



भारतीय विमानपत्तन प्राधिकरण  
AIRPORTS AUTHORITY OF INDIA

F/No. AAI/JVC/Guwahati -Tariff/2024-25/1307

Date: -01.07.2024.

02

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

**Subject: -Submission of Final Determination of RAB and True-up of 2<sup>nd</sup> control period Up to COD (01.04.2016 to 08.10.2021) in respect of Guwahati Airport.**

**Reference: -Submission of AAI's comments in response to Consultation Paper No. -01/2024-25 in respect of Guwahati Airport.**

Sir,

This has reference to AERA's consultation paper no 01/2024-25 dated 06.06.2024 in the matter of final determination of RAB and True-up for the 2<sup>nd</sup> control period up-to COD (01.04.2016 to 08.10.2021) in respect of Guwahati Airport.

AAI's comments in response to Consultation Paper No.- 01/2024-25 is enclosed.

This issues with the approval of the Competent Authority.

Thanking You.

Yours sincerely,

(L. Kuppulingam)  
Executive Director (JVC/Tariff)

Encl: -1. AAI's comments in response to Consultation Paper No-01/2024-25.



### **Guwahati International Airport**

Response to Airports Economic Regulatory Authority (AERA)'s Consultation Paper No. 01/2024-25 dated 06<sup>th</sup> June 2024 in the matter of Final Determination of RAB and True -up of 2<sup>nd</sup> control period up-to COD (i.e. 01.04.2016 to 08.10.2021) for Guwahati International Airport.

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## **1. Introduction**

Airports Economic Regulatory Authority of India ('AERA') has issued Consultation Paper No. 01/2024-25 on Final Determination of RAB and True-up for 2<sup>nd</sup> Control Period up-to COD (i.e. 01.04.2016 to 08.10.2021) in respect of Guwahati International Airport (LGBIA). ('Consultation Paper' or 'CP') on 06<sup>th</sup> June 2024.

We hereby present our observations and submission in the matter of Final Determination of RAB and True-up in respect of Guwahati International Airport (LGBIA) for 2<sup>nd</sup> Control Period up-to COD (i.e. 1<sup>st</sup> April 2016 to 08<sup>th</sup> October 2021).

## **2. True- Up the 2nd Control Period (SCP)**

### **i. Financing Allowance** **(Para 4.5.21)**

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

- The Authority notes that AAI has claimed financing allowance amounting to ₹ 84.66 lakhs, as part of RAB. The Authority has the following views on the aspect of Financing Allowance:
- Providing return on capital expenditure from the very beginning of construction will significantly lower the risks for an airport operator and may require revisiting the return on equity allowed to airport operators as the investment in the asset class will then be equated to risk free rate of return.
- Further, provision of Financing Allowance will disincentivize the Airport Operators from ensuring timely completion of projects and delivery of services to the users. Therefore, 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 if debt is used for funding projects.
- Furthermore, the future returns from the project should generate adequate returns to cover the cost of equity during the construction stage. The airport operator is adequately compensated for the risks associated with the equity investments in a construction project once the project is capitalized by means of a reasonable cost of equity.
- Developments at greenfield airports inherently take longer durations to commission and operationalize. Thus, airport operators would have to wait for a considerable duration before getting returns on large capital projects. Keeping this in view, financing allowance was provisioned in the initial stages to such airports. It may be further noted that financing allowance was never provided in the case of brownfield airports like MIAL, DIAL and other AAI airports. Further, financing allowance for greenfield airports of BIAL, HIAL, CIAL etc. was allowed only for the initial stages of their development, after which IDC was permitted on the debt portion of the proposed capital expenditure.
- It is pertinent to note that in case of a greenfield airport, investment in regulatory blocks by the Airport Operator would not make the airport facilities available to the passengers. Brownfield and Greenfield airports can't be equated on this issue. In greenfield airports, the tariff is not applicable, and no revenue is available to the Airport Operator till the aeronautical services have been created and put to use. However, in the case of brownfield airports, where Airport Operator brings in additional investments, the airport facilities are mobilized and enabled to other functional parts of

the airport, which remains functional, and Airport Operator keeps on enjoying the charges from the users. In the case of LGBIA, the Airport is a brownfield airport, which would not be eligible for an allowance on the equity portion of newly funded capital projects.

