भारतीय विमानपत्तन प्राधिकरण
AIRPORTS AUTHORITY OF INDIA

F/No. AAI/JVC/Amritsar -Tariff/2024-25/1497 Date: -16.01.2025

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

Subject: -Submission of Multi Year Tariff Proposal (MYTP) for 2nd control period (01.04.2024 to 31.03.2029) and True-up of 1st control period (01.04.2019 to 31.03.2024) in respect of Amritsar International Airport.

Reference: -Submission of AAI's comments in response to consultation paper no 06/2024-25 in respect of Amritsar International Airport issued by Airport Economic Regulatory Authority of India (AERA).

Sir,

This has reference to AERA's consultation paper no 06/2024-25 dated 19.12.2024 in the matter of determination of Aeronautical tariff in respect of Amritsar International Airport for the 2nd control period (01.04.2024 to 31.03.2029) and True-up of 1st control period (01.04.2019 to 31.03.2024).

AAI's response to consultation paper No. 06/2024-25 is enclosed.

This issues with the approval of the Competent Authority.

Thanking You.

भारतीय विमानपत्तन आर्थिक विनियामक प्राधिकरण
सफदरजंग एयरपोर्ट, नई दिल्ली-110003
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डायरी न. 19281
तारीख 16/1/025

Yours sincerely,

16/1/25

(L Kuppulingam)
Executive Director-Finance (JVC/Tariff)

Encl: -1. Response to Consultation Paper no 06/2024-25

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AMRITSAR INTERNATIONAL AIRPORT

Response to Airports Economic Regulatory Authority (AERA)'s Consultation Paper No. 06/2024-25 dated 19th December 2024 Determination of Aeronautical Tariff for Amritsar Airport for the 2nd Control Period (01.04.2024 - 31.03.2029) and True up of First Control Period (01.04.2019 to 31.03.2024).

Contents.

1.Introduction

Airports Economic Regulatory Authority of India ('AERA') has released Consultation Paper No. 06/2024-25 on Aeronautical services in respect of Amritsar International Airport for 2nd Control Period (01.04.2024 to 31.03.2029), ('Consultation Paper' or 'CP') on 19th December 2024.

We hereby present our observations, suggestions, and request in respect of determination of Aeronautical Tariffs for Amritsar International Airport for the Tariff Determination for the 2nd Control Period – from 1st April 2024 to 31st March 2029 and True Up of 1st Control Period from 1st April 2019 to 31st March 2024.

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

a) Administrative & General Expenditure CHQ/RHQ allocation
(Para 4.7.6 of CP)
AERA's Contentions

The Authority notes that AAI has claimed 74% increase in the allocation of CHQ/ RHQ expenses in FY 2021-22, as compared to the previous FY and 5% Y-o-Y increase thereafter for the remaining tariff years in the First Control Period. In this regard, the Authority has received a report on the study of allocation of expenses incurred at CHQ/RHQ, vide letter dated August 21, 2024 from AAI. Upon examination of the Study report, the Authority has observed the following, which were also communicated to AAI vide letter no. AERA/20010/MYTP/AAI-Indore/CP-II/2023-28/21743 dated October 25, 2024:

i. Detailed workings (Calculation worksheets) for allocation of CHQ/ RHQ expenses for FY 2021- 22 as per new and old methodology duly mapped/ linked with respective trial balances have not been provided by AAI. Further, computation as per new methodology for FY 2022-23 and FY 2023-24 have also not been provided.
ii. Certain expenses (other than manpower costs, legal arbitration, CSR, insurance etc) have been apportioned based on some pre-determined ratio, which have not been substantiated with detailed justifications/ rationale.
iii. Justification for excluding some revenue while deriving the net allocable expenditure is not clear.
iv. Basis of allocation of legal expenses in the ratio of 50:50 is not clear.
v. Workings provided in the financial sheet and its implication therein on airports after considering the recommendations submitted by ICMAI MARF is not clear.
vi. Justification/ reasons for excluding leasing income in the allocation process is not available.

In response to the above letter of AERA dated October 25, 2024, AAI has submitted only incomplete/ partial information. Therefore, the Authority is unable to draw any conclusion/ outcome regarding the computation of CHQ/ RHQ expenses that have been allocated to the AAI Airports in the Study. Hence, the Authority has relied and adopted the existing methodology of computing CHQ/ RHQ expenses as being uniformly applied across all AAI airports, for determining the Administration and General CHQ/ RHQ expenses, allocable to Amritsar Airport. The same has been explained in the subsequent paragraphs.

The Authority also reviewed the basis adopted by AAI for allocation of CHQ and RHQ expenses to AIA 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 has been reiterating in all its Tariff Orders of AAI Airports that the above process followed by AAI for allocating the expenses is on a higher side and necessitates adoption of a scientific/ rational approach for justifiable allocation of expenses to the Airports. The Authority proposes the following towards allocation of CHQ and RHQ expenses.

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. pertaining to the aforesaid departments (ANS and Cargo).

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

i. Support services provided by CHQ/ RHQs to ANS, Cargo and Commercial departments at various airports.
ii. Officials of Directorate of Commercial.
iii. Balance 80% of pay and allowances of CHQ and RHQ to be allocated to the Airports

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, the Authority proposes to not consider interest/penalties appearing in AAI submission.

The Authority is of the view that the users should pay only for the services availed by them. This view is also consistent with the International Civil Aviation Organization's (ICAO) principle of 'Cost relatedness'.

The Authority feels that the allocation of CHQ & RHQ expenses by AAI on the basis of revenue is on higher side, 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. Also, the proportion of Administration and General - CHQ/ RHQ expenses allocated to Amritsar Airport is substantially higher as compared to the other major components of the Operation and Maintenance expenses incurred by Amritsar Airport for the First Control Period. The Users of the Major Airports have to pay higher tariff due to higher allocation of CHQ/RHQ expenses to these airports. 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. Based on the above principles, the Authority has rationalized the CHQ/ RHQ expenses being allocated to Amritsar International Airport. The Authority has derived the revised allocation of CHQ and RHQ expenses, based on the methodology, explained in the above-mentioned paragraphs and the same is presented in the table below:

Table 1: Re-allocation of CHQ/ RHQ – Admin and Gen expenses proposed by the Authority for the First Control Period.

