भारतीय विमानपत्तन प्राधिकरण
AIRPORTS AUTHORITY OF INDIA

F. No. AAI/JVC/Indore-Tariff/2024-25 Date: 10.10.2024

To,

The Secretary,
Airports Economic Regulatory Authority of India (AERA)
3rd Floor, Udaan Bhawan,
Safdarjung Airport
New Delhi-110003

Sub.: Submission of Multi Year Traffic Proposal (MYTP) for 2nd Control period (01.04.2023 to 31.03.2028) and True up of 1st Control Period (01.04.2018 to 31.03.2023) in respect of Indore Airport.

Reference: - Submission of AAI's comments in response of Consultation Paper no. 04/2024-25 dated 05.09.2024 In respect of Indore Airport issued by Airports Economic Regulatory Authority of India (AERA).

Sir,

This has reference to AERA's Consultation Paper no. 04/2024-25 dated 05.09.2024 in the matter of determination of Aeronautical Traffic in respect of Indore Airport for 2nd Control period (01.04.2023 to 31.03.2028).

AAI's response to Consultation Paper no. 04/2024-25 is enclosed.

This issues with the approval of the Competent Authority.

Thanking You.

Yours sincerely,

10/10/24

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

Encl.: 1. Response to Consultation Paper no. 04/2024-25

राजीव गांधी भवन
Rajiv Gandhi Bhawan

सफदरजंग हवाई अड्डा नई दिल्ली- 110003
Safdarjung Airport, New Delhi-110003

दूरभाष : 24632950
Phone : 24632950

INDORE INTERNATIONAL AIRPORT

Response to Airports Economic Regulatory Authority (AERA)'s Consultation Paper No. 04/2024-25 dated 05th Sept 2024 Determination of Aeronautical Tariff for Indore International Airport (IDR) for the Second Control Period (01.04.2023 - 31.03.2028)

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1.Introduction

Airports Economic Regulatory Authority of India ('AERA') has released Consultation Paper No. 04/2024-25 on Aeronautical services in respect of Indore International Airport (IDR) for Second Control Period (01.04.2023 to 31.03.2028), ('Consultation Paper' or 'CP') on 05th Sept 2024.

We hereby present our observations, suggestions, and request in respect of determination of Aeronautical Tariffs for IDR for the Tariff Determination for the Second Control Period – from 1st April 2023 to 31st March 2028 and True Up of First Control Period from 1st April 2018 to 31st March 2023.

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

i. Exclusion of FY 2020-21 in True Up [Para 4.11 of CP]

AERA's Contentions

- As stated in Para 1.1.3, Tariff for the first control period from FY 2018-19 to FY 2022-23 (together with the period FY 2016-17 and FY 2017-18) was determined by AERA vide Order No.45/2018-19 dated 8th March 2019. Pursuant to the amendment of AERA Act in 2019, Airports with designated passenger throughput of over 3.5 MPPA are considered as Major Airport. MoCA vide public notice 17/2019-20 dated 16th March 2020 de-notified Indore International Airport from being a Major Airport. The Authority notes that passenger throughput was only 0.89 MPPA in FY 2020-21, and its designated passenger handling capacity was 2.5 MPPA which was lesser than the threshold limit of 3.5 MPPA defined under the AERA Amendment Act, 2019. Subsequently, AAI vide letter dated 28th March 2023 communicated that AAI has enhanced the passenger handling capacity of Indore International Airport to 4 MPPA from the existing 2.5 MPPA, by carrying out certain infrastructural developments/ modifications in the Airport. However, the Authority notes that these infrastructural changes to augment the passenger handling capacity were carried out majorly during FY 2021-22.
- As stated in Para 1.1.4, The Authority has taken cognizance of this fact, in its examination of regulatory building blocks for the true up of the First Control Period, while determining the tariff for the Second Control Period and accordingly, has excluded the under/over recovery of FY 2020-21, as Indore International Airport was a Non-Major Airport during FY 2020-21.
- Simultaneously, the Authority proposes to calculate compounding of Under-recovery for the FY 2018-19 to FY 2022-23 by excluding compounding impact for FY 2020-21 (as the Airport had been a Non-Major Airport during FY 2020-21).

Particular	2018-19	2019-20	2021-22	2022-23	Total
Avg. RAB	88.28	92.99	127.84	156.42	465.53
FROR	13.36%				
Return on Avg RAB	11.79	12.42	17.08	20.89	75.54
Depreciation	8.66	8.66	11.11	10.32	38.75
O&M Expense	38.88	47.31	56.30	68.85	211.34
Tax	-	-	-	-	-
Under Recover of FCP	54.50	-	-	-	54.50
Interest on working capital	0.36		1.42	0.18	1.96
30% NAR	5.53	6.76	2.55	5.76	20.6
Net ARR	108.66	61.63	83.35	94.48	348.12
Actual Aero Revenue	34.81	69.51	41.60	68.70	214.62
Discount Factor at 13.36%	1.65	1.46	1.28	1.13	
Under recovery of FCP	73.85	-7.88	41.76	25.78	133.51
PV of Under recovery of FCP	121.94	-11.48	53.66	29.23	193.34
True up of Under/(Over) Recovery of FCP					**193.34**

- The Authority notes that the Under-recovery of ₹ 193.34 Crores (in NPV terms) of the First Control Period has not factored the Under-recovery and compounding effect of FY 2020-21, as Indore International Airport was a Non-Major Airport during FY 2020-21. The Authority proposes to readjust the above Under-recovery of the First Control Period in the ARR computation of the Second Control Period.