- Financing Allowance is a notional allowance and different from interest during construction. Therefore, the provision of Financing Allowance on the entire capital work in progress would lead to a difference between the projected capitalization and actual cost incurred, especially when the Airport Operator funds the projects through a mix of equity and debt.
- 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)".
- In view of above, the Authority proposes not to consider any expense related to financing allowance as a part of ARR.

#### AAI's Contentions

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

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

$$WIPAt = WIPAt-1 + \text{Capital expenditure} + \text{Financing allowance} - \text{Capital receipts of the nature of contributions from stakeholders (SC)} - \text{Commissioned Assets (CA)}$$

Where:

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

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

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

The Financing allowance shall be calculated as follows:

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

Where

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

SC are capital receipts of the nature of contribution from stakeholders (including capital grants and subsidies) pertaining to the capital expenditure incurred in Tariff year  $t$ .

CA are Commissioned Assets which pertain to the accumulated value of the WIPA attributable to all assets that have been put into effective operation during Tariff Year  $t$ .

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

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

		Forecast Work in Progress Assets					
		2010-11	Tariff Year 1	Tariff Year 2	Tariff Year 3	Tariff Year 4	Tariff Year 5
Opening WIP: WIPA <sub>t-1</sub>	OW	-	-	-	558	638	-
Capital Expenditure	CE	-	633	521	-	-	-
Financing Allowance	$FA = R_d \times (OW + (CE - CA - SC)/2)$	-	-	37	80	43	-
Capital Receipts	SC	-	100	-	-	-	-
Commissioned Assets	CA	-	633	-	-	681	-
Closing WIP: WIPA <sub>t</sub>	$CW = OW + CE - FA - SC - CA$	-	-	558	638	-	-

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

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

		Forecast RAB					
		2010-11	Tariff Year 1	Tariff Year 2	Tariff Year 3	Tariff Year 4	Tariff Year 5
Opening RAB <sub>t-1</sub>	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 <sub>t</sub>	$CR = OR + CA - DR - DI + IA$	20,500	18,826	16,462	13,998	12,277	11,547
RAB for calculating ARR	$RA = (OR + CR)/2$	-	19,663	17,644	15,230	13,138	11,912

- The Clause (d) of Para 5.2.6 defines Commissioned Assets as below:  
“Commissioned Assets: Represents investments brought into use during Tariff Year t, consistent with Clause 5.2.7 herein below.”
- Thus, from the above clauses it is clear that the Financing Allowance is computed on the Work in Progress balance based on Capital Expenditure incurred which is funded by Equity/Internal accruals and is capitalized as part of Commissioned assets for RAB Computation. In the case of AAI, financing allowance is computed on the equity portion and IDC is computed on the debt portion of the capital spend.
- Thus, Direction 5 provides an explicit, detailed elaboration of Financing allowance. Manner and formulae of computation and addition of the “commissioned assets” into RAB including the Financing allowance are elucidated in detail with examples is contained in the same Direction.

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

- **CIAL 3rd CP Order:** Vide para 4.4.52 of CIAL order for third control period, for true up of SCP, AERA noted that, in the tariff order for the SCP, it was decided that FA would be true up based on the final capex. In its MYTP submission, CIAL had proposed an addition of Rs. 11.9 Crore in FY 2020-21 as Financing Allowance for true up of 2nd CP. Accordingly, AERA recomputed FA based on actual WIP capitalized and allowed for inclusion in the true up amount.
- **BIAL 3rd CP Order:** Vide para 3.3.78 of BIAL Order for the third control period, AERA has agreed to allow the financing allowance for the second control period.
- Financing allowance was approved and given by AERA in the First and Second Control period for BIAL and in second control period order of CIAL.
- **MIAL and DIAL:** It is further to be noted that MIAL and DIAL are governed by tariff determination principles set forth in SSA and OMDA. SSA and OMDA do not contain the concept of financing allowance. Hence, AAI submits that these 2 airports are not comparable with AAI airports.

