *7.4.11 HIAL commented that it agrees to Authority's approach for increasing the housekeeping cost in proportion to the increase in terminal area in line with expansion, 80% of the housekeeping is fixed in nature and maintenance and upkeep of the infrastructure has to be ensured irrespective of the traffic levels. Hyderabad Airport has an integrated terminal and doesn't have flexibility to shut down a section of the terminal.* *Security Cost* *7.2.12 The Authority proposed to approve HIAL's consideration of an elasticity of 0.5 for security cost with respect to increase in terminal area.*
Chennai	Third Control Period	38/2020-21 dated 04th February 2022	Utilities expenses increased in proportion to the increase in Terminal Area. Terminal area is increasing by 33% *Extract from the order* *9.2.8. The Authority had noted that there would be a 33% net increase in terminal building area in FY 2022-23 after capitalization of modernization of Chennai International Airport, Phase II (NITB Part - I). Along these lines the Authority had proposed a 33% net increase power charges in FY2022-23* *9.5.6 It may be noted that the Authority has decided on a 33% increase in power charges after considering the recommended operational efficiencies at the airport.*
Trichy	First Control Period	55/2020-21 dated 22th October 2020	Housekeeping expenses increase in proportion to the increase in Terminal Area. Terminal area is increasing from 14,450 sq mtr to 73,535 i.e. 410% *Extract from the order* *12.2.11 AAI has proposed an additional 10% increase in Watch & Ward charges and 460% increase in Upkeep charges in the FY 2022-23, due to operationalization of the New Terminal Building. AAI has clarified that there will*

Airport	Control Period	AERA Order No.	Reference
			be a composite maintenance contract for the entire NTB based on unit area. The Authority finds the same to be reasonable, considering the size of the New Terminal Building.

6.5.2 **In view of the above, we request the Authority to proportionately increase the utility expenses, IT expenses, Security expenses and other operating charges (housekeeping charges) in line with proportionate increase in terminal area ~ 621%.**

6.6 AERA proposal as 10.2.27 on page 190-192 of CP relating to Corporate Cost Allocation

10.2.27

iv. Considering all the above, the Authority proposes to consider the actual expenses of ₹ 12.89 crores for FY 2022-23.

v. However, the Authority observes that the aforementioned actual cost includes the costs of inhouse legal team, which is in addition to the cost of employees of Legal department, already considered under the manpower expenses of GIAL (refer Table 146 above) and is not justified. Hence, the Authority proposes to exclude ₹ 0.15 crores from the Corporate Allocation cost submitted by GIAL and consider the remaining amount of ₹ 12.74 crores for FY 2022-23.

vii. GIAL has escalated expenses related to corporate allocation YoY basis growth in employee count. The Authority observed that salary cost constitutes the major portion of the Corporate cost and hence, proposed to rationalize the increase claimed by GIAL to 6% Y-o-Y across the last three (3) tariff years of the Third Control Period which is in line with the increase proposed for manpower expenses of AAI and GIAL.

Comments by GIAL: -

6.6.1 **To avoid repetition of comments on in-house legal team, please refer the comments provided in 1.3.1.**

6.6.2 **Since the major portion of the Corporate Cost Allocation is comprising of Salary and Increase in manpower, we request Authority to provide increase as combination highlighted in point 6.2 and 6.4.2.**

7 Chapter 7 “Comments on Consultation Paper Chapter 11 - Non-Aeronautical Revenue For The Third Control Period”

7.1 AERA proposal as 11.2.4 to 11.3.2 from page 205 onwards of CP relating to Non-Aeronautical Revenues

11.2.3 The Authority notes that GIAL undertook a two-stage tendering process through e-tender mode vide Request for Proposal (RFP) dated August 17, 2021.

11.2.4 The Authority, in this regard examined the extract of the relevant clauses of the RFP which read as under:

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11.2.5 From the qualifying criteria specified by GIAL, the Authority observes that:
Technical Eligibility Criteria

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Financial Eligibility Criteria
(i) Turnover

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- *AERA observation of restrictive criteria: As per Public Procurement Guidelines average financial turnover should be 30% of the estimate cost. So in place of ₹ 30 crores average annual turnover, GIAL has specified a turnover of ₹ 750 crores (which is 25 times).*

(ii) Net Worth
Asking net worth of ₹ 250 crores is very restrictive for a work value of ₹ 100 crores (Approx.) as many Airport Operators like AAI etc. are specifying only Positive Net Worth

11.2.6 Due to such restrictive criteria, only 2 agencies (out of these 2, one was related party), participated in the tender and work was awarded to agency quoting 10% revenue share percentage.