<u>AAI's Submission</u>

- MOCA vide its letter dt 1/10/2019 MOCA vide its letter dt 1/10/2019, exercising its power conferred to the Central Government under the definition of "Major Airports" and section 42 (2) of AERA Act ,2008, AERA was directed to determine the Airport charges in respect of all the six AAI Airports including Indore Airport proposed under PPP Process.
- Also MOCA vide letter No. AV 20036/9/2017-AD dt. 14th January 2020 has clarified that tariff would continue to be applicable for the 1st Control Period i.e. Up to 31st March 2023 irrespective of the passenger throughput and the designated handling capacity and the tariff for the next control period would be determined based on the passenger throughput criteria as defined in the AERA Act.
- It is clear from MOCA's letter that the tariff was to be determined by AERA treating Indore Airport as a major Airport irrespective of the passenger throughput and the designated handling capacity, including true up of the entire control period (01/04/2018 to 31/03/2023) so that the airport operator need not go through the loss due to change in law on account of AERA act amendment.
- AERA vide its order No. 45/2018-19 dated 08th March, 2019, had determined tariff for Aeronautical Services for Indore International Airport for the First Control period of 05 years from 1st April 2018 to 31st March 2023 will be 05 years and in the said order, it is nowhere written that the status of the airport will be evaluated on yearly basis (major or non-major).
- Whereas AERA vide CP 04/2024-25 has proposed a period of only 4 years (excluding F.Y 2020-21) while truing up the 1st Control Period leaving a gap of 1 year which is not in line with the MOCA'S directives.
- This has resulted in **under recovery of Rs. 73.96 Cr (PV factor*shortfall as computed by AERA) of FY 2020-21 which AAI will never be able to recover which is as under:**

As per Table 53 of Consultation Paper 04/2024-25	In INR Crore
Return on Average RAB	13.36
Operating Expenditure	55.91
Depreciation	9.54
Interest on Working Capital	0.41
Return on Land	6.76
Less 30% of NAR	77.19
ARR	26.53
Aeronautical Revenue	50.66
PV of Shortfall	73.96

- It is expected that the regulator will ensure "Neither the airport operator should suffer loss nor the passenger should be over charged." Being an airport operator, AAI request AERA to consider the above facts which is beyond the control of the airport operator and consider the short fall of FY 2020-21 while determining the tariff for the 2nd C.P.

ii. Effect on compounding due to exclusion of FY 2020-21 in True Up [Para 4.10 and 4.11 of CP]

AERA's Contentions

As stated in para 1.1.3, Indore International Airport had become a Non-Major Airport in FY 2020-21, as its passenger throughput during FY 2020-21 was lesser than the threshold limit of 3.5 MPPA defined under the AERA Amendment Act, 2019. Therefore, the Authority proposes not to consider the under-recovery for the FY 2020-21 for true up of the First Control Period, while determining tariff for the Second Control Period.

Simultaneously, the Authority proposes to calculate compounding of Under-recovery for the FY 2018-19 to FY 2023-24 by excluding compounding impact for FY 2020-21 (as the Airport had been a Non-Major Airport during FY 2020-21).

AAI's Submission

- Indore Airport was originally a major airport during the First control period but due to change in limits of passenger throughput from 1.5 MPPA to 3.5 MPPA, AERA has considered Indore Airport for FY 2020-21 as non-major airport and this year was considered outside AERA's regime which is not in line with the Public Notice 17/2019-20 issued by AERA based on the clarification of MOCA vide letter dt 14/1/2020.

- Irrespective of whether FY 2020-21 is considered as Major/Non-major, the shortfall of the previous years of the control period in which AAI was a Major airport should be compounded in FY 2020-21 till the effective date of the revised tariff as per AERA order. This impact due to not compounding in FY 2020-21 has resulted in loss of Rs. 73.96 cr to AAI.
- It is also very pertinent to mention that AERA has carried forward a shortfall of Rs. 193.34 Crores in the first control period to the second control period. AAI ought to get the compounding for the entire second control period till the year of implementation of tariff.
- AERA has determined tariff of Indore Airport as major airport vide order No. 45/2018-19 dated 08th March 2019 when the threshold limit was 1.5 MPPA. subsequently, AERA has revised the threshold limit of passenger throughput from 1.5 MPPA to 3.5 MPPA vide order dated 06.08.2019. Since the tariff of AAI has already been determined for 05 years with the threshold of 1.5 MPPA. Therefore, evaluating the true up of the same period with the enhance limit of 3.5 MPPA and excluding FY 2020-21 based on the such enhanced limit is not acceptable.
- AERA has considered the compounding factor of 4th year (1.65) in 5th year resulting in loss of compounding of Rs. 16.31 cr to AAI.
- AAI ought to get the compounding for the entire First control period till the year of implementation of tariff.

PV of Shortfall as per AAI						
YEAR	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**Total**
Short fall as per AERA (Rs. In Cr.)	73.85	-7.88		41.76	25.78	133.51
Compounding year	5	4	3	2	1	
PV Factor @ 13.36%	1.65	1.46		1.28	1.13	
PV of Shortfall *(A)*	121.94	-11.48		53.66	29.23	193.14
Short fall as per AAI (Rs. In cr.)	73.85	-7.88	50.66	41.76	25.78	184.17
Compounding year	5	4	3	2	1	
PV Factor @ 13.36%	1.87	1.65	1.46	1.28	1.13	
PV of Shortfall *(B)*	138.10	-13	73.96	53.45	29.13	**184.75**
Diff in PV of shortfall (B-A)	16.31	-1.52	73.96	0	0	**88.60**

In view of the above, AERA is requested to consider the effect of compounding for the entire control period.

iii. **Financing Allowance**
[Para 4.4.7 of CP]

AERA's Contentions

- The Authority noted that AAI has claimed Financing Allowance of amount Rs.8.24 Crore on the assets capitalized in the First Control Period.
- The Authority considers that giving an assured return on the equity investment even on the work-in-progress assets would result in reducing the risks associated with equity investment in capital projects. Further, the airport operator is given a fair rate of return on equity when the capital assets are capitalised.
- Further, the Authority notes that developments at greenfield airports inherently take longer durations to commission and operationalise. 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. The Authority also notes that IDR being one of the older airports in India ***(the airport came under the definition of a 'Major Airport' by FY 2016-17),*** would not be eligible for an allowance on the equity portion of new capital projects.

  Also, the Authority notes that Financing allowance is a notional allowance and is different from the actual investment incurred by airport operators which includes interest during construction, amongst other things. Therefore, the provision of financing allowance on the entire capital work in progress would lead to a difference between the projected capitalisation and actual cost incurred, especially when the airport operator funds the projects through a mix of equity and debt.

AAI's Submission

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

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

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

  Where:

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

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

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

  The Financing allowance shall be calculated as follows:

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

Where

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

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

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

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

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

Forecast Work in Progress Assets

		2010-11	Tariff Year 1	Tariff Year 2	Tariff Year 3	Tariff Year 4	Tariff Year 5
Opening WIP: $WIPA_{t-1}$	OW	-	-	-	558	638	-
Capital Expenditure	CE	-	833	521	-	-	-
Financing Allowance	FA=R_d x (OW+(CE-CA-SC)/2)	-	-	37	82	43	
Capital Receipts	SC	-	200	-	-	-	-
Commissioned Assets	CA	-	633	-	-	681	-
Closing WIP: $WIPA_t$	CW = OW + CE + FA - SC – CA	-	-	558	638	-	-

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

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

Forecast RAB

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

- The Clause (d) of Para 5.2.6 defines Commissioned Assets as below:
  "Commissioned Assets: Represents investments brought into use during Tariff Year t, consistent with Clause 5.2.7 herein below."