Particulars	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	Total
CHQ/ RHQ – Admin & General expenses **(approved in the Tariff Order of the First Control Period)**	29.16	30.62	32.15	33.76	35.44	**161.33**
CHQ/ RHQ – Admin & General expenses (**allocation done by AAI**) = A	48.98	23.26	40.45	42.47	44.60	**199.76**
Revised allocation of CHQ/ RHQ expenses proposed by the Authority = B	41.54	20.22	21.23	22.29	23.41	**128.69**
Variance (A-B)	**7.44**	**3.04**	**19.22**	**20.18**	**21.19**	**71.07**

AAI's Submission

- AAI has submitted pointwise reply for vide letter dated 21.11.2024 in response to queries raised by AERA vide letter no. AERA/ 20010/MYTP/AAI-Indore/CP-II/2023-28/21743 dated October 25, 2024 .
- Further it may be noted that in the MYTP, AAI has submitted Rs. 40.45 crores for FY 2021-22 based on the study conducted by ICMAI, an independent renowned institute. whereas AERA has not considered the study carried out by ICMAI for FY 2021-22. AERA has proposed only Rs. 21.23 crores (approximately 52% of the claimed) for FY 2021-22.
- **It worthwhile to mention here that had the basis of allocation of revenue (existing practice of AAI) been considered then the allocation to Amritsar station for FY 2021-22 would be Rs. 63.29 crores, (refer annexure 6 of ICMAI Report for FY 2021-22),** whereas based on the report submitted by ICMAI, AAI has considered overhead allocation of Rs. 40.45 crores to Amritsar based on weighted average method (i.e. Revenue 40%, Passengers 20%, ATM 20%, Employment cost 20%) However, AERA has not considered the study carried out by ICMAI for FY 2021-22 and allocated CHQ/RHQ expenses of Rs. 21.23 crores considering 5% increase over FY 2020-21 (which is pandemic year) for Amritsar Airport.
- AERA's consideration of pandemic year as the base year is not justified.
- In this regard it is worth mentioning that during the FY 2020-21 (pandemic year), the CHQ/RHQ expenses allocation to Amritsar Airport is abnormally low due to following reasons:

  A) following restriction on expenses during FY 2020-21
  - (i) Restriction on official foreign travel
  - (ii) Restriction on official Inland travel.
  - (iii) Out of pocket allowance has been reduced
  - (iv) Overtime has been reduced
  - (v) Restriction on introduction of any scheme involves outflow of funds.
  - (vi) Curtailment of expenditure on conferences/ seminar, workshops/exhibitions/fair etc.
  - (vii) Curtailment of expenditure on advertisements/publicity/publications etc.
  - (viii) Restriction on leave encashment
  - (ix) Restriction of Consultancy assignment.

(x) Restriction of printing stationary.
(xi) Restriction of creation of new post.
(xii) Restriction on Trainings.
(xiii) Restriction on recruitments.
(xiv) Restriction on upkeep expenses and other expenses

B) Further, Amritsar revenue in FY 2020-21 was 78% lower (due to Lower ATM Traffic and Passengers, as restriction were imposed by GoI on foreign travel) as compared to FY 2019-20. However, the decrease in total revenue (SAU+RHQ) was 55% (approx.) compared to FY 2019-20 resulting in lower allocation of CHQ/ RHQ expenses for Amritsar station during FY 2020-21.

- AERA is requested not to consider the year of Covid-pandemic (FY 2020-21) as the base year:
  (i) since AAI had taken cost cutting measures
  (ii) lesser revenue due to non-operation of international flights and lower volume of domestic flights at Amritsar.
  (iii) Other facts explained in above paragraphs.

- This has not only impacted the first control period, it has cascading effect in the second control period as the base considered for second control period is also FY 2020-21 (a pandemic year) and thereafter 5% YoY increase.

- With respect to Legal expenses for FY 2021-22, we request AERA to refer details given in Table 7.8 of ICMAI Report (copy enclosed) and AAI's reply dated 21.11.2024, on the allocation of CHQ/RHQs Expenses, AAI analysed & identified some of the legal expenses that related to JVC's and arbitration cases of other airports. Legal expenses for defending the international Arbitration, (we request AERA to refer page no. 106 of ICMAI Report (copy enclosed) wherein it is mentioned that arbitration expenses of Rs. 23.04 crores are allocated based on the revenue of the respective 7 airports as it is related to ground handling services of 7 airports only. After deducting such identified legal expenses, balance common legal expenses, which constituted only 16% of the total, which were allocated in the 50:50 ratio as being already followed by AAI.

- With respect to interest and penalties expenses for FY 2021-22, we request AERA to refer page no. 107 of ICMAI Report (copy enclosed) and point no. 6 of AAI's reply dated 21.11.2024, wherein it is mentioned that interest and penalties are treated as non-cost items and are not treated as a part of costs.

- For FY 2022-23 and FY 2023-24, AERA has allowed 5% YOY increase over the allocation made to a pandemic year (FY 2020-21). Taking a pandemic year as base year is not justified. AERA is requested to consider either FY 2019-20, a normal year or consider the figure submitted by AAI on the basis of Study carried out by ICMA for FY 2021-22, for future years.

- Further, it is also worth mentioning that AERA has proposed the apportionment of Admin and General expenses of CHQ/RHQ i.e. RS. 128.69 crores, which is even below what was approved by AERA in the order of First control period i.e. Rs. 161.13 crores.

AERA is requested to consider the study conducted by ICMAI, an independent renowned institute, for Apportionment of Administrative and General Expenditure of CHQ/RHQ for FY 2021-22 and consider 5% YOY increase on it for future years for first control period or consider FY 2019-20 (a normal year) for Apportionment of Administrative and General Expenditure of CHQ/RHQ for FY 2021-22 and consider 5% YOY increase on it for future years.

(b) Terminal Building Ratio (TBR)
[Para 4.4.7 of CP]
AERA's Contentions

The Authority proposes to consider CAPEX of ₹ 141.52 Crores as against CAPEX of ₹ 141.83 Crores claimed by AAI for True up of the First Control Period. The variance is on account of shifting certain CAPEX amounting to ₹ 0.31 Cr from CAPEX to Operational and Maintenance expenses (such as repairs of CISF barracks). The CAPEX of ₹ 141.52 Crores has been arrived, after factoring the Terminal Building ratio of 90:10 (in respect of common assets within the Terminal Building) as approved by the Authority, at the time of determination of tariff for the First Control Period. The same has also been considered by AAI, while submitting the true up of CAPEX for the First Control Period.

AAI's Submission

AAI had apportioned the common assets within the Terminal Building into Aeronautical and Non-aeronautical activities in Terminal Building in the ratio of 90%:10% for the First Control Period **when AERA had considered revenue from Space Rent-Airlines as Non-Aeronautical revenue.**

Recently AERA has changed its decision of revenue of Airlines space from Non-Aero to Aero but the same airlines space is still considered as non-aero while calculating Terminal Building ratio.

However, if AERA is treating space rent revenue as Aeronautical revenue then similar treatment should be given to the area allotted to Airlines while calculating the Terminal Building area ratio also.