#### **AAI's Request**

- The AERA Act requires AERA to consider “timely investment in improvement of airport facilities”; and “economic and viable operation of major airports”. The statement of objects and reasons of the AERA Act requires Authority to encourage investment in airport facilities, create a level playing field and foster healthy competition. The Airports Infrastructure Policy of 1997 and NCAP 2016 also emphasize the need to provide a commercial orientation and encourage private sector participation in the airport sector.
- Financing allowance computation is fully in compliance with Direction 5, affirmed by Authority in its

various Orders in the past.

- Based on the above submissions, AAI submits that non-consideration of Financing allowance amounts to contradiction of AERA's own guidelines Further, by treating the Financing Allowance proposed by private airports and AAI airports differently vitiates the services expected to be provided by the airport and violates the principle that allows a level playing field for all airports. Also, AAI airports would be denied of revenues that they are rightfully entitled to.
- **AAI therefore requests AERA to consider the financing allowance of Rs. 0.84 Crore computed for SCP additions.**

## ii. TB Ratio (Para 4.5.6 (a))

### AERA's Contentions

Terminal Building ratio: It was observed that as per AAI's True up submission for the period up to October 8, 2021, LGBIA had an average terminal building ratio of 91.41:8.59 based on actual utilization. The Authority in its order 38/2017-18 for SCP of LGBIA, had decided to adopt 89.02% as aeronautical area based on 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%.

The Authority had commissioned an independent study on the Allocation of Assets (summary of the study is given in Annexure 1 and the study is attached as Appendix 1 of this Consultation Paper). Based the outcome of the study, the Authority proposes to consider the Terminal Building ratio of 89.02:10.98 (Aeronautical: Non-Aeronautical) as was approved by the Authority in the Tariff Order for the Second Control Period. The same has been explained in para 4.3.1 of the Asset Allocation study report.

### AAI's Contention

- AERA had considered Terminal Building Ratio 89.02:10.98 (Aero: Non-Aero) whereas AAI has submitted TB Ratio i. e 95.16% :4.84% on the basis of actual usage (which includes Average space allotted to Airlines 782.64 sqm was considered as Non-Aero).
- Further AERA has considered Rs.6.17 Cr as Aero Revenue in respect of revenue receipt from Airlines as space rent it is to mention that earlier AERA in its earlier orders (Chennai, Kolkata etc.) had considered the same income as Non-Aero. In this regards it is also worthwhile to mention that in case AERA has change its stand towards revenue receipt from Airlines as space rent as Aero revenue then Area allocated to Airlines may also be considered as Aero while evaluating terminal Building Ratio as a matter of fundamental of matching principal, whereas AERA has only considered revenue part but not taken the same space while evaluating TB Ratio.

The Detail Calculation of Terminal Building ratio after considering space allotted to Airlines is as follows:

<b>Terminal Building Ratio (As per Proposal submitted by AAI)</b>
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Particulars	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Space Rented	2043	1878	1858	1787	1673	1727
Capacity	19768	19768	19768	23275	23275	23275
Non-Aero%	10.33%	9.50%	9.40%	7.68%	7.19%	7.42%
Aero %	89.67%	90.50%	90.60%	92.32%	92.81%	92.58%

**Revised Terminal Building Ratio (Space allotted to Airlines considered as Aero instead of Non- Aero as per AERA Decision.)**

Particulars	Location	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Space Rented (A)	TB	2043	1878	1858	1787	1673	1727
Space to Airlines (B) (Included in space rent)	Considered as AERO	807.02	807.02	774.92	717.14	767.52	822.27
Airlines space (%) on total Area		4.08%	4.08%	3.92%	3.08%	3.30%	3.53%
Airlines space (%) on Non- Aero		39.50%	42.97%	41.70	40.13%	45.87%	47.61%
C= (A-B)	T.B(SQM)- Excluding airlines space	1235.98	1070.98	1083.08	1069.86	905.48	904.73
Capacity (D)	T. B(SQM)	19768	19768	19768	23275	23275	23275
Non-Aero % (Revised)	T. B(SQM)	6%	5%	5%	5%	4%	4%
Aero % (Revised)	T. B(SQM)	94%	95%	95%	95%	96%	96%