11.2.7 In fact, now a days other Airport Operators have dispensed with technical eligibility criteria in Non-Aeronautical activities tenders to attract more and more agencies and to encourage healthy competition.

11.2.8 Pursuant to the above RFP, only two prospective bidders (domestic and global) had submitted their proposals to GIAL. The number of prospective bidders was low due to restrictive technical and financial criteria as mentioned in para 11.2.4. Based on technical qualification, financial parameters and evaluation criteria provided under the RFP, Adani Airport Holdings Limited (parent company of GIAL) was selected as the Service Provider, with whom GIAL had entered into a Master Services Agreement. The Authority notes that the revenues projected by GIAL are in line with the said Agreement.

11.2.9 The Authority notes that the total Non-aeronautical revenue projected by GIAL for the Third Control Period is only ₹ 109.54 crores (refer Table 158) which is substantially lower than the actual Nonaeronautical revenue earned by AAI in Second Control Period (FY 2016-17 till FY2020-21) which was ₹ 144.03 crores, and ₹ 154.05 crores till COD (FY 2016-17 till COD).

11.2.10

11.2.11 The Authority also observed that the NAR projected by GIAL for the Third Control Period is significantly lower as compared to that of other PPP airports (DIAL, MIAL, BIAL, GHIAL, CIAL), wherein the NAR projected by such PPP airports are at least 50% of the total O&M expenses projected by them for the respective Control Period. Whereas in the case of the GIAL, the Authority notes that the NAR projected by GIAL for the Third Control Period is ₹ 109.54 crores, which is significantly lower as compared to the O&M expenses submitted by GIAL, which is ₹ 2,037.03 crores (refer Chapter 10), and eventually defeats the ultimate purpose of PPP.

11.2.12 Guwahati, being the gateway airport for the tourist destinations of north-eastern states, witnesses high tourist footfall. The tourists at this airport thus have a natural propensity to purchase/spend on nonaeronautical activities at the airport. This behavior is reflected in the passenger's spending pattern and have direct bearing on the NAR of the airport. Hence, there is a significant potential for non-aeronautical revenues and the aspect of appropriately harnessing the same by the AO and has been taken into consideration by the Authority in the non-aeronautical projections as brought out in Table 161.

11.2.13 LGBIA has been given on PPP mode to bring efficiencies in operations by increasing the nonaeronautical revenues by the Airport Operator so that the benefits may be passed on to the users through cross-subsidization.

11.2.14 The Authority takes cognizance of the fact that non aeronautical revenues projected for the Third Control Period by GIAL considers the pandemic and economic conditions on traffic which will reduce the consumer spending at the airport. However, the Authority is not convinced that the revenue from Master Services Agreement is remaining constant for the period, while all the other costs are increasing substantially across the Third Control Period. Further, the Terminal Building space will increase considerably as is planned in FY 2025-26 (due to commissioning of NITB) adding more area for Nonaeronautical services.

11.2.15 The Authority takes cognizance of the fact that there would be a gradual increase in Non-aeronautical operations through increase in the Non-aeronautical area within the Terminal Building in FY 2025-26, which will lead to increase in the Non-aeronautical revenues for the airport. Further, it is the responsibility of GIAL to ensure to achieve higher NAR in the Third Control Period than was achieved by AAI during the Second Control Period. In this context, there was no obligation on GIAL to accept the bid of Master Concessionaire offering such low revenue share.

11.2.16 When an airport operator takes an initiative, such as undergoing an open global competitive bidding process, it is for the betterment of the airport and is in the interest of the airport users. The Holding Company (Group entity of Adani Enterprises Limited itself) was selected as the Master Concessionaire. However, this does not result in enhancing the material gains to the airport users by higher cross subsidization of NAR. It is pertinent to note that GIAL could have leveraged the technical know-how to bring in efficiencies in generating NAR without the Master Concessionaire. No advantages have been provided to the airport users due to the Master Concession Agreement.