As far as IMG norms are concerned whereby 8% to 12% is earmarked as non-aero, The IMG norms was issued in year 2008, the back office space and revenue by Airlines, both were treated as non-aero and Terminal Building Ratio was in the range of 8%-12%. It is not mandatory for the Airlines to take back office in terminal building. It is only for the convenience and at the option of the Airlines only. Therefore, if AERA has reviewed its decision to consider back office space to Airlines as aero, so TB ratio norms may be relooked and revised accordingly.

The calculation of the Terminal Building Ratio based on the actual utilization is as under: -

Table 2: Calculation of the Terminal Building Ratio based on the actual utilization:

Terminal Building Ratio (Space allotted to Airlines considered as Aero instead of Non-Aero as per AERA Decision)						
Particulars	**Location**	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**
Space Rented (A)	Non-Aero-area (SQM)	2486.74	2421.21	1981.63	1611.52	2454.09
Space to Airlines (B) (Included in space rent)	Considered as AERO	717.46	655.81	682.42	698.95	706.34
Airlines space (%) on Non Aero		28.85%	27.09%	34.44%	43.37%	28.78%
Airlines space (%) on total Area		1.61%	1.47%	1.53%	1.57%	1.59%
C= (A-B)	Net Non Aero aera (SQM)- Excluding airlines space	1769.28	1765.40	1299.21	912.57	1747.75
Capacity (D)	T. B Area (SQM)	40175	40175.00	40175.00	40175.00	40175.00
	Canopy (SQM)	4329	4329.00	4329.00	4329.00	4329.00

	Total Area(SQM)	44504	44504.00	44504.00	44504.00	44504.00
Non-Aero %		3.98%	3.97%	2.92%	2.05%	3.93%
Aero % for Consideration		96.02%	96.03%	97.08%	97.95%	96.07%

It can be seen from the table that Space utilized by airlines is 27% to 43% of Total Non-Aero (Commercial), hence AERA is requested to consider Space allotted to airlines as Aero for calculating Terminal Building Ratio as submitted by AAI in its MYTP, in view of the change in the AERA's methodology regarding the nature of revenue from space allotted to Airlines.

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 and accordingly revise the apportionment of common assets within the terminal building for the First and Second Control Periods.

3. Second Control Period (SCP)

(a) Capex- Proposed Expansion of Terminal Building
(Para 6.2.6. A of CP-Expansion of Terminal Building)
AERA Contention

The Authority notes that the total cost submitted by AAI, which is ₹111.76 Cr is lesser than the Normative costs derived by the Authority as per AERA Guidelines, which is ₹ 138.62 Cr. Therefore, the Authority proposes to consider the project cost submitted by AAI and has further determined the aeronautical cost of the project on expansion of Terminal Building as ₹ 100.58 Crores, by applying Terminal Building ratio of 90:10, for capitalization in FY 2027-28. Further, the above costs have been, apportioned to Civil works and Electrical installations in the ratio of 65%:35%

AAI's Submission

AERA has applied terminal building ratio of 90:10, as against AAI submission of actual terminal building ratio 96.77%: 3.23%, for expansion of terminal building. Further, expansion of terminal building includes aerobridge of Rs 3 crore which is purely 100% aero. This detail has already been shared vide email and again, enclosed with comments for ready reference. Hence, AERA is requested to consider terminal building ratio on actual basis as submitted by AAI.

(b) Capex- SCCTV
(Para 6.2.6. B6.ii of CP-SCCTV)
AERA Contention

The Authority notes that AAI has proposed ₹ 5 Crores towards the FIDS and SCCTV for reconfiguration of the existing Terminal Building. The details of the same is as follows:

Table 3: Details of cost of Equipment related to Terminal Building

Details of Equipment	Amount (₹ Crores)
FIDS	1.5
SCCTV	3.5
Total	5.00

Considering the essentiality of the Equipment and reasonability of costs, based on review of CPWD norms/ prevailing market rates, the Authority proposes to consider capitalization of these assets in line with the capitalization of Terminal Building, which is in FY 2027-28. Further, as SCCTV is related to the Terminal Building, the same would be apportioned to Aeronautical activities in the ratio of Terminal Building, which is 90:10. However, FIDS are related to passenger facilitation, hence, is the same are considered as 100% Aeronautical.

AAI's Submission

AERA has applied terminal building ratio of 90:10 for SCCTV, since the SCCTV is purely for the purpose of security and comes under passenger facilitation and AAI requests AERA to consider these as 100% aeronautical.

(c) Capex- - Parallel Taxi Track (PTT)
(Para 6.2.6. A2(i) and A3 (ii) –of CP- Parallel Taxi Track (PTT) from Runway -16 beginning up to Taxiway-E (including Rehabilitation of IAF Structure) at Amritsar Airport)
AERA Contention

Electrical works have been estimated by AAI as ₹ 29.81 Crores (refer Table 32of CP), which includes AGL for PTT, electrical works for IAF structure rehabilitation, and cable rerouting. Upon examination, the Authority has identified and excluded the CMC cost of ₹ 1.95 Crores, as the same pertains to maintenance work. Consequently, the revised cost of electrical works amounts to ₹ 27.86 Crores, with AGL accounting for ₹ 23.71 Crores.

AAI's Submission

AERA has excluded Rs. 1.95 crores from PTT, claiming it as CMC cost, however same has not been added to repair and maintenance expenses. AERA is requested to consider it either in PTT cost or in repair and maintenance as separate line item.

(d) Terminal Building Ratio (TBR)
[Para 6.2.7 of CP]
AERA's Contentions

The Authority notes that AAI has submitted the Terminal Building ratio of 96.77%: 3.23% (Aeronautical: Non-Aeronautical) for apportionment of common assets within the Terminal Building at AIA for the Second Control Period. The Authority notes that AAI had revised the Terminal Building ratio from 90%:10% (as submitted initially in the MYTP by AAI) to 96.77%:3.23% due to shifting of Space allocated to Airlines from Non-Aeronautical to Aeronautical. As per the Authority, the space allotted to airlines by virtue of its nature of usage is part of Aeronautical portion. Therefore, the Authority proposes to consider this Terminal Building ratio of 90%:10% (Aeronautical: Non-Aeronautical) as reasonable, in accordance with the decision considered in the Tariff Order for the First Control Period for Amritsar International Airport. Further, the above ratio of 90%:10% is also in line with the optimum non-aeronautical area allocation of 8% to 12% as recommended by IMG norms (for airports having passenger traffic of less than 10 MPPA).