- It can be seen from the above table that space allotted to Airlines is more than 40% of total Non-Aero area, AERA is requested to consider the revised actual Terminal Building ratio for allocation of operating exp and for Asset allocation.
- It is also requested to revise the Terminal building ratio from 89.02 :10.98 to 95.16:4.84 as per the above table.

The Authority is requested revise the TB Ratio in line with its consideration of Space rental income received from Airlines as Aero revenue instead of Non- Aero revenue.

**iii. Reclassification of Assets transferred by AAI to GIAL  
(Para 4.5.19)**

**AERA's Contentions**

**(i) Terminal Building**

**Details of Asset:** Expansion and Modification of Existing Terminal Building

**Allocation proposed by AAI: Aeronautical**

**Observation:** The assets pertaining to development of terminal building have been considered as Aeronautical assets by AAI. However, as these assets are within / pertaining to the terminal building, wherein both Aeronautical and Non-aeronautical activities are carried out, the same is reclassified as Common asset and segregated in the Terminal Building ratio (89.02:10.98).

**Allocation proposed by the Authority: Common**

**Impact:** Reclassifying these assets from Aeronautical to Common reduces the Capital Additions to the extent of Rs. 0.91 crores.

## (ii) Plant &amp; Machinery:

**Details of Asset:** VRV System, Solar plant, AC plant, Water Softening plant,

**Allocation proposed by AAI: Aeronautical**

**Observation:** The assets pertain to various machinery at several locations in the airport terminal have been classified as Aeronautical assets by AAI. As these assets are used for servicing both Aeronautical and Non-aeronautical activities within the terminal building, these are reclassified as Common assets and have been reallocated in the ratio of the Terminal Building (89.02:10.98).

**Allocation proposed by the Authority: Common**

**Impact:** Reclassifying these assets reduces the Capital Additions to the extent of Rs. 0.57 crores.

## (iii) Furniture &amp; Fixtures:

**Details of Asset:** Furniture and Fixtures at Administrative offices

**Allocation proposed by AAI: Aeronautical**

**Observation:** The furniture at the administrative offices in the terminal building have been classified as Aeronautical assets by AAI. As these assets are used by staff who perform both Aeronautical and Non-aeronautical activities, these assets are reclassified as Common assets and have been reallocated using the Employee ratio.

**Allocation proposed by the Authority: Common**

**Impact:** Reclassifying these assets reduces the Capital Additions to the extent of ₹ 0.09 crores.

## (iv) Tools and Equipment:

**Details of Asset:** Sub-station equipment, DG set, Split AC, Lights, Fan, Baggage disinfectant system, Radio communication equipment, Breath analyzer.

**Allocation proposed by AAI: Aeronautical**

**Observation:** The assets pertaining to the various equipment at several locations in the airport have been classified as Aeronautical assets by AAI. As these assets are used for servicing both Aeronautical and Non-aeronautical activities within the terminal building, these are reclassified as Common assets and have been reallocated in the ratio of the Terminal Building (89.02:10.98). Radio communication equipment and Breath analyzer equipment at ATC Building have been classified as Aeronautical asset by AAI. However, since these assets are for ANS staff use, they have been reclassified as ANS assets.

**Allocation proposed by the Authority: Common / ANS**

**Impact:** Reclassifying these assets reduces the Capital Additions to the extent of ₹ 0.10 crores.

(v) Office Appliances:

**Details of Asset:** Computer, Printer, Scanner, DVD, Fox screen, DSLR Camera, Xerox machine, Handheld Multimeter

**Allocation proposed by AAI:** Aeronautical

**Observation:** Computers, Laptop, Printers, and DVD used in the terminal building have been classified as Aeronautical asset by AAI. As these assets are used by staff who perform both Aeronautical and Non-aeronautical activities, these assets are reclassified as Common assets and have been reallocated using the Employee ratio.

