File No. AERA/20011/MYTP/AAI/Chennai/2011-12

Order No. 38/ 2012-13

सत्यमेव जयते

Airports Economic Regulatory Authority of India

In the matter of Determination of Aeronautical Tariff in respect of Chennai International Airport, Chennai for the first Control Period (01.04.2011-31.03.2016)

Date of Order: 1st February, 2013

Date of Issue: 4th February, 2013

AERA Building
Administrative Complex
Safdarjung Airport
New Delhi - 110003

भारतीय विमानपत्तन आर्थिक विनियामक प्राधिकरण

Airports Economic Regulatory Authority of India

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1. Brief Facts of the case

1.1. Airports Authority of India (AAI) was constituted under the Airports Authority of India Act 1994 ("AAI Act") and came into being on 1st April 1995 by merging erstwhile National Airports Authority and International Airports Authority of India. The merger brought into existence a single organization entrusted with the responsibility of creating, upgrading, maintaining and managing civil aviation infrastructure, both on the ground and air space in the country.

1.2. Currently, there are 127 airports under AAI's managerial responsibilities, which include 11 international airports, 8 custom airports, 81 domestic airports and 27 enclaves at Defence Airfields. Total passenger throughput was 162.3 million and total cargo handled was 2.3 million tonnes at all AAI airports during 2011-12.

1.3. The Chennai International Airport, Chennai (CIA) is one of the 11 international airports which are under the management and ownership of AAI. CIA received 12.93 million passenger throughput in 2011-12.

1.4. The Airports Economic Regulatory Authority of India (the Authority) was established in May, 2009 under the Airports Economic Regulatory Authority of India Act, 2008 (AERA Act). The functions of the Authority inter alia include determination of tariffs for aeronautical services to be provided at major airports and to monitor performance standards acceptable at these airports.

1.5. The Authority undertook a comprehensive and transparent approach to arrive at its regulatory philosophy and approach for economic regulation of Airport Operators which was finalized vide Order Number 13/2010-11 dated 12.01.2011 (Airport Order). Further, the Authority finalized the Airports Economic Regulatory Authority of India (Terms and Conditions for Determination of Tariff for Airport Operators), Guidelines 2011 as per Direction Number 5/2010-11 dated 28.02.2011 (Airport Guidelines).

1.6. As per section 2(m) of the AERA Act, any airport with annual passenger throughput exceeding 1.5 million has been categorized as a major airport. As the passenger throughput at CIA exceeds 1.5 million, CIA is a major airport and, thus, is considered for regulation of tariff and other charges by the Authority.

1.7. As per the Airport Guidelines, all airport operators were required to submit their Multi Year Tariff Proposal (MYTP) for first Control Period (set as five year period beginning from 2011-12) to the Authority for its consideration. Based on the MYTP, the Authority is to determine tariffs for the aeronautical services by initially determining an yield per passenger under the tariff determination process and subsequently reviewing detailed Annual Tariff Proposal(s) (ATP) from Airports Operators (pertaining to the approved yield per passenger). The last date for submission of the MYTP in terms of the Airport Guidelines was 30.06.2011.

1.8. Conscious of the fact that in the nature of the timelines specified in the Airport Guidelines, it would not be possible to determine the tariff in respect of any of the major airports before 01.04.2011, the Authority decided that the airport operators shall continue charging their existing tariffs for aeronautical services in the interim period, vide Order Number 17/2010-11 dated 31.03.2011.

1.9. In respect of CIA, AAI informed the Authority that although the process of formulation of MYTP was being carried out, changes were being incorporated to capture the information/data related to regulatory matters and hence requested an extension. On considering this, the Authority extended the timeline upto 31.08.2011 for submission of MYTP for CIA .

1.10. Accordingly, AAI filed the MYTP in respect of CIA. The MYTP was scrutinized for sufficiency of information and wherever clarifications were required, the same were called for from AAI.

1.11. AAI considered the observations of the Authority and submitted its revised MYTP along with Annual Tariff Proposal (ATPs) for the first year of the first Control period on 21.03.2012.

1.12. Along with the revised MYTP, AAI submitted clarifications on depreciation policy, traffic forecasting methodology, details for debt for Modernization and Expansion of CIA, details of revenue and expenditure and details of the component wise project cost. AAI also submitted a note on key assumptions regarding growth rates of various revenue and expenditure sources. AAI also clarified that separate Responsibility/Cost Centre have been assigned in AAI's accounting system for capturing accounting information relating to Cargo Operation Income, Expenditure and assets pertaining to Cargo service at unit level. All such assumptions, accounting policies and scientific methodology were extensively discussed between the Authority and AAI.

1.13. AAI also submitted to the Authority that the audit for each airport of AAI, including CIA, is conducted by Comptroller & Auditor General of India (C&AG). However, the Audit Certificate by C&AG is provided to AAI as a whole.

1.14. The Authority held extensive meetings with AAI to study the MYTP for CIA to scrutinize the implicit and explicit assumptions of the tariff proposal and the underlying details of the submissions. Through these meetings and discussions, the Authority arrived at its tentative decisions for tariff proposal for CIA.

1.15. The Authority's consideration and its tentative views in respect of all relevant issues were placed for stakeholder consultations vide Consultation Paper Number 16/2012-13 on 23.08.2012. The last date for receipt of comments was 13.09.2012.

1.16. A meeting with the stakeholders for inviting responses on the tentative decisions taken by the Authority was held on 30th August, 2012. Following stakeholders were present in the meeting:-

1.16.1. Airport Authority of India (AAI)

1.16.2. Federation of Indian Airlines (FIA)

1.16.3. International Air Transport Association (IATA)

1.16.4. Air India Limited

1.16.5. Lufthansa

1.16.6. Lufthansa Cargo

1.16.7. Malaysia Airlines

1.16.8. Singapore Airlines

1.16.9. Blue Dart Aviation Limited

1.16.10. Bharat Petroleum Corporation Limited (BPCL)

1.16.11. Hindustan Petroleum Corporation Limited (HPCL)

1.16.12. Indian Oil Corporation Limited (IOCL)

1.16.13. InterGlobe Aviation Limited (IndiGo)

1.17. After a brief presentation on technical and financial aspect of CIA, comments were invited from the various stakeholders. Stakeholders, such as, Federation of Indian Airlines (FIA), International Air Transport Association (IATA), Oil Marketing Companies and Air India requested for extension of time for submission of comments in response to the Consultation Paper Number 16/2012-13.

1.18. The requests made by the stakeholders were considered by the Authority and the date for submission of comments on Consultation Paper Number 16/2012-13 was extended upto 28.09.2012 vide Public Notice Number 03/2012-13 dated 04.09.2012.

1.19. Minutes of the stakeholder consultation meeting were uploaded on the website of the Authority for the information of all concerned.

1.20. The comments received from the stakeholders were uploaded on the Authority's website, vide Public Notice Number 05/2012-13 dated 05.10.2012 for the information of all concerned.

2. Summary of Stakeholders' Comments on Consultation Paper Number 16/2012-13

2.1. In response to Consultation Paper Number 16/2012-13 dated 23.08.2012, the Authority received several responses from stakeholders, which were uploaded on the website of the Authority vide Public Notice Number 05/2012-13 dated 05.10.2012 for information of all concerned. The list of stakeholders, who have commented on the Consultation Paper Number 16/2012-13, is presented below.

Table 1: Stakeholders' Comments

Sl. No.	Stakeholder	Issues Commented Upon
1	Airlines Operators Committee	Cargo Services Project Cost Regulatory Asset Base Traffic Forecast Revenue from services other than Aeronautical Services Fuel Throughput Charge Operations & Maintenance Expenditure Project Completion & Components Consultation Process Aeronautical Revenue Approach to Tariff Determination
2	Sri Lanka Airlines	Annual Tariff Proposal
3	Cathay Pacific Airways	Cargo Services Project Cost Operations & Maintenance Expenditure Fair Rate of Return True-Up Annual Tariff Proposal Consultation Process
4	Lufthansa Cargo	Cargo Services
5	Air Passengers Association of India	Project Cost Traffic Forecasts Revenue from Services other than Aeronautical Revenue Fair Rate of Return Annual Tariff Proposal Consultation Process
6	BPCL	Fuel Throughput Charge Annual Tariff Proposal
7	IATA	Cargo Service Airport Services Regulatory Asset Base Traffic Forecast Revenue from Services other than Aeronautical services Fair Rate of Return Quality of Service Annual Tariff Proposal Consultation Process
8	FIA	Project Costs Regulatory Asset Base User Development Fee Revenue from Services other than Aeronautical Services Fuel throughput charge Operations and Maintenance Expenditure Fair Rate of Return Quality of Service

Sl. No.	Stakeholder	Issues Commented Upon
		Annual Tariff Proposal Consultation Process Approach to Tariff Determination True-Up

2.2. The Authority has carefully considered all the above comments made by different stakeholders. It has also obtained the response of AAI on them. The tentative position of the Authority in its Consultation Paper Number 16/2012-13, issue-wise comments of the stakeholders on the Consultation Paper, the response from AAI thereon, Authority's examination, and its decision are given below.

3. Tariff determination methodology

3.1. The Authority vide its Order Number 13/2010-11 dated 12.01.2011 (Airport Order) and Direction Number 5/2010-11 issued on 28.02.2011 (Airport Guidelines) had laid down the regulatory approach and process for tariff determination, for aeronautical services provided by the Airport Operators.

3.2. The Authority vide its Order Number 12/2010-11 dated 10.01.2011 (CGF Order) and Direction Number 04/2010-11 (CGF Guidelines) issued on 10.01.2011 had laid down the regulatory approach and process for tariff determination for any service provided for (i) ground handling services relating to aircraft, passengers and cargo at an airport; (ii) the cargo facility at an airport; and (iii) supplying fuel to the aircraft at an airport.

3.3. These orders and directions have been issued after wide consultation with stakeholders. The Authority, through Airport Order and Airport Guidelines, had indicated its position on aspects such as form of regulation, regulatory till, framework for determination of fair rate of return, various Regulatory Building Blocks, traffic forecasting, quality of service, and the regulatory process for tariff determination at major airports.

3.4. The Authority, through CGF Order, indicated its approach towards regulatory philosophy and approach in economic regulation of services provided for cargo facility, ground handling and supply of fuel to the aircraft at major airports and civil enclaves.

4. Cargo Facility Service at CIA- Regulatory Approach

4.1. AAI, in addition to being the Airport operator at CIA, also manages and operates the International Cargo facility at CIA. The Authority, vide its Order Number 11/2010-11 dated 05.01.2011, in the matter of AAI's proposal for revision of Cargo Tariff at Chennai and Kolkata Airports had approved a 5% revision of the schedule of cargo charges (Terminal Storage and Processing, Demurrage) at these airports over the existing charges, purely on an ad-hoc basis with immediate effect and had ordered that this ad-hoc determination would be reviewed at the stage of tariff determination for the first cycle and thereafter as the Authority may decide.

4.2. As per the requirements under the Airport Guidelines and CGF Guidelines, AAI had submitted a separate MYTP as well as ATP for airport services and cargo services at CIA, Chennai.

4.3. After examination of AAI's submissions in the MYTP that the cargo services at CIA are deemed "material but competitive", since cargo service at CIA is being provided by Air India as well as AAI, the Authority proposed in its Consultation Paper Number 16/2012-13 , that it will maintain a "Light Touch Approach" for the first control period for cargo services.

4.4. In addition, the Authority had proposed in the Consultation Paper Number 16/2012-13 to allow AAI to continue levying the existing rates for various cargo facility services which were hiked by 5% in 2010-11 as per a broad consensus among trade bodies and AAI, during the remaining period of the first control period.

Stakeholders' Comments

4.5. In response to the tentative decision taken by the Authority of following Light Touch Approach for cargo facility services at CIA, IATA has stated that

> *"AAI is the dominant provider of cargo facility services at CIA and is also the landlord of Air India's cargo services unit. Effectively, AAI has monopolistic power in this domain and has the potential to impose rate increases at will irrespective of the presence of an alternative player. IATA welcomes the proposal not to increase cargo services rates for the remainder of the first control period but would request that the 'light touch approach' be reviewed if*

there is evidence of AAI exerting its strong market position by increasing rates unreasonably and without proper consultation."

4.6. Responding to IATA's comments, AAI has stated that

"Air India is operating Cargo services independent of cargo services provided by AAI. In any competitive environment, it is very difficult to raise the rates without any justification keeping in view the market conditions."

4.7. AOC has stated that the current cargo tariff that is being charged at CIA, Chennai is unreasonable and the Authority should review the current cargo charges at CIA as per its Order Number 11/2010-11 dated 5th January, 2011 and revise them downwards. AOC as well as Lufthansa Cargo have submitted that there has been no enhancement in infrastructure (i.e. number of cargo bays) or any service offered to the trade and other factors, which would justify this increase in cargo rates.

4.8. AOC has further stated that "the Authority had approved the 5% increase in the existing rates of cargo charges at the CIA purely on ad-hoc basis. As per this Order, the determination of cargo charges at the CIA on an ad-hoc basis was to be reviewed at the stage of tariff determination for the first cycle. Thus, though the AAI has not proposed any increase or hike in the cargo tariff already being charged, the Authority cannot avoid review of the current charges as that would be inconsistent with the Order that was passed by the Authority on 5th January, 2011."

4.9. AOC has provided a summary of discussions and Authority's consideration at the time of passing the Order Number 11/2010-11 dated 5th January, 2011 and has stated as below:

"The discussions that were held prior to the passing of the aforesaid Order on 5th January, 2011 mentioned in the Order illustrate the various points raised by the stakeholders regarding the revision of cargo tariff at the CIA and Netaji Subash Chandra Bose International Airport, Kolkata ("Kolkata Airport"). The AAI had proposed an increase of 10% each year for the period 2010-11 and 2011-12, keeping in view the investment in improvement of cargo terminal to the tune of INR 79 crores in the previous 2 years and a further estimated investment of INR 160 crores (approximately) in 2010-11 in cargo facilities at both of the aforesaid

airports. Prior to the fixing of the tariff for cargo services, AAI held meetings with the stakeholders that were attended by very few stakeholders. Certain stakeholders, who did not attend the meetings, expressed their concern regarding AAI fixing the tariff for cargo services and stated that these charges had to be decided by the Authority and not by the AAI.

The AAI, in its proposal to the Authority for approval of increase in cargo charges, stated that it was decided between the AAI and the various trade bodies for cargo services that there would be a 5% increase in the cargo charges for the years 2010-11 and 2011-12 at the CIA and Kolkata Airport

The Authority at the time of examination of AAI's proposal noted that the submissions made by the AAI were bereft of financial details and the stakeholder consultation meetings appeared to be incomplete as one of the important stakeholders Air Cargo Agents Association of India ("ACAAI") was not present at the meeting. The Authority also referred to a letter by ACAAI to the Authority dated 10th August, 2010 by which it had requested the Authority to ask AAI to enhance its infrastructure as well as the services offered to the trade and other factors, in order to justify the increase in the cargo charges. Another stakeholder also pointed out to the Authority that any revision in the cargo charges without a corresponding improvement in infrastructure and facilities would increase the transaction cost of the industry.

Although the AAI, prior to passing of the aforesaid Order dated 5th January, 2011, stated that INR 165 crores was already invested for the cargo centre at CIA, till date there has been no expansion or enhancement of cargo facilities that has been made by the AAI. The CIA has 3 cargo bays and there has been no increase in the said figure though there has been an increase in the growth of cargo flights at the CIA. In light of the aforesaid circumstances, it is pertinent that the Authority review the current cargo charges at CIA as per its Order dated 5th January, 2011 and revise them downwards."

4.10. AAI has refuted the comments of AOC and has stated that prior to making submission for 5% increase in cargo tariffs, AAI had held meetings with stakeholders on

19.03.2010 and 16.04.2010 wherein various issues relating Cargo services, including proposal for increase in tariff were discussed with the stakeholders and details of investment made for improving Cargo services etc. were shared with stakeholders and after the User Consultation process, consensus had emerged between AAI and Stakeholders to increase the existing tariff by 5% for FY 2010-11 and FY 2011-12.

4.11. AAI has strongly objected to AOC's comment *"….. proposal put forth by AAI is bereft of a serious effort to justify seeking an increase…"* and has submitted that the comment was made by one of the stakeholders (ACCAI) not by AERA.

4.12. AAI has also stated that ample opportunity was given to all stakeholders to put forward their observations/views on AAI proposal for increase in tariff for Cargo Services, however ACAAI chose not to participate in the stakeholders meeting convened by AAI to discuss the tariff increase for Cargo services.

4.13. AAI has also refuted AOC's comments regarding the infrastructure facilities for cargo facility services and has stated that:

> *"AAI is undertaking augmentation of Cargo handling facilities at Chennai Airport where an additional area of 37,280 sqmts is being provided. State of the art automatic baggage storage and retrieval facilities are being catered with 8020 bins.*

4.14. AAI has further stated that:

> *"To cater for additional Aircraft parking bays, AAI has already constructed 10 wide bodied Aircraft parking bays across the runway which are being used for parking of cargo aircraft also."*

4.15. AAI has also provided the details of existing and proposed cargo facilities at CIA as under.

Table 2: Cargo Infrastructure at CIA, Chennai

	Area	No. of ETv slots	Capacity
Ph I	12,500 sm	88	3.25 Lakh metric tonnes
Ph II	7,495	98	
Ph III	37,280	ASRS with 8020 bins	7.75 lakh metric tonnes
		Total	11 lakh metric tonnes

Authority's Examination

4.16. The Authority has carefully considered the stakeholder comments regarding the cargo facility service charges at CIA.

4.17. The Authority does not agree with AOC's comment that the Authority has avoided the review of current cargo related charges at CIA. The Authority had considered AAI's cargo MYTP submission as well as Authority's CGF Order and CGF Guidelines. It noted that there are two providers of cargo service namely AAI and Air India. Hence, the cargo service in CIA, Chennai was considered competitive. The Authority had therefore proposed to consider cargo related charges at CIA, Chennai under "Light Touch Approach". Hence, the Authority's proposal in this regard is consistent with its CGF Order and Guidelines. The Authority has further noted that AAI has not proposed any revision in its cargo charges for the remaining period of the control period and has found no reason to deviate from the same.

4.18. Cathay Pacific has submitted as under:

> *"The tentative decision to approve AAI's proposal to continue levying the existing rates for the various cargo facility services during the remaining period of first control period is inappropriate. Cargo Facility is part of the airport operations and therefore the tariff should be determined altogether as a whole. The broad understanding between AAI and Trade Bodies on the tariff for cargo services that were fixed in consultation with the Trade over annual escalation of 5% in cargo rates should be revisited in conjunction with this MYTP, rather than taking the "light touch approach" as suggested for the first control period. Otherwise, there will be an issue that the proposed tariff for airport services is subsidizing the cargo services. The original value of fixed assets, accumulated depreciation, accumulated capital grants, subsidies or user contribution which are the components for computing the Regulatory asset base, those depreciation cost and other investments are to a certain extent also of being used by the freight operations, hence the calculation of the tariff should include the cargo facilities and operations into the whole picture. All those costs towards the modernization of CIA are on the high side during the first control period, and with the high Aggregated Revenue Requirement proposed by AAI, it is unfair to have this burden to be solely borne out by the airport users only. It is in our view that these costs should also be shared among all the facilities' users,*

including freight operations. With the significant traffic growth of 10.48% and 13.65% for domestic and international respectively in freight, the cargo volumes would have a great impact to the overall computation of the annual tariff aeronautical charges.,"

4.19. The Authority's understanding of the essence of response submitted by Cathay Pacific is that it is supportive of increase in the charges for cargo services at CIA, Chennai. This is because according to Cathay Pacific, unless cargo charges are increased the burden of additional investments in the airport in the cargo facility will fall on the passengers.

4.20. As stated above, the Authority adopted "Light Touch Approach" to determine the tariff for cargo facility services provided by AAI at CIA because there are two service providers offering this service. Hence, this is considered as competitive. This is in accordance with what the Authority has considered in its CGF Order.

4.21. The Authority has also reviewed the financial position of AAI regarding the cargo service. The Authority notes that the cargo service in CIA, Chennai is generating surplus of around Rs. 150 crores per annum during the current control period. AAI has projected an increase in the cargo volume at around 10% per annum. The Authority, in its Consultation Paper Number 16/2012-13, had taken increase in cargo volume at 10.48% for international cargo and 13.65% for domestic cargo. The Authority, therefore, has come to the conclusion that the cargo service at CIA, Chennai would not put any extra burden on the passengers on account of non-increase in the rates of the cargo service.

4.22. IATA has commented on what it perceives as monopolistic power of AAI in providing cargo service at CIA, Chennai. IATA has stated that "AAI *has the potential to impose rate increases at will irrespective of the presence of an alternative player".* The Authority does not agree with this assessment in view of the existence of the second player namely Air India. The Authority notes that AAI is not a shareholder in Air India, neither Air India in AAI. Air India has not made any suggestions to the effect of "misuse of market power" by AAI. Also, the determination of misuse of market power or abuse of dominant position falls within the domain of Competition Commission of India.

4.23. Having reviewed the stakeholders' comments, the Authority decides as under.

Decision No1. Regarding Cargo facility Service at CIA

1.a. **The cargo facility services at CIA is material but competitive. Hence the Authority decides to determine tariffs for cargo facility services provided by AAI at CIA, Chennai under "light touch approach" (as envisaged in CGF Guidelines) for the first control period.**

1.b. **The Authority determines the tariffs for Cargo Service provided by AAI at CIA, Chennai, for the years 2012-13, as at Annexure I. These tariffs will remain constant for the remaining part of the current control period (till 31st March, 2016). Demurrage Free period will be as per instructions issued by the Central Government from time to time.**

5. Airport Services at CIA – Regulatory Approach

5.1. The Authority had proposed in the Consultation Paper Number 16/ 2012-13 to determine the Aggregate Revenue Requirement (ARR) for AAI as a whole, taking into account the investments and costs for both the airport services as well as cargo services.

Stakeholder's Comments

5.2. The Authority has received conflicting comments about determining the ARR for AAI as a whole, taking into account the investments and costs for both the airport services as well as cargo services. While Cathay Pacific has favoured an approach wherein the tariffs should be determined altogether for airport as a whole, IATA has submitted that the proposed solution is not ideal as it results in costs being wrongly allocated among two different groups of users (passenger airlines and freighter airlines) and is therefore in contravention of ICAO's cost-based charging policy. IATA has recommended AAI to separate costs between airport operation and cargo services to facilitate a more appropriate and equitable tariff determination process.