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

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

- **BIAL 3rd CP Order:** Vide para 3.3.78 of BIAL Order for the third control period, AERA has agreed to allow the financing allowance for the 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. 8.24 Crore computed for SCP additions.**

iv. Fair Rate of Return
[Para 4.6 of CP]

AERA's Contentions

- The Authority notes that AAI has claimed 14% as Fair Rate of Return, as part of its True up submission for the First control period and also notes that AAI has availed debts of ₹ 22.94 Cr. during the First Control period (from FY 2020-21 to FY 2022-23).
- The Authority has computed FRoR for the First Control Period by considering cost of Equity as 14%. AAI has not factored any debt as part of their MYTP submission for FRoR. Hence, the cost of equity considered at 14% is taken as FRoR, assuming that there is no debt.
- However, in the financial model submitted by AAI, the Authority notes that AAI has availed debts of ₹ 22.94 crores during the First Control period from FY 2020-21 to FY 2022-23. A query was raised to AAI seeking clarity on the cost of debt, to which AAI vide mail dated 24th April 2024 has replied that the cost of debt workings as shared for Coimbatore International Airport may be considered for Indore International Airport.
- The Authority has therefore computed FRoR taking into consideration the debt availed by AAI during the First Control Period of ₹ 22.94 Crores as submitted by AAI in the financial model. For the purpose of computation of FRoR, the cost of debt is taken as 7.25% (similar to that taken for Coimbatore International Airport) and cost of Equity is taken as 14%. Total equity for a financial year is computed by taking closing RAB and subtracting the closing debt for that particular financial year.

The Authority proposes to consider 13.36% as FRoR for true up of the First Control Period for IDR.

AAI's Submission

- The Equity estimation can also yield a range of values depending on the assumptions employed.
- COE depends on ownership structure, Comparable Airports & Revenue Till.
- Asset Beta plays an important role in determination of Equity Beta even if Debt/Equity Ratio is low (low gearing). Cost of Equity depends on both Asset Beta and Equity Beta.
- In 1st Control Period of Chennai Airport, AAI had submitted a study conducted by M/s KPMG in regards to calculation of Cost of Equity wherein, Estimated Asset Beta was 0.92 and corresponding Equity Beta works out to 0.98. The cost of Equity submitted by AAI works out to 15.64%.
- In MIAL, DIAL, HIAL and CIAL the Cost of Equity has been considered @ 15+%. Thus, AERA is requested to consider the FRoR @ 14% as submitted by AAI instead of an Average FRoR @ 13.36% for FCP.

v. Pay & Allowances of CHQ/RHQ
[Para 4.7.17 to 4.7.21 of CP]

AERA's Contentions

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

- The Authority examined the actual **Administration and General expenditure and Repair & Maintenance expenditure** for the First Control Period and noted the following: o **CHQ/ RHQ allocation** –. The Authority reviewed the basis adopted by AAI for allocation of CHQ and RHQ expenses to Indore International Airport 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.) is allocated to all the AAI airports, in the ratio of revenues earned by each Airport.
- Expenses such as legal costs, interest/ penalties are related to some specific airports. However, these have been allocated to the common pool and apportioned to all the AAI airports.

  - The Authority is of the view that the above process followed by AAI for allocating the expenses is not transparent and necessitates adoption of a scientific/ rational approach for justifiable allocation of expenses to the Airports. Towards this objective, the Authority has examined the major expense components of CHQ and RHQ for the FY 2018-19, FY 2019-20, FY 2020-21, FY 2021-22 & FY 2022-23 submitted by AAI and has proposed the following views on allocation of CHQ/ RHQ expenses:

a) Pay and Allowances of CHQ and RHQ:

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

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

Manpower of CHQ and RHQ also provide services to Non-aeronautical activities, ATC, and CNS cadres at respective airports. Hence, pay and allowances need to be adjusted accordingly.
Considering all the facts and figures as stated above, the Authority is of the view that 20% of pay and allowances of CHQ is to be excluded towards the following:

i i. Support services to ANS, Cargo and Commercial at CHQ and Airports.

ii ii. Officials of Directorate of Commercial.

Balance 80% of pay and allowances of CHQ have been allocated to the Airports.

b) Administration & General Expenses of CHQ and RHQ:

AAI has incurred Legal & Arbitration Expenses at both CHQ and RHQ level. The Authority is of the view that this expense should be analysed 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.

- Based on the above methodology, the Authority has derived the revised allocation of CHQ and RHQ expenses and the same is presented in the table below:

Particulars	2018-19	2019-20	2020-21	2021-22	2022-23	Total
CHQ/ RHQ – Admin & General expenses (allocation done by AAI)	11.39	29.11	27.36	28.73	30.16	126.75
Revised allocation of CHQ/ RHQ expenses by the Authority	4.12	12.30	23.02	24.18	25.38	89.01
Variance	**7.27**	**16.81**	**4.34**	**4.55**	**4.78**	**37.74**

<u>AAI's Submission</u>

- AERA has reduced the allocation of CHQ/RHQ Administration and General Expenses to the tune of 29.78% for 1st control period (FY 2018-19 to FY 2022-23). It is worthwhile to mention here that AAI has already consider 5% reduction while allocating the CHQ/RHQ expenditure and reducing further by 29.78% by AERA for the 1st control period is on the higher side. **AAI has engaged the Institute of Cost Accountants (ICMA) (on direction of AERA) to study the methodology CHQ/RHQ allocations. The report has already been submitted to AERA.**

	Apportionment of Admn. & General exp of CHQ/RHQ in 1st Control Period					
Year	2018-19	2019-20	2020-21	2021-22	2022-23	TOTAL
AAI (Table 22) [A]	11.39	29.11	27.36	28.73	30.16	126.75
AERA (Table 34)	4.12	12.30	23.02	24.18	25.38	89.01
Difference	**7.27**	**16.81**	**4.34**	**4.55**	**4.78**	**37.74**
%	**63.83%**	**57.75%**	**15.86%**	**15.84%**	**15.85%**	**29.78%**

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

c) Administration Expenses of Other than CHQ and RHQ:

