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This AIC is issued for dissemination of the decisions contained in the Ministry of Civil Aviation's letter No. AV-29011/49/2024-AD dated 05 Mar, 2025.

  
(Faiz Ahmed Kidwai)

Director General of Civil Aviation

**IN THE MATTER OF THE DETERMINATION OF AERONAUTICAL TARIFF FOR LAL BAHADUR SHASTRI INTERNATIONAL AIRPORT, VARANASI (VNS) FOR THE SECOND CONTROL PERIOD (01.04.2024 - 31.03.2029).**

The Airports Economic Regulatory Authority (AERA), in the exercise of powers conferred on it by Section 13(1) of the Airports Economic Regulatory Authority of India Act, 2008, has determined the Aeronautical Tariff for Lal Bahadur Shastri International Airport, Varanasi, (VNS) for the Second Control Period (01.04.2024 - 31.03.2029) vide Tariff order no 16/2024-25 dated 01.03.2025. These charges shall be effective from 01.04.2025 in the manner as prescribed by AERA. The copy of the above order is enclosed herewith.

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फा. सं.ऐरा/20010/एमवाईटीपी/एएआई-वाराणसी/सीपी-II/2023-34  
F. No. AERA/20010/MYTP/AAI-Varanasi /CP-II/2023-24

आदेश संख्या 16/2024-25  
Order No. 16/2024-25



भारतीय विमानपत्तन आर्थिक विनियामक प्राधिकरण  
AIRPORTS ECONOMIC REGULATORY AUTHORITY OF INDIA

लाल बहादुर शास्त्री अंतरराष्ट्रीय हवाईअड्डा, वाराणसी (वीएनएस) के लिए द्वितीय नियंत्रण  
अवधि (01 अप्रैल, 2024 से 31 मार्च, 2029) के लिए वैमानिक टैरिफ निर्धारित करने के मामले में/

IN THE MATTER OF  
DETERMINATION OF AERONAUTICAL TARIFF FOR  
LAL BHADUR SHASTRI INTERNATIONAL AIRPORT, VARANASI (VNS)  
FOR THE SECOND CONTROL PERIOD  
(01.04.2024 - 31.03.2029)

जारी करने की तारीख/Date of Issue: 01.03.2025

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AERA



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**GLOSSARY**

Abbreviation	Full Form
AAI	Airports Authority of India
AAICLAS	AAI Cargo Logistics and Allied Services
ACI	Airports Council International
AERA/ The Authority	Airports Economic Regulatory Authority of India
ANS	Air Navigation Services
AOCC	Airport Operations Control Centre
AIASL	AI Airport Services Limited
ARR	Aggregate Revenue Requirement
ATM	Aircraft Traffic Movement
AUCC	Airport Users Consultative Committee
AVDGS	Advanced Visual Docking Guidance System
BCAS	Bureau of Civil Aviation Security
CAG	Comptroller and Auditor General of India
CAGR	Compounded Annual Growth Rate
CAPEX	Capital Expenditure
CFT	Crash Fire Tender
CHQ	Corporate Headquarters
CIAL	Cochin International Airport Limited
CISF	Central Industrial Security Force
CSR	Corporate Social Responsibility
CUSS	Common User Self Service
CUTE	Common Use Terminal Equipment
DGCA	Directorate General of Civil Aviation
DFMD	Door Frame Metal Detector
DIAL	Delhi International Airport Limited
EPC	Engineering, Procurement and Construction
ETD	Explosive Trace Detector
FA	Financing Allowance
FIDS	Flight Information Display System
FRoR	Fair Rate of Return
GoI	Government of India
GST	Goods and Services Tax
HHMD	Hand Held Metal Detector
IATA	International Air Transport Association
IDC	Interest During Construction
IMG	Inter-Ministerial Group
IOCL	Indian Oil Corporation Limited
IVPL	Indo Thai Varanasi Private Limited
MLCP	Multilevel Car Parking
MoCA	Ministry of Civil Aviation
MPPA	Million Passengers per Annum
MYTP	Multi-Year Tariff Proposal
NAR	Non-aeronautical revenue



Abbreviation	Full Form
NDT	New Domestic Terminal
PBB	Passenger Boarding Bridge
PDC	Probable Date of Completion
PERT	Program Evaluation and Review Technique
PIB	Public Investment Board
PLF	Passenger Load Factor
PMC	Project Management Consultancy
PPP	Public Private Partnership
PSF	Passenger Service Fee
PTB	Passenger Terminal Building
PTT	Parallel Taxi Track
RAB	Regulatory Asset Base
RCC	Reinforced Cement Concrete
RESA	Runway End Safety Area
RHQ	Regional Headquarters
RPK	Revenue Passenger Kilometre
RPT	Related Party Transaction
SCCTV	Security Closed-Circuit Television.
SHA	Security Hold Area
SITC	Supply, Installation, Testing & Commissioning
Sq.m.	Square Metres
TB	Terminal Building
UDF	User Development Fees
VHF FM	Very High Frequency Frequency Modulation
VIA/ VNS	Varanasi International Airport
WPI	Wholesale Price Index
XBIS	X-ray Baggage Inspection System
YTD	Year to Date
YPP	Yield per Passenger



## 1 INTRODUCTION

### 1.1. Background

- 1.1.1 Lal Bahadur Shastri International Airport ('Varanasi International Airport' or VIA), owned and operated by Airports Authority of India, is currently the 24th busiest Airport<sup>1</sup> in India by passengers handled and 25th busiest Airport by air traffic movements. It is located at Babatpur, which is 26 km from northwest of Varanasi.
- 1.1.2 The total land area of VIA is 774 Acres. The existing Terminal Building has an area of 26,822.79 square meters, which handles both domestic and international flights.
- 1.1.3 AERA Act, 2008 was amended in 2019 and definition of "Major Airport" has been changed. As per section 2(i) of the AERA Act, 2008 read with AERA (Amendment) Act 2019, Major Airport means any airport which has or is designated to have, passenger throughput in excess of 3.5 MPPA or any other airport or any other group of airports as the Central Government may by notification, specify as such.
- 1.1.4 Varanasi Airport was shortlisted for leasing to private airport operator on PPP mode by AAI. Considering that, Ministry of Civil Aviation (MoCA) vide notification no AV-24011/141/2015-AD (Vol. V) dated October 10, 2019 has notified it as "Major Airport".
- 1.1.5 As per the actual traffic of FY 2023-24, Varanasi Airport has achieved the passenger throughput of 3 MPPA.

The Authority determined tariff for the First Control Period (FY 2019-20 to FY 2023-24) vide Order Number 59/ 2020-21 dated December 31, 2020.

### 1.2. Profile of Varanasi International Airport (VIA)

- 1.2.1 Technical and Terminal Building details of VIA submitted by the Airport Operator are provided in the table below:

*Table 1: Technical and Terminal Building details of VIA*

Technical details	
Particulars	Details
Total airport land area	774 Acres
Runway orientation and length	09-27 and 2.45 kms
No. of Parking Bays	09
No. of Taxi Tracks	04
Operational hours	24 hours
Terminal Building details	
Terminal Building Area	26,822.79 Sqm
Designed Passenger handling Capacity	2.5 MPPA
Peak Hour Passengers Handling capacity	Domestic: 750 Pax International: 250 Pax
Conveyor Belts in Arrival Area	02
No. of check-in counters	21

<sup>1</sup> As per data on top 50 busiest airports for FY 2022-23, published by AAI

**1.3. Cargo Facility, Ground Handling and Supply of Fuel to Aircraft****Cargo Handling**

- 1.3.1. M/s AAI Cargo Logistics and Allied Services (AAICLAS) is a 100% subsidiary company of Airports Authority of India (AAI) providing Cargo Handling Services at VIA. AAI has considered a revenue share of 30% from AAICLAS as part of the Aeronautical revenues as per AAI's agreement with AAICLAS.
- 1.3.2. AERA vide Order No. 43/ 2020-21 dated September 1, 2020 determined the tariff for AAI Cargo Logistics & Allied Service Company Limited for the First Control Period (FY 2019-20 to FY 2023-24).

**Ground Handling**

- 1.3.3. Currently, there are two Service Providers at the Airport viz., Indo Thai Varanasi Private Limited (IVPL) and AI Airport Services Limited (AIASL) providing Ground Handling services at VIA.
- i. AERA vide Order No. 32/2023-24 dated January 08, 2024 determined tariff for Ground Handling Services for IVPL for the period from FY 2024 to FY 2028.
- ii. In respect of AIASL, AERA vide Order No. 18/2021-22 dated September 15, 2021 determined tariff for Ground Handling Services from October 01, 2021 to March 31, 2022. The Authority, from time to time through various Orders had extended the applicability of prevailing tariff (as on March 31, 2022) up to March 31, 2025.

**Supply of Fuel to Aircraft**

- 1.3.4. Oil Companies namely M/s IOCL, M/s BPCL, M/s HPCL and M/s Reliance BP Mobility Limited are directly providing Aviation Turbine Fuel (ATF) Supply to Aircrafts at VIA.

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## 2 TARIFF DETERMINATION OF VARANASI INTERNATIONAL AIRPORT

### 2.1 Tariff Setting Principles

2.1.1 AERA was established by the Government of India vide notification No. GSR 317(E) dated 12<sup>th</sup> May 2009. The functions of AERA, in respect of Major Airports, are specified in section 13(1) of The Airports Economic Regulatory Authority of India Act, 2008 ('AERA Act' or 'the Act') which are as below:

- a) To determine the tariff for Aeronautical services taking into consideration –
- the capital expenditure incurred and timely investment in the improvement of airport facilities.
  - the service provided, its quality and other relevant factors
  - the cost for improving efficiency.
  - economic and viable operation of Major Airports
  - revenue received from services other than the Aeronautical services
  - the concession offered by the Central Government in any agreement or memorandum of understanding or otherwise; and
  - any other factor which may be relevant for the purpose of this Act:

Provided that different tariff structures may be determined for different airports having regard to all or any of the above considerations specified at sub-clauses (i) to (vii).

- b) To determine the amount of the development fees in respect of Major Airports.
- c) To determine the amount of the passenger service fee levied under Rule 88 of the Aircraft Rules, 1937 made under the Aircraft Act, 1934.
- d) To monitor the set performance standards relating to quality, continuity and reliability of service as may be specified by the Central Government or any authority authorized by it in this behalf.
- e) To call for any such information as may be necessary to determine the tariff for Aeronautical services; and
- f) To perform such other functions relating to tariff, as may be entrusted to it by the Central Government or as may be necessary to carry out the provisions of the Act.

2.1.2 The terms "aeronautical services" and "Major Airports" are defined in Sections 2(a) and 2(i) of the Act, respectively.

2.1.3 As per the AERA Act, 2008, "aeronautical service" means any service provided:

- for navigation, surveillance and supportive communication thereto for air traffic management;
- for the landing, housing or parking of an aircraft or any other ground facility offered in connection with aircraft operations at any airport;
- for ground safety services at an airport;
- for ground handling services relating to aircraft, passengers and cargo at an airport;
- for the cargo facility at an airport;
- for supplying fuel to the aircraft at an airport; and



- vii. for a stake-holder at an airport, for which the charges, in the opinion of the Central Government for the reasons to be recorded in writing, may be determined by the Authority.

Tariff determination for Air Navigation Services is carried out by the Ministry of Civil Aviation (MoCA) across all airports to maintain uniformity.

## **2.2 Authority's Orders applied in the determination of tariff of Varanasi International Airport in this Tariff Order**

2.2.1 The Authority's Orders applied in the tariff determination in this Tariff Order are:

- i. Order No. 13 dated 12.01.2011 (Regulatory philosophy and approach in Economic Regulation of Airport Operators) and Direction No. 5 dated 28.02.2011 (Terms and conditions for determination of tariff for Airport Operators); and
- ii. Order No. 07/2018-19 dated 13.06.2016 (Normative Approach to Building Blocks in Economic Regulation of Major Airports).
- iii. Order No. 14/2018-19 dated 23.01.2017 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.
- iv. Order No. 35/2019-20 dated 12.01.2018 and Amendment No. 01 to Order No. 35/2019-20 dated 09.04.2018 in the matter of determination of useful life of Airport assets.
- v. Order No. 42/2020-21 dated 05.03.2019 (Determination of FRoR to be provided on the cost of Land incurred by various Airport Operators in India).

## **2.3 Issuance of Consultation Paper and receipt of stakeholders' comments**

2.3.1 AAI submitted Multi Year Tariff Proposal (MYTP) for the First Control Period from April 1, 2019 to March 31, 2024 and AERA vide its Order No. 59/2020-21 dated December 31, 2020, had determined tariffs for Aeronautical services for VIA for the First Control Period (FY 2019-20 to FY 2023-24).

Further, AERA vide Order No. 40/ 2023-24 dated March 15, 2024 had extended the levy of existing tariff for a further period of 6 months (i.e. up to September 30, 2024). Thereafter, the Authority vide Order No. 09/ 2024-25 dated September 24, 2024 had further extended the validity of tariff prevailing as on September 30, 2024 up to March 31, 2025.

2.3.2 As per proviso to clause 3.1 of the Airport Guidelines, the Airport Operator(s) are required to submit to the Authority for its consideration, a Multi-Year Tariff Proposal (MYTP) for the respective Control Periods within the due date as specified by the Authority. Accordingly, the Authority vide its letter dated July 20, 2023 had asked AAI, to submit MYTP by October 31, 2023. However, the AAI had submitted the MYTP for the Second Control Period commencing from FY 2024-25 to FY 2028-29 for VIA on May 30, 2024, after a gap of seven months from the aforementioned due date, communicated by the Authority. The MYTP document is available on the AERA's website. Further, the date wise chronology of events is given in Table 2 below.

2.3.3 The Authority had appointed an Independent Consultant, M/s R. Subramanian and Company LLP to assess the MYTP submitted by AAI for the Second Control Period. Accordingly, M/s R. Subramanian and Company LLP assisted the Authority in examining the true up submission by AAI by comparing each regulatory building block with the Tariff Order for the First Control period. The Independent Consultant had examined the MYTP of AAI for the current Control Period, by verifying the data from various supporting documents submitted by AAI such as audited financials, Fixed Asset Register (FAR),



**TARIFF DETERMINATION OF VARANASI INTERNATIONAL AIRPORT**

documentary evidence of the process of approval of Capital expenses, Operation and Maintenance expenses, examining the building blocks in tariff determination and ensuring that the treatment given to it was consistent with the Authority's methodology, approach, etc.

2.3.4 The Authority obtained clarifications for the information shared by the AAI from time to time, to review the appropriateness of the classification of assets, the reasonableness of the proposed Capital Expenditure, Operation & Maintenance expenditure, for finalizing this Tariff Order. AAI had initially submitted the audited Trial Balance of FY 2019-20 to FY 2022-23 and projections for FY 2023-24 and FY 2024-25 to FY 2028-29 on May 30, 2024. Later, AAI had shared the audited Trial Balance of Varanasi International Airport for FY 2023-24 vide email dated August 27, 2024. The Authority had considered the same as part of its examination of the MYTP for true up of the First Control Period and of the Second Control Period of VIA. The sequential timeline of the above events has been presented in the table below:

*Table 2: Timelines for submission of MYTP and other information by AAI*

Dates	Event
May 30, 2024	MYTP Submission by AAI
June 2024	Clarifications sought on passenger capacity, CAPEX, Operation and Maintenance expenses, Non-aeronautical revenue etc. of VIA
July 03, 2024	Clarifications sought on cost breakup of key projects such as Runway Extension, NHAI Underpass. Requested study report on allocation of CHQ/ RHQ expenses.
July 17, 2024	Clarifications sought on CAPEX and OPEX post preliminary meeting with AERA.
July 24, 2024	Detailed clarifications sought on CAPEX along with follow up for previous data requirements.
August 01, 2024	Follow up mail sent for addressing queries raised by AERA's Independent Consultant.
August 07, 2024	AAI submitted revised CAPEX by revising estimates of key CAPEX such as Terminal Building, Runway extension in response to queries raised by AERA's consultant.
August 27, 2024	AAI submitted the actual figures for FY 2023-24.
September and October 2024	Sought Clarifications from AAI from time to time on detailed estimates/ data substantiating major CAPEX projected for Second Control Period

2.3.5 AAI informed that accounts of AAI are audited by the Comptroller and Auditor General of India ('CAG') as mandated by the AAI Act. The CAG audits the financial records and statements of AAI airports, regional and corporate headquarters. However, since the accounts of AAI as a whole are centralized at corporate headquarters (CHQ), the CAG accordingly issues the final audit certificate. The Authority has examined the audited trial balance (FY 2019-20 to FY 2023-24) submitted by AAI for determination of tariff.