Authority's Examination

5.3. The Authority has noted that the AAI has already separated accounts pertaining to airport and cargo services for preparation of MYTP for Airport and Cargo services at Chennai airport as per the Guidelines issued by AERA. The Authority as observed in the Consultation Paper Number 16/2012-13 is in favour of treating all cost elements of CIA, Chennai (including those for cargo services) together as it provides a more comprehensive basis for determination of ARR from the building blocks as a whole for the airport. The Authority is of the view that this approach is in consonance with the definition of “airport user” in the AERA Act that defines is as “any person availing of passenger or cargo facility at an airport”.

5.4. The Authority, thus, as proposed in the Consultation Paper Number 16/2012-13, has determined the Aggregate Revenue Requirement (ARR) for AAI as mentioned hereunder.

$$\boldsymbol{ARR}_{Airport\ Services} = \boldsymbol{ARR}_{Airport+Cargo\ Operations} - \boldsymbol{Projected\ Revenue}_{Cargo\ Services}$$

Note: It is to be noted that the ARR includes revenues from services other than aeronautical services.

Decision No2. Regarding Regulatory Approach for Airport Services

2.a. **The Authority decides to determine the Aggregate Revenue Requirement (ARR) for CIA, Chennai, taking into account the investments and costs for both the airport services as well as cargo services as per 5.4 above.**

6. Project Cost and Regulatory Asset Base

6.1. In the Consultation Paper Number 16/2012-13, the Authority had proposed to consider the project cost of Rs. 2,862.71 crores for the purpose of determining Regulatory Asset Base (RAB) for tariff determination. Of the total cost, Rs. 2,015 crores for the project were approved by Ministry of Civil Aviation for the Modernisation and Expansion project of CIA comprising domestic and international terminal buildings, elevated corridor and allied works including consultancy, extension of runway and construction of a bridge on the Adyar river, Rs. 311.71 crores was proposed towards reconstruction of Taxiways and parallel Taxi Tracks and Rs. 536 crores was proposed towards cargo facility upgradation.

6.2. The Authority had also noted in the Consultation Paper Number 16/2012-13 that the project is yet to be completed and the final project cost needs to be reckoned and appropriate adjustments to the RAB would need to be carried out. The Authority had thus proposed to adjust the RAB as per the final project cost in respect of CIA at the beginning of the next control period.

6.3. The Authority had further proposed to consider Rs. 343.52 crores as initial RAB for determination of tariffs on the basis of the audited accounts of CIA for FY2010-11, audited by C&AG.

6.4. Regarding determination of depreciation, and use of depreciation for calculation of forecast RAB for CIA for the first Control period and the Average RAB for for the purpose of tariff determination, the Authority had proposed to consider the depreciation policy followed by AAI.

6.5. The salient features of AAI's depreciation policy are as under:

6.5.1. Method of Depreciation –Straight Line Method

6.5.2. Additions to Fixed Assets:-Depreciation to be provided for full year irrespective of month of installation/completion.

6.5.3. No depreciation to be provided in the year the asset is disposed off/retired from active use.

6.5.4. Residual value for each asset to be taken as Re. 1 balance to be provided by way of depreciation as per prescribed rates.

6.6. The Authority had also noted the fact that the depreciation policy of AAI is not in accordance with the Airport Order and Airport Guidelines of the Authority *(in respect of depreciation to be provided for full year irrespective of month of installation/completion; No depreciation to be provided in the year the asset is disposed off/retired from active use; Residual value for each asset)*. However, the Authority had proposed to adopt AAI's depreciation policy on the basis that:

6.6.1. AAI has been established under the AAI Act and the depreciation policy adopted by AAI has been approved by the Board of AAI.

6.6.2. AAI's formats of accounts have been formulated in consultation with the C&AG of India, who also audit the accounts of AAI as mandated under the AAI Act. The C&AG have not commented adversely on the depreciation methodology adopted by AAI.

6.6.3. Moreover, as per Section 28(4) of the AAI Act, all accounts of the CIA, once audited by C&AG, are laid before the Parliament.

6.7. The Authority had finally proposed the RAB indicated in Table 3 below for analysis and determination of aeronautical tariffs for CIA as well as proposed to make appropriate adjustments to RAB at the beginning of the next Control Period, depending on the capex incurred and timing thereof.

Table 3: Summary of the forecast and Roll forward RAB for CIA (Airport & Cargo Services)

	Details (Rs.in crore)	Tariff Year 1-2011-12	Tariff Year 2-2012-13	Tariff Year 3 2013-14	Tariff Year 4-2014-15	Tariff Year 5-2015-16

	Details (Rs.in crore)	Tariff Year 1-2011-12	Tariff Year 2-2012-13	Tariff Year 3 2013-14	Tariff Year 4-2014-15	Tariff Year 5-2015-16
A	Opening RAB-A	343.52	741.24	2070.79	2322.19	2106.93
B	Additions - WIP Capitalisation-B	522.04	1615.21	590.47	134.99	0
C	Disposals/Transfers-C	0.00	0.00	0.00	0.00	0.00
D	Depreciation-D	124.32	285.66	339.07	350.25	344.86
E	Closing RAB(A+B-C-D)	741.24	2070.79	2322.19	2106.93	1762.07
F	Average RAB (A+E)/2	542.38	1406.01	2196.49	2214.56	1934.50

Stakeholder's Comments

6.8. AOC has raised concerns regarding delay in completion of the project and has given reference to several letters written by AOC to the Secretary, Ministry of Civil Aviation (MoCA), regarding the status of the NTB at CIA and the quality/absence of the facilities therein.

6.9. AOC has further raised concerns that the number of check-in counters and baggage carousels at the domestic and international terminals in the NTB do not reflect or substantiate the traffic forecast information provided by AAI, which seem to suggest that the traffic at the CIA will grow 3-4 folds in the coming years.

6.10. AOC and APAI have submitted that extension of timelines for the modernization/ upgradation of CIA as well as frequent changes in designs has led to cost overruns for the project which is solely due to inefficient functioning of the airport operator and thus should not be reclaimed from the users and should be deducted from RAB. It has been further stated that for tariff fixation purposes, only the original capital cost of Rs.1,850 crores should be considered and not the CAPEX of Rs.2,862.71 crores indicated by AAI.

6.11. AOC has commented that the inclusion of cost of Adyar Bridge (Rs.216.7 crores) in RAB should not be considered as the bridge has not been operational for a prolonged period and has not provided any service to the users and thus there does not seem any justification for this cost to be a part of RAB.

6.12. AOC has further stated that

*"The Authority ought to also consider the provisions of Section 13(1)(a)(ii) and 13(1)(d) of the Airports Economic Regulatory Authority of India Act 2008 ("**AERA Act**"), which state that 'the Authority shall determine the tariff for the aeronautical services taking into consideration the service provided, its quality and other relevant factors' and that 'the Authority shall monitor the set performance standards relating to quality, continuity and reliability of service as may by specified by the Central Government or any authority authorised by it in this behalf'. As per the said provisions, the Authority has a statutory obligation to review and assess the service being provided by the airport operator and the quality of the same before determining the tariff for such airport. In the present case, the Authority ought to take into consideration the performance (or the lack of it) of AAI in terms of the Project, the services provided by the AAI at the CIA, especially the NTB, and the quality thereof, before determining the tariff at the CIA."*

6.13. In its submission, FIA has noted that the proposed project cost of Rs.2,862.71 represents a 42% escalation above Rs.2,015 crores in cost for CIA project that was approved by MOCA and that such escalation in costs should be strictly scrutinized. FIA has further stated that AAI has neither provided any approval from MoCA for an additional proposed capex of Rs.847.71 crores nor undertaken any user consultation for the same.

6.14. FIA has also stated that:

"It is settled position of law that future consumers cannot be burdened with additional costs as there is no reason as why they should bear the brunt. Such quick fix attitude is not acceptable. As such, the approach in the Consultation Paper does not appear to deal with the present economic realities and interests of consumers while proposing the tariff in its present form. Authority being a creature of statute is under a duty to balance the interest of all the stakeholders and consumers, which it is mandated to do under the AERA Act."

6.15. AOC, APAI and FIA have raised concerns that AAI has not undertaken any user consultation, either at the commencement of the project or during implementation, with the Airports User Consultative Committee in accordance with Airport Guidelines on major capital projects planned at the airport. AOC has further submitted that the AAI has failed to provide any information to the users and AUCC and has also failed to hold any discussions in order to reach an agreement on various elements of the project plan.

6.16. Cathay Pacific has submitted that the details of the project costs were not included in the consultation paper and the level of details is insufficient to consider if those costs involved are entitled to be included in the airport project and while project cost is approved by the Ministry of Civil Aviation of India, there is no prior detailed and public discussion or consultation among the airport users, who eventually are the stakeholders that need to bear the costs.

6.17. AOC has further stated that

> *The Authority has also failed to direct the AAI to provide such information and hold such discussions with the AUCC. In the absence of such information being provided and discussions being held, the entire procedure being followed by the AAI and the Authority is not one that has been prescribed by law.*

6.18. FIA has also submitted to the Authority that among NSCBIA Kolkata, IGI Airport Delhi and CIA Chennai, CIA has the highest capex per square meters. FIA has further proposed that a good industrial benchmark with respect to optimal capex per square meter is established by the Authority and any spend over and above this benchmark should be considered as a business risk of the airport operator.

6.19. FIA has also presented to the Authority, a comparison between the increase in capex from original sanctioned amounts between CIA, Chennai and IGI Airport Delhi and have stated that check on project cost at CIA, Chennai is suffering from the same infirmities which was noticed in the case of escalated project cost at IGI Airport, Delhi. FIA has also presented a 36% difference in the capex per square meter between NSCB International Airport, Kolkata and Chennai International Airport.

6.20. AOC has submitted that the Authority has proposed to consider the calculations submitted by the AAI on Initial RAB on the basis of accounts that have been audited by the Comptroller and Auditor General (C&AG) without any verification or confirmation of the same. AOC has further stated that the Authority has failed to make available the audited accounts of the AAI prepared by the C&AG for consultation to all the stakeholders.

6.21. FIA, AOC and IATA have also commented upon the Authority's proposal to consider AAI's depreciation policies. The stakeholders have stated that the depreciation policies of AAI are not in line with the global best practices and imply that the accounting life of the assets is only 8-10 years whereas usually airports assets have useful life of 30 years, which leads to reduced accounting life of assets compared to useful life, resulting in artificial increase in the depreciation charge and an adverse impact of increasing the tariff in the initial years.

6.22. Stakeholders have also stated that the AAI's depreciation policy is not according to the Airport Guidelines that have been passed by the Authority to be followed by every Airport Operator at the time of determining and fixing tariff for airports. They have further stated that the Authority should determine the depreciation as per Airport Order and Airport Guidelines for the purpose of computing ARR as it is settled position of law that the statutory authority is bound by its own Regulations /Guidelines and any deviation by the Authority from Guidelines that have been laid down by it will render such decision to be an arbitrary and illegal one, with no basis and reasoning.

6.23. IATA has made a reference to the ICAO Doc 9562 – Airport Economics Manual and has submitted that the AAI's depreciation periods for the main capital spend fall well below the ranges shown in that document (an extract provided below)

Table 4: Useful life of Assets (ICAO Doc 9562, to calculate depreciation- IATA's submission)

Examples of range of depreciation periods	
Building(freehold)	20-40 years
Buildings(leasehold)	Over a period of lease
Runways & Taxiways	15-30 years
Aircraft parking areas	15-30 years
Furniture and fittings	10-15 years
Motor Vehicles	4-10 years
Electronic equipment(including telecommunications equipment)	7-15 years
General equipment	7-10 years
Computer equipment	5-10 years
Computer software	3-8 years

6.24. IATA has further submitted that in the final order for CIA, Chennai, AERA must adjust the depreciation costs for major asset items based on the depreciation periods that are in line with global norms.

6.25. FIA has stated that in the Consultation Paper Number 16/2012-13, the Authority has not specified the 'Competent Authority', which has approved the 'Project Modernisation and Expansion of the CIA' and on the strength of whose approval, AAI has not conducted the User Consultation.

6.26. FIA has further stated that by employing AAI's proposed rate of depreciation, the accounting life of the assets is only 8-10 years whereas usually airports assets have useful life of 30 years. FIA has presented that while AAI at CIA, Chennai mentions depreciation of Runways over a period of 7 years only, FIA understands that Changi Airport, Singapore is depreciating it over 30 years and Beijing Capital International Airport over 40 years. FIA has also stated that *"the Authority should spread out the useful life of the assets over a period of 30 years, which would reduce the target revenues by approximately Rs.201.88 crores in FY 2012-13 and over a period of 5 years the target revenues would be reduced by Rs.734.71 crores."*

6.27. Responding to AOC's comments, AAI has responded giving, inter alia, the status of various works at CIA, Chennai, as mentioned below:

> *"As per the submissions made by AAI, all the works pertaining to Domestic Terminal-2 and International Terminal-2 has been completed in April, 2012 including the Utility Building.*
>
> *The testing, commissioning of all electrical mechanical equipment was also completed after receipt of the power supply from TNEB on 22.03.2012. The work of aerobridges has also been completed in Domestic Terminal-2 and for International Terminal-2. Work is expected to be completed by Nov. 2012"*

6.28. AAI has further submitted that:

> *"In-line Baggage: Is being actioned and expected to be completed before commissioning and the deadline given by second week of December, 2012. However, stand alone X-BIS shall also be available as an alternative.*
>
> *AOCC:-Substantial part of AOCC work has already been completed and sufficient for smooth functioning of Airport. It includes SOCC (Security Operational Control Centre), Data Centre, Computer Network, BMS, CUTE Systems.*

Walkalator of the Connector tube between Domestic Terminal 2 & International Terminal 2 was not included in the project estimates of Rs.2015 crores. The work for provision of walkalator will to be taken as IInd phase of the upgradation…

Ramp: Demonstration has been undertaken and it is shown that the Tug with 2 containers is functioning in normal way in the ramp portion. Mahindra's have also demonstrated that with 55 HP tractor 3 nos. Containers can be move on the ramp.

Approach Road between city highway and main bridge:- The elevated corridor work connecting the city highway has been completed except for the portion of mid ramps of elevated corridor which is to be executed along with Airport Metro Station works.."

6.29. AAI has further provided the details of existing and proposed facilities at existing and new domestic and international terminal buildings as below:

Domestic Terminal Building

Table 5: Physical Characteristics of Existing & New Domestic Terminal at CIA, Chennai

Facilities	Existing	Additional	Total
Area	19,250sqm.	72,614 Sqm.	91,864 Sqm.
Annual Passenger Capacity	6 million	10 million	16 million
Peak hour Passenger Capacity	2060 Pax. (9.35 Sqm. per Pax.)	3300 Pax (22 Sqm. per Pax.)	5360 Pax.
Aerobridges	3 nos.	7 nos.	10 nos.
Check-in Counters	53 nos.	52 nos.	105 nos.
Baggage Conveyor Belts	4 nos.	4 nos.	8 nos.

International Terminal Building

Table 6: Physical Characteristics of Existing & New International Terminal at CIA, Chennai

Facilities	Existing	Additional	Total
Area	42,300 Sqm.	60,528 Sqm.	1,02,828 Sqm.
Annual Passenger Capacity	3 million	4 million	7 million
Peak hour Passenger Capacity	2150 Pax. (20 sqm. per pax.)	2300 Pax (26.50 sqm. per pax.)	4450 Pax.
Aerobridges	5 nos.	3 nos.	8 nos.
Check-in Counters	43 nos.	52 nos.	95 nos.
Baggage Conveyor Belts	4 nos.	3 nos.	7 nos.

Facilities	Existing	Additional	Total
Immigration/ Customs counters(Arrival)	20/16 nos.	18/10 nos.	38/26 nos.
Immigration/ Customs counters (Departure)	16/3 nos.	18/4 nos.	34/7 nos.

6.30. AAI has provided the below mentioned response to comments on increase in project cost from Rs.1850 crores to Rs.2015 crores:

> *"Change of cost of estimate was required to be updated based on the actual detailed estimate and awarded costs. This cost includes the In-line x-ray baggage, second feeder connection from TNEB, works essentially required to upgrade and complete the project. Escalation payable is as per the contract agreement clause in line with provisions of the Government contract and is directly linked to all India wholesale price index published by Economic Advisor to the Government of India. Escalation payable is only for the justified time period only."*

6.31. Responding to comments on cost escalation of 42% in the project cost, AAI has clarified that the capex of Rs.2862.71 crores for the Control Period comprises of cost towards mega project works, including terminal building, extension of runway, bridge over Adyar river etc. amounting to Rs.2015 crores approved by Ministry of Civil Aviation. The balance amount Rs.847.71 crores is towards other capital works, including cargo works, parallel taxi track for main runway etc. and the same should not be construed as escalation in cost.

6.32. AAI has also refuted FIA's comments that project cost per square metres at CIA is more than IGI Delhi airport. According to AAI, the project cost of Rs.2015 crores includes cost towards extension of Runway, payment to electricity board etc. AAI has further submitted that the cost per sq. mt. of expanded terminal at CIA (at Rs.91000 per sq. mt.) is less than IGI Airport (Rs.123,187 per sq. mt.) due to cost prudence and value engineering exercised in firming of the project proposals at the appraisal stage. AAI has further submitted that the cost per sq. mt. at Chennai International Airport is similar to the cost of expanded terminal at NSCBIA, Kolkata (at Rs.91, 845 per sq. mt.).

6.33. In response to stakeholders' comments regarding the User Consultation Process, AAI has stated that the modernisation Project at Chennai International airport was approved by the Ministry of Civil Aviation and project work commenced well before the AERA Guidelines for Airport Operators came into effect.

6.34. With respect to AOC's comment regarding operationalizing of Adyar River bridge, AAI has submitted that:

> *"Secondary runway has been extended by 1032 Mtrs. By constructing a precast RCC bridge over the river ADYAR with the extended length of runway being 3117 Mtrs. , it can handle 'D' type of aircraft. The runway has not been operationalised due to the requirement for removal of obstacles and availability of land for provision of approach lights. AAI is continuously pursuing with State Government for the same..*
>
> *As soon as land for approach lights, is made available and obstacles are removed by the State Government, runway will be put into operations. However, extended secondary runway is being operationalized by shifting the threshold. Obstruction survey and safety assessment has been completed."*

6.35. AAI has further stated that while user consultation may not have been held as per AERA guidelines for the project, which did not exist at that time, frequent meetings were conducted periodically with all concerned stake holders such as Airlines, Customs & Immigration and the issues were sorted out locally during period of project execution. AAI has further stated that the user consultation will be under taken as per AERA Guidelines in respect for future projects.

6.36. Responding to stakeholders' comments on Depreciation policies, AAI has submitted that-

> *"AAI is charging depreciation as per the policy approved by AAI Board, which has been finalized after considering relevant factors such as minimum useful service life of various assets based on technical assessment. Based on the above policy, AAI finalizes its annual accounts which are accepted by C&AG. In case the depreciation is to be reworked as per AERA guidelines, then net block of Fixed Assets, which have been 100% depreciated as per AAI books, would need recasting and 10% of asset value would have to be added back to RAB."*

6.37. AAI has further submitted that -

"The minimum useful service life of various assets is reviewed from time to time for the purpose of scrappage and replacement considering the technical factors prevailing at the airports and also due to fast changes in technology and the obsolescence factor aviation sector etc. Accordingly, the depreciation rates for various assets were reviewed and revised depreciation rates were made effective from FY 2006-07. This has been accepted by C&AG. Further, the depreciation rates adopted by Beijing Capital Intl. airport are comparable (except runway) to the rates adopted by AAI. However, it is pertinent to note that assets value is subjected to annual review by the Beijing airport "The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount" (Beijing Airport Annual report 2011 – Notes to financial statement 2(e)"

6.38. FIA has further submitted to the Authority that even if the claim of AAI for the project cost be treated as valid and admissible, the Authority must consider and decide as to whether any capital investment so made must not go into the Regulatory Asset Base and be secured through return on equity/return on capital employed as well as conduct a prudence check on each claim of capex along the lines of the established accounting standards and practices which would disallow unreasonable, unfair or extravagant expenditure.

6.39. FIA has stated that

"Being a creature of statute, the Authority is mandated to analyze the documents and conduct prudence check to ensure balance between reasonable recovery of efficient and prudent costs while preventing usurious windfalls, viz.-

(a) Section 13 (1)(a)(i) of the AERA Act envisages that the Authority shall consider the actual expenditure incurred and timely investment in improvement of airport facilities. (b) It is submitted that prudence check is an intrinsic and essential part of the process of tariff determination as is also evident from Section 13 of the AERA Act. Any expenditure incurred by AAI cannot be accepted by the Authority on the face of it and passed on to the consumers directly or

indirectly. The Authority is required to evaluate the claims made by AAI and only after satisfying itself through a rigorous prudence check which involves:-

(i) Scrutiny of the expenditure made by AAI and assessment of whether the same has been reasonably and properly incurred.

(ii) Examining the resultant benefit from the said expenditure in terms of enhanced efficiency.

(iii) Appraising the working parameters of the utility with the prevalent norms, benchmarks and standards.

27. In view of the foregoing, it is submitted that for any increase in cost, the Authority is mandated to conduct prudence check and it is vital to scrutinize each and every claim made by AAI."

6.40. FIA has also referenced to a judgment dated 29.08.2006 of the Appellate Tribunal for Electricity in the matter of KPTCL Vs. KERC & Ors. reported as 2007 APTEL 223 and has submitted that the judgement has clearly held that utilities are free to decide their plans of investment for improvement of system or expansion to meet the demand including upgradation and maintenance for a better and quality supply and that the Commission/Regulator shall undertake a prudent check and if deem fit allow the claim and in appropriate cases, disallow such cases of utility and it is for the utility to bear the brunt of such investment and it cannot pass it on to consumers.

Authority's Examination

6.41. With regards to proposed project cost, AAI has submitted that the details of projected year-wise capitalisation during the Control Period was provided vide form no. F10(a) of the tariff proposal. The Authority notes that the same was provided as annexure to the Consultation Paper Number 16/2012-13.