AERA's Contentions

- The Authority notes that that AAI claimed Rs. 4.10 cr towards CSR expenses in the True of FCP.
- The Authority took Cognizance of the Statutory provisions of the Companies Act, 2013 towards allowance of CSR expenses and the extract of the same has been provided as follows: *Section 135(1) of the Companies Act, 2013 states that "Every company having newt worth of Rs. 500 crore or more, or turnover of Rs. 1000 crore or more or a net profit of Rs. 5 crore or more during immediately preceding financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one shall be an independent director ." further section 135(5) states that " The Board of every company referred in Section 135(1), shall ensure that the company spends, in every financial year, at least 2% of the average of the net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility".*
- In this regard, Authority is of view that CSR is a mandatory Social Responsibility of the company covered under section 135 91) of the Companies Act. As the CSR expenditure is to be incurred by Companies out of their net profits, it is to be regarded as an element of appropriation of Net Profit and not as part of their Operating Expenditure. Section 37(1) of the Income Tax Act also disallows CSR expenses, as these are not considered expenses incurred wholly and exclusively for the purpose of business of the entity.
- In view of the above, the authority has not considered CSR expenses under the O&M Expenditure.
- In addition, Authority also proposes not to consider Rs. 7.47 cr of Bad Debts written off during FY 2021-22, which is included under Office Expenses as part of Administration & General Expenses.
- The authority also proposes not to consider Rs. 1.50 cr accounted during F. Y. 2019-20 and Rs. 0.16 cr F. Y. 2020-21 pertaining to Purchase of Land as "Other Sundry Expenses" as part of Office Expenses which is found to be erroneous.
- The authority also proposes to apportion Municipal Taxes bases on GB Ratio, Printing and Stationery, Travelling Expenses, Telephone Charges & Office Expenses based on Employee Ration instead of considering such expenses as 100% Aeronautical.

	Apportionment of Admn. & General exp of other than CHQ/RHQ in 1st Control Period					
Year	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**TOTAL**
AAI (Table 35) [A]	6.54	7.44	5.01	11.56	8.80	39.36
AERA (Table 38)	3.65	4.80	3.98	4.15	7.90	24.48
Difference	**2.89**	**2.64**	**1.03**	**7.41**	**0.09**	**14.88**

AAI's Submission

- Cost of Land:
    - AAI has acquired land of 31.38 acres (12.70 Hectares), for the development of Indore International Airport for ₹ 1.64 crores in FY 2020-21. Out of this, 20.48 acres is for ESS substation for terminal building, forecourt for movement of passengers in front of terminal building, APHO, Surface parking, Metro Station and Multi level car parking etc.".
- Municipal Taxes: AT present, there is no clarity about Gross Block Ratio with respect to calculation of Municipal Taxes. AAI is not in position to offer comment on the same.
- AERA is requested to consider return on land since the claim of AAI is subsequent to the AERA order No. 42/2018-19 dated 05.043.2019 wherein it is written in para 4.1.4 that " *In case land is purchased by the Airport operating company either from private parties or from the government, the compensation shall be in the form of equated annual instalment computed at actual cost at debt or SBI base rate plus 2% whichever is lower over a period of 30 years.*"

Vi. Repair and Maintenance Expense
[Para 4.7.25 of CP]

AERA's Contentions

The Authority notes that the actual repair and maintenance cost for the FCP Rs. 40.90 Crore and the same is within the amount of Rs. 43.87 crore approved for the FCP. On further examination of the actual Repairs & Maintenance expenses, the Authority recomputed the Lease interest expenses on XBIS BOT to reflect the actual yearly Lease expenses as part of Administrative and General Expenses. Accordingly, Lease expenses accounted under R &M for FY2018-19 and FY 2019-20 has been reduced from R&M expenses for the purpose of True up of FCP.

The summary of AAI's and AERA's R&M Expense calculation is as under: -

	R&M Expenses in 1st Control Period					
Year	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**TOTAL**
AAI (Table 22)	8.04	6.14	8.11	6.73	11.88	40.90

AERA (Table 39)	7.92	6.11	8.04	6.69	11.83	40.57
Difference	**0.12**	**0.03**	**0.07**	**0.04**	**0.05**	**0.33**

- The Authority notes the interest on finance lease of ₹ 0.15 crores have been recorded by AAI in FY 2019-20 to FY 2022-23 as part of Administration & General expenses. It is noted that AAI made adjustment to its treatment of lease expense due to the requirements of the provisions of the accounting standard. In FY 2017- 18, AAI entered into a contract to operate X-ray Baggage Inspection Systems (XBIS) on a Build-OperateTransfer (BOT) model basis. Under this contract, AAI leased the XBIS system for a period of 6 years at an annual lease payment of ₹ 0.21 crores.
- Initially, AAI accounted for this lease as an operating lease and accounted for it under the head of Repair & Maintenance (R&M) – Electrical expenses until FY 2018-19. However, in FY 2019-20, due to the change in accounting standards, AAI changed the lease classification from an operating lease to a "Financial Lease." As a result of this change in accounting treatment, AAI has made the following changes in MYTP:
- Addition to Regulated Asset Base (RAB): Assets amounting to ₹ 0.83 crores were added to the RAB as of 1st April 2019, considering its useful life as 15 years.
    - Depreciation: AAI charged depreciation of ₹ 0.09 crores per year from FY 2019-20 onwards on the capitalized asset.
    - Interest on the finance lease was recognized as Admin & General expense from FY 2019-20 with corresponding adjustments entries for previous years i.e., FY 2017-18 and FY 2018-19.
    - Liability Recognition: A liability of ₹ 0.58 crores was recognized in FY 2019-20 to account for the financial lease obligation.
- Based on the above data, AERA observed that the accounting does not reflect the lease commitment of ₹ 0.21 crores payable annually to the vendor every year. Therefore, the lease interest expenses on XBIS BOT have been recomputed by the Authority to reflect the actual yearly lease expenses as part of the administration & general expenses (Comprising of rent, rates & taxes, insurance, advertising expenses etc.,). Accordingly, the lease expenses accounted under R&M for FY 2018-19 and FY 2019-20 has been reduced from R&M expenses for the purposes of true up of First Control Period.

<u>AAI's Submission</u>

- AAI placed order for supply, commissioning, testing, installation and comprehensive maintenance of XBIS on BOT for 6 years at various airports in India.
- AAI treated contracts as operating lease and accounting treatment was done accordingly in the books of AAI.
- CAG on while conducting audit of the annual accounts of AAI for FY17-18, observed that assets procured under the above contract of XBIS should have been classified as finance lease under AS-19 and

accordingly remarked that profit for FY17-18 is overstated by the difference of depreciation and R&M as depreciation is understated.