11.2.17 Moreover, considering the positive outlook provided by the Expert Agencies, the outlook of the GDP growth predicted by the GoI and the encouraging trend in the traffic numbers reported in FY 2022-23 (5.05 MPPA) and FY 2023-24 (5.96 MPPA), the

Authority noted that the passenger traffic has reverted to pre-covid levels in FY 2023-24. Further the traffic is expected to progressively increase during the Third Control Period (as also discussed in Chapter 6).

11.2.18 With the steady increase in passenger traffic and expansion of Terminal Building area (commissioning of NITB), the Authority foresees an increase in passenger related Non-aeronautical revenue across the Third Control Period. Further, the Authority expects GIAL to bring in efficiencies in Non-aeronautical operations as being followed by other PPP airports wherein the proportion of Non-aeronautical revenue projected by GIAL is equal or comparable to the quantum of O&M expenses, whereas, in the case of LGBIA the situation is peculiar wherein the projection of NAR is substantially lesser than O&M expenses. Further, this will impact the interest of the airport users as 30% of the Non-aeronautical revenue is used for cross subsidization. The Authority urges GIAL that it should make efforts to generate non-aeronautical revenue higher than that was earned by AAI during the Second Control Period.

11.2.19 – 11.2.21

11.2.22 Based on the above considerations, the Authority has estimated the total Non-aeronautical revenues for the Third Control Period for LGBIA as follows:
i. The NAR earned by AAI in FY 2019-20, which is a pre-COVID year, is considered as the base for estimating the NAR for LGBIA for the Third Control Period from FY2024-25 onwards.
ii. The Authority has considered the actual revenue earned by GIAL for FY 2022-23 and FY2023- 24 as these FYs have already passed.
iii. The Authority proposes not to consider ₹ 0.58 crores of Fair Value of Financial Instrument in FY2022-23 as it relates to IND AS adjustment.
iv. The NAR of ₹ 48.90 crores of FY 2019-20 of AAI has been assumed as base for FY 2024-25, since the traffic has reached the pre-COVID level of FY 2019-20 by the close of FY 2023-24.
v. The Authority proposes to consider the impact of inflation as prescribed in Chapter 9 of the Consultation Paper.
*vi. The Authority proposes to consider the impact of terminal area increase with respect to NAR from FY2026-27 onwards. Further, the Authoirty proposes to consider an increase of one-third of the total terminal area increase due to operationalization of NITB, i.e. (1/3)*621% = 207%*

11.3.2 Non-Aeronautical Revenue will not be trued up at the time of tariff determination of next control period if it is lower than that proposed by the Authority in Table 161.

Comments by GIAL: -

7.1.1 The proposal made by the Authority in the CP, i.e. taking Non-Aeronautical revenue as notional instead of considering income as per Master Services Agreement, would vitiate the very purpose of the open competitive bidding and undermine the well-established judicial principles in this regard. It is settled in law that the price discovered through open bidding has to be taken at face value and there is no reason to disbelieve such a price. The Authority should not obliviate the entire bidding process on the premise that the price discovered could have been better as the price discovered through the bidding process is highest amongst bidders who submitted their financial proposal. It is well known that even in insolvency / liquidation proceedings, business /assets are sold at lower price than the value / benchmark of the business / assets. Therefore, we request the Authority to relook into their approach to extrapolate the non-aeronautical revenue on a notional basis. The only test which applies is the fairness with which the bidding process was conducted. As long as there is no procedural irregularity, the outcome of the open competitive bidding process cannot be altered to achieve a particular requirement. It is submitted with respect that even the courts of law do not interfere with the outcome of the open competitive bidding process as long as the process is not vitiated by arbitrariness, illegality and unfairness. It is important to note that GIAL has followed all the rules and regulations mandated to conduct the bidding under the Concession Agreement and under Section 13 (a) (vi) of the AERA Act.

7.1.2 GIAL has insulated the consumers from negative market risks through the open competitive bidding process. Further and more importantly, no potential bidder has raised any issue with respect to their interest being jeopardized or having been denied equal participation in the entire bid process. The argument of the Authority that the principles of the Public Procurement Guidelines should be applied to the process of selecting the Master Service Provider for Non-Aeronautical Services is not substantiated to demonstrate as to how the process adopted by GIAL of procurement of services vitiated the established principles of procurement process generally adopted in the country.

7.1.3 The bid criteria were designed to achieve the highest standards of service and fiscal responsibility. The requirement for experience with a built-up area is to ensure that the bidder has substantial experience in handling large-scale projects, which is essential for efficient airport operations. The turnover criterion crore was set to ensure that the Master Concessionaire has the financial capability to effectively manage a complex airport operation.