6.42. The Authority has noted the response of AAI on cost escalation of 42% in the project cost. It notes that the capex of Rs.2862.71 crores for the Control Period comprises of cost towards mega project works, including terminal building, extension of runway, bridge over Adyar river etc. amounting to Rs.2015 crores approved by Ministry of Civil Aviation as well as Public Investment Board (PIB) constituted for the purposes of approving large investments by the Public Sector Enterprises. The original cost of this project was estimated at Rs. 1808 crores. Hence, the escalation part is Rs. 207 crores (around 11.45% of the original project cost), which in the opinion of the Authority is not unreasonable.

6.43. As far as the balance amount Rs.847.71 crores is concerned, cargo works amounting to Rs. 310 crores is a separate project and not part of the terminal building. The remaining amount is for other capital works, including parallel taxi track for main runway etc. Hence, the amount of Rs. 847.71 crores should not be construed as escalation in cost. The expenditure of Rs. 847.71 crores has been approved by AAI under delegated powers by the Government under financial delegation. The Authority notes that AAI is a board managed statutory organization with senior level representation from the Ministry of Civil Aviation and DGCA. It also has on board three independent directors.

6.44. AAI has submitted that the following works scheduled to be taken up from 2013-14 onwards are the only works above Rs. 50 crores for which stakeholder consultation will be held:

Table 7: Details of projected capex of more than Rs. 50 crores

Name of the Work	Cost in Rs. Crores
Parallel taxi track for Main Runway	Rs. 100 crores
Construction of new Export Cargo Building	Rs. 135 crores
Construction of Multi level Car Parking	Rs. 100 crores
Construction of Integrate common user Domestic Cargo Building	Rs. 175 crores

6.45. AAI has stated that the rest of the works included in Rs. 847.71 crores are either already in progress/completed or well below Rs. 50 crores.

6.46. The Authority notes that as per Airport Guidelines, the minimum value of capital project for which user consultation is required to be held by the airport operator is Rs. 50 crores and therefore, based on AAI's submission, AAI is required to undertake user consultation for the works listed in Table 7.

6.47. The Authority has noted the AAI's assurance to undertake user consultation as per AERA Guidelines for future projects. The Authority decides that it will review the outcome of the user consultation process for the said project and may make appropriate adjustments to the RAB at the beginning of the next Control Period depending on the outcome of user consultation, capex incurred and timing thereof.

6.48. As regards the comment of AOC on Adyar Bridge, the Authority notes that as per the accounting policy of AAI *"all projects which have been completed but could not be put to use are capitalized after three months from the date of completion of the project".* The Authority has also noted elsewhere that the accounting policy forms part of the financial statement that AAI submits to the C&AG and laid before the Parliament. The treatment of the expenditure on the Adyar Bridge is, therefore, need to be in conformity with the accounting policy of AAI and the Authority does not find any reason to deviate from the same.

6.49. With respect to FIA's comment that future consumers cannot be burdened with additional costs, the Authority notes that the formulation considered by the Authority in the Airport Guidelines is such that projected capex is considered as part of RAB only upon completion of the asset and thus the consumers pay for the facilities completed.

6.50. In view of the above, the Authority decides that it will proceed with the project cost of Rs. 2,862.71 crores for the purpose of determining Regulatory Asset Base (RAB) for tariff determination. The Authority expects that AAI will undertake user consultation for all future capital expenditure projects going forward as per Airport Guidelines.

6.51. With respect to AOC comments regarding Initial RAB that the Authority has proposed to consider the figures and calculations submitted by the AAI without any verification or confirmation of the same, the Authority is not minded to conduct a further verification or confirmation of the accounts already audited by C&AG.

6.52. The Authority has noted FIA's suggestion to establish a good industrial benchmark for the optimal capex per square meter. However, the Authority is also minded of the fact that the capex per square meter at different airports as well as for different kind of projects may vary depending upon a number of factors which come into play while undertaking a capital investment project and each of such factor may not be possible to be envisaged or accounted for.

6.53. Various stakeholders have commented on the depreciation policy of AAI. The Authority has carefully considered these comments. As noted in Consultation Paper-Number 16/2012-13, the Authority had also observed that the depreciation policy of AAI is at variance with the Authority's Airport Guidelines. The Authority has noted that it will generally accept the depreciation policy of the company unless there are cogent and convincing reasons for not doing so. FIA has given examples of Changi and Beijing Airports in respect to the number of years over which the runway is depreciated at those airports (30 years in Changi and 40 years in Beijing). These different years would yield presumably different depreciation rates for these airports. It would appear to the Authority that FIA is of the view that "useful life" of Changi airport is 30 years that is less than that of Beijing Airport namely 40 years.

6.54. The Authority is conscious of the fact that different countries have different accounting treatments for recognizing revenue and depreciation. The useful life of a project not only depends on the nature of the project but equally on the level of maintenance, periodic upgradation etc. The Authority therefore decides to accept the accounting policy of the respective companies in this regard. The Authority is informed that under Indian Tax jurisprudence the runway is categorized as "plant and machinery" for the purposes of depreciation. AAI has adopted certain depreciation policies which have not been commented upon by C&AG. The accounts of AAI are also laid before the Parliament of India. The Authority therefore finds no reason not to accept the said depreciation policy.

6.55. On balance, the Authority decides to accept AAI's policy on depreciation

Decision No3. Regarding Project Cost and Regulatory Asset Base

3.a. **The Authority decides to consider the project cost of Rs. 2,862.71 crores for the purpose of the current tariff determination.**

3.b. **The Authority decides to consider Initial RAB at Rs. 343.52 crores as furnished by Airports Authority of India.**

3.c. **The Authority decides to consider the depreciation policy of AAI, the depreciation calculated in accordance thereof and Roll Forward RAB during the Control Period as given in Table 3 for the purpose of determination of tariffs for aeronautical services at CIA.**

Truing Up: 1. Truing up of Project Cost and Regulatory Asset Base

1.a. **The Authority decides that depending on the capex incurred and timing thereof (i.e the date of capitalisation of the underlying assets in a given year) the Authority will make appropriate adjustments to the RAB at the beginning of the next Control Period, taking into account, the accounting policies of AAI regarding depreciation as well as actual expenditure incurred and capitalized.**

7. Traffic Forecast

7.1. The Authority had analysed the traffic forecast submitted by AAI for CIA, which, as per AAI submission, was prepared keeping in view the regression / econometric analysis with GDP, Index of Industrial Production (IIP) and foreign tourist as predictor variables.

7.2. As per AAI, the traffic forecast had also factored in the forecasts of other international organisations like, ICAO, IATA, ACI and aircraft manufacturers, traffic trends, infrastructure facilities, safety and secure environment and finally moderated taking in to account other factors contributing to the traffic growth like fleet of airline, subjective factors like increase in oil prices, safe and secure air travel, environment and other infrastructure like road and rail connectivity, hotels and tourist places of attraction.

7.3. The traffic growth rate submitted by AAI is as follows:

Table 8 Traffic Growth rates assumed by AAI

Particulars	Growth rates adopted (%)
Passenger Growth	7% increase in passenger traffic in 2011-12, and thereafter 9% growth is projected till the end of the Control Period 2015-16.
ATM	Aircraft movement (both domestic and international) has shown an increase by 5% in 2011-12 followed by 7% in subsequent years.
Freight	13% in 2011-12; 11% in 2012-13 to 2016-17 and 10% thereafter.

7.4. The Authority had also compared the traffic forecasts by AAI with the 10-year CAGR (2002-03 to 2011-12) and traffic growth from 2010-11 to 2011-12 and observed that while traffic forecast of AAI for ATM and passenger is lower than CAGR from 2002-03 to 2011-12, cargo projections by AAI are higher compared to CAGR from 2002-03 to 2011-12.

7.5. In view of the variations, the Authority had proposed to consider the average of the growth projected by AAI and CAGR for CIA over the period 2002-03 to 2011-12 for the purpose of determination of aeronautical tariffs for CIA.

7.6. The final traffic growth rates considered for tariff determination at CIA were as follows:-

Table 9: Traffic Growth Projections considered by the Authority

Particular	International	Domestic
ATM	8.89%	9.28%
Passenger	9.61%	12.15%
Freight	10.48%	13.65%

7.7. The Authority had also acknowledged that based on the past data that there is volatility in growth rates of traffic and had also proposed to true up the traffic projection on the actual value as they become available.

Stakeholder's Comments

7.8. The stakeholders have commented upon the traffic forecast proposed by AAI and that finally adopted by the Authority for the purpose of tariff determination. While AOC has expressed the need of an independent study or assessment of the traffic forecast, IATA has commented on the approach of averaging while CAGR itself is an acceptable methodology and APAI has commented upon the traffic forecasts being on a conservative side.

7.9. AOC has requested that instead of relying upon and referring to historical figures of the CIA to arrive at a forecast of the traffic during the first Control Period, the Authority ought to direct the AAI to submit a study or report supporting the traffic forecast, in absence of which, the Authority may direct an independent study or report to be prepared in order to consider the figures for the traffic forecast for determination of aeronautical tariff.

7.10. In response to AOC's comment that a study by an expert body has not been presented, AAI has responded that

> *"AAI has a specialized directorate (CP&MS) to analyze the historical traffic data and make traffic forecast for Indian airports. The directorate of CPMS has been publishing traffic statistics for Indian airports since inception of AAI and is equipped with professionally qualified professionals with long experience in the field and therefore AAI do not feel the necessity of getting traffic forecast prepared from an outside expert."*

7.11. AAI has also submitted that while it has taken traffic forecast for CIA based on the analysis of historical traffic trend, the traffic trend AAI has also undertaken regression/ econometric modelling also GDP as predictor variable as well as considered the traffic forecast of other international organisations.

7.12. The comments from IATA and APAI are suggestive of the fact that the traffic forecasts are on lower side. IATA, in its comments, has stated the following:-

"IATA is of the view that use of CAGR in itself for forecasting traffic growth is an acceptable methodology and averaging is not necessary and unjustified. Furthermore, given that the airport's capacity will be significantly enhanced, the potential for stronger traffic growth is greater provided that airport charges are kept moderate. A lower traffic projection used for tariff determination can be self-fulfilling if the resultant higher charges puts a drag on growth. AERA should work on a realistic scenario that can stimulate traffic growth particularly since a shortfall if it happens will be trued up in the next control period. "

7.13. APAI has commented upon the specific numbers of traffic forecasts saying that these should be revised upwards as current projections appear to be very conservative. APAI has referred to ICAO's forecasts traffic for the region to be 12% for Domestic air traffic and 15% for International air traffic and cited further avenues for growth such as the Regional Airlines getting operational in Southern Region before 1st April 2013 and competitive rates, which may be offered by CIA would change the traffic growth patterns.

7.14. In its response to comments from IATA and APAI, AAI has responded as -

"Since, there is a gap between CAGR and AAI projected traffic growth rates, in order to take balanced view, AAI had decided to consider traffic growth based on average of CAGR and AAI projected growth rates. These rates are more than the actual growth during the latest completed year (2011-12)."

Authority's Examination

7.15. The Authority has noted the Stakeholder comments and AAI responses on the issue of traffic forecast. As presented in its Consultation Paper Number 16/2012-13, the Authority had proposed that traffic forecasts for first Control Period at CIA would be trued up in the next Control Period beginning from 2014-15 based on the actual traffic. The Authority is of the view that by referencing the traffic forecast for CIA to last 10-year CAGR, it has followed an approach to arrive at a reasonably realistic traffic forecast. The Authority further is of the view that since traffic forecast will be trued up, it will take care of variations between the forecast and actual traffic. Hence no other adjustments / modifications in the traffic forecast proposed in the Consultation Paper Number 16/2012-13 is presently required.

7.16. In view of the above, the Authority decides to continue with the traffic forecasts proposed in the Consultation Paper Number-16/2012-13.

Decision No4. Regarding Traffic Forecast at CIA

4.a. **The Authority decides to consider the following traffic Forecast for CIA for the first Control Period:**

- **i) ATM growth rate of 9.28% and 8.89% for Domestic and International ATMs respectively.**
- **ii) Passenger growth rate of 12.15% and 9.61% for Domestic and International Passenger Traffic, respectively.**
- **iii) Freight growth rate of 13.65% & 10.48% for Domestic & International respectively.**

Truing Up: 2. Truing up of Traffic Forecast at CIA

2.a. **The Authority decides to true up the traffic volume based on actual growth during the current control period while determining aeronautical tariffs for the next control period commencing w.e.f 01.04.2016.**

8. Revenue from services other than aeronautical services

8.1. AAI had submitted the forecasts of the various components of non-aeronautical revenue streams by applying the following growth rates to historical revenues and establishing the relationship with available commercial area.

Table 10: Assumptions of AAI for Non Aeronautical Revenue at CIA, Chennai

Sl no	Item	Assumptions
1	Public Admission Fees	25% increase in 11-12 as per the current year estimates and 10% increases per annum in 2012-13 on onwards.
2	Trading concession including Restaurant, Hording & display, duty free shops etc.	15% increase in 11-12 as per the current year estimates and 35% increases in revenue projected in 2012-13 due to increase in commercial area following commissioning of new terminal building and normal increase of 10% is estimated on 2013-14 onwards
3	Rent & Services including Land lease and building non-residential	7.50% increase in 11-12 as per the current year estimates and 35% increases in revenue projected in 2012-13 due to increase in commercial area following commissioning of new terminal building and normal increase of 7.50% is estimated on 2013-14 onwards

Sl no	Item	Assumptions
4	Miscellaneous	10% increase in 11-12 as per the current year estimates and 35% increases in revenue projected in 2012-13 due to increase in commercial area following commissioning of new terminal building and normal increase of 10%is estimated on 2013-14 onwards. Historical factors are also considered.

8.2. With regards to assessment and projection of the non-aeronautical revenue for CIA, the Authority was informed that AAI is in the process of identifying, planning and concessioning out various areas/ locations within the new terminal building at CIA for non-aeronautical purposes even as the underlying area has not been finalized in this regard.

8.3. The Authority had also noted that as per the Airport Order and Airport Guidelines any upside or down side of non-aeronautical revenue would not be trued up and had also recognised that in absence of any firm plans regarding the area to be utilised towards non aero activities, the non-aeronautical revenue projections as submitted by AAI are likely to be tentative.

8.4. The Authority also noted that the past growth of non-aeronautical revenue may not serve either as a benchmark or guide in making the forecast on account of the new terminal at CIA being more than 3 times the existing terminal. Therefore, the Authority noted that the amount of non-aeronautical revenues that AAI may be able to obtain at CIA is difficult to estimate.

8.5. Accordingly the Authority, in the Consultation Paper Number 16/2012-13, had proposed that for the first Control Period, it will consider AAI's submission of non-aero revenue in order to determine tariffs for CIA. The Authority further proposed to true up the non-aeronautical revenue at CIA on actuals while determining tariffs for the next Control Period.

8.6. The projections of revenue stream from Non-Aeronautical sources at CIA, as considered by the Authority for determination of tariff at CIA, are provided in the table below.

Table 11: Non-Aeronautical Revenue Projections considered by the Authority

Particulars (Rs in crs)	2011-12	2012-13	2013-14	2014-15	2015-16
Public Admission Fee	2.86	3.16	3.46	3.80	4.18
Trading Concession	82.76	111.73	122.90	135.19	148.71
Rent & Services	46.08	62.20	66.87	71.89	77.28

Particulars (Rs in crs)	2011-12	2012-13	2013-14	2014-15	2015-16
Other Revenue	25.08	33.85	37.24	40.96	45.06
Interest Revenue	1.55	1.86	1.95	2.05	2.15
Total	158.33	212.80	232.40	253.89	277.38

8.7. The Authority also acknowledges that ground handling services at CIA have been concessioned out to an Independent Service Provider (ISP) and as per the Airport Guidelines the license fee receivable from ISP will be considered as a source of non-aeronautical revenue.

Stakeholder's Comments

8.8. Amongst the stakeholders, APAI, AOC and FIA have expressed that the estimation of non-aeronautical revenue for CIA is on a conservative side. IATA, while holding the view that there is huge upside potential for CIA on the non-aeronautical revenue, has expressed consent with the Authority's approach for truing-up this stream of revenue.

8.9. APAI has commented saying that on account of expanded area and the facilities, non-aeronautical sources at CIA can more than double in the tariff year 2013 – 14 from that in 2011-12 and may increase further once the entire available space, almost 3 times the existing terminal buildings, is made use of. APAI also made reference to car parking revenue, advertisement space and the vacant space available with CIA (allotted to them by the Government of Tamil Nadu) in suggesting that there is an upside potential in these areas and that AAI must make best efforts to utilize the same.

8.10. AOC, by providing reference to other major airports in South India, has expressed that revenue projected by the AAI from non-aeronautical services do not reflect the true potential for an airport of international standards. Accordingly it believes that the estimates of non-aeronautical revenues made by AAI are extremely conservative. Additionally, AOC held the view that that current operation of commercial space with temporary or make-shift vendors is inappropriate as permanent concessions would yield more revenue.

8.11. With respect to Ground Handling services, IATA has submitted that in the AERA Act, ground handling services, fuel supply services and cargo services are classified as aeronautical services and on that basis and as a matter of consistency, license fee from ground handling should be treated as aeronautical revenue in the same way that Fuel Throughput Charge is treated.

8.12. FIA, making reference to Changi Airport, Singapore and Hong Kong International Airport, has suggested that these airports have much higher share of total revenue as revenues arising from sources other than aeronautical services (presumably mistakenly stated as non-aeronautical services in FIA letter). In particular, FIA mentions that:

> *"AAI has projected non-aeronautical revenue at merely 23% of total revenue during control period, whereas a quick glance at airports like Changi Airport, Singapore; Hong Kong International Airport, etc. reveals that said airports are earning approximately 60% of their total revenues arising out of services other than non-aeronautical services."*

8.13. Further FIA suggested as under,

> *"…. Authority should reasonably estimate or appoint a Consultant to determine revenue from new premises as it may not be appropriate to burden the airlines and passengers with higher tariff in this control period and provide relief for the same in subsequent period."*

8.14. IATA felt that the increase in commercial areas at the new airport provides a huge upside potential for AAI to boost its non-aeronautical revenue and agreed with the Authority's decision to true-up the actual receipts from non-aeronautical revenue for the tariff determination exercise in the next Control Period. Additionally, IATA believed that in order to encourage AAI to strive for higher non-aeronautical revenue, the projection of the non-aeronautical revenue should be considered as a floor. IATA's comments are as under,

> *"The increase in commercial areas at the new airport provides a huge upside potential for AAI to boost its non-aeronautical revenue. IATA agrees with AERA's proposal to true up the actual receipts from non-aeronautical revenue while determining tariffs for the next control period. Additionally, IATA believes that AAI should be encouraged to increase the contribution of non-aeronautical revenue at Chennai. IATA supports the idea of setting the forecast of non-aeronautical revenue provided by AAI as a floor in the truing up process as this*

can provide the necessary impetus to AAI to strive for higher non-aeronautical revenue."

8.15. AOC has also provided a similar comment to IATA and has stated that the present non-aeronautical tariff projections made by AAI should apply only during the year 2012-13 of the first Control Period, after which the non-aeronautical revenue potential should be determined on actuals based on the actual revenues generated during 2012-13.

8.16. AOC have also stated that:

> *"The Ground Handling services at the CIA have been concessioned out to 2 Ground Handling agencies by the AAI. However, as per the Ground Handling Policy a minimum of 3 operators are to be appointed for the Ground Handling services at the CIA. The failure to provide a competitive environment has not helped the airlines in negotiating favourable rates with ground handling companies, but has only helped the AAI in collecting huge amounts of money as royalty."*

8.17. AAI has defended its estimation and projection of non-aeronautical revenue by submitting that these projections are based on past experience, traffic trend, facilities created and market potential at Chennai Airport. AAI also felt that it is more appropriate to consider the market potential prevalent in Chennai rather than compare with Changi Airport. AAI's submission in response to stakeholders' comments on conservative estimates of non-aeronautical revenue is

> *"…..The non-aeronautical revenue, including cargo at Chennai airport contributes to around 32 % of the total revenue of the airport. Further, AAI projected the non-aeronautical revenue after taking into consideration various aspects including market potential at Chennai Airports, which AAI feels more appropriate rather than comparing with the Airports like Changi…. The Revenue from Non-Aeronautical services at Chennai Airport has been projected based on past experience, traffic trend, facility created and market potential etc. at Chennai Airport and accordingly the MYTP proposal has been formulated and submitted to AERA as per its guidelines…."*

Authority's Examination

8.18. The Authority has noted the comments made by the Stakeholders and the response from AAI to the observations of the Stakeholders.

8.19. With regards to the stakeholders' concern that estimation of non-aeronautical revenue is conservative, the Authority had considered this aspect in detail in the Consultation Paper Number 16/2012-13 and considering the difficulties around estimating non aeronautical revenues, such as plans regarding area to be utilised towards non aeronautical activities not being firmed up yet and also concessions not being granted, the Authority proposed to consider AAI's projections.

8.20. With respect to AOC's comments on the number of ground handling agencies, and thus the competition for ground handling services, at CIA, Chennai, the Authority notes that as per CGF Order and Guidelines the presence of two or more operators is considered competitive. Also, the determination of misuse of market power or abuse of dominant position falls within the domain of Competition Commission of India. Further, no evidence has been submitted by any stakeholder towards this issue.

8.21. With respect to IATA's view of considering current projection by AAI of non-aero revenues at CIA as a floor, the Authority has already considered the issue and expressed its opinion in para 7.7 of the Consultation Paper Number 16/2012-13, where it stated that

> *"….whether the forecast of non-aeronautical revenues provided by AAI can be taken as a floor. On balance, the Authority felt that in the absence of any alternative reasonable projections of non-aeronautical revenues at CIA for the first control period, the projection of non-aeronautical revenue at CIA by AAI may not be considered as a floor and thus true up the non-aeronautical revenues on actuals…."*

8.22. Appreciating the possibility that non-aeronautical revenue may differ considerably from the projections, the Authority believes that the current projection of non-aero revenues may not serve as floor and further that the Authority may revisit this issue in the next Control Period wherein it may consider the non-aeronautical revenues for the current Control Period as a floor for the next Control Period.