- Further, management of AAI assured to CAG that fact of the case will be referred to Expert Advisory committee of ICAI to decide its appropriate accounting treatment either as operating lease or finance lease.
- As per the opinion of Expert Advisory committee of ICAI the leases of XBIS machineries was required to be classified as finance lease and accounting for the same needs to be done as per the same.
- Expert Advisory committee of ICAI after going through relevant provisions of AS-19 and different clauses of contract with the parties opined that the arrangement with the two supplier companies for XBIS machines in the extant case would, in substance, satisfy the tests laid down in paragraphs 8 and 9 of AS 19 and hence would need to classified as
- AAI has considered both capital model and BOT (lease model) for the purpose of consideration of procurement of machineries. The management has compared the cash outflow under capital model and BOT model and concluded that PV of cash outflow under BOT is less than PV of cash outflow under capital model. Accordingly, PV of minimum lease payments was computed for the recognition of leased assets and liability under finance lease obligation in the books of AAI.
- **AERA is requested to consider the XBIS machines on Financial lease as per the CAG observation as well as and opinion of** Expert Advisory committee of ICAI.

VII. Consideration of Space Rental from Airlines and other GHA Service provider: (Para 4.84 & 4.97 of CP)

AERA's Contentions

- AERA proposes to consider the license fee/space rentals from airlines and other aeronautical concessionaries (GHA service provider) as aeronautical revenue true up of the first control period Consultation Paper No. 04/2024-25 Page 53 of 125 and exclude the same from non-aeronautical revenue amounting to ₹ 4.45 crores for the First Control Period (Currently classified in Building (Non-Residential and Land leases).

- **AAI's Submission**

- AERA has considered Rs. 4.45 crore (Table 46 of CP) as aeronautical revenue and excluded the same non-aeronautical revenue from the first control period.
- AAI has proposed the above amount as Non-Aero in line with the previous order issued by AERA. (earlier Tariff orders of PPP airports-Mangalore, Ahmadabad).
- It is to mention here that space allotted to Airlines is 25% of total Non-Aero area considering 5 years average.

- On the other hand, AERA had considered Terminal Building Ratio 92%:8% (Aero: Non- Aero) against actual from 92.82%: 7.18% (Aero: Non-Aero) (which includes Average space allotted to Airlines 312.52 sqm was considered as Non-Aero).

- AAI agree with the change of stand of AERA considering Aeronautical revenue from Space Rental from Airlines and other GHA Service provider but it is worthwhile to mention that AERA has considered the area allotted to Airlines as Non-Aero. So, we urge AERA to consider the space allotted to Airlines and other GHA Service provider as aeronautical.

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

3. Second control Period (SCP)

i. Financing Allowance

[Para 4.4.7 & 6.3.7 of CP] 6.2.39

AERA's Contentions

- The Authority noted that financing allowance and the methodology for computation of the same is detailed by the Authority in the airport guidelines. However, the Airport Operator has computed financing allowance on the entire WIP amount being capitalized, whereas the Authority is of the view that such an allowance is essentially the IDC for a project and should be provided only on the debt portion of the project funds. Accordingly, the Authority has considered IDC to be provided based on revisions in the proposed capital expenditure discussed for the Second Control Period and the notional gearing considered for the second Control Period.(to be discussed).

AAI's Submission

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

ii. Repair and Maintenance Expense

[Para 9.2.14 to 9.2.18 of CP]

AERA's Contentions

- AAI has submitted 10% Y-o-Y increase for all the years of the Second Control Period and an additional 10% during FY 2025-26 due to the modification of the Terminal Building, except for R&M – Electrical, wherein an additional increase of 30% is submitted.
- The Authority notes that R&M expenses proposed by AAI for the Second Control Period, are higher than the cap of 6% of the Opening RAB (net block of that year) generally considered by the Authority, for capping of R&M Expenses to the ceiling limit. Accordingly, the Authority, at this stage proposes to cap R&M Expenses at 6% of opening RAB (Net Block) as per Table 87.
- However, the Authority on the aspect of capping of R&M Expenses of the airport at 6% of Opening RAB (Net Block) of the related tariff years, notes the submission of AAI, during the tariff determination process of other airports, wherein AO submitted that capping of R&M Expenses to 6% of Opening RAB (Net Block) needs review. As per the stakeholders, considering that the RAB (Net Block) of the airports, particularly smaller airports, with no major capex additions, gradually decrease due to depreciation, whereas, due to normal wear & tear & aging of Assets, R&M Expenses tend to increase over a period of time. The stakeholder (AAI) has requested the Authority to review the capping of R&M Expenses at 6% of Opening RAB (Net Block) appropriately, as capping of R&M Expenses as per present mechanism impacts adversely the AO due to lower ARR being considered (airports with low Regulatory Asset Base).

- The Authority, taking note of the above submission, is of the view that existing approach across all the airports towards capping of R&M expenses to 6% of opening RAB (Net Block) of respective tariff years needs to be OPERATION & MAINTENANCE (O&M) EXPENSES FOR THE SECOND CONTROL PERIOD Consultation Paper No. 04/2024-25 Page 97 of 125 revisited and the Authority would look into alternative methodology/ benchmarks for evaluation of reasonableness of R&M expenses proposed by Airport Operators.
- The Authority seeks the specific views of the stakeholders on the capping of R&M Expenses at 6% of opening RAB (Net Block). The Authority will take a final view in the matter considering the views/ inputs from the stakeholders.

The summary of AAI's and AERA's R&M Expense calculation is as under: -

R&M Expenses in 2nd Control Period						
Year	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**TOTAL**
AAI (Table 80)	13.31	15.38	20.04	21.91	23.97	94.61
AERA (Table 87)	8.95	10.32	11.78	13.61	13.41	58.07
Difference	4.36	5.06	8.26	8.30	10.56	**36.54**

AAI's Submission

- There are various heads of R&M expenses which are incurred for operational requirements & regular maintenance of the airport operator infrastructure and equipment at the airport
- Applying a ratio on the depreciated WDV (Net block) will further reduce the cost whereas the reality is that the costs will increase to make good the wear and tear over the years.
- R&M expense varies based on various factors incl. location and other conditions.
- Even if buildings are new it is not justifiable reason to reduce the recovery of expenses to a percentage of opening RAB.
- Restricting R&M expense to 6% of Opening RAB discourages Airport Operator to spend on R&M to maintain the quality standard and enhance customer.
- As R&M costs increase with life of assets due to wear and tear. Hence, AERA is requested consider actual R &M expenditure instead of restricting it to 6% of Opening RAB.