2.3.6 All the figures presented in this Tariff Order, have been rounded off up to two decimals.

2.3.7 After examining the MYTP and other details submitted by AAI, the Authority had issued Consultation Paper No. 05/2024-25 on 26<sup>th</sup> October 2024. Stakeholder comments and AO counter-comments were scheduled for submission by 25<sup>th</sup> November 2024 and 5<sup>th</sup> December, 2024 respectively. Following the release of the Consultation Paper, the Authority convened a meeting with stakeholders on 11<sup>th</sup> November 2024. The minutes of the meeting are available on AERA's website.

2.3.8 The following stakeholders provided comments on the Consultation Paper No. 05/2024-25 dated 26<sup>th</sup> October, 2024, and their responses are available on AERA's website:

1. Airports Authority of India (AAI)
2. Federation of Indian Airlines (FIA)



Table 3: Names of Stakeholders who submitted comments/views on Regulatory building blocks

Name of the stakeholders who commented/submitted views on regulatory building blocks/ tariff determination process.	Component impacting tariff determination of the First Control Period/ Second Control Period
FIA	Tariff Determination Process
FIA	Framework for Determination of Tariff
AAI and FIA	True up of the First control Period
FIA	Traffic for the Second Control Period
AAI and FIA	Capital Expenditure (CAPEX), Depreciation and Regulatory Asset Base (RAB) for the Second Control Period
AAI and FIA	Fair Rate of Return for the Second Control Period
FIA	Inflation for the Second Control Period
AAI and FIA	Operation and Maintenance Expenses for the Second Control Period
FIA	Non-Aeronautical Revenue for the Second Control Period
No comments	Taxation for the Second Control Period
No comments	Quality of Service for the Second Control Period
FIA	ARR for the Second Control Period
FIA	Aeronautical Revenue/ Tariff rate Card

2.3.9 The counter comments from AAI on the comments from FIA were received on 5<sup>th</sup> December, 2024. Thus, the stakeholders' consultation process concluded on the receipt of counter comments by AAI.

2.3.10 No input was received from the Ministry of Civil Aviation (MoCA) as part of the consultation process.

#### 2.4 Construct of this Tariff Order

2.4.1 This Tariff Order has been developed/constructed in the order of events as explained above. Chapter wise details have been summarized as follows:

- i. The background of the Authority's tariff determination process is explained in this Chapter (Chapter 2) and in Chapter 3, wherein the framework for determination of tariff is discussed.
- ii. Chapter 4 presents the submissions of AAI for true up of the First Control Period which is from FY 2019-20 to FY 2023-24. This is followed by the Authority's examination of the same as set out in Consultation Paper No. 05/2024-25 dated 26<sup>th</sup> October, 2024. Thereafter, the comments of AAI and other stakeholders, responses of AAI on other stakeholders' comments, Authority analysis and final decisions are set out.
- iii. Chapter 5 discusses the submissions of AAI and the Authority's examination regarding Traffic Projections for the Second Control Period as set out in Consultation Paper No. 05/2024-25 dated 26<sup>th</sup> October, 2024. Thereafter, the comments of AAI and other stakeholders, responses of AAI on other stakeholders' comments, Authority analysis and final decisions are set out.
- iv. Chapter 6 discusses the submissions of AAI regarding Capital Expenditure (CAPEX), Depreciation and RAB for the Second Control Period along with the Authority's detailed examination, adjustments, rationalisation and proposals on the Aeronautical capital expenditure, Depreciation and RAB for the Second Control Period as set out in Consultation Paper No. 05/2024-25 dated 26<sup>th</sup> October, 2024. Thereafter, the comments of AAI and other stakeholders, responses of AAI on other stakeholders' comments, Authority analysis and final decisions are set out.



- v. Chapter 7-12 includes the submissions of AAI regarding various building blocks pertaining to the Second Control Period including Fair Rate of Return, Inflation, Operation and Maintenance Expenses, Non-aeronautical Revenue, Taxation and Quality of Service along with Authority's examination and proposals on each matter as set out on Consultation Paper No. 05/2024-25 dated 26<sup>th</sup> October, 2024. Thereafter, the comments of AAI and other stakeholders, responses of AAI on other stakeholders' comments, Authority analysis and final decisions are set out.
- vi. Chapter 13 presents the Aggregate Revenue Requirement as determined by the Authority, based on the various proposals and adjustments considered by the Authority for the Second Control Period at the Consultation Stage. Thereafter, the comments of AAI and other stakeholders, responses of AAI on other stakeholders' comments, Authority analysis and final decisions are set out.
- vii. Chapter 14 presents the Aeronautical Revenue decided by the Authority for Varanasi International Airport for the Second Control Period.
- viii. Chapter 15 summarizes the Authority's decisions on all matters related to Tariff computation and Chapter 16 is the Tariff Order issued by the Authority for Varanasi International Airport for the Second Control Period.
- ix. Chapter 17 contains Annexure:
  - Annexure I: Tariff Rate Card approved by the Authority for Varanasi International Airport for the Second Control Period.

## **2.5 Stakeholders' comments regarding Tariff Determination for Varanasi international Airport for the Second Control Period**

During the stakeholders' consultation process, the Authority has received comments/views from FIA in response to the proposals of the Authority in the Consultation Paper no. 05/2024-25 dated 26<sup>th</sup> October 2024. The comment of stakeholder is presented below:

### **2.5.1 FIA's comment on delay in Multi Year Tariff Plan is as follows:**

*"FIA wishes to draw AERA's attention that any delay in submitting the Multi Year Tariff Plan by the airport operator should be taken into account, as delay in tariff determination process will lead to increase in adjusted deemed initial RAB."*

## **2.6 AAI's response to FIA's comments regarding Tariff Determination for Varanasi International Airport for the Second Control Period**

### **2.6.1 No counter comments were received from AAI in response to FIA's comments regarding delay in submission of MYTP by AO for the Second Control Period.**

## **2.7 Authority's analysis on Stakeholders' comments regarding the Tariff Determination for Varanasi International Airport for the Second Control Period**

### **2.7.1 The Authority notes the comments of FIA regarding delay in submitting the MYTP.**

In this regard, it is highlighted that AERA tries to determine the tariff in a time-bound manner, keeping in mind the interest of all the stakeholders. However, in some cases, due to non-availability of correct and timely submission of required information by AO, the tariff determination process becomes more time consuming. Further, the tariff determination process is very exhaustive, involving detailed analysis of each regulatory building block, before the Consultation Paper is issued by the Authority, which is followed by user consultation. Based on the stakeholders' views/comments, relevant building blocks



TARIFF DETERMINATION OF VARANASI INTERNATIONAL AIRPORT

are further reviewed, considering all the relevant factors before issuance of Tariff Order.

Hence, the timely completion of tariff determination depends upon various factors. The sequence of events relating to the tariff determination process in respect of Varanasi Airport has been elaborated in Para 2.3.4 of this Tariff Order. AERA keeps advising all Airport Operators to submit MYTPs well in advance i.e. 6 months before the commencement of the new Control Period.

Further, it is clarified that the Regulatory Asset Base (RAB), on which FRoR is allowed to Airport Operator, is finalized based on the review of actual capitalization done/ CAPEX projected to be capitalized and put to use during the Control Period. The issue raised by the stakeholder, i.e. delay in the tariff determination process leading to an increase in adjusted deemed initial RAB does not arise in this case.



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### 3 FRAMEWORK FOR DETERMINATION OF TARIFF FOR VIA

#### 3.1 Methodology

3.1.1 The methodology adopted by the Authority to determine Aggregate Revenue Requirement (ARR) is based on AERA Act, 2008 and the Airport Guidelines issued by AERA from time to time.

3.1.2 As per the guidelines, for the First Control Period, the Authority had adopted the Hybrid-Till mechanism for tariff determination, wherein, only 30% of the Non-aeronautical revenue is to be used for cross-subsidizing the Aeronautical charges. The Authority has considered the same methodology in the true up of the First Control Period and for tariff determination in the Second Control Period.

3.1.3 The ARR for a given Control Period, under hybrid till is calculated as given below:

$$ARR = \sum_{t=1}^5 ARR_t$$

$$ARR_t = (FRoR \times RAB_t) + D_t + O_t + T_t - s \times NAR_t$$

Where,

- $t$  is the tariff year in the control period, ranging from 1 to 5
- $ARR_t$  is the Aggregate Revenue Requirement for tariff year ' $t$ '
- $FRoR$  is the Fair Rate of Return for the Control Period
- $RAB_t$  is the Aeronautical Regulatory Asset Base for tariff year ' $t$ '
- $D_t$  is the Depreciation corresponding to the Regulatory Asset Base for tariff year ' $t$ '
- $O_t$  is the Aeronautical Operation and Maintenance expenditure for the tariff year ' $t$ '
- $T_t$  is the Aeronautical taxation expense for the tariff year ' $t$ '
- $s$  is the cross-subsidy factor for revenue from services other than Aeronautical services. Under the Hybrid Till methodology followed by the Authority,  $s = 30\%$ .
- $NAR_t$  is the Non-aeronautical revenue in tariff year ' $t$ '.

3.1.4 Based on ARR, Yield per passenger (Y) is calculated as per the formula given below:

$$Yield\ per\ passenger(Y) = \frac{\sum_{t=1}^5 PV(ARR_t)}{\sum_{t=1}^5 VE_t}$$

Where,

- $PV(ARR_t)$  is the Present Value of ARR for all the tariff years. All cash flows are assumed to occur at the end of the year. The Authority has considered discounting cash flows, one year from the start of the Control Period.
- $VE_t$  is the passenger traffic in year ' $t$ '.

#### 3.2 Control Period

3.2.1 In terms of Direction No. 5 issued on 28 February 2011, Control Period means "a period of five Tariff Years during which the Multi Year Tariff Order and Tariff(s) as determined by the Authority pursuant to such order shall subsist". The First Control Period for VIA commenced from April 1, 2019 and the



Second Control Period has commenced from April 1, 2024.

### 3.3 Revenues from Air Navigation Services (ANS) and Cargo

3.3.1 AAI provides Air Navigation Services (ANS) in addition to Aeronautical services at VIA. AAI submitted that the tariff proposal does not consider assets, expenses and revenues relating to ANS. This Tariff Order discusses the determination of tariffs for Aeronautical services at the airport excluding ANS, as tariff for ANS is presently approved by the Ministry of Civil Aviation for all the airports. Therefore, all the assets, expenses and revenues pertaining to ANS are considered separately by the Ministry while determining tariff for ANS services. Further, the tariff for ANS services is determined at the Central level by the Ministry of Civil Aviation to ensure uniformity across all the Airports in the Country. Hence, AERA determines tariff for Aeronautical services of the Airport Operator, by excluding the assets, expenses and revenues from ANS.

3.3.2 AAI further submitted that all Cargo Operations have been transferred to AAI Cargo Logistics and Allied Services (AAICLAS), a wholly owned subsidiary of AAI and the tariff proposal does not consider expenditure and assets on account of cargo operations. AAI has considered a revenue share of 30% from AAICLAS as part of the Aeronautical revenues as per AAI's internal agreement with AAICLAS.

3.3.3 This Tariff Order discusses the determination of tariff for Aeronautical services at VIA excluding Cargo Operations. The tariff related to Cargo Operations of VIA will be determined separately since its operations are carried out by AAICLAS.

### 3.4. Stakeholders' comments regarding the Framework for determination of tariff for Varanasi international Airport for the Second Control Period

During the stakeholders' consultation process, the Authority has received comments/views from FIA in response to the proposals of the Authority in the Consultation Paper no. 05/2024-25 dated 26<sup>th</sup> October 2024. The comments of FIA are presented below:

3.4.1 FIA comment on Hybrid Till model is as follows:

*"It is observed that AERA have determined tariffs using the 30% Hybrid Till model including true ups, as applicable.*

*FIA has advocated the application of Single Till model across the airports in India and submits that AERA should adopt Single Till across all control periods, including by way of true up. In a Shared/Hybrid till model, the airport operator has the incentive to skew the asset base towards aero-assets, thereby having a higher capital base for calculation of return offered by the regulator."*

3.4.2 FIA's comment on revenue from ANS is as follows:

*"It is submitted that as per section 2 of Airport Economic Regulatory Authority of India Act, 2008 ("AERA Act"), under sub-section (a), "aeronautical services means any services provided –*

*(i) for navigation, surveillance and supportive communication thereto for air traffic management..."*

*It is submitted that considering the above provisions of the AERA Act, revenue from Air Navigation Services should form part of aeronautical revenues and accordingly AERA should take into account the corresponding revenue and revise the tariff card."*

3.4.3 FIA's comment on Related Party Transactions is as follows:

*"It is noted that there is no mention of related Party Transaction in the Consultation Paper. FIA submits that in our view AERA should conduct the RPT Compliance check*

*In this regard, we request AERA to kindly ensure that:*



- (a) Any tendering and awards for services must go through a competitive, transparent and fair process;
- (b) Agreement with related parties shall not have any onerous terms, aggressive cost escalation, restrictive covenants, unfair lock in period or cost escalations or any other terms that may arise from awards to Related Parties, which is not in favour of airport users/other stakeholders.

*It is not in the interest of the stakeholders that related parties be awarded agreements for services (or otherwise) as there is fear of multi-layered transactions between / among airport operators or their Joint Ventures or their Holding / Subsidiary/ Sister Subsidiary companies (or business associates by whatever name called), which is not efficient for the eco-system, and should be banned."*

### **3.5. AAI's response to Stakeholders' comments regarding the Framework for determination of tariff for Varanasi International Airport for the Second Control Period**

#### **3.5.1 AAI's response to FIA's comment on Hybrid Till model is as follows:**

*"As per National Civil Aviation Policy (NCAP)-2016 there should be uniformity and level playing field across various operators, future tariffs at all airports will be calculated on a 'hybrid till' basis, unless otherwise specified for any project being bid out in future. 30% of non-aeronautical revenue will be used to cross-subsidise aeronautical charges. In case the tariff in one particular year or contractual period turns out to be excessive, the same will be trueing up and adjusted in next control period by AERA.*

*AERA vide Order No. 14/2016-17 dated January 12, 2017 conveyed that to determine the future tariffs using Hybrid Till Methodology in line with the policy of Government of India directed Airport operator to submit the proposal on the lines of above said order. Accordingly, the proposal has been submitted by using Hybrid Till Methodology based on the above said directions of AERA."*

#### **3.5.2 AAI's response to FIA's comment on non-consideration of revenue from ANS is as follows:**

*"Air Navigation Services (ANS) are a separate segment of services provided by AAI in addition to Airport Services. AAI does not consider the assets, expenses and revenue pertaining to ANS while submitting the tariff proposal to AERA for determining of tariff for Airport Services. The ANS charges have been fixed by MoCA."*

#### **3.5.3 AAI's response to FIA's comment on Related party Transactions is as follows:**

*"In case any related party transaction, the same has been disclosed in annual report of the AAI and in compliance to rules in vogue."*

### **3.6. Authority's analysis on Stakeholders' comments regarding the Framework for determination of tariff for Varanasi International Airport for the Second Control Period**

#### **3.6.1 The Authority notes the comments of FIA on the application of Hybrid Till and AAI's response therein.**

The determination of tariff for major airports under the Hybrid Till Mechanism is in line with the National Civil Aviation Policy 2016 (NCAP 2016) of Government of India and the consequent amendment to the tariff guidelines issued vide AERA Order No. 14/2016-17 dated 12th January 2017. The excerpt of the same is reproduced as under: "(i) The Authority will in future determine the tariff of major airports under "Hybrid Till" wherein 30% non-aeronautical revenues will be used to cross subsidize aeronautical charges. Accordingly, to that extent, the airport operator guidelines of the Authority shall be amended. The provisions of the guidelines issued by the Authority, other than regulatory Till, shall remain the same.

Accordingly, the Hybrid Till mechanism has been followed to determine the aeronautical tariff uniformly across all the major airports.

It is also relevant to note that the 30% Hybrid Till model, as currently implemented in the background of NCAP, ensures an appropriate balance between the interests of the airport operator and airport users.

3.6.2 The Authority notes the comments of FIA pertaining to Air Navigation Services (ANS) and AAI's response on the same.

In this regard, it is to be noted that the tariff for ANS is presently being determined and approved by the Ministry of Civil Aviation (MOCA) for all the airports in India, to ensure uniform ANS charges across the Country. MoCA, while fixing tariff for ANS services being provided by AAI, separately considers all the assets, expenses and revenues pertaining to ANS. Hence, AERA determines tariff for Aeronautical services in respect of Airport Operator, by excluding Assets, Revenues & Expenditure related to ANS.

3.6.3 The Authority notes the comment of FIA regarding Related Party Transactions (RPT).

Regarding FIA's comments on Related Party Transactions (RPT), as per the Authority, it is incumbent upon the Airport Operator to comply with the relevant statutory provisions / rules pertaining to Arm's length transactions in respect of the Related Parties. Further, the accounts of AAI are audited annually by the Comptroller & Auditor General of India, which also reviews of statutory compliances adhered by AAI.