Computers, Scanner, Fox screen, Xerox machine, DSLR Camera, DVD, and Handheld multimeter at the ATC tower and CNS section have been classified as Aeronautical assets by AAI. As these assets are for CNS use, the assets have been reclassified as ANS assets.

**Allocation proposed by the Authority:** Common, ANS

**Impact:** Reclassifying these assets reduces the Capital Additions to the extent of ₹ 0.05 crores.

**AAI's Contentions**

**(1) Terminal Building**

The AERA has considered TB ratio (89.02:10.98) whereas the TB ratio calculated by AAI on actual usage basis after considering the Space to Airlines as AERO which works out to 95.16:4.84. AERA is therefore requested that TB ratio may be considered as 95.16:4.84.

**(2) Plant & Machinery**

Mainly these assets are used for Passengers facilitation and operational requirement accordingly AAI has claimed Aeronautical Assets whereas AERA has reallocated these Assets these assets in the ratio of the Terminal Building (89.02:10.98) whereas the TB ratio calculated by AAI on actual usage basis after considering the Space to Airlines as AERO which works out to 95.16:4.84. AERA is therefore requested that TB ratio may be considered as 95.16:4.84.

**(3) Furniture & Fixtures:**

AERA has considered the furniture at the administrative offices in the terminal building have been classified as common assets as these assets are used by staff who perform both Aeronautical and Non-aeronautical activities and these assets are reclassified as Common assets and have been reallocated using the Employee ratio i.e. 90.45:9.55 whereas actual employee ratio is 98.38:1.62.

AERA is therefore requested that employee ratio may be considered as 98.38:1.62.

**(4) Tools and Equipment:**

AERA has considered the tools and equipment's in the terminal building have been classified as common assets and these assets are used by staff who perform both Aeronautical and Non-aeronautical activities, and assets are reclassified as Common assets and have been reallocated using the terminal building i.e. (89.02:10.98) whereas the TB ratio calculated by AAI on actual usage basis after considering the Space to Airlines as AERO which works out to 95.16:4.84.

AERA is therefore requested that TB ratio may be considered as 95.16:4.84.

#### **(5) Office Appliances**

AERA has considered Computers, Laptop, Printers, and DVD used in the terminal building have been classified as Common Assets as these assets are used by staff who perform both Aeronautical and Non-aeronautical activities, these assets are reclassified as Common assets and have been reallocated using the Employee ratio i.e. 90.45:9.55 whereas actual employee ratio is 98.38:1.62.

AERA is therefore requested that employee ratio may be considered as 98.38:1.62.

#### **iv. Reallocation of Common expenses by the Authority (Para 4.9.4)**

##### **AERA's Contention**

The Authority has commissioned an independent study through the Consultant appointed by AERA to determine efficient Aeronautical Operation and Maintenance costs for the Second Control Period and FY2021-22. The Authority used the outcome of the study to true up the O&M expenses for the pre-COD period for AAI.

The common O&M expenses have been segregated by AAI between Aeronautical and Non-aeronautical expenses based on a suitable ratio. This ratio has been determined based on the underlying proportion of their expected utilisation for Aeronautical and Non-aeronautical services and activities at the Airport.

The Authority has analyzed the submission made by AAI on allocation of Common expenses into Aeronautical and Non-aeronautical on a case-to-case basis and applied appropriate re-classification and re-allocation of the expenses, wherever it noted any discrepancies in the allocation of expenses by AAI (refer Table 13 for Allocation of O&M expenses of AAI as per the Study on Efficient Operation and Maintenance Expenses for Lokpriya Gopinath Bordoloi International Airport). Accordingly, the following common expenses have been re-allocated by the Authority by using appropriate ratios such as Employee Head Count ratio, Terminal Building ratio, Gross Fixed Assets ratio and Electricity ratio (Refer para 4.5 to of the Study report on Efficient Operation and Maintenance Expenses for Lokpriya Gopinath Bordoloi International Airport regarding the ratios used by the Authority for allocation of common expenses.)