- To highlight the effect of restricting R&M to 6% of opening RAB, actual values of two assets along with their AMC costs have been shown below. Total value of assets is Rs. 31.54 Lakhs (Rs.17.00 Lakhs + Rs.14.54 Lakhs).

(Amount in Lakhs)

Year	Capitalisation	1st	2nd	3rd	4th	5th	6th
Opening RAB	31.54	27.60	23.66	19.71	15.77	11.83	7.89
Depreciation	3.94	3.94	3.94	3.94	3.94	3.94	3.94
Net RAB	**27.60**	**23.66**	**19.71**	**15.77**	**11.83**	**7.89**	**3.94**

Year	Cap.	1st	2nd	3rd	4th	5th	6th
AMC Cost	0	5.33	5.70	11.88	12.71	13.38	14.33
% of AMC on Net RAB		**23%**	**29%**	**75%**	**107%**	**170%**	**364%**
6% of Net RAB		1.42	1.18	0.95	0.71	0.47	0.24
Net loss to AAI (Diff.)		**-3.91**	**-4.52**	**-10.94**	**-12.00**	**-12.91**	**-14.10**

1.2 Payment for Supply and Commissioning of Mechanized Grass Cut Cum Collect Machines in INR:

S. No.	Description	Qty.	Amount (INR)
1	Custom Duty	24	9,588,405.20
2	GST	24	24,082,291.58
3	Average Basic Cost of Inland Transportation Charges	24	2,807,280.00
4	Average Basic Cost of Inland Transit Insurance	24	133,847.10
5	Custom Clearing and Forwarding Charges	24	3,105,052.20
6.	Tax on Average Inland Transportation Charges	24	505,310.40
7.	Tax on average Inland Transit Insurance Charges	24	24,102.50
8.	Tax on Custom Clearing and Forwarding charges	24	558,949.50
Total Amount		24	40,805,238.48

Total amount in Words: Rupees Forty Million Eight Hundred Five Thousand Two Hundred Thirty Eight and Forty Eight Paisa Only.

2.1 Payment for Supply and Commissioning of Tractors:

S. No.	Description	Qty.	Amount (INR)
1.	Basic Rate	24	29,400,000.00
2.	GST	24	3,528,000.00
3.	Average Basic Cost Of Inland Transportation Charges	24	1,617,000.00
4.	Average Basic Cost Of Inland Transit Insurance	24	51,597.00
5.	Tax on Average Inland Transportation Charges	24	291,060.00
6.	Tax on Average Inland Transit Insurance Charges	24	9,282.00
Total Amount			34,896,939.00
Total amount in Words: Rupees Thirty Four Million Eight Hundred Ninety Six Thousand and Nine Hundred Thirty Nine Only.			

1. Payment for Operation & Comprehensive Annual Maintenance Contract:

Payment for Operation and CAMC of Mechanized Grass Cut Cum Collect Machines & tractors shall be made as per the following details by the respective airports:

S. No.	Description	Qty. (Nos.)	Rate Per Year (INR)	Amount Per Year (INR)
1.	1st Year	24	532,876.48	12,789,035.66
2.	2nd Year	24	570,077.29	13,681,855.13
3.	3rd Year	24	1,188,415.10	28,521,962.55
4.	4th Year	24	1,271,362.86	30,512,708.67
5.	5th Year	24	1,338,223.77	32,117,370.69
6.	6th Year	24	1,433,236.66	34,397,679.88
Total amount			6,334,192.19	152,020,612.60
Total amount in Words: Rupees One Hundred Fifty Two Million Twenty Thousand Six Hundred Twelve and Sixty Paisa Only.				

iii. Pay Roll Cost
[Para 9.2.4 of CP]

AERA's Contentions

- AAI considered a growth rate of 7% in payroll expenses for the period FY 2023-24 to FY 2026-27 and 25% increase (i.e. 18% additionally on account of 8th pay commission) in FY 2027-28. AAI has also submitted an additional increase of 8% during FY 2025-26 on account of refurbishment/ modification of Old Terminal Building for International Operations.
- However, the Authority proposes to consider a growth rate of 6% Y-o-Y in payroll expenses throughout the Second Control Period. Growth rate of 6% Y-o-Y is being uniformly followed in all AAI airports.

- AAI has submitted that the additional one-time increase of 8% during FY 2025-26 is on account of reuse of Old Terminal Building (OTB) for International Operations to cater to the growing International passenger traffic. Such re-use increases the passenger movement area by 6,200 sqm. The Authority is of the view that such increase in the terminal area is not directly proportional to the increase in payroll costs to be incurred. Further, the proposed re-use of old domestic terminal building does not lead to significant increase in passenger handling capacity which justifies the additional increase in payroll costs submitted by AAI.
- Also, AAI has not considered any increase in employee headcount for the Second Control Period as submitted in Form 11(a) "Details of Employee Staff Strength" of the MYTP submission. A total of 139 employees is submitted for each year of the Second Control Period on the basis of actual employee headcount of FY 2022- 23. Hence the Authority proposes not to consider the additional one-time increase of 8% during FY 2025-26.
- With respect to the additional increase of 25% submitted by AAI in the last tariff year i.e. FY 2027-28 on account of 8th pay commission, the Authority proposes to consider such an increase on an actual incurrence basis.
- On the basis of above considerations, the Authority proposes to consider only 6% growth Y-o-Y for all the 5 years on account of Payroll Expenses for the Second Control Period and has derived the payroll expenses for the Second control period by applying the growth rate over payroll expenses proposed to be considered for First Control Period. The Authority has considered the payroll cost for FY 2023 as a base, for computing the payroll cost for the Second Control Period, after considering the Y-o-Y growth rate indicated above. Accordingly, the payroll expenses estimated by the Authority for the Second Control Period are as under:
  - **Payroll Expenses as submitted by AAI and as proposed by the Authority for the Second Control Period (₹ in Crores)**

Payroll Expenses in 2nd Control Period						
Particulars	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**TOTAL**
As submitted by AAI (Table 84) (A)	18.46	19.76	22.72	24.31	30.39	115.64
Proposed by AERA (Table 84) (B)	18.25	19.35	20.51	21.74	23.04	102.88
Difference (B-A)	-0.21	-0.41	-2.21	-2.57	-7.35	-12.76