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**4 TRUE UP OF THE FIRST CONTROL PERIOD****4.1 AAI's submission regarding True up of the First Control Period for VIA**

4.1.1 AAI had submitted a shortfall of ₹ 305.36 Crores in Aeronautical revenue recovery for VIA for the First Control Period, as part of its MYTP submission for the Second Control Period:

Table 4: True up for First Control Period submitted by AAI

(₹ Crores)

Particulars	Ref	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	Total
Fair Rate of Return	(a)	14%	14%	14%	14%	14%	
Revenue from Regulated Services	(b)	66.24	30.39	52.82	81.22	98.65	329.32
Revenue from services other than Regulated Services - 30% considered as per Hybrid Till	(c)	6.81	2.98	3.88	6.46	7.36	27.50
Operating Expenditure	(d)	74.93	71.48	87.23	82.26	94.96	410.86
Depreciation	(e)	9.64	10.82	11.49	12.05	13.71	57.72
Total Expenditure	(f) = (d) + (e)	84.57	82.30	98.72	94.32	108.67	468.58
Regulatory operating Profit	(g) = (b) + (c) - (f)	(11.52)	(48.93)	(42.02)	(6.63)	(2.66)	(111.75)
Average RAB	(h)	91.37	112.36	112.87	115.99	132.06	564.64
Return on Average RAB	(i) = (a)*(h)	12.79	15.73	15.80	16.24	18.49	79.05
Corporate Tax	(j)	0.00	0.00	0.00	0.00	0.00	0.00
Interest on Working Capital	(k)	1.12	1.51	2.30	1.07	0.30	6.30
ARR	(l) = {(d)+(e)+(i) +(j)+(k)-(c)}	91.67	96.56	112.93	105.16	120.10	526.43
Shortfall	(m) = (l-b)	25.43	66.17	60.12	23.94	21.45	197.11
PV Factor	(n)	1.93	1.69	1.48	1.30	1.14	
Shortfall	(o) = (m)*(n)	48.97	111.76	89.07	31.11	24.46	305.36
<b>Total Shortfall</b>		<b>305.36</b>					

**4.2 Authority's examination of True up of the First Control Period at Consultation stage**

4.2.1 The decisions taken at the time of determination of tariff for Aeronautical services for the First Control Period vide Order No. 59/ 2020-21 dated December 31, 2020 had been reproduced below:

**Decision No. 1. Regarding traffic forecast**

(i) The Authority decides to consider the ATM and passenger traffic for the 1<sup>st</sup> Control Period for Varanasi Airport as per Table 11.

(ii) The Authority proposes to true-up the traffic volume (ATM and passengers) on the basis of actual traffic in 1st Control Period while determining tariffs for the 2nd Control Period.

**Decision No. 2. Regarding allocation of assets**

- (i) The Authority decides to consider the allocation of Gross Block of Assets as on 1st April 2017 between aeronautical and non-aeronautical assets as detailed in Table 22.

**Decision No. 3. Regarding Initial RAB**

- (i) The Authority decides to consider the initial regulatory asset base for the 1st Control Period for Varanasi Airport as INR 74.80 crores in accordance with Table 26.

**Decision No. 4. Regarding capital expenditures.**

- (i) The Authority decides to adopt the Aeronautical capitalization for the 1st control period in accordance with Table 47.
- (ii) The Authority has decided that subject to the terms and conditions of privatization of Varanasi Airport, it will consider to true up the Capital expenditure incurred based on actual costs subject to the normative approach at the time of determination of tariff for the 2<sup>nd</sup> Control Period.
- (iii) The Authority decides to rework the RAB of the Airport Operator for the Second Control Period, by reducing the RAB by 1% of the cost of the Terminal Building, if the Airport Operator (AAI/prospective PPP builder) fails to commission and capitalize the new Terminal Building by November 2023.
- (iv) The Authority decides to consider the 100% of the capital cost of the new terminal building at the time of 'true-up' subject to the treatment of retention payment by AAI i.e. payment withholding or acceptance of security deposit.

**Decision No. 5. Regarding depreciation.**

- (i) The Authority decides to adopt depreciation rates for Varanasi Airport as per Table 51 for the 1st control period.
- (ii) The Authority decides depreciation amounts as per Table 54 for the 1st control period.

**Decision No. 6. Regarding average RAB.**

- (i) The Authority decides to consider average RAB for the 1st Control Period for Varanasi Airport as per Table 58.

**Decision No. 7. Regarding Fair Rate of Return (FROR).**

- (i) The Authority decides to consider FroR for Varanasi Airport for the 1<sup>st</sup> Control Period as per Table 64.

**Decision No. 8. Regarding non-aeronautical revenues**

- (i) The Authority decides to consider the non-aeronautical revenues for the 1st control period for Varanasi Airport in accordance with Table 71.

**Decision No. 9. Regarding O&M expenses**

- (i) The Authority decides to consider the O&M expenses for the 1<sup>st</sup> Control Period for Varanasi Airport as per Table 83.

**Decision No. 10. Regarding Aeronautical Revenues**

- (i) The Authority decides to consider the Aeronautical revenues for the 1<sup>st</sup> Control Period for Varanasi Airport as per Table 87.

**Decision No. 11. Regarding tax expense**

(i) The Authority decides to consider the Tax Expense for the 1st Control Period for Varanasi Airport as per Table 92.

**Decision No. 12. Regarding Aggregate Revenue Requirement.**

(i) The Authority decides to consider the ARR and YPP for the 1<sup>st</sup> Control Period for Varanasi Airport in accordance with the Table 96.

**Decision No. 13. Regarding tariff rate card.**

(i) The Authority decides to approve the tariffs for the 1st Control Period for Varanasi Airport as given in the Tariff Card annexed as Annexure-1.

### 4.3 True up of Traffic

4.3.1 AAI had submitted Passenger Traffic and ATM for VIA for the First Control Period which was as follows:

*Table 5: AAI's submission for True up of traffic for the First Control Period for VIA*

Particulars	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	Total
<b>Passenger (In Millions)</b>						
Domestic	2.78	1.45	1.65	2.41	2.89	11.18
International	0.23	0.02	0.06	0.11	0.16	0.58
Total	3.01	1.47	1.71	2.52	3.06	11.76
<b>ATM (In No's)</b>						
Domestic	21,987	14,227	15,650	18,218	20,404	90,486
International	2,069	169	493	940	1,316	4,987
Total	24,056	14,396	16,143	19,158	21,720	95,473

#### Authority's examination and proposal regarding true up of traffic of the First Control Period at Consultation Stage:

4.3.2 The traffic approved by the Authority in the Tariff Order No. 59/ 2020-21 for the First Control Period is shown in Table 6 below:

*Table 6: Passenger traffic and ATM approved by the Authority in the Tariff Order for the First Control Period*

Particulars	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	Total
<b>Passenger (In millions)</b>						
Domestic	2.78	1.80	2.16	2.78	3.33	12.85
International	0.23	0.09	0.16	0.23	0.28	0.99
Total	3.01	1.89	2.32	3.01	3.61	13.84
<b>ATM (In No's)</b>						
Domestic	21,987	15,000	17,700	22,000	26,400	1,03,087
International	2,069	900	1,575	2,100	2,520	9,164
Total	24,056	15,900	19,275	24,100	28,920	1,12,251



- 4.3.3 The Authority noted that the major variation between the passenger traffic and ATM for the First Control Period (actual traffic vis-à-vis the projections approved in the Tariff Order for the First Control Period) was attributable to the adverse impact of COVID-19 pandemic. After the outbreak of COVID-19 pandemic in December 2019, many chartered flights were cancelled, due to which the domestic passenger traffic had been showing a decreasing trend.
- 4.3.4 The Authority verified the actual Passenger traffic and ATM from FY 2019-20 to FY 2022-23 (as per Table 5) for the First Control Period based on the details available on AAI's website and noted no variances. AAI had submitted the projections for the passenger traffic and ATM for the FY 2023-24. However, the Authority had considered the actual passenger traffic and ATM traffic data for FY 2023-24 for true up of traffic for the First Control Period.
- 4.3.5 Based on the above analysis, the Authority proposed to consider the actual traffic for the First Control Period, as shown in Table 7, in line with its Decision no. 1 (ii) of the Tariff Order No. 59/ 2020-21 dated December 31, 2020, which states "The Authority decides to true up the traffic volume (ATM and Passengers) based on actual traffic in First Control Period while determining tariff for the Second Control Period."

Table 7: True up of traffic proposed by the Authority for the First Control Period for VIA at Consultation Stage

Particulars	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	Total
<b>Passenger (In Millions)</b>						
Domestic	2.78	1.45	1.65	2.41	2.88	11.17
International	0.23	0.02	0.06	0.11	0.12	0.53
Total	3.01	1.47	1.71	2.52	3.00	11.70
<b>ATM (In No's)</b>						
Domestic	21,987	14,227	15,650	18,218	19,544	89,626
International	2,069	169	493	940	976	4,647
Total	24,056	14,396	16,143	19,158	20,520	94,273

**Stakeholders' comments regarding true up of traffic for the First Control Period**

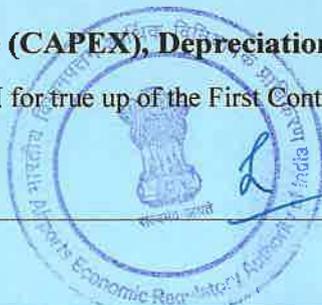
- 4.3.6 No comments have been received from Stakeholders on Traffic for the First Control Period

**Authority's analysis on Stakeholders' comments regarding true up of traffic for the First Control Period**

- 4.3.7 The Authority notes that no comments were received from the Stakeholders on the true up of traffic for the First Control Period. Hence, the Authority decides to consider the traffic based on actuals for true up of the First Control period, consistent with the proposal made in the Consultation Paper No. 05/2024-25 dated October 26, 2024. The traffic considered by the Authority for true up of the First Control Period has been shown in Table 7.

**4.4 True up of Capital Expenditure (CAPEX), Depreciation and RAB**

- 4.4.1 The actual CAPEX submitted by AAI for true up of the First Control Period for VIA is as follows:



## TRUE UP OF THE FIRST CONTROL PERIOD

Table 8: Capital additions during the First Control Period submitted by AAI for VIA  
(₹ Crores)

S. No	Asset category	Approved CAPEX as per Tariff Order (1)	Actual CAPEX incurred in 1st Control Period (2)	Variance (2)-(1)
<b>A. CAPEX incurred towards projects approved by AERA for First Control Period</b>				
A1	Road, Bridges & Culverts	2.56	-	(2.56)
A2	Runway, Taxiway and Aprons	33.73	18.81	(14.92)
A3	Building- Terminal	356.06	3.51	(352.55)
A4	Building – Residential	20.82	-	(20.82)
A5	Boundary Wall- Operational	0.52	-	(0.52)
A6	Other Buildings-Unclassified	25.4	13.77	(11.63)
A7	Plant & Machinery	17.83	17.55	(0.28)
A8	Tools & Equipment	1.49	0.60	(0.89)
A9	Electrical Installations	195.31		(195.31)
A10	Furniture & Fixtures: Other than Trolleys	0.05		(0.05)
A11	Furniture & Fixtures: Trolleys	2.02	2.12	0.10
A12	X Ray Baggage System	22.35		(22.35)
A13	CFT/Fire Fighting Equipment	4.52		(4.52)
	<b>Total Approved CAPEX (A)</b>	<b>682.66</b>	<b>56.35</b>	<b>(626.31)</b>
<b>B. Unplanned/ Unapproved CAPEX incurred by VIA during First Control Period</b>				
B14	Runway, Taxiway and Aprons	-	19.80	19.80
B15	Road, Bridges & Culverts	-	2.22	2.22
B16	Building- Terminal	-	1.92	1.92
B17	Building – Residential	-	2.40	2.40
B18	Boundary Wall- Operational	-	2.21	2.21
B19	Other Buildings-Unclassified	-	1.82	1.82
B20	computer: End User Services	-	0.58	0.58
B21	Intangibles: Software	-	0.05	0.05
B22	Plant & Machinery	-	23.29	23.29
B23	Tools & Equipment	-	1.92	1.92
B24	Office Furniture	-	3.10	3.10
B25	Other Office Equipment	-	0.80	0.80
B26	Other Vehicles	-	6.40	6.40
B27	X Ray Baggage System	-	0.92	0.92
B28	CFT/Fire Fighting Equipment	-	0.25	0.25
	<b>Total Unapproved CAPEX incurred (B)</b>	<b>-</b>	<b>67.69</b>	<b>67.69</b>
	<b>Total CAPEX incurred (A+B)</b>	<b>682.66</b>	<b>124.04</b>	<b>(558.62)</b>

4.4.2 The CAPEX approved by the Authority in the Tariff Order for the First Control Period was ₹ 682.66 Crores. Year- wise details of the CAPEX (capitalization of assets) approved by the Authority had been provided as follows:

Table 9: Capital expenditure approved in the Tariff Order for the First Control Period  
(₹ Crores)

S. No	Particulars	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	Total
1	Runway, Taxiway and Aprons	0.25	59.38	14.60	0.00	9.50	33.73

## TRUE UP OF THE FIRST CONTROL PERIOD

S. No	Particulars	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	Total
2	Road, Bridges & Culverts	0.82	1.74	0.00	0.00	0.00	2.56
3	Building- Terminal	0.85	2.92	0.00	22.50	329.78	356.06
4	Building – Residential	0.00	0.00	0.00	20.82	0.00	20.82
5	Boundary Wall- Operational	0.52	0.00	0.00	0.00	0.00	0.52
6	Other Buildings-Unclassified	0.81	4.58	10.39	0.00	9.62	25.40
7	Plant & Machinery	1.42	5.39	11.01	0.00	0.00	17.83
8	Tools & Equipment	1.49	0.00	0.00	0.00	0.00	1.49
9	Electrical Installations	0.64	4.43	1.45	11.21	177.58	195.31
10	Furniture & Fixtures: Other than Trolleys	0.05	0.00	0.00	0.00	0.00	0.05
11	Furniture & Fixtures: Trolleys	0.00	0.00	0.00	2.02	0.00	2.02
12	X Ray Baggage System	3.35	19.00	0.00	0.00	0.00	2235
13	CFT/Fire Fighting Equipment	0.02	0.00	4.50	0.00	0.00	4.52
	<b>Total</b>	<b>10.24</b>	<b>47.44</b>	<b>41.95</b>	<b>56.55</b>	<b>526.48</b>	<b>682.66</b>

4.4.3 The Authority noted a variance of ₹ 558.62 Crores (82%) between CAPEX approved by the Authority and that incurred by AAI against the Approved CAPEX for the First Control Period, as per Table 8.

4.4.4 AAI had submitted the following depreciation for the First Control Period for VIA:

Table 10: Depreciation for the First Control Period submitted by AAI for VIA

(₹ Crores)

Particulars	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	Total
Land	-	-	-	-	-	-
Leasehold Land	-	-	-	-	-	-
Runways	0.32	0.62	0.63	0.76	1.04	3.37
Taxiway	-	-	-	-	-	-
Aprons	-	-	-	-	-	-
Road, Bridges & Culverts	0.05	0.05	0.04	0.04	0.04	0.22
Building- Terminal	2.74	2.81	2.87	2.93	2.99	14.33
Building - Temporary	-	-	-	-	-	-
Building - Residential	0.01	0.01	-	-	0.04	0.06
Security Fencing - Temporary	-	-	-	-	-	-
Boundary Wall -Operational	0.06	0.05	0.07	0.07	0.14	0.40
Boundary Wall - Residential	0.01	0.01	0.01	0.00	-	0.02
Other Buildings-Unclassified	0.22	0.27	0.34	0.42	0.60	1.85
Computer & Peripherals	0.11	0.14	0.17	0.21	0.18	0.82
Computer Servers and networks	-	-	-	-	-	-
Intangible Assets- Software	0.00	0.00	0.00	0.00	0.01	0.01
Plant & Machinery	1.45	2.08	2.28	2.65	3.02	11.49
Tools & Equipment	0.79	0.82	0.84	0.88	0.92	4.23
Office Furniture	0.22	0.50	0.56	0.57	0.64	2.49
Furniture & Fixtures: Other than Trolley	0.05	0.05	0.04	0.04	0.04	0.21
Furniture & Fixtures: Trolley	0.22	0.14	0.11	-	0.49	0.96
Other Vehicles	0.13	0.50	0.86	0.88	0.87	3.23
Vehicle- Cars & Jeeps	-	-	-	-	-	-
Electrical Installations	1.64	1.04	0.93	0.86	0.84	5.31
Other Office Equipment	0.09	0.16	0.16	0.16	0.17	0.73
X Ray Baggage System	0.22	0.25	0.24	0.24	0.24	1.19
CFT/Fire Fighting Equipment	1.33	1.33	1.33	1.34	1.34	6.67
<b>Total</b>	<b>9.64</b>	<b>10.82</b>	<b>11.49</b>	<b>12.05</b>	<b>13.59</b>	<b>57.59</b>



**Authority's examination and proposal regarding true up of Capital expenditure (CAPEX), Depreciation and RAB of the First Control Period at Consultation Stage**

4.4.5 The Authority noted that there were variances between the costs approved by the Authority in the Tariff Order for the First Control Period and the actual cost incurred by the Airport Operator. The CAPEX incurred by AAI had been capitalized in the books of account, based on work orders issued by AAI for each component of CAPEX. The Authority, through its Independent Consultant, had examined and verified the CAPEX incurred by AAI in First Control Period from the Fixed Assets Register.