- a) Employee benefit/Payroll expenses
- b) Administrative and General expenses
- c) Utility expenses
- d) Repairs and Maintenance expenses

The total impact on re-allocation of each of the above expenses and other adjustments have been summarised in the following paragraphs.

**a) Employee Benefit expenses**

**Observation:** The Authority noted that in the case of AAI, the costs directly pertaining to ANS employees have been excluded from the O&M expenses, but the cost for ANS employees involved in support services have not been excluded from Common expenses. Accordingly, the Authority has considered the common expenses allocated to ANS employees as deemed Non-aeronautical employees and has re-worked the Employee Head Count ratio. The Authority further noted that for non-aeronautical allocation of 'Retirement benefits of Guwahati Employees (Provisions made at CHQ)', AAI has not provided any direct bifurcation as part of its submission for payroll expenditure and provisions. However, AAI has considered the applicable employee ratios for all years in their calculations. Also, for the year FY2021-22 up to COD, AAI had not segregated non-aeronautical portion and assumed full amount as aeronautical. This expense was eventually segregated into Aeronautical: Non-Aeronautical basis the ratio of 95:5, as per clause 14.8 of Order No. 38/2017-18 in respect of LGBIA for Second Control Period, by the Authority.

**Impact:** The impact of the reallocation of Employee Benefit expenses based on revised Employee Headcount ratio and based on other adjustment described above, results in reduction of the aforementioned expenses by Rs. 0.18 crores for the Second Control Period till COD.

**Reference:** Para 4.6.1 and Table 25 of the Study on Efficient Operation and Maintenance Expenses for Lokpriya Gopinath Bordoloi International Airport.

**b) Administrative and General expenses**

**Observation:** The submissions by AAI have been analyzed and it has been observed that the Administrative and General expenses include certain expenses such as tender, rent and rates and taxes, which directly relate to the Aeronautical activity and certain expenses such as insurance of vehicles, manpower hiring, printing & stationery, conveyance, employee training etc., which are linked to Common expense. Therefore, each component of the Administrative and General expenses has been examined and subsequently allocated as per suitable ratio.

**Impact:** The impact of the reallocation results in reduction of Administrative and other expenses by Rs. 1.35 crores for the Pre- COD period.

**Reference:** Para 4.6.2 of the Study on Efficient Operation and Maintenance Expenses for Lokpriya Gopinath Bordoloi International Airport.

**c) Utility expenses**

**Observation:** AAI's submission has been analyzed for expenses related to electricity and water charges. It was noted that AAI had made recoveries from concessionaires and the same had been netted off from the total expenses. Expenses under the head of 'Consumption of Stores and Spares' included petrol for vehicles and other usage, tyres, paper glass, m-fold papers, cuss roll papers, fire foam, PPE items, electrical spares, and other consumable items. Certain expenses among them directly relate to Aeronautical activities while some are linked to Common expense. Therefore, each component of these expenses have been examined and subsequently allocated as per suitable ratio.

**Impact:** The impact of the reallocation results in reduction of Utility expenses by Rs. 0.11 crores for the Pre-COD period.

**Reference:** Para 4.6.3 of the Study on Efficient Operation and Maintenance Expenses for Lokpriya Gopinath Bordoloi International Airport.

**d) Repairs and Maintenance expenses**

**Observation:** AAI's true up submission was analyzed, and it was observed that certain Repair & Maintenance expenses such as repair of runway and maintenance of AOCC pertain only to Aeronautical activity, while some such as repair of furniture for terminal building and maintenance of IT hardware are related to the terminal building and airport employees respectively. Hence, a detailed scrutiny of all expenses was undertaken, and as per norms allocation of such expenses was done in the ratio of Gross Fixed Assets/ Terminal Building/ revised

Employee ratio depending on the nature of each ledger. Further, it was observed that the expense related to Furniture & Fixtures for Terminal Building was allocated as 100% Aeronautical. Since the furniture and fixtures are primarily used within the terminal building, this expense has been revised by the Authority basis the Terminal Building ratio.