AAI's Submission

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

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

Particular	**% Increase**					
DA	18%		22%	25%	27%	28%
HRA	27%		27%	27%	27%	27%
Perks	35%		35%	35%	35%	35%
EPF	12%		12%	12%	12%	12%

Total Increase (in Rs.)	**16182**
% increase	**7.02**

Assumptions :

- Year 1 Means Previous Year
- Year 2 Means Current Year
- Basic Pay – 3% yearly increase considered.
- Dearness Allowance- Quarterly increase considered.
- HRA, Perks & EPF – Considered Constant
- In the abovementioned example, the Salary expenditure for Year 1 shown as Rs. 230400/- per employee. Whereas, in the year 2 the salary expenditure is shown as Rs. 246582/- per employee. On the basis of above assumptions, the incremental expenditure on the head of salary is Rs. 16182/- per employee which comes out to 7.02% on Year on Year basis.

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

iv. Administration & General Exps.

a) Administration & General Expenses- Other than CHQ and RHQ: [Para 9.2.6 to 9.2.11 of CP]

AERA's Contentions

- The Authority notes that AAI has projected 10% increase Y-o-Y in Administration and General expenses (other than CHQ/ RHQ) for all years of the Second Control Period with an additional 10% increase in FY 2025-26 on account of refurbishment/ modification of the old terminal building for international operations. However, the Authority proposes to consider only the inflationary growth rate for Administration & General Expenses (other than CHQ/RHQ) for the Second Control Period.
- The Authority also proposes to project the yearly lease expense of ₹ 0.21 crores on lease pertaining to X-BIS as per the contract only for FY 2023-24 instead of AAI's submission, which considered the lease to be fully operational until the end of the Second Control Period. The Authority's proposal is confirmed by the accounting schedule as per AAI's Independent Consultant's "Report on Agreed Upon Procedure related to Accounting Treatment of Assets under the contracts of the supply, installation, testing, commissioning and comprehensive maintenance of X-Ray baggage inspection system (XBIS) as finance lease as per Accounting Standard 19 – Lease and Opinion of Expert Committee Advisory of ICAI" in which the lease term of the current X-BIS is indicated to be terminated in FY 2023-24. Accordingly, the balance pay and allowances of RHQ have been allocated to the Airport.
- AAI has proposed a 10% increase Y-o- Y for all years of the Second Control Period, except for FY 2025-26, where an additional 30% increase has been proposed. AAI's justification in its MYTP for the escalation is as follows:

  "An additional increase of 30% has been proposed for FY 2025-26 in proportion to increase in area of modification/reconfiguration of old terminal building".
- The proposed modification of Old Domestic Terminal Building will result in additional area for international operations (6200 Sq mt). Considering this additional area, AAI has projected a onetime increase on proportionate basis. However, the Authority considers that the increase in expenses may not be directly proportional to the increase area for international operations in the Old Domestic Terminal Building (6200 sq mt), due to the technological innovation, advancements and economies to scale. Hence, the Authority proposes to consider only 2/3rd (i.e., 66.67%) of the additional escalation claimed by AAI (30%) for Upkeep expenses which works out to 20%. AAI has also submitted that the re-modification of the terminal building is expected to be completed by January 2025, and therefore the Authority proposes to consider the one-time increase in Upkeep Expenses for FY 2025-26 as appropriate.
- Based on the above factors, the Authority proposes to consider the additional cost of 20% only in FY 2025- 26 and consider only inflationary effect Y-o-Y across the Second Control Period, as followed in other similar airports.
- Based on the above factors, the Administration & General expenses (other than CHQ/RHQ) as submitted by AAI and as proposed by the Authority for the Second Control Period is as follows:

Apportionment of Admn. & General exp – Other than CHQ/RHQ in 2nd Control Period						
Particulars	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**TOTAL**
As submitted by AAI (Table 80) (A)	9.53	10.33	12.79	13.92	15.17	61.74
Proposed by AERA (Table 85) (B)	7.85	7.86	8.69	8.97	9.26	42.63
Difference (B-A)	**-1.68**	-2.47	**-4.10**	**-4.95**	-5.91	**-19.11**

- **AAI's Submission**

  AERA has reduced the allocation of Payroll Allowances of CHQ expenses to AAI by 20% on account of support to ANS, Cargo and Commercial at RHQ. AAI has been submitting to AERA to reconsider the reduction in allocation from 20% to 5%.

  Further, AERA has reduced the allocation of CHQ/RHQ Administration and General expenses to the tune of 19% for the 2nd control period.(FY 2023-24 to FY 2027-28).It is worthwhile to mention here that AAI has already consider 5% reduction while allocating the CHQ/RHQ expenditure and reducing further 19% by AERA for the 2nd control period respectively is on the higher side. **AAI has engaged the Institute of Cost Accountants (ICMA) (on direction of AERA) to study the methodology CHQ/RHQ allocations. The report has already been submitted to AERA.**

  AERA is requested to relook into the allocation of other than CHQ/RHQ expenses.

b) Administration & General Expenses- CHQ and RHQ:
(Para 9.2.12 of CP)

AERA's Contentions

- AAI has proposed a growth rate of 5% Y-o-Y from FY 2023-24 to FY 2026-27 and an increase of 25% in FY 2027-28 for Apportionment of Administration expenses of CHQ/RHQ (Overhead Expenses other than employees related) for the Second Control Period. The Authority notes that such an increase is consistent with growth rates allowed at similar airports except the 25% increase submitted for FY 2027-28. Hence, the Authority proposes to consider a 5% increase Y-o-Y throughout the Second Control Period, considering the CHQ/RHQ expenses proposed by the Authority for FY 2022-23 as a base, in line with proposals at other similar AAI airports proposes to consider the same for projections for the Second Control Period.

- The Authority has received a report on the study of allocation of expenses incurred at CHQ/RHA vide letter dated 21st August 2024 from the AAI. The Authority will examine the study report in detail, and based on the outcome of such a review, an appropriate decision will be taken accordingly.