4.4.6 For analysis purposes, the Authority had clubbed some of the assets under "A" category which was planned CAPEX with "B" category which was Unplanned CAPEX, as detailed in Table 8.

The major items of variances had been presented asset-wise in the below paragraphs.

**A2 and B14: Runways, Taxiways and Aprons:** AAI had incurred the CAPEX of ₹ 40.83 Crores towards Runways/ taxiways and Aprons as against approved expenditure of ₹ 33.73 Crores. The CAPEX included:

- Widening of turning pad - ₹ 7.17 Crores towards
- Expansion of Apron - ₹ 10.03 Crores,
- Surface grading - ₹ 5.12 Crores,
- Construction and extension of RESA - ₹ 3.60 Crores,
- Construction of vehicular lane - ₹ 1.74 Crores,
- Construction of turning pad - ₹ 10.04 Crores
- Widening of Perimeter Road - ₹ 2.22 Crores.

The Authority noted that AAI had classified widening of Perimeter Road (of ₹ 2.22 Crores) under Runways, Taxiways and Aprons, whereas the same should have been part of Roads, Bridges and Culverts. Therefore, the Authority proposed to shift the widening of Perimeter Road to Roads, Bridges and Culverts and considered the remaining assets as part of Runway/ Taxiway/ Apron for true up of the First Control Period. Considering that the above CAPEX was essential for airside operations and the reasonableness of costs, based on completion of work, the Authority proposed to consider the same for true up of the First Control Period.

**A3, A9 and B16: Terminal Building and Electrical Installations:** The Authority had approved capital expenditure of ₹ 551.37 Crores (out of which 65% is towards Civil works and 35% is allocated to electrical installations) towards Construction of Terminal Building in the Tariff Order for the First Control Period for VIA. However, the Authority noted that AAI had not executed the above project and had shifted the capitalization of this project to the Second Control Period i.e. FY 2027-28.

The Authority through its Independent Consultant vide email dated July 17, 2024 had enquired AAI for the justification for shifting the project on Terminal Building to the next Control Period and noted the following:

- Varanasi along with 5 other Airports was shortlisted for privatization. Due to the adverse impact of COVID-19 pandemic, the project of construction of New Terminal Building was not carried out in the First Control Period.
- Further, as the above project required approval from Public Investment Board (PIB) and the same was accorded in February, 2024.

Due to the above factors, this project could not be executed during the First Control period and



had been shifted to the Second Control Period.

**A3 and B16: Terminal Building (actual expenses incurred):** The Authority noted that AAI had incurred ₹ 2.78 Crores (civil works) in the First Control Period towards construction of 2 passenger boarding bridges, ₹ 3.51 Crores towards Renovation of Toilets at Varanasi Airport and ₹1.20 Crores for fixed glass partition and extension of tensile membrane relating to Terminal Building. The above capital expenses had been approved in the Tariff Order for the First Control Period. As these capital expenses were incurred for better passenger facilitation and operational requirements of the Airport, the Authority proposed to consider the same for true up of the First Control Period of Varanasi Airport.

**A4 and B17: Building- Residential:** AAI had incurred the CAPEX of ₹ 2.40 Crores towards Residential Building as against approved expenditure of ₹ 20.82 Crores. Also, AAI had proposed for densification of residential quarters by constructing multi storey buildings. However, due to the adverse effects of COVID-19 pandemic, the proposal had been postponed. The Authority noted that AAI incurred CAPEX on renovation of residential buildings, including vitrified floor tiling work and recarpeting of Colony Roads. The above works, which were approved in the Tariff Order for the First Control Period, had been executed and capitalised in the Fixed Assets Register (FAR) in FY 2023-24. Therefore, the Authority proposed to consider the same for True Up of the First Control Period.

**A6 and B19: Other Buildings- Unclassified:** AAI had incurred the CAPEX of ₹ 15.59 Crores towards Other Building as against approved expenditure of ₹ 25.40 Crores. AAI had incurred the following CAPEX:

- Construction of CISF Barracks and civil work for VIP Area - ₹ 3.13 Crores,
- Construction of Security Watch Tower and Dog Kennel - ₹ 1.31 Crores,
- Construction of Localizer and Glide Path - ₹ 3.46 Crores,
- Construction of Bus Parking, Fire Section and Medical Centre - ₹7.63 Crores.

The Authority also noted that AAI had approved the construction of Administrative Block for AAI staff, but had not initiated this project during the First Control Period. As the projects executed by AAI were essential for security/ operational purposes and within the approved limits, the Authority proposed to consider the same for true up of the First Control Period.

**A12, B27, A7 and B22: Plant & Machinery:** AAI had incurred the CAPEX of ₹ 31.55 Crores towards Plant & Machinery as against approved expenditure of ₹ 40.18 Crores (₹ 22.35 Crores for ILBS and ₹17.83 Crores for Plant & Machinery). The Authority had approved provision of 2 Passenger Boarding Bridges, AVDGS, Runway mechanical Sweeper and other miscellaneous assets at the time of tariff determination of the First Control Period. AAI had incurred the following CAPEX:

- SITC of Inline X-BIS - ₹ 13.47 Crores,
- Implementation of Digi Yatra - ₹ 7.20 Crores,
- Runway Edge lighting - ₹ 1.22 Crores,
- Construction of Passenger Boarding Bridges and AVDGS - ₹ 8.88 Crores,
- Shifting of GLF Cables and other miscellaneous assets - ₹ 0.78 Crores.

It is noted that AAI had incurred approved Capital Expenditure to meet Operational, Security requirements and better passenger facilitation. It is also noted that the unplanned CAPEX included implementation of Digi Yatra scheme amounting to ₹ 7.20 Crores and same was as per Government of India initiative to reduce the time taken for security check and to enhance



passenger experience. Considering the essentiality of CAPEX and taking into account reasonability of cost, based on review of completion cost/ prevailing market rates, the Authority proposed to consider the above CAPEX for true up of the First Control Period.

**A11: Furniture & Fixtures- Trolley:** The Authority had approved the Capital Expenditure of ₹ 2.02 Crores for Furniture & Fixtures- Trolley against which AAI had incurred ₹ 2.12 Crores of CAPEX. The Authority noted that AAI had procured 1,240 passenger baggage trolleys for Varanasi International Airport during FY 2023-24 and as the same were needed for operational requirements, the Authority proposed to consider it for true-up of the First Control Period.

**A13 and B28: CFT:** The Authority had approved the Capital Expenditure of ₹ 4.52 Crores whereas AAI had incurred only ₹ 0.25 Crore towards transfer of 1 CFT to VIA. It was noted that the proposal for procurement of new CFT (1 no.) had been postponed.

**B24: Office Furniture:** AAI had incurred ₹ 3.10 Crores towards purchase of furniture such as chairs, tables, check-in counters, almirah and cabinets for the Terminal Building and other areas. The above procurement was considered for smooth operations of the airport. Based on essentiality and reasonableness of costs based on prevailing market rates, the Authority proposed to consider the same for true up of the First control Period.

**B26: Other Vehicles:** The Authority noted that ₹ 6.40 Crores were incurred by AAI towards purchase of Rubber Removal Machine, Ambulances, Tractors, Grass Cutting Machines and Car. The Authority noted that the above CAPEX was incurred for operational purposes. Considering the essentiality and reasonableness of costs (by comparing with the costs incurred by other similar airports), the Authority proposed to consider the above assets for True up of the First control Period.

Upon analysis of the above capital expenditure, the Authority noted that most of these expenses were incurred by VIA either for Passenger facilitation or Security purposes or on operational needs. Therefore, the Authority proposed to consider the same for true up of the capital expenditure of the First Control Period.

4.4.7 Based on the above factors, the Authority proposed to consider the actual CAPEX amounting to ₹ 124.04 Crores for the purpose of true up for the First Control Period. The same is detailed as follows:

Table 11: Capital additions proposed by the Authority for True up of the First Control Period at consultation Stage.

(₹ Crores)

S. No	Asset category	FY	FY	FY	FY	FY	Total
		2019-20	2020-21	2021-22	2022-23	2023-24	
<b>A. CAPEX incurred towards projects approved by AERA for First Control Period</b>							
1	Road, Bridges & Culverts	-	-	-	-	-	-
2	Runway, Taxiway and Aprons	10.04	-	0.81	2.85	5.12	18.81
3	Building- Terminal	-	2.78	-	-	3.51	6.28
4	Building – Residential	-	-	-	-	-	-
5	Boundary Wall- Operational	-	-	-	-	-	-
6	Other Buildings-Unclassified	-	2.99	-	3.46	7.32	13.77
7	Plant & Machinery	6.42	6.12	-	0.78	1.47	14.80
8	Tools & Equipment	-	-	-	0.60	-	0.60
9	Electrical Installations	-	-	-	-	-	-
10	Furniture & Fixtures: Other than Trolleys	-	-	-	-	-	-
11	Furniture & Fixtures: Trolleys	-	-	-	-	2.12	2.12



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S. No	Asset category	FY	FY	FY	FY	FY	Total
		2019-20	2020-21	2021-22	2022-23	2023-24	
12	X Ray Baggage System	13.47	-	-	-	-	-
13	CFT/Fire Fighting Equipment	-	-	-	-	-	-
	<b>Total Approved CAPEX (A)</b>	<b>29.93</b>	<b>11.87</b>	<b>0.81</b>	<b>7.69</b>	<b>19.53</b>	<b>69.82</b>
<b>B. Unplanned/ Unapproved CAPEX incurred by Varanasi International Airport during First Control Period</b>							
14	Runway, Taxiway and Aprons	8.01	-	-	1.74	10.05	19.80
15	Road, Bridges & Culverts	-	-	-	2.22	-	2.22
16	Building- Terminal	1.21	0.49	-	-	0.23	1.92
17	Building – Residential	-	-	-	-	2.40	2.40
18	Boundary Wall- Operational	-	0.65	-	-	1.56	2.21
19	Other Buildings-Unclassified	0.06	0.15	1.31	-	0.30	1.82
20	computer: End User Services	0.02	0.20	-	0.23	0.14	0.58
21	Intangibles: Software	-	-	0.01	-	0.04	0.05
22	Plant & Machinery	0.12	0.02	0.31	10.30	-	10.74
23	Tools & Equipment	0.73	0.15	0.48	0.13	0.43	1.92
24	Office Furniture	1.29	0.79	0.12	0.00	0.88	3.10
25	Other Office Equipment	0.75	0.00	0.01	0.03	-	0.80
26	Other Vehicles	0.67	5.33	0.41	-	-	6.40
27	CFT/Fire Fighting Equipment	-	-	0.25	-	-	0.25
	<b>Total Unapproved CAPEX incurred (B)</b>	<b>12.86</b>	<b>7.77</b>	<b>2.89</b>	<b>14.66</b>	<b>16.03</b>	<b>54.22</b>
	<b>Total CAPEX incurred (A+B)</b>	<b>42.79</b>	<b>19.64</b>	<b>3.70</b>	<b>22.35</b>	<b>35.57</b>	<b>124.04</b>

4.4.8 The Authority proposed to consider CAPEX of ₹ 124.04 Crores as claimed by AAI for True up of the First Control Period. The CAPEX considered by the Authority for true up of the First Control Period (₹ 124.04 Crores) included unplanned/unapproved CAPEX of ₹ 67.69 Crores. From the review of unplanned CAPEX, the Authority noted that the same was incurred by AAI for VIA for passenger facilitation and/or security purposes and operational requirements. The CAPEX of ₹ 124.04 Crores had been arrived, after factoring the Terminal Building ratio of 90:10 as approved by the Authority, at the time of determination of tariff for the First Control Period. The same had also been considered by AAI, while submitting the true up of CAPEX for First Control Period.

4.4.9 With respect to Authority's decision no. 4(iii) of the Tariff Order for the First Control Period, which states "The Authority decides to rework the RAB of the Airport Operator for the Second Control Period, by reducing the RAB by 1% of the cost of the Terminal Building, if the Airport Operator (AAI/prospective PPP builder) fails to commission and capitalize the new Terminal Building by November 2023", the Authority noted that the project on Terminal Building had been postponed to the Second Control Period on account of the factors such as adverse impact of COVID 19 pandemic, requirement of statutory approval from PIB, as mentioned in para 4.4.5 (A3, A9 and B16) (refer page 30). Therefore, the Authority proposed not to reduce the RAB by 1% of the cost of Terminal Building, while determining true up of the Capital Expenditure for the First Control Period for Varanasi Airport

#### True up of Depreciation for the First Control Period

4.4.10 The Authority noted that while submitting the True up for the First Control Period, AAI had taken cognizance of the rates of depreciation as per Order No. 35/ 2017-18 dated January 12, 2018 read with Amendment No. 01 to Order No. 35/ 2017-18 on 'Determination of Useful Life on Airport Assets'. Accordingly, the rates of depreciation approved by AERA had been applied by AAI from FY 2018-19 onwards.



## TRUE UP OF THE FIRST CONTROL PERIOD

4.4.11 The Authority observed that AAI had depreciated assets @ 50% of depreciation rates in the year of capitalization of assets. However, the Authority proposed to consider the depreciation based on the date of capitalization of the asset and compute the depreciation accordingly, instead of considering 50% of the depreciation in the year of capitalization of the assets. As per the consistent approach of the Authority followed for all major airports, Depreciation in the year of capitalisation (for True up purpose) was calculated considering the actual date of capitalisation of assets as reflected in the Fixed Assets Register maintained by the Airport Operator. Therefore, the Authority proposed to consider depreciation on capital additions for the First Control Period for Varanasi Airport, based on the date of the date of capitalization/ date of asset being "put to use" by the Airport Operator.

4.4.12 Based on the above factors, the Authority had re-computed the depreciation as ₹ 57.66 Crores against the depreciation amounting to ₹ 57.59 Crores proposed by AAI and the same is presented below:

Table 12 : Depreciation proposed by the Authority for True up of the First Control Period at Consultation Stage.

(₹ Crores)

Particulars	FY	FY	FY	FY	FY	Total
	2019-20	2020-21	2021-22	2022-23	2023-24	
Land	-	-	-	-	-	-
Leasehold Land	-	-	-	-	-	-
Runways	0.31	0.62	0.63	0.70	1.05	3.31
Taxiway	-	-	-	-	-	-
Aprons	-	-	-	-	-	-
Road, Bridges & Culverts	0.05	0.05	0.04	0.21	0.26	0.62
Building- Terminal	2.74	2.83	2.87	2.93	2.99	14.35
Building – Temporary	-	-	-	-	-	-
Building – Residential	0.01	0.01	-	-	0.06	0.08
Security Fencing – Temporary	-	-	-	-	-	-
Boundary Wall -Operational	0.06	0.06	0.07	0.07	0.20	0.46
Boundary Wall – Residential	0.01	0.01	0.01	0.00	-	0.02
Other Buildings-Unclassified	0.22	0.28	0.34	0.44	0.56	1.84
Computer & Peripherals	0.10	0.13	0.09	0.12	0.13	0.58
Computer Servers and networks	-	-	0.00	0.00	0.01	0.01
Intangible Assets- Software	0.00	0.00	-	-	-	0.00
Plant & Machinery	1.70	2.13	2.27	2.58	3.02	11.70
Tools & Equipment	0.79	0.81	0.84	0.89	0.92	4.25
Office Furniture	0.47	0.63	0.66	0.61	0.69	3.07
Furniture & Fixtures: Other than Trolley	0.01	0.01	0.00	0.00	-	0.01
Furniture & Fixtures: Trolley	0.08	-	-	-	0.04	0.12
Environment Management Works	-	-	-	-	-	-
Other Vehicles	0.13	0.49	0.88	0.88	0.87	3.25
Vehicle- Cars & Jeeps	-	-	-	-	-	-
Electrical Installations	1.64	1.04	0.93	0.86	0.84	5.31
Other Office Equipment	0.13	0.16	0.16	0.16	0.16	0.77
X Ray Baggage System	0.25	0.25	0.24	0.24	0.24	1.22
CFT/Fire Fighting Equipment	1.33	1.33	1.33	1.34	1.34	6.66
<b>Total</b>	<b>10.01</b>	<b>10.84</b>	<b>11.37</b>	<b>12.05</b>	<b>13.39</b>	<b>57.66</b>

Note: Variance in the depreciation proposed by the Authority (₹ 57.66 Crores) and that claimed by AAI (₹ 57.59 Crores) was on account of shifting of the Widening of Perimeter Road from Runways to Roads,

Bridges and Culverts and re-computation of depreciation in the year of capitalisation based on the date of capitalization of the asset, instead of 50% claimed by AAI as part of its true up submission for the First Control Period.