AAI's Submission

In the recent Aeronautical tariff orders, AERA has changed his stand about, **the space allotted to airlines by virtue of its nature of usage is part of Aeronautical portion which is 30% of the total space utilized for commercial activities, but on the other hand AERA has still considered the same space as Non-Aero for** calculating Terminal Building Ratio Therefore, AERA's proposal to consider this Terminal Building ratio of 90%:10% (Aeronautical: Non-Aeronautical), as against the 96.77%:3.23% as proposed by AAI, is not justified.

AERA is requested to consider space to airlines as well as revenue from the same space either aeronautical or Non-Aeronautical.

Recently AERA has changed its decision of revenue of Airlines space from Non-Aero to Aero but the same airlines space is still considered as non-aero while calculating Terminal Building ratio.

However, if AERA is treating space rent revenue as Aeronautical revenue then similar treatment should be given to the area allotted to Airlines while calculating the Terminal Building area ratio also.

As far as IMG norms are concerned whereby 8% to 12% is earmarked as non-aero, The IMG norms was issued in year 2008, the back office taken by Airlines was treated as non-aero and Terminal Building ratio was in the range of 8%-12%. It is not mandatory for the Airlines to take back office in terminal building. It is only for the convenience and at the option of the Airlines only. Therefore, if AERA has reviewed its decision to consider revenue from back office space to Airlines as aero, so TB ratio norms may be relooked and revised accordingly.

AERA is therefore 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 and accordingly revise the apportionment of common assets within the terminal building for the First and Second Control Periods.

(e) Computation of Fair Rate of Return (FRoR)
(Para 7.1 to 7.3 of CP)
AERA Contention

AERA's examination of FRoR for the Second Control Period

The Authority notes that AAI has submitted that the capital expenditure proposed for the Second Control Period will be funded through internal accruals and hence no debts have been proposed by AAI in its MYTP submitted for the Second Control Period.

However, the Authority notes that AAI had availed debts amounting to ₹ 10.79 Crores, during the First Control period.

The Authority in its past Tariff Orders of other similar Airports of AAI, has noted that the capital structure of AAI is not efficient and has asked AAI to make it efficient by raising debt funds. Further, the Authority had also proposed to use the notional Debt-Equity ratio for AAI Airports in future, in line with the PPP Airports. Also, it has been observed that generally, in the AAI airports, the equity portion is significant (above 90%) and the debt portion is quite nominal (below 10%). Therefore, applying a return on equity @ 14% on this high equity portion, does not bring in efficiency, as compared to the option of funding the project through a suitable mix of debt: equity, as per the gearing ratio for the airport projects.

Based on the above factors, the Authority has proposed FRoR, by adopting a notional gearing ratio of 48:52 (Debt : Equity), by taking inference from independent studies conducted in the past for PPP airports (such as DIAL, MIAL, GHIAL, BIAL and CIAL) through a premier institute, namely IIM Bangalore and the same is being followed by AERA for all airports uniformly. The Cost of Debt, Cost of Equity considered by the Authority for determination of FRoR have been explained as follows:

Cost of Debt

The Authority notes that AAI had availed debts of ₹ 10.79 Crores, during FY 2019-20 to FY 2022-23 in the First Control period for Amritsar Airport, as stated in the Financial Model (part of the MYTP submitted for determination of tariff for the Second Control Period). Further, the Authority notes that out of the above total debts of ₹ 10.79 Crores, substantial debts amounting to ₹ 10.30 Crores had been availed in FY 2022-23.Based on the rate of interest details shared by AAI vide email dated November 14, 2024, the Authority notes that the average rate of interest on debt, during the FY 2022-23 works out to 8.35%. Therefore, the Authority proposes to consider the Cost of Debt as 8.35% for determining FRoR for the Second Control Period.

Cost of Equity

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

The above referred independent study reports have drawn reference from the experience of international airports, wherein the median and average Cost of Equity was determined as 15.16% and 15.18%, respectively. Based on this analysis, the average Cost of Equity for these airports was determined to be 15.18%. This benchmark provides a useful reference point for evaluating airport financing strategies and equity costs in the Indian context.The above independent study reports have used the Capital Asset Pricing Model (CAPM) and a notional gearing (Debt: Equity) ratio of 48:52 to determine the levered Equity beta and accordingly, derive the Cost of Equity.

The above study report applies a methodology that factors in sovereign and business risks through components like the risk-free rate and business volatility, establishing a fair cost of equity within the FRoR calculation. This provides a relevant benchmark for estimating Amritsar Airport's cost of equity in the Second Control Period, given the similar business environment, risk profile and policy framework.

Based on the above reports, the Authority proposes to consider the Cost of Equity as 15.18% for Amritsar International Airport for the Second Control Period.

Fair Rate of Return (FRoR)

Based on the above, the Authority proposes to consider FRoR as per table below for Amritsar International Airport for the Second Control Period:

Table 4: Fair Rate of Return proposed to be considered by the Authority for the Second Control Period

Parameter	%
Weighted Average gearing of Equity (A)	52.00%
Weighted Average gearing of Debt (B)	48.00%
Cost of Equity (C)	15.18%
Cost of Debt (D)	8.35%
Fair Rate of Return for the Second Control Period (E= A*C+(1-A)*D)	11.90%

Authority's proposal regarding Fair Rate of Return (FRoR) for the Second Control Period.

Based on the material before it and based on its analysis, the Authority proposes the following with regard to FRoR for the Second Control Period.

To consider FRoR of 11.90 % for AIA for the Second Control Period as per Table 4.

AAI's Submission

Since AERA has notionally considered 48:52 as debt equity mix, and considered 8.35% as notional Interest on Debt, it is requested to AERA to notional allow Interest during construction (IDC-notional) for the 2nd Control Period against the proposed capital investment in 2nd Control Period.

Further, in this regard, we would like to draw the attention of AERA towards the AERA order no. 56/2020-21 dated 24.12.2020, for determination of aeronautical tariff for Amritsar Airport for the first control period to consider 14% FRoR for the first control period. Since, the assets in the opening RAB for the second control period are getting the FRoR of 14% in the first control period, so AERA is requested to provide 14% return on to those assets and apply 11.90% (as determined in the CP for the Second control period) on the capitalization during the second control period.