7.1.4 Secondly, there is no provision in AERA Guidelines 2011 for notional increase in the Non-Aeronautical revenues while determining tariffs. Section 13(1)(a)(v) of AERA Act categorically states the word "revenue", has to be actual revenue and not notional revenue. It is submitted that neither the AERA Act nor Clause 5.6 of the AERA Guidelines envisages the concept of "notional" revenue/cost being ascribed by the Authority.

7.1.5 TDSAT has ordered in the case of DIAL and HIAL that Market Driven rates and actuals results need to be considered by the Authority. Refer below extract from TDSAT Orders

HIAL TDSAT Order dated 14th February 2024

380. In the absence of any claims of procedural irregularities, fraudulent conduct, or malicious intent, AERA lacks the jurisdiction to intervene in the capital expenditure decisions made for this significant expansion project. It is beyond AERA's scope to revise or override a legally sound and valid contract between HIAL and the foremost successful bidder. Consequently, this Tribunal does not uphold the arguments presented by the counsels for respondent no.1 and respondent no.2 seeking the disallowance of a portion of the capital expenditure incurred by HIAL for the enhancement project designed to expand the capacity of RGIA, Hyderabad to 34 MPPA.

381. Looking to Section 13(1)(a)(i) of AERA Act, 2008, AERA cannot rely on any notional or estimated price when the actual price is available for the expansion project in question. AERA has relied upon estimated cost for the project in question given by the consultant – RITES - appointed by AERA, ignoring the actual "Market Discovered Price" (MDP) arrived at through competitive bidding process. 382. This is an error committed by AERA and hence, impugned order dated 31.08.2021, of disallowing part of capital expenditure undertaken by this appellant for phase expansion of RGIA, to increase capacity to 34 MPPA is hereby quashed and set aside.

385. Once, this committee is approving the need, nature, and expenditures of construction that perhaps there is little or practically no scope of interference by AERA and that too with the help of some consultant's report under the guise of "efficient cost". If this type of interference by AERA is permitted by this Tribunal, then it tantamount to sitting in appeal against the decision of the committee which is a multi-member committee.

DIAL TDSAT Order dated 21st July 2023

7.1.6 *Para 165"...The cost which is arrived at for Phase 3A expansion for IGIA, Delhi through global bids invited is giving real and efficient cost. It is a market discovered price through competitive and transparent bidding process. As per Section 13 (1)(a) (i) of the AERA Act, 2008, it was a power coupled with a duty vested in AERA to determine the tariff for the aeronautical services taking into consideration, "the capital expenditure incurred and timely investment in the improvement of airport facilities" which is on "actual basis" meaning thereby, if the actual capital expenditure is incurred by the appellant, the same has to be considered by AERA as per aforesaid provision of AERA Act and it cannot be so easily brushed and set aside by AERA under the guise of "the efficient cost".*

7.1.7 **It is interesting to note that the Authority has considered the actual revenues for FY23 and FY24 while projecting the Non-Aeronautical revenues for the control period. Hence it is more logical that future years also to be trued-up on actuals during the tariff determination of next control period.**

7.1.8 **In light of above, we request the Authority to accept the Non-Aeronautical Revenues as projected by the AO which is in line with the contract entered based on market discovery rate and also allow for true-up on actual basis without providing any minimum floor.**

8. Chapter 8 “Comments on Consultation Paper Chapter 12 - Taxation For The Third Control Period”

8.1 AERA proposal as 12.2.2 from page 211 of CP relating to Taxation for the TCP Revenues

12.2.2 Therefore, the Authority is of the view that:

- *30% Non-Aeronautical revenues should not be treated as a subsidy for the Airport Operator as the airport operator has already earned it from Non-Aeronautical services and is meant as a cross subsidy to the airport user.*
- *The consideration of 30% Non-Aeronautical revenues as part of revenues from Aeronautical services would result in undeserved enrichment to the Airport Operator effectively reducing the cross-subsidy benefit to the airport user from the present 30% Non-Aeronautical income.*

Comments by GIAL:

8.1.1 As per AERA guidelines 5.5.1 as provided below, corporate tax paid on ***income from assets/ amenities/ facilities/ services*** (emphasis) taken into consideration for determination of Aggregate Revenue Requirement (ARR) will be considered for calculation of taxation component of ARR. Clause 5.5 of the AERA Guidelines is reproduced below:

5.5. Taxation (T)

5.5.1. Taxation represents payments by the Airport Operator in respect of corporate tax on income from assets/ amenities/ facilities/ services taken into consideration for determination of Aggregate Revenue Requirement.