4.4.13 The RAB for true up of the First Control Period is provided in the Table below:

*Table 13: RAB proposed by the Authority for True up of the First Control Period at Consultation Stage*  
(₹ Crores)

Particulars	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	Total
Opening RAB (A)*	74.80	107.57	116.37	108.70	122.73	
Additions (B) (refer Table 11)	42.79	19.64	3.70	26.08	31.84	124.04
Disposal/Transfers (C)	-	-	-	-	-	-
Depreciation (D) (Refer Table 12)	10.01	10.84	11.37	12.05	13.39	57.66
Closing RAB (E) = [(A) +(B) – (C) – (D)]	107.57	116.37	108.70	122.73	141.18	
Average RAB = [(A) + (E)]/2	91.18	111.97	112.53	115.72	131.96	

\* Opening RAB has been obtained from Table No. 58 of Tariff Order 59/2020-21 dated December 31, 2020.

**Stakeholders' comments regarding true up of Capital Expenditure (CAPEX), Depreciation and Regulatory Asset Base (RAB) for the First Control Period**

4.4.14 No comments have been received from Stakeholders on Capital Expenditure (CAPEX), Depreciation and Regulatory Asset Base (RAB) for the First Control Period

**Authority's analysis on Stakeholders' comments regarding true up of Capital Expenditure (CAPEX), Depreciation and Regulatory Asset Base (RAB) for the First Control Period**

4.4.15 The Authority notes that no comments were received from the Stakeholders on the true up of capital expenditure (CAPEX), depreciation and regulatory asset base (RAB) for the First Control Period. Hence, the Authority decides to consider the RAB based on actuals for true up of the First Control period, consistent with the proposal made in the Consultation Paper No. 05/2024-25 dated October 26, 2024. The RAB considered by the Authority for true up of the First Control Period has been shown in Table 13.

**4.5 True up of Fair Rate of Return**

4.5.1 The Authority noted that AAI had claimed 14% as Fair Rate of Return as part of its True up submission for the First control period.

4.5.2 The Authority noted that AAI had not availed any debt during the First Control Period.

4.5.3 At the time of determination of tariff for the First Control Period, the Authority had decided to consider the FRoR for VIA as 14% for first 4 years and 13.18% for last tariff year (assuming that AAI may avail debts for construction of Terminal Building in the last tariff year). As the construction of Terminal Building had been shifted to Second Control Period and no debts were availed in the First Control Period. Therefore, the Authority proposed to consider the FRoR as 14% for true up of the First Control Period.



**Stakeholders' comments regarding true up of Fair Rate of Return (FRoR) for the First Control Period**

4.5.4 FIA's Comment on FRoR is as follows:

*"It is submitted that:*

*(a) We observe that the Fair Rate of Return (FRoR) of 14% provided to the Airport Authority of India ("AAI") is higher compared to some of the airports, such as Chennai and Pune. Without prejudice to the above, there appears to be no clear rationale for providing a higher return to AAI for VNS. Accordingly, we request that AERA consider reducing the FRoR appropriately.*

*(b) We also request that AERA conduct an independent study to assess the proposed FRoR. As AAI has not factored in any debt as part of its MYTP submission for FRoR, while VNS has one of the lowest debt components among all AAI airports of similar capacity."*

**AAI's response to stakeholders' comments regarding true up of Fair Rate of Return (FRoR) for the First Control Period**

4.5.5 AAI's response to FIA's comment on FRoR is as follows:

1. *"The FRoR for an airport depends upon the cost of equity and cost of debt.*
2. *In 1st Control Period of Chennai Airport, AAI had submitted a study conducted by M/s KPMG in regards to calculation of Cost of Equity wherein, Estimated Asset Beta was 0.92 and corresponding Equity Beta works out to 0.98.*
3. *AERA has been considering cost of equity at 13.36% as against 15.64% as per study report submitted by M/s KPMG. The variation in the FRoR rates at the airport is due to the gearing ratio and the actual cost of debt taken at varied rates over the years.*

**Authority's analysis on Stakeholders' comments regarding true up of Fair Rate of Return (FRoR) for the First Control Period**

The Authority notes the comments of FIA on FRoR and AAI's response to the same.

Cost of Debt, Cost of Equity and gearing plays an important role in determination of FRoR. FIA has compared the FRoR of Varanasi International Airport with other AAI airports such as Chennai and Pune. The Authority has computed the FRoR at 14% for the First Control Period in respect of the Varanasi airport, as no debt was availed by AAI for Varanasi Airport, during the First Control Period. The Authority is of the opinion that each airport operates with a distinct financial structure.

The Authority emphasizes that the FRoR is determined not only by comparative analysis but also by considering the unique financial circumstances and operational conditions of each airport. Hence, for trueing up of the FRoR in respect of the First Control Period, the Authority decides to maintain the same position as proposed in the Consultation Paper.

As per the Authority, the requirement for an independent study will depend upon the size of the airport and the scale of operations. AERA, may commission an independent study in future for Varanasi International Airport, if considered necessary.

**4.6 True up of Non-aeronautical revenues**

- 4.6.1 The Authority noted that the actual non-aeronautical revenue submitted by AAI for VIA for true up of the First Control Period is ₹ 91.68 Crores and the same is presented in the table below:



Table 14: Actual Non-aeronautical revenue for the First Control Period submitted by AAI for VIA at Consultation Stage

(₹ Crores)

Revenue Category	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	TOTAL
Restaurant / Snack Bars	4.25	1.64	1.09	3.08	4.05	14.11
T.R. Stall	6.76	2.74	4.58	7.05	6.07	27.20
Hoarding & Display	3.77	1.54	1.54	4.11	4.49	15.46
Land Leases	0.00	0.00	0.04	0.23	0.30	0.57
Building (Residential)	0.02	0.02	0.02	0.02	0.02	0.11
Building (Non-Residential)	1.44	1.69	1.52	1.39	1.90	7.95
Car Rentals	1.13	0.44	0.47	0.47	0.83	3.34
Car Parking	2.23	1.04	2.58	2.81	3.02	11.68
Admission Tickets	0.24	0.02	0.03	0.04	0.05	0.38
Other Income/ Sale Of Scrap	2.85	0.81	1.06	2.34	3.83	10.89
<b>TOTAL</b>	<b>22.70</b>	<b>9.95</b>	<b>12.94</b>	<b>21.53</b>	<b>24.56</b>	<b>91.68</b>

4.6.2 The Non-aeronautical revenue approved by the Authority in the Tariff Order for First Control Period was ₹ 96.29 Crores. Component wise details of the Non-aeronautical revenue approved by the Authority in the Tariff Order for the First Control Period is as follows:

Table 15: Non-aeronautical revenue approved in the Tariff Order by the Authority for the First Control Period

(₹ Crores)

S. No.	Revenue Category	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	TOTAL
1	Restaurant / Snack Bars	3.89	1.95	2.73	3.89	4.67	17.14
2	T.R. Stall	5.68	2.84	3.98	5.68	6.81	24.99
3	Hoarding & Display	3.77	1.89	2.64	3.77	4.53	16.60
4	Building (Residential)	0.04	0.04	0.04	0.04	0.04	0.21
4	Building (Non-Residential)	1.75	0.88	1.23	1.75	2.10	7.71
5	Car Rentals	0.77	0.38	0.54	0.77	0.92	3.38
6	Car Parking	2.34	0.90	1.26	1.80	2.16	8.46
7	Admission Tickets	0.31	0.16	0.22	0.31	0.37	1.37
8	Other Income/ Sale of Scrap	2.96	3.10	3.26	3.42	3.59	16.34
	<b>TOTAL</b>	<b>21.54</b>	<b>12.16</b>	<b>15.91</b>	<b>21.46</b>	<b>25.23</b>	<b>96.29</b>

**Authority's examination and proposal regarding true up of Non-aeronautical revenues of the First Control Period at Consultation Stage:**

4.6.3 The Authority noted that the actual Non-aeronautical revenue (₹ 91.68 Crores) submitted by AAI for VIA for the First Control Period was lower than the NAR approved by AERA in the tariff order for the First Control Period (₹ 96.29 Crores). The Authority examined variances between projected and actual revenue of Restaurants and Snack bar, hoardings and displays, admission tickets and noted that the same was on account of decline in passenger traffic due to adverse effects of COVID 19 pandemic during FY 2020-21 and FY 2021-22.

4.6.4 The Authority noted that AAI in their MYTP submission had already excluded the Space rental from Airlines amounting to ₹ 3.22 Crores from Non-Aeronautical revenue and included the same as part of the Aeronautical revenue, which was in line with its decisions of the Authority in other similar airports.

4.6.5 Based on the above analysis, the Authority proposed to consider the actual Non-aeronautical revenue as

presented in Table 14 for the purpose of true up of the First Control Period.

**Stakeholders' comments regarding true up of Non-aeronautical revenue for the First Control Period**

4.6.6 No comments have been received from Stakeholders on true up of Non-aeronautical revenue for the First Control Period.

**Authority's analysis on Stakeholders' comments regarding true up of Non-aeronautical revenue for the First Control Period**

4.6.7 The Authority notes that no comments were received from the Stakeholders on the true up of Non-aeronautical revenue for the First Control Period. Hence, the Authority decides to consider the Non-aeronautical revenue based on actuals for true up of the First Control period, consistent with the proposal made in the Consultation Paper No. 05/2024-25 dated October 26, 2024. The Non-aeronautical revenue considered by the Authority for true up of the First Control Period has been shown in Table 14.

**4.7 True up of Operation and Maintenance (O&M) expenses**

The Authority noted that the actual O&M expenses submitted by AAI for VIA for true up of the First Control Period was ₹ 410.87 Crores and the same is presented in the table below:

*Table 16: Actual O&M expenses submitted by AAI for VIA for the First Control Period*

S. No.	Particulars	(₹ Crores)					Total
		FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	
1	Payroll expenses	16.93	18.38	19.82	20.18	21.59	96.90
2	Retirement Benefit of employees of Varanasi Airport.	4.87	1.77	1.48	0.02	2.98	11.12
<b>A</b>	<b>Total Payroll Expenditure(A)</b>	<b>21.80</b>	<b>20.15</b>	<b>21.30</b>	<b>20.20</b>	<b>24.57</b>	<b>108.02</b>
3	Admin & Gen Expenses (Non CHQ /RHQ)	5.50	4.78	10.84	6.92	11.28	39.32
4	Admin & Gen Expenses (CHQ/ RHQ)	29.46	27.30	35.73	37.52	39.39	169.40
<b>B</b>	<b>Total Administration &amp; General Expenditure (B)</b>	<b>34.96</b>	<b>32.08</b>	<b>46.57</b>	<b>44.44</b>	<b>50.68</b>	<b>208.73</b>
<b>C</b>	<b>Total R&amp;M Expenses (C)</b>	<b>12.45</b>	<b>14.93</b>	<b>14.29</b>	<b>11.15</b>	<b>12.13</b>	<b>64.95</b>
5	Power	4.57	3.72	4.16	5.42	5.57	23.44
6	Water	-	-	-	-	-	-
7	Consumption of Stores and Spares	0.35	0.32	0.69	0.51	0.48	2.35
8	Other charges	0.16	0.32	0.15	0.47	0.49	1.59
<b>D</b>	<b>Utilities &amp; outsourcing (D)</b>	<b>5.08</b>	<b>4.36</b>	<b>5.00</b>	<b>6.40</b>	<b>6.55</b>	<b>27.39</b>
<b>E</b>	<b>Other Outflow- Collection charges on UDF (E)</b>	<b>0.63</b>	<b>(0.04)</b>	<b>0.07</b>	<b>0.07</b>	<b>1.04</b>	<b>1.77</b>
	<b>TOTAL (A+B+C+D+E)</b>	<b>74.93</b>	<b>71.48</b>	<b>87.23</b>	<b>82.26</b>	<b>94.97</b>	<b>410.87</b>

4.7.1 The O&M expenses approved by the Authority in the Tariff Order for the First Control Period was ₹ 313.26 Crores. Component wise details of the O&M expenses approved by the Authority in the Tariff Order for the First Control Period is as follows:



Table 17: O&amp;M expenses as per the Tariff Order for the First Control Period

(` Crores)

Particulars	FY	FY	FY	FY	FY	Total
	2019-20	2020-21	2021-22	2022-23	2023-24	
Payroll exp- Non CHQ/RHQ	13.44	14.12	14.82	15.56	17.90	75.84
Payroll exp- CHQ/RHQ	1.83	1.92	2.02	2.12	2.43	10.31
Total Payroll Expenditure(A)	15.27	16.04	16.84	17.68	20.33	86.15
Admin & Gen Expenses -Non CHQ/RHQ	3.44	3.78	4.16	4.58	5.04	21.00
Admin & Gen Expenses CHQ/ RHQ	16.23	17.05	17.90	18.79	19.73	89.70
Total Administration & General Expenditure (B)	19.67	20.83	22.06	23.37	24.77	110.7
R&M Expenses (C)	15.39	16.35	17.39	13.15	15.27	77.54
Utilities & outsourcing (D)	4.88	5.97	6.74	6.80	10.97	35.35
Other Outflow- Collection charges on UDF (E)	0.76	0.48	0.59	0.76	0.91	3.50
<b>TOTAL (A+B+C+D+E)</b>	<b>55.98</b>	<b>59.66</b>	<b>63.62</b>	<b>61.76</b>	<b>72.25</b>	<b>313.26</b>

**Authority's examination and proposal regarding true up of O&M expenses of the First Control Period at Consultation Stage:**

- 4.7.2 There was a variance of ₹ 97.61 Crores (31.16%) between the actual O&M expenses incurred by the VIA and that approved by the Authority in the Tariff Order for the First Control Period. The Authority had examined the variances and the same had been explained in the below-mentioned paragraphs
- 4.7.3 The analysis of the Authority on variances between the projected and actual expenses for true up in respect of various components of O&M expenses have been discussed in the below paragraphs:
- 4.7.4 **Payroll expenses:** The Authority noted that the actual payroll expenses other than CHQ/ RHQ submitted by AAI for VIA (₹ 96.90 Crores) were much higher than the expense approved by the Authority in the Tariff Order of the First Control Period (₹ 75.84 Crores). The above variance was due to the fact that AAI had proposed 7% increase Y-o-Y for the First Control Period, whereas the Authority had only approved 5% increase for Y-o-Y increase in payroll expenses. Further there was an increase in overtime rates in FY 2019-20 which was another factor for increase in payroll expenses. In view of the above, the Authority proposed to consider 6% increase Y-o-Y from FY 2020-21 to FY 2023-24 for true up of the First Control Period (by considering FY 2019-20 as the base), in line with the approach followed in other similar airports.
- 4.7.5 **Retirement Benefits of employees:** AAI had submitted ₹ 4.87 Crores towards retirement benefits for FY 2019-20 which was significantly higher than the amount submitted for the other tariff years in the First Control Period. This was on account of payment of arrears for Non-Executives. Also, as part of its examination, the Authority noted that AAI had submitted ₹ 2.98 Crores towards retirement benefits for FY 2023-24, which was higher than the previous tariff year, due to a clerical error. The actual amount incurred in FY 2023-24 was only ₹ 1.69 Crores. The Authority had taken cognizance of the same while





exclusion had been done for support services of the departments of HR, Finance, Civil, Terminal Management (Housekeeping), etc. pertaining to the aforesaid departments (ANS and Cargo)

- Manpower of CHQ and RHQ also provided services to non-aeronautical activities, ATC, and CNS cadres at respective airports. Hence, pay and allowances needed to be adjusted accordingly.

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

- Support services provided by CHQ/RHQs to ANS, Cargo and Commercial departments at various airports.
- Officials of Directorate of Commercial.

Balance 80% of pay and allowances of CHQ and RHQ to be allocated to the Airports.

**b. Administration & General Expenses of CHQ and RHQ:**

- AAI had incurred Legal & Arbitration Expenses at CHQ/RHQ level. The Authority is of the view that this expense should be analyzed and distributed to stations on a case-to-case basis. As the above details had not been provided by AAI, the same had not been allocated to the stations.
- AAI had paid interest/penalties to Government of India at both CHQ and RHQ levels. The Authority is of the view that the stakeholders should not be burdened with interest/penalties paid to Government of India, due to various lapses/delays on the part of the Airport Operator. Hence, the Authority proposed to not consider interest/penalties appearing in AAI submission.

4.7.7 The Authority is of the view that the users should pay only for the services availed by them. This view is also consistent with the International Civil Aviation Organization's (ICAO) principle of 'Cost-relatedness'. Based on the above principles, the Authority had rationalized the CHQ/ RHQ expenses being allocated to Varanasi International Airport.

