

TELEPHONE No. : 011-24622495 Aeronautical : VIDDYAYX E-Mail: dri@dgca.delhi.nic.in Fax 011-24652760	GOVERNMENT OF INDIA AERONAUTICAL INFORMATION SERVICES DIRECTOR GENERAL OF CIVIL AVIATION OPPOSITE SAFDARJUNG AIRPORT <u>NEW DELHI-110003</u>	AIC SI. No. 03/2019 28.01.2019
---	--	--------------------------------------

File No.09/18/2008-IR

This AIC is issued for dissemination of the directions of Ministry of Civil Aviation in their letter No. AV.20036/2/2019-AD dated 18.1.2019.



(B.S. BHULLAR)
Director General of Civil Aviation

ISSUE OF AIC IN RESPECT OF AERONAUTICAL TARIFFS AT VISHAKHAPTNAM AIRPORT, FOR THE 1ST CONTROL PERIOD (01.04.2018 TO 31.03.2023)

The Airports Economic Regulatory Authority (AERA), in exercise of powers conferred on them by section 13(1) of the Airports Economic Regulatory Authority of India Act, 2008, vide Order No. 38/2018-19 dated 09.01.2019 and corrigendum to order No. 38/2018-19 dated 11.01.2019 has determined the Aeronautical Tariff for Vishakhapatnam Airport for the 1st Control Period (01.04.2018-31.03.2023) as per the details given in Annexure-I of AERA's Order No. 38/2018-19 dated 09.01.2019. The copies of the aforesaid Order and Corrigendum are enclosed herewith.

2. These charges shall come into effect on 01.02.2019 in the manner prescribed by AERA.

[F. No. . AERA/20010/AAI-Vishakhapatnam/CP-II/2016-17]
Airports Economic Regulatory Authority of India

Corrigendum to Order No. 38/2018-19

AERA Building,
Administrative Complex,
Safdarjung Airport,
New Delhi – 110003

Date of Issue: 11th January, 2019

Airport Operator : Airports Authority of India
Airport : Visakhapatnam Airport


In the matter of Determination of Aeronautical Tariffs in respect of Visakhapatnam Airport for the first Control Period (01.04.2018 – 31.03.2023)

1. The Authority vide Order no. 38/2018-19 dated 09.01.2019 determined the tariffs in respect of Visakhapatnam Airport, for the first control period (01.04.2018 to 31.03.2013).
2. In the aforesaid order date of implementation / effective date of order has been inadvertently mentioned as "01.03.2019" instead of "01.02.2019" due to typographical error.
3. The Tariff Card approved by the AERA for Vizag Airport for the period 01.02.2019 to 31.03.2023 at Annexure-1 may be read along with the general condition as given below:

"All Tariff charges are excluding GST"

3. The other terms and conditions of the Order No. 38/2018-19 dated 09.01.2019 shall remain same.

By the Order of and in the
Name of the Authority


(Geetha Sahu)
AGM (Fin.)



To

Airports Authority of India
Rajiv Gandhi Bhavan
Safdarjung Airport
New Delhi -110 003



Airports Economic Regulatory Authority of India

In the matter of Determination of Aeronautical Tariffs in respect of Visakhapatnam Airport for the first Control Period (01.04.2018 – 31.03.2023)

सत्यमेव जयते
9th January, 2019

**AERA Building
Administrative Complex
Safdarjung Airport
New Delhi – 110 003**

भा.वि.आ.वि.प्रा.



Table of Contents

1.	LIST OF ABBREVIATIONS.....	3
2.	INTRODUCTION.....	4
3.	SUMMARY OF STAKEHOLDERS' COMMENTS ON CP NO. 23/2018-19.....	6
4.	MULTI YEAR TARIFF PROPOSAL SUBMITTED BY VIZAG AIRPORT.....	7
5.	METHODOLOGY FOR TARIFF CALCULATION.....	9
6.	TRAFFIC FORECAST.....	12
7.	REGULATORY ASSET BASE (RAB) AND DEPRECIATION.....	17
8.	FAIR RATE OF RETURN (FRoR).....	34
9.	OPERATION AND MAINTENANCE EXPENDITURE.....	36
10.	REVENUE FROM NON-AERONAUTICAL SERVICES.....	40
11.	TAXATION.....	44
12.	QUALITY OF SERVICE.....	47
13.	PRIOR PERIOD SHORTFALL.....	49
14.	AGGREGATE REVENUE REQUIREMENT AND SHORTFALL COMPUTATION.....	51
15.	TRUE-UP.....	54
16.	REVENUE FROM AERONAUTICAL SERVICES.....	55
17.	MULTI YEAR TARIFF PROPOSAL SUBMITTED BY VIZAG AIRPORT.....	61
18.	ANNUAL COMPLIANCE STATEMENT.....	66
19.	SUMMARY OF PROPOSALS.....	67
20.	ORDER.....	69



1. LIST OF ABBREVIATIONS

AAI	Airport Authority of India	IRR	Internal Rate of Return
ACI	Airports Council International	K_e	Cost of equity
AERA or the Authority	Airport Economic Regulatory Authority of India	LD	Liquidity Damages
Aero	Aeronautical	m	meter
Airport Guidelines	AERA (Terms and Conditions for Determination of Tariff for Airport Operators) Guidelines, 2011 dated 28 February 2011	MESS	Mechanized Environmental Support Services
		MoCA	Ministry of Civil Aviation
		MoU	Memorandum of Understanding
AMC	Annual Maintenance Contract	MYTO	Multi Year Tariff Order
ANS	Air Navigation Service	MYTP	Multi Year Tariff Proposal
ARR	Aggregate Revenue Requirement	NAR	Non-Aeronautical Revenues
ASQ	Airport Service Quality	NCAP	National Civil Aviation Policy 2016
ATC	Air Traffic Control	NIPFP	National Institute of Public Finance and Policy
ATM	Air traffic movement	Non-Aero	Non-Aeronautical
CAGR	Compounded Annual Growth Rate	OPEX	Operating Expenditure
CAPEX	Capital Expenditure	P&L	Profit and Loss
CHQ	Central Headquarters	p.a.	Per annum
CISF	Central Industrial Security Force	PA System	Public Announcement System
CNS	Communication, Navigation & Surveillance	PAX	Passenger(s)
CP&MS	Corporate Planning & Management Systems	PSF	Passenger Service Fee
CUTE	Common User Terminal Equipment	PV	Present value
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation	RAB	Regulated Asset Base
EMD	Earnest Money Deposit	RHQ	Regional Headquarters
EPBX	Electronic Private Branch Exchange	SCCTV	Security Closed-Circuit Television
F&B	Food and Beverages	SD	Security Deposit
FIDS	Flight Information Display Systems	SLM	Straight Line Method
FRoR	Fair Rate of Return	Sq.m.	Square Metre
FY	Financial Year	T.R. Stall	Travellers Requisite Stall
GOAP	Government of Andhra Pradesh	UDF	User Development Fee
GOI	Government Of India	USD	US Dollars
IMC	Instrument meteorological conditions	Vishakhapatnam Airport	Vizag Airport
INR or ₹	Indian rupees	w.e.f.	with effect from
		XIBS	X-ray Inline Baggage System
		YoY	Year-on-Year



2. INTRODUCTION

- 2.1. Visakhapatnam Airport ("Vizag Airport") is located in the city of Visakhapatnam, which is the major commercial center in the state of Andhra Pradesh. Vizag Airport is owned by INS Dega, a Naval Air Station of the Indian Navy and is operated as a Civil Enclave by Airports Authority of India ("AAI"). It commenced civilian operations in 1981 with one flight per day and presently is the busiest airport in Andhra Pradesh.
- 2.2. Technical details of Vizag Airport are given in Table 1.

Table 1: Technical Details of Vizag Airport

Particulars	Details
Total land area available	350.31 acres
Total built-up area of Integrated Terminal Building (ITB)	Existing area 21,918.48 Sq.m. Expected to increase by 10,150 sq.m. on account of linear expansion
Runway	Dimension of the runway strip 3170m x 150m Two runways: Primary/ main runway (28/10, 3050m x 45 m) Secondary Runway (05/23, 2090m x 45m) used only by Indian Navy
Apron	Total number of apron bays- 14 Total apron bay area- 1,08,967 Sq.m. This is inclusive of 56,610 Sq.m. (330m x 137m and 150 m x 76 m) for 8 parking bays and 52,357 Sq.m. for 6 new parking bays which were completed and commissioned on September 2018 04 Apron Flood Lights
Taxiways	Five taxiways: N1 (130 m x 15 m) N2 (130 m x 15 m) N3 (183m x 23m) N4 (187m x 23m) N5 (365 m x 23 m)
ATC	The ATC is operational for 24 hours and managed by the Indian Navy
Peak hour capacity	Existing peak hour capacity for departure, arrival and transit is 400 domestic and 300 international passengers This is projected to increase to 600 for domestic and 450 for international passengers after completion of linear expansion of terminal building
Check-in Counter	20 domestic and international combined check-in counters, with CUTE facilities Additional 8 CUTE facilities will be available after completion of linear expansion
Other Details	One Category 7 Fire Station Aerodrome Reference Code is 4D Aircraft Suitability for A330 in Instrument Meteorological Conditions (IMC) Suitable for code C aircraft

- 2.3. Vizag Airport surpassed the threshold passenger traffic of 1.5 million in FY 2014-15, thereby falling under the definition of major airport as per section 2(i) of the AERA Act. Therefore, the Airport is mandatorily required to follow the Guidelines issued by the Authority and submit its proposal before the Authority for tariff determination.



- 2.4. The Authority held a meeting on 10.12.2018 with the stakeholders to discuss the proposals in the Consultation Paper.
- 2.5. This order of the Authority takes into account the proposals of Vizag Airport, views expressed by stakeholders in the meeting, written submissions received from stakeholders and examination by the Authority with reference to its guidelines for airport operators.



भा.वि.आ.वि.प्रा.
AERA

3. SUMMARY OF STAKEHOLDERS' COMMENTS ON CP NO. 23/2018-19

3.1. In response to Consultation Paper No. 23/2018-19, the Authority received several responses from stakeholders. The list of stakeholders, who have commented on the Consultation Paper is presented below.

Table 2: Summary of stakeholders' comments

S. No.	Stakeholder	Issues commented
1.	Government of Andhra Pradesh (GoAP)	<ul style="list-style-type: none">• Traffic Forecast• Fair Rate of Return (FRoR)• Operation and maintenance expenditure• Revenue from Aeronautical Services
2.	Federation of Indian Airlines (FIA)	<ul style="list-style-type: none">• Methodology for tariff calculation• Traffic Forecast• Regulatory Asset Base (RAB)• Revenue from Aeronautical Services• Operation and maintenance expenditure• Revenue from non-aeronautical services• Taxation• Quality of Service• ARR and Shortfall Computation
3.	IOCL	<ul style="list-style-type: none">• Revenue from Aeronautical Services
4.	HPCL	<ul style="list-style-type: none">• Revenue from Aeronautical Services
5.	BAOA	<ul style="list-style-type: none">• Revenue from Aeronautical Services

3.2. The Authority has carefully considered the comments made by stakeholders and has obtained the views of Vizag Airport on these comments. The position of the Authority in its Consultation Paper No. 23/2018-19, issue-wise comments of the stakeholders on the Consultation Paper, response from Vizag Airport thereon, Authority's examination, and its decision are given in the relevant sections of this order.



4. MULTI YEAR TARIFF PROPOSAL SUBMITTED BY VIZAG AIRPORT

- 4.1. Vizag Airport filed its original MYTP submission on 12.09.2017 for the first control period from 01.04.2016 to 31.03.2021.
- 4.2. The Authority noted that more than 2 years had already elapsed in the first control period proposed by AAI, which might require a significant change in tariff during the remaining control period to match the Aggregate Revenue Requirement ("ARR"). It is also likely that the tariff will need to be reduced significantly for the next control period. Such steep changes in tariff are best avoided and accordingly, the Authority vide letter to AAI dated 25.06.2018 has proposed that the first control period for Vizag Airport should be from 01.04.2018 to 31.03.2023. The Authority also clarified that the shortfall, if any, for the first two years may be taken to consideration for tariff determination.
- 4.3. Subsequently, Vizag Airport filed its revised MYTP on 18.07.2018 for the control period from 01.04.2018 to 31.03.2023. Further, Vizag Airport in its revised MYTP submission has calculated shortfall w.e.f. 01.04.2016 to 31.03.2018 and included it in the present value of ARR for the first control period.
- 4.4. Salient features of Vizag Airport's MYTP submission:
- 4.4.1.** Effective date of tariff determination has been considered as 01.12.2018.
- 4.4.2.** Actual traffic has been updated upto FY 2017-18 and projected for FY 2018-23 as per data received from Department of Corporate Planning & Management Systems, AAI ("CP&MS").
- 4.4.3.** Capex amounting to ₹81.80 crores has been considered in MYTP.
- 4.4.4.** As per hybrid till methodology, the Regulatory Asset Base ("RAB") as on 01.04.2016 has been segregated into Aeronautical assets, Non-Aeronautical assets and Common Assets. Common assets have been further bifurcated into Aeronautical assets and Non-Aeronautical assets. The expenses appearing in the Trial Balance for the FY 2016-17 and FY 2017-18 have been bifurcated into aeronautical expenses, non-aeronautical expenses and common expenses.
- 4.4.5.** As per the submission of Vizag Airport, the total area of integrated terminal building is 21,918.48 square meters (Sq.m.), of which 1,501.36 is earmarked for non-aeronautical activities, constituting 6.85% of the total terminal building area.
- 4.4.6.** Depreciation on RAB upto FY 2015-16 has been computed as per AAI's depreciation rates. Depreciation for FY 2016-17 and FY 2017-18 has been computed as per rates prescribed under Companies Act, 2013 and depreciation from FY 2018-19 onwards have been computed as per rates prescribed under AERA Order No. 35/ 2017-18 "In the matter of Determination of Useful life of Airport Assets" dated 12.01.2018. Further, half yearly rates of depreciation have been considered on the additions to RAB in the first year of capitalization.



Stakeholder comments and the Authority's observations

Comments from FIA

4.5. Regarding MYTP submitted by Vizag Airport, FIA submitted that-

"FIA also submits that it has not been provided with the copies of the submissions of Vizag Airport dated 12.09.2017 & 18.07.2018 and any minutes of AUCC consultation (except dt:07.06.18 AUCC Minutes obtained by FIA from AAI). Project Investment File (PIF), as applicable. Accordingly, in the absence of the receipt of such submissions made by Vizag Airport, FIA is unable to appreciate, assess and comprehend the facts and figures (and any comparison thereto) of the CP in its entirety and actuality."

AAI's submission on FIA's comments

4.6. AAI submitted that-

"AAI has submitted the MYTP and all the relevant documents to AERA for determination of aeronautical tariff."

Authority's examination of FIA's comments and AAI's submission on FIA's comments

4.7. With respect to FIA's comments on multiple submissions of Vizag Airport and the need to share them with the stakeholders, the Authority clarifies that normally the initial MYTP requires further analysis and the subsequent submissions by Airport Operator are more by way of clarifications, amendment to data, etc. which are fully captured in the Consultation Paper released by the Authority. Therefore, a separate discussion on each of the subsequent submission is Vizag Airport is not required.



5. METHODOLOGY FOR TARIFF CALCULATION

- 5.1. The methodology adopted by the Authority to determine tariff is based on AERA Act, 2008 and the AERA (Terms and Conditions for Determination of Tariff for Airport Operators) Guidelines, 2011 dated 28 February 2011. The Aggregate Revenue Requirement ("ARR") is first calculated by providing for depreciation, return on the RAB, the operations and maintenance ("O&M") expenses, and taxes. The present value of total aeronautical revenues that is estimated to be realized each year during the control period at proposed tariff levels is compared with the present value of the ARR during the control period. In case the present value of aeronautical revenues during the control period is lower than the present value of ARR during the control period, the airport operator may opt to increase the proposed tariff. In case the present value of aeronautical revenues is higher than the present value of the ARR then the airport operator will have to suitably reduce its tariff.
- 5.2. Further, tariff is based on 'hybrid till' method wherein 30% of non-aeronautical revenues is used to cross-subsidize ARR (Order No. 14/ 2016-17 "In the matter of aligning certain aspects of AERA's Regulatory Approach (Adoption of Regulatory Till) with the provisions of the National Civil Aviation Policy-2016 (NCAP-2016) approved by the Government of India" dated 12.01.2017).
- 5.3. The Authority shall determine the ARR for the current control period on the basis of the following Regulatory Building Blocks:
- 5.3.1. Regulatory Asset Base (RAB)
 - 5.3.2. Depreciation (D);
 - 5.3.3. Fair Rate of Return applied to the Regulatory Asset Base (FRoR x RAB);
 - 5.3.4. Operation and Maintenance Expenditure (O);
 - 5.3.5. Taxation (T);
 - 5.3.6. Revenue from services other than aeronautical services (NAR).
- 5.4. Based on the building blocks provided above, the formula for determining ARR under Hybrid Till is as follows:

$$ARR = \sum_{t=1}^5 (ARR_t) \text{ and}$$

$$ARR_t = (FRoR \times RAB_t) + D_t + O_t + T_t - 30\% \text{ of } NAR_t$$

Where

't' is the Tariff Year in the Control Period;

ARR_t is the Aggregate Revenue Requirement for year 't';

FRoR is the Fair Rate of Return for the control period;

RAB_t is the Regulatory Asset Base for the year 't';



D_t is the Depreciation corresponding to the RAB for the year 't';

O_t is the Operation and Maintenance Expenditure for the year 't', which includes all expenditures incurred by the Airport Operator(s) including expenditure incurred on statutory operating costs and other mandate operating costs;

T_t is the corporate tax for the year 't' paid by the airport operator on the aeronautical profits; and

NAR_t is revenue from services other than aeronautical services for the year 't'

- 5.5. The detailed submissions provided by Vizag Airport in respect of the opening RAB, additions to RAB, and other items of the Regulatory Building Blocks have been discussed in the subsequent sections.

Stakeholder comments and the Authority's observations

Comments from FIA

- 5.6. Regarding methodology for tariff calculation, FIA submitted that –

"As per para 4.2 of the Consultation Paper, it is stated that the Authority shall determine tariffs for Vizag Airport using the Hybrid Till model. It is to be noted that FIA has from time to time, advocated the application of a Single Till model across the airports in India. It is submitted that Single Till is premised on the following legal framework being:

(a) Section 13(1)(a)(v) of AERA Act envisages that while determining tariff for aeronautical services, the Authority shall take into consideration revenue received from services other than the aeronautical services.

(b) Clause 4.2 of AERA Guidelines recognizes Single Till approach which sets out the following components on the basis of which ARR will be calculated: -

(i) Fair Rate of Return applied to the Regulatory Asset Base

(ii) Operation & Maintenance Expenditure

(iii) Depreciation

(iv) Taxation

(v) Revenues from services other than aeronautical services

(c) It is submitted that determination of aeronautical tariff warrants a comprehensive evaluation of the economic model and realities of the airport – both capital and revenue elements. AERA's approach of Hybrid Till for Vizag Airport deserves to be discarded.

(d) In the Single Till Order, Authority has strongly made a case in favor of the determination of tariff on the basis of 'Single Till'. It is noteworthy that the Authority in its inter alia Single Till Order has:

(i) Comprehensively evaluated the economic model and realities of the airport – both capital and revenue elements.

(ii) Taken into account the legislative intent behind Section 13(1)(a)(v) of the AERA Act.

(iii) Concluded that the Single Till is the most appropriate for the economic regulation of major airports in India.



(iv) The criteria for determining tariff after taking into account standards followed by several international airports (United Kingdom, Australia, Ireland and South Africa) and prescribed by ICAO.

(v) The Authority in its AERA Guidelines (Clause 4.3) has followed the Single Till approach while laying down the procedure for determination of ARR for Regulated Services. In this respect, the matter must be dealt with by the Authority considering the ratio pronounced by the Constitutional Bench in the Hon'ble Supreme Court Judgment in PTC vs. CERC reported as (2010) 4 SCC 603 (please ref: Paragraph Nos. 58 to 64 at Page Nos. 639 to 641) wherein it is specifically stated that regulation under an enactment/statute, as a part of regulatory framework, intervenes and even overrides the existing contracts between the regulated entities inasmuch as it casts a statutory obligation on the regulated entities to align their existing and future contracts with the said regulations.