Kindly refer table no. 58 (consultation paper) of ARR proposed to be considered by the Authority for the Second Control Period, wherein year wise Fair rate of return has been applied by AERA. (Table reproduced below as an extract from consultation paper for ready reference)

Table 58: ARR proposed to be considered by the Authority for the Second Control Period

(₹ Crores)

Particulars	Table Ref.	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total
Average RAB = A	40	182.24	173.85	171.08	219.48	323.79	
Fair Rate of Return = B	41	11.90%	11.90%	11.90%	11.90%	11.90%	
Return on average RAB C= A*B		21.69	20.69	20.36	26.12	38.54	**127.40**
Depreciation – D	38	19.94	16.99	17.62	19.72	23.25	**97.52**
O&M expenses – E	48	88.37	101.47	111.17	114.18	123.95	**539.15**
IDC – F		0.79	0.74	0.64	0.54	0.43	**3.15**
Tax expense – G	55	20.76	2.98	4.09	5.30	4.01	**37.14**
ARR per year = SUM (C:G)		**151.55**	**142.87**	**153.88**	**165.86**	**190.19**	**804.36**
Shortfall carried forward from							

Since, it can be seen from the above table that FROR has been applied by AERA year wise, we request to apply FROR of 11.90% only for the additions of the Second control period, not on the assets, which are continuing from the first control period. Application of FRoR on opening RAB also result in loss to AAI and same has been illustrated as under:

Illustration:1

AAI has Rs. 500 crores of opening RAB on the start of control period.
Dep considered 10% for whole year and half in the year of capitalization
And additions of Rs. 200 crores during the control period under:

Year	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
Capital addition	20	5	20	80	75

Methodology proposed by AERA: Return on RAB calculation on applying 11.9% (presently proposed by AERA in Consultation Paper)

Return on RAB @ FROR @11.9%						
	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total

Opening RAB	500	469	427	403	439	
Addition	20	5	20	80	75	200
Depreciation	51	47	44	44	48	234
Closing RAB	469	427	403	439	466	
Average RAB	485	448	415	421	453	
FROR Rate	11.9%	11.9%	11.9%	11.9%	11.9%	
Return on RAB	58	53	49	50	54	264

Method Requested: Return on opening RAB and additions of first three years of control period @14% and Additions in last two years @11.9%.

Return on RAB @ FROR @14%						
	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total
Opening RAB 1	500	450	405	365	328	
Addition	0	0	0	0	0	
Depreciation*	50	45	41	36	33	205
Closing RAB 1	450	405	365	328	295	
Average RAB 1	475	428	385	346	312	
FROR Rate	14%	14%	14%	14%	14%	
Return on RAB (A)	67	60	54	48	44	272
FROR considering debt equity mix of 48:52, FROR Say 11.90%						
	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total
Opening RAB 2	0	19	22	39	111	
Addition	20	5	20	80	75	200
Depreciation*	1	2	3	8	15	29
Closing RAB 2	19	22	39	111	171	
Average RAB 2	10	20	30	75	141	
FROR Rate	11.9%	11.9%	11.9%	11.9%	11.9%	
Return on RAB (B)	1	2	4	9	17	33
Final Return on RAB						
Total opening RAB (1+2)	500	469	427	403	439	
Total closing RAB (1+2)	469	427	403	439	466	
Total Average RAB (1+2)	485	448	415	421	453	
Total Return on RAB (A)+(B)	68	62	57	57	60	305

- In Method proposed by AERA in consultation paper, the assets under Opening RAB which are getting return of 14% in the first control period are getting only 11.9% return in Second Control Period which results in reduced ARR to the tune of Rs. 41 Crores.(based on hypothetical examples/figures)

Similarly, in Consultation paper no. 06/2024-25, return on RAB provided is Rs. 127.40 crores , extract of consultation paper is as under:

Table 58: ARR proposed to be considered by the Authority for the Second Control Period

(₹ Crores)

Particulars	Table Ref.	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total
Average RAB = A	40	182.24	173.85	171.08	219.48	323.79	
Fair Rate of Return = B	41	11.90%	11.90%	11.90%	11.90%	11.90%	
Return on average RAB C= A*B		21.69	20.69	20.36	26.12	38.54	**127.40**
Depreciation – D	38	19.94	16.99	17.62	19.72	23.25	**97.52**

However, if following Method is adopted, the return on RAB will be Rs. 147 crores approximately.

Method Requested:

Return on RAB @ FROR @14%						
	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total
Opening RAB 1	183.91	165.62	148.99	133.94	123.05	
Addition 1						0.00
Depreciation 1*	18.29	16.63	15.04	10.89	10.76	71.61
Closing RAB 1	165.62	148.99	133.94	123.05	112.30	
Average RAB 1	174.76	157.30	141.47	128.50	117.68	
FROR Rate	0.14	0.14	0.14	0.14	0.14	
Return on RAB (A)	24.47	22.02	19.81	17.99	16.47	100.76
FROR considering debt equity mix of 48:52, FROR Say 11.90%						
	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total
Opening RAB 2	0.00	14.94	18.15	41.08	140.88	
Addition 2	16.59	3.57	25.50	108.63	142.96	297.25
Depreciation 2*	1.65	0.36	2.58	8.83	12.49	25.91
Closing RAB 2	14.94	18.15	41.08	140.88	271.34	
Average RAB 2	7.47	16.55	29.61	90.98	206.11	
FROR Rate	0.12	0.12	0.12	0.12	0.12	
Return on RAB (B)	0.89	1.97	3.52	10.83	24.53	41.73
Total Opening RAB (1+2)	183.91	180.56	167.14	175.02	263.93	
Total Closing RAB (1+2)	180.56	167.14	175.02	263.93	383.64	
Total Average RAB (1+2)	182.24	173.85	171.08	219.48	323.79	
Total Return on RAB (A)+(B)	25.36	23.99	23.33	28.82	41.00	142.49

** Depreciation has been taken proportionately for opening RAB and Additions, however while making final calculation, depreciation as calculated on addition and opening RAB should be considered, as should be available in the AERA's model.*

It may be noted that Opening RAB, Closing RAB and average RAB by following method requested by AAI remain intact as proposed by AERA in the table no. 40 of the Consultation paper. Table 40 of the consultation paper is as under:

Table 40: RAB proposed to be considered by the Authority for the Second Control Period

(₹ Crores)

Particulars	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total
Opening RAB (A) (refer Table 11)	183.91	180.56	167.14	175.03	263.94	
Additions (B) (refer Table 36)	16.59	3.57	25.50	108.63	142.96	297.26
Disposal/Transfers (C)	-	-	-	-	-	-
Depreciation (D) (refer Table 38)	19.94	16.99	17.62	19.72	23.25	97.52
Closing RAB (E) = [(A) +(B) – (C) – (D)]	180.56	167.14	175.03	263.94	383.65	
Average RAB = [(A) + (E)]/2	182.24	173.85	171.08	219.48	323.79	

The Authority proposes to consider Average RAB for the AIA for the Second Control Period as detailed in Table 40.

Hence, AERA is requested to consider 14% return on opening RAB for whole second control period and apply the FRoR proposed by AERA only for the additions during the second control period, as applying the 11.9% return on the assets which are continuing from the first control period resulting in the lower ARR of Rs. 15.09 crs. (Rs. 142.49 crs. – Rs. 127.40 crs.).