4.7.8 The Authority felt that the allocation of CHQ & RHQ expenses by AAI on the basis of revenue was on higher side, as it brings large variation in such expenses Y-o-Y, due to change in revenue and was against the basic principle of cost relatedness in tariff determination. Users of the Major Airports have to pay higher tariff due to higher allocation of CHQ/RHQ expenses to these airports. Further, as the revenue from these airports goes up due to higher tariffs, it further leads to higher allocation of CHQ/RHQ expenses with chain of cascading effect.

The Authority has derived the revised allocation of CHQ and RHQ expenses, based on the methodology, explained in the above-mentioned paragraphs and the same is presented in the table below:

Table 18: Re-allocation of CHQ/ RHQ – Admin and Gen expenses proposed by the Authority for the First Control Period at Consultation Stage

(₹ Crores)

Particulars	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	Total
CHQ/ RHQ – Admin & General expenses (approved in the Tariff Order of the First Control Period)	16.23	17.05	17.90	18.79	19.73	89.70
CHQ/ RHQ – Admin & General expenses (allocation done by AAI) = A	29.46	27.30	35.73	37.52	39.39	169.40
Revised allocation of CHQ/ RHQ expenses proposed by the Authority = B	24.98	23.75	24.93	26.18	27.49	127.32
Variance (A-B)	4.48	3.55	10.80	11.34	11.90	42.08



4.7.9 **Administration expenses (Other than CHQ/ RHQ):** There was significant variance between the Administration Expenses approved in the Tariff Order of the First Control Period (₹ 21.00 Crores) and actual expense claimed by AAI (₹ 39.32 Crores). The major components of the actual Administration expenses (other than CHQ/ RHQ), included

- Upkeep expenses amounting to ₹ 15.25 Crores,
- CSR expenses amounting to ₹ 7.38 Crores,
- Manpower expenses for Inline baggage and other works amounting to ₹ 8.90 Crores and,
- Travelling expenses amounting to ₹ 2.62 Crores, etc.

The Authority noted that such increase in Administration Expenses was due to awarding of new contract from FY 2019-20 onwards which entailed higher upkeep expenses, installation of 'May I Help You' counters etc.

#### CSR expenses

The Authority noted that AAI had incurred ₹ 7.38 Crores towards CSR expenses during the First Control Period (i.e., ₹ 1.99 Crores in FY 2019-20, ₹ 1.48 Crores in FY 2020-21, ₹ 2.86 Crores in FY 2021-22, ₹ 0.49 Crores in FY 2022-23 and projected ₹ 0.54 Crores in FY 2023-24). In this regard, the Authority took cognizance of the statutory provisions of the Companies Act, 2013 towards allowance of CSR expenses and the extract of the same is as under:

*Section 135 (1) of Companies Act, 2013 states that 'Every company having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during immediately preceding financial year shall constitute a Corporate Social Responsibility Committee of the Board consisting of three or more directors, out of which at least one shall be an independent director.' Further section 135(5) states that 'The Board of every company referred in section 135(1), shall ensure that the company spends, in every financial year, at least two percent of the average net profits of the company made during the three immediately preceding financial years, in pursuance of its Corporate Social Responsibility'.*

In this regard, the Authority is of the view that as the CSR was a mandatory Social Responsibility of the Companies (covered under Section 135(1) of Companies Act). As the CSR expenditure is to be incurred by Companies out of their net profits, it was to be regarded as an element of appropriation of Net Profits and not as a part of their Operating Expenditure. Therefore, CSR expenses could not be construed as a pass-through expenditure of the companies, otherwise, it would defeat the very purpose of the social responsibility entrusted on the companies.

Section 37(1) of Income Tax Act also disallows CSR expenses, as these were not considered expenses incurred wholly and exclusively for the purpose of business of the entity.

In view of the above, the Authority would not consider CSR expenses under the O&M Expenditure.

#### Interest on Loan

Further, Administration and General expenses (other than CHQ/ RHQ and upkeep expenses), included Interest on Loan amounting to ₹ 1.56 crores, apportioned to Varanasi Airport, from the total interest on loan incurred by AAI on the debts availed by AAI as a whole, for all airports. The Authority noted that AAI had not availed any debts for Varanasi Airport. Therefore, the Authority proposed not to consider the above interest on loan apportioned to Varanasi Airport by AAI.

4.7.10 Based on the above factors, the Authority proposed to consider the Administration expenses - other than



CHQ/ RHQ amounting to ₹ 30.14 Crores, for true up of the First Control Period, as shown in Table 20.

**4.7.11 Repair and Maintenance (R&M) expenses:** The Authority noted that the actual repair and maintenance cost for the First Control Period amounts to ₹ 64.95 Crores and the same was within the limit of ₹ 77.54 Crores approved by AERA in the Tariff Order for the First Control Period. The Authority noted that the said Repairs & Maintenance had been incurred by AAI mainly for operational requirements and maintenance of Aeronautical Infrastructure including AMCs for Electrical Installation including following:

- i Runway Recarpeting charges of ₹ 16.50 Crores had been charged off to expenses in FY 2019-20 to FY 2021-22.
- ii R&M Electrical amounting to ₹ 0.48 Crores were incurred towards Solar Power plant and replacement of damaged panel, ₹ 0.75 Crores towards E&M installation at Terminal Building and Sub Station and ₹ 0.15 Crores towards supply of electrical spares.

Based on the above factors, the Authority proposed to consider the actual R&M expenses amounting to ₹ 64.95 Crores incurred by AAI for True up of the First Control Period.

**4.7.12 Utilities & Outsourcing Expenses:** These expenses included Power charges, Fees paid to outsiders, water charges, hire charges of Car/Jeep & Consumption of Stores & Spares. AAI had incurred actual Utilities & Outsourcing Expenses of ₹ 27.39 Crores during the First Control Period, which was lower than the expense of ₹ 35.35 Crores approved in the Tariff Order for the First Control Period.

**Power Expenses:** AAI had incurred actual power charges of ₹ 27.90 Crores during First Control Period, out of which ₹ 4.45 Crores had been recovered from the Concessionaires and had claimed the net power charges of ₹ 23.44 Crores (Actual power charges less recoveries from Concessionaires) as a part of true up for the First Control Period.

The total power costs incurred, recoveries made from Concessionaires and the net power costs have been summarized in the table below:

Table 19: Details of power costs incurred and recoveries made from Concessionaires

(₹ Crores)

Particulars	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	Total
Electricity Consumed (in 000')	3,989	3,001	3,351	4,368	4,487	
Total power costs (A)	5.43	4.42	5.07	6.19	6.80	27.90
Recoveries from Concessionaires (B)	0.86	0.69	0.91	0.76	1.23	4.45
Recoveries (%) = (B/A%)	16%	16%	18%	12%	18%	
Net power costs (A-B)	4.57	3.72	4.16	5.42	5.57	23.44

However, the actual power charges claimed by AAI (₹ 23.44 Crores) were within the approved limit of ₹ 35.35 Crores. Based on the above factors, the Authority proposed to consider the actual power costs incurred by AAI for Varanasi International Airport for true up of the First Control Period.

**Consumption of Stores and Spares and other charges:** The Authority noted that the actual expenses amounting to ₹ 2.35 Crores for the consumption of Stores & Spares expenses included petrol expenses for Jeep/ Car and other consumables. Expenses towards consumption of stores and spares had not been separately approved in the Tariff Order for the First Control Period. The Authority noted the actual expenses towards consumption of Stores and spares to be reasonable and therefore proposed to consider the same for true up of the First Control Period.



**Other charges:** The Other charges include Consultancy/ Advisory fees paid for the Consultancy services availed for Land/ Terminal Management services, ACI ASQ Survey Fees and hire charges-car/jeep & others by AAI for VIA. The Authority noted that the actual expenses amounting to ₹ 1.59 Crores incurred by AAI on such expenses towards consultancy had not been separately approved in the Tariff Order for the First Control Period. Based on the nature and essentiality of services, the Authority proposed to consider for true up of the First Control Period.

4.7.13 Based on the above review and analysis, the revised Operation and Maintenance expenses proposed to be considered by the Authority for the First Control Period is provided in the table below:

Table 20: O&M expenses as proposed by the Authority for True up of the First Control Period at Consultation Stage.

(₹ Crores)

S. No.	Particulars	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	Total
1	Pay roll expenditure of VIA	16.93	17.95	19.03	20.17	21.38	95.46
2	Expenditure for VIA employee's retirement benefits allocated at CHQ	4.87	1.77	1.48	0.02	1.69	9.84
A	<b>Total Payroll expenditure (1+2)</b>	<b>21.80</b>	<b>19.72</b>	<b>20.51</b>	<b>20.19</b>	<b>23.07</b>	<b>105.30</b>
3	Administrative and General Expenditure	3.45	3.22	7.81	6.24	9.41	30.14
4	Apportionment of Administration & General expenditure of CHQ/RHQ	24.98	23.75	24.93	26.18	27.49	127.32
B	<b>Total Administration and General expenditure (3+4)</b>	<b>28.43</b>	<b>26.97</b>	<b>32.74</b>	<b>32.42</b>	<b>36.90</b>	<b>157.46</b>
C	<b>Repair &amp; Maintenance Expenditure (Total)</b>	<b>12.45</b>	<b>14.93</b>	<b>14.29</b>	<b>11.15</b>	<b>12.13</b>	<b>64.95</b>
5	Power Charges	4.57	3.72	4.16	5.42	5.57	23.44
6	Consumption of Stores and Spares	0.35	0.32	0.69	0.51	0.48	2.35
7	Other charges	0.16	0.32	0.15	0.47	0.49	1.59
D	<b>Utility and Outsourcing Expenditure (5+6+7)</b>	<b>5.08</b>	<b>4.36</b>	<b>5.00</b>	<b>6.40</b>	<b>6.55</b>	<b>27.39</b>
E	<b>Other Outflows</b>	<b>0.63</b>	<b>(0.04)</b>	<b>0.07</b>	<b>0.07</b>	<b>1.04</b>	<b>1.77</b>
	<b>Total (A+B+C+D+E)</b>	<b>68.39</b>	<b>65.95</b>	<b>72.61</b>	<b>70.23</b>	<b>79.69</b>	<b>356.87</b>

4.7.14 Reasons for variance in O&M expenses as submitted by AAI ₹ 410.87 Crores and as proposed by the Authority ₹ 356.87 Crores for true up of the First Control Period is as follows:

- **Administration & General Expenses (CHQ/RHQ)** – Rationalization of expenses by ₹ 42.08 crores based on methodology followed for other similar airports.
- **Administration & General Expenses (Other than CHQ/RHQ)** – Rationalization by ₹ 9.18 crores due to non-consideration of CSR expenses and interest on loan.
- **Payroll Expenses (Other than CHQ/RHQ) & Payroll Expenses (CHQ/RHQ)** – Rationalization of ₹ 2.72 Crores due to consideration of 6% increase Y-o-Y as against 7% Y-o-Y increase considered by AAI.



**Stakeholders' comments regarding true up of Operating and maintenance (O&M) expenses for the First Control Period**

4.7.15 AAI's comment on Payroll expenses is as follows:

*"Due to the implementation of 7th pay Commission, most of the expenses based on the basic pay had also been revised like TA.DA., Overtime, OPA, Medical, Night shift allowance etc. that had to be paid accordingly.*

*Considering the above facts AAI had proposed a 7% YOY increase during the 1st CP. However, AERA had allowed only 5% at the time of issuing order of 1st CP. Such conservative approach leads to increase in short recovery to be carried forward to the next control period resulting in higher ARR and steep hike in aeronautical charges.*

*AERA is requested to consider the actual pay roll expenses (which is on incurrence basis) instead of restricting to 6% YOY from FY 2020-21 to FY 2023-24. It will also impact the ARR for the Second control period as the projection is made on the 6% (proposed by AERA) instead of Actual payroll expense which is higher."*

4.7.16 FIA's Comment on Interest/penalty paid to government of CHQ/RHQ expenses is as follows:

*"We appreciate that AERA holds a considered view that stakeholders should not be burdened with significant increase in the Aeronautical tariff arising on account of the NPV of the Under-recovery or due to interest/penalties paid to Government of India at both CHQ and RHQ levels due to various lapses/delays on the part of the Airport Operator, or due to deficiency to recover the ARR on account of higher O&M expenses projected for the Second Control Period caused due to under-recovery pertaining to the First Control Period."*

**AAI's response to stakeholders' comments regarding true up of Operating and Maintenance (O&M) expenses for the First Control Period**

4.7.17 AAI's response to FIA's comment on O&M expenses is as follows:

*"AERA has not considered of Interest / penalties while evaluating MYTP Varanasi Airport."*

**Authority's analysis on stakeholders' comments regarding true up of Operating and Maintenance (O&M) expenses for the First control period**

4.7.18 The Authority notes the comments of AAI pertaining to O&M expenses.

The Authority notes the comments of AAI on Payroll expenses. Upon examination of actual payroll expenses (₹ 96.90 Crores) submitted by AAI, the Authority noted that the same was significantly higher than the expenses approved by the Authority in the Tariff Order for the First Control Period, which was ₹ 75.84 Crores.

As the Authority noted a variance of 28% between the approved amount and the actual payroll expenses, the same was analysed and appropriately rationalised.

It is pertinent to note that expenses proposed by AO for true up, even if the same are based on actual expenditure, need to reviewed to assess its reasonability, efficiency etc. Accordingly, after due-diligence, appropriate level of expenses is considered for true up.

Further, the Authority has already taken the cognizance of the pay revision, increase in rates of overtime charges etc. at the consultation stage, which had resulted in incurrence of higher payroll expenses by AAI.

It is worthwhile to mention that after rationalising the payroll expenses of Varanasi airport, the Authority



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had considered the allowable payroll expenses of Varanasi Airport at the consultation stage as ₹ 95.46 Crores, which is quite closer to the actual expenses claimed by AAI for true up i.e. ₹ 96.90 Crores.

Considering the above, the Authority decides to maintain the same view on true up of payroll expenses as was proposed at the Consultation Stage.

4.7.19 AERA acknowledges the views of FIA and response thereon by AAI.

AERA in accordance with regulatory guidelines, carries out the required due-diligence & prudent checks and considers only the efficient capex, operating expenses etc., while determining the aeronautical tariffs for the airport operators.

#### 4.8 True up of Taxation

4.8.1 AAI submitted taxation for the First Control Period as follows:

Table 21: Taxation submitted by AAI for VLA

(₹ Crores)

Particulars	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	TOTAL
<b>REVENUE</b>						
Aeronautical Revenue	66.24	30.39	52.82	81.22	98.65	329.32
<b>Total Revenue (A)</b>	<b>66.24</b>	<b>30.39</b>	<b>52.82</b>	<b>81.22</b>	<b>98.65</b>	<b>329.32</b>
<b>EXPENSES</b>						
O&M expenses	74.93	71.48	87.23	82.26	94.96	410.86
Dep. As WDV As Per Income Tax	13.71	15.90	15.37	15.25	16.53	76.76
<b>Total Expenses (B)</b>	<b>88.64</b>	<b>87.38</b>	<b>102.60</b>	<b>97.51</b>	<b>111.49</b>	<b>487.62</b>
<b>Profit /Loss (A-B)</b>	<b>(22.40)</b>	<b>(56.99)</b>	<b>(49.79)</b>	<b>(16.29)</b>	<b>(12.84)</b>	<b>(158.30)</b>
Tax Rates (D)	25.17%	25.17%	25.17%	25.17%	25.17%	
<b>TAX (C*D)</b>	-	-	-	-	-	

4.8.2 The Authority had re-computed Aeronautical Taxation based on Regulatory Building Blocks as discussed in the previous paragraphs and the same is as follows:

Table 22 : Taxation proposed to be considered by the Authority at Consultation Stage

(₹ Crores)

Particulars	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	Total
<b>Revenue (A)</b>						
Aeronautical Revenue	66.24	30.39	52.82	81.22	98.65	329.32
<b>Total (A)</b>	<b>66.24</b>	<b>30.39</b>	<b>52.82</b>	<b>81.22</b>	<b>98.65</b>	<b>329.32</b>
<b>Expenses (B)</b>						
O&M expenses (Refer Table 20)	68.39	65.95	72.61	70.23	79.69	356.87
Depreciation (as per Income Tax Act, 1961)	13.71	15.90	15.37	15.25	16.53	76.76
Interest on Loan	0.06	0.08	0.17	0.19	1.07	
<b>Total (B)</b>	<b>82.16</b>	<b>81.92</b>	<b>88.15</b>	<b>85.67</b>	<b>97.28</b>	<b>435.19</b>
<b>Profit /Loss (C=A-B)</b>	<b>-15.93</b>	<b>-51.53</b>	<b>-35.34</b>	<b>-4.44</b>	<b>1.36</b>	<b>-105.87</b>
Set off of prior period tax losses (D)				-	-	1.36



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Particulars	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	Total
Profit/ Loss after set off of prior period tax losses (E)	-15.93	-51.53	-35.46	-4.53	0.00	
Tax Rates (F)	25.17%	25.17%	25.17%	25.17%	25.17%	
Tax (E*F)	0.00	0.00	0.00	0.00	0.00	0.00

4.8.3 The Authority noted that AAI had incurred losses during the First Control Period i.e., from FY 2019-20 to FY 2022-23 and profit of ₹ 1.36 Crores for FY 2023-24, which would be set off against the losses incurred in the prior period. The Authority proposed to consider Aeronautical Tax as NIL for true up of the First Control Period, as shown in Table 22 at Consultation Stage.