(vi) The fundamental reasoning behind 'Single Till' approach is that if the consumers/passengers are offered cheaper air-fares on account of lower airport charges, the volume of passengers is bound to increase leading to more foot-fall and probability of higher non-aeronautical revenue. The benefit of such non aeronautical revenue should be passed on to consumers/passengers and that can be assured only by way of lower aeronautical charges. It is a productive chain reaction which needs to be taken into account by the Authority.

(e) FIA therefore submits as under:

(i) Single Till Model ought to be applied to ALL the airports regulated and operated by the Authority regardless of whether it is a public or private airport or works under the PPP model and in spite of the concession agreements as the same is mandated by the statute.

(ii) Single Till is in the public interest and will not hurt the investor's interest and given the economic and aviation growth that is projected for India, Fair Rate of Return (FRoR) alone will be enough to ensure continued investor's interest.

(iii) MoCA's view(s) with respect to any issue at best can be considered as that of a Stakeholder and by no means are binding to Authority's exercise of determination of aeronautical tariff as is admitted by MoCA itself before the AERAAT.

In view of the above, it is submitted without prejudice that determination of aeronautical tariff on Hybrid Till basis for the First control period would set the tone and precedent for determination of aeronautical tariff in subsequent control periods contrary to the applicable legal framework. Thus, it is submitted that Authority should discard the option of determination of aeronautical tariff on Hybrid Till and follow Single Till scrupulously."

Authority's examination of FIA's comments

5.7. With respect to FIA's comments related to the regulatory Till applicable for Vizag airport, it is to be noted that the Authority has decided to adopt Hybrid Till as per the revised guidelines issued vide its Order No. 14/ 2016-17 dated 12.01.2017.



6. TRAFFIC FORECAST

- 6.1. As per the Airport Guidelines, the airport operator is required to submit traffic forecasts as part of the MYTP submissions. The Airport Guidelines further provide that the Authority would reserve the right to review such forecast assumptions, methodologies and processes to determine the final forecast to be used for determination of tariffs. The Guidelines further state that the Authority will also use forecast correction mechanism if the actual traffic happens to fall outside the prescribed bands whilst keeping the upper and lower band percentages equal. As part of the tariff determination process, the Authority would require Airport Operators to provide proposals for the values of the upper and lower bands, support of evidence for the rationale of such bands and will review the operation of the bands and determine the final bands for tariff determination. As per the Guidelines (Clause 6.15.2), any variation outside these bands would be shared equally between the Airport Operator and users.
- 6.2. Traffic projections submitted by Vizag Airport have been updated up to FY 2017-18 and projected for FY 2018-23 as per data received from the department of CP&MS of AAI.
- 6.3. The actual and projected Passenger & ATM traffic along with their year on year (YoY) growth rates as considered by Vizag Airport is provided in Table 3 and Table 4.

Table 3: Projected annual passenger traffic as per Vizag Airport submission

Financial Year	Domestic	YoY growth (Domestic)	International	YoY growth (International)
FY 18-19*	2,581,231	-	153,876	-
FY 19-20	2,839,355	10.00%	176,957	15.00%
FY 20-21	3,123,290	10.00%	203,501	15.00%
FY 21-22	3,435,619	10.00%	234,026	15.00%
FY 22-23	3,710,469	8.00%	262,109	12.00%

Table 4: Projected annual ATM traffic as per Vizag Airport submission

Financial Year	Domestic	YoY growth (Domestic)	International	YoY growth (International)
FY 18-19*	19,467	-	1,943	-
FY 19-20	21,219	9.00%	2,176	12.00%
FY 20-21	23,129	9.00%	2,438	12.00%
FY 21-22	25,211	9.00%	2,730	12.00%
FY 22-23	26,976	7.00%	3,003	10.00%

*Traffic for FY18-19 has been considered proportionately for operational period starting from 01.12.2018



Authority's Examination

6.4. The analysis of historical trend of passenger traffic and ATM of Vizag Airport are summarized in Table 5 and Table 6, respectively.

Table 5: 10-year historical passenger traffic data of Vizag Airport

Year	Domestic	YoY Rate of Growth	International	YoY Rate of Growth	Total Traffic (Domestic+International)
2008-09*	5,98,752	-	-	-	5,98,752
2009-10*	6,31,038	5.39%	-	-	6,31,038
2010-11*	7,11,557	12.76%	-	-	7,11,557
2011-12*	9,57,630	34.58%	530	-	9,58,160
2012-13*	9,83,056	2.66%	54552	NA	10,37,608
2013-14*	9,40,448	-4.33%	72074	32.12%	10,12,522
2014-15*	10,39,485	10.53%	59995	-16.76%	10,99,480
2015-16	16,83,018	61.91%	1,21,616	102.71%	18,04,635
2016-17	22,60,180	34.29%	97,849	-19.54%	23,58,029
2017-18	23,46,574	3.82%	1,33,805	36.75%	24,80,379
Average of YOY Rate of Growth		17.96%		NA	
CAGR-5 Years	25.68%		16.73%		25.11%
CAGR-10 Years	16.39%		NA	NA	NA

*Historical passenger traffic from FY 2008-09 FY 2014-15 is sourced from AAI Traffic News.

Table 6: 10-year historical ATM traffic data of Vizag Airport

Year	Domestic	YoY Rate of Growth	International	YoY Rate of Growth	Total Traffic (Domestic+international)
2008-09*	14,879	-	-	-	14,879
2009-10*	11,500	-22.71%	-	-	11,500
2010-11*	11,782	2.45%	-	-	11,782
2011-12*	15,402	30.72%	86	-	15,488
2012-13*	14,235	-7.58%	894	NA	15,129
2013-14*	9,888	-30.54%	1120	25.28%	11,008
2014-15*	10,348	4.65%	1097	-2.05%	11,445
2015-16	15,078	45.71%	1,661	51.41%	16,739
2016-17	18,129	20.23%	1,421	-14.45%	19,550
2017-18	17,860	-1.48%	1,735	22.10%	19,595
Average of YOY Rate of Growth		4.61%		NA	
CAGR-5 Years	15.93%		11.56%		15.51%
CAGR-10 Years	2.05%		NA	NA	NA

*Historical ATM traffic of Vizag Airport from FY 2008-09 FY 2014-15 is sourced from AAI Traffic News.

6.5. The Authority has examined the growth assumptions considered by Vizag Airport in its submission for projected passenger traffic for the first Control Period. The Authority has noted that Vizag Airport has taken a very conservative estimate for domestic passenger growth rate of 10% from FY 2019-20 to FY 2021-22 and 8% in FY 2022-23 as given in Table 3, as compared to its 10-years CAGR of 16.39% as given in Table 5. The Authority, therefore, taking into consideration the 10-year CAGR, has decided to consider 15% growth.



per annum for domestic passenger traffic in FY 2019-20 to FY 2021-22 shown in Table 7 and 10% growth rate per annum in FY 2022-23. The reduction in the growth in FY 2022-23 to 10% is considered, as the Bhogapuram airport is likely to be commissioned by FY 2022-23. Further, on careful examination of international passenger traffic of Vizag Airport, its five-year CAGR is calculated to be 16.73%. Since the airport began international operations in 2011-12 onward, a 10-year CAGR could not be determined. The Authority has decided to accept the growth rate projected for the international passenger, of 15% in FY 2019-20 to FY 2021-22 and 12% in FY 2022-23, as the same appears to be reasonable. Accordingly, the revised passenger traffic decided by the Authority is given in Table 7 below.

Table 7: Projected annual domestic passenger traffic as per the Authority's Examination

Financial Year	Domestic	YoY growth (Domestic)	International	YoY growth (International)
FY 18-19*	26,98,560	-	153,876	-
FY 19-20	31,03,344	15.00%	176,957	15.00%
FY 20-21	35,68,846	15.00%	203,501	15.00%
FY 21-22	41,04,173	15.00%	234,026	15.00%
FY 22-23	45,14,590	10.00%	262,109	12.00%

*Traffic for FY18-19 has been considered proportionately for operational period starting from 01.12.2018

6.6. The Authority has examined the growth in ATM traffic considered by Vizag Airport in its submission and is of the view that the projections are reasonable. Accordingly, the Authority has decided to accept traffic projections for both domestic and international ATM as submitted by Vizag Airport and furnished in Table 8.

Table 8: ATM traffic as estimated by the Authority

Financial Year	Domestic	YoY growth (Domestic)	International	YoY growth (International)
FY 18-19*	19,467	-	1,943	-
FY 19-20	21,219	9.00%	2,176	12.00%
FY 20-21	23,129	9.00%	2,438	12.00%
FY 21-22	25,211	9.00%	2,730	12.00%
FY 22-23	26,976	7.00%	3,003	10.00%

*Traffic for FY18-19 has been considered proportionately for operational period starting from 01.12.2018

Stakeholder comments and the Authority's observations

Comments from Government of Andhra Pradesh

6.7. Regarding RAB, GoAP submitted that –

"Please read Para no. 5.5 and 6.17, where it is mentioned that the reduction in the growth in FY 2022-23 to 10% is considered, as the Bhogapuram International Airport is likely to be commissioned by FY 2022-23, is a wrong statement. As per in-principle approval of Ministry of Civil Aviation Letter vide No. AV.20015/111/2015-AD, Dt:02/09/2016 the Civil enclave will be shut down on opening of Bhogapuram International Airport for which suitable compensation shall be paid by State Government to AAI.



Hence it is recommended that the proposed investment vide Para 6.17 and 6.18 be kept on hold and taken out of MYTP (Multi Year Tariff Proposal) being avoidable expenses of public money."

Comments from FIA

6.8. Regarding the traffic forecast, FIA submitted that-

"FIA submits that the Authority sought historical passenger & ATM traffic from FY 09 to FY18 and its projections for the first control period from Vizag airport. FIA noted that Authority has done an upward revision in Vizag Airport projections for YoY growth rates for domestic passenger traffic from 10% to 15% from FY20 to FY22 and from 8% to 10% in FY23. Further, the growth rate projections submitted by Vizag airport for international passenger traffic and ATMs (domestic + International) have been accepted by the Authority. FIA further submits that the Authority has not conducted its own independent study on traffic projections and broadly relied on the data provided by Vizag Airport. Further, as per Proposal 1(c) of the CP, Authority has proposed to true up the passenger traffic and ATM for first control period based on actuals.

Passenger Traffic

FIA submits that as per Table 4 of the CP, historical 5-year and 10-year CAGR for domestic passenger traffic is 25.68% and 16.39% respectively and 5-year CAGR for international passenger traffic is 16.73%.

FIA further submits that as per Para 5.5 of the CP, Authority has considered a 15% growth rate for domestic passenger from FY20 to FY22 and 10% for FY23 instead of estimates proposed by Vizag airport and has accepted the growth rate of 15% submitted by Vizag airport for international passenger. The Authority has considered growth rate of 15% for domestic/ international passenger has been proposed by Authority basis past 10 year CAGR. However, this is significantly lower than historical 5-year CAGR of 25.68% and 16.39% for domestic and international passengers

Hence, FIA submits that Authority consider the 5-year CAGR of 25% and 16% for YoY growth rate projections for domestic & international passenger traffic respectively for the first control period.

Air traffic movement

As per Table 5 of the CP, historical 5-year and 10-year CAGR for domestic ATM is 15.93% and 2.05% respectively and 5-year CAGR for international ATM is 11.56%. Further, as per Para 5.6 of the CP, the Authority has considered a 9% growth rate for domestic ATM from FY20 to FY22 and 7% for FY23 and considered a 12% growth rate for international ATM from FY20 to FY22 and 10% for FY23, thereby accepting estimates proposed by Vizag airport. However, this is lower than historical 5-year CAGR of 15.93% for domestic ATM.

Hence, FIA submits that Authority should consider the 5-year CAGR of 16% YoY growth rate projections for domestic ATM for the first control period.

FIA further submits that the Authority has computed the growth rates based only on traffic numbers of past years and has applied the same for projections that too on lower side, however, the Authority has not considered qualitative factors affecting the traffic growth such as the UDAN scheme, double digit growth in passengers across Indian airports in the last 4 years (as per the DGCA domestic traffic reports), and Vizag airport presently being the busiest in Andhra Pradesh.

Without prejudice to the above, FIA submits that since, traffic projections are critical in ascertaining the tariffs and CAGR considered by Authority is significantly lower than past CAGR, the Authority must appoint an independent consultant to evaluate traffic forecasts. Also, the expert study would be scientific as apart from past trends of traffic it will also consider various qualitative factors affecting macro environment of the aviation sector like (a) impact of new civil aviation policy (b) commencement of operations from new airlines (b)



future changes in economic environment (c) population growth (d) trends of increase in disposable income.”

AAI's submission on GoAP's and FIA's comments

6.9. AAI in response to GoAP's comments, submitted that-

“The proposed investment vide Para 6.17 and 6.18 are necessary to cater to the needs of growing traffic at the airport. As per the decision of Standing Committee on Green Field airports held on 26.11.2018, Govt. of India has decided to operate Vizag Airport even after the Bhogapuram Airport is thrown open to passenger and cargo traffic.”

Authority's examination of GoAP's and FIA's comments and AAI's submission on GoAP's and FIA's comments

6.10. In response to GoAP's comments, the Authority notes that construction of Bhogapuram airport is yet to commence, hence it is uncertain as to when that airport will operationalize. Further, since Vizag airport is highly congested, proposed expansions are to be allowed.

6.11. In response to FIA's comments, the Authority has revised traffic projections submitted by AAI based on historical trends. The suggestion of FIA that the 5 years CAGR be adopted to forecast traffic is not acceptable mainly because there is high volatility in the traffic over the past 5 years and it is difficult to predict any outcomes on these figures. A more stable methodology would be to base the forecast on 10 years CAGR, and, therefore, the Authority has adopted it.

On the suggestion that independent studies be made to estimate traffic forecasts, the Authority is of the view that conducting independent studies into all the building blocks may be more appropriate but it is time consuming and does not serve the purpose. It is also noted by the Authority that some of these studies made in the past are also way off the mark since the traffic in an airport is dependent on so many variables that it is difficult to be precise in such matters. However, in future, wherever studies are made, the Authority will take them into consideration and if necessary, conduct, its own studies to refine the process of estimation of traffic.

Decision No. 1 Regarding Traffic Forecast

- 1.a. **The Authority has decided to consider passenger traffic projections, given in Table 7.**
- 1.b. **The Authority has decided to accept ATM traffic projections submitted by Vizag Airport, given in Table 8.**
- 1.c. **The Authority has decided to true up the passenger and the ATM traffic of the first Control Period based on actuals at the time of determination of tariff for the next Control Period.**



7. REGULATORY ASSET BASE (RAB) AND DEPRECIATION

Opening RAB - Vizag Airport's submission

- 7.1. As per clause 5.2.4 of Airport Guidelines, opening RAB is to be calculated by taking into consideration the original cost of fixed asset, accumulated depreciation, accumulated capital receipts of the nature of contributions from stakeholders, adjustment for value of assets excluded from the scope of RAB and adjustment for value of the land excluded from the scope of RAB.
- 7.2. In its submission, Vizag Airport has mentioned that depreciation is calculated as per AAI's depreciation rate upto FY 2015-16; depreciation on RAB and addition to fixed asset FY 2016-17 and FY 2017-18 is calculated as per Companies Act 2013. From FY 2018-19 onwards depreciation is worked out as per rates prescribed by the Authority. Half year rate of depreciation is calculated on additions to Assets in form 10(a) for their first year of capitalization.
- 7.3. Accordingly, RAB during the first control period has been calculated as per the following steps:
- 7.3.1.** Gross block as on 01.04.2016 has been considered as the starting point;
- 7.3.2.** Gross block as on 01.04.2016 has been classified into aeronautical, non-aeronautical and common assets;
- 7.3.3.** Further common assets have been bifurcated into aeronautical and non-aeronautical assets;
- 7.3.4.** Determination of gross opening RAB as on 01.04.2016;
- 7.3.5.** Determination of opening RAB as on 01.04.2016 by reducing accumulated depreciation upto 01.04.2016;
- 7.3.6.** Additions during FY 2016-17 and FY 2017-18 to Opening RAB as on 01.04.2016;
- 7.3.7.** Depreciation on opening RAB as on 01.04.2016 and additions to RAB during FY 2016-17 and FY 2017-18;
- 7.3.8.** Determination of opening RAB as on 01.04.2018 after considering additions and depreciation during FY 2016-17 and FY 2017-18;
- 7.3.9.** Additions to opening RAB as on 01.04.2018 during the first control period;
- 7.3.10.** Depreciation on opening RAB as on 01.04.2018 and additions during the first control period;
- 7.3.11.** Determination of RAB during the first control period after considering additions and depreciation during the first control period.



7.4. Vizag Airport in its submission has classified the opening gross block as on 01.04.2016 into aeronautical, non-aeronautical and common assets as shown in Table 9:

Table 9: Gross block of assets as on 01.04.2016 and bifurcation into aeronautical, non-aeronautical and common assets as per Vizag Airport's submission (in ₹ lakhs)

Asset head	Aero	Non-Aero	Common	Cargo	ANS	Total
Aprons	1,382.54	-	-	-	-	1,382.54
Terminal building	489.07	18.89	8,542.76	-	336.64	9,387.36
Machinery	52.28	0.03	627.57	-	1,521.79	2,201.67
Elect installation	2,262.46	-	615.56	-	0.17	2,878.19
Runways taxiway	7.44	-	-	-	-	7.44
Roads, bridges & culverts	2.44	-	-	-	-	2.44
Temporary building	79.51	-	-	-	-	79.51
Residential building	12.75	-	23.96	-	-	36.70
Operational boundary wall	411.41	-	-	-	17.13	428.55
Residential boundary wall	0.94	-	69.79	-	-	70.73
Other buildings	484.44	-	-	77.84	5.35	567.63
Computers: End user devices	12.09	-	18.15	-	0.73	30.97
Software	51.15	-	-	-	-	51.15
Computers: Servers and networks	5.42	-	25.27	-	-	30.69
Tools & plant	105.01	-	-	-	1.32	106.33
Plant & equipment: FIDS	56.86	-	-	-	-	56.86
Furniture-Office (Other than Trolley)	9.32	-	-	-	-	9.32
Vehicles	22.65	-	-	-	-	22.65
Cars/Jeeps	39.82	-	-	-	-	39.82
Office equipment	28.81	-	2.41	-	4.75	35.97
Furniture & fixtures: other than trolley	200.49	-	-	-	8.66	209.14
Furniture & fixtures: Trolley	53.35	-	-	-	-	53.35
X-ray Baggage System (XIBS)	365.68	-	-	-	-	365.68
CFT & Fire Fighting Equipment.	60.34	-	-	-	-	60.34
Grand Total	6,196.27	18.93	9,925.48	77.84	1,896.53	18,115.04

7.5. Opening common assets other than terminal building have been bifurcated into aeronautical and non-aeronautical basis actual utilization of assets.

7.6. Further, space earmarked for non-aeronautical activities in terminal building is 6.85% of total terminal building area. Accordingly, common assets relating to terminal building have been bifurcated into aeronautical and non-aeronautical in the ratio of 93.15 to 6.85 as given in Table 10.

Table 10: Classification of opening common assets into aeronautical and non-aeronautical assets as per Vizag Airport's submission (in ₹ lakhs)

Asset head	Total common	Aero	Non-Aero
Terminal building	8,542.76	7,963.43	579.33
Residential building	23.96	21.78	2.18
Residential boundary wall	69.79	63.45	6.34
Computers: End user devices	18.15	17.05	1.11
Computers: Servers and networks	25.27	23.73	1.54
Machinery	627.57	584.58	42.99
Elect installation	615.56	573.33	42.23
Office equipment	2.41	2.26	0.15
Grand Total	9,925.48	9,249.61	675.87



7.7. Depreciation on RAB upto FY 2015-16 has been computed as per AAI's depreciation rates as per Vizag Airport's submission. Opening RAB as on 01.04.2016 has been computed by reducing accumulated depreciation upto FY 2015-16 from gross block as on 01.04.2016 as shown in Table 11.