8.23. With respect to AAI comment that *"…..The non-aeronautical revenue, including cargo at Chennai airport contributes to around 32 % of the total revenue of the airport*.", the

Authority is not in agreement with AAI's response that cargo is non-aeronautical revenue. According to AERA Act, cargo service is an aeronautical service. As has been analysed in detail by the Authority in its Order Number 32/2012-13 dated 15.01.2013, the revenue from an aeronautical service when provided by the airport operator himself, is aeronautical revenue. Hence, the revenue to AAI from cargo service (that is provided by AAI itself) is aeronautical revenue. Further, the Authority also notes that AAI has stated that they are making efforts to maximise non-aeronautical revenues.

8.24. In view of the above, the Authority is minded not to change its position from that expressed in the Consultation Paper Number-16/2012-13.

Decision No5. Regarding Non Aeronautical Revenue

5.a. **The Authority decides to consider the projection of Revenue from services other than aeronautical services as submitted by AAI for determination of aeronautical tariffs for the current Control Period in respect of CIA.**

5.b. **The Authority may consider the non-aeronautical revenues during the current Control Period as a floor for the next Control Period**

Truing Up: 3. Truing up of Non Aeronautical Revenue at CIA

3.a. **The Authority decides to true up the non-aeronautical revenue for the current control period based on the actual non-aeronautical revenue at CIA while determining the tariffs for the next Control Period.**

9. Fuel Throughput Charge

9.1. Fuel Throughput Charge (FTC) at CIA is determined by a commercial agreement between AAI and Oil companies providing services at many of AAI's airports and this agreement has been a result of competitive tendering process.

9.2. AAI have in their ATP proposed for a 5% annual increase as per the contractual terms, w.e.f. 01.11.2012 with further increase of 5% p.a w.e.f. 01.04.2013; 01.04.2014 and 01.04.2015 as per the contractual arrangements with the Oil Marketing companies.

9.3. The Authority had proposed to approve the 5% increase in fuel throughput charge as per the contractual agreement with Oil Marketing Companies and give its effect as aeronautical revenue in the hands of AAI while determining aeronautical tariffs for the current Control Period.

Stakeholders' Comment

9.4. AOC has submitted that while the Order Number 07/2010-11 passed by the Authority on 4th November, stated that the impact of high fuel throughput charges will be neutralised/ mitigated through lower airport charges since the accruals from the higher fees would be considered towards the passenger yield cap calculation, this does not appear to be the case. AOC has stated that the AAI has proceeded to propose a significant increase in aeronautical tariff for the CIA, thereby negating the calculations of the Authority.

9.5. AOC has further submitted that the FTC are not related to any charges and the fuel suppliers pay a rental for the use of the land at the airport, which forms part of their overall costs. The throughput charge is, therefore, a duplicate charge. AOC has further stated that oil companies treat the throughput charges as a pass through and have little incentive to negotiate the level of this charge. AOC has further stated that any increase in FTC has to be ultimately paid out of the accounts of the airlines who are not even parties to such agreements between the Airport Operators and oil companies.

9.6. AOC has stated that in the Order Number 07/2010-11 dated 4th November, 2010, Authority while on one hand agreed with the issue raised by the airlines regarding the applicability of the contractual agreement between the airport operator and the oil companies, on the other proceeded to approve the proposal on an ad-hoc basis.

9.7. AOC has also presented a table indicating the fuel throughput charges at various airports, which were approved by the Authority with effect from 1st April, 2010, vide Order Number 07/2010-11 passed by the Authority on 4th November, 2010 and has stated that *"From a perusal of the fuel throughput charges at various airports, it is evident that the charges at the CIA are the highest in the country. The charges at the CIA are in fact over 10 times the rates being charged at other airports in the country, though the price of fuel is more or less the same across the country. "*

9.8. BPCL, IATA and FIA have submitted that the current fuel throughput charges at CIA were set by virtue of a flawed tender process in 2007 wherein the AAI had used overwhelming market power for fixation of charges. The stakeholders have stated that there is no rationale for charging Fuel throughput charges as it does not have any cost basis and such fees significantly increases the cost of fuel to the airlines

9.9. IATA has further stated that-

"Chennai has the highest fuel throughput charge in the whole of India by virtue of a flawed tender process in 2007 which caused the fee to increase by 21 times. There is no justification for allowing this already high concession fee which has no cost basis to automatically escalate at 5% per year because of a contractual agreement with a monopoly which the oil marketing companies had little choice but to sign. Notwithstanding the fact that revenue from fuel throughput charges would be treated as aeronautical in nature for determination of aeronautical tariffs, AERA should set the fundamentals right by not permitting a fee that has no cost basis to escalate automatically every year."

9.10. FIA has also submitted that the Authority ought to examine:

"(a) The impact of FTC enhancement since the cost of the fuel constitutes around 40% of operating cost of an airline.

(b) The impact of failure of the AAI to provide any justification for the revision in FTC. Since at the Airports the Fuel suppliers are already paying and loading exorbitant land rentals for locating fuel facility on to airlines. In addition to such land rentals, the AAI are allowed to charge FTC with no cost basis.

(c) AAI has only provided the land and access to the Oil Companies. The cost of land is recovered separately through the rentals. Therefore, it is the value of concessions which would have to be considered while fixing the FTC.

(d) FTC is an impost not on the Oil Companies but on the airlines. Thus, in the form of FTC the airlines face a cost impost as the airlines cannot avoid purchasing fuel at locations with FTC, which is being charged by the AAI over and above the normal lease rental."

9.11. FIA has further submitted that

"……considering that Authority's Order No.07/2010-11 dated 04.11.2010 is pending adjudication before the Airports Economic Regulatory Authority

Appellate Tribunal ("AERAAT") in Appeal No. 5/2012 (MIAL Vs. AERA & Others), it would be better if any decision regarding FTC should be taken pursuant to the outcome of the said Appeal."

9.12. BPCL, HPCL and IOCL have requested the Authority to approve the proposal for increase in Fuel Throughput Charges only on prospective basis, applicable from first day of the subsequent month, in which AERA issues the order in view of difficulty to recover throughput fee from Airlines from any back date from scheduled airlines as well as non-scheduled airlines.

9.13. IOCL has stated that, in case NIL escalation of the fuel throughput charges is proposed by Airports Authority of India, as mentioned during the stakeholder meeting of 30.08.2012, it would be welcome by all stakeholders.

9.14. Responding to AOC comment regarding reduction in charges, AAI has defended its position stating that

"AAI formulated the proposal of MYTP after taking in to consideration various aspects, including capital investment made , revenue from non-aeronautical services, traffic growth both Aircrafts, passenger, cargo etc. and is as per the Guidelines issued by AERA on the subject. It is further clarified that the tariff increase sought by AAI in the present proposal is after taking in to consideration the likely revenue generated from the fuel throughput charges."

9.15. AAI has further stated that in case 5% increase is fuel throughput charges is not effected the revenue shortfall on this account will have an impact on other tariff structure.

Authority's Examination

9.16. With respect to AOC's comments on Authority's Order Number 07/2010-11 dated 4th November, 2010, the Authority believes that AOC has not appreciated the true meaning and intent of the said order. The Aggregate Revenue Requirement in a particular year is determined by the RAB and WACC. To arrive at the ARR, consideration is to be given to various components thereof which include the aeronautical revenue (from charges levied on aeronautical services) and UDF. To the extent one of these components is increased (decreased) some or all of the other components would decrease (increase), so that the sum of revenue from all such components equals the ARR. AAI has taken revenue from FTC as aeronautical revenue. Hence, it has downward pressure on other aeronautical charges and UDF. Assuming that the non-aeronautical surplus and revenues from landing, parking and housing of aircrafts remain unchanged, there would be direct correspondence between the level of FTC and that of UDF. Hence, if FTC charges are reduced, there will be a corresponding increase in the other aeronautical charges as well as UDF.

9.17. The Authority has observed that in its MYTP, AAI has treated the revenue from FTC as aeronautical revenue. This is in consonance with the Authority's position in this regard as reflected in the Consultation Paper Number 16/2012-13 wherein the Authority had reckoned this revenue for determination of ARR for the current Control Period (AERA Act defines fuel supply to aircrafts as an aeronautical service). The Authority has also given its detailed analysis of FTC in its Order Number 32/2012-13 dated 15.01.2013 in the matter of determination of aeronautical tariffs in respect to CSI Airport, Mumbai. In the referred order, the Authority has noted that Fuel Throughput Charge, as an aeronautical charge, is fully reckoned towards determination of aeronautical tariffs and to that extent would lower the burden on the passengers especially with respect to UDF.

9.18. The Authority has carefully examined the comments made by the stakeholders in respect of the Authority's position on revenue from Fuel Throughput Charge, presented in the Consultation Paper Number 16/2012-13. The Authority has noted that various stakeholders like airlines, their representative bodies (FIA, IATA), etc. have commented on this issue and have supported the treatment of FTC as aeronautical revenue.

9.19. With respect to AOC's comment regarding Authority's Order Number 07/2010-11 passed on 04.11.2012, the Authority noted that the current tariff determination exercise at CIA has been carried out as per the Airport Guidelines. In the present process, the proposed increase in tariffs at the airport is determined based on various aspects, including capital investments made at the airport, revenue from non-aeronautical services, growth rates of aircraft movement, passenger, cargo etc. The Authority does not believe that there has been any negation of the Order Number 07/2010-11 as claimed by the stakeholder.

9.20. The Authority has noted the comment of BPCL that

> *"Overwhelming Market Power of AAI as Airport Operator and role of AERA: It is pertinent to note that in February 2007 when AAI came out with tender for*

Chennai airport, AERA Act had not been enacted and there was no regulation of Fuel throughput fee as aeronautical charges. It meant that any eligible Oil Company participating in tender process for the piece of land has no compunction in quoting any throughput fee as it would be a pass-through item.

BPCL had represented to AAI that such steep rise in Fuel Throughput is grossly unjustified. However, despite our protests, we were asked to match and pay the fee quoted by highest bidder.

As per AERA Act, 2008, the authority has to now perform functions, in respect of major airports, which include determining tariff for the aeronautical services taking into consideration the parameters and factors provided in Section 13 of Act. We feel that Fuel throughput fee should not be increased even by 5% for the following key reasons:

There is no rationale for charging Fuel throughput fee as it does not have cost basis ;

Fuel throughput fee significantly increases the cost of fuel; and

Airport Operators had used overwhelming market power for fixation of charges."

9.21. In this regard, the Authority notes that the issue raised by BPCL pertains to exercise of monopolistic market power by AAI in the process of fixation of FTC at CIA, Chennai. However, it is observed that BPCL has not submitted any evidence towards this. Further, the issue of abuse of market power fall within the domain of Competition Commission of India.

9.22. The Authority observes that while the Airlines and their representative bodies (IATA, FIA) as well as BPCL have suggested either abolishing the FTC itself or disallowing any increase in FTC as there is no cost basis for the same, the oil companies (BPCL, IOCL and HPCL) have requested for making the increase in FTC a prospective measure and not a retrospective measure.

9.23. The Authority notes that the fuel throughput at CIA, Chennai and many other airports operated by AAI are subject to the commercial agreement between AAI and oil companies. Though, this commercial agreement was a result of transparent bidding process, the Authority notes that the parties like airlines as well as passengers who are or likely to be directly affected by FTC are not part of the commercial agreements between AAI and Oil Marketing Companies. In as much as, AAI has, in its submission, regarded FTC as an aeronautical charge and revenues arising therefrom as aeronautical revenues, such revenues in the hands of the AAI would be reckoned towards aeronautical charges, apart from the regulatory mechanisms of single till. Having considered all these factors, the Authority decides to determine FTC as proposed by AAI during the current Control Period.

Decision No6. Regarding Fuel Throughput Charge

6.a. **Having noted that AAI, in its submissions, has treated FTC as an aeronautical charge, (consistent with the Authority's position thereon), the Authority decides to determine FTC as charge for aeronautical service namely supply of fuel to an aircraft at an airport and to treat it as aeronautical revenue in the hands of AAI while determining aeronautical tariffs for the current Control Period.**

6.b. **The Authority decides to determine the fuel throughput charges as per rates at Annex I.**

10. Operation and Maintenance (O&M) Expenditure

10.1. AAI had projected the following operation and maintenance expenditure for the first Control Period

Table 12: Summary of O&M expenditure actual/projected by AAI (Rs in cr)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Staff Cost	151.00	161.95	173.73	186.44	200.15	214.93
Administrative and General Expenditure	2.02	4.28	5.81	5.97	6.54	7.17
Repairs and Maintenance (R&M)	13.91	20.44	41.47	45.62	50.18	55.20
Utility and Outsourcing Expenditure	37.82	40.51	100.99	108.62	115.20	122.30
Other miscellaneous expenditure	6.33	12.43	13.45	14.57	15.78	17.10
Interest on Borrowing (Financing Charges)				25.57	25.57	24.30
Total	211.08	239.62	335.46	386.79	413.42	441.40

10.2. The Authority had noted in the Consultation Paper Number 16/2012-13 that-

"….the C&AG is the auditor of all the accounts of AAI – including the expenditures incurred. The audit of the accounts by C&AG is comprehensive and the Audit report thereof is placed before the Parliament of India. The Audit

Report of the C&AG is not only on the mathematical accuracy of accounts or their incurrence in accordance with the set procedure, but also on the propriety of such expenditure……"

10.3. With respect to future projections of O&M costs, the Authority had proposed to:

10.3.1. Accept AAI's projection of staff cost in order to determine tariffs and noted that certain elements of Staff Cost have been adjusted for inflation,

10.3.2. Consider the Repairs & Maintenance costs as projected by AAI for the tariff determination exercise for CIA,

10.3.3. Consider AAI's submission for Administrative and General Expenditure at CIA for the purpose of tariff determination,

10.3.4. Consider the change in per unit rate of cost related to electricity and water charges for the purpose of corrections to tariffs and had ruled out any truing up of quantity of water and electricity used, and

10.3.5. Not consider AAI's submission of including interest payments on long term debt as a component of O&M expenses.

10.4. The Authority had thus proposed to consider the operational and maintenance expenditure as provided in the table below for the purpose of determination of aeronautical tariffs for the first Control Period for CIA.

Table 13: Summary of reworked operational and maintenance expenditure (Rs in crores)

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Staff Cost	151.00	161.95	173.74	186.44	200.15	214.94
Administrative and General Expenditure	2.02	4.28	5.81	5.97	6.54	7.17
Repairs and Maintenance (R&M)	13.91	20.44	41.47	45.62	50.18	55.20
Utility and Outsourcing Expenditure	37.82	40.51	100.99	107.72	113.24	119.12
Other miscellaneous expenditure	5.77	11.83	12.83	13.89	15.06	16.32
Total	210.53	239.01	334.2	359.64	385.17	412.75

10.5. The Authority had also proposed to review the following factors for the purpose of corrections (adjustments) to tariffs:

(i) Mandated costs incurred due to directions issued by regulatory agencies like DGCA;

(ii) Change in per unit rate of costs related to electricity and water charges as determined by the respective regulatory agencies;

(iii) All statutory levies in the nature of fees, levies, taxes and other such charges by Central or State Government or local bodies, local taxes/levies, directly imposed on and paid for by AAI on final product/ service provided by AAI.

Stakeholder's Comments

10.6. The stakeholders have generally responded that the operating expenditure is one of the major components for determining ARR and hence the Authority should evaluate projected annual increase in various components of operating expenditure such as Staff Cost, Repairs and Maintenance, Utility and Outsourcing Expenditure, Administrative and General Expenditure, in detail rather than primarily relying on projections provided by AAI.

10.7. AOC has submitted that there has been an increase proposed in the pay and allowances of the staff at CIA but there has been no justification or reasoning given for the necessity and requirement of existing staff strength at the CIA. AOC has further stated that the Authority should have carried out an appropriate benchmarking exercise through experts to determine whether the staff strength of AAI at CIA is in excess of requirements

10.8. AOC has also commented that there has been no basis or reasoning provided by the AAI for an increase of 110% for repairs and maintenance during the financial year2012-13 as well as for an annual increase of 10%.

10.9. Cathay Pacific has also commented that the basis to determine the annual increase in Staff Cost, Repairs and Maintenance, Utility and Outsourcing Expenditure, Administrative and General Expenditure is not mentioned and disclosed in the Consultation Paper Number 16/2012-13 which makes it hard for the airlines to comment on the justification of the proposal.

10.10. FIA has stated that

> *"In respect of the future projections, the Authority is cognizant of the fact that expenditure partly includes inflation e.g. in case of Salary and Wages (Dearness Allowance). It is submitted that considering, WPI of 6% has been separately considered, all the expenditure should be delinked from inflation and accordingly Annual Revenue Requirement ("ARR") needs to be adjusted."*

10.11. FIA has further submitted that the Authority should establish some optimal operating benchmarks be laid down for the airports to keep operations efficient e.g. opex per passenger or per landing which can be based on some model efficient airports.

10.12. AAI, in response to the comments from various stakeholders, has submitted that the nominal increase in staff cost by 7% is reasonable considering that it includes increase on account of annual increments, increase in dearness allowance, and increase in HRA & other perks due to increments and that the staff strength at CIA has been as per the level of operations and commensurate with the size of airport.

10.13. AAI has further stated that :

> *"The Repairs & Maintenance expenditure has been projected after taking into consideration of various aspects in the new terminal building like area to be maintained, equipment installed etc. However, the projection of AAI will be subject to true up in the next control period as already mentioned by AERA in the present consultation paper."*

10.14. AAI has also agreed to FIA's suggestion for establishment of operating benchmarks.

Authority's Examination

10.15. Authority had provided various details and assumptions submitted by AAI for projecting operation and maintenance expenditure as Annexure III in Consultation Paper Number 16/2012-13.

10.16. The Authority has observed that while AAI has provided some reasoning for the projection of Repairs & Maintenance expenditure on account of various aspects in the new terminal building like area to be maintained, equipment installed etc., it has wrongly understood the Authority's position regarding truing up of costs in the next Control Period. The Authority has not provided true-up for any variation in Repair and Maintenance costs in the next Control Period.

10.17. The Authority understands from FIA's comment that since inflation is already provided for in the formulation of "CPI – X" for the purpose of determination of aeronautical tariff, inflationary impact should not be considered in determination of operation expenses, as it leads to a multifold impact of inflation on the tariff determination.

10.18. The Authority has specified the formulation of "WPI – X" in the Airport Guidelines for the purpose of determination of aeronautical tariff and has followed the same for the tariff model in respect of CIA, Chennai. The formulation considered by the Authority in the Airport Guidelines is based on the present value of projected Aggregate Revenue Requirement being equated with the present value of projected revenues determined using a '1+WPI-X' factor for calculation of yield per passenger i.e. explicitly considering inflation.

10.19. The Authority feels that for the purpose of a meaningful calculation of ARR, all the building blocks should be considered on same basis (either nominal or real). Since the projected yield per passenger takes into account the impact of inflation, the building blocks for the determination of ARR including the operation and maintenance expenses would need to be considered on a nominal basis (i.e. inflation adjusted) as well.

10.20. The Authority is thus of the view that the use of nominal operating expenses for the purpose of determination of aeronautical tariff is in consonance with the Airport Guidelines.

Decision No7. Regarding Operation and Maintenance expenditure

7.a. **The Authority decides to consider the operational and maintenance expenditure – as given in Table 13 above, for the purpose of determination of aeronautical tariffs for the first Control Period.**

Truing Up: 4. Truing up of Operation and Maintenance expenditure

4.a. **The Authority decides that the following factors be reviewed for the purpose of corrections (adjustments) to tariffs for the current Control Period while determining tariffs in the next Control Period, commencing w.e.f 01.04.2016:**

(i) **Mandated costs required to be incurred due to directions issued by regulatory agencies like DGCA;**

(ii) **Change in per unit rate of costs related to electricity and water charges as determined by the respective regulatory agencies;**

(iii) **All statutory levies in the nature of fees, levies, taxes and other such charges by Central or State Government or local bodies, local taxes/levies, directly imposed on and paid for by AAI on final product/ service provided by AAI, will be reviewed by the Authority for the purpose of corrections (adjustments) to tariffs on a Tariff Year basis. Furthermore, any additional**

payment by way of interest payments, penalty, fines and other such penal levies associated with such statutory levies, which AAI has to pay for either any delay or non-compliance, the same will not be trued up. On the input side if AAI has to pay higher input costs even on account of change in levies/ taxes on any procurement of goods and services, the same will not be trued up.

11. Treatment of Taxation

11.1. The Authority had, in the Consultation Paper Number 16/2012-13 dated 23.08.2012, proposed to consider corporate tax @ 32.445%, instead of 37.5% as considered by AAI, for the purpose of the determination of tariffs during the current Control Period.

11.2. The Authority had also proposed to true up the difference between the projected corporate tax for CIA and the actual corporate tax paid by AAI ascribed to CIA, while determining the aeronautical tariffs in the next Control Period commencing w.e.f 01.04.2016.

Stakeholder's Comments

11.3. FIA has raised concerns regarding Authority's proposal to true-up the corporate tax for actuals while determining the aeronautical tariffs in the next Control Period commencing w.e.f 01.04.2016. FIA has submitted that the Authority should not leave everything to true up and attempt to make all the projections and assessments as accurately possible on the basis of available data.

Authority's Examination

11.4. The Authority has noted FIA's comment to make all the projections and assessments as accurately as possible on the basis of available data. While the Authority would like to accurately project the corporate tax to be paid by AAI ascribed to CIA, the Authority observes that any projections at this stage would still be a projection. The Authority does not intend to burden either the users or the AAI for variation in corporate tax as assessed currently which could be due to a number of factors such as change in corporate tax rate, variations in projected corporate tax for CIA and the actual corporate tax paid by AAI ascribed to CIA etc. The Authority had thus proposed to true-up the corporate tax based on actual corporate tax paid by AAI ascribed to CIA.

Decision No8. Regarding Taxation

8.a. **The Authority decides to consider corporate tax @ 32.445%, instead of 37.5% as considered by AAI, for the purpose of the determination of tariffs during the current Control Period.**

Truing Up: 5. Truing up of Taxation

5.a. **The Authority decides to true up the difference between the projected corporate tax for CIA and the actual corporate tax paid by AAI ascribed to CIA, while determining the aeronautical tariffs in the next Control Period commencing w.e.f 01.04.2016.**

12. Cost of Equity & Debt, Leverage & Weighted Average Cost of Capital (WACC)

12.1. In the Consultation Paper Number 16/2012-13, the Authority had proposed a WACC of 15% for the purpose of tariff determination for CIA. It was proposed having regard to the actual debt-equity structure of AAI (or that of CIA), a weighted average cost of debt of 8.03% and considering that in the first Control Period, the Authority is inclined to give some allowance for the uncertainties in estimation of different parameters.