**Stakeholders' comments regarding true up of Taxation for the First Control Period**

4.8.4 No comments have been received from Stakeholders on true up of taxation for the First Control Period.

**Authority's analysis on Stakeholders' comments regarding true up of taxation for the First Control Period**

4.8.5 The Authority notes that no comments were received from the Stakeholders on the true up of taxation for the First Control Period. Hence, the Authority decides to consider the taxation based on actuals for true up of the First Control period, consistent with the proposal made in the Consultation Paper No. 05/2024-25 dated October 26, 2024. The taxation considered by the Authority for true up of the First Control Period has been shown in Table 22.

**4.9 True up of Aeronautical Revenue**

4.9.1 AAI had submitted the actual Aeronautical revenue for the First Control Period for VIA, which is as follows:

Table 23: Aeronautical revenue submitted by AAI for VIA at Consultation Stage

(₹ Crores)

Particulars	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	Total
<b>Parking &amp; Housing Charges Revenue</b>						
Landing (Domestic + International)	16.42	9.61	14.99	19.89	23.62	84.53
Parking & Housing	0.03	0.09	0.06	0.03	0.44	0.64
<b>PSF and UDF Charges</b>						
PSF(Facilitation)-Domestic + International	11.61	5.63	0.15	-	-	17.39
UDF (Domestic + International)	32.05	11.29	34.30	55.30	66.31	199.24
<b>Other Revenue</b>						
Throughput Charges	1.50	0.05	-	-	-	1.55
Land Lease	0.56	0.56	0.59	0.64	0.80	3.14
Ground Handling Charges	0.84	0.47	0.59	1.43	2.18	5.52
Royalty from Cute Charges	2.12	1.68	1.42	2.67	3.55	11.44
Space Rental from Airlines	0.82	0.71	0.29	0.64	0.76	3.22
Royalty cargo revenue-30%	0.28	0.31	0.44	0.62	0.99	2.64
<b>Total</b>	<b>66.24</b>	<b>30.39</b>	<b>52.82</b>	<b>81.22</b>	<b>98.65</b>	<b>329.32</b>

4.9.2 The Authority compared the actual Aeronautical Revenue submitted by AAI with the Aeronautical



Revenues as per the Tariff Order for the First Control Period and the same is detailed below:

Table 24: Comparison of Aeronautical Revenue as submitted by AAI with Tariff Order of the First Control Period

Particulars	Reference	FY					Total
		2019-20	2020-21	2021-22	2022-23	2023-24	
As per Tariff Order	A	66.88	39.32	76.03	100.92	122.85	406.01
As per True-up by AAI	B	66.24	30.39	52.82	81.22	98.65	329.32
Difference	C=B-A	-0.64	-8.93	-23.21	-19.70	-24.20	-76.69
Change %	D=C/A	-0.96%	-22.71%	-30.53%	-19.52%	-19.70%	-18.89%

(₹ Crores)

4.9.3 The Authority noted that there was a significant variance between actual Aeronautical Revenues and Aeronautical Revenues as approved by the Authority in Tariff Order for the First Control Period for FY 2020-21 to FY 2022-23, which was attributable to lower passenger traffic and ATMs due to the adverse impact of the COVID-19 pandemic on the aviation sector.

4.9.4 The Authority reviewed the Aeronautical revenue submitted by AAI with the Audited figures for the Financial Years (FY 2019-20 to FY 2022-23) and Actuals (Unaudited) for FY 2023-24 and noted no deviations. Therefore, the Authority proposed to consider the Aeronautical revenue as per Table 23 for True up of the First control period.

**Stakeholders' comments regarding true up of Aeronautical revenue for the First Control Period**

4.9.5 No comments have been received from Stakeholders on Aeronautical revenue for the First Control Period.

**Authority's analysis on Stakeholders' comments regarding true up of Aeronautical revenue for the First Control Period**

4.9.6 The Authority notes that no comments were received from the Stakeholders on the true up of Aeronautical revenue for the First Control Period. Hence, the Authority decides to consider the Aeronautical revenue based on actuals for true up of the First Control period, consistent with the proposal made in the Consultation Paper No. 05/2024-25 dated October 26, 2024. The Aeronautical revenue considered by the Authority for true up of the First Control Period is shown in Table 23.

**4.10 True up of Aggregate Revenue Requirement (ARR) for the First Control Period**

4.10.1 Based on the above factors and the regulatory building blocks discussed under the above sections, the Authority had derived the ARR for true up of the First Control Period which is enumerated in the table below:

Table 25: ARR proposed by the Authority for True up of the First Control Period at Consultation Stage.

Particulars	Ref.	FY					Total
		2019-20	2020-21	2021-22	2022-23	2023-24	
Average RAB (refer Table 13)	(a)	91.18	111.97	112.53	115.72	131.96	
FRoR (refer para 4.5.3)	(b)	14.00%	14.00%	14.00%	14.00%	14.00%	
Return on Average RAB	(c)= (a) * (b)	12.77	15.68	15.75	16.20	18.47	78.87
Depreciation (refer Table 12)	(d)	10.01	10.84	11.37	12.05	13.39	57.66
O&M expenses (refer Table 20)	(e)	68.39	65.95	72.61	70.23	79.69	356.87
Tax (refer Table 22)	(f)	-	-	-	-	-	-
Interest on Working Capital	(g)	0.85	1.21	1.63	0.41	-	4.10

(₹ Crores)



## TRUE UP OF THE FIRST CONTROL PERIOD

Particulars	Ref.	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	Total
Gross ARR	(h) = (c+ d+ e+ f+ g)	92.02	93.67	101.35	98.90	111.55	497.49
NAR (refer Table 14)		22.70	9.95	12.94	21.53	24.56	91.68
Less 30% NAR	(i)	6.81	2.98	3.88	6.46	7.37	27.50
Net ARR	(j) = (h)-(i)	85.21	90.69	97.47	92.44	104.18	469.99
Actual Aeronautical Revenue (refer Table 23)	(k)	66.24	30.39	52.82	81.22	98.65	329.32
Under/ (Over) recovery of First Control Period	l=(j-k)	18.97	60.29	44.66	11.21	5.53	140.67
Discount Factor (@14.00%)	(m)	1.93	1.69	1.48	1.30	1.14	
Under/ (Over) recovery of First Control Period as on March 31, 2024	(l)*(m)	36.53	101.83	66.16	14.57	6.31	225.41
True up of Under Recovery of First Control Period as on March 31, 2024		<b>225.41</b>					

4.10.2 The Authority had re-computed the under-recovery of ₹ 225.41 Crores in the First Control Period as against ₹ 305.36 crores (refer Table 4) claimed by AAI and proposed to readjust the same in the ARR computation of the Second Control Period.

4.10.3 The variation between the ARR proposed by the Authority and that claimed by AAI are attributable to following factors:

- Rationalisation of O&M expenses such as CHQ/ RHQ expenses, Administration expenses, etc. amounting to ₹ 53.99 Crores.
- Rationalisation resulting in reduction in Interest on Working Capital amounting to ₹ 1.90 Crores.
- Impact of compounding on net ARR (as per discounting factor) due to rationalization of O&M expenses.

**Stakeholders' comments regarding true up of Aggregate revenue requirement (ARR) for the First Control Period**

4.10.4 No comments have been received from Stakeholders on Aggregate revenue requirement (ARR) for the First Control Period.

**Authority's analysis on Stakeholders' comments regarding true up of Aggregate revenue requirement (ARR) for the First Control Period**

4.10.5 The Authority notes that no comments were received from the Stakeholders on the true up of ARR for the First Control Period. Hence, the Authority decides to consider the ARR based on actuals for true up of the First Control period, consistent with the proposal made in the Consultation Paper No. 05/2024-25 dated October 26, 2024. The ARR considered by the Authority for true up of the First Control Period has been shown in Table 25.

**4.11 Authority's decisions regarding true up of the First Control Period**

Based on the material before it and its analysis, the Authority decides the following with respect to true up of the First Control Period for VIA:



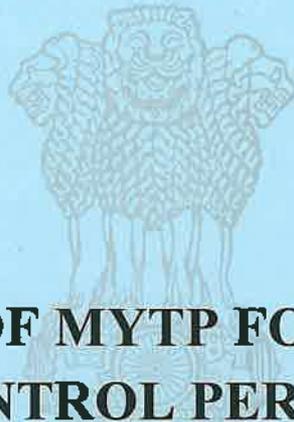
- 4.11.1 To consider capital additions as detailed in Table 11 for true up of the First Control Period.
- 4.11.2 To consider Aeronautical depreciation as mentioned in Table 12 for true up of the First Control Period.
- 4.11.3 To consider RAB as per Table 13 for true up for the First Control Period.
- 4.11.4 To consider FRoR as 14% for the purpose of true up of the First Control Period.
- 4.11.5 To consider the Non-aeronautical revenues as presented in Table 14 for the purpose of true up of the First Control Period.
- 4.11.6 To consider O&M expenses as detailed in Table 20 for the purpose of true up of the First Control Period.
- 4.11.7 To consider actual Aeronautical revenue as per Table 23 for true up of the First Control Period for VIA.
- 4.11.8 To consider ARR and Under-recovery as detailed in Table 25 for true up of the First Control Period for VIA and readjust the shortfall in the Second Control Period.



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**EVALUATION OF MYTP FOR THE SECOND  
CONTROL PERIOD**

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## 5 TRAFFIC FOR THE SECOND CONTROL PERIOD

### 5.1 AAI's submission regarding Traffic for the Second Control Period for VIA

5.1.1 The historical passenger traffic<sup>2</sup> and ATM at the airport have been shown in the table below:

*Table 26: Historical passenger and ATM traffic at VIA (in numbers)*

Year	Domestic Passengers	International Passengers	Total Passenger traffic	Domestic ATM	International ATM	Total ATM
2016-17	18,11,617	1,04,837	19,16,454	14,019	1,016	15,035
2017-18	19,36,616	1,50,965	20,87,581	14,323	1,335	15,658
2018-19	25,86,311	1,98,704	27,85,015	19,984	1,834	21,818
2019-20	27,78,972	2,31,730	30,10,702	21,987	2,069	24,056
2020-21	14,48,155	18,563	14,66,718	14,227	169	14,396
2021-22	16,53,082	55,138	17,08,220	15,650	493	16,143
2022-23	24,12,023	1,09,419	25,21,442	18,218	940	19,158
2023-24	28,79,994	1,16,704	29,96,698	19,544	976	20,520

5.1.2 The traffic growth rates (Y-o-Y) and traffic as submitted by AAI for the Second Control Period were as follows:

*Table 27: Traffic growth rates and traffic proposed by AAI*

Year	Passenger			ATM		
	Domestic	International	Combined	Domestic	International	Combined
<b>Growth rates (based on FY 23-24)</b>						
2024-25	18.00%	45.00%	19.45%	12.00%	39.97%	13.70%
2025-26	15.00%	25.00%	15.65%	12.00%	22.04%	12.75%
2026-27	15.00%	25.00%	15.70%	12.00%	21.98%	12.80%
2027-28	10.00%	15.00%	10.38%	9.50%	14.00%	9.90%
2028-29	10.00%	15.00%	10.40%	9.50%	14.01%	9.91%
<b>Traffic</b>						
2024-25	34,15,425	2,37,986	36,53,411	22,853	1,842	24,695
2025-26	39,27,738	2,97,483	42,25,221	25,595	2,248	27,843
2026-27	45,16,899	3,71,854	48,88,753	28,666	2,742	31,408
2027-28	49,68,589	4,27,632	53,96,221	31,390	3,126	34,516
2028-29	54,65,448	4,91,776	59,57,224	34,372	3,564	37,936

5.1.3 AAI had submitted that the passenger traffic and aircraft movement projections were based on past trends, econometric and regression analysis, and various economic factors including policy framework.

### 5.2 Authority's examination regarding Traffic for the Second Control Period of VIA at Consultation Stage

5.2.1 As part of its examination of AAI's forecast of traffic at VIA, the Authority calculated Compounded Annual Growth Rate, or CAGR, for passenger traffic and ATM from FY 2019-20 to FY 2023-24 (5-year CAGR) and FY 2021-22 to FY 2023-24 (3-year CAGR).

<sup>2</sup> Source: Traffic News from AAI website



5.2.2 The Authority noted that 5-year CAGR of Domestic and International passenger and ATM was significantly low due to the COVID 19 pandemic. The CAGR details so computed had been provided in the table below:

Table 28: CAGR for passenger traffic and ATM

Particulars	5-year CAGR	3-year CAGR
<b>Passengers:</b>		
Domestic	1%	32%
International	-8%	72%
<b>ATM:</b>		
Domestic	-2%	20%
International	-11%	179%

5.2.3 The Authority noted that the wide variation in traffic in the recent past, had caused the 3-year CAGR to be the highest for International Passenger Traffic and ATM.

5.2.4 The Authority noted that VIA had growth of 19% and 7% in domestic passenger traffic and domestic ATM traffic respectively for FY 2023-24 (over previous financial year). Similarly, there was a growth of 7% and 4% international passenger traffic and international ATM traffic respectively for FY 2023-24 (over previous financial year).

#### Derivation of traffic forecasts by the Authority

The traffic forecasts had been computed by the Authority, after considering the study and analysis by the following agencies regarding future air traffic demand and same was as follows:

#### 5.2.5 Airports Council International (ACI)

ACI in its recent report had analysed air travel outlook revealing global passenger traffic expected to reach 9.4 billion passengers:

- While the Asia-Pacific region is expected to have a substantial jump in passenger traffic in the first half of 2023 along with the ongoing opening of the Chinese market, its recovery is predicted to slow down significantly in the second half of the year due to challenges in overseas tourism and looming economic concerns. The region is expected to reach approximately 3.4 billion passengers in 2024.
- Global passenger volume in 2023 is expected to reach 8.6 billion passengers, which is 94.2% of the 2019 level.
- The year 2024 is expected to be a milestone for global passenger traffic recovery as it reaches 9.4 billion passengers, surpassing the year 2019 that welcomed 9.2 billion passengers (102.5% of the 2019 level).
- The gap between the Business as Usual (BAU) forecast from 2019 and the current recovery projections reveal that the percentage of lost traffic continues to decrease on a quarterly basis, from -23% in Q1 2023 to -13% in Q4 2024.

#### 5.2.6 International Air Transport Association (IATA)

IATA in its report on July 03, 2024 had enumerated that:

- Industry total Revenue Passenger-Kilometres (RPK) maintained a positive trajectory in May growing 10.7% annually, slightly outpacing the 8.5% Y-o-Y growth in Available Seat-Kilometre (ASK). Passenger load factors (PLF) were higher than in comparison to previous years indicating



*stronger demand for air travel as industry wide traffic continues to rise.*

- *Domestic traffic rose 4.7% over the year. PR China remained the fastest growing market among those monitored with 7.6% Y-o-Y growth. Japan RPK contracted for two (2) consecutive months; wherein May figures be 1.8% lower than the previous year.*
- *International traffic continued to show resilient momentum in May with 14.6% Y-o-Y growth in RPK across the region. Traffic from Asia Pacific still surges at a rapid pace with 27.0% Y-o-Y, while the remaining regions saw consistent results in regard of the previous month.*
- *India domestic passenger traffic continue to climb at a stable rate, increasing 4.6% Y-o-Y.*
- *Industry total Revenue Passenger-Kilometers (RPK) maintained a positive trajectory in March growing 13.8% annually, mostly carried by strong momentum of international traffic. Passenger load factors (PLF) were higher than in comparison to previous years while available seat capacity continue to follow increases in demand.*
- *Domestic traffic rose 6.6% over the year. PR China remained the fastest growing market among those monitored with 17.6% Y-o-Y growth.*
- *International traffic continued to show resilient momentum in March with 18.9% Y-o-Y growth in RPK across the entire industry. Traffic from Asia Pacific still surges at a rapid pace, while the remaining regions saw consistent results in regard of the previous month.*
- *India passenger traffic continue to climb at a stable rate, increasing 3.8% Y-o-Y.*

#### **Conclusion on traffic forecasts based on the above assumptions**

5.2.7 The Authority had taken into consideration the forecast/data published by ACI and IATA cited in para 5.2.5 and para 5.2.6 above, which indicated stable domestic passenger growth for India (4.6% Y-o-Y, as stated in IATA's recent report). The positive outlook had been taken into consideration for determining traffic projections for Varanasi Airport, which was currently expanding its Airport infrastructure and was poised to handle higher passenger traffic.