Table 11: Opening RAB as on 01.04.2016 as per Vizag Airport's submission (in ₹ lakhs)

Asset head	Gross opening RAB as on 01.04.2016 (A)	Accumulated depreciation as on 31.03.2016 (B)	Opening RAB as on 01.04.2016 (C) = (A)-(B)
Aprons	1,382.54	1,382.54	-
Terminal building	8,452.50	5,001.37	3,451.13
Machinery	636.86	489.40	147.46
Elect installation	2,835.79	2,537.84	297.95
Runways taxiway	7.44	7.44	-
Roads, bridges & culverts	2.44	2.44	-
Temporary building	79.51	79.51	-
Residential building	34.53	17.85	16.68
Operational boundary wall	411.41	391.05	20.37
Residential boundary wall	64.39	10.24	54.15
Other buildings	484.44	453.29	31.15
Computers: End user devices	29.14	27.94	1.19
Software	51.15	51.15	-
Computers: Servers and networks	29.15	28.24	0.91
Tools & plant	105.01	104.50	0.51
Plant & equipment: FIDS	56.86	46.51	10.35
Furniture-Office (Other than Trolley)	9.32	9.07	0.25
Vehicles	22.65	20.43	2.22
Cars/Jeeps	39.82	35.63	4.19
Office equipment	31.07	31.05	0.03
Furniture & fixtures: other than trolley	200.49	191.81	8.67
Furniture & fixtures: Trolley	53.35	48.80	4.54
X-ray Baggage System (XIBS)	365.68	329.86	35.82
CFT & Fire Fighting Equipment.	60.34	60.28	0.06
Grand Total	15,445.88	11,358.24	4,087.64



7.9. Depreciation during FY 2016-17 and FY 2017-18 on opening RAB as on 01.04.2016 has been computed as per depreciation rates prescribed under Companies Act, 2013 as shown in Table 12.

Table 12: Depreciation during FY 2016-17 and FY 2017-18 on opening RAB as on 01.04.2016 as per Vizag Airport's submission (in ₹ lakhs)

Asset head	FY 16-17	FY 17-18	Total
Aprons	-	-	-
Terminal building	254.95	254.47	509.42
Machinery	39.64	39.54	79.19
Elect installation	75.88	72.98	148.86
Runways taxiway	-	-	-
Roads, bridges & culverts	-	-	-
Residential building	1.15	1.15	2.30
Temporary boundary wall	-	-	-
Operational boundary wall	3.17	3.17	6.34
Residential boundary wall	2.14	2.14	4.28
Other buildings	1.57	1.57	3.14
Computers: End user devices	0.54	0.23	0.77
Software	-	-	-
Computers: Servers and networks	0.26	0.26	0.53
Tools & plant	0.11	0.04	0.15
Plant & equipment: FIDS	1.30	1.21	2.50
Furniture-Office (Other than Trolley)	0.07	0.07	0.13
Vehicles	0.72	0.60	1.31
Cars/Jeeps	1.31	1.26	2.57
Office equipment	0.02	0.01	0.03
Furniture & fixtures: other than trolley	4.34	4.34	8.67
Furniture & fixtures: Trolley	2.17	2.17	4.34
X-ray Baggage System (XIBS)	4.27	4.27	8.53
CFT & Fire Fighting Equipment.	0.02	0.02	0.04
Grand Total	393.63	389.49	783.12

भा.वि.आ.वि.प्रा.



7.10. Further, gross additions during FY 2016-17 and FY 2017-18 to RAB as on 01.04.2016 as per Vizag Airport's submission have been shown in Table 13.

Table 13: Gross additions during FY 16-17 and FY 17-18 to RAB as on 01.04.2016 as per Vizag Airport's submission (in ₹ lakhs)

Asset head	Description	FY 16-17	FY 17-18	Total
Aprons	Extension of apron for 6 additional parking bays	-	2,088.41	2,088.41
Terminal building	Modular SS Body prefabricated E-Toilets	-	22.48	22.48
Machinery	Biometric Access Control Systems, Explosive Trace Detector, Water Coolers And Ro System	15.06	-	15.06
Electrical installation	High mast for national flag, DG set, Scissor Lift And Aluminum Ladder	35.98	7.10	43.08
Residential building	Relocation of garbage dumping point	-	16.15	16.15
Operational boundary wall	Operational Boundary Wall Near Old ATC Building	27.71	-	27.71
Other buildings	Provision of entrance gate, Construction of administrative office complex	-	235.00	235.00
Computers: End user devices	Laptops, printers, UPS	8.39	6.59	14.98
Tools & plant	Surge protection device, Rapiscan meter 6s	41.90	113.23	155.12
Plant & equipment: FIDS	Baggage Trolleys	-	22.71	22.71
Furniture-Office (Other than Trolley)	Chairs and bookcase	-	75.27	75.27
Office equipment	Scanners	0.50	1.90	2.40
Furniture & fixtures: other than trolley	Furniture For Housing Airport Systems Equipment	12.13	-	12.13
X-ray Baggage System (XIBS)	X-BIS 6040 ex X-BIS 100100v	168.26	-	168.26
Grand Total		309.92	2,588.83	2,898.75

7.11. Depreciation on gross additions to RAB during FY 2016-17 and FY 2017-18 has been computed as per depreciation rates prescribed under Companies Act, 2013 as shown in Table 14.

Table 14: Depreciation on additions to RAB during FY 16-17 and FY 17-18 as per Vizag Airport's submission (in ₹ lakhs)

Asset head	Rate (%)	FY 16-17	FY 17-18	Total
Aprons	3.33	-	34.77	34.77
Terminal building	3.33	-	0.37	0.37
Machinery	6.67	0.50	1.00	1.51
Elect installation	10.00	1.20	2.64	3.84
Residential building	3.33	-	0.27	0.27
Operational boundary wall	10.00	0.46	0.92	1.38
Other buildings	3.33	-	3.91	3.91
Computers: End user devices	33.33	0.70	1.95	2.65
Tools & plant	6.67	1.40	6.57	7.97



Asset head	Rate (%)	FY 16-17	FY 17-18	Total
Plant & equipment: FIDS	10.00	-	0.76	0.76
Furniture-Office (Other than Trolley)	14.29	-	7.53	7.53
Office equipment	20.00	0.05	0.29	0.34
Furniture & fixtures: other than trolley	14.29	0.61	1.21	1.82
X-ray Baggage System (XIBS)	6.67	5.61	11.22	16.83
Total		10.53	73.42	83.95

7.12. Net additions during FY 2016-17 and FY 2017-18 to RAB as on 01.04.2016 have been computed by reducing depreciation from gross additions during FY 2016-17 and FY 2017-18 to RAB as on 01.04.2016 as shown in Table 15:

Table 15: Net additions to RAB as on 01.04.2016 during FY 16-17 and FY 17-18 as per Vizag Airport's submission (in ₹ lakhs)

Asset head	Gross additions	Total depreciation during FY 16-17 and FY 17-18	Total
Aprons	2,088.41	34.77	2,053.64
Terminal building	22.48	0.37	22.11
Machinery	15.06	1.51	13.56
Elect installation	43.08	3.84	39.24
Residential building	16.15	0.27	15.88
Operational boundary wall	27.71	1.38	26.33
Other buildings	235.00	3.91	231.09
Computers: End user devices	14.98	2.65	12.33
Tools & plant	155.12	7.97	147.16
Plant & equipment: FIDS	22.71	0.76	21.95
Furniture-Office (Other than Trolley)	75.27	7.53	67.74
Office equipment	2.40	0.34	2.06
Furniture & fixtures: other than trolley	12.13	1.82	10.31
X-ray Baggage System (XIBS)	168.26	16.83	151.43
Grand Total	2,898.75	83.95	2,814.81



7.13. Opening RAB as on 01.04.2018 as per Vizag Airport's submission has been computed in Table 16.

Table 16: Opening RAB as on 01.04.2018 after considering additions and depreciation respectively during FY 16-17 and FY 17-18 as per Vizag Airport's submission (in ₹ lakhs)

Asset head	RAB as on 01.04.2016 as per Table 11 (A)	Net additions to RAB during FY 16-17 and FY 17-18 as per Table 15 (B)	Depreciation during FY 16-17 and FY 17-18 opening RAB as on 01.04.2016 as per Table 12 (C)	Opening RAB as on 01.04.2018 (D) = (A)+(B)-(C)
Aprons	-	2,053.64	-	2,053.64
Terminal building	3,451.13	22.11	509.42	2,963.81
Machinery	147.46	13.56	79.19	81.83
Elect installation	297.95	39.24	148.86	188.33
Residential building	16.68	15.88	2.30	30.26
Operational boundary wall	20.37	26.33	6.34	40.35
Residential boundary wall	54.15	-	4.28	49.87
Other buildings	31.15	231.09	3.14	259.10
Computers: End user devices	1.19	12.33	0.77	12.75
Computers: Servers and networks	0.91	-	0.53	0.38
Tools & plant	0.51	147.16	0.15	147.52
Plant & equipment: FIDS	10.35	21.95	2.50	29.80
Furniture-Office (Other than Trolley)	0.25	67.74	0.13	67.86
Vehicles	2.22	-	1.31	0.91
Cars/Jeeps	4.19	-	2.57	1.62
Office equipment	0.03	2.06	0.03	2.06
Furniture & fixtures: other than trolley	8.67	10.31	8.67	10.31
Furniture & fixtures: Trolley	4.54	-	4.34	0.20
X-ray Baggage System (XIBS)	35.82	151.43	8.53	178.71
CFT & Fire Fighting Equipment.	0.06	-	0.04	0.02
Grand Total	4,087.64	2,814.81	783.12	6,119.33

Authority's Examination – Opening RAB

7.14. The Authority after verifying material facts and relying on AAI's audited accounts has decided to accept Vizag Airport's submission in relation to opening gross block as on 01.04.2016, accumulated depreciation upto 01.04.2016, additions during FY 2016-17 and FY 2017-18 to RAB as on 01.04.2016 and depreciation on opening RAB as on 01.04.2016 and additions during FY 2016-17 and FY 2017-18.



7.15. In regard to capex incurred towards additions to RAB, the Authority has compared the normative capital cost of Terminal Building and Taxiway/Apron, as per the Authority's order in the matter of "Normative Approach in Building Block in Economic Regulation of Major Airports" dated 06 June 2016 (hereafter referred to as Normative Capital Cost Order) with the actual costs. After accounting for inflation, the Authority has considered a normative cost of INR 100,000 per sq. m. for terminal building and INR 7,200 per sq.m.after excluding earthwork cost for Taxiway/Apron at FY 2017-18 prices.

7.16. The Authority has examined the normative cost of additions to the terminal building, and apron of Vizag Airport detailed in Table 17 below.

Table 17: The Authority's examination of normative cost of additions to capital assets of Vizag Airport

Particulars	Unit	Terminal Building	Apron & Taxiways
Cost of total additions as per Vizag Airport [1]	₹ lakhs	5,942.48	3,160.89
Area in sq.m. as per Vizag Airport [2]	sq.m.	10,150.00	52,357
Cost per sq.m. [1]/ [2]	₹ per sq.m.	58,546.60	6,037.19

7.17. In the case of terminal building expansion, the unit cost of ₹58,546 per sq.m. appears to be reasonable, and it is therefore decided to accept the costs.

7.18. In the case of additions to Apron, the cost of completion of the project is ₹3,160.89 lakhs as per the submission of Vizag Airport. Vizag Airport confirmed that scope of work includes extension of apron for an area of 26,712 sq.m., construction of New link taxiway (N5) with associated shoulders, construction of vehicular lane, shoulders for the old apron, old taxiways N1 and N2, and new VIP road. The surface area of all the above pavements including the extended apron area is 52,357 sq.m. as shown in Table 17. The cost of construction of the above facilities is ₹6,037.19 per sq.m. which is 28.45% higher than the normative bench mark cost of ₹4,700.00 per sq.m. Vizag Airport further confirmed that the reason for higher cost is on account of poor geotechnical subsurface soil existing at Visakhapatnam airfield which require soil improvement techniques i.e. consolidation of soft clay by driving perforated vertical drains and imposition of super imposed load for a height of 2.90 meters for a period of six months to achieve desired consolidation and improvement in the geotechnical parameters. Given that high costs have been incurred towards soil stabilization, and further accounting for inflation since 2016, the Authority has decided to accept the cost of Apron and Taxiway as submitted by Vizag Airport.

Additions to RAB during the first control period as per Vizag Airport's submission

7.19. As per the submission of Vizag Airport additional capital expenditure amounting to ₹81.80 crores has been taken in MYTP.

7.20. Following major capital expenditure is proposed by Vizag Airport during the first control period:



7.20.1. Linear expansion of Terminal Building- ₹57 crores in FY 2019-20.

7.20.2. Extension of apron for additional 06 number of parking bays- ₹ 31 crores which is incurred in two years— ₹21 crores in FY 2017-18 and ₹10 crores in FY 2018-19.

7.20.3. Construction of boundary Wall- 0.93 crores in FY 2018-19.

7.20.4. Baggage Trolleys-₹0.80 crores in FY 2018-19.

7.21. Additions to RAB during the first control period as per Vizag Airport's submission are given in Table 18:

Table 18: Additions to RAB as on 01.04.2018 during the first control period as per Vizag Airport's submission (in ₹ lakhs)

Asset head	Description	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	Total
Aprons	Extension of apron for 6 additional parking bays	1,072.48	-	-	-	-	1,072.48
Terminal building	Linear expansion of Terminal building	-	5,700.00	220.00	-	-	5,920.00
Machinery	Explosive Trace Detector	10.73	-	-	-	-	10.73
Elect installation	Replacement of existing signage with LED type Signage in terminal building	430.80	15.00	-	-	-	445.80
Residential building	CISF residential Quarters family accommodation	50.00	-	-	-	-	50.00
Temporary boundary wall	Fencing adjacent to CISF barracks	10.00	-	-	-	-	10.00
Operational boundary wall	Operational Boundary Wall Around Vpt Handed Over Land At Vizag	94.85	-	-	-	-	94.85
Residential boundary wall	Construction of boundary wall at residential colony	39.32	-	-	-	-	39.32
Other buildings	Misc. unforeseen works/ minor capital works	20.00	-	-	-	-	20.00
Tools & plant	Provision of Alarm & fire Hydrant system	1.00	-	-	-	-	1.00
Plant & equipment: FIDS	Baggage Trolleys	79.16	-	-	-	-	79.16
Office equipment	Supply, Installation, testing and commissioning (SITC) of SCCTV	40.11	396.78	-	-	-	436.89
Grand Total		1,848.45	6,111.78	220.00	-	-	8,180.23

Authority's Examination – Additions to RAB

7.22. The Authority has noted that Vizag Airport in its submission has considered the entire linear expansion of the terminal building equivalent to ₹ 5,920.00 lakhs as aeronautical. However, the Authority advises Vizag Airport to take up non-aeronautical activities in the new terminal



building area to enable commercial operations at the airport. Accordingly, the Authority has decided to allocate the expansion of the terminal building into aeronautical and non-aeronautical in the ratio of 93.15 to 6.85, as considered for common assets in Vizag's submission given in paragraph 7.6. This allocation of expansion of terminal building is given in Table 19.

Table 19: Asset allocation of Terminal Building Expansion during the control period as per the Authority's Examination (in ₹ lakhs)

Particulars	Ratio (%)	FY 19-20	FY 20-21	Total
Aeronautical	93.15%	5,309.55	204.93	5,514
Non-Aeronautical	6.85%	390.45	15.07	406
Total	100%	5,700.00	220.00	5,920

7.23. The aeronautical allocation of terminal building expansion is to be considered for computing RAB. Accordingly, the revised total additions to RAB are given in Table 20.

Table 20: Additions to RAB as on 01.04.2018 during the first control period as per the Authority's examination (in ₹ lakhs)

Asset head	Description	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	Total
Aprons	Extension of apron for 6 additional parking bays	1,072.48	-	-	-	-	1,072.48
Terminal building	Linear expansion of Terminal building	-	5,309.55	204.93	-	-	5,514
Machinery	Explosive Trace Detector	10.73	-	-	-	-	10.73
Elect installation	Replacement of existing signage with LED type Signage in terminal building	430.80	15.00	-	-	-	445.80
Residential building	CISF residential Quarters family accommodation	50.00	-	-	-	-	50.00
Temporary boundary wall	Fencing adjacent to CISF barracks	10.00	-	-	-	-	10.00
Operational boundary wall	Operational Boundary Wall Around Vpt Handed Over Land At Vizag	94.85	-	-	-	-	94.85
Residential boundary wall	Construction of boundary wall at residential colony	39.32	-	-	-	-	39.32
Other buildings	Misc. unforeseen works/ minor capital works	20.00	-	-	-	-	20.00
Tools & plant	Provision of Alarm & fire Hydrant system	1.00	-	-	-	-	1.00
Plant & equipment: FIDS	Baggage Trolleys	79.16	-	-	-	-	79.16
Office equipment	Supply, Installation, testing and commissioning (SITC) of SCCTV	40.11	396.78	-	-	-	436.89
Grand Total		1,848.45	5,721.33	204.93	-	-	7,775



- 7.24. Allocation of such capital expenditure towards linear expansion of terminal building shall be tried up in the next control period based on actual usage in the current control period

Stakeholder comments and the Authority's observations

Comments from FIA

- 7.25. Regarding Terminal Building, FIA submitted that-

"As per analysis average useful life for assets including Opening RAB for Vizag is approximately 10 to 16 years. Further, average useful life considering only additions ranges between 14 to 21 years.

FIA submits that as per Para 6.24 of CP, depreciation from FY19 onwards has been computed as per rates prescribed under AERA Order No. 35/ 2017-18 "In the matter of Determination of Useful life of Airport Assets" dated 12 January 2018. Further, half yearly rates of depreciation have been considered for additions to RAB in the first year of capitalization. For terminal building and other buildings, while Order 35 states useful life as 30 or 60, the useful life consider by Vizag airport and accepted by Authority has been 30 years in the CP. For reference FIA would like to highlight, life of buildings as 30 years, considered by the Authority, is not in accordance with Part C of Schedule II of Companies Act, 2013, which provides useful life of buildings having Reinforced Concrete Cement (RCC) frame structure to be 60 years. It is submitted that there is no mention with respect to the structure of buildings, although it is highly unlikely that terminal buildings are not built with RCC technology.

Hence, authority has taken adopted conservative view with respect to useful life of terminal and other buildings. It is submitted that accordingly, in the interest of consumers, Authority could consider useful life of buildings as 60 years instead of taking a conservative view.

Further, FIA's review of useful life of assets at various international airports like London Heathrow, Sydney airport and Amsterdam Schiphol indicated that terminal buildings have useful life as long as 60 years and aprons have it as long as 99 years. Also, useful life of terminal building for Kannur & Cochin airports have been considered 60 years by Authority. However as per the CP, average life of airport assets additions between FY17 to FY23 is ranging between 15-20 years during the control period which primarily comprises of Terminal & other buildings and Aprons Hence, it is submitted that accordingly, in the interest of consumers, Authority could consider useful life of buildings as 60 years instead of taking a conservative view."

- 7.26. Regarding Apron Expansion, FIA submitted that-

"The Authority as per Table 1 of the CP, mentions apron bay area of 82,986 sq. m., which includes 56,610 sq. m. for 8 parking bays and 26,376 sq. m. for 6 new parking bays completed and commissioned on September 2018. However, as per Para 6.17 of the CP, "Vizag Airport confirmed that scope of work includes extension of apron for an area of 26,712 sq.m., construction of New link taxiway (N5) with associated shoulders, construction of vehicular lane, shoulders for the old apron, old taxiways N1 and N2, and new VIP road. The surface area of all the above pavements including the extended apron area is 52,357 sq.m".

Hence, as the areas mentioned in the CP are different, FIA requests that Authority to clarify which area for apron is accurate."

- 7.27. Regarding Asset Allocation Ratio, FIA submitted that-

"As per Para 6.5 and Para 6.6 of the CP, common assets other than terminal building have been bifurcated into aeronautical and non-aeronautical basis actual utilization of assets by Vizag airport. For the terminal building, the allocation is based on the spaces earmarked for each activity. 6.85% of the Terminal building is earmarked for non-aeronautical activities and accordingly allocation of assets between aeronautical and non - aeronautical for terminal



building is considered as 93.15% and 6.85% respectively by the Vizag airport. For the opening RAB, the Authority has considered this allocation based on earmarked areas for terminal building and essentially relied on assumptions of Vizag airport. In respect of Authority proposes to use Average RAB as given in Table 27 of the CP for calculation of ARR.