12.2. The Authority is cognizant of the fact that the high WACC value is due to the higher preponderance of equity in the capital structure of AAI. In this context, the Authority had reiterated that in order to moderate aeronautical charges, AAI should make effort towards efficient debt-equity ratio with higher proportion of debt.

Stakeholder's Comments

12.3. A number of stakeholders have commented on the Debt/ Equity structure of AAI. The stakeholders have submitted that the current debt to equity ratio of AAI is very inefficient and it is unacceptable that AAI is allowed to extend this same inefficient financing structure to future capital funding, leaving the users to bear the brunt of this inefficiency. They have submitted that there should be a need to re-adjust a reasonable balance on the proportion of debt vs. equity in the financing structure of AAI and that the airport users should not be penalized or paid for the inefficient financing structure of AAI.

12.4. FIA and Cathay Pacific have also noted that the Authority had indicated in its Order Number 03/2012-13 dated 20.04.2012, in the matter of determination of aeronautical tariffs for IGI Airport, New Delhi, that the proportion of debt of around 60% in the capital structure could be regarded as an efficient means of finance. IATA has also stated that the Authority must use a notional debt equity ratio of 1.5 to protect users against unfair cost pass-through arising from the airport's own inefficiency.

12.5. IATA has further submitted that in a competitive market which economic regulation is supposed to emulate, AAI would have been driven to attain a more efficient financing structure in a short span of time and hence AAI must be compelled to move quickly towards attaining such an efficient capital structure. It has stated that AERA, as its mandate requires, must protect the users by ensuring that the higher financing cost does not get passed through.

12.6. Cathay Pacific has stated that there are no specifications of the selection criteria of "comparable airports" chosen in the KPMG report and that the median value (0.92) of asset beta for these selected airports to be used as the estimation of the asset beta for AAI airports is questionable. It has further submitted that, given the fact that it was mentioned in the Consultation Paper Number 16/2012-13 the average asset beta can be taken at 0.61 (on the basis of the comparator set used by National Institute of Public Finance and Policy (NIPFP)), without taking into account any risk mitigating factors, it does not understand the reason and rationale behind Authority's proposal to use 0.92 instead.

12.7. Cathay Pacific has also stated that AAI being a government solely owned company should not expect the same return as the private sector and therefore using market return indicator of BSE Sensex for the benchmark of the expected rate of return is inappropriate and on the higher side and have further raised objection to the allowance for the uncertainties of FROR and has submitted that it will greatly affect the end result of the annual tariff proposal.

12.8. Cathay Pacific and IATA has questioned the appropriateness of selection of comparator set of airports used in KPMG's report to arrive at the asset beta as well as on using market return indicator of BSE Sensex for the benchmark of the expected rate of return.

12.9. A number of stakeholders including Cathay Pacific, FIA have stated that since Authority itself is of the view that (i) asset beta of CIA can be taken as 0.61 and (ii) AAI has a preponderance of very high equity in its capital structure which result in a higher Cost of

Equity and hence a higher WACC, the Authority should not give allowance for the uncertainties, effectively accepting KPMG's estimation of 0.92 as asset beta and AAI's inefficient capital structure. They have further stated that considering assumptions taken by KPMG w.r.t Asset Beta and gearing ratio as well as Authority's proposal to give allowance for the uncertainties of FROR are not appropriate and the Authority should re-compute the WACC after appropriate adjustments.

12.10. IATA has presented a computation and has stated that a WACC of 9.3% is more appropriate for CIA.

12.11. British Airways, Cathay Pacific, FIA have submitted that 15.46% cost of equity and a 15% Fair Rate of Return for a government agency is very high and AAI being a government organisation should not have the same expectations on returns as the private sector.

12.12. APAI has stated that:

> *"The fair rate of return of 15% is very much on the higher side, as the equity is provided by Govt. of India and only a very small portion of the capital; cost is borrowed. The Govt of India gets an average return of not more than 10% in any of the undertakings. The recommendation of SBI Capital Markets Ltd. is not based on transparency and fundamentals but is based on the influence exerted on them by the Private Operators and hence cannot be considered at all."*

12.13. FIA has also submitted that:

> *"It is pertinent to note that that for calculating WACC/FRoR, though the Authority has arrived at the figure of 14% but has allowed 15%. Thus, Authority has accepted KPMG's proposal in spite of finding loopholes in Asset Beta as determined by KPMG. It is submitted that for the difference of 1% in WACC/FRoR on this scale would unnecessarily increase the Aeronautical Tariff. In view of the foregoing, it is submitted that considering assumptions taken by KPMG w.r.t Asset Beta and gearing ratio are not appropriate, Authority should re-compute the WACC after appropriate adjustments."*

12.14. With respect to stakeholder's comments on asset beta, AAI has stated that-

> *"Since there is no listed airport operator in India, M/s KPMG had considered Betas of listed airport operators in the emerging markets as a proxy for the*

systematic risk of AAI. Consultant had taken a filtered approach while identifying comparable airports, like – country of operations - Emerging markets, Business model, Regulatory environment and Liquidity of the stock."

12.15. AAI has refuted the stakeholders' contention on Debt-Equity structure for determination of FRoR. AAI has submitted that

"Normally higher debt proportion in the capital structure is desirable in case where new companies formed for the purpose of undertaking the new projects. This is not the case in case of AAI, which is already in existence and managing the airports and generating the internal resources from the airport operations. As such AAI opted to finance the project mainly from internal resources. Further, in case of higher debt also, there would be outflow on account of servicing the debt."

12.16. AAI has further stated that:

"The proportion of debt of around 60% in the capital structure may be appropriate in case of new company formed for the purpose establishment of new Airport projects and not the existing airport operators like AAI. The MYTP proposal of AAI is as per the Guidelines of AERA. The capital structure of an organisation cannot be changed overnight."

12.17. With respect to the stakeholder's comments regarding return expectations in view of AAI being a public sector company, AAI has submitted that the airport sector is regulated by independent economic regulator and all major airport operators, including AAI are governed by same regulatory framework and it is important that irrespective of ownership of airport operators, there should be level playing field.

Authority's Examination

12.18. The Authority has carefully examined the comments of various stakeholders regarding Fair Rate of Return for CIA, Chennai.

12.19. The Authority had noted in the Consultation Paper Number 16/2012-13 that on the basis of the comparator set used by National Institute of Public Finance and Policy (NIPFP) which contained airports of the developing regions (emerging markets) and developed regions, average asset beta for CIA can be taken at 0.61 without taking into account any risk mitigating factors.

12.20. The Authority decides on certain risk mitigating measures as under:

12.20.1. Truing up of Traffic: The Authority decides to true up the volumes of traffic.

12.20.2. Truing up of non-aeronautical revenue: The Authority decides to true up the non-aeronautical revenue in this Control Period.

12.21. The Authority expects that these measures would give a downward push to the asset beta of CIA, Chennai. The Authority would thus regard 0.61 as the upper bound of the asset beta. According to the submissions of AAI, the actual debt-equity ratio of CIA, Chennai is 12.76% based on an average outstanding debt of Rs.274 crore and average equity of Rs.2,155 crore in the first Control Period.

12.22. The Authority had already discussed in sufficient detail the impact of high gearing on re-levering of asset beta and consequently its impact on WACC, both in the Delhi and Mumbai Tariff Determination Orders (Order No.03/2012-13 dated 24.04.2012 and Order No.32/2012-13 dated 15.01.2013, respectively). Applying the same gearing ratio of 60:40 to re-lever the asset beta, in the instant case and also applying the various parameters of CAPM as recommended by NIPFP, the WACC for CIA is calculated as 13.96% or say 14%. The Authority has already noted that an asset beta of 0.61 can be considered as an upper bound. The debt contracted by AAI was Rs. 274 crore (at a rate of 8.03%) and the new terminal has now been completed. Considering all these factors the Authority decides that the WACC of CIA, Chennai be fixed at 14% for the current Control Period. The Authority also notes that IATA has supported the estimation made by NIPFP of the fair rate of return on equity.

12.23. On stakeholders' comments regarding capital structure of AAI, the Authority has recognised that AAI capital structure may not be regarded as an efficient structure. However, the Authority also notes that historically AAI has been practically a debt-free entity and recognizes that it may not be possible for AAI to change their capital structure in a very short time to achieve a 60:40 debt-equity ratio. The Authority has however noted that of late AAI has contracted larger amounts of debt and appears to be moving along the path towards efficient financing structure. The Authority understands that change in a capital structure has to be a gradual transition process. The Authority also recognizes that AAI being a government entity, raising of debt may also be a longer process.

12.24. The Authority has noted the comments by Cathay Pacific, APAI and British Airways that the government would not have the same expectations on returns (AAI) as the private sector. APAI has also referred to the study by SBI Caps. The Authority notes the report of KPMG regarding the 'Fair Rate of Return Estimation for AAI', July 2011 wherein it estimated a figure of 14.96% as Fair Rate of Return for AAI. The Authority further notes APAI's comment that *"The recommendation of SBI Capital Markets Ltd. is not based on transparency and fundamentals but is based on the influence exerted on them by the Private Operators and hence cannot be considered at all."*

12.25. AAI is an important investor in the airport sector in the country. It is constituted under the AAI Act, 1994. Section 11 of the AAI Act mandates AAI to, *"In the discharge of its functions under this Act, the Authority shall act, so far as may be, on business principles."* The Authority therefore does not feel that it would be the intention of the legislature or that of the government that AAI should not expect to get a rate of return on its investment which is commensurable with the risk profile of the airport in question. Chennai is a metropolitan city on par with other metropolitan cities, some of which have airports under the PPP mode. The Authority does not find any warrant to expect AAI to earn less than Fair Rate of Return than what would otherwise be held admissible to a private sector operating on business principles. Fair Rate of Return on equity is determined by the risk profile and not only on the consideration of ownership structure unless the ownership significantly impacts on the risk profile. The Authority therefore is unable to accept the argument that only because AAI is government's solely owned company it should be content with lower rate of return. In view of the above analysis, the Authority makes the following decision.

Decision No9. Regarding WACC (Fair Rate of Return)

9.a. **The Authority decides to consider WACC at 14% for CIA for the first Control Period.**

Truing Up: 6. Truing up of WACC (as fair Rate of Return)

6.a. **The Authority expects AAI to take steps to move towards more efficient means of finance (i.e. not financing the project with overwhelming proportion of**

equity). As and when, this happens the Authority would take into account any change in the value of WACC giving effect to the same in the next Control Period.

13. Quality of Service

13.1. The Authority had proposed in the Consultation Paper Number 16/2012-13 to use the rebate mechanism as indicated in the Airport Order and Airport Guidelines for AAI. The Authority had also considered providing a one year transition period from the date of tariff determination as reasonable for AAI to appropriately align their processes/ procedures and make any other required interventions.

13.2. The Authority had further proposed that the implementation of the rebate mechanism would be applicable from the 4th Tariff year of the Current Control Period i.e., 2014-15 and the rebate for year 2014-15 would be carried out in 2016-17, which is the first tariff year of the next Control Period.

Stakeholder's Comments

13.3. AOC has drawn Authority's attention to the relevant provisions the AERA Act and has stated that the Authority has a statutory obligation to review and assess the service being provided by the airport operator and the quality of the same before determining the tariff for such airport. AOC has further submitted that before determining the tariffs at CIA, the Authority ought to take into consideration the performance (or the lack of it) of AAI in terms of the Project, the services provided by the AAI at the CIA, especially the NTB, and the quality thereof.

13.4. FIA has submitted that the Authority should not grant AAI a transition period of 1 year as the Project will be completed and commissioned in forthcoming months. It has further submitted that for such transition, Authority should limit the transition period to not more than two months as benefit of any rebates arising out of implementation of the scheme of quality of service measurement to the consumers of CIA, Chennai would not be available for almost a year. It has also submitted that denial of such benefit for one year would not be in the interest of airlines.

13.5. IATA has submitted that it is inequitable for airlines to pay higher charges from the third tariff year and not have the recourse for a rebate in the event of obvious service quality shortfalls. IATA has further submitted that the AAI must be required to put in place its processes/procedures within the next six months (by end of second quarter 2013) instead of a year so that there is sufficient time buffer to ensure that these processes/procedures are indeed installed before the start of the fourth tariff year.

13.6. In response to the comments received from other stakeholders, AAI has stated that it would implement the systems/procedures in place at the earliest within the time frame fixed the AERA and that a transition period of one year for implementation of quality service measurement and determination of any rebate is reasonable for making appropriate systemic and procedural changes in line with Service quality requirement of AERA guidelines.

Authority's Examination

13.7. The Authority has noted the submissions of the stakeholders. With regard to AOC's submission, the Authority is conscious of its statutory obligation to review and assess the service being provided by the airport operator and the quality of the same and in this regard. The Authority would like to draw AOC's attention towards the Airport Order and Airport Guidelines wherein the Authority has proposed a rebate mechanism to compensate the user for lower quality of service compared to that contemplated at the time of determination of tariffs and the fact that the Authority has proposed in the Consultation Paper Number 16/2012-13 to follow Airport Order and Airport Guidelines.

13.8. The Authority further notes that this is the first Control Period for CIA, almost two years of which have elapsed and that the expansion project at CIA is yet to be completed. The Authority is aware of that fact that the airport operator may face some teething problems at the commencement of operations of the new project and thus considers it reasonable to provide a transition period of one year for AAI to appropriately align their processes/ procedures and make any other required interventions.

Decision No10. Regarding Quality of Service

10.a. **The Authority decides to use the rebate mechanism for CIA, Chennai as indicated in the Airport Order and the Airport Guidelines .**

10.b. **The implementation of the rebate mechanism would be applicable from the 4th Tariff year of the current Control Period i.e., 2014-15. Rebate for year 2014-15**

would be carried out in 2016-17, which is the first tariff year of the next Control Period.

14. Matters Regarding Error Correction and Annual Compliance Statement

14.1. The Authority proposed in the Consultation Paper Number 16/2012-13 to make adjustments/ corrections for factors like roll forward RAB, traffic projections, non-aeronautical revenues after the completion of the current Control Period. The Authority further considered that in the light of truing up being carried out at the end of the first Control Period, there may not be any requirement for the Annual Compliance Statement to be submitted as per the timelines indicated in the Airport Guidelines. The Authority thus proposed that CIA should submit the Annual Compliance Statements for the individual tariff years of the first Control Period along with the MYTP for the next Control Period.

14.2. The Authority further proposed that since there will be no Annual Compliance Statement during the first Control Period, the multi-year Annual Tariff Proposal(s) submitted by AAI in respect of CIA could be considered at the MYTP stage itself.

Stakeholder's Comments

14.3. Cathay Pacific has submitted that in other international airports in USA, true up of actual costs and revenues are done at the end of each year and that in order to have a clearer picture of the cost and revenue involved in the project and to be fair to the facilities users, yearly reconciliation of all costs and revenues should be considered.

Authority's Examination

14.4. The Authority has carefully considered the submissions of the Cathay Pacific. As highlighted in the Consultation Paper Number 16/2012-13, a period of close to two years has already elapsed and the tariff being determined is to be recovered in the balance period of about three years of the current Control Period. Thus, the Authority decides to carry out all the corrections/ true-up at the end of Control Period.

Decision No11. Regarding Error Correction and Annual Compliance Statement

11.a. **The Authority decides that CIA should submit the Annual Compliance Statements (duly supported by Auditor Certificate) for the individual tariff years of the first Control Period along with the MYTP for the next Control Period.**

15. Aggregate Revenue Requirement for CIA (ARR)

15.1. The Aggregate Revenue Requirement proposed by the Authority in Consultation Paper Number 16/2012-13 is presented in the table below:

Table 14: Proposed ARR and Yield per pax for CIA

Details (Rs.in Crores)	Tariff Year 1 2011-12	Tariff Year 2 - 2012-13	Tariff Year 3 - 2013-14	Tariff Year 4 - 2014-15	Tariff Year 5 - 2015-16
Average RAB	542.38	1406.01	2196.49	2214.57	1934.50
Return on Average RAB @15%	81.35	210.90	329.47	332.18	290.17
Operating Expenditure	239.01	334.82	359.64	385.17	412.75
Depreciation	124.32	285.66	339.07	350.25	344.86
Corporate tax @32.445%	68.84	51.70	110.18	148.53	199.90
LESS-Revenue from services other than Regulated Services	158.33	212.40	232.42	253.91	277.40
LESS-Revenue from CARGO services	165.62	190.17	202.78	232.50	257.07
ARR(Airport operations, excluding Cargo)	189.60	480.11	703.16	729.72	731.21
No. of Passengers	12925217	14386206	16014190	17828448	19850505
Yield (Rs / pax)	146.67	333.73	439.08	409.30	359.29
Note: Operating expenditure includes cargo expenditure. ARR is for Airport Services					

15.2. The reworked ARR after taking into consideration the change in Fair Rate of Return (from 15% to 14%) has been computed in the table below:

Table 15: Reworked ARR for CIA for Airport as a whole after factoring the cargo activity

Details (Rs.in Crores)	Tariff Year 1 2011-12	Tariff Year 2 - 2012-13	Tariff Year 3 - 2013-14	Tariff Year 4 - 2014-15	Tariff Year 5 - 2015-16
Average RAB	542.38	1406.02	2196.49	2214.57	1934.51
Return on Average RAB @14%	75.93	196.84	307.51	310.04	270.83
Operating Expenditure for airport operations (excluding cargo)	195.24	275.27	295.95	316.99	339.74
Depreciation	124.33	285.66	339.07	350.25	344.86
Corporate tax @32.445%	68.84	22.48	107.75	145.79	196.83
LESS - Revenue from services other than Regulated Services	158.34	212.81	232.44	253.92	277.41
LESS - Surplus from CARGO services	121.83	123.41	138.45	155.15	173.73
ARR (Airport operations, excluding Cargo)	184.17	444.04	679.40	714.01	701.12
NPV of ARR for the Control Period (Rs in crs)					**2400.12**
No. of Passengers	12925217	14386206	16014190	17828448	19850505
Total Passengers during Control Period					**81004566**
Yield per Passenger for the Control Period (NPV of ARR for control period/Total Passengers during the Control Period) (in Rs.)					**296.29**

Details (Rs.in Crores)	Tariff Year 1 2011-12	Tariff Year 2 - 2012-13	Tariff Year 3 - 2013-14	Tariff Year 4 - 2014-15	Tariff Year 5 - 2015-16
* Netting the revenues and operation and maintenance expenditure of cargo services.					

16. Annual Tariff Proposal

16.1. In the Consultation Paper Number 16/2012-13, the indicative rate card, as submitted by AAI for CIA, was put up for stakeholder consultation along with the proposal that the tariff increases pertaining to airlines may be given effect from 1st November, 2012 and UDF w.e.f 1st January, 2013.

Stakeholder's Comments

Landing, Parking and Housing Charges

16.2. A number of stakeholders including Sri Lanka Airlines and Cathy Pacific have submitted that the proposed increase of 118% in international landing charges and 83% in parking & housing charges is very high and after considering the impact of Service Tax into account, the effective increase will be even higher. They have further submitted that such an increase in rates will cause a very huge financial impact to the airlines and would force the airline to reconsider their operations at CIA.

16.3. Lufthansa cargo has stated that the average increase in cargo handling rates in the last 10 years has been 66% and the average rental increase in last 9 years has been to the tune of 78%. Lufthansa Cargo has further requested the Authority that cargo services gives additional revenues to create infrastructure and thus the increase of landing fee should be exempted for cargo flights.

16.4. The stakeholders have further stated that the proposed increase will not benefit the Airport in the long term as it could diminish the competitiveness of the airport vis-à-vis other regional airports which charge lesser and more reasonable rates for similar services.

16.5. FIA has submitted that the airlines have been going through difficult times and have suffered losses significantly in the last two years due to high ATF and recent depreciation of the rupee. FIA further submits that increase in various components of aeronautical tariffs as proposed by the Authority will erode airlines capabilities to increase fares to sustain its operational capabilities.

16.6. FIA has submitted that the while the Authority has proposed a minimum Landing Fee of Rs. 5000/-per landing, it should also prescribe a maximum bracket. FIA has also stated that the Authority in the present Consultation Paper Number 16/ 2012-13 has not deliberated upon the rationale for levying UDF and that there is no basis for levy Rs. 165 and Rs. 667 towards UDF on embarking domestic and international passengers respectively.

16.7. AAI has responded to the stakeholders comments regarding increase in tariffs at CIA by stating that the increase tariffs at CIA have been proposed considering the fresh investments made in up-gradation/ modernisation of Passenger terminals and other airport infrastructure etc.

16.8. AAI has further stated that:

> *"The MYTP and ATP for Chennai airport has been finalised as per AERA Guidelines for Tariff determination for aeronautical services taking into account investment made at Chennai airport, Projected traffic growth, revenue & expenses etc. The tariff proposed is reasonable. Proposed Tariff will enable AAI to invest further at Chennai airport for creation of better facilities for airlines and passengers."*

16.9. On FIA's submission regarding prescribing a maximum bracket for landing Charges, AAI has stated that the landing charges vary for different categories of aircraft depending on the weight of the aircraft and accordingly, no maximum rate of landing charges can be fixed.

16.10. Responding to Lufthansa's submission regarding exemption of cargo flights from increase in Landing Charges, AAI has submitted that the facilities utilised by freighter aircrafts and passengers aircrafts are the same and therefore same landing charges are applied to both category of aircrafts.

<u>*User Development Fee*</u>

16.11. FIA has also questioned the permissibility and purpose of levying the UDF Charges under the Airport Authority of India Act, 1994 ("AAI Act") or AERA Act. FIA has further stated that:

> *"It is a settled position of law that any levy or compulsory exaction which is in the nature of tax/cess cannot be levied without a statutory foundation/charging section, as laid down in a catena of judgements by the Hon'ble Supreme Court.*

It is well settled principle of law that no tax, fee or any compulsory charge can be imposed by any bye-law, rule or regulation unless the statute under which the subordinate legislation is made specifically authorises the imposition. There is no room for intendment."

16.12. FIA further states that

"In view of the foregoing, it is submitted that:

(a) AERA Act nowhere provides for provision of determination or levy of UDF on passengers.