5.5.2. The Authority shall review forecast for corporate tax calculation with a view to ascertain inter alia the appropriateness of the allocation and the calculations thereof.

Explanation: For avoidance of doubt, it is clarified that any interest payments, penalty, fines and other such penal levies associated with corporate tax, shall not be taken into consideration for calculation of Taxation.

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Explanation: For avoidance of doubt, it is clarified that any interest payments, penalty, fines and other such penal levies associated with corporate tax, shall not be taken into consideration for calculation of Taxation."

Income from Non-Aeronautical services are used in calculating the overall ARR. Therefore, in order to calculate the taxation under the regulatory framework, income from Non-Aeronautical services as proposed by the Authority in the CP need to be considered. In case, the Authority does not consider income from Non-Aeronautical services for the purposes of taxation, it will be in contradiction to its guidelines.

8.1.2 Latest TDSAT judgement for DIAL, MIAL and HIAL dated 21st July 2023, 06th October 2023 and 14th February 2024 respectively

DIAL TDSAT Order Para 140 and 141

140. AERA's contention that including S- Factor in calculation of Tax will result in an artificial tax benefit and overstate aeronautical tax is also misconceived and misleading. S factor has been considered in aeronautical Profit & Loss to arrive at Aeronautical Profit Before Tax (PBT) and the allocation of actual tax paid by DIAL is in the ratio of Aeronautical and Non-Aeronautical PBT and thus will not result in creation of artificial tax. Further, inclusion of S Factor in Tax and consequent consideration of S Factor as aeronautical revenue will provide true aeronautical profit and accurate base to calculate 'T'.

141. AERA's observation regarding reduction in the level of cross subsidy is also misconceived in as much as the non-aeronautical revenue cross subsidizes aeronautical revenue and the tax is only resultant on the profit earned and thus, the cross subsidy is nothing but a part of recovery of eligible aeronautical revenue only and thus has to be considered while drawing aeronautical Profit & Loss."

MIAL TDSAT Order Para 398

"398..... It has been further observed by AERA in the impugned order that as and when MIAL will pay the Income Tax for the 3rd Control Period in the true up process in the next control period, the said amount of tax will be taken into consideration. This observation is also devoid of any merit for the reason that in the formula of target revenue as stated hereinabove, the component of an amount equal to "T" has to be added and the methodology to calculate "T" is an amount equal to corporate taxes on earnings pertaining to aeronautical services (including the amount upon "S" factor), irrespective of the fact that whether actually the taxes are paid or not. The payment of tax to income tax authority and calculation of target revenue are two different things. The formula of a target revenue is an agreed formula as per the agreements between the appellant and the Government of India. Thus, the T factor is equal to an amount of corporate taxes. AERA has presumed that T is equal to amount of corporate taxes paid by the appellant. This definition cannot be amended nor the formula can be amended by AERA. AERA has presumed that T=corporate taxes paid by appellant. This addition of the words, neither in the definition nor the formula is permissible because it is an agreement between the appellant and the Government of India. We, therefore, quash and set aside observations of AERA, so far as they are related to exclusion of "S" factor as part of aeronautical base, while determining aeronautical taxes (i.e. T). We, hereby hold to include "S"-factor as part of aeronautical revenue base while determining aeronautical taxes (i.e. T)."

HIAL TDSAT Order Para 423 and 424

423. The aforesaid facts of the matter have not been properly appreciated by AERA, and therefore, the decision of AERA not to consider 30% of Non-Aeronautical Revenue (NAR) as part of Aeronautical Revenue Base for computation of aeronautical taxes is incorrect, improper and unjustified.