Also, with respect to additions, Authority has proposed to allocate the expansion of terminal area into aero and non-aero in ratio of 93.15% to 6.85%. FIA submits that even in the case of terminal area allocation, the Authority has relied on submissions of Vizag Airport. However, FIA understands that entire capex additions during the control period (except terminal expansion mentioned as above) has been considered as Aeronautical by the Authority. Hence, certain additions which could have been allocated to non-aero has not been considered by Authority.

FIA submits that given the criticality of allocation of the airport assets between aeronautical and non-aeronautical in shared till approach, the Authority should carry out allocation of assets on the basis of independent study rather than on the basis of submissions by Vizag airport.

Without prejudice to the above, FIA submits that if an independent study cannot be conducted due to paucity of time, it is submitted that Authority consider aero allocation of 80% as per Proposal 6(a) of CP 5/2014-15 "In the matter of Normative Approach to Building Blocks in Economic Regulation of Major Airports" for the first control period and tariff true up the allocation ratio based on independent study in the second control period.

AAI's submission on FIA's comments

7.28. AAI submitted that-

"It is confirmed that scope of work includes extension of apron for an area of 26,712 sq.m., construction of New link taxiway (N5) with associated shoulders, construction of vehicular lane, shoulders for the old apron, old taxiways N1 and N2, and new VIP road. The surface area of all the above pavements including the extended apron area is 52,357 sq.m"

Authority's examination of FIA's comments and AAI's submission on FIA's comments

7.29. With respect to FIA's comments on useful life of terminal building, the Authority refers to AERA Order No. 35/ 2017-18 "In the matter of Determination of Useful life of Airport Assets" dated 12.01.2018, which states that useful life of terminal building may be considered as 30 years or 60 years as evaluated by the airport operator. Accordingly, useful life of terminal building considered by AAI is reasonable.

7.30. With respect to FIA's request for clarification regarding Apron area, the Authority sought clarification from AAI and consequently Table 1 was amended to reflect correct Apron area details.

7.31. With respect to FIA's comments on asset allocation ratio, it is clarified by the Authority that additions to RAB submitted by AAI are considered after allocating total proposed capital expenditure into aeronautical and non-aeronautical. Allocation ratio is based on existing terminal building area allocation. Further, it is to be noted that the Authority is in the process of conducting a study on the subject and will true up the asset allocation accordingly in the next control period.

Depreciation on RAB as per Vizag Airport's submission



7.32. Depreciation from FY 2018-19 onwards has been computed as per rates prescribed under AERA Order No. 35/ 2017-18 "In the matter of Determination of Useful life of Airport Assets" dated 12.01.2018. Further, half yearly rates of depreciation have been considered for additions to RAB in the first year of capitalization.

Table 21: Depreciation on opening RAB as on 01.04.2018 during the first control period as per Vizag Airport's submission (in ₹ lakhs)

Asset head	Rate	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Aprons	3.33 %	-	-	-	-	-
Terminal building	3.33 %	253.70	253.64	253.38	253.04	250.94
Machinery	6.67 %	39.17	21.42	7.01	-	-
Elect installation	10.00 %	97.31	47.29	3.66	0.09	0.04
Residential building	3.33 %	1.15	1.15	1.15	0.73	0.73
Operational boundary wall	10.00 %	7.55	3.58	2.89	-	-
Residential boundary wall	10.00 %	6.37	6.37	6.37	6.29	6.25
Other buildings	3.33 %	1.57	1.57	1.57	1.57	1.57
Computers: End user devices	33.33 %	0.30	0.12	-	-	-
Computers: Servers and networks	16.67 %	0.38	-	-	-	-
Tools & plant	6.67 %	0.04	0.04	0.04	0.04	0.04
Plant & equipment: FIDS	10.00 %	1.50	1.50	1.44	0.53	-
Furniture-Office (Other than Trolley)	14.29 %	0.04	0.04	0.03	-	-
Vehicles	12.50 %	0.60	0.31	-	-	-
Cars/Jeeps	12.50 %	1.10	0.52	-	-	-
Furniture & fixtures: Trolley	33.33 %	0.20	-	-	-	-
X-ray Baggage System (XIBS)	6.67 %	4.27	4.27	4.27	4.27	1.69
CFT & Fire Fighting Equipment.	6.67 %	0.02	0.00	-	-	-
Total		415.26	341.82	281.82	266.55	261.25

Table 22: Depreciation on additions to RAB during the first control period as per Vizag Airport's submission (in ₹ lakhs)

Asset head	Rate	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Aprons	3.33 %	87.40	105.26	105.26	105.26	105.26
Terminal building	3.33 %	0.75	95.65	194.22	197.88	197.88
Machinery	6.67 %	1.36	1.72	1.72	1.72	1.72
Elect installation	10.00 %	25.85	48.14	48.89	48.89	48.89
Residential building	3.33 %	1.37	2.20	2.20	2.20	2.20
Operational boundary wall	10.00 %	7.51	12.26	12.26	12.26	12.26
Residential boundary wall	10.00 %	1.97	3.93	3.93	3.93	3.93
Other buildings	3.33 %	8.16	8.49	8.49	8.49	8.49
Computers: End user devices	33.33 %	4.99	4.99	-	-	-
Tools & plant	6.67 %	10.38	10.41	10.41	10.41	10.41
Plant & equipment: FIDS	10.00 %	6.23	10.19	10.19	10.19	10.19



Furniture-Office (Other than Trolley)	14.29 %	10.76	10.76	10.76	10.76	10.76
Vehicles	12.50 %	-	-	-	-	-
Cars/Jeeps	12.50 %	-	-	-	-	-
Office equipment	20.00 %	4.49	48.18	87.86	87.86	87.86
Furniture & fixtures: other than trolley	14.29 %	1.73	1.73	1.73	1.73	1.73
X-ray Baggage System (XIBS)	6.67 %	11.22	11.22	11.22	11.22	11.22
Total		184.17	375.14	509.14	512.80	512.80

Table 23: Total depreciation on RAB during the first control period as per Vizag Airport's submission (in ₹ lakhs)

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Depreciation on opening RAB	415.26	341.82	281.82	266.55	261.25
Depreciation on additions to RAB	184.17	375.14	509.14	512.80	512.80
Grand total	599.43	716.96	790.96	779.35	774.05



भा.वि.आ.वि.प्रा.
AERA

Authority's Examination – Depreciation on RAB

7.33. The Authority has noted that depreciation rates considered by Vizag Airport and methodology for computing depreciation are in line with rates and methodology prescribed under AERA Order No. 35/ 2017-18 "In the matter of Determination of Useful life of Airport Assets" dated 12.01.2018. Accordingly, the Authority has decided to accept Vizag Airport's submission in relation to depreciation.

7.34. As given in paragraph 7.22 , the Authority has decided to allocate the expansion of the terminal building into aeronautical and non-aeronautical in the same proportion as the existing terminal building as given in paragraph 7.6. As a result, the aeronautical allocation and its depreciation thereof is to be considered for RAB computation. Accordingly, the revised depreciation attributable to aeronautical asset of terminal building expansion is given in Table 24.

Table 24: Depreciation of aeronautical asset of terminal building expansion during the first control period as per the Authority's examination (in ₹ lakhs)

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Depreciation on aeronautical asset of terminal building expansion	0.75	89.15	180.97	184.38	184.38



भा.वि.आ.वि.प्रा.
AERA

7.35. Incorporating the above computation, the revised depreciation on additions to RAB and total depreciation for the first control period of Vizag Airport as per the Authority's examination is given in Table 25 and Table 26 respectively.

Table 25: Depreciation on additions to RAB during the first control period as per the Authority's examination (in ₹ lakhs)

Asset head	Rate	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Aprons	3.33 %	87.40	105.26	105.26	105.26	105.26
Terminal building	3.33 %	0.75	89.15	180.97	184.38	184.38
Machinery	6.67 %	1.36	1.72	1.72	1.72	1.72
Elect installation	10.00 %	25.85	48.14	48.89	48.89	48.89
Residential building	3.33 %	1.37	2.20	2.20	2.20	2.20
Operational boundary wall	10.00 %	7.51	12.26	12.26	12.26	12.26
Residential boundary wall	10.00 %	1.97	3.93	3.93	3.93	3.93
Other buildings	3.33 %	8.16	8.49	8.49	8.49	8.49
Computers: End user devices	33.33 %	4.99	4.99	-	-	-
Tools & plant	6.67 %	10.38	10.41	10.41	10.41	10.41
Plant & equipment: FIDS	10.00 %	6.23	10.19	10.19	10.19	10.19
Furniture-Office (Other than Trolley)	14.29 %	10.76	10.76	10.76	10.76	10.76
Vehicles	12.50 %	-	-	-	-	-
Cars/Jeeps	12.50 %	-	-	-	-	-
Office equipment	20.00 %	4.49	48.18	87.86	87.86	87.86
Furniture & fixtures: other than trolley	14.29 %	1.73	1.73	1.73	1.73	1.73
X-ray Baggage System (XIBS)	6.67 %	11.22	11.22	11.22	11.22	11.22
Total		184.17	368.63	495.89	499.30	499.30

Table 26: Total depreciation on RAB during the first control period as per the Authority's examination (in ₹ lakhs)

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Depreciation on opening RAB	415.26	341.82	281.82	266.55	261.25
Depreciation on additions to RAB	184.17	368.63	495.89	499.30	499.30
Grand total	599.43	710.45	777.71	765.85	760.55

Average RAB as per Vizag Airport's submission

7.36. RAB during the control period as per Vizag Airport has been summarized in the Table 27:

Table 27: Average RAB as per Vizag Airport's submission (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Opening RAB	4,087.64	3,993.40	6,119.33	7,368.34	12,763.16	12,192.21	11,412.85
Additions to RAB	309.92	2,588.83	1,848.45	6,111.78	220.00	-	-
Disposals	-	-	-	-	-	-	-
Depreciation	(404.16)	(462.91)	(599.43)	(716.96)	(790.96)	(779.35)	(774.05)
Closing RAB	3,993.40	6,119.33	7,368.34	12,763.16	12,192.21	11,412.85	10,638.80



Average RAB	4,040.52	5,056.36	6,743.84	10,065.75	12,477.69	11,802.53	11,025.83
-------------	----------	----------	----------	-----------	-----------	-----------	-----------

Authority's Examination – Average RAB

7.37. The Authority has decided to allocate the expansion of the terminal building into aeronautical and non-aeronautical in the same proportion as the existing terminal building as given in paragraph 7.6. Accordingly, the aeronautical asset of terminal building expansion and its depreciation thereof, is considered in computing average RAB. Thus, the revised RAB during the control period as per the Authority after considering the above decisions has been summarized in the Table 28.

Table 28: Revised RAB as per the Authority's Examination (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Opening RAB	4,087.64	3,993.40	6,119.33	7,368.34	12,379.21	11,806.44	11,040.59
Additions to RAB	309.92	2,588.83	1,848.45	5,721.33	204.93	-	-
Disposals	-	-	-	-	-	-	-
Depreciation	(404.16)	(462.91)	(599.43)	(710.46)	(777.70)	(765.85)	(760.55)
Closing RAB	3,993.40	6,119.33	7,368.34	12,379.21	11,806.44	11,040.59	10,280.04
Average RAB	4,040.52	5,056.36	6,743.84	9,873.78	12,092.83	11,423.52	10,660.32

Decision No. 2 Regarding RAB

सत्यमेव जयते

- 2.a. The Authority has considered allocations of the expanded area of the terminal building into aeronautical and non-aeronautical assets in the ratio of 93.15 to 6.85. Accordingly, the Authority has considered additions to RAB during the first control period as given in Table 20, depreciation of additions to revised RAB as given in Table 25 and total depreciation as given in Table 26.
- 2.b. The Authority has considered average RAB as given in Table 28 for calculation of ARR.
- 2.c. The Authority has decided to true up average RAB including the asset allocation based on the study to be conducted by the Authority for the next Control Period.



8. FAIR RATE OF RETURN (FRoR)

- 8.1. Vizag Airport in its submission has stated that the Airport has no debt. Therefore, interest rate computation is not applicable.
- 8.2. Vizag Airport has considered Fair Rate of Return (FRoR) equivalent to the cost of equity (K_e) at 14% p.a. This is in line with the decision taken by the Authority for other AAI airports such as in Chennai, Kolkata, Guwahati and Lucknow for the first Control Period.

Authority's Examination

- 8.3. The Authority has recognized that Vizag Airport's capital structure may not be regarded as an efficient one in that it doesn't optimize the cost of funds from a regulatory perspective. The Authority desires that the FRoR allowed to Vizag Airport should come down over a period of time by optimizing capital gearing. The Authority may also consider a normative capital structure to determine the FRoR at a later date. It may not be reasonable to expect Vizag Airport to contract large amounts of debt over a short period of time.
- 8.4. The Authority has noted that as per a study conducted in respect of the 'Fair Rate of Return Estimation for AAI' in July 2011 it estimated a figure of 14.96% as Fair Rate of Return for AAI owned airports. The Authority notes that it has considered FRoR at 14% for Chennai and Kolkata airport in the first control period considering the recommendations of another study done by National Institute of Public Finance and Policy (NIPFP). Based on the decision taken for Chennai and Kolkata airport, the Authority considered FRoR at 14% for all AAI Airports for whom tariff has been determined subsequently.
- 8.5. Based on the above, the Authority has decided to consider FRoR at the rate of 14% for Vizag Airport for the first Control Period, as submitted by Vizag Airport.

Stakeholder comments and the Authority's observations

Comments from Government of Andhra Pradesh

- 8.6. Government of Andhra Pradesh submitted that-

"Please refer Para No. 7.2 regarding Fair rate of Return (FRoR). The FRoR appears to be unjustified as the comparison is either with a Metro or a State Capital Airport with higher passenger density, wherein Vizag is not a full-fledged airport. It is only a Civil Enclave which is presently handling 2 MPPA and the main infrastructure, i.e. runway belongs to Indian Navy. (Page 28, Para-Repair and Maintenance). Hence, FRoR may be reduced o a lower number."

Authority's examination of GoAP's comments

- 8.7. In response to GoAP's comments on FRoR, the Authority points out that FRoR is not discriminating since returns on AAI's financing of investments in airports is done at CHQ level hence, segregating the investments airport-wise is not possible. Accordingly, the Authority has taken a consistent view for all AAI airports, and has accordingly decided to maintain the same FRoR across AAI airports.



Decision No. 3 Regarding FRoR

- 3.a. The Authority has decided to consider the FRoR at 14% for Vizag Airport for the first Control Period.
- 3.b. The Authority will undertake a study to determine FRoR for major AAI airports given the low debt structure of AAI as a whole.



भा.वि.आ.वि.प्रा.
AERA

9. OPERATION AND MAINTENANCE EXPENDITURE

9.1. Vizag Airport's submission on details and assumptions of operation and maintenance expenditure proposed to be incurred during the first control period are provided in Table 29.

Table 29: Assumptions made by Vizag Airport for each item of Operation and Maintenance Expenditure

Item	Assumption
Payroll Related Expenditure & Provision	<ul style="list-style-type: none"> Vizag Airport has assumed 40% allocation of staff as non-executive and remaining 60% as executive staff in its submission. Based on the above allocation, Vizag Airport has proposed an increase of 37.16% in FY 2018-19 for wage revision for non-executive staff and 7% increase in FY 2018-19 for wage revision for executive staff. Thereafter a year-on-year growth rate of 7% has been estimated from FY 2019-20 to FY 2022-23 for both executive and non-executive staff. Overtime staff cost is estimated to increase by 37.16% in 2018-19 and thereafter at 7% from FY 2019-20 to FY 2022-23. Pay and allowance of CNS staff have been bifurcated based on utilization of staff for CNS activities as the ATC services are being extended by Navy. Apportionment of Central Headquarter (CHQ)/ Regional Headquarter (RHQ) overheads has been allocated for FY 2016-17 & FY 2017-18 on the basis of actuals allocations done in FY 2015-16 with 5% increase on year on year basis. 95% of CHQ/RHQ overhead expenses have been considered as aeronautical activities. (5% considered for non-aeronautical activities).
Administration & General Expenses	<ul style="list-style-type: none"> Items under Administration and General Expenses are assumed to increase at 10% YoY for FY 2018-19 to FY 2022-23. Municipal Taxes assumed at a fixed amount of ₹5.57 lakhs from FY 2018-19 to FY 2022-23. 5% of the apportionment of Administration Expenditure CHQ/RHQ (overheads expenses other than employees related) in 2015-16 are assumed as non-aeronautical. Additional three guards were engaged in FY 2017-18 for watch and ward, cost of which is included pertaining to that year. New contract for Mechanized Environmental Support Services (MESS) of ₹17.85 lakhs, included in conservancy charges till fresh contracts are awarded. New award of ₹ 7.62 crores for three years is due to be awarded in September 2018. This cost is included in the forecasted conservancy charges for FY 2018-19 to FY 2020-21. Annual conservancy charges are assumed fixed at ₹254.32 lakhs from FY 2019-20 to FY 2022-23.
Repair & Maintenance	<ul style="list-style-type: none"> Repair & Maintenance charges have been projected to grow at 10% from FY 2018-19 to FY 2019-20, then by 15% for the subsequent period of FY 2021, on account of the Terminal Building expansion. Thereafter, 10% year-on-year increase has been computed for the remaining of the control period. ₹ 562.62 lakhs incurred for runway costs have been charged off, not reimbursed by the State Government and the runway was handed to the Indian Navy in FY 2017-18. This amount has not been previously accounted for. This amount has been included in the O&M cost for FY 2017-18. ₹ 9.98 lakhs AMC for Security Closed-Circuit Television (SCCTV), ₹ 1.64 AMC for Computers, AMC Public Announcement (PA) System & Electronic private branch exchange (EPBX) incurred in FY 2017-18

Item	Assumption
	<ul style="list-style-type: none"> Vizag Airport received ₹1.92 crores from insurance company towards the claim of damage caused by Hud Hud Cyclone for which repair and maintenance expenditure was incurred in FY 2015-16. This amount of claim received in FY 2017-18 which ought to be set off against the expenditure incurred in FY 2015-16 is shown as prior period income and not considered in tariff proposal.
Electricity & Water	<ul style="list-style-type: none"> Electricity and Water charges have been estimated to remain unchanged for most of the control period. However, an increase of 20% has been estimated for FY 20-2021 due to the expansion of the Terminal Building. Power charges includes electricity charges and fuel for diesel generators. Power charges are estimated based on estimated electricity units consumed.
Consumption of Stores & Spares	Expenses pertaining to Consumption of Stores & Spares has been estimated to increase by 10% year-on-year throughout the control period.
Other Outflows	Other outflows comprises of facilitation charges pertaining to PSF and UDF. It is assumed that these charges will grow year-on-year at the combined traffic growth rate of domestic and international passengers.

9.2. Below Table 30 summarizes the operation and maintenance expenditure:

Table 30: Projected O&M expenditure by Vizag Airport for the first control period (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Payroll costs	759.35	820.28	979.48	1,050.33	1,123.85	1,202.52	1,286.70
Repair and maintenance	539.19	1,056.84	543.64	598.00	687.70	756.47	832.12
Consumption of stores and spares	4.50	6.53	7.19	7.90	8.69	9.56	10.52
Electricity and water charges	568.14	579.27	579.27	579.27	695.12	695.12	695.12
Admin and other expenses	615.04	697.20	810.41	902.51	939.18	978.13	1,019.52
Other Outflows (Collection charges on PSF and UDF)	48.29	52.60	58.01	63.97	70.55	77.83	84.25
Total	2,534.51	3,212.72	2,977.98	3,201.99	3,525.10	3,719.63	3,928.24

Authority's Examination

9.3. The Authority has noted that Other outflows comprising of collection charges on PSF and UDF, are expected to grow year-on-year at a rate equivalent to combined traffic growth rate of domestic and international passengers. Accordingly, revised operation and maintenance expenditure as per the Authority after considering revised collection charges based on revised passenger traffic growth rate is presented in Table 31 below.