(b) Authority in the present CP No. 16/ 2012-13 has not deliberated upon the rationale for levying UDF. It is submitted that Authority is bound under Section 13(4)(c) of the AERA Act to fully document and explain its decision.

(c) Further, there is also no evidence that Authority has undertaken the exercise of determining the amount of UDF as there is no basis for levy Rs. 165 and Rs. 667 () towards UDF on embarking domestic and international passengers respectively."

16.13. APAI has further submitted that the UDF levy should be postponed to 01.04.2014 and should be limited to Rs. 120 for both domestic and international passengers for departing passengers only.

16.14. AAI has responded to FIA's comment regarding permissibility of UDF levy under relevant law by stating that the Rule 89 of the Aircraft Rules, 1937 permit the licensee to levy and collect at a major airport the User Development Fee at such rate as may be determined under clause (b) of sub-section (1) of section 13 of the Airports Economic Regulatory Authority of India Act, 2008.

16.15. With regards to levy of UDF and annual escalation of 6%, AAI has further stated that the UDF and annual escalation of 6% is part of the tariff structure that has been finalized in the ATP so as to recover the computed ARR based on the AERA's Guidelines during the Control Period and in case the UDF is not levied as proposed, the other component of aeronautical charges including Landing and Parking as well as Fuel Throughput Charge will have to be increased.

Differential Charges

16.16. Cathay Pacific, IATA, APAI and FIA have raised concerns on the differentiation between domestic and international carriers for aeronautical charges like UDF, LPH etc. They have submitted that since the facilities offered are similar in nature, there is no justification for any differentiation in UDF for domestic and international passengers and thus the UDF must be the same for both domestic and international passengers. They have further submitted that such discrimination in charges between international and domestic passengers/ flights contravenes the ICAO's policy on non-discrimination and cost based charging.

16.17. IATA has highlighted to the Authority that the Competition Commission of India has issued an advisory to the MoCA mentioning the discriminatory development fees between international and domestic passengers that are charged at Delhi Airport.

16.18. The stakeholders have submitted that the charges for using such services and facilities should be worked out on basis of the efforts related to their usage, not on basis of domestic or international operation, or stage length of the flights as it bears no correlation at all.

16.19. Responding to the comments on differential rates between domestic and international passengers/ flights, AAI has submitted that the differential landing charges for domestic and international carriers have been worked out considering market conditions and different facilities being extended to domestic and international passengers. AAI has further submitted that charging different rates for domestic and international carriers is a practice prevalent at many foreign airports.

Other Comments on ATP

16.20. FIA has raised questions regarding the proposed increase in tariffs being fair and justifiable on financial/economic basis in a prudent, regulated, price cap mechanism as envisaged under the Act read with the AERA Guidelines of the Authority.

16.21. British Airways have questioned the Authority's proposal for an annual escalation of 6% in aeronautical tariffs. They have further submitted that AERA is proposing pricing to recover the costs of recent investments over an unusually short period and has encouraged AERA to set a recovery period of at least 10 years for investments undertaken at CIA.

16.22. Responding to the comments of British Airways, AAI has stated that "AAI is not recovering the entire cost of investments during the first control period. The recovery of cost is proposed as per AERA Guidelines."

Authority's Examination

16.23. The Authority has determined the ARR requirement for CIA based on the provisions given in AERA Guidelines taking into consideration the investments made at the airport, the projected operation and maintenance costs, depreciation, tax, revenues from services other than aeronautical services, revenues from services subject to separate control and the projected passenger traffic. The Authority believes that the investment made at the airport will enable AAI to provide better facilities to the end users and will improve the competitiveness of the airport.

16.24. FIA has commented on the inability of airlines to increase fares due to increase in aeronautical tariffs. The Authority notes that revision in fares is a business decision of the airlines which might be impacted by many factors apart from the Airport Charges. The airport charges are required to be determined in accordance with the provisions of the Act and the Authority has undertaken the exercise accordingly.

16.25. The 6% annual increase is based on the formulation of Airport Guidelines wherein the Yield per Passenger increases by a factor of (1+WPI-X) every year. AAI has proposed to reflect the same in various tariff components. Also, the Authority does not agree with British Airways submission that the costs of recent investments are proposed to be recovered over an unusually short period. The investments are recovered over the average depreciation lives of the assets which is based on the depreciation policy of AAI.

16.26. With respect to Lufthansa Cargo's submission for exemption of cargo flights from the landing fees, it needs to be considered that as per the Airport Guidelines, the airport operator has the flexibility to propose a Tariff Rate Card based on the Yield per Passenger as finalised by the Authority. The Authority has thus considered the Annual tariff Proposal as submitted by AAI.

16.27. The Authority does not agree with FIA's comment on the permissibility of levy of UDF Charges. As responded by AAI, the Rule 89 of the Aircraft Rules, 1937 permit the licensee to levy and collect at a major airport the User Development Fee at such rate as may be determined under clause (b) of sub-section (1) of section 13 of the Airports Economic Regulatory Authority of India Act, 2008.

16.28. The Authority has noted the submission of various stakeholders on the discrimination between domestic and international users for various charges. In this regard, the Authority has noted that IATA had, in the stakeholder consultation (on 29.10.2012) for determination of aeronautical tariffs in respect to CSI Airport, Mumbai, as well as its comments on the issue of level of Development Fee for CSI Airport, Mumbai, accepted the position of having a differential between charges for domestic passengers and international passengers. IATA had felt that a ratio of 2:1 would be acceptable.

16.29. The Authority is also informed that there are differential in airport charges for different categories of users (domestic, international, regional etc.) in many parts of the world and IATA’s submission that this is not a common practice around the world does not appear to be in consonance with the actual practice at various airports across the world.

16.30. With respect to FIA’s submissions questioning the basis for levy of UDF, the Authority has noted the AAI’s submission that the proposed tariff structure is to recover the computed ARR during the Control Period and in case the UDF is not levied as proposed, the other component of aeronautical charges including Landing and Parking as well as Fuel Throughput Charge will have to be increased. The Authority also notes that once the quantum of ARR is determined, its recovery depends on how it is proposed to be recovered from different components of revenue accruing to the airport operator, the passenger charge of UDF being one of them.

16.31. The Authority therefore feels that on balance the rate cards at Annexure II takes into account reasonable interest of all the stakeholders and therefore decides to determine the aeronautical charges accordingly.

16.32. The Authority has also noted that the Passenger Service Fee (PSF) being collected at CIA is comprised of two components [PSF Security component (SC) – Rs.130 and Facilitation Component (FC) - Rs.77]. While proposing the levy of UDF for passengers at CIA, Chennai AAI have included the facilitation component of the Passenger Service Fee i.e., Rs.77 in the proposed UDF levy. AAI, presently, have not proposed any increase in the PSF Security component at CIA and the same shall remain at Rs.130 per passenger. The Authority has decided to approve AAI's submission for continuing the PSF Security component (SC) – Rs.130, being in conformity with the Authority's Order No.17/2010-11 dated 31.03.2011.

Decision No12. Regarding Annual Tariff Proposal

12.a. **The Authority determines the present value of the Yield per passenger at Rs.296.29 (as at Table 15) for the first Control Period based on its examination of the MYTP submitted by AAI.**

12.b. **The Authority further decides to also consider the ATP(s) for the Tariff Years 2012-13 to 2015-16 submitted by AAI in respect of CIA, Chennai at the MYTP stage itself.**

12.c. **The Authority determines the tariffs for the Tariff Years 2012-13 to 2015-16 for aeronautical services in respect of Chennai Airport as per Annexure II. The tariffs for FY2012-13 would be effective from 01.03.2013. The tariffs for the Tariff Years 2013-14, 2014-15 and 2015-16 will be effective from 1st April of the respective Tariff Years;**

12.d. **The Authority decides to merge the passenger facility component (presently Rs. 77 per departing passenger) of the Passenger Service Fee, in the UDF. Thus, the PSF at CIA, Chennai will be limited only to the Security Component w.e.f 01.03.2013 (presently Rs.130 per departing passenger).**

12.e. **The rates approved are the maximum rates allowed to be charged, exclusive of taxes if any.**

Truing Up: 7. Truing up of Annual Tariff Proposal

7.a. **The Authority notes that after the issue of this Order, DGCA issues Aeronautical Information Circular (AIC) acting upon which the airlines will incorporate the UDF in the tickets for passengers travelling on or after 01.03.2013.**

7.b. **The Authority decides to true-up the short-fall in UDF on account of passengers travelling on or after 01.03.2013 but who have not been charged UDF on their tickets after taking into account the PSF Facilitation Component charged on such tickets.**

17. Appointment of Independent Consultant

Stakeholders' Comment

17.1. IATA and FIA have commented upon the appointment of consultant by AAI for assisting the Authority for tariff determination at CIA. They have submitted that such an approach throws into doubt the true independence of the tariff determination process and the independence of opinions expressed by the consultants.

Authority's Examination

17.2. The scope of work of the consultants has been determined by the Authority and not by AAI. This scope included assisting the Authority in its work of tariff determination. The consultants have carried out the tasks assigned to them by the Authority and have worked under the direct control and supervision of the Authority. In this process the consultants reviewed the relevant documents including those submitted by AAI. Hence, the concerns regarding independence of either the opinions expressed by the consultants or of the tariff determination process is misplaced.

18. Consultation Process

Stakeholders' Comment

18.1. AOC has commented that Authority, in its Consultation Paper Number 16/2012-13, has not annexed various submissions and clarifications submitted by AAI on its depreciation policy, traffic forecasting methodology and details of the debts raised by AAI for the modernisation project of the NTB, a component-wise breakup of the revenue and expenditure, details of component-wise project cost and AAI's means of finance with respect to CIA. AOC has further submitted that in the absence of these submissions, documents and notes, the stakeholders will be prevented from giving a thorough response to the tentative decisions arrived at by the Authority.

Authority's Examination

18.2. The documents referred to by AOC were provided as Annexure I-IV of the Consultation Paper Number 16/2012-13. These documents, in the opinion of the Authority are adequate to enable the stakeholders to make effective submissions in this behalf. The Authority notes that other stakeholders like IATA, FIA etc. have been able to make submissions on the issues indicated by AOC and that the Authority has given its reasoning on the same.

19. Exclusion of CNS ATM Services

Stakeholders' Comment

19.1. AOC has commented that according to Section 2(a)(i) of the AERA Act, any service provided for navigation, surveillance and supportive communication thereto for air traffic management would be considered as an aeronautical service. However, the tariff proposal submitted by AAI to the Authority fails to include the revenues and expenditure on account of the CNS Air Traffic Management services being provided by AAI in the category of aeronautical services and revenue. AOC has further stated that the Authority should not permit this deviation from the statute that is sought to be made by the AAI.

Authority's Examination

19.2. The current determination for aeronautical tariffs is for AAI as the airport operator of CIA based on Authority's Order Number 13/2010-11 dated 10.01.2011 and the Airports Economic Regulatory Authority of India (Terms and Conditions for Determination of Tariff for Airport Operators), Guidelines 2011 as per Direction Number 5/2010-11 dated 28.02.2011. Provision of navigation, surveillance and supportive communication thereto for air traffic management is a separate service provided by AAI and is not covered under the said Guidelines. Under the Authority's Order No.17/2010-11 dated 31.03.2011, the charges in respect of CNS Air Traffic Management services continue to remain unchanged and are not the subject matter of the current tariff determination.

20. Approach to Tariff Determination

Stakeholders' Comments

20.1. FIA has commented that the Authority's proposal for tariff determination is retrospective, which is impermissible. FIA has further quoted the Hon'ble Supreme Court's judgment in Binani Zinc Ltd. Vs. Kerala State Electricity Board & Others reported as (2009) 11 sec 2442, wherein the Hon'ble Supreme Court has held that it is only after the Regulatory commission is constituted that it will be the sole authority to determine the tariff.

20.2. FIA has also commented that any 'determination' by a statutory authority must clearly show the application of mind and analysis carried out by the authority and in the present determination the Authority has proposed increase in various charges (for instance FTC, Landing Charges, Parking Charges, etc.) without any justification or analysis for the same.

20.3. FIA has further submitted that Section 13(1)(4)(c) of the AERA Act mandates that any decision by the Authority must be fully documented and explained. In this regard, FIA has made reference to a judgment of the Hon'ble Supreme Court in the case of **Ashok Leyland Ltd. Vs. State of Tamil Nadu and Anr.** reported as **(2004) 3 SCC 1 (FB)(at Para 94**) and has submitted that

> *"….Hon'ble Supreme Court held that the word '**Determination**' must also be given its full effect to, which pre-supposes application of mind and expression of the conclusion. It connotes the official determination not a mere opinion or finding. The **Hon'ble TDSAT** has also held that determination requires application of mind in the **Judgment dated 16.12.2010 in Appeal No 3(C) of 2010 titled as ZEE Turner Ltd. Vs. TRAI &Ors. (At Para 150)."***

20.4. FIA has further submitted that order passed by an administrative authority, affecting the rights of parties, must be a speaking order supported with reasons and has invited Authority's attention to a judgment of the Hon'ble Supreme Court in the case of Kranti Associates Private Limited & Another Vs. Masood Ahmed Khan & Others reported as (2010) 9 SCC 4966. FIA has presented the following findings of the said judgement:

> *"51. Summarizing the above discussion, this Court holds:*
>
> > *a In India the judicial trend has always been to record reasons, even in administrative decisions, if such decisions affect anyone prejudicially.*
> >
> > *b A quasi-judicial authority must record reasons in support of its conclusions.*

c Insistence on recording of reasons is meant to serve the wider principle of justice that justice must not only be done it must also appear to be done as well.

d Recording of reasons also operates as a valid restraint on any possible arbitrary exercise of judicial and quasi-judicial or even administrative power.

e Reasons reassure that discretion has been exercised by the decision maker on relevant grounds and by disregarding extraneous considerations.

f Reasons have virtually become as indispensable a component of a decision making process as observing principles of natural justice by judicial, quasi-judicial and even by administrative bodies.

g Reasons facilitate the process of judicial review by superior Courts.

h The ongoing judicial trend in all countries committed to rule of law and constitutional governance is in favour of reasoned decisions based on relevant facts. This is virtually the life blood of judicial decision making justifying the principle that reason is the soul of justice.

i Judicial or even quasi-judicial opinions these days can be as different as the judges and authorities who deliver them. All these decisions serve one common purpose which is to demonstrate by reason that the relevant factors have been objectively considered. This is important for sustaining the litigants' faith in the justice delivery system.

j Insistence on reason is a requirement for both judicial accountability and transparency.

k If a Judge or a quasi-judicial authority is not candid enough about his/her decision making process then it is impossible to know whether the person deciding is faithful to the doctrine of precedent r to principles of incrementalism.

l Reasons in support of decisions must be cogent, clear and succinct. A pretence of reasons or `rubber-stamp reasons' is not to be equated with a valid decision making process.

m It cannot be doubted that transparency is the sine qua non of restraint on abuse of judicial powers. Transparency in decision making not only makes the judges and decision makers less prone to errors but also makes them subjectto broader scrutiny. (See David Shapiro in Defence of Judicial Candor (1987) 100 Harward Law Review 731-737).

n Since the requirement to record reasons emanates from the broad doctrine of fairness in decision making, the said requirement is now virtually a component of human rights and was considered part of Strasbourg Jurisprudence. See (1994) 19 EHRR 553, at 562 para 29 and Anya v. University of Oxford 2001 EWCA Civ 405, wherein the Court referred to Article 6 of European Convention of Human Rights which requires, "adequate and intelligent reasons must be given for judicial decisions".

o In all common law jurisdictions judgments play a vital role in setting up precedents for the future. Therefore, for development of law, requirement of giving reasons for the decision is of the essence and is virtually a part of "Due Process"."

20.5. Referring to the judgments presented in para 20.3 and 20.4 above, FIA has submitted that the Authority ought to undertake the exercise of 'Determination' by application of mind and pass reasoned order on any issue and the increase in aeronautical tariff.

Authority's Examination

20.6. The Authority does not agree with FIA's comments that the tariff determination made by the Authority under this order is retrospective. The Authority has specified in the Airport Guidelines itself that the first Control Period shall start from 1.04.2011. The Supreme Court judgment quoted by FIA also states that the tariff can be determined after the regulatory commission is constituted. It is to be noted that not only was Authority already constituted before 01.04.2011 but even the Guidelines for tariff determination were issued prior to that.

20.7. Additionally, the ARR calculation has been worked out considering the Control Period of 5 years period commencing from FY 2011-12 and the tariff revision is proposed to be implemented prospectively for the years 2012-13, 2013-14, 2014-15 and 2015-16.

20.8. The Authority notes FIA's submission that the Authority has not applied its mind while proposing the increase in tariffs at CIA, Chennai. The Authority has given its full consideration to each element of the building blocks before arriving at its estimates of the ARR. As per the Airport Guidelines, the increase in various tariffs are based on the determination of Yield per Passenger which is further determined on the basis of projection for various regulatory building blocks, the explanation for which has been clearly articulated and presented in the Consultation Paper Number 16/2012-13 as well as the reasoning given in this order after taking into account the comments of each stakeholder.

21. Doctrine of Infrastructural Essential Facilities

Stakeholders' Comments

21.1. FIA has submitted that under the competition law, an enterprise is under an obligation to extend its essential infrastructural facility at a reasonable cost and has stated that AAI's control over CIA, Chennai renders it a monopolist having control over 'essential infrastructural facility' of the airport in the city of Chennai and the southern region of the country.

21.2. FIA has given following reference to a judgement of the Supreme Court of United States of America in **United States vs. Terminal Railroad Assn**, reported as **224 U.S. 383 (1912)**.

"Under the principles of access to essential facility, the following four factors must be proven:-

(a) Control of the essential facility by a monopolist;

(b) A competitor's inability practically or reasonably to duplicate the essential facility;

(c) The denial of the use of the essential facility to a competitor; and

(d) The feasibility of providing the essential facility to competitors."

21.3. FIA has further placed reliance on the case of **Apartment Source of Philadelphia vs. Philadelphia Newspapers**, reported as **1999 WL 191649** to submit that to seek access to essential facility, the asset in question also must not be available from other sources or capable of duplication by the firm seeking access.

21.4. Based on the judicial precedents presented in para 21.2 and 21.3 above, FIA has submitted that AAI assumes the position of a monopolist since it exercises control over CIA, Chennai and thus, per this doctrine, should not be allowed to charge an exorbitant price for accessing his facility. It has further submitted that such enormous hike in tariff by a monopolist AAI may be viewed as 'abuse of its dominance' and accordingly liable under Section 4 of the Competition Act, 2002 ("Competition Act") which promulgates the "economic development of the country" amongst other things, protect the interests of the consumers.

21.5. In view of the foregoing, FIA has submitted that the Authority is mandated to prevent any opportunity which lead to the abuse of monopolistic power by the airports and that stand in the way of effective economic regulation.

Authority's Examination

21.6. The economic regulation of airport the world over (including in USA) is based on the extant laws of the country. In India the economic regulation of major airports is done in accordance with the provision of AERA Act. The Authority has accordingly proceeded with such determination. In the opinion of the Authority, an airport is a facility to provide aeronautical services to the users as well as stakeholders. Airport users are defined in the act to mean any person availing of passenger or cargo facility at an airport. A stakeholder is defined to include “a licensee of an airport, airlines operating thereat, a person who provides aeronautical services or any association of individuals, which in the opinion of the Authority represents the passenger or cargo facility users.”

21.7. In accordance with this mandate of the AERA Act, the Authority, after due consultations has published a list of the stakeholders including association of individuals representing the passengers as well as cargo facility users. FIA is of the view that such enormous hike in tariff by a monopolist AAI may be viewed as ‘abuse of its dominance’. As has been explained in this order, the hike in aeronautical charges as determined by the Authority is based on sound economic principles and due application of mind. The revision in tariffs has been determined by the Authority within the framework of the AERA Act and its own guidelines.

21.8. Authority had followed a comprehensive and transparent process wherein the Authority determined its regulatory philosophy and approach in economic regulation of Airport Operators which was finalized as per the Airport Order. Further, the Authority also finalized the Airports Economic Regulatory Authority of India (Terms and Conditions for Determination of Tariff for Airport Operators), Guidelines 2011 as per Direction Number 5/2010-11 dated 28.02.2011.

21.9. The tariff increase proposed for aeronautical services is worked out on the basis of Aggregate Revenue Requirement (ARR) computed for the Control Period following the Airport Guidelines. The Authority therefore does not feel that the judgments referred to by FIA are applicable to the case of tariff determination of CIA, Chennai by the Authority. The Authority would also note that the issues regarding competitions etc. fall within the domain of Competition Commission as has been indicated by FIA.

22. Benchmarking of costs

Stakeholders’ Comments

22.1. FIA has submitted that since the determination of aeronautical tariff of various major airports is evolving, it would be relevant if a standard benchmarking with respect to optimal capex per square meter and opex per passenger/landing is established by the Authority which would be useful for all the Stakeholders while examining the various tariff proposals.

22.2. FIA has further submitted that

"There is a need for guidance to the industry by the Regulator so that norms for operation are determined for the industry base on the technology, industry performance and in order to ensure optimum utilisation of assets with efficient and economic operation. Normative level can be determined by the Regulator on the basis of Benchmarking……….

……..The purpose behind using a benchmarking approach is that to the extent that a utility is more efficient than the industry or is able to achieve higher rates of productivity changes, it will retain these benefits forever. Thus, the advantage of using a benchmark is that it creates an incentive for an enterprise to be more efficient."

Authority's Examination

22.3. The Authority notes FIA's comment in terms of benchmarking capex and opex costs. In terms of providing benefits to a utility which is more efficient than the industry as a whole, the Authority is of the view that such an objective is inherent in a price cap regulatory approach such that an airport operator is encouraged to reduce costs related to capital expenditure and operation and maintenance expenditure and retain benefits during the Control Period.

23. Material issues for tariff determination

Stakeholders' Comments

23.1. FIA has also submitted that the present Consultation Paper Number 16/2012-13 raises inter alia the following questions for consideration of the Authority:-

a. Whether the claim of AAI for increase in Aeronautical Tariff is justifiable on financial economic basis?

b. Under what circumstances, when and to what extent can such diversion in project cost be permitted to be revised without complying with the requirements of prudence?

c. Is levy of UDF permissible under the relevant law? If so, for what purposes can levy of UDF be termed justifiable?

d. Is Authority's reliance only on AAI's data for determining following is justifiable:-

i. Operating Expenditure is one of the major components for determining ARR?

ii. Non-aeronautical revenue i.e. revenue generated from services other than aeronautical services

e. Can the proposed Aeronautical tariff be considered as a fair, just or reasonable claim of AAI in a prudent, regulated, price cap mechanism as envisaged under the Act read with the AERA Guidelines of the Authority?