424. We, hereby direct AERA to consider (i) the calculation of "T" on 30% of Non-Aeronautical Revenue because it partakes the character of Aeronautical Revenue in calculation of ARR as per the aforesaid formula,

8.1.3 **We hereby request the Authority to add 30% of Non-Aeronautical revenues while determining the tax which is as per guidelines and as per TDSAT orders.**

9. Chapter 9 "Comments on Consultation Paper Chapter 14 - Aggregate Revenue Requirement (ARR) For The Third Control Period"

9.1 AERA proposal as 14.2.2 on page 215-216 CP relating to ARR

14.2.2 The Authority notes that GIAL has on-going capital expenditure projects and other planned works, which have resulted in a higher ARR for the Third Control Period. The existing traffic base is not sufficient for the complete recovery of ARR in the current Control Period and this would require a significant increase in tariff. Further, a significant increase in Aeronautical tariff, is also attributable on account of the fact that the new Aeronautical tariff proposed by the Authority may be implemented only by August 2024, thereby resulting in only lesser tariff years being available for recovery of the ARR.

In this regard, the Authority would like to draw reference to the guiding principles issued by the International Civil Aviation Organization ("ICAO") on charges for Airports and Air Navigation Services (ICAO DoC 9082), which lays down the main purpose of economic oversight which is to achieve a balance between the interest of Airports and the Airport Users. This policy document categorically specifies that caution be exercised when attempting to compensate for shortfalls in revenue considering its effects of increased charges on aircraft operators and end users. The said policy document also emphasizes on balancing the interests of airports on one hand and aircraft operators, end users on the other, in view of the importance of the air transport system to States. This should be applied particularly during periods of economic difficulty. Therefore, the policy document recommends that States encourage increased cooperation between airports and aircraft operators to ensure that the economic difficulties facing them all are shared in a reasonable manner.

This may also be read in conjunction with the objectives of the National Civil Aviation Policy (NCAP) 2016, which intends to provide affordable and sustainable air travel for passengers/masses. As per para 12 (c) of the NCAP, "In case the tariff in one particular year or contractual period turns out to be excessive, the Airport Operator and the Regulator will explore ways to keep the tariff reasonable and spread the excess amount over the future." The above has also been conveyed by AERA vide its Order No. 14/2016-17 dated January 12, 2017.

Further, it is pertinent to note that considerable investments in capacity have already been made which would be sufficient for the foreseeable future. Therefore, the subsequent control periods are expected to witness lower capital expenditure requirements while catering to a larger traffic base.

Determination of Aeronautical charges and UDF requires a delicate balance between cost recovery and its potential impact on air traffic demand. This balance is crucial for the financial viability of the airport and its ability to sustain operations while also ensuring that the tariffs remain competitive enough to attract and retain airlines and passengers. Therefore, the Authority, based on the Tariff Rate Card to be submitted by GIAL would decide the balance between cost recovery and its potential impact on air traffic demand.

Comments by GIAL: -

9.1.1 We request the Authority to take cognizance of the following facts: -

Investment mobilization through Privatization

9.1.1.1 In the last 31 years investments of approx. Rs. 643 Crs has been made in Guwahati Airport.

9.1.1.2 Considering the potential demand and operational requirements, AAI planned for the expansion of terminal by FY 2020-21 which was allowed by the Authority on incurrence basis in the tariff order for SCP. The same project is also mandated under Schedule U of the Concession Agreement.

9.1.1.3 GIAL has earmarked various investments including but not limited to what was envisaged by AAI, obligated under the Concession Agreement and it is mobilizing investments of approx. Rs 6,000 crores during the control period.

Financial Position of the Airport

9.1.1.4 In respect to the financial position of the Airport, it is to be noted that: -

9.1.1.4.1 Guwahati Airport has been incurring losses since privatization. GIAL has incurred losses in FY22, FY23 and FY24 totaling ~Rs. 194 Crs.

9.1.1.4.2 There are certain obligations under the Concession Agreement which are to be met like payment of Adjusted Deemed Initial RAB to AAI, reimbursement of select employee salaries to AAI, monthly concession fees payments to AAI, maintenance of service standards for operation and development. ***Out of total ARR proposed of NPV Rs. 1,771 Crs, approx. 10% (Rs. 173 Crs) relates to true-up amount for AAI and AAI Manpower reimbursement of approx. 6% (Rs. 108 Crs in NPV terms).***

9.1.1.4.3 The existing debt of the company is based on cash flow assumptions including full recovery of the ARR. In case it does not happen, the credit profile of the company will further erode, and it will have cascading impact leading to higher cost of debt. This will ultimately translate into a higher FRoR.