**Impact:** The impact of the reallocation results in reduction of Repairs and Maintenance expenses by ₹ 0.99 crores for the period FY 2016-17 till COD.

**Reference:** Para 4.6.4 of the Study on Efficient Operation and Maintenance Expenses for Lokpriya Gopinath Bordoloi International Airport.

### **AAI's Contention**

#### **a) Employee Benefit expenses**

AERA has re-allocated the Employee Benefit expenses based on revised Employee Headcount ratio and based on other adjustment described above whereas actual employee ratio is 98.38:1.62.

AERA is therefore requested that employee ratio may be considered as 98.38:1.62.

#### **b) Administrative and General expenses**

AERA has reallocate the Administrative and other expenses resulting reduction of Administrative and General expenses by Rs. 1.35 crores for the Pre- COD period. It is requested to AERA considered the Administrative and General expenses as submitted by the AAI.

#### **c) Utility expenses**

AERA has reallocate the Utility expenses based on allocation ratio resulting reduction of Utility expenses by Rs. .11 crores for the Pre- COD period. It is requested to AERA considered the allocation ratio in respect of Utility expenses as submitted by the AAI as these ratios are based on actual usage of resources.

#### **d) Repair & Maintenance**

AERA has reallocate the Utility expenses based on allocation ratio resulting reduction of Repair & Maintenance expenses by Rs. .99 crores for the Pre- COD period. It is requested to AERA considered the allocation ratio in respect of Repair & Maintenance expenses as submitted by the AAI as these ratios are based on actual usage of resources.

AAI is requested to consider the facts brought out above at Sr. No. "a" to Sr. No. "d" above.

Further it is also requested, kindly consider Staff salary & Allowance as an AERO expense for the ANS employee those were worked for Airport system Instead of ANS expenses for 2<sup>nd</sup> Control Period up-to COD (i.e. 1<sup>st</sup> April 2016 to 08<sup>th</sup> October 2021).

#### **v. Pay & Allowances of CHQ/RHQ**

**[Para 4.9.4 & 4.9.5 of CP]**

### **AERA's Contentions**

The Authority reviewed the basis adopted by AAI for allocation of CHQ and RHQ expenses to LGBIA and other airports and noted the following:

- All expenses incurred by CHQ and RHQ (like staff costs, Admin and Gen. expenses, Repairs and Maintenance, utilities, outsourcing expenses etc.) are allocated to all the AAI airports, in the ratio of revenues earned by each Airport.
- Expenses such as legal costs, interest/ penalties are related to some specific airports. However, these have been allocated to the common pool and apportioned to all the AAI airports.

The Authority is of the view that the above process followed by AAI for allocating the expenses is not correct and necessitates adoption of a scientific/ rational approach for justifiable allocation of expenses to the Airports. Towards this objective, the Authority has examined the major expense components of CHQ and RHQ for the FY'17 to FY'21 submitted by AAI and has proposed the following views on allocation of CHQ/ RHQ expenses:

i. Pay and Allowances of CHQ and RHQ:

- AAI has considered pay and allowances of Commercial department at CHQ and RHQ as Aeronautical expenses, whereas such expenses are Non-aeronautical in nature.
- AAI has excluded pay and allowances of employees involved in ATM, CNS and Cargo departments at CHQ and RHQ while working out the allocation to the airport. However, no exclusion has been done for support services of the departments relating to HR, Finance, Civil, Terminal Management (Housekeeping), etc.
- Manpower of CHQ and RHQ also provide services to Non-aeronautical activities, ATC, and CNS cadres at respective airports. Hence, pay and allowances need to be adjusted accordingly.