Authority's Examination

23.2. The Authority has addressed the questions raised by FIA for the present determination.

23.3. FIA has queried that *"Whether the claim of AAI for increase in Aeronautical Tariff is justifiable on financial economic basis?"* The Authority has analysed the submissions of AAI with respect to the various building blocks in the tariff determination process including Fair Rate of Return. After its analysis, it had tentatively arrived at certain conclusions which were presented in the Consultation Paper Number 16/2012-13. Based on responses received, the Authority has finalized its determination of aeronautical charges that in its opinion are based on financial and economic consideration.

23.4. FIA has also queried that "*Under what circumstances, when and to what extent can such diversion in project cost be permitted to be revised without complying with the requirements of prudence?*". It appears that FIA query refers not to diversions in project costs but in the increase (escalation) thereof. As has been deliberated, both the components of the project costs namely Rs. 2015 crores and Rs. 847.71 crores have been duly approved the competent authorities. The Authority has found no grounds to doubt any of these costs. It has also noted that the accounts of AAI are audited by C&AG. AAI also follows detailed codes and procedures for estimating the project cost, award of tenders etc. The Authority therefore believes that AAI has exercised adequate prudence in making estimates as well as award of work in respect of CIA, Chennai.

23.5. FIA has queried that *"Is levy of UDF permissible under the relevant law? If so, for what purposes can levy of UDF be termed justifiable?".* In this regard, the Authority observes that determination of development fees is one of the functions of the Authority under Section 13 (1) (b) of the AERA Act. Further, as per Rule 89 of the Aircraft Rules, 1937:

"The licensee may, -

(i) levy and collect at a major airport the User Development Fee at such rate as may be determined under clause (b) of sub-section (1) of section 13 of the Airports Economic Regulatory Authority of India Act, 2008;

(ii) levy and collect at any other airport the User Development Fees at such rate as the Central Government may specify."

23.6. Hence, levy of UDF is in consonance with the provisions of Section 13 (1)(b) of the AERA Act read with Rule 89 of the Aircraft Rules. Hence, the levy of UDF is permissible under relevant law and the Authority has been mandated to determine the same. As far as its justification is concerned, as mentioned above, it is levied so as to permit the airport operator (AAI in this case) to achieve/recover the computed ARR. In case UDF is not levied, the other aeronautical charges notably landing, parking, housing etc. would need to be increased. Hence, the levy of UDF is based on sound economic and financial considerations.

23.7. FIA has further queried that "Is Authority's reliance only on AAI's data for determining following is justifiable:-

i. Operating Expenditure is one of the major components for determining ARR?

ii. Non-aeronautical revenue i.e. revenue generated from services other than aeronautical services"

23.8. The Authority has noted the APTEL judgment quoted by FIA itself wherein it was held that the regulatory authority should not deviate from the projections made by the regulated entity without any cogent reasons. It is also mentioned in the said judgment that the expenditures of the regulated entity should not be underestimated. FIA appears to expect the Authority to depress the element of operating expenditure and increase the non-aeronautical revenue. The Authority has not found any cogent reason to depress the operating expenditure. As regards the non-aeronautical expenditure, it decides to true-up the same on account of detailed reasoning given elsewhere.

23.9. FIA has also queried that, "Can the proposed Aeronautical tariff be considered as a fair, just or reasonable claim of AAI in a prudent, regulated, price cap mechanism as envisaged under the Act read with the AERA Guidelines of the Authority? ". The Authority has already indicated that its determination of aeronautical tariffs is based on sound economic and financial principles including Fair rate of Return to the airport operator and at the same time keeping in view the reasonable interests of passengers and cargo facility users.

24. True-up Exercise

Stakeholders' Comments

24.1. With respect to true-up exercise, FIA has stated that

> *"In the present CP No. 16/2012-13, the tariff plan is subject to truing up in next control period with respect to following variables:*
>
> *(a) Project Cost*
>
> *(b) RAB, Roll Forward RAB and depreciation*
>
> *(c) Traffic Forecast*
>
> *(d) Non Aero Revenue*
>
> *(e) Operation and Maintenance expenditure*
>
> *(f) Taxation*
>
> *"It is submitted that in the present case not only Authority has not applied its mind but indiscriminately left aforementioned components for future in the garb of truing up exercise during next control period."*

24.2. FIA has also submitted an extract of a judgement of APTEL in the case of BSES Rajdhani Power Limited vs. Delhi Electricity Regulatory Commission reported as 2009 ELR (APTEL) 880. FIA has further submitted that the judgment has been followed by APTEL in various other cases like **NDPL vs. Electricity Regulatory Commission** reported as **2010 ELR (APTEL) 891.** Relevant para of the judgement is as following:

> *"116. Before parting with the Judgment we have to remind the Commission of the observations in our Judgment in Appeal No. 265 of 2006, 266 of 2006 and 267 of 2006 in the case of North Delhi Power Ltd. v. Delhi Electricity Regulatory Commission in which we said the following:*

Before parting with the Judgment we are constrained to remark that the Commission has not properly understood the concept of truing up. While considering the Tariff Petition of the utility the Commission has to reasonably anticipate the Revenue required by a particular utility and such assessment should be based on practical considerations. ...The truing up exercise is meant (sic) to fill the gap between the actual expenses at the end of the year and anticipated expenses in the beginning of the year. When the utility gives its own statement of anticipated expenditure, the Commission has to accept the same except where the Commission has reasons to differ with the statement of the utility and records reasons thereof or where the Commission is able to suggest some method of reducing the anticipated expenditure. This process of restricting the claim of the utility by not allowing the reasonably anticipated expenditure and offering to do the needful in the truing up exercise is not prudence.

117. All projections and assessments have to be made as accurately as possible. Truing up is an exercise that is necessarily to be done as no projection can be so accurate as to equal the real situation. Simply because the truing up exercise will be made on some day in future the Commission cannot take a casual approach in making its projections. We do appreciate that the Commission intends to keep the burden on the consumer as low as possible. At the same time one has to remember that the burden of the consumer is not ultimately reduced by under estimating the cost today and truing it up in future as such method also burdens the consumer with carrying cost."

24.3. FIA has further stated that *"In view of the foregoing, it is submitted that Authority should not leave everything to true up and attempt to make all the projections and assessments s accurately possible on the basis of available data*."

Authority's Examination

24.4. The Authority has noted the concern of FIA that true-up exercise should be conducted sparingly by the Authority. FIA has given six items where, in its opinion, the

Authority has not applied its mind in deciding the truing-up. It appears that FIA has not appreciated the import of the true up exercise indicated by the Authority.

24.5. The Airport Guidelines enumerate the components for which the Authority shall provide corrections. These include components related to determination of RAB, Traffic Forecast, Mandated and Statutory Operation and Maintenance Costs as well as change in rate of corporate tax on income. The Authority also notes that FIA had not given any comment on the error-correction or true-up during the consultation of Airport Guidelines.

24.6. The only additional elements for which the Authority had proposed to true-up in the Consultation Paper Number 16/2012-13 includes Revenues from services other than Regulated Services and the quantum of corporate tax on income. The reasons of the Authority for allowing these additional true-up have been explained elsewhere as well as below. The Authority had also given its reasoning for carrying out the truing-up exercise at the end of current Control Period in the Consultation Paper Number 16/2012-13.

The comments of the Authority on the various points are indicated below:

24.7. Project Cost

24.7.1. The Authority has already indicated that some elements of project cost are yet to be capitalized. As and when they are capitalized, they would need to enter into the RAB. This is to reflect the true and fair picture of the capitalized airport infrastructure in regulatory order. The meaning of true up is that these project costs would be considered as capitalized in the respective years and would be factored while calculating ARR.

24.8. RAB Roll Forward/RAB and Depreciation

24.8.1. The roll forward of RAB is for the next Control Period. Whatever expenditure that has been capitalized, as indicated during current Control Period in the submissions of airport operator, would be taken into account while determining the RAB at the beginning of the next Control Period. This is a standard regulatory practice, as otherwise RAB at the beginning of the next Control Period would not reflect true and fair picture of the investments that have gone into the project. As regards the depreciation, the true up is on account of the submissions of IATA with respect of actual date of capitalization of the asset in question. The Authority had in the Consultation Paper Number 16/2012-13 indicated that assets capitalized in a particular year would be deemed to have been capitalized at the middle of that particular year, namely, 30th September, and depreciation calculated accordingly. IATA had felt that this could not reflect the correct amount of depreciation because if some assets are capitalized in the second half of Control Period, they would still get benefit of depreciation for a period longer than what should he held admissible in such assets that are capitalized beyond September 30th of that year. To take care of this concern and to balance the interests of the passengers as well of those of the airport operator, the Authority decides to calculate depreciation on the capitalized assets on the date of its capitalization.

24.9. Traffic Forecast

24.9.1. The Authority had made reasonable efforts to estimate future traffic forecasts based on past trends. Authority was also cognizant of the fact that ups and downs in the traffic can be significant in the Aviation sector as has been witnessed for the past couple of years. IATA has also been saying that Aviation business is cyclical.

24.9.2. Any forecast by its very nature is only an estimation of as to what is likely to happen in future. If the actual passenger traffic goes much beyond the forecast, this would mean that the airport operator has got much higher returns than was envisaged. Look at it from a different perspective, the passengers have been required to pay UDF that is higher than what they would have been if the higher outturn of the traffic volume was known in advance. Conversely, if the actual traffic falls much below the forecast, this would mean that airport has lost out on some of the revenue that it should get to enable it to earn a fair rate of return. Since the probability of the actual traffic going up or down, as compared to the forecast, may or may not be symmetrical, the Authority felt that to true up the actual traffic is the best and impartial method of balancing the interests both of the passengers as well as those of the airport operator.

24.10. Non-Aeronautical Revenue

24.10.1. The forecast of non-aeronautical revenue, howsoever made, is also subject to fluctuations on account of many factors including the traffic, the state of GDP, peoples outlook about the future, increase or otherwise of the passengers' spent at the non-aeronautical activities at the airport, composition of domestic and international passengers, composition of international passengers with respect to the nationalities of such passengers, etc. Since all these factors cannot be factored into the forecast, the actual non-aeronautical revenue obtained in future would differ from the forecasted estimate. The forecast is further made more difficult by the fact that the work of award of tenders for non-aeronautical activities at the new terminal at Chennai airport is underway. Here again, if the actual non-aeronautical revenue concern are put higher than the forecasted figure, it would give undue benefit to the airport operator at the expense of the passengers. The reverse would happen if the actual non-aero revenue were to fall short of the forecasted figure. This is similar to what is already explained in case of traffic forecast. Hence, after considering all these factors, the Authority decided to finally true up the non-aeronautical revenue to balance the interests of both the passengers and the airport operator.

24.11. Operations and Maintenance Expenditure

24.11.1. The Authority has not decided to true up the Operations and Maintenance expenditure except for any Mandated and Statutory Operation and Maintenance Costs.

24.12. Taxation

24.12.1. Based on its estimate of the traffic and consequently the revenue in the hands of the airport operator, the amount of taxes actually paid by the airport operator would be determined. This would invariably differ from the forecast of the taxes. The tax is a component of the building block in the determination of aeronautical tariffs and is a payment to the Government. The Authority believes that any short fall or excess in such payment should not be reason for any benefit or otherwise to the airport operator which would arise at the expense of the passengers. That is why, the Authority decides to true up the taxation based on actual.

24.12.2. The Authority's approach is in accordance with the observations quoted by FIA in the judgement of APTEL in the case of BSES Rajdhani Power Limited Vs Delhi Electricity Regulatory Commission reported as 2009 ELR/APTEL (AT) wherein the Appellate Authority has stated that all projections and assessments have to be made as accurately as possible. Truing up is an exercise that is necessarily be done as no projection can be so accurate as to equal the real situation. The Appellate Tribunal has also observed that *"when the utility gives its own statement of anticipated expenditure, the Commission has to accept the same except where the Commission has reasons to differ with the statement of the utility and records reasons thereof or where the*

Commission is able to suggest some method of reducing the anticipated expenditure." Herein the Appellate Authority has stated that in normal course the statement of the utility with regard to anticipated expenditures need to be accepted by the regulatory commission. The Appellate Authority further goes on to observe *"this process of restricting the claim of the utility by not allowing the reasonably anticipated expenditure and offering to do the needful in the truing up exercise is not prudence."* It would appear that in fact the Appellate Authority was not in favour of unnecessarily and without reason trying to reduce the expenditure as projected by the regulated entity in order to reduce the burden on the passengers. In AERA's case, its approach is entirely in consonance with the regulatory observations of APTEL as to the true meaning and import of truing up exercise. The Authority had no separate reason to disbelieve the projections made by the regulated entity, namely, Airports Authority of India.

24.12.3. It would be clear that on all these points the Authority has considered truing up based on valid and germane reasons and considerations.

24.12.4. The Authority is, therefore, unable to accept FIA's contention that the Authority has not given due consideration for projecting various factors for the purpose of tariff determination. As mentioned supra, the Authority has carefully considered the projections and assessment of various components as reasonably as possible. The Authority's projections are based on a rational process and are hence in consonance with the ratio of the judgment referred to by FIA. Also, as mentioned in the referred judgment, *"truing up is an exercise that is necessarily to be done as no projection can be so accurate as to equal the real situation"*.

25. Summary of Decisions and Correction/ Truing up

26. ORDER of the Authority

26.1. In exercise of powers conferred by Section 13(1)(a) of the AERA Act, 2008, the Authority hereby determines, the tariffs for aeronautical services provided at CIA, Chennai as placed at **Annexure I** and **Annexure II**. These rates will be effective from 01.03.2013. The tariffs for the subsequent tariff years (i.e. FY 2013-14, FY 2014-15 and FY 2015-16) will be effective from 1st April of each Tariff Year, during the current Control Period.

26.2. In exercise of powers conferred by Section 13(1)(b) of the AERA Act, 2008, read with Rule 89 of the Aircraft Rules, 1937, the Authority hereby determines the rate of UDF as indicated in the rate cards at **Annexure II** for the current Control Period. These rates will be effective from 01.03.2013.

26.3. The tariffs determined herein are ceiling rates, exclusive of taxes, if any.

By the Order of and in the

Name of the Authority

(Capt. Kapil Chaudhary (Retd.))
Secretary

To,

Airports Authority of India
(Through Shri V.P.Agrawal, Chairman AAI)
Rajiv Gandhi Bhawan
Safdarjung Airport,
New Delhi – 110003

27. List of Tables

28. List of Annexures

Annexure - I

Cargo Charges at Chennai International Airport, Chennai for the first control period - effective from 1st March, 2013 to 31st March 2016

Contents

Cargo Charges at Chennai International Airport, Chennai for the first control period - effective from 1st March, 2013 to 31st March 2016

1. Export Cargo

I) TERMINAL, STORAGE AND PROCESSING CHARGES:

Sl.No.	Type of Cargo	Rate per Kilogram Rs. / P	Minimum rate per consignment Rs. / P
1	General	0.74	125.00
2	Special	1.47	245.00
3	Perishable	0.74	125.00

II) DEMURRAGE CHARGES (Leviable from Shipper)

Sl.No.	Type of Cargo	Rate per Kilogram Rs. / P	Minimum rate per consignment Rs. / P
1	General	0.76	125.00
2	Special	1.50	245.00
3	Perishable	0.76	125.00

NOTES: [Export Cargo]

1.1. The free period for export cargo shall be one working day (24 hours) for examination/processing by the Shippers.

1.2. 10% discount in the Terminal, Storage and Processing charges will be granted to Exporters, who opt for engaging their own loaders for offloading cargo from their vehicles at Truck Dock and shifting to Custom Examination Area.

1.3. Terminal, Storage and Processing charges applicable to Newspaper and TV reel consignments shall be 50% of the prescribed charges.

1.4. Consignments of human remains, coffin including unaccompanied baggage of deceased and Human eyes will be exempted from the purview of Terminal, Storage and Processing charges & Demurrage charges.

1.5. Terminal, Storage and Processing charges are inclusive of Forklift charges wherever Forklift usage is involved. No separate Forklift charges will be levied.

1.6. Special cargo consists of live animals, hazardous goods and valuable cargo.

1.7. Charges will be levied on the ‘gross weight’ or the ‘chargeable weight’ of the consignment, whichever is higher. Wherever the ‘gross weight’ and (or) ‘volume weight’ is wrongly indicated on the Airway Bill and is found more, charges will be levied on the ‘actual gross weight’ or ‘actual volumetric weight’, whichever is higher.

1.8. For misdeclaration of weight above 2% and upto 5% of declared weight, penal charges @ double the applicable Terminal, Storage and Processing charges and for variation above 5%, the penal charges @ 5 times the applicable Terminal, Storage and Processing charges will be leviable on the differential weight, subject to minimum amount equivalent to the applicable minimum Terminal, Storage and Processing charges. No penal charges will be leviable for variation upto and inclusive of 2%. This will not apply to valuable cargo.

1.9. All Bills shall be rounded off to the nearest of Rs.5/=. As per IATA Tact Rule Book Clause 5.7.2, the rounding off procedure, when the rounding off Unit is 5.

When the results of calculations are between / and	Rounded off amount will be
102.5 - 107.4	105
107.5 - 112.4	110

1.10. As an incentive to trade to utilize the lean hours, 20% discount in the Terminal, Storage and Processing charges will be granted to Export cargo admitted between 1000 hrs. to 1500 hrs., subject to levy of minimum rate per consignment as given in Scale of Charges.

1.11. Merchant Over Time (MOT) charges @ Rs.200.00 per consignment for admitting cargo beyond normal working hours.

2. Import Cargo

I) TERMINAL , STORAGE AND PROCESSING CHARGES:

Sl. No.	Type of Cargo	Rate per Kilogram Rs. / P	Minimum rate per consignment Rs. / P
1	General	4.96	135.00
2	Special and Valuable	9.89	265.00

II) DEMURRAGE CHARGES

Free storage period for Import cargo shall be 72 hrs. (03 working days) including the date of the arrival of flight. For the next 48 hrs. (02 working days), demurrage will be charged at "per kg; per day" non-cumulative basis, provided the consignment is cleared within 120 hrs. (05 working days). If clearance is affected after 120 hrs. (05 working days), demurrage will accrue for the entire period from the date / time of the arrival of the flight, as follows:-

S. No.	Type of Cargo	PERIOD	Rate per Kilogram Rs. / P	Minimum rate per consign-ment (Rs. / P.)
1	General Cargo	Upto 120 hrs. (5 days working) including free period	1.44	325.00
		Between 120 hrs. and 720 hrs. (6 and 30 days)	2.87	
		Beyond 720 hrs. (30 days)	4.31	
2	Special Cargo	Upto 120 hrs. (5 days working) including free period	2.87	640.00
		Between 120 hrs. and 720 hrs. (6 and 30 days)	5.73	
		Beyond 720 hrs. (30 days)	8.60	
3	Valuable Cargo	Upto 120 hrs. (5 days working) including free period	5.73	1280.00
		Between 120 hrs. and 720 hrs. (6 and 30 days)	11.47	
		Beyond 720 hrs. (30 days)	17.20	

NOTES: [Import Cargo]

2.1.1. Consignments of human remains, coffin including baggage of deceased & human eyes will be exempted from the purview of Terminal, Storage and Processing charges & Demurrage charges.

2.1.2. No separate Forklift charges will be levied.

2.1.3. Charges will be levied on the 'gross weight' or the 'chargeable weight' of the consignment whichever is higher. Wherever the 'gross weight' and (or) volume weight is wrongly indicated on the Airway Bill and is actually found more, charges will be levied on the 'actual gross weight' or 'actual volumetric weight' or 'chargeable weight' whichever is higher.

2.1.4. Special Import Cargo consists of cargo stored in cold storage, live animals and hazardous goods.

2.1.5. Valuable cargo consists of gold, bullion, currency notes, securities, shares, share coupons, travelers' cheques, diamonds (including diamonds for industrial use), diamond jewelry, jewelry & watches made of silver, gold platinum and items valued at USD 1000 per Kg. & above.

2.1.6. All Bills shall be rounded off to the nearest of Rs.5/=. As per IATA Tact Rule Book Clause 5.7.2, the rounding off procedure, when the rounding off Unit is 5.

When the results of calculations are between / and	Rounded off amount will be
102.5 - 107.4	105
107.5 - 112.4	110

3. Schedule of Charges leviable on Non-Scheduled Operators

S.No.	Particular of services	Charges
1	Storage charges for export cargo uplifted beyond free period	2.99 / Kg. / day
2	Storage charges for export valuable perishable cargo, live animals and hazardous cargo uplifted beyond free period	6.02/ Kg. / day
3	(A) Storage charges for import general cargo unchecked after a free period of 24 hours from the time of arrival of an aircraft per kg./day: Bulk Cargo Loaded ULD (B) Storage charges for special import cargo unchecked after a free period of 24 hours from the time of arrival of an aircraft:– Valuable Perishable/Hazardous/Live animal (C) Minimum charges per consignment (AWB)	 2.99 / Kg. / day 1194 7.52 / Kg. / day 4.98 / Kg. / day 414.81

Note:

3.1. Demurrage charges on Import Transhipment cargo will be as applicable to import cargo except that no handling charges shall be charged.

3.2. Demurrage charges on transshipment cargo from domestic to international and from international to international shall be treated as same as applicable for export cargo, after allowing the prescribed free period.

3.3. The free period for export cargo for the NSOs would be 48 hrs. in the bonded area since the time of bonding.

3.4. All bills preferred by the handling company i.e. AAI shall be rounded off to the nearest higher of Rs.5/=.

3.5. All charges by NSOs shall be on cash and carry basis.

3.6. No free period may be allowed on second time handling/upliftment of export cargo from cargo terminal. Applicable charges (storage) shall be levied.

3.7. In case of transit ULDs brought by the Airlines handed over to AAI for storage in the bonded area / ETV stacker for any reasons, the storage charges as per para 3 shall be levied.