Table 31: Revised O&M expenditure as per the Authority's Examination (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Payroll costs	759.35	820.28	979.48	1,050.33	1,123.85	1,202.52	1,286.70



Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Repair and maintenance	539.19	1,056.84	543.64	598.00	687.70	756.47	832.12
Consumption of stores and spares	4.50	6.53	7.19	7.90	8.69	9.56	10.52
Electricity and water charges	568.14	579.27	579.27	579.27	695.12	695.12	695.12
Admin and other expenses	615.04	697.20	810.41	902.51	939.18	978.13	1,019.52
Other Outflows (Collection charges on PSF and UDF)	48.29	52.60	60.49	69.57	80.00	92.00	101.30
Total	2,534.51	3,212.72	2,980.47	3,207.59	3,534.55	3,733.81	3,945.29

9.4. The Authority has decided to consider the operation and maintenance expenditure as given in Table 31, for the purpose of determination of aeronautical tariffs for the first Control Period.

Stakeholder comments and the Authority's observations

Comments from Government of Andhra Pradesh

9.5. Government of Andhra Pradesh submits that-

"Please refer Para 8.1, Table 28- Repair & Maintenance. The costs shown against the runway was never supposed to be reimbursed by the State Govt. as mentioned. Hence the amount may not be included in Operation and Maintenance expenditure for FY 2017-18. The runway being the property of Indian Navy, this matter may be resolved between AAI and Indian Navy, Vishakhapatnam being a civil enclave."

Comments from FIA

9.6. FIA submitted that-

"Operating expenditure is one of the major component for determining ARR (61% of ARR), hence, the Authority should have evaluated these expenses in detail rather than accepting projections and basis provided by Vizag Airport on an "as is" basis.

As per clause 5.4.2 of AERA Guidelines, while reviewing forecast of operating expenditure the Authority has to assess (a) baseline operation and maintenance expenditure based on review of actual expenditure indicated in last audited accounts and check for underlying factors impacting variance over the preceding year; and (b) efficiency improvement with respect to such costs based on review of factors such as trends in operating costs, productivity improvements, cost drivers as may be identified, and other factors as maybe considered appropriate.

FIA submits that the approach of the Authority for reviewing the operating expenditure is not in line with provision of AERA Guidelines, and accordingly it is submitted that in order to assess efficient operating expenditure the Authority should have conducted independent analysis.

Further, FIA submits that the Authority ought to have scrutinized the expenses in detail instead of leaving it for true up in the next control period. It is submitted, that airport has already completed a significant period of operations, and hence benchmarking the costs would not be difficult for the Authority. Therefore, it is submitted that rather than trueing up, a price cap should be mandated by the Authority for each of the operating expenditures depending on the evaluation of past trends, cost drivers, productivity movements, future



expansions otherwise Vizag Airport would not make palpable efforts to contain the costs. This would lead to additional burden on the passengers for the next control period.

FIA further submits that the Gross operating expenditure, allocation ratio and basis of allocation has not been mentioned by Authority in the CP, which suggests very casual approach by Authority. Hence, FIA cannot review the trend of the increase of gross operating expenditure and allocation methodology.

FIA submits that the allocation of the operating expenditure between Aeronautical and Non-Aeronautical categories is critical under Shared Till approach, Authority ought to confirm the allocation ratio and gross operating expenditure being projected prior to the release of Order, for stakeholder review."

AAI's submission on GoAP's and FIA's comments

9.7. AAI, in response to GoAP, submitted that-

"The cost of upgradation of airfield was to be borne by AAI, MOD and GoAP. The amount due from GoAP were received as per MOU. However, the amount due from MOD was charged as the amount could not be recovered from MOD for long.

Authority's examination of GoAP's and FIA's comments and AAI's submission on GoAP's and FIA's comments

9.8. In response to GoAP's comments regarding runway cost, the Authority clarifies that runway cost pertains to cost of upgradation of airfield which was to be reimbursed by Ministry of Defence (MoD). Since, such cost could not be recovered by MoD, it has been debited in profit and loss account of FY 2017-18.

9.9. In response to FIA's comments regarding operation and maintenance expenditure, the Authority has carefully examined the underlying assumptions for projecting operation and maintenance expenditure. The Authority has examined audited financial statements for FY 2016-17 and FY 2017-18 to verify correctness of allocated costs, and escalation in expense are based on analysis of past contracts and agreements. Further, it is to be noted that the Authority is in the process of conducting a study on the subject and will true up accordingly in the next control period.

Decision No. 4 Regarding Operation and Maintenance expenditure

4.a. The Authority has considered operation and maintenance expenditure projections given in Table 31.

4.b. The Authority has decided to true up the operation and maintenance expenditure of the first Control Period based on the actual expenditure at the time of determination of tariff for the next Control Period.



10. REVENUE FROM NON-AERONAUTICAL SERVICES

10.1. Vizag Airport has submitted the forecasts of various components of non-aeronautical revenues as well as the assumptions underlying the forecast.

Table 32: Assumptions made by Vizag Airport for each item of Non-Aeronautical Revenues

Item	Assumption
Trading Concessions	<ul style="list-style-type: none"> Trading Concessions consist of Restaurant/Snack Bars, T.R Stalls, and Hoarding & Display. Revenue from Restaurant/Snack Bars, and T.R Stalls is estimated to increase by 10% year-on-year as per agreement in FY 2018-19 and FY 2019-20. Because of the expansion of the Terminal Building, revenue from these streams are estimated to increase by 15% in FY 2020-21 and thereafter at 10% in FY 2021-22 and FY 2022-23. Hoarding & Display includes ₹30 lakhs per month w.e.f. 01.10.2017, amounting to ₹360 lakhs per year. This amount is assumed fixed for FY 2018-19 and FY 2019-20. This amount is assumed to grow at 15% in FY 2020-21 because of expansion of the Terminal Building and thereafter remain fixed for the remaining control period.
Rent & Services	<ul style="list-style-type: none"> Rent & Services comprise of revenues generated from Land Leases along with Residential and Non-Residential Buildings. Land Leases are projected to grow by 7.5% year-on-year throughout the control period. Income from Residential Buildings are estimated to remain unchanged until FY 2022 and FY 2023, when ₹ 1 lakh has been added each year until the end of the control period. Revenue from Non-Residential Building is computed to grow by 10% year-on-year in FY 2018-19 and FY 2019-20. Because of the expansion of the Terminal Building, revenue from these streams are estimated to increase by 15% in FY 2020-21 and thereafter at 10% for the remaining control period.
Miscellaneous	<ul style="list-style-type: none"> Major revenue sources include Duty Free Shops, Car Rentals, Car Parking and Admission Tickets. Revenue from these sources is projected to increase by 10% year-on-year as per the agreement, apart from an estimated growth of 15% during FY 2021 because of the Terminal Building Expansion. ₹8 lakhs excess billing for FY 2016-17 -Duty Free Shop reversed in 2017-18. Other Miscellaneous income is assumed to be ₹2 lakhs in FY2018-19, which is projected to grow at 5% year-on-year throughout the control period. Vizag Airport has assumed this as the minimum amount, excluding non-recurring Earnest Money Deposit (EMD)/ Security Deposit (SD)/Liquidity Damages (LD) of more than three years from miscellaneous income in FY 2017-18. ₹148.81 lakhs EMD/SD/LD of more than three years in miscellaneous income in 2015-16.

10.2. Revenue from Non-Aeronautical Services for the first control period submitted by Vizag Airport are as shown in Table 33.

Table 33: Revenue from non-aeronautical services projected for the first control period (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Restaurant/ Snack Bars	49.60	109.38	120.31	132.34	152.20	167.42	184.16
T.R Stall	143.10	121.15	133.26	146.59	168.58	185.44	203.98



Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Hoarding & Display	123.65	231.87	360.00	360.00	414.00	414.00	414.00
Land Leases	42.47	8.19	8.81	9.47	10.18	10.94	11.76
Building (Residential)	0.36	3.40	0.36	0.36	0.36	1.36	2.36
Building (Non-Residential)	121.64	116.20	127.83	140.61	161.70	177.87	195.66
Duty Free Shops	48.12	58.65	64.51	70.97	81.61	89.77	98.75
Car Rentals	48.08	35.05	38.55	42.41	48.77	53.64	59.01
Car Parking	176.16	192.14	211.35	232.49	267.36	294.10	323.51
Admission Tickets	78.78	87.80	96.58	106.24	122.17	134.39	147.83
Other Miscellaneous Income	37.46	47.64	2.00	2.10	2.21	2.32	2.43
Sale of Scrap/Fixed Asset	0.48	19.23	-	-	-	-	-
Total	869.90	1,030.69	1,163.56	1,243.56	1,429.13	1,531.24	1,643.44

Authority's Examination

10.3. Based on discussions with Vizag Airport and Authority's examination, revised assumptions for revenue from non-aeronautical services is given in Table 34:

Table 34: Revised assumptions for Non-Aeronautical Revenues as per the Authority's Examination (in ₹ lakhs)

Item	Assumption
Land leases	<ul style="list-style-type: none"> The land lease revenue for FY 2017-18 have been corrected to the audited amount of ₹55.93 lakhs. Further, land lease revenue of ₹27.83 lakhs from oil companies and Ground Handling Services, which was included under non-aero revenues has been deducted since it is Aeronautical Revenue. Thus, land lease revenue towards non-aero is revised to ₹28.10 lakhs in FY 2017-18. The revenue from land lease is considered uniform from FY 2018-19 to FY 2022-23, in accordance with AAI's letter No.AV.21012/58/2016-LM/710 dated 04.12.2017, pertaining to "Review of Revision in Base Rates of Land Lease Rental/Licence Fee Rates w.e.f. 01.04.2017 to 31.03.2022 at AAI Airports".
Building (residential)	<ul style="list-style-type: none"> Rent from residential building in FY 2017-18 included ₹2.81 lakhs because of unauthorized occupancy. This has been excluded from FY 2018-19 onward. The proceeds from residential building is assumed to grow at 5% YoY during the control period.

Table 35: Revenue from non-aeronautical services as per the Authority's Examination (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Restaurant/ Snack Bars	49.60	109.38	120.31	132.34	152.20	167.42	184.16
T.R Stall	143.10	121.15	133.26	148.58	168.58	185.44	203.98
Hoarding & Display	123.65	231.87	360.00	360.00	414.00	414.00	414.00



Land Leases	14.64	28.10	28.10	28.10	28.10	28.10	28.10
Building (Residential)	0.36	3.40	0.61	0.65	0.68	0.71	0.75
Building (Non-Residential)	121.64	116.20	127.83	140.61	161.70	177.87	195.66
Duty Free Shops	48.12	58.65	64.51	70.97	81.61	89.77	98.75
Car Rentals	48.08	35.05	38.55	42.41	48.77	53.64	59.01
Car Parking	176.16	192.14	211.35	232.49	267.36	294.10	323.51
Admission Tickets	78.78	87.80	96.58	106.24	122.17	134.39	147.83
Other Miscellaneous Income	37.46	47.64	2.00	2.10	2.21	2.32	2.43
Sale of Scrap/Fixed Asset	0.48	19.23	-	-	-	-	-
Total	842.07	1,050.60	1,183.11	1,262.48	1,447.36	1,547.75	1,658.16

Stakeholder comments and the Authority's observations

Comments from FIA

10.4. FIA submitted the following regarding Revenue from Non-Aeronautical Services-

"As per proposal 5(a) of the CP, the Authority has proposed to consider Non Aeronautical Revenues as per table below and to true up the non-aero revenue in second control period based on actual revenue of first control period. Further, FIA submits that with regard to the projected non-aero revenue from FY19 to FY23 the Authority had accepted all the key non aero revenues (Hoarding & Display, Car parking, T.R stall, Non-residential building lease, Restaurants & admission tickets) as projected by Vizag Airport except Residential building leases, where downward revision has been effected. Hence, the Authority has accepted most of the non-aeronautical revenues submitted by Vizag airport and has not evaluated the basis/assumptions for growth rates considered by the Vizag airport.

Further, FIA submits that increase in non-aeronautical revenue is function of increase in terminal building area, passenger traffic growth, inflationary increase and real increase in contract rates. Despite all these factors increasing during the control period, on examination of the non-aeronautical revenue projected for the first control period by Authority, it was noted by FIA that a conservative approach has been taken by the Authority.

Further, as per table given above, FIA states that the Authority has considered a 10% increase in FY20, 15% increase in FY21 and 10% increase in FY22 & FY23 in the first control period in 7 non-aeronautical revenue streams (namely Car parking, T.R stall, Non-residential building lease, Restaurants, admission tickets, duty free shops and car rentals) contributing c. 70% of total non-aeronautical revenue. Hence, it is submitted that only 5% incremental growth is considered on account of terminal expansion in FY21. In case of Hoarding & Display, which is the largest revenue stream, it is submitted that only increase of 15% is considered in FY21 and no increase thereafter. Hence, on overall basis, 7% increase is considered in FY20, 15% in FY21 and 7% in FY22 and FY23. However, FIA submits that it was noted that the non-aeronautical revenues increased by 25% in FY18, which was in line with 5-year CAGR of passenger traffic growth, hence, it may be seen that the Authority has taken a very conservative approach.

Further, as per Table 1 of the CP, the area of integrated terminal building is expected to increase by 9,250 sq. m. on account of linear expansion. This represents a 42% increase in the terminal building area. FIA submits that the Authority has considered 15% increase in non-aero revenue in FY21, which is just 5% incremental growth over past years.

FIA submits that Vizag airport being the busiest airport in Andhra Pradesh and per Table 4 of the CP had registered historical 5-year CAGR of approximately 25% for domestic passengers and 25% growth in non-aero revenue in FY18, the Authority should have



considered a higher growth rate for the non-aeronautical revenues in the control period. The non-aeronautical revenue per passenger was analyzed for each year of the first control period and a decreasing trend was noted in the same, which clearly indicated that the Authority has taken lower growth rate projections for non-aero revenue.

Further, as per clause 5.6.1 of the AERA Guidelines, the Authority's review of forecast of revenues from services other than aeronautical services may include scrutiny of bottom-up projections of such revenues prepared by the Airport Operator, benchmarking of revenue levels, commissioning experts to consider where opportunities for such revenues are under-exploited, together with the review of other forecasts for operation and maintenance expenditure, traffic and capital investment plans that have implications for such activities. However, review of the CP indicated that for the purpose of determining Non-Aeronautical Revenue, the Authority, rather than evaluating non-aeronautical revenue in detail as per AERA Guidelines to consider the impact of inflationary increase and real increase while projecting these Non-Aero revenue, has primarily relied on ad-hoc growth rate and basis provided by Vizag Airport.

FIA submits that the Authority to re-consider growth rates for non-aero revenues so as to keep them in line with the growth in passengers and terminal expansion. Further, Authority has not commented on the real increase, inflationary increase, terminal area based increase and passenger traffic based increase for the growth rates proposed for the first control period. Since, each of them affect the non-aeronautical revenues, it is submitted that Authority re-evaluate the growth rates for non-aeronautical revenue basis a consultant study.

Without prejudice to the above, in case of paucity of time for the purpose of issuance of the order, it is submitted that Authority to consider 25% YoY growth in non-aero revenue during the control period.”

सत्यमेव जयते

Authority's examination of FIA's comments

- 10.5. In response to FIA's comments on non-aeronautical revenues the Authority notes that growth in non-aero revenues is as per Agreements. Further, revenues in FY 2018-19 are based on amounts appearing in novated contracts during FY 2017-18. As per the estimates, there is a doubling of the non-aero revenues over the seven years and this seems reasonable. Besides, Lease Rentals collected from Ground Handling, Cargo and Fuel Throughput, that were being classified as non-aero revenues, are being treated as Aeronautical Revenue. This may not have substantial impact on tariff and also the same will be true up in the next Control Period.

Decision No. 5 Regarding Non Aeronautical Revenues

- 5.a. **The Authority has decided to consider the Non Aeronautical Revenues as given in Table 35 for determination of aeronautical tariffs for the first control period.**
- 5.b. **The Authority has decided to true-up the Non Aeronautical Revenues of the first Control Period based on actuals at the time of determination of tariff for the next Control Period.**



11. TAXATION

11.1. Clause 5.5.1 and Clause 5.5.2 of the Airport Guidelines state that:

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

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

11.2. As per the Airport Guidelines any interest payments, penalty, fines and other such penal levies associated with corporate tax, shall not be taken into consideration as expenditure or cost.

11.3. Vizag Airport in the tariff proposal has calculated income tax based on rates of depreciation as per Income Tax Act.

11.4. Tax liability during the first control period considered by Vizag Airport is provided in Table 36.

Table 36: Tax liability as per Vizag Airport's submission (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Aeronautical revenues [A]	2,843.88	2,942.06	4,485.28	5,927.13	6,534.21	7,204.30	7,795.61
Less: Operating expenses (i)	2,534.51	3,212.72	2,977.98	3,201.99	3,525.10	3,719.63	3,928.24
EBIDTA [B] = [A] - [i]	309.37	(270.65)	1,507.30	2,725.14	3,009.10	3,484.66	3,867.37
Less: Book Depreciation [ii]	404.16	462.91	599.43	716.96	790.96	779.35	774.05
PBT [C] = [B] - [ii]	(94.79)	(733.56)	907.87	2,008.18	2,218.15	2,705.31	3,093.31
Less : Tax depreciation for the year [iii]	441.47	786.81	808.26	1,132.17	1,312.31	1,172.52	1,038.77
Add: Book depreciation for the year [iv]	404.16	462.91	599.43	716.96	790.96	779.35	774.05
Taxable Income [D] = [C] - [iii] + [iv]	(132.10)	(1,057.46)	699.04	1,592.97	1,696.79	2,312.14	2,828.60
Less : Carried forward of losses [v]	-	-	-	-	-	-	-
Taxable Income under normal tax provisions [E] = [D] - [v]	-	-	699.04	1,592.97	1,696.79	2,312.14	2,828.60
Tax rate to be used [vi]	34.61%	34.61%	34.94%	34.94%	34.94%	34.94%	34.94%
Tax liability as per normal tax provisions [E] * [vi]	-	-	244.27	556.65	592.93	807.96	988.43



Authority's Examination

11.5. Vizag Airport in its submission has computed tax on aeronautical profits on tax rate of 34.61% p.a. in FY 2016-17 and FY 2017-18, and at 34.94% p.a. for the first control period from FY 2018-19 to FY 2022-23.

11.6. The Authority has decided to carry forward and set off losses from previous years in computing the tax liability of Vizag Airport during the first control period.

11.7. Based on the Authority's decision, tax liability has been recomputed as given in Table 37:

Table 37: Tax liability as per the Authority's Examination (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Aeronautical revenues as per Table 54 [A]	2,871.71	2,969.89	3,868.80	5,550.45	6,361.29	7,292.14	8,016.35
Less: Operating expenses as per Table 30 (i)	2534.51	3212.72	2980.47	3207.59	3534.55	3733.81	3945.29
EBIDTA [B] = [A] – [i]	337.20	-242.82	888.33	2342.87	2826.74	3558.32	4071.06
Less: Book Depreciation [ii]	404.16	462.91	599.43	710.46	777.70	765.85	760.55
PBT [C] = [B] – [ii]	-66.96	-705.73	288.90	1632.41	2049.03	2792.47	3310.51
Less : Tax depreciation for the year as per Table 28 [iii]	441.47	786.81	808.26	1,132.17	1,312.31	1,172.52	1,038.77
Add: Book depreciation for the year [iv]	404.16	462.91	599.43	710.46	777.70	765.85	760.55
Taxable Income [D] = [C] – [iii] + [iv]	-104.27	-1029.63	80.07	1210.69	1514.42	2385.80	3032.29
Less: Carried forward of tax losses [v]	-	-	80.07	1,053.83	-	-	-
Taxable Income under normal tax provisions [E] = [D] – [v]	-	-	-	156.86	1,514.42	2,385.80	3,032.29
Tax rate to be used [vi]	34.61%	34.61%	34.94%	34.94%	34.94%	34.94%	34.94%
Tax liability as per normal tax provisions [E] * [vi]	-	-	-	54.81	529.20	833.70	1,059.60

Stakeholder comments and the Authority's observations

Comments from FIA

11.8. FIA submitted that-

"As per Section 72 of Income Tax Act, 1961 business losses can be carried forward for 8 years and will be set off with profits in future years. FIA submits that carry forward losses for



periods prior to FY17 (if any) should be considered in the first control period rather than leaving it for true up in the second control period."