Further, since AERA has notionally considered 48:52 as debt equity mix, AERA is requested to consider 8.35% as notional Interest on Debt and allow Interest during construction (IDC-notional) for the 2nd Control Period against the proposed capital investment in 2nd Control Period.

(f) Allocation of O&M expenses to Aeronautical and Non-aeronautical activities [Para 9.2.7 of CP]

AERA's Contentions

Upkeep expenses (included under Administrative and General Expenses) have been apportioned in the ratio of Terminal Building by AAI which is 96.07% : 3.93%. However, the Authority proposes to re-allocate the above expenses in the Terminal Building ratio of 90%:10%, as detailed in para 6.2.7

AAI's Submission

AAI has proposed Upkeep expenses to be bifurcated in aero and non-aero in the ratio 96.07%(Aero): 3.93% (Non-Aero) based on the actual utilization of the terminal building for commercial activity.
We request AERA to apply Terminal Building ratio only for proposed capex, Opex should be bifurcated based on the actual utilization basis i.e. 96.07%(Aero): 3.93% (Non-Aero).

(g)Repair & Maintenance (Civil)and (electrical)
[Para 9.2.7-8 of CP]
AERA's Contentions

Repairs & Maintenance (Electrical) have been apportioned in the ratio of Terminal Building by AAI which is 96.07% : 3.93%. However, the Authority proposes to re-allocate the above expenses in the Terminal Building ratio of 90%:10%, as detailed in para 6.2.7

Repair and Maintenance (Civil) expenses pertaining to Terminal Building have been apportioned by AAI, by applying in the Terminal Building ratio of 96.07%: 3.93%. However, the Authority proposes to reallocate the above expenses in the Terminal Building Ratio of 90%:10%, as followed in other similar airports.

AAI's Submission

AAI has proposed repair and maintenance (civil) expenses and electrical expenses pertaining to terminal building to be bifurcated in aero and non-aero in the ratio 96.07%(Aero): 3.93% (Non-Aero) based on the actual utilization of the terminal building for commercial activity.
It is also worth mentioning that it also included the maintenance of Runway/ apron and other operational area including runway painting, joint filling, runway lighting etc. which is 100% Aero, where application of terminal building ratio is not appropriate.

We request AERA to apply Terminal Building ratio only for proposed capex, Operating expenditure should be bifurcated based on the actual utilization basis i.e. 96.07%(Aero): 3.93% (Non-Aero).
Hence AERA is requested to consider the same as proposed by AAI.

(h) Repair & Maintenance expenses – Electronics
[Para 9.2.9 of CP]
AERA's Contentions

Repair and Maintenance expenses – Electronics includes Surveillance equipment; security equipment has been apportioned in the Employee ratio of 97.59%: 2.41% as per AAI. The Authority's analysis shows that these expenses pertain to passenger facilitation. Further, the Authority notes that it also includes hardware maintenance expenses of computers and other electronic items, which has been apportioned based on the headcount of IT Department engaged for Aeronautical purposes. As most of these equipments are located in the Terminal Building, the Authority proposes to re-allocate the above expenses in the Terminal Building ratio of 90%:10%.

AAI's Submission

Repair and maintenance related to computers, employee ratio needs to be considered as AAI has provided computers to its employee not to the NON- AERO counters hence, the application of terminal building ratio is not justified. Again, there are some assets like CCTV for surveillance/security purpose and are purely aeronautical in nature, application of terminal building ratio is also not appropriate here.

AERA is also requested to apply TB Ratio only on proposed capex not on the R&M as it is already bifurcated based on the actual utilization of the Terminal Building for commercial purpose.

Hence AERA is requested to consider the same as proposed by AAI.

(i) Pay roll expenses
(Para 9.2.12 of CP)
AERA Contention

AAI considered a growth rate of 7% in payroll expenses for the period 2024-25 to 2028-29. Further, AAI has proposed an additional growth rate 20% in FY 2027-28 taking into consideration, the implementation of increase in payroll on account of recommendations of the 8th Pay Commission. However, the Authority proposes to consider a growth rate of 6% year on year from FY 2024-25 to FY 2028-29 in the payroll expenses and retirement benefits of employees of AIA. Growth rate of 6% Y-o-Y in payroll expenses is uniformly followed by the Authority in all AAI airports. Further, the Authority proposes not to consider the additional increase 20% in payroll expenses submitted by AAI for FY 2027-28 on account of 8th pay commission for determining tariff for the Second Control Period for AIA and proposes to consider the same on actual incurrence basis.

AAI's Submission

AERA has proposed to reduce growth rate of Payroll expenses from 7% y-o-y to 6% y-o-y for the second control period resulting lower tariff rate, lower recovery of pay roll, increase in shortfall to be carry forward for the next control period and impact steep hike in tariff for the next control period. 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 the recent past orders of AAI Major Airports, AERA has considered 7% increase.

The following illustration clearly shows that there is an average 7.2% increase in the Payroll expenditure of one employee, considering DA rate as issued by Ministry of Finance.

Illustration 2

FY 2022-23													Total
Basic	50000	50000	50000	50000	50000	50000	50000	50000	50000	50000	50000	50000	600000
DA Rate	30.0%	30.0%	30.0%	32.5%	32.5%	32.5%	34.8%	34.8%	34.8%	37.2%	37.2%	37.2%	
DA	201750	201750	201750	201750	201750	201750	201750	201750	201750	201750	201750	201750	201750
HRA @27 % of Basic													162000
Perk @35%of Basic													210000
Employer contribution @ 12% of Basic+DA													96210
Total (A)													1269960
FY 2023-24													Total
Basic	51500	51500	51500	51500	51500	51500	51500	51500	51500	51500	51500	51500	618000
DA Rate	37.7%	37.7%	37.7%	39.2%	39.2%	39.2%	43.8%	43.8%	43.8%	43.7%	43.7%	43.7%	
DA	19416	19416	19416	20188	20188	20188	22557	22557	22557	22506	22506	22506	253998
HRA @27 % of Basic													166860
Perk @35%of Basic													216300
Employer contribution @ 12% of Basic+DA													104640
Total (B)													1359798
Increase													**89838**
%Increase													**7.1%**

Basic Pay – Rs. 50000 in FY 2022-23
3% yearly increase considered in Basic pay for FY 2023-24
Dearness Allowance- Quarterly DA rates as issued by Ministry of Finance vide following order nos.