4. Domestic Outbound Cargo Charges leviable on Shippers/ Consignor(s) etc.

ACTIVITY	AAI CHARGES	
	MINIMUM	PER KG
1. Standard Charges for processing & Handling (TSP charges inclusive of off-loading / Loading/ Shifting & Forklift Usage)	INR	INR
a) General Cargo	110.00	0.75
b) Special (AVI) #	220.00	1.50
c) PER/DGR/VAL	220.00	1.50
2. Demurrage Charges / Storage (per day)		
a) General Cargo	110.00	0.75
b) Special (AVI)#	220.00	1.50
c) PER/DGR/VAL(If cold storage is used)	220.00	1.50
3. Courier Handling	120.00	1.00
4. Amendment of Airway Bill	100.00 per AWB	
5. Return Cargo Charges	100.00 per AWB	
6. Strapping Charges	10.00 per Bag	
7. In addition to the above, in the event of mis-Declaration of Weight, following charges based on the difference will apply		
2% - 5% variation	2 times of excess weight	
More than 5% (Not Applicable in VAL Cargo)	5 times of excess weight	

Notes:

4.1. The free period for outbound domestic cargo shall be one working day for examination/processing by the shipper/consignor/authorized representative etc.

4.2. 10% discount in the domestic cargo handling charges will be granted to the shippers/consignors who opt for engaging their own loaders for offloading cargo from their vehicles at Truck Dock and shifting to the examination/storage area before handing over to the airlines concerned.

4.3. The domestic cargo handling charges applicable to newspaper and TV reel consignments shall be 50% of the prescribed charges.

4.4. Consignment of human remains, coffin including unaccompanied baggage of deceased and human eyes will be exempted from the preview of domestic cargo handling & demurrage charges.

4.5. The domestic cargo handling charges are inclusive of fork lift charges wherever fork lift usage is involved. No separate fork lift charges will be levied.

4.6. #As per IATA definition, Special cargo consists of cold storage, live animals, hazardous goods & valuable cargo.

4.7. Charges will be levied on the 'gross weight' or the chargeable weight' of the consignment, whichever is higher. Wherever the 'gross weight' and (or) 'volume weight' is wrongly indicated on the Airway Bill and is found more, charges will be levied on the 'actual gross weight' or 'actual volumetric weight', whichever is higher.

4.8. For mis-declaration of weight above 2% and upto 5% of declared weight, penal charges @ double the applicable domestic cargo handling charges and for variation above 5%, the penal charges % 5 times the applicable domestic cargo handling charges will be leviable on the differential weight, subject to minimum amount equivalent to the applicable minimum domestic cargo handling Charges. No penal charges will be leviable for variation upto and inclusive of 2%. This will not apply to Valuable Cargo.

4.9. All the Bills shall be rounded off to the nearest of Rs.5/- . As per IATA Tact Rule Book Clause 5.7.2, the rounding off procedure, when the rounding off Unit is 5.

When the results of calculations are between / and	Rounded off amount will be
102.5 - 107.4	105
107.5 - 112.4	110

5. Domestic Inbound Cargo Charges leviable on Consignee(s) etc.

ACTIVITY	AAI CHARGES	
1.Standard Charges for processing & Handling (TSP charges inclusive of off-loading / Loading/ Shifting & Forklift Usage)	MINIMUM(INR)	PER KG. (INR)
a) General Cargo	110.00	0.75
b) Special (AVI) #	220.00	1.50
c) PER/DGR/VAL*	220.00	1.50
2. Demurrage Charges / Storage (per day)		
a) General Cargo	110.00	0.75
b) Special (AVI)	220.00	1.50
c) PER/DGR/VAL* (If cold storage is used)	220.00	1.50
3. Courier Handling	120.00	1.00

Note:

5.1. The free period for inbound domestic cargo shall be one working day for examination/processing/delivery by the consignee/authorized representative etc.

5.2. 10% discount in the domestic cargo handling charges will be granted to the consignee/authorized representative who opts for engaging their own loaders for loading cargo into their vehicles for delivery at designated areas from the airlines concerned.

5.3. Consignment of human remains, coffin including unaccompanied baggage of deceased and human eyes will be exempted from the preview of domestic cargo handling & demurrage charges.

5.4. The domestic cargo handling charges are inclusive of fork lift charges wherever fork lift usage is involved. No separate fork lift charges will be levied.

5.5. Charges will be levied on the 'gross weight' or the chargeable weight' of the consignment, whichever is higher. Wherever the 'gross weight' and (or) 'volume weight' is wrongly indicated on the Airway Bill and is found more, charges will be levied on the 'actual gross weight' or 'actual volumetric weight', whichever is higher.

5.6. #As per IATA definition, Special cargo consists of cargo stored in cold storage, live animals, valuable & hazardous goods.

5.7. *Valuable cargo consists of gold, bullion, currency notes, securities, shares, share coupons, travellers cheques, diamonds (including diamonds for industrial use), diamond jewellery, jewellery & watches made of silver, gold platinum & items valued at US$ 1000 and above.

5.8. All the Bills shall be rounded off to the nearest of Rs.5/- . As per IATA Tact Rule Book Clause 5.7.2, the rounding off procedure, when the rounding off Unit is 5.

When the results of calculations are between / and	Rounded off amount will be
102.5 - 107.4	105
107.5 - 112.4	110

6. Schedule of Charges/ Discounts/ Incentives leviable/ payable on/ to Airlines for various Cargo Handling Services rendered by AAI at the Cargo Terminal

<table>
<tr><th>S.N.</th><th>Particulars</th><th>Rates (Rs.)</th></tr>
<tr><td rowspan="2">01.</td><td>(i)Storage charges for General export uplifted beyond free period</td><td>1.81 per kg</td></tr>
<tr><td>(ii) Storages charges for valuable Export Cargo Perishable/ Live Animals and Hazardous Cargo uplifted beyond free period shall be two times of normal</td><td>3.62 per kg Rates</td></tr>
<tr><td rowspan="2">02</td><td>(i) Storage charges for Import Cargo not handed over and remain unchecked after a free period of 24 hours from time per day of arrival of an aircraft</td><td><table><tr><td>General Bulk Cargo</td><td>Loaded ULD</td></tr><tr><td>(in Rs)(Kg /day)</td><td>(in Rs)(ULD/day)</td></tr><tr><td>1.81</td><td>723</td></tr></table></td></tr>
<tr><td>(ii) Storage charges for 'Val'/Haz/ Perishable/Live Animal Import Cargo</td><td><table><tr><td>Valuable</td><td>Haz. / Peri/LA</td><td>Per Consgn /AWB</td></tr><tr><td>(per Kg/day) (in Rs)</td><td>(per Kg/day)(in Rs</td><td>(in Rs)</td></tr><tr><td>4.57</td><td>3.00</td><td>252</td></tr></table></td></tr>
</table>

NOTES:

6.1. Demurrage charges on Import Transhipment cargo will be as applicable to Import cargo except that no handling charges shall be levied on the airlines handled by AAI where the TP cargo handed over to the airlines on airside designated area on the airport

6.2. Demurrage charges on transhipment cargo from Domestic to International and from International to International shall be treated as same as applicable for export cargo, after allowing the normal free period

6.3. The free period for export cargo for the carrier from the date of entry in bonded area till upliftment shall be as per Government Directives.

6.4. All Bills preferred by the Handling Company shall be rounded off to the nearest Rupee.

6.5. No free period may be allowed on second time handling/upliftment of export cargo from cargo terminal. Applicable charges (Demurrage/Storage) shall be levied.

6.6. In case of Transit ULDs brought by the Airlines handed over to AAI for Storage in the Bonded Area/ETV stacker for any reasons, the Storage Charges as per para 2(i) & 2(ii) shall be levied.

Airports Authority of India

Chennai International Airport (CIA), Chennai

Airport Charges for the first control period - effective FY 2012-13 from 1st March,2013 to 31st March 2016

Contents

1. Airport Charges for FY 2012-13 effective from 1st March, 2013

1.1. Landing, Parking and Housing charges

1.1.1. Landing Charges per single landing

Weight of Aircraft	Rate Per Landing – International flight	Rate Per Landing – (other than International flight)
Upto 100 MT	Rs. 546.10 per MT	Rs. 278.10 per MT
Above 100 MT	Rs. 54,610/- + Rs. 733.80 per MT in excess of 100 MT	Rs. 27,810/- + Rs. 373.70 per MT in excess of 100 MT

Note:

1.1.1.a. Charges shall be calculated on the basis of nearest Metric Ton (MT) (i.e.1,000 kgs.) of the aircraft.

1.1.1.b. A surcharge of 25% will be levied on landing charges for supersonic aircraft.

1.1.1.c. A minimum fee of Rs. 5,000 shall be charged per single landing for all types of aircraft/ helicopter flights, including but not limited to domestic landing, international landing and general aviation landing, however this will not apply to training flights operated by Flying Clubs.

1.1.1.d. Weight of aircraft means maximum takeoff weight (MTOW) as indicated in the Certificate of Airworthiness filed with Director General of Civil Aviation (DGCA).

1.1.1.e. All domestic legs of International routes flown by Indian Operators will be treated as domestic flights as far as air side airport user charges are concerned, irrespective of the flight number assigned to such flights.

1.1.2. Housing and Parking Charges

Weight of Aircraft	Parking Charges Rate per MT per Hour	Housing Charges Rate per MT per Hour
Upto 100 MT	Rs. 7.50 per MT	Rs. 14.80 per MT
Above 100 MT	Rs. 750/- + Rs. 9.90 per MT per hour in excess of 100 MT	Rs. 1480/- + Rs.19.80 per MT per hour in excess of 100 MT

Note:

1.1.2.a. No Parking Charges shall be levied for the first two hours. While calculating free parking period, standard time of 15 minutes shall be added on account of time taken between touch down time and actual parking time on the parking stand. Another standard time of 15 minutes shall be added on account of taxing time of aircraft from parking stand to take off point. These periods shall be applicable for each aircraft irrespective of the actual time taken in the movement of aircraft after landing and before takeoff.

1.1.2.b. For calculating chargeable parking time, any part of an hour shall be rounded off to the next hour.

1.1.2.c. Charges shall be calculated on the basis of next MT.

1.1.2.d. Charges for each period parking shall be rounded off to nearest Rupee.

1.1.2.e. Whilst in contact stands, after free parking, for the next two hours normal parking charges shall be levied. After this period, Housing Charges shall be levied.

1.2. User Development Fee (UDF)

The User Development Fee per embarking passenger shall be payable as under

Rate per embarking Passenger	International	Domestic
Per embarking passenger	Rs. 667/-	Rs. 166/-

Note:

1.2.1. In respect of tickets issued in foreign currency, the UDF shall be levied in US Dollars.

1.2.2. Collection charges: if the payment is made within 15 days of receipt of invoice, then collection charges at INR 5.00 per departing passenger shall be paid by AAI. No collection charges shall be paid in case the airline fails to pay the UDF invoice to AAI within the credit period of 15 days.

1.2.3. Transit/Transfer passengers: A passenger is treated in-transit/transfer only if the onward journey is within 24 hours from the time of arrival at airport and the onward travel is part of same ticket. In case 2 separate tickets are issued (one for arrival and one for departure), the passenger does not include passenger on return journey.

1.3. Fuel Throughput Charges

The Fuel Throughput charges shall be payable as under:

Charges per Kilolitre of Fuel
Rs. 1532.82 w.e.f from 1st March, 2013

General Condition

All the above Charges are excluding of Service Tax. Service Tax at the applicable rates will be paid by the aircraft operator in addition to above charges.

2. Airport Charges for FY 2013-14 effective from 1st April, 2013

2.1. Landing, Parking and Housing charges

2.1.1. Landing Charges per single landing

Weight of Aircraft	Rate Per Landing – International flight	Rate Per Landing – (other than International flight)
Upto 100 MT	Rs. 578.90 per MT	Rs. 294.80 per MT
Above 100 MT	Rs. 57890/- + Rs. 777.80 per MT in excess of 100 MT	Rs. 29480/- + Rs. 396.10 per MT in excess of 100 MT

Note:

2.1.1.a. Charges shall be calculated on the basis of nearest Metric Ton (MT) (i.e.1,000 kgs.) of the aircraft.

2.1.1.b. A surcharge of 25% will be levied on landing charges for supersonic aircraft.

2.1.1.c. A minimum fee of Rs. 5,000 shall be charged per single landing for all types of aircraft/ helicopter flights, including but not limited to domestic landing, international landing and general aviation landing, however this will not apply to training flights operated by Flying Clubs.

2.1.1.d. Weight of aircraft means maximum takeoff weight (MTOW) as indicated in the Certificate of Airworthiness filed with Director General of Civil Aviation (DGCA).

2.1.1.e. All domestic legs of International routes flown by Indian Operators will be treated as domestic flights as far as air side airport user charges are concerned, irrespective of the flight number assigned to such flights.

2.1.2. Housing and Parking Charges

Weight of Aircraft	Parking Charges Rate per MT per Hour	Housing Charges Rate per MT per Hour
Upto 100 MT	Rs. 8.00 per MT	Rs. 15.70 per MT
Above 100 MT	Rs. 800/- + Rs. 10.50 per MT per hour in excess of 100 MT	Rs. 1570/- + Rs.21.00 per MT per hour in excess of 100 MT

Note:

2.1.2.a. No Parking Charges shall be levied for the first two hours. While calculating free parking period, standard time of 15 minutes shall be added on account of time taken between touch down time and actual parking time on the parking stand. Another standard time of 15 minutes shall be added on account of taxing time of aircraft from parking stand to take off point. These periods shall be applicable for each aircraft irrespective of the actual time taken in the movement of aircraft after landing and before takeoff.

2.1.2.b. For calculating chargeable parking time, any part of an hour shall be rounded off to the next hour.

2.1.2.c. Charges shall be calculated on the basis of next MT.

2.1.2.d. Charges for each period parking shall be rounded off to nearest Rupee.

2.1.2.e. Whilst in contact stands, after free parking, for the next two hours normal parking charges shall be levied. After this period, Housing Charges shall be levied.

2.2. User Development Fee (UDF)

The User Development Fee per embarking passenger shall be payable as under

Rate per embarking Passenger	International	Domestic
Per embarking passenger	Rs. 667/-	Rs. 166/-

Note:

2.2.1.a. In respect of tickets issued in foreign currency, the UDF shall be levied in US Dollars.

2.2.1.b. Collection charges: if the payment is made within 15 days of receipt of invoice, then collection charges at INR 5.00 per departing passenger shall be paid by AAI. No collection charges shall be paid in case the airline fails to pay the UDF invoice to AAI within the credit period of 15 days.

2.2.1.c. Transit/Transfer passengers: A passenger is treated in-transit/transfer only if the onward journey is within 24 hours from the time of arrival at airport and the onward travel is part of same ticket. In case 2 separate tickets are issued (one for arrival and one for departure), the passenger does not include passenger on return journey.

2.3. Fuel Throughput Charges

2.3.1. The Fuel Throughput charges shall be payable as under:

Charges per Kilolitre of Fuel
Rs. 1609.46

General Condition

All the above Charges are excluding of Service Tax. Service Tax at the applicable rates will be paid by the aircraft operator in addition to above charges.

3. Airport Charges for FY 2014-15 effective from 1st April, 2014

3.1. Landing, Parking and Housing charges

3.1.1. Landing Charges per single landing

Weight of Aircraft	Rate Per Landing – International flight	Rate Per Landing – (other than International flight)
Upto 100 MT	Rs. 613.60 per MT	Rs. 312.50 per MT
Above 100 MT	Rs. 61360.00/- + Rs. 824.50 per MT in excess of 100 MT	Rs. 31250.00/- + Rs. 419.90 per MT in excess of 100 MT

Note:

3.1.1.a. Charges shall be calculated on the basis of nearest Metric Ton (MT) (i.e.1,000 kgs.) of the aircraft.

3.1.1.b. A surcharge of 25% will be levied on landing charges for supersonic aircraft.

3.1.1.c. A minimum fee of Rs. 5,000 shall be charged per single landing for all types of aircraft/ helicopter flights, including but not limited to domestic landing, international landing and general aviation landing, however this will not apply to training flights operated by Flying Clubs.

3.1.1.d. Weight of aircraft means maximum takeoff weight (MTOW) as indicated in the Certificate of Airworthiness filed with Director General of Civil Aviation (DGCA).

3.1.1.e. All domestic legs of International routes flown by Indian Operators will be treated as domestic flights as far as air side airport user charges are concerned, irrespective of the flight number assigned to such flights.

3.1.2. Housing and Parking Charges

Weight of Aircraft	Parking Charges Rate per MT per Hour	Housing Charges Rate per MT per Hour
Upto 100 MT	Rs. 8.40 per MT	Rs. 16.70 per MT
Above 100 MT	Rs. 840/- + Rs. 11.10 per MT per hour in excess of 100 MT	Rs. 1670/- + Rs.22.20 per MT per hour in excess of 100 MT

Note:

3.1.2.a. No Parking Charges shall be levied for the first two hours. While calculating free parking period, standard time of 15 minutes shall be added on account of time taken between touch down time and actual parking time on the parking stand. Another standard time of 15 minutes shall be added on account of taxing time of aircraft from parking stand to take off point. These periods shall be applicable for each aircraft irrespective of the actual time taken in the movement of aircraft after landing and before takeoff.

3.1.2.b. For calculating chargeable parking time, any part of an hour shall be rounded off to the next hour.

3.1.2.c. Charges shall be calculated on the basis of next MT.

3.1.2.d. Charges for each period parking shall be rounded off to nearest Rupee.

3.1.2.e. Whilst in contact stands, after free parking, for the next two hours normal parking charges shall be levied. After this period, Housing Charges shall be levied.

3.2. User Development Fee (UDF)

The User Development Fee per embarking passenger shall be payable as under

Rate per embarking Passenger	International	Domestic
Per embarking passenger	Rs. 667/-	Rs. 166/-

Note:

3.2.1. In respect of tickets issued in foreign currency, the UDF shall be levied in US Dollars.

3.2.2. Collection charges: if the payment is made within 15 days of receipt of invoice, then collection charges at INR 5.00 per departing passenger shall be paid by AAI. No collection charges shall be paid in case the airline fails to pay the UDF invoice to AAI within the credit period of 15 days.

3.2.3. Transit/Transfer passengers: A passenger is treated in-transit/transfer only if the onward journey is within 24 hours from the time of arrival at airport and the onward travel is part of same ticket. In case 2 separate tickets are issued (one for arrival and one for departure), the passenger does not include passenger on return journey.

3.3. Fuel Throughput Charges

3.3.1. The Fuel Throughput charges shall be payable as under:

Charges per Kilolitre of Fuel
Rs. 1689.93

General Condition

All the above Charges are excluding of Service Tax. Service Tax at the applicable rates will be paid by the aircraft operator in addition to above charges.

4. Airport Charges for 2015-16 effective from 1st April, 2015

4.1. Landing, Parking and Housing charges

4.1.1. Landing Charges per single landing

Weight of Aircraft	Rate Per Landing – International flight	Rate Per Landing – (other than International flight)
Upto 100 MT	Rs. 650.40 per MT	Rs. 331.20 per MT
Above 100 MT	Rs. 65040.00/- + Rs. 874.00 per MT in excess of 100 MT	Rs. 33120.00/- + Rs. 445.10 per MT in excess of 100 MT

Note:

4.1.1.a. Charges shall be calculated on the basis of nearest Metric Ton (MT) (i.e.1,000 kgs.) of the aircraft..

4.1.1.b. A surcharge of 25% will be levied on landing charges for supersonic aircraft.

4.1.1.c. A minimum fee of Rs. 5,000 shall be charged per single landing for all types of aircraft/ helicopter flights, including but not limited to domestic landing, international landing and general aviation landing, however this will not apply to training flights operated by Flying Clubs.

4.1.1.d. Weight of aircraft means maximum takeoff weight (MTOW) as indicated in the Certificate of Airworthiness filed with Director General of Civil Aviation (DGCA).

4.1.1.e. All domestic legs of International routes flown by Indian Operators will be treated as domestic flights as far as air side airport user charges are concerned, irrespective of the flight number assigned to such flights.

4.1.2. Housing and Parking Charges

Weight of Aircraft	Parking Charges Rate per MT per Hour	Housing Charges Rate per MT per Hour
Upto 100 MT	Rs. 8.90 per MT	Rs. 17.70 per MT
Above 100 MT	Rs. 890/- + Rs. 11.80 per MT per hour in excess of 100 MT	Rs. 1770/- + Rs.23.50 per MT per hour in excess of 100 MT

Note:

4.1.2.a. No Parking Charges shall be levied for the first two hours. While calculating free parking period, standard time of 15 minutes shall be added on account of time taken between touch down time and actual parking time on the parking stand. Another standard time of 15 minutes shall be added on account of taxing time of aircraft from parking stand to take off point. These periods shall be applicable for each aircraft irrespective of the actual time taken in the movement of aircraft after landing and before takeoff.

4.1.2.b. For calculating chargeable parking time, any part of an hour shall be rounded off to the next hour.

4.1.2.c. Charges shall be calculated on the basis of next MT.

4.1.2.d. Charges for each period parking shall be rounded off to nearest Rupee.

4.1.2.e. Whilst in contact stands, after free parking, for the next two hours normal parking charges shall be levied. After this period, Housing Charges shall be levied.

4.2. User Development Fee (UDF)

4.2.1. The User Development Fee per embarking passenger shall be payable as under

Rate per embarking Passenger	International	Domestic
Per embarking passenger	Rs. 667/-	Rs. 166/-

Note:

4.2.1.a. In respect of tickets issued in foreign currency, the UDF shall be levied in US Dollars.

4.2.1.b. Collection charges: if the payment is made within 15 days of receipt of invoice, then collection charges at INR 5.00 per departing passenger shall be paid by AAI. No collection charges shall be paid in case the airline fails to pay the UDF invoice to AAI within the credit period of 15 days.

4.2.1.c. Transit/Transfer passengers: A passenger is treated in-transit/transfer only if the onward journey is within 24 hours from the time of arrival at airport and the onward travel is part of same ticket. In case 2 separate tickets are issued (one for arrival and one for departure), the passenger does not include passenger on return journey.

4.3. Fuel Throughput Charges

4.3.1. The Fuel Throughput charges shall be payable as under:

Charges per Kilolitre of Fuel
Rs. 1774.43

General Condition

All the above Charges are excluding of Service Tax. Service Tax at the applicable rates will be paid by the aircraft operator in addition to above charges.