AAI's submission on FIA's comments

11.9. AAI submitted that-

"AERA has shifted the control period from F.Y.2018-19 to F.Y 2022-23. The carry forward of losses is applicable during the control period and not prior period."

Authority's examination of FIA's comments and AAI's submission on FIA's comments

11.10. In response to FIA's comments the Authority has decided that carry forward of losses prior to FY 2016-17 shall not be considered for the purposes of tariff determination since Vizag was declared a major airport w.e.f. 01.04.2016 and the Authority has jurisdiction only when an airport is designated as a major airport.

Decision No. 6 Regarding Taxation

- 6.a. The Authority has decided to consider tax computation as given in Table 37.
- 6.b. The Authority has decided to true up tax of the first Control Period based on actuals at the time of determination of tariff for the next Control Period.

सत्यमेव जयते



भा.वि.आ.वि.प्रा.

AERA

12. QUALITY OF SERVICE

- 12.1. Airport Service Quality (ASQ) ratings are carried out by Airports Council International (ACI) on 34 parameters on quarterly basis.
- 12.2. As per the submission of Vizag Airport, ACI has categorized it in "2 to 5 Million" category of Airport Size, based on passenger traffic.
- 12.3. The ASQ ratings of Vizag Airport for 2017-18, as submitted by Vizag Airport is given in Table 38.

Table 38: ASQ ratings as submitted by Vizag Airport

Quarter (Q)	2017	2018
Q1	4.04	4.15
Q2	4.17	4.36
Q3	3.97	4.44
Q4	4.17	-
Average	4.09	4.32

Authority's Examination

- 12.4. The Authority has noted that Vizag Airport has received ASQ ratings for the first two quarters of 2018.
- 12.5. The Authority also noted that the ASQ ratings for years 2017 and 2018 of Vizag Airport are less than the target rating of 4.80 agreed upon in the Memorandum of Understanding (MoU) signed between the Ministry of Civil Aviation and AAI.
- 12.6. The Authority has also noted that the quality of service of Vizag Airport has improved in year 2018 as compared to year 2017, as given in Table 38. The Authority expects the ASQ rating of Vizag Airport to improve further with the commissioning of the expansion of the terminal building during the first Control Period as this will ease out the present congestion.

Stakeholder comments and the Authority's observations

Comments from FIA

- 12.7. FIA submits that-

"As per Memorandum of Understanding (MoU) signed between the Ministry of Civil Aviation and AAI, the target ASQ rating of 4.80 was agreed upon in relation to Vizag Airport. As per Proposal 7(i) of the CP, "Since the ASQ ratings of Vizag Airport have been below the target rating of 4.80, the Authority advises AAI to make all out efforts to improve the Service Quality at Vizag Airport. The Authority is of the view that it will examine ASQ ratings while truing up in the next control period and if by then Vizag Airport is unable to achieve the said target, the Authority will consider imposing penalty on Vizag Airport as appropriate." However, as per para 6.14.2 & 6.14.3 of AERA guidelines, in the event that the Airport Operator(s) performance falls below such benchmark in a quarter, appropriate percentage rebate shall be applicable for such default.

FIA submits that as the ASQ ratings (for Q1 & Q2) of Vizag Airport have not met the target rating of 4.80 as agreed upon in the, the Authority should impose suitable penalty on Vizag



Airport in terms of the AERA Guidelines in the present control period, and not leave such exercise of review in the next control period."

AAI's submission on FIA's comments

12.8. AAI submitted that-

"ASQ of Vishakhapatnam airport is quite high comparing with ASQ benchmark of 3.75 as proposed by AERA.

ASQ rating of 4.8 is as per MOU of AAI with MoCA is based on average of twenty airports. The target is not for the individual airports to achieve."

Authority's examination of FIA's comments and AAI's submission on FIA's comments

12.9. Since the ASQ ratings of Vizag Airport have been below the target rating of 4.80, the Authority advises AAI to make all out efforts to improve the Service Quality at Vizag Airport. The Authority is of the view that it will examine ASQ ratings while truing up in the next control period and if by then Vizag Airport is unable to achieve the said target, the Authority will consider imposing penalty on Vizag Airport as appropriate.

Decision No. 7 Regarding quality of service

7.a. **Since the ASQ ratings of Vizag Airport have been below the target rating of 4.80, the Authority advises AAI to make all out efforts to improve the Service Quality at Vizag Airport. The Authority will examine ASQ ratings while truing up in the next control period and if by then Vizag Airport is unable to achieve the target set for it, the Authority will consider imposing penalty on Vizag Airport.**



13. PRIOR PERIOD SHORTFALL

13.1. As explained in paragraph 4.2, the Authority shall consider ARR of the first two years i.e. FY 2016-17 and FY 2017-18. ARR shall be compared with actual aeronautical revenues during such period. Any shortfall or surplus from these two years shall be considered as true-up for the current control period.

13.2. Vizag Airport in its submission has computed shortfall of ₹ 1,803.51 lakhs (compounded at 14% p.a.) for FY 2016-17 and FY 2017- 18, as given in Table 39.

Table 39: Shortfall computation of FY 2016-17 and FY 2017-18 as per the submission of Vizag Airport (in ₹ lakhs)

Particulars	FY 2016-17	FY 2017-18	Total
ARR of previous years [1]	3,243.37	4,074.31	7,317.67
Aeronautical revenues of previous years [2]	2,848.82	2,942.06	5,790.88
Previous Shortfall [3] = [1]-[2]	394.55	1,132.24	1,526.79
Compound Factor as on 01.04.2018 [4]	1.30	1.14	
PV of shortfall [5] = [3] * [4]	512.75	1,290.76	1,803.51

Authority's Examination – Prior period shortfall

13.3. The Authority has considered cash flows to occur at the end of any particular financial year. Further, the date up to which cash flows for any particular financial year are compounded and/ or discounted shall be considered as the end of the financial year in which tariff determination takes place. Accordingly, the present value factor in the present case have been computed upto 01.04.2019.

13.4. After careful examination, the Authority has decided to consider land lease rentals from fuel farm operators and ground handling operations as revenue from aeronautical services. Revised aeronautical revenues during FY 2016-17 and FY 2017-18 is shown in the Table 40 below:

Table 40: Revised aeronautical revenues for FY 2016-17 and FY 2017-18 as per the Authority's examination (in ₹ lakhs)

Particulars	FY 2016-17	FY 2017-18
Total parking & housing charges	1.53	3.65
Fuel Throughput charges	98.90	84.71
Ground handling charges	119.60	161.95
CUTE Charges	214.21	219.16
UDF	1,508.96	1,502.01
PSF (excluding UDF Charges)	900.68	970.58
Land leases (fuel farm & ground handling)	27.83	27.83
Total Aeronautical Revenues	2,871.71	2,969.89

13.5. Revised prior period shortfall after considering revised aeronautical revenues is given in Table 41 below:

Table 41: Revised prior period shortfall of FY 2016-17 and FY 2017-18 as per the Authority's examination (in ₹ lakhs)

Particulars	FY 2016-17	FY 2017-18	Total
ARR of previous years [1]	3,251.72	4,068.33	7,320.05
Aeronautical revenues of previous years [2]	2,871.71	2,969.89	5,841.60



Previous Shortfall [3] = [1]-[2]	380.01	1,098.44	1,478.45
Compound Factor at 14% p.a. as on 31.03.2019 [4]	1.30	1.14	
PV of compounded shortfall [5] = [3] * [4]	494.04	1,252.67	1,746.71

Decision No. 8 Regarding prior period shortfall

- 8.a. The Authority has decided to consider the revised aeronautical revenues for FY 2016-17 and FY 2017-18 as given in Table 40 and accordingly consider shortfall as given in Table 41 for truing up in the current Control Period.



भा.वि.आ.वि.प्रा.
AERA

14. AGGREGATE REVENUE REQUIREMENT AND SHORTFALL COMPUTATION

14.1. The ARR computation as submitted by Vizag Airport for the first control period is shown in Table 42:

Table 42: ARR computation as per Vizag Airport for the first control period (in ₹ lakhs)

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	Total
Average RAB [1]	6,743.84	10,065.75	12,477.69	11,802.53	11,025.83	
FRoR [2]	14.00%	14.00%	14.00%	14.00%	14.00%	
Return on Average RAB [3] = [1] * [2]	944.14	1,409.21	1,746.88	1,652.35	1,543.62	
Add: Depreciation [4]	599.43	716.96	790.96	779.35	774.05	
Add: Operating expenses [5]	2,977.98	3,201.99	3,525.10	3,719.63	3,928.24	
Add: Taxation [6]	244.27	556.65	592.93	807.96	988.43	
Less: 30% of Non - Aeronautical revenues [7]	(349.07)	(373.07)	(428.74)	(459.37)	(493.03)	
ARR [8] = [3] + [4] + [5] + [6] - [7]	4,416.75	5,511.73	6,227.13	6,499.93	6,741.30	29,396.84

14.2. Shortfall computation for FY 2018-19 to FY 2022-23 submitted by Vizag Airport is given in Table 43:

Table 43: Shortfall computation for FY 18-19 to FY 22-23 as per the submission of Vizag Airport (in ₹ lakhs)

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	Total
ARR	4,416.75	5,511.73	6,227.13	6,499.93	6,741.30	29,396.84
Discount Factor	1.00	0.88	0.77	0.67	0.59	
PV ARR [A]	4,416.75	4,834.85	4,791.57	4,387.26	3,991.39	22,421.83
Aeronautical revenues	4,485.28	5,927.13	6,534.21	7,204.30	7,795.61	31,946.52
Discount Factor	1.00	0.88	0.77	0.67	0.59	
PV Aeronautical revenues [B]	4,485.28	5,199.24	5,027.86	4,862.69	4,615.62	24,190.70
(Shortfall)/ Surplus of the current control period [B]-[A]	68.53	364.38	236.29	475.43	624.23	1,768.86



Authority's Examination

14.3. After considering Authority's decisions pertaining to building blocks of RAB in prior chapters of its consultation paper, revised ARR as per the Authority is given in Table 44:

Table 44: ARR computation as per the Authority for the first control period (in ₹ lakhs)

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	Total
Average RAB [1] as per Table 28	6,743.84	9,873.78	12,092.83	11,423.52	10,660.32	
FRoR [2] as per Decision No. 3	14.00%	14.00%	14.00%	14.00%	14.00%	
Return on Average RAB [3] = [1] * [2]	944.14	1,382.33	1,693.00	1,599.29	1,492.44	
Add: Depreciation [4] as per Table 28	599.43	710.46	777.70	765.85	760.55	
Add: Operating expenses [5] Table 30	2,980.47	3,207.59	3,534.55	3,733.81	3,945.29	
Add: Taxation [6] as per Table 37	-	54.81	529.20	833.70	1,059.60	
Less: 30% of Non - Aeronautical revenues [7] as per Table 35	354.93	378.74	434.21	464.32	497.45	
ARR [8] = [3] + [4] + [5] + [6] - [7]	4,169.11	4,976.44	6,100.24	6,468.33	6,760.44	28,474.56

14.4. Revised shortfall computation as per the Authority for FY 2018-19 to FY 2022-23 without considering revenues from UDF is given in Table 45:

Table 45: Shortfall computation for the first control period as per the Authority's examination (in ₹ lakhs)

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	Total
ARR as per Table 44	4,169.11	4,976.44	6,100.24	6,468.33	6,760.44	28,474.56
Aeronautical revenues (excluding UDF) as per Table 52	1,288.36	630.00	702.77	784.84	851.30	
Discount Factor at 14% p.a.	1.00	0.88	0.77	0.67	0.59	
PV ARR	4,170.60	4,365.30	4,693.94	4,365.94	4,002.72	21,598.51
PV Aeronautical revenues (excluding UDF)	1,469.62	552.63	540.76	529.74	504.04	3,596.80
Difference between PV of Aero revenues (excluding UDF) and PV of ARR						-18,001.71

Stakeholder comments and the Authority's observations

Comments from FIA

14.5. FIA submitted that-

"As per Para 6.1 of Chapter III of the AERA Guidelines, "The Authority shall determine Aggregate Revenue Requirement as specified in Clause 4.3 and the yield per passenger (Y), to be specified in the Multi Year Tariff Order for the Control Period as specified". Accordingly, FIA submits that the Authority has to determine not only ARR but also the yield per passenger for the control period.



FIA noted that historically AERA has not computed or evaluated the YPP while releasing the Order for major airports. FIA noted that in the CP, YPP has not been computed and submitted by Vizag airport and further not computed and evaluated by the Authority. Hence, we request authority to compute the YPP or else provide the reason for not computing the same as the same is not in accordance with AERA Guidelines.”

AAI's submission on FIA's comments

14.6. AAI submitted that-

“The Yield per pax has been computed and submitted by AAI to AERA in the MYTP.”

Authority's examination of FIA's comments and AAI's submission on FIA's comments

14.7. With respect to FIA's comments on ARR, the Authority makes reference to Chapter 5 on "Methodology for tariff calculation" of this order. The Authority in the said chapter has simplified the methodology to review airport tariffs after taking into consideration AERA guidelines.

Decision No. 9 Regarding ARR

- 9.a. The Authority has decided to consider the ARR as provided in Table 44 for determination of aeronautical tariffs for the first Control Period.
- 9.b. The Authority has decided to true up all the building blocks of ARR of the first Control Period based on actuals at the time of determination of tariff for the next Control Period.



15. **TRUE-UP**

15.1. Total shortfall for the first control period as per Vizag Airport is given in Table 46.

Table 46: Computation of total shortfall for the first control period as per the submission of Vizag Airport (in ₹ lakhs)

Particulars	Value
PV Aeronautical revenues during the first control period [1] as per Table 43	24,190.70
PV Target ARR considered by Vizag Airport [2]	22,422.10
(Shortfall)/ Surplus for current control period [3] = [1]-[2]	1,768.60
Add: True-up (Shortfall of prior periods) from [4] as per Table 39	(1,803.51)
Total (shortfall) / surplus for the control period [5] = [3] + [4]	(34.91)

Authority's examination

15.2. Revised total shortfall (before considering UDF) as per the Authority is given in Table 47.

Table 47: Revised total shortfall (before considering UDF) as per the Authority (in ₹ lakhs)

Revised (shortfall) / surplus of current control period (without considering UDF) as per Table 45	(18,001.71)
Add: Revised prior period (shortfall)/surplus as per Table 41	(1,746.71)
Revised total (shortfall)/ surplus (before considering UDF)	(19,748.42)

15.3. After considering total revised shortfall (before considering UDF), the Authority has decided a UDF of ₹300 per passenger for both domestic and international passengers to bridge the total revised shortfall.

15.4. Revised aeronautical revenues from UDF is shown in Table 48 .

Table 48: Revised aeronautical revenues from UDF as per the Authority (in ₹ lakhs):

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	Total
Aeronautical Revenues from UDF as per Table 53	2,399.71	4,920.45	5,658.52	6,507.30	7,165.05	26,651.03
Discount Rate at 14% p.a.	1.00	0.88	0.77	0.67	0.59	
PV of revenues from UDF	2,400.57	4,316.19	4,354.05	4,392.24	4,242.28	19,705.33

15.5. Revised total shortfall (after considering UDF) is given in table below in Table 49.

Table 49: Revised total shortfall (after considering UDF) as per the Authority (in ₹ lakhs)

Revised total (shortfall)/surplus (before considering UDF) as per Table 47	(19,748.42)
PV of UDF as per Table 48	19,705.33
Revised net total (shortfall)/ surplus	(43.09)



16. REVENUE FROM AERONAUTICAL SERVICES

16.1. As per section 2(a) of the AERA Act, aeronautical services include services for Landing, Housing or Parking, Ground handling services, services for Cargo facility, and services for supplying fuel to the aircraft at an airport.

16.2. Vizag Airport in its submission has bifurcated revenues for FY 2018-19 into two periods, 01.04.2018 to 31.08.2018 constituting five months and 01.09.2018 to 31.03.2019 constituting seven months. Aeronautical revenues for the first five months is calculated at the previous rates of FY 2017-18 and escalated rates have been assumed for the next seven months as applicable.

16.3. Vizag Airport's submission in relation to revenues from aeronautical services is discussed in Table 50.

Table 50: Assumptions made by Vizag Airport for each item of Aeronautical Revenues

Item	Assumption
Housing & Parking Charges	Because of increase in average housing and parking charges and aircraft movement, these charges are proposed to increase by 114% from the existing charges w.e.f. 01.09.2018 till 31.03.2019. An increase of 4% thereafter on YoY basis from 2019-20 onwards is proposed.
PSF-Domestic & International	PSF(Facilitation) charges of ₹77- charged presently for both Domestic and International passenger is withdrawn.
UDF- Domestic & International	UDF collected from domestic passenger is proposed to be increased from ₹150 to ₹355 per pax from FY 2018-19 (w.e.f. 01/09/2018). No UDF is charged at present in respect of international passenger. It is proposed to charge ₹355 per pax in respect of international passenger from FY 2018-19 (w.e.f. 01/09/2018) No increase in UDF is proposed for the subsequent Years.
Fuel throughput Charges	10% increase is proposed for FY 2018-19 w.e.f. 01.09.2018. No increase is proposed for subsequent financial years.
Ground Handling Services	Charges for ground handling services are given for FY 2017-18; these charges are assumed to grow year-on-year at the rate equivalent to the combined growth rate of ATM traffic.
CUTE Charges	CUTE charges are given for FY 2017-18; these charges are assumed to grow year-on-year at the rate equivalent to the growth rate of total passenger traffic.

16.4. The projected revenue from Aeronautical Services for Vizag Airport has been provided in Table 51.

Table 51: Projected revenue from aeronautical services as furnished by Vizag Airport for first control period (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Parking & housing charges	1.53	3.65	2.71	2.04	2.32	2.63	2.94
Fuel Throughput charges	103.84	84.71	97.96	111.25	121.58	132.87	142.56
Ground handling charges	119.60	161.95	176.96	193.37	211.31	230.93	247.77
CUTE Charges	214.21	219.16	241.67	266.52	293.95	324.25	351.01
UDF	1,508.96	1,502.01	3,520.39	5,353.95	5,905.05	6,513.62	7,051.32



Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
PSF	900.68	970.58	445.59	-	-	-	-
Landing Charges	-	-	-	-	-	-	-
Total	2,848.82	2,942.06	4,485.28	5,927.13	6,534.21	7,204.30	7,795.61

Authority's Examination – Aeronautical Revenues

- 16.5. The Authority has decided to recompute revenues from CUTE charges based on actual charges of ₹17.55 for Vizag Airport for the first control period. Further, the Authority has assumed that this charge will be applicable to 50% of the total passenger traffic, considered as embarking passenger traffic.
- 16.6. Further, since the effective rate for tariff determination has been decided to be 01.02.2019, the Authority has decided that the bifurcation of revenues for FY 2018-19 should be revised accordingly. As a result, the two periods to be considered for FY 2018-19 are 01.04.2018 to 31.01.2019 constituting ten months and 01.02.2019 to 31.03.2019 constituting two months. Consequently, the previous charges of FY 2017-18 are applied to the ten month period of FY 2018-19 and the escalated charges have been applied to the remaining two month period of FY 2018-19 as applicable.
- 16.7. Considering the above decisions of the Authority, aeronautical revenues excluding UDF for FY 2018-19 to FY 2022-23 as per the Authority are given in Table 52.

Table 52: Projected revenue from aeronautical services excluding UDF as per the Authority (in ₹ lakhs)

Particulars	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	Total
Total parking & housing charges	4.75	9.70	11.03	12.53	13.99	
Fuel Throughput charges	94.10	111.25	121.58	132.87	142.56	
Ground handling charges	176.96	193.37	211.31	230.93	247.77	
CUTE Charges	250.30	287.85	331.02	380.68	419.16	
PSF	915.16	-	-	-	-	
Land leases (fuel farm operators & ground handling operations)	27.83	27.83	27.83	27.83	27.83	
Aeronautical revenue (excluding UDF)	1,469.09	630.00	702.77	784.84	851.30	4,438.01

- 16.8. Revenue from UDF shall be computed at ₹300 per passenger for both domestic and international passengers to bridge the total revised shortfall as discussed in para 15.3. Accordingly, revised revenue from UDF as per the Authority is shown in Table 53.