1. W-02/0039/2017-DPE (WC)-GL-VI/2022 dated 8.4.2022

2. W-02/0039/2017-DPE (WC)-GL-XII/2022 dated 6.7.2022
3. W-02/0039/2017-DPE (WC)-GL-XVII/2022 dated 6.10.2022
4. W-02/0039/2017-DPE (WC)-GL-I/2023 dated 4.1.2023
5. W-02/0039/2017-DPE (WC)-GL-VI/2023 dated 13.04.2023
6. W-02/0039/2017-DPE (WC)-GL-XIII/2023 dated 7.07.2023
7. W-02/0039/2017-DPE (WC)-GL-XVIII/2023 dated 6.10.2023
8. W-02/0039/2017-DPE (WC)-GL-II/2024 dated 11.01.2024.

It is worth noting that, despite a decrease in DA during the last quarter of FY 2023-24, still annual increase comes out to be 7.1%.

Further, if Earned leaves are also considered, the YOY increase stands at 7.2% as under:

FY 2022-23													Total
Basic	50000	50000	50000	50000	50000	50000	50000	50000	50000	50000	50000	50000	600000
DA Rate	30.0%	30.0%	30.0%	32.5%	32.5%	32.5%	34.8%	34.8%	34.8%	37.2%	37.2%	37.2%	
DA	201750	201750	201750	201750	201750	201750	201750	201750	201750	201750	201750	201750	201750
HRA @27 % of Basic													162000
Perk @35%of Basic													210000
Employer contribution @ 12% of Basic+DA													96210
Earned leaves, 30days (Basic and DA)													66813
Total (A)													1336773
FY 2023-24													Total
Basic	51500	51500	51500	51500	51500	51500	51500	51500	51500	51500	51500	51500	618000
DA Rate	37.7%	37.7%	37.7%	39.2%	39.2%	39.2%	43.8%	43.8%	43.8%	43.7%	43.7%	43.7%	
DA	19416	19416	19416	20188	20188	20188	22557	22557	22557	22506	22506	22506	253998
HRA @27 % of Basic													166860
Perk @35%of Basic													216300
Employer contribution @ 12% of Basic+DA													104640
Earned leaves, 30days (Basic and DA)													72667
Total (B)													1432464
Increase													95692
%Increase													7.2%

Hence, AAI requests AERA to consider the **7% YoY increase for the SCP as** proposed by AAI to avoid low recovery of payroll.

Further, it is requested that Additional 20% increase proposed by AAI in in FY 27-28 considering the implementation of 8th Pay commission may also considered by AERA to avoid carry forward of shortfall to the Third control period which will impact steep hike in tariff for the next control period.

It is also worth mentioning that in the FY 2025-26 (most likely in Quarter 1), DA will like to cross 50%, this will result in increase in HRA by 3% as per the recommendation of 3rd Pay revision committee. AERA is requested to consider the impact of this increase for FY 25-26 and onwards.

(i) Administration and General expenses- CHQ/ RHQ allocation:
[Para 9.2.13 of CP]

AERA's Contentions

The Authority reviewed the basis for allocation of CHQ and RHQ expenses to Amritsar Airport for the Second Control Period. Based on the methodology and justification explained under para 4.7.3 (a) and (b) of this Consultation Paper, the Authority has rationalized the Administration and General Expenses- CHQ/ RHQ allocation, projected by AAI for AIA for the Second Control Period, considering 5% Y-o-Y increase (as sought by AAI), based on the amount considered for true up of FY 2023-24. The same is presented in Table 48

AAI's Submission

- Matter has been explained in Point 2(a) of this letter/document in detail. AERA has not considered the study carried out by ICMAI for FY 2021-22 and considered 5% increase over FY 2020-21**(a pandemic year)**. This has not only impacted the first control period, it has cascading effect in the second control **period as the base considered for second control period is also FY 2020-21 (a pandemic year) and thereafter 5% YoY increase. Considering a pandemic year as base is not justified.**

- **AERA is requested not to consider the year of Covid-pandemic (FY 2020-21) as the base year :**
  - **(iv) since AAI had taken cost cutting measures**
  - **(v) lesser revenue due to non operation of international flights and lower volume of domestic flights at Amritsar.**

- **AERA is requested to consider either FY 2019-20, a normal year or consider the figure submitted by AAI on basis of Study carried out by ICMA for FY 2021-22, as base for 5% YoY increase for allocation to FY 2022-23 to FY 2028-29.**

(k) Repair and Maintenance Expense

(Para 9.2.14 to 9.2.19 of CP)
AERA's Contentions

AERA notes that AIA has proposed an amount of ₹ 1.50 Crores towards re-carpeting of Perimeter Road in FY 2026-27 and same has been considered as CAPEX by AAI in its MYTP submission. However, the Authority has considered it as Repair & Maintenance Expenses, as it does not lead to increase in the useful life of the Perimeter Road.

AERA notes that AAI has proposed an increase of 16% for FY 2024-25, 67% for FY 2025- 26, 20% for FY 2026-27, 1% for FY 2027-28 and 2% for FY 2028-29 on repair and maintenance expenditure for the Second Control Period. The Authority noted that AIA has projected the cost of Runway Re-carpeting for the Second Control Period starting from FY 2025-26, amounting to ₹ 46.19 Crores, which also includes the return on re-carpeting of Runway.

AERA notes that AAI has claimed the total Repairs & Maintenance expenses of ₹ 145.52 Crores (including amortization of runway re-carpeting expenses of ₹ 46.19 Crores) for the Second Control Period. However, even after excluding such expense on re-carpeting of Runway, the Repairs & Maintenance expenses projected for the Second Control Period by AAI are substantial.

AERA notes that R&M expenses proposed by AAI for the Second Control Period (after excluding the runway re-carpeting expenses), 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 6 (Table 47 of CP)

As per the submission of AAI in other Airports, capping of R&M expenses to 6% of Opening RAB reduces the allowable R&M expenses substantially whereas assets require more R&M expenses in later part of their useful life.

AERA, 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 revisited and the Authority would look into alternative methodology/ benchmarks for evaluation of reasonableness of R&M expenses proposed by Airport Operators.