Considering all the facts and figures as stated above, the Authority is of the view that 20% of pay and allowances of CHQ and RHQ is to be excluded towards the following:

- Support services to ANS, Cargo and Commercial at CHQ, RHQ and Airports
- Officials of Directorate and Commercial Balance 80% of pay and allowances of CHQ and RHQ can be allocated to Airports.

ii. Administration & General Expenses of CHQ and RHQ:

- AAI has incurred Legal & Arbitration Expenses at both CHQ and RHQ level. The Authority is of the view that this expense should be analyzed and distributed to stations on a case-to-case basis. As the above details have not been provided by AAI, the same has not been allocated to the stations.
- AAI has paid interest/penalties to Government of India at both CHQ and RHQ levels. The Authority is of the view that the stakeholders should not be burdened with interest/penalties paid to Government of India, due to various lapses/delays on the part of the Airport Operator. Hence such expenses have not been allocated to the airports. Additionally, it was observed that the CHQ/RHQ overhead expense for FY21-22 was determined through escalation of 5% over the previous year value and the same was considered for full year. The CHQ/RHQ overhead expense for FY21-22 up to COD was thus recomputed through suitable ratio determined as per the

actual number of days. Based on the above methodology, the Authority has derived the revised CHQ and RHQ expenses for the Second Control Period and Pre-COD period, which is proposed to be allocated to LGBIA, as part of True up of the Second Control Period and Pre-COD period.

**Table 30: CHQ/ RHQ expenses proposed by the Authority as part of True up of O&M expenses for the Second Control Period and pre-COD period**

Particulars As per AAI	FY	FY	FY	FY	FY	Total	FY	Total
	2016-17	2017-18	2018-19	2019-20	2020-21	till FY21	2021- 22*	till COD
CHQ/RHQ Overhead expenses as per AM (A)	11.13	32.28	40.22	55.83	42.54	182.00	44.67	226.67
Aeronautical component as per AM (95%) (p)	10.57	30.67	38.21	53.04	40.41	172.90	42.43	215.33
<b>As per Study</b>								
Total CHQ/RHQ Overhead expenses after rationalisation as per Study (C)	20.31	25.23	30.83	45.73	34.86	156.96	19.15	176.11
<b>Total Impact (D = C – B)</b>	<b>9.74</b>	<b>(5.43)</b>	<b>(7.38)</b>	<b>(7.31)</b>	<b>(5.55)</b>	<b>(15.94)</b>	<b>(23.28)</b>	<b>(39.22)</b>

\* Up to COD (8<sup>th</sup> October 2021)

Reference: Para 4.6.2 of the Study on Efficient Operation and Maintenance Expenses for Lokpriya Gopinath Bordoloi International Airport.

The Authority is of the view that the users should pay only for the services availed by them. Further, in line with section 13 of the AERA Act, 2008 the Authority has a scope of determining tariff in respect of Aeronautical services provided/ capital expenditure incurred only by that particular airport. This view is also consistent with ICAO's principle of 'Cost-relatedness'. Based on the above principles, the Authority has rationalized the CHQ/ RHQ expenses being allocated to Lokpriya Gopinath Bordoloi International Airport. The Authority feels that the allocation of CHQ & RHQ expenses by AAI on the basis of revenue is high, as it brings large variation in such expenses Year on Year, due to change in revenue and is against the basic principle of cost relatedness in tariff determination. Further, as the revenue from these airports goes up due to higher tariffs, it further leads to higher allocation of CHQ/RHQ expenses with chain of cascading effect. The Authority, therefore, expects AAI to examine these issues in detail and devise an effective and efficient method for allocation of CHQ & RHQ expenses on priority.

#### AAI's Contentions

- AERA has reduced the allocation of CHQ/RHQ Administration and General Expenses to the tune of 15% (approx.) for 2<sup>nd</sup> control period (FY 2016-17 to FY 2020-21) up-to COD. It is worthwhile to mention here that AAI has



already consider 5% reduction while allocating the CHQ/RHQ expenditure and reducing further by 15% by AERA for the 2<sup>nd</sup> control period is on the higher side.

- **AERA is requested to relook into the allocation of CHQ/RHQ expenses.**

**Abbreviations**

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

<b>Abbreviations</b>	<b>Expansion</b>
TBLR	Terminal Building Ratio
UDF	User Development Fee
WIPA	Work in Progress Assets
XBIS	X-ray Baggage Inspection System