Apportionment of Admn. & General exp –CHQ/RHQ in 2nd Control Period						
Particulars	**2023-24**	**2024-25**	**2025-26**	**2026-27**	**2027-28**	**TOTAL**
As submitted by AAI (Table 80) (A)	31.67	33.26	34.92	36.67	45.83	182.34
Proposed by AERA (Table 86) (B)	26.65	27.99	29.39	30.85	32.40	147.28
Difference (B-A)	-5.02	**-5.27**	**-5.53**	-5.81	**-13.43**	**-35.07**

AAI's Submission

AERA has reduced 35.07 crore from CHQ/RHQ exps allocation of "Admn & General Expenses". AERA has reduced 19.23% from AAI proposed expenses. AERA is requested to consider the expenses proposed by AAI.

v. **Utilities and Outsourcing Expenses:**
(Para 9.2.19 of CP)

Particulars	2023-24	2024-25	2025-26	2026-27	2027-28	TOTAL
As submitted by AAI (Table 80) (A)	6.11	6.48	7.41	7.88	8.38	36.27
Proposed by AERA (Table 86) (B)	6.00	6.23	6.78	7.04	7.31	33.35
Difference (B-A)	**-0.11**	**-0.25**	**-0.63**	**-0.84**	**-1.07**	-2.92

AERA's Contentions

- The Authority examined the expenses towards utilities and outsourcing and notes the following:
- **Power Expenses**- AAI has projected an increase of 3% Y-o-Y after netting off the recoveries made from the Concessionaires (which is assumed to be 15% of the total power costs, consistent with the recovery % during FY 2022-23). The Authority considers the increase (net of 15% recovery from concessionaires) of 3% Y-o-Y proposed for power expenses during the Second Control Period to be reasonable.
- Further, AAI has also proposed an additional 7% increase in FY 2025-26 on account of increased area for international operations in old terminal building (6,200 sq mt). The Authority finds such an increase in the power charges to be reasonable on account of the increase in terminal area and proposes to consider the same in FY 2025-26.

- **Utilities & Outsourcing Expenses – (Other than Power Expenses)**- This head consists of water charges, consumption of stores & spares and hiring charges for manpower.

- AAI has considered 10% increase Y-o-Y for all the years of the Second Control Period and an additional 10% increase during FY 2025-26 on account of refurbishment/ modification of old terminal building. However, the Authority proposes to consider a 5% Y-o-Y increase as done in other similar airports for Utilities & Outsourcing expenses. The Authority also proposes to consider one-time additional increase of 10% in FY 2025-26, similar to the that proposed for Power Expenses on account of proposed increase in international operations in the old domestic terminal building and 5% Y-o-Y increase for all years considered by Authority for hiring charges for manpower.

AAI's Submission

- AERA has reduced 2.92 crore from utility and outsourcing expenses proposed by AAI. AERA considered 5% Y-O-Y increase instead of 10% proposed by AAI. AERA is requested to consider 10% y-o-y increase in the expenses as proposed by AAI.

vi. **Consideration of Space Rental from Airlines and other GHA Service provider:**
(Para 10.2.10 of CP)

AERA's Contentions

- The Authority, in line with its decision taken in other Airports, proposes to consider the license fee/space rentals from airlines and other aeronautical concessionaires (GHA service providers) as aeronautical revenue after excluding the same from non-aeronautical revenue amounting to ₹ 8.11 crores for the Second Control Period (reclassified out of Building (Non-Residential) and Land leases).

- **AAI's Submission**
- AERA has considered Rs. 8.11 crore (Table 91 of CP) as aeronautical revenue and excluded the same non-aeronautical revenue from the first control period.
- AAI has proposed the above amount as Non-Aero in line with the previous order issued by AERA. (earlier Tariff orders of PPP airports-Mangalore, Ahmadabad).
- It is to mention here that space allotted to Airlines is 25% of total Non-Aero area considering 5 years average.
- On the other hand, AERA had considered Terminal Building Ratio 92%:8% (Aero: Non- Aero) against actual from 92.82%: 7.18% (Aero: Non-Aero) (which includes Average space allotted to Airlines 312.52 sqm was considered as Non-Aero).

- AAI agree with the change of stand of AERA considering Aeronautical revenue from Space Rental from Airlines and other GHA Service provider but it is worthwhile to mention that AERA has considered the area allotted to Airlines as Non-Aero. So, we urge AERA to consider the space allotted to Airlines and other GHA Service provider as aeronautical.

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

vii. Aggregate Revenue Requirement (ARR) for SCP

(Para 14.2 of CP)

AERA's Contentions

- The Authority notes that AAI has claimed Interest on Term Loan in Aggregate Revenue Requirement (ARR) for the Second Control Period. As per Direction 5, Clause 5.4.3 clarifies that the Authority considers interest on short term loans generally raised towards working capital with a maturity of less than one year.
- The Authority notes that Interest claimed by AAI on term loan availed is used for Capital Expenditure and for long term purpose (more than 1 year), therefore the Authority proposes not to consider interest on term loan as submitted by the AAI. 14.2.3 The Authority has determined the PV of ARR amounting to ₹ 661.42 crores (incl. of shortfall for FCP) as against ARR claimed by the AAI amounting to ₹ 995.22 crores. The major reasons of variance between ARR proposed by the Authority and claimed by the AAI are as under:
    - Determination of FRoR by the Authority as 13.36% for First Control Period and 13.53% for the Second Control Period as against 14.00% claimed by AAI resulting into reduction in return on RAB amounting to ₹ 8.33 crores.
    - Non-consideration of FY 2020-21 from shortfall carry forward of the First Control Period, resulting in exclusion of ₹ 50.66 Crores (NPV terms as computed by the Authority).
    - Rationalization of O&M expenses like Payroll expenses, CHQ/ RHQ expenses, Administration expenses, R&M Expenses etc. amounting to ₹ 106.35 crores in Second Control Period.
    - Non-consideration of return on land for the Second Control Period of ₹ 1.10 Crores.
    - Reduction in taxation, due to rationalization of other building blocks such O&M expenses, depreciation and the Aeronautical revenue determined by the Authority etc. (based on the proposed Tariff Card of the Authority).
    - Non-consideration of interest on term loan amounting to ₹ 5.60 crores as per para 14.2.2
- The Revised Tariff commencement date is set to be 1st November 2024

AAI's Submission

AAI submit AERA to consider shortfall of entire 1st Control period i.e. 5 years and compound the value of 5th year amounting to Rs. 88.60 crore. (Refer Page No. 07). AERA is also requested to consider allocation of CHQ/RHQ expenses, removal of restriction of R& M Expenses, consideration of upkeep expenses and revision of TB ratio due to consideration of shifting of space given to Airlines/GHA's from Non-aero to Aeronautical.

Abbreviations

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

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