Table 53: Aeronautical revenues from UDF as per the Authority's examination

Particulars	FY 2018-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23	Total
Total passenger traffic departing and arriving (international and domestic)	28,52,436	32,80,301	37,72,346	43,38,198	47,76,699	
UDF per pax (in ₹)	300	300	300	300	300	
Aeronautical Revenue from UDF (in ₹ lakhs)	2,399.71	4,920.45	5,658.52	6,507.30	7,165.05	26,651.03

16.9. Total aeronautical revenues including UDF as per the Authority is given in Table 54.

Table 54: Total Aeronautical Revenues of Vizag Airport during the first control period as per the Authority's examination (in ₹ lakhs)

Particulars	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Total parking & housing charges	1.53	3.65	4.75	9.70	11.03	12.53	13.99
Fuel Throughput charges	98.90	84.71	94.10	111.25	121.58	132.87	142.56
Ground handling charges	119.60	161.95	176.96	193.37	211.31	230.93	247.77
CUTE Charges	214.21	219.16	250.30	287.85	331.02	380.68	419.16
PSF	900.68	970.58	915.16	-	-	-	-
Land leases (fuel farm operators & ground handling operations)	27.83	27.83	27.83	27.83	27.83	27.83	27.83
UDF	1,508.96	1,502.01	2,399.71	4,920.45	5,658.52	6,507.30	7,165.05
Total	2,871.71	2,969.89	3,868.80	5,550.45	6,361.29	7,292.14	8,016.35

Stakeholder comments and the Authority's observations**Comments from Government of Andhra Pradesh**

16.10. Government of Andhra Pradesh submitted that-

"Information as mentioned in Para 16.1, Notes-1f, regarding rate of tax (VAT) on ATF < 5% is incorrect as Govt. of Andhra Pradesh has already reduced VAT on ATF to 1% since 2014 vide G.O.MS.No.4, dated:22/06/2015. Accordingly, night parking charges may be amended."

Comments from FIA

16.11. FIA submitted that-

"The existing rates for parking and housing have been derived based on 114% increase from existing rates as mentioned in Table 48 of the CP, however the existing rates have not been mentioned in the CP. Further, as per "Charges for airport services (major / non major airports) effective from 1 April 2017" as issued by Airports Authority of India, it was noted that existing tariff rates at Vizag airport are based on the following slabs: (i) upto 40 MT, (ii) Above 40MT upto 100MT and (iii) Above 100MT. Since, the weight slabs mentioned for Parking and housing charges as per AAI tariff card are different from the ones mentioned in Schedule of charges on Page 47 of CP, and no bridge has been provided between these slabs, FIA would request Authority to confirm the manner in which the increase of 114% has



been computed for first control period over the existing tariff rates of parking & housing charges.

FIA further submits that as per assumptions under Table 48 of the CP, "On account of increase in average housing and parking charges and increment in aircraft movement, these charges are proposed to increase by 114% from existing rates and an increase of 4% thereafter on YoY basis from FY20 onwards", the Authority has accepted these rates for the first control period. Year on year growth rate proposed by the Authority for domestic air traffic movement ("ATM"), which forms 90% of total ATM, is only 9% as compared to the historical 5-year CAGR of 15.93% mentioned in Table 5 of the CP. FIA understands this conservative approach considered towards estimation of domestic ATM may have resulted in 114% increase in the housing and parking charges. FIA submits that Authority should consider a 16% year-on year growth rate for domestic ATM and re-evaluate the 114% increase in housing and parking charges.

As per assumptions taken by Vizag Airport under Table 48 of the CP, 'Ground handling' services are assumed to grow year-on-year at the rate equivalent to the combined growth rate of ATM traffic and CUTE charges are assumed to grow year-on-year at the rate equivalent to the growth rate of total passenger traffic. This assumption has been accepted by the Authority as it is, except growth rate of traffic for CUTE charges has been considered on basis of Authority's forecast. However, tariff rates applicable for each of Ground Handling and CUTE have not been mentioned by the Vizag Airport/ Authority in the CP. FIA submits that Authority ought to confirm applicable charges for CUTE and ground handling for stakeholder review. Also, Authority should consider 16 % & 25 % Year on Year (YOY) growth rate for domestic passengers & ATM respectively while computing the said charges.

Further, FIA submits that the Authority has proposed INR 295 as UDF per domestic and international embarking passenger, a 97% increase from the existing rate of INR 150 per domestic passenger. Accordingly, it is submitted that Authority should consider 25% YoY growth rate for domestic passengers while computing UDF. FIA further requests the Authority to confirm if landing charge for the first control period is NIL."

Comments from HPCL

16.12. HPCL submitted that-

"AERA has proposed that the fuel throughput charges at Visakhapatnam Airport as 157.39 Rs./KL effective 01.12.2018 to 31.03.2023. In this regard, it may be noted that in the absence of any approved AERA order, we are charging existing rates to our customers. Hence the date of implementation of the tariff prior to AERA order will result in financial loss to us. View above, we request that any revision in Fuel throughput charges should be approved on prospective basis only."

Comments from IOCL

16.13. IOCL submitted that-

"Fuel throughput charges proposed for the control period are as follows.

Description	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Fuel throughput charges (Rs/KL)	157.39	157.39	157.39	157.39	157.39

As per the consultation paper, Authority has proposed to consider 01.12.2018 as the date of implementation of the proposed tariff rates. Indian Oil has no comments to offer on the rate. However, as proposed the effective date of implementation of tariff to be kept only after the date of the release of order."



Comments from BAOA

16.14. BAOA submitted that-

"Authority's order may please rationale behind authorising the amount of Rs.157.39 as FTC, as to the service being provided by airport operator for levying charge and, how it has been calculated to be Rs.157.39 per KL. Further, 'authority' may please provide for 'Airport Operator' to levy the charge directly to the aircraft operator, uplifting ATF, rather than FTC being charged through the 'Fuel Supplier Company'. We are available for further discussions/clarification on our above submissions to the Authority."

AAI's submission on GoAP's, FIA's, HPCL's, IOCL's and BAOA's comments

16.15. AAI, in response to GoAP's comments, submitted that-

"In the proposed rate card to waive off the night parking charges in principle for all domestic scheduled operators at Visakhapatnam Airport if the State Government has brought the rate of tax (VAT) on ATF < 5%. The above waiver of night parking charges (between 2200 hours to 0600 hours) will be made applicable from the date of implementation of < 5% tax on ATF by the State Government.

In the event of upward revision in the tax rate of ATF by the State Govt., the relief of free night parking charges will also be deemed to be withdrawn for all the airports within the jurisdiction of the said State."

16.16. AAI, in response to FIA's comments, submitted that-

"AAI has proposed 114% increase in Parking and housing charges based on an average increase in parking/housing charges and same rate has been proposed for Domestic and International flights."

"As per agreement, an amount of Rs 37 per pax is to be charged from Airlines by M/s SITA on account of cute charges and pay the royalty to AAI @ Rs 17.55 per pax. AAI recovers Royalty @ 31.81% from following Ground Handlers

M/s Taurus Aviaiton Services Pvt. Ltd.
--

M/s Vision Aviation Pvt. LTD.

M/s Visakha Enterprises

M/s Sri Sai Sampath Aviation Handling Service

AAI recovers Royalty @13% from Air India Air Transport Services Limited (AIATSL) on account of GH charges.

16.17. AAI also submitted that-

"Vishakhapatnam is a civil enclave and landing charges are being claimed by MOD (Navy)."

16.18. AAI, in response to HPCL's and IOCL's comments about Fuel Throughput charges, submitted that-

"AAI agrees with the comments of HPCL and IOCL and accordingly the new rates will be made applicable from a prospective date by issuance of AIC."

16.19. AAI, in response to BAOA's comments about Fuel Throughput charges, submitted that-

"Throughput Charges are akin to royalty charges and as per agreement between the airport operator and the oil companies, these are services and comes under GST."



Authority's examination of the comments of GoAP, FIA, HPCL, IOCL and BAOA and AAI's views

16.20. The Authority notes that waiver clause of night parking charges reads that night parking charges shall be exempt if VAT on ATF is <5%. Since, night parking charges are already exempt at present, no further action is required.

Regarding the comments of FIA for revising the increase in ATMs, the Authority has gone by the 10 year CAGR in estimating passenger throughput and the increase in ATMs assumed would be in line with the estimated increase in passenger traffic. The Authority, therefore, is of the view that the growth in ATMs, as assumed, is reasonable.

16.21. In response to HPCL & IOCL's concern regarding approval of fuel throughput charges on prospective basis, the Authority states that the charges would be approved on prospective basis only.

16.22. In response to BAOA's comment on fuel throughput charges, average fuel throughput charges were computed by dividing revenue from fuel throughput during FY 2017-18 by fuel upliftment during that year. Further, the Authority agrees with AAI response. Revenue from fuel throughput services for Vizag is akin to royalty charges wherein oil companies are the service providers. Tariff to be charged by such oil companies/ fuel suppliers shall be subject to review by the Authority in conjunction with tariff as determined in this order. Further, the Authority shall take into consideration any change in existing arrangement, of levying fuel throughput charges, based on mutual agreement amongst the concerned parties viz. oil companies, airlines and the airport operator.

Decision No. 10 Regarding Aeronautical Revenues

- 10.a. The Authority has decided to consider UDF at ₹300 per passenger for both domestic and international passengers.
- 10.b. The Authority has decided to consider Aeronautical Revenues as given in Table 54.
- 10.c. The Authority has decided to true up the Aeronautical Revenues of the first Control Period based on actual Aeronautical Revenues earned at the time of determination of tariff for the next Control Period.



17. **MULTI YEAR TARIFF PROPOSAL SUBMITTED BY VIZAG AIRPORT**

17.1. Vizag Airport vide its submission proposed the following tariff (excluding taxes) for the first control period from 01.04.2018 to 31.03.2023 with effect from 01.02.2019.

17.1.1. Parking and Housing Charges

Weight of the Aircraft	Unit	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Parking charges						
Upto 25 MT	₹/ hour/ MT	3.00	3.12	3.24	3.37	3.51
Above 25 MT up to 50 MT	₹/ hour/ MT	75.00 + 4.00 in excess of 25 MT	78.00 + 4.16 in excess of 25 MT	81.12 + 4.33 in excess of 25 MT	84.36 + 4.50 in excess of 25 MT	87.74 + 4.68 in excess of 25 MT
Above 50 MT up to 100	₹/ hour/ MT	175.00 + 8.00 in excess of 50 MT	182.00 + 8.32 in excess of 50 MT	189.28 + 8.65 in excess of 50 MT	196.85 + 9.00 in excess of 50 MT	204.73 + 9.36 in excess of 50 MT
Above 100 MT to 200 MT	₹/ hour/ MT	575.00 + 10.00 in excess of 100 MT	598.00 + 10.40 in excess of 100 MT	621.92 + 10.82 in excess of 100 MT	646.80 + 11.25 in excess of 100 MT	672.67 + 11.70 in excess of 100 MT
Above 200 MT	₹/ hour/ MT	1575.00 + 11.00 in excess of 200 MT	1638.00 + 11.44 in excess of 200 MT	1703.52 + 11.90 in excess of 200 MT	1771.66 + 12.37 in excess of 200 MT	1842.53 + 12.87 in excess of 200 MT
Housing charges						
Upto 25 MT	₹/ hour/ MT	6.00	6.24	6.49	6.75	7.02
Above 25 MT up to 50 MT	₹/ hour/ MT	150.00 + 8.00 in excess of 25 MT	156.00 + 8.32 in excess of 25 MT	162.24 + 8.65 in excess of 25 MT	168.73 + 9.00 in excess of 25 MT	175.48 + 9.36 in excess of 25 MT
Above 50 MT up to 100	₹/ hour/ MT	350.00 + 16.00 in excess of 50 MT	364.00 + 16.64 in excess of 50 MT	378.56 + 17.31 in excess of 50 MT	393.70 + 18.00 in excess of 50 MT	409.45 + 18.72 in excess of 50 MT
Above 100 MT to 200 MT	₹/ hour/ MT	1150.00 + 20.00 in excess of 100 MT	1196.00 + 20.80 in excess of 100 MT	1243.84 + 21.63 in excess of 100 MT	1293.59 + 22.50 in excess of 100 MT	1345.34 + 23.40 in excess of 100 MT
Above 200 MT	₹/ hour/ MT	3150.00 + 22.00 in excess of 200 MT	3276.00 + 22.88 in excess of 200 MT	3407.04 + 23.80 in excess of 200 MT	3543.32 + 24.75 in excess of 200 MT	3685.05 + 25.74 in excess of 200 MT



Notes-

- 1a. 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 actual time taken in the movement of aircraft after landing and before take-off.
- 1b. For calculating chargeable parking time, part of an hour shall be rounded off to the nearest hour.
- 1c. Charges shall be calculated on the basis of nearest MT.
- 1d. Charges for each period parking shall be rounded off to nearest rupee.
- 1e. At the in-contact stands and open stands, after free parking, for the next two hours normal parking charges shall be levied. After this period, the charges shall be double the normal parking charges.
- 1f. It is proposed to waive off the night parking charges in principle for all domestic scheduled operators at Visakhapatnam Airport if the State Government has brought the rate of tax (VAT) on ATF < 5%. The above waiver of night parking charges (between 2200 hours to 0600 hours) will be made applicable from the date of implementation of < 5% tax on ATF by the State Government. In the event of upward revision in the tax rate of ATF by the State Govt., the relief of free night parking charges will also be deemed to be withdrawn for all the airports within the jurisdiction of the said State.
- 1g. The traffic on Flight operating under Regional Connectivity Scheme will be governed by AIC issued on this subject by DGCA.

17.1.2. Fuel Throughput Charges

Proposed Rate	Per Kiloliter in ₹	157.39
---------------	--------------------	--------

17.1.3. UDF/ PSF Charges

Passenger	Proposed rate in ₹ (per embarking passenger)	Proposed rate in USD (per embarking passenger) 1\$=₹67
Domestic	355.00	5.30
International	355.00	5.30

- 2a. Collection charges: if the payment is made within 15 days of receipt of invoice, then collection charges at ₹ 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 or in case of any part payment. To be eligible to claim this collection charges, the airlines should have no overdue on any account with AAI.
- 2b. No collection charges are payable to casual operator/non-scheduled operators.
- 2c. For conversion of USD into ₹ the rate as on the 1st day of the month for 1st fortnightly billing period and rate as on 16th of the month for the 2nd fortnightly billing period shall be adopted.
- 2d. Revised UDF charges will be applicable on tickets issued on or after 01/09/2018.
- 2e. No UDF will be levied for Transit Passengers.

17.1.4. PSF- Security

- 3a. Vizag Airport has proposed to continue the existing rate of PSF-Security charges;
- 3b. ₹130/- per embarking International/ Domestic passenger.
- 3c. USD 3.25 per passenger in respect of the tickets issued against Dollar Tariff.
- 3d. Collection charges: if the payment is made within 15 days of receipt of invoice, then collection charges at 2.50% of PSF per passenger shall be paid by AAI. No collection charges shall be paid in case the airline fails to pay the PSF to AAI within the credit period of 15 days.
- 3e. No PSF (Security) will be levied for Transit Passengers.
- 3f. For conversion of USD into INR the rate as on 1st day of the month for 1st fortnightly billing period and rate as on 16th of the month for the 2nd fortnightly billing period shall be adopted. If the payment is made within 15 days of receipt of bills, then collection at 2.5% of PSF per passenger is payable.

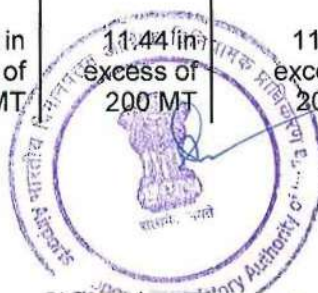


Authority's Examination

- 17.2. The Authority has decided that the tariff for the first control period shall be applicable with effect from 01.02.2019.
- 17.3. The Authority has decided to accept the tariff rates of parking & housing charges and fuel throughput charges as submitted by Vizag Airport.
- 17.4. The Authority in view of the above has decided reduction in UDF proposed by Vizag Airport from ₹355 to ₹300 to bridge the revenue gap to a large extent. Accordingly, the Authority has decided a UDF of ₹300 for both domestic and international embarking passengers. Additionally, the Authority is of the opinion that the UDF rates should be in INR only. For conversion of USD into INR, the rate as on the 1st day of the month for 1st fortnightly billing period and rate as on 16th of the month for the 2nd fortnightly billing period shall be adopted.
- 17.5. The Authority is of the view that the PSF-Security rates should be applicable as prescribed by Ministry of Civil Aviation (MoCA).
- 17.6. The Authority opines that Vizag Airport should clearly mention the rates in 13.1.3 as UDF charges and alternatively not call it as PSF charges.
- 17.7. Based on above decisions of the Authority, the tariff card (excluding taxes) for the first control period is as follows:

17.7.1. Parking and Housing Charges

Weight of the Aircraft	Unit	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
Parking charges						
Upto 25 MT	₹/ hour/ MT	3.00	3.12	3.24	3.37	3.51
Above 25 MT up to 50 MT	₹/ hour/ MT	75.00 + 4.00 in excess of 25 MT	78.00 + 4.16 in excess of 25 MT	81.12 + 4.33 in excess of 25 MT	84.36 + 4.50 in excess of 25 MT	87.74 + 4.68 in excess of 25 MT
Above 50 MT up to 100	₹/ hour/ MT	175.00 + 8.00 in excess of 50 MT	182.00 + 8.32 in excess of 50 MT	189.28 + 8.65 in excess of 50 MT	196.85 + 9.00 in excess of 50 MT	204.73 + 9.36 in excess of 50 MT
Above 100 MT to 200 MT	₹/ hour/ MT	575.00 + 10.00 in excess of 100 MT	598.00 + 10.40 in excess of 100 MT	621.92 + 10.82 in excess of 100 MT	646.80 + 11.25 in excess of 100 MT	672.67 + 11.70 in excess of 100 MT
Above 200 MT	₹/ hour/ MT	1575.00 + 11.00 in excess of 200 MT	1638.00 + 11.44 in excess of 200 MT	1703.52 + 11.90 in excess of 200 MT	1771.66 + 12.37 in excess of 200 MT	1842.53 + 12.87 in excess of 200 MT



Housing charges						
Upto 25 MT	₹/ hour/ MT	6.00	6.24	6.49	6.75	7.02
Above 25 MT up to 50 MT	₹/ hour/ MT	150.00 + 8.00 in excess of 25 MT	156.00 + 8.32 in excess of 25 MT	162.24 + 8.65 in excess of 25 MT	168.73 + 9.00 in excess of 25 MT	175.48 + 9.36 in excess of 25 MT
Above 50 MT up to 100	₹/ hour/ MT	350.00 + 16.00 in excess of 50 MT	364.00 + 16.64 in excess of 50 MT	378.56 + 17.31 in excess of 50 MT	393.70 + 18.00 in excess of 50 MT	409.45 + 18.72 in excess of 50 MT
Above 100 MT to 200 MT	₹/ hour/ MT	1150.00 + 20.00 in excess of 100 MT	1196.00 + 20.80 in excess of 100 MT	1243.84 + 21.63 in excess of 100 MT	1293.59 + 22.50 in excess of 100 MT	1345.34 + 23.40 in excess of 100 MT
Above 200 MT	₹/ hour/ MT	3150.00 + 22.00 in excess of 200 MT	3276.00 + 22.88 in excess of 200 MT	3407.04 + 23.80 in excess of 200 MT	3543.32 + 24.75 in excess of 200 MT	3685.05 + 25.74 in excess of 200 MT

Notes-

- 1h. 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 actual time taken in the movement of aircraft after landing and before take-off.
- 1i. For calculating chargeable parking time, part of an hour shall be rounded off to the nearest hour.
- 1j. Charges shall be calculated on the basis of nearest MT.
- 1k. Charges for each period parking shall be rounded off to nearest rupee.
- 1l. At the in-contact stands and open-stands, after free parking, for the next two hours normal parking charges shall be levied. After this period, the charges shall be double the normal parking charges.
- 1m. It is proposed to waive off the night parking charges in principle for all domestic scheduled operators at Visakhapatnam Airport if the State Government has brought the rate of tax (VAT) on ATF < 5%. The above waiver of night parking charges (between 2200 hours to 0600 hours) will be made applicable from the date of implementation of < 5% tax on ATF by the State Government. In the event of upward revision in the tax rate of ATF by the State Govt., the relief of free night parking charges will also be deemed to be withdrawn for all the airports within the jurisdiction of the said State.
- 1n. The tariff on flights operating under Regional Connectivity Scheme will be governed by AIC issued on this subject by DGCA.