Table 6: Repairs and Maintenance on Opening Net block of Assets claimed by AAI and Proposed by the Authority for the Second Control Period

(₹ Crores)

Particulars	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	TOTAL
Expenses Claimed by AAI (Other than Runway Recarpeting) (A)	16.56	18.88	19.54	21.24	23.10	99.32
Runway Recarpeting (B)	-	8.78	13.70	12.47	11.24	46.19
Total (C= A+B)	16.56	27.66	33.24	33.71	34.35	145.52
Opening RAB (D) (Refer Table 40)	183.91	180.56	167.14	175.03	263.94	
6% of Opening RAB (E= D*6%)	11.03	10.83	10.03	10.50	15.84	58.23
Revised Runway Recarpeting expenses (F)	-	8.78	12.96	11.92	10.87	44.53
Recarpeting of Perimeter Road (G)	-	-	1.50	-	-	1.50
Allowable expenses (H= 6% of Opening RAB or A, whichever is lesser)	11.03	10.83	10.03	10.50	15.84	58.23
Total R&M Expenses allowed by the Authority (I= F + G+H)	11.03	19.62	24.49	22.42	26.71	104.27
Difference (J= C-I)	5.52	8.05	8.75	11.29	7.64	41.25

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 opening RAB (i.e. WDV) will further reduce the cost whereas in reality is that the maintenance costs will increase to make good the wear and tear over the years. AERA has applied the capping @6% of opening RAB. Applying it on opening RAB means as the time passes, allowable Repair and maintenance will decrease for that asset, however in reality as the asset become old, more repair and maintenance is required. So, applying capping of 6% on opening RAB is not justified.

R&M expenses includes various services like May I Help You, Solid Waste Management, Noise control, Pollution control which are not related to any Assets which needs to be reimbursed in full.

Maximum AMC contract includes man power which is based on the labor rate which is revised time to time by the Ministry of Labour. Since most of AMC includes Manpower, it is not justified to restrict R&M by 6% of Opening RAB as the assets will be depreciated however the manpower cost will be increased every year.

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.

To highlight the effect of restricting R&M to 6% of opening RAB, actual values of Ambulifts along with CMC costs has been shown below as Illustration. Total value of asset is Rs. 62,97,841 taken from live assets.

Illustration 3

Year	Capitalisation	1st	2nd	3rd	4th	5th	6th	7th
Opening RAB	6297841	5510611	4723381	3936151	3148921	2361691	1574461	787231
Depreciation @ 12.5%	787230	787230	787230	787230	787230	787230	787230	787230
Net RAB	5510611	4723381	3936151	3148921	2361691	1574461	787231	1

Year	1st	2nd	3rd	4th	5th	6th	7th
AMC Cost	634192	728660	1080709	1216113	1361593	1473695	1583277
% of AMC on Net RAB	13%	19%	34%	51%	86%	187%	158327700%
6% of Net RAB	283403	236169	188935	141701	94468	47234	0
Net loss to AAI (Diff.)	-350789	-492491	-891774	-1074412	-1267125	-1426461	-1583277

AAI would like to highlight that even in the first year the R&M costs of the assets exceeds the cap of 6% of opening RAB.

Hence, AERA is requested to remove the cap of R&M expenses at 6 % of Opening RAB and consider the total expense as projected by AAI.

Also, as mentioned in point 3 (c) of this document, AERA has excluded Rs. 1.95 crores from PTT, considering it as CMC cost, however same has not been added to repair and maintenance expenses. AERA is requested to consider it either in PTT cost or in repair and maintenance.

(I) Expenses towards Utilities and Outsourcing expense -Other than Power charges

(Para 9.2.21 of CP)

AERA's Contentions

AERA examined the expenses towards utilities and noted the following: Utilities and outsourcing expense other than power charges: AAI has proposed an increase of 10% YOY basis for the Second Control Period.

AERA takes cognizance of utilities expenses projection submitted and approved at similar AAI airport and proposes to consider a 5% YOY increase on the same for the Second Control Period.

AAI's Submission

It is submitted that Utilities and outsourcing expense other than power charges may be approved as submitted by AAI as it includes man power (Hiring of Vehicles/consultant) as well as material cost (Consumption of stores). AAI requests AERA to consider the 10% YoY increase.

(m) Expenses towards Upkeep expense

(9.2.22 of CP)

AERA's Contentions

AERA observes that for upkeep expenses, AAI has proposed 10% increase year-on-year for the Second Control Period. AERA notes that these are contractual expenses, wherein the rates have been finalized for the entire contract period (which is 3 years), and it includes the cost of materials, equipment and labour (including statutory benefits such as PF, ESI, Bonus etc) and increase in minimum wages is being reimbursed to the contractors on actual basis. AAI has not provided any working/ basis for 10% increase Y-o-Y. As manpower expense is a significant component and the revision of Minimum wages is based on statutory requirements, the Authority proposes to consider a 5% year-on-year increase towards Upkeep expenses across the Second Control Period, for Amritsar International Airport.

AAI's Submission

It is submitted that AAI has proposed the 10% YoY increase to cover the material and labour cost (in order have compliance of labour laws). Accordingly, AERA is requested to approve 10% YoY increase for upkeep expenses for second control period.

(n) UDF:

(14.2.2 of CP)

AERA's Contentions

The Authority observes AAI has proposed only a minimum one time increase in Domestic and International Landing charges and International Parking charges, as mentioned in para 14.1.1 of this Consultation Paper. Further, AAI has proposed de-growth in Domestic UDF by 8%.

However, based on the rationalizations proposed by the Authority on the various regulatory building blocks (as discussed in the previous chapters), the Authority has derived the PV of ARR as ₹ 656.46 Cr (as per Table 58) for the Second Control Period for Amritsar Airport. Based on the above ARR, the Authority proposes a 42% reduction in aeronautical tariff (from the existing rates of both domestic and international flights) towards Landing charges, Parking charges and UDF charges, w.e.f. March 1, 2025 for the Second Control Period for Amritsar International Airport.

Domestic and International UDF charges proposed by AERA for the Second Control Period for AIA is as follows:

Table7: UDF proposed by AERA for AIA for second control period.

Passenger	FY 2023-24 (existing rates)	FY 2024-25 (March 1, 2025 to March 31, 2029)
Domestic (in ₹)	500	288
International (in ₹)	1,300	749

AAI's Submission:

It is observed that UDF of Rs. 288/- and Rs. 749/- proposed by AERA for domestic and International passengers respectively results in more than 42% reduction from existing UDF (Domestic and International) Correct UDF rates with 42% reduction as proposed by AERA vide para no. 14.2.2 will be RS. 290 and Rs.754 for domestic and international passengers respectively. AERA is requested to kindly rectify it.

Table: 8 UDF proposed by AAI vs AERA

Particulars	Existing	Proposed by AAI w.e.f. 1.1.2025	Proposed by AERA w.e.f. 1.3.2025	Reduction proposed by AERA VIDE PARA 14.2.2.	Actual Reduction comes out	UDF with 42% reduction as proposed by AERA
UDF Domestic	500	460	288	-42%	(500-288)/500*100= -42.4%	290*
UDF International	1300	1300	749	-42%	(1300-749)/1300*100= -42.4%	754*

Further, AERA is requested to consider the AAI's proposal/comments and not to make the 42% reduction in landing, parking and UDF as this is quite a heavy reduction.