Unserved consideration

9.1.1.5 In the proposed CP, substantial amounts relating to justified projects like land filling, fuel farm, Apron-2 and other operational expenditure are already proposed on actual incurrence basis without taking its impact in current ARR. It is expected that YPP in the next control period will be equal or more than the proposed YPP in the CP. Therefore, any shortfall in recovery of ARR is not going to serve any purpose other than causing undue cash flow burden to GIAL.

9.1.2 Further the shortfall in recovery amount is to be trued-up along with carrying cost in the next control period which will also be higher burden on the passengers.

Economic and viable operations

9.1.3 As per AERA Act 2008, Clause 13 (a) (iv) Functions of Authority, the Authority need to consider the economic and viable operations of the Airport while determining the tariffs.

9.1.4 Latest TDSAT judgement dated 14th February 2024 for HIAL. Refer Para 489 to 492

489. No such direction has been issued by Central Government under Section 42 of the AERA Act, 2008, in consonance with NCAP, 2016. Moreover, eligible ARR has been *determined by AERA itself in accordance with AERA Guidelines, 2011, and, therefore, it cannot be said to be "excessive". Thus, para 12(c) of NCAP, 2016, does not permit AERA to postpone the partial recovery of Aggregate Revenue Requirement (ARR) for the next Control Period.*

490. It is also to be kept in mind that ARR is to be utilised on capital expenditure projects undertaken by the Airport Operator. There is a systematic operation of work and operational expenditures which can be recovered through the levy of regulated charges determined by AERA and, therefore, the recovery of ARR in a given Control Period is necessary for economic and viable operation of major airports.

491. 'Moreover, looking to Section 13(1)(a)(i) of the AERA Act, 2008 mandates AERA to determine tariff for aeronautical services taking into consideration the "Capital Expenditure incurred and timely investment in the improvement of the airport facilities". There is also violation of Tariff Guidelines Clause 6.2 by AERA if postponement of recovery of ARR is allowed because "Y, Yield per Passenger, calculated by AERA must be equal to ARR divided by Volume estimated in the tariff year.

492. Meaning thereby to if the recovery of part of ARR is to be postponed, there will be mismatch of ARR and "Y". We, therefore, quash and set aside the decision of AERA to postpone the part of recovery of ARR in the next Control Period and direct AERA to allow Airport Operator to recover ARR during the Control Period.

9.1.5 Authority vide order number 02/2024-25 dated 21st June 2024 has allowed full recovery of ARR for Thiruvananthapuram International Airport (TRV) for Third Control Period.

9.1.6 In light of the above and as done in the case of TRV Airport, we request the Authority to allow full recovery of ARR.

9.2 AERA proposal as 14.2.8 page 217 of CP relating to Tariff Card for TCP

14.2.8 The Authority notes that, it is necessary to have the individual year wise tariff card laying down the different aeronautical charges and the workings for the aeronautical revenues, in order to have a constructive stakeholder discussion and hence GIAL is directed to submit the detailed Annual Tariff proposals in line with the ARR and Yield arrived at by the Authority within 7 days of issue of this Consultation Paper.

Comments by GIAL: -

9.2.1 The tariff card was submitted to the Authority on 13th June 2024 and subsequently published by the Authority vide Public Notice No. 4/2024-25 dated 13th June 2024.

9.2.2 We request the Authority to make suitable adjustments in the ARR after considering the impacts of the requests raised in this document.

9.2.3 In the tariff card we have requested, and we re-iterate that "***the tariff card has multiple variables like concession agreement obligation to pay true-up to AAI which is almost 10% of total ARR and final ARR amount, mix of tariff structure (Landing Charges vs UDF) and effective date of new rates. We therefore request the Authority to kindly provide GIAL an opportunity to discuss the ATP, once the final ARR is determined.***"

10. Chapter 10 “Annexures”

i. Annexure 1 – CPWD Office Memorandum for GST rate increase
ii. Annexure 2 – AECOM and Jacobs report on Apron 2
iii. Annexure 3 – IIT Guwahati report on Apron 2
iv. Annexure 4 – AAI mail to GIAL requesting to prepone construction of ATC
v. Annexure 5 – ACRP Report
vi. Annexure 6 – Facility Agreement
vii. Annexure 7 – Calculation of Interest
viii. Annexure 8 – ECB form for upfront fees
ix. Annexure 9 – Recent Term Sheet from Standard Chartered bank
x. Annexure 10 – EY Report on Future of Pay
xi. Annexure 11 – Committee’s Report on Recovery of Electricity