17.7.2. Fuel Throughput Charges

Proposed Rate	Per Kiloliter in ₹	157.39
---------------	--------------------	--------

17.7.3. UDF Charges

Particulars	Proposed rate per embarking passenger in ₹
UDF- Domestic Passenger	300.00
UDF- International Passenger	300.00



17.7.4. PSF-Security charges applicable as prescribed by MoCA

Decision No. 11 Regarding Annual Tariff Proposal

- 11.a. The Authority has decided to consider 01.03.2019 as the date of implementation of the decided tariff rates.
- 11.b. The Authority has decided to accept parking & housing charges and fuel throughput charges as submitted by Vizag Airport.
- 11.c. The Authority has decided to consider UDF of ₹300 per pax for both domestic departing & international departing passengers. Additionally, Vizag Airport should specify the UDF in INR denomination only.
- 11.d. The Authority has decided that PSF-Security charges should be as prescribed by MoCA.



भा.वि.आ.वि.प्रा.
AERA

18. ANNUAL COMPLIANCE STATEMENT

- 18.1. The Airport Guidelines issued by the Authority have laid down the error correction mechanism with reference to the adjustment to the Estimated Maximum Allowed Yield per passenger, calculated using the error correction term of Tariff Year t-2 and the compounding factor. The error correction calculated as per the Airport Guidelines indicated the quantum of over-recovery or under-recovery due to increase or decrease respectively of the Actual Yield per passenger with respect to Actual Maximum Allowed Yield per passenger in the Tariff Year.
- 18.2. Accordingly, any under recovery/ over recovery during the first control period will be accounted for in the second control period.
- 18.3. Further, the Authority has noted that in view of all the corrections/truing up to be carried out at the end of the control period, Vizag Airport may submit Annual Compliance Statements for the tariff years FY 2018-19 to FY 2022-23 of the first control period.

Decision No. 12 Regarding Annual Compliance

- 12.a. Vizag Airport shall submit the Annual Compliance Statements as per the Guidelines for all the tariff years from FY 2018-19 to FY 2022-23 of the first control period along with the MYTP for the next Control Period.



भारतीय विमानपत्तन आर्थिक विनियामक प्राधिकरण
AERA

19. SUMMARY OF PROPOSALS

Decision No. 1 Regarding Traffic Forecast.....16

- 1.a. The Authority has decided to consider passenger traffic projections, given in Table 7. 16
- 1.b. The Authority has decided to accept ATM traffic projections submitted by Vizag Airport, given in Table 8..... 16
- 1.c. The Authority has decided to true up the passenger and the ATM traffic of the first Control Period based on actuals at the time of determination of tariff for the next Control Period. 16

Decision No. 2 Regarding RAB.....33

- 2.a. The Authority has decided to allocate the expansion area of the terminal building into aeronautical and non-aeronautical assets in the ratio of 93.15 to 6.85. Accordingly, the Authority has decided to consider additions to RAB during the first control period as given in Table 20, depreciation of additions to revised RAB as given in Table 25 and total depreciation as given in Table 26. 33
- 2.b. The Authority has decided to use average RAB as given in Table 28 for calculation of ARR. 33
- 2.c. The Authority has decided to true up average RAB including the asset allocation based on the output of study to be conducted by the Authority for the next Control Period. 33

Decision No. 3 Regarding FRoR35

- 3.a. The Authority has decided to consider the FRoR at 14% for Vizag Airport for the first Control Period. 35
- 3.b. The Authority will undertake a study to determine FRoR for major AAI airports given the low debt structure of AAI as a whole. 35

Decision No. 4 Regarding Operation and Maintenance expenditure.....39

- 4.a. The Authority has decided to consider operation and maintenance expenditure projections given in Table 31..... 39
- 4.b. The Authority has decided to true up the operation and maintenance expenditure of the first Control Period based on the actual expenditure at the time of determination of tariff for the next Control Period. 39

Decision No. 5 Regarding Non Aeronautical Revenues.....43

- 5.a. The Authority has decided to consider the Non Aeronautical Revenues as given in Table 35 for determination of aeronautical tariffs for the first control period. 43
- 5.b. The Authority has decided to true-up the Non Aeronautical Revenues of the first Control Period based on actuals at the time of determination of tariff for the next Control Period. 43

Decision No. 6 Regarding Taxation46

- 6.a. The Authority has decided to consider tax computation as given in Table 37. 46
- 6.b. The Authority has decided to true up tax of the first Control Period based on actuals at the time of determination of tariff for the next Control Period. 46

Decision No. 7 Regarding quality of service48

- 7.a. Since the ASQ ratings of Vizag Airport have been below the target rating of 4.80, the Authority advises AAI to make all out efforts to improve the Service Quality at Vizag Airport. The Authority is of the view that it will examine ASQ ratings while trueing up in the next control period and if by then Vizag Airport



is unable to achieve the said target, the Authority will consider imposing penalty on Vizag Airport as appropriate. 48

Decision No. 8 Regarding prior period shortfall 50

8.a. The Authority has decided to consider the revised aeronautical revenues for FY 2016-17 and FY 2017-18 as given in Table 40 and accordingly consider prior period shortfall as given in Table 41 for true up in the current Control Period. 50

Decision No. 9 Regarding ARR..... 53

9.a. The Authority has decided to consider the ARR as provided in Table 44 for determination of aeronautical tariffs for the first Control Period. 53

9.b. The Authority has decided to true up all the building blocks of ARR of the first Control Period based on actuals at the time of determination of tariff for the next Control Period. 53

Comments from Government of Andhra Pradesh 57

Decision No. 10 Regarding Aeronautical Revenues 60

10.a. The Authority has decided to consider UDF of ₹300 per passenger for both domestic and international passengers. 60

10.b. The Authority has decided to consider Aeronautical Revenues as given in Table 54 60

10.c. The Authority has decided to true up the Aeronautical Revenues of the first Control Period based on actual Aeronautical Revenues earned at the time of determination of tariff for the next Control Period. 60

Decision No. 11 Regarding Annual Tariff Proposal 65

11.a. The Authority has decided to consider 01.02.2019 as the date of implementation of the decided tariff rates. 65

11.b. The Authority has decided to accept parking & housing charges and fuel throughput charges as submitted by Vizag Airport. 65

11.c. The Authority has decided to consider UDF of ₹300 per pax for both domestic and international passengers. Additionally, Vizag Airport should only specify the UDF in INR denomination and omit USD denominated UDF amount. 65

11.d. The Authority has decided that PSF-Security charges should be as prescribed by MoCA. 65

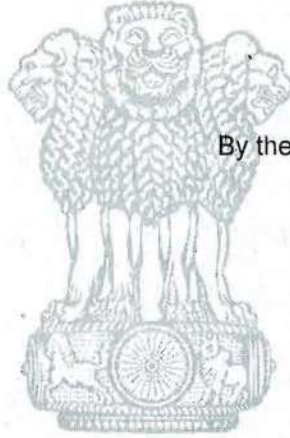
Decision No. 12 Regarding Annual Compliance 66

12.a. Vizag Airport shall submit the Annual Compliance Statements as per the Guidelines for all the tariff years from FY 2018-19 to FY 2022-23 of the first control period along with the MYTP for the next Control Period. 66



20. **ORDER**

20.1 In exercise of power conferred by section 13(1)(a) of the AERA Act, 2008 and based on the above decisions, the Authority hereby determines the aeronautical tariffs to be levied at Vizag Airport for the First Control Period from 01.04.2018 to 31.03.2023 effective from date of this order and the rate card so arrived at has been attached as Annexure 1 to the Order. The UDF rates indicated in the tariff card are also in accordance with section 13(1)(b) read with rule 89 of the Aircraft Rules, 1937. The rates approved herein are the ceiling rates, exclusive of taxes if any.



By the Order of and in the Name of the Authority


(Geetha Sahu)
AGM (F)

To,

Airports Authority of India
Rajiv Gandhi Bhavan
Safdarjung Airport
New Delhi -110 003

सत्यमेव जयते



भा.वि.आ.वि.प्रा.

AERA

Table 1: Technical Details of Vizag Airport	4
Table 2: Summary of stakeholders' comments	6
Table 3: Projected annual passenger traffic as per Vizag Airport submission.....	12
Table 4: Projected annual ATM traffic as per Vizag Airport submission.....	12
Table 5: 10-year historical passenger traffic data of Vizag Airport	13
Table 6: 10-year historical ATM traffic data of Vizag Airport.....	13
Table 7: Projected annual domestic passenger traffic as per the Authority's Examination	14
Table 8: ATM traffic as estimated by the Authority	14
Table 9: Gross block of assets as on 01.04.2016 and bifurcation into aeronautical, non-aeronautical and common assets as per Vizag Airport's submission (in ₹ lakhs).....	18
Table 10: Classification of opening common assets into aeronautical and non-aeronautical assets as per Vizag Airport's submission (in ₹ lakhs)	18
Table 11: Opening RAB as on 01.04.2016 as per Vizag Airport's submission (in ₹ lakhs).....	19
Table 12: Depreciation during FY 2016-17 and FY 2017-18 on opening RAB as on 01.04.2016 as per Vizag Airport's submission (in ₹ lakhs)	20
Table 13: Gross additions during FY 16-17 and FY 17-18 to RAB as on 01.04.2016 as per Vizag Airport's submission (in ₹ lakhs).....	21
Table 14: Depreciation on additions to RAB during FY 16-17 and FY 17-18 as per Vizag Airport's submission (in ₹ lakhs).....	21
Table 15: Net additions to RAB as on 01.04.2016 during FY 16-17 and FY 17-18 as per Vizag Airport's submission (in ₹ lakhs).....	22
Table 16: Opening RAB as on 01.04.2018 after considering additions and depreciation respectively during FY 16-17 and FY 17-18 as per Vizag Airport's submission (in ₹ lakhs)	23
Table 17: The Authority's examination of normative cost of additions to capital assets of Vizag Airport...24	24
Table 18: Additions to RAB as on 01.04.2018 during the first control period as per Vizag Airport's submission (in ₹ lakhs).....	25
Table 19: Asset allocation of Terminal Building Expansion during the control period as per the Authority's Examination (in ₹ lakhs).....	26
Table 20: Additions to RAB as on 01.04.2018 during the first control period as per the Authority's examination (in ₹ lakhs)	26
Table 21: Depreciation on opening RAB as on 01.04.2018 during the first control period as per Vizag Airport's submission (in ₹ lakhs).....	29
Table 22: Depreciation on additions to RAB during the first control period as per Vizag Airport's submission (in ₹ lakhs).....	29
Table 23: Total depreciation on RAB during the first control period as per Vizag Airport's submission (in ₹ lakhs).....	30
Table 24: Depreciation of aeronautical asset of terminal building expansion during the first control period as per the Authority's examination (in ₹ lakhs)	31
Table 25: Depreciation on additions to RAB during the first control period as per the Authority's examination (in ₹ lakhs)	32
Table 26: Total depreciation on RAB during the first control period as per the Authority's examination (in ₹ lakhs).....	32



Table 27: Average RAB as per Vizag Airport's submission (in ₹ lakhs).....	32
Table 28: Revised RAB as per the Authority's Examination (in ₹ lakhs).....	33
Table 29: Assumptions made by Vizag Airport for each item of Operation and Maintenance Expenditure.....	36
Table 30: Projected O&M expenditure by Vizag Airport for the first control period (in ₹ lakhs).....	37
Table 31: Revised O&M expenditure as per the Authority's Examination (in ₹ lakhs).....	37
Table 32: Assumptions made by Vizag Airport for each item of Non-Aeronautical Revenues.....	40
Table 33: Revenue from non-aeronautical services projected for the first control period (in ₹ lakhs).....	40
Table 34: Revised assumptions for Non-Aeronautical Revenues as per the Authority's Examination (in ₹ lakhs).....	41
Table 35: Revenue from non-aeronautical services as per the Authority's Examination (in ₹ lakhs).....	41
Table 36: Tax liability as per Vizag Airport's submission (in ₹ lakhs).....	44
Table 37: Tax liability as per the Authority's Examination (in ₹ lakhs).....	45
Table 38: ASQ ratings as submitted by Vizag Airport.....	47
Table 39: Shortfall computation of FY 2016-17 and FY 2017-18 as per the submission of Vizag Airport (in ₹ lakhs).....	49
Table 40: Revised aeronautical revenues for FY 2016-17 and FY 2017-18 as per the Authority's examination (in ₹ lakhs).....	49
Table 41: Revised prior period shortfall of FY 2016-17 and FY 2017-18 as per the Authority's examination (in ₹ lakhs).....	49
Table 42: ARR computation as per Vizag Airport for the first control period (in ₹ lakhs).....	51
Table 43: Shortfall computation for FY 18-19 to FY 22-23 as per the submission of Vizag Airport (in ₹ lakhs).....	51
Table 44: ARR computation as per the Authority for the first control period (in ₹ lakhs).....	52
Table 45: Shortfall computation for the first control period as per the Authority's examination (in ₹ lakhs).....	52
Table 46: Computation of total shortfall for the first control period as per the submission of Vizag Airport (in ₹ lakhs).....	54
Table 47: Revised total shortfall (before considering UDF) as per the Authority (in ₹ lakhs).....	54
Table 48: Revised aeronautical revenues from UDF as per the Authority (in ₹ lakhs):.....	54
Table 49: Revised total shortfall (after considering UDF) as per the Authority (in ₹ lakhs).....	54
Table 50: Assumptions made by Vizag Airport for each item of Aeronautical Revenues.....	55
Table 51: Projected revenue from aeronautical services as furnished by Vizag Airport for first control period (in ₹ lakhs).....	55
Table 52: Projected revenue from aeronautical services excluding UDF as per the Authority (in ₹ lakhs).....	56
Table 53: Aeronautical revenues from UDF as per the Authority's examination.....	57
Table 54: Total Aeronautical Revenues of Vizag Airport during the first control period as per the Authority's examination (in ₹ lakhs).....	57



Annexure 1

Tariff Card approved by the AERA for Vizag Airport for the period 01.03.2019 to 31.03.2023

1. Parking and Housing Charges:

Weight of the Aircraft	Unit	FY 18-19	FY 19-20	FY 20-21	FY 21-22	FY 22-23
<u>Parking charges:</u>						
Upto 25 MT	₹/ hour/ MT	3.00	3.12	3.24	3.37	3.51
Above 25 MT up to 50 MT	₹/ hour/ MT	75.00 + 4.00 in excess of 25 MT	78.00 + 4.16 in excess of 25 MT	81.12 + 4.33 in excess of 25 MT	84.36 + 4.50 in excess of 25 MT	87.74 + 4.68 in excess of 25 MT
Above 50 MT up to 100	₹/ hour/ MT	175.00 + 8.00 in excess of 50 MT	182.00 + 8.32 in excess of 50 MT	189.28 + 8.65 in excess of 50 MT	196.85 + 9.00 in excess of 50 MT	204.73 + 9.36 in excess of 50 MT
Above 100 MT to 200 MT	₹/ hour/ MT	575.00 + 10.00 in excess of 100 MT	598.00 + 10.40 in excess of 100 MT	621.92 + 10.82 in excess of 100 MT	646.80 + 11.25 in excess of 100 MT	672.67 + 11.70 in excess of 100 MT
Above 200 MT	₹/ hour/ MT	1575.00 + 11.00 in excess of 200 MT	1638.00 + 11.44 in excess of 200 MT	1703.52 + 11.90 in excess of 200 MT	1771.66 + 12.37 in excess of 200 MT	1842.53 + 12.87 in excess of 200 MT
<u>Housing charges:</u>						
Upto 25 MT	₹/ hour/ MT	6.00	6.24	6.49	6.75	7.02
Above 25 MT up to 50 MT	₹/ hour/ MT	150.00 + 8.00 in excess of 25 MT	156.00 + 8.32 in excess of 25 MT	162.24 + 8.65 in excess of 25 MT	168.73 + 9.00 in excess of 25 MT	175.48 + 9.36 in excess of 25 MT
Above 50 MT up to 100	₹/ hour/ MT	350.00 + 16.00 in excess of 50 MT	364.00 + 16.64 in excess of 50 MT	378.56 + 17.31 in excess of 50 MT	393.70 + 18.00 in excess of 50 MT	409.45 + 18.72 in excess of 50 MT
Above 100 MT to 200 MT	₹/ hour/ MT	1150.00 + 20.00 in excess of 100 MT	1196.00 + 20.80 in excess of 100 MT	1243.84 + 21.63 in excess of 100 MT	1293.59 + 22.50 in excess of 100 MT	1345.34 + 23.40 in excess of 100 MT
Above 200 MT	₹/ hour/ MT	3150.00 + 22.00 in excess of 200 MT	3276.00 + 22.88 in excess of 200 MT	3407.04 + 23.80 in excess of 200 MT	3543.32 + 24.75 in excess of 200 MT	3685.05 + 25.74 in excess of 200 MT



Notes-

- 1a. 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 actual time taken in the movement of aircraft after landing and before take-off.
- 1b. For calculating chargeable parking time, part of an hour shall be rounded off to the nearest hour.
- 1c. Charges shall be calculated on the basis of nearest MT.
- 1d. Charges for each period parking shall be rounded off to nearest rupee.
- 1e. At the in-contact stands and open stands, after free parking, for the next two hours normal parking charges shall be levied. After this period, the charges shall be double the normal parking charges.
- 1f. It is proposed to waive off the night parking charges in principle for all domestic scheduled operators at Visakhapatnam Airport if the State Government has brought the rate of tax (VAT) on ATF < 5%. The above waiver of night parking charges (between 2200 hours to 0600 hours) will be made applicable from the date of implementation of < 5% tax on ATF by the State Government. In the event of upward revision in the tax rate of ATF by the State Govt., the relief of free night parking charges will also be deemed to be withdrawn for all the airports within the jurisdiction of the said State.
- 1g. The tariff on Flights operating under Regional Connectivity Scheme will be governed by AIC issued on this subject by DGCA.

2. Fuel Throughput Charges

Proposed Rate	Per Kiloliter in ₹	157.39
---------------	--------------------	--------

3. UDF Charges

Particulars	Proposed rate per embarking passenger in ₹
UDF- Domestic Passenger	300.00
UDF- International Passenger	300.00
1)	Collection Charge: If the payment is made within 15 days of receipt of invoice then collection charges at ₹ 5 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 or in case of any part payment. To be eligible to claim this collection charges, the airlines should have no overdue on any account with AAI. Wherever collection charges are payable the amount shall be settled within 15 days.
2)	No collection charges are payable to casual operator/non-scheduled operators
3)	For conversion of UDF in foreign currency, the RBI reference conversion rate as on the last day of the previous month for tickets issued in the 1st fortnight and rate as on 15th of the month for tickets issued in the 2nd fortnight shall be adopted.
4)	Revised UDF charges will be applicable on tickets issued on or after 01.03.2019.
5)	1. The following categories of persons are exempted from levy of UDF: <ol style="list-style-type: none"> Children (Under age of 2 years) Holders of Diplomatic Passport, Airlines crew on duty including sky marshals & airline crew on board for the particular flight only (this would not include Dead Head Crew, or ground personnel), Persons travelling on official duty on aircraft operated by Indian Armed Forces. Persons travelling on official duty for United Nations Peace Keeping Missions. Transit/transfer passengers (this exemption may be granted to all the passengers transiting upto 24 hrs "A passenger is treated in transit only if onward travel journey is within 24 hrs from arrival into airport and is part of the same ticket, in case 2 separate tickets are issued it would not be treated as transit passenger"). Passengers departing from the Indian airports due to involuntary re-routing i.e. technical problems or weather conditions

4. PSF-Security charges applicable as prescribed by MoCA