5.2.8 The Authority noted that AAI had projected the following growth rates in traffic

- 10%-18% growth for domestic passenger traffic
- 15%-49% growth for international passenger traffic
- 10%-12% growth for domestic ATM
- 14%-40% growth for international ATM

The Authority takes cognizance of the rebounding of domestic passenger traffic in FY 2022-23, where it had reached the pre COVID level of FY 2019-20.

5.2.9 Further, Varanasi being a tourist destination and with the commissioning of a New Terminal Building in the current Control Period, the Authority is of the view that VIA would be able to handle higher passenger traffic in the Second Control Period.

Based on the above factors, the Authority found the traffic projections of AAI for VIA to be reasonable and proposed to consider the same for the Second Control Period.

5.2.10 The traffic growth rates and the corresponding traffic for passengers and ATM as proposed by the Authority for the Second Control Period at Consultation Stage is given in the table below:



TRAFFIC FOR THE SECOND CONTROL PERIOD

Table 29: Traffic proposed to be considered by the Authority for the Second Control Period at Consultation Stage.

<b>Domestic Passengers (in Millions)</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>FY 2026-27</b>	<b>FY 2027-28</b>	<b>FY 2028-29</b>	<b>Total</b>
As submitted by AAI for VIA	3.42	3.93	4.52	4.97	5.47	22.29
As proposed by the Authority	3.42	3.93	4.52	4.97	5.47	22.29
Y-o-Y growth of Domestic PAX submitted by AAI for VIA	18.00%	15.00%	15.00%	10.00%	10.00%	
Y-o-Y growth of Domestic PAX proposed by the Authority	18.59%	15.00%	15.00%	10.00%	10.00%	
<b>International Passengers (in Millions)</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>FY 2026-27</b>	<b>FY 2027-28</b>	<b>FY 2028-29</b>	<b>Total</b>
As submitted by AAI for VIA	0.24	0.30	0.37	0.43	0.49	1.83
As proposed by the Authority	0.24	0.30	0.37	0.43	0.49	1.83
Y-o-Y growth of International PAX submitted by AAI for VIA	48.74%	25.00%	25.00%	15.00%	15.00%	
Y-o-Y growth of International PAX proposed by the Authority	48.74%	25.00%	25.00%	15.00%	15.00%	
<b>Total Passengers (in Millions)</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>FY 2026-27</b>	<b>FY 2027-28</b>	<b>FY 2028-29</b>	<b>Total</b>
As submitted by AAI for VIA	3.65	4.23	4.89	5.40	5.96	24.12
As proposed by the Authority	3.65	4.23	4.89	5.40	5.96	24.12
Y-o-Y growth of Total PAX submitted by AAI for VIA	19.45%	15.65%	15.70%	10.38%	10.40%	
Y-o-Y growth of Total PAX proposed by the Authority	21.91%	15.65%	15.70%	10.38%	10.40%	
<b>Domestic ATM (in '000)</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>FY 2026-27</b>	<b>FY 2027-28</b>	<b>FY 2028-29</b>	<b>Total</b>
Domestic ATM submitted by AAI for VIA	22.85	25.60	28.67	31.39	34.37	142.88
Domestic ATM proposed by the Authority	22.85	25.60	28.67	31.39	34.37	142.88
Y-o-Y growth of Domestic ATM submitted by AAI for VIA	12.00%	12.00%	12.00%	9.50%	9.50%	
Y-o-Y growth of Domestic ATM proposed by the Authority	16.93%	12.00%	12.00%	9.50%	9.50%	
<b>International ATM (in '000)</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>FY 2026-27</b>	<b>FY 2027-28</b>	<b>FY 2028-29</b>	<b>Total</b>
International ATM submitted by AAI for VIA	1.84	2.25	2.74	3.13	3.56	13.52
International ATM proposed by the Authority	1.84	2.25	2.74	3.13	3.56	13.52
Y-o-Y growth of International ATM submitted by AAI for VIA	39.97%	22.04%	21.98%	14.00%	14.01%	
Y-o-Y growth of International ATM proposed by the Authority	88.73%	22.04%	21.98%	14.00%	14.01%	
<b>Total ATM (in '000)</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>FY 2026-27</b>	<b>FY 2027-28</b>	<b>FY 2028-29</b>	<b>Total</b>
Total ATM submitted by AAI for VIA	24.70	27.84	31.41	34.52	37.94	156.40
Total ATM proposed by the Authority	24.70	27.84	31.41	34.52	37.94	156.40
Y-o-Y growth of Total ATM submitted by AAI for VIA	13.70%	12.75%	12.80%	9.90%	9.91%	



Y-o-Y growth of Total ATM proposed by the Authority	20.35%	12.75%	12.80%	9.90%	9.91%	
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5.2.11 The Authority proposed to true up the traffic as per actual growth achieved during the Second Control Period at the time of determination of tariff for the Third Control Period.

### 5.3 Stakeholders' comments regarding Traffic for the Second Control Period

During the stakeholders' consultation process, the Authority has received comments/views from FIA in response to the proposals of the Authority in the Consultation Paper no. 05/2024-25 dated October 26, 2024. The comments of FIA are presented below:

5.3.1 FIA's Comment on Traffic Forecast is as follows:

*"While we appreciate that AERA has considered the traffic forecast data published by ACI and IATA (refer para 5.2.5 and 5.2.6), we kindly request AERA to conduct an independent study. This study should include additional demand drivers that may not have been covered in the report issued by IATA and ACI India.*

*We would also like to draw the Authority's attention to the fact that the trends observed in the recent post-pandemic period may not serve as a reasonable benchmark for future projections, whether in terms of passengers or traffic. Economic factors such as inflation, market demand and prices may not continue at the same rate or trend, as the current post-pandemic trends are influenced by exceptional factors such as COVID-19, revenge tourism, Geo-political issues, and recent financial disruptions in the USA. While there has been an increase in the load factors post COVID-19 recovery, these factors may not necessarily hold in the long term.*

*Therefore, we request the Authority to rationalize the traffic projections by AAI, specifically for Varanasi International Airport, with a more focused study-especially on the international front – considering the plans of airlines to expand international operations from VNS.*

*Hence, we respectfully request that the Authority take this consideration into account and, if deemed appropriate, appoint independent consultants to evaluate the findings while finalising the projected ATM and passengers' figures."*

### 5.4 AAI's response to Stakeholders' comments regarding Traffic for the Second Control Period

5.4.1 AAI's response to FIA's comment on Traffic Forecast for the Second Control Period is as follows:

*"Projection of traffic forecast is carried out by the AAI specialized cell i.e. CP&MS Dept. which has carried out projections of traffic on real time survey and data analysis."*

### 5.5 Authority's analysis on Stakeholders' comments regarding Traffic for the Second Control Period

5.5.1 The Authority has noted the comments of FIA on conducting an independent study on traffic and AAI's response to the same.

In this regard, the Authority is of the view that the requirement for an independent study on traffic projections depends upon the size & scale of airport operations and complexity involved. Further, it is noted that Traffic projection for the Second Control Period in respect of Varanasi International Airport is based on Traffic forecast done by the specialized cell of AAI i.e. CP&MS.

In addition, M/s R. Subramanian and Company, LLP, independent consultants appointed by AERA, have also evaluated the traffic projections submitted by AAI. The Authority has also taken cognizance of the actual traffic available up to FY 2023-24 and finalized the traffic estimates for the period starting from



FY 2024-25.

Further, the traffic estimates would be tried up on an actual basis, at the time of determination of Aeronautical Charges for the next Control Period.

**5.6 Authority's decisions regarding Traffic for the Second Control Period**

Based on the available facts and analysis thereupon, the Authority decides the following with regard to traffic forecast for the Second Control Period:

- 5.6.1 To consider the ATM and passenger traffic for the Second Control Period for VIA as per Table 29.
- 5.6.2 To true up the traffic volume (passenger traffic and ATM ) on the basis of actual traffic in the Second Control Period while determining tariff for the Third Control Period.



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## 6 CAPITAL EXPENDITURE (CAPEX), DEPRECIATION AND REGULATORY ASSET BASE (RAB) FOR THE SECOND CONTROL PERIOD

The Authority presents its analysis on CAPEX in the following order:

- Allocation of Gross block of assets into Aeronautical and Non-aeronautical.
- Capital Expenditure proposed for Second Control Period
- Depreciation for the Second Control Period
- Regulatory Asset Base for the Second Control Period

### 6.1 Allocation of Gross block of Assets into Aeronautical and Non-aeronautical

6.1.1 AAI for VIA submitted the following allocation of gross block of assets, between Aeronautical and Non-aeronautical services as on April 1, 2024:

Table 30: Allocation of opening gross block of assets, between Aeronautical and Non-aeronautical as per AAI as on April 1, 2024

(₹ Crores)

Asset Category	Total Assets (Inclusive of ANS)	ANS Assets	Cargo	Non-Aero Assets	Pure Aero-nautical Assets	Common Assets	Common Assets		Total Aeronautical Assets	% Aeronautical
							Aero	Non-Aero		
	A= B+ C+ D+E+ F	B	C	D	E	F= G+H	G	H	I= E+G	J=I/A
Land	0.31	-	-	-	0.31	-	-	-	0.31	100.00%
Runway, Taxi Way & Apron	44.74	-	-	-	44.74	-	-	-	44.74	100.00%
Road, Bridge & Culverts.	2.77	0.07	-	-	2.69	-	-	-	2.69	97.29%
Other Buildings	5.03	1.52	-	-	3.05	0.46	0.46	0.01	3.51	69.63%
Terminal Building	88.54	0.26	-	-	-	88.28	79.45	8.83	79.45	89.74%
Buildings – Temporary	1.18	-	-	-	1.18	-	-	-	1.18	100.00%
Buildings – Residential	0.83	0.37	-	-	0.11	0.36	0.35	0.00	0.46	55.10%
Security Fencing- Temporary	0.11	-	-	-	0.11	-	-	-	0.11	100.00%
Boundary Wall- Operational	2.21	-	-	-	2.21	-	-	-	2.21	100.00%
Boundary Wall-Residential	0.17	0.09	-	-	-	0.09	0.08	0.00	0.08	48.34%
Computers & Peripherals- End User Devices	1.10	0.08	-	-	1.03	-	-	-	1.03	92.94%
Computer Software	1.02	0.00	-	-	1.01	0.01	0.01	0.00	1.01	99.38%
Plant and Machinery	55.11	31.16	0.38	-	23.35	0.22	0.20	0.02	23.55	42.73%
Tools & Equipment	4.57	0.57	-	-	3.22	0.78	0.70	0.08	3.92	85.76%
Vehicles	1.20	0.05	-	-	1.15	-	-	-	1.15	95.90%
Electrical Installations	45.26	1.80	-	-	7.91	35.55	32.00	3.56	39.90	88.17%
Office Equipment	0.49	0.01	-	-	-	0.48	0.46	0.02	0.46	94.40%
Furniture & Fixtures-Other than Trolley	1.84	0.09	-	-	1.74	0.00	0.00	0.00	1.74	94.92%
Furniture & Fixtures – Trolleys	0.36	-	-	-	0.36	-	-	-	0.36	100.00%
X-Ray Baggage System	5.83	0.21	-	-	5.62	-	-	-	5.62	96.46%
CFT & Firefighting equipment	19.06	-	-	-	19.06	-	-	-	19.06	100.00%
<b>Total</b>	<b>281.74</b>	<b>36.29</b>	<b>0.38</b>	<b>-</b>	<b>118.85</b>	<b>126.22</b>	<b>113.71</b>	<b>12.51</b>	<b>232.56</b>	<b>82.55%</b>

**Authority's examination of allocation of Gross block of assets into Aeronautical and Non-aeronautical at Consultation stage**

6.1.2 The Authority noted that the common assets within the Terminal Building had been apportioned to Aeronautical and Non-aeronautical activities by AAI for VIA in the Terminal Building ratio of 90%:10% for the First Control Period, which was also considered in the Tariff Order for the First Control Period. Therefore, the Authority proposed to consider the same Terminal Building ratio (90:10) for allocation of common assets within the Terminal Building for the Second Control Period.

6.1.3 The Authority considered the allocation of Gross Block of assets submitted by AAI as reasonable. Based on the above, the Authority had presented the allocation of Gross Block of assets as on April 1, 2024 between Aeronautical and Non-aeronautical as per table below:

*Table 31: Allocation of Opening Gross Block of Assets as on April 1, 2024 between Aeronautical and Non-aeronautical proposed by the Authority at Consultation Stage.*

(₹ Crores)

Asset Category	Total Assets (Inclusive of ANS)	ANS Assets	Cargo	Non-Aero Assets	Aero-nautical Assets	Common Assets	Common Assets		Total Aero Assets	% Aeronautical
							Aero	Non-Aero		
	A= B+ C+ D+E+ F	B	C	D	E	F= G+H	G	H	I= E+G	J=I/A
Land	0.31	-	-	-	0.31	-	-	-	0.31	100.00%
Runway, Taxi Way & Apron	44.74	-	-	-	44.74	-	-	-	44.74	100.00%
Road, Bridge & Culverts.	2.77	0.07	-	-	2.69	-	-	-	2.69	97.29%
Other Buildings	5.03	1.52	-	-	3.05	0.46	0.46	0.01	3.51	69.63%
Terminal Building	88.54	0.26	-	-	-	88.28	79.45	8.83	79.45	89.74%
Buildings – Temporary	1.18	-	-	-	1.18	-	-	-	1.18	100.00%
Buildings – Residential	0.83	0.37	-	-	0.11	0.36	0.35	0.00	0.46	55.10%
Security Fencing- Temporary	0.11	-	-	-	0.11	-	-	-	0.11	100.00%
Boundary Wall- Operational	2.21	-	-	-	2.21	-	-	-	2.21	100.00%
Boundary Wall-Residential	0.17	0.09	-	-	-	0.09	0.08	0.00	0.08	48.34%
Computers & Peripherals-End User Devices	1.10	0.08	-	-	1.03	-	-	-	1.03	92.94%
Computer Software	1.02	0.00	-	-	1.01	0.01	0.01	0.00	1.01	99.38%
Plant and Machinery	55.11	31.16	0.38	-	23.35	0.22	0.20	0.02	23.55	42.73%
Tools & Equipment	4.57	0.57	-	-	3.22	0.78	0.70	0.08	3.92	85.76%
Vehicles	1.20	0.05	-	-	1.15	-	-	-	1.15	95.90%
Electrical Installations	45.26	1.80	-	-	7.91	35.55	32.00	3.56	39.90	88.17%
Office Equipment	0.49	0.01	-	-	-	0.48	0.46	0.02	0.46	94.40%
Furniture & Fixtures-Other than Trolley	1.84	0.09	-	-	1.74	0.00	0.00	0.00	1.74	94.92%
Furniture & Fixtures – Trolleys	0.36	-	-	-	0.36	-	-	-	0.36	100.00%
X-Ray Baggage System	5.83	0.21	-	-	5.62	-	-	-	5.62	96.46%
CFT & Firefighting equipment	19.06	-	-	-	19.06	-	-	-	19.06	100.00%
<b>Total</b>	<b>281.74</b>	<b>36.29</b>	<b>0.38</b>		<b>118.85</b>	<b>126.22</b>	<b>113.71</b>	<b>12.51</b>	<b>232.56</b>	<b>82.55%</b>



**CAPITAL EXPENDITURE (CAPEX), DEPRECIATION AND REGULATORY ASSET BASE (RAB) FOR THE SECOND CONTROL PERIOD**

6.1.4 The total Gross block of Aeronautical assets, as on April 1, 2024 was ₹ 232.56 Crores.

**AAI's submission regarding Capital Expenditure (CAPEX), Depreciation and RAB for the Second Control Period**

**6.2 AAI's submission regarding Capital expenditure for the Second Control Period**

6.2.1 AAI proposed capital expenditure of ₹ 3,005.65 Crores for the Second Control Period for VIA, which has been summarized in the table below:

*Table 32: Summary of Capital Expenditure projects submitted by AAI on 30<sup>th</sup> May 2024 (MYTP) for VIA for Second Control Period*

(₹ Crores)			
<b>Project/Group</b>	<b>No.</b>	<b>Particulars</b>	<b>Amount</b>
Capital expenditure proposed for the Second Control Period	1	Runway, Taxiways & Aprons	690.14
	2	Road, Bridges & Culverts	562.29
	3	Building- Terminal	1,375.16
	4	Boundary Wall -Operational	27.11
	5	Other Buildings-Unclassified	44.34
	6	Plant & Machinery	7.50
	7	Office Furniture	1.39
	8	X-BIS	1.50
			<b>Capital expenditure proposed for the Second Control Period</b>
<b>Financing allowance (FA)</b>			<b>296.22</b>
<b>Total (including FA)</b>			<b>3,005.65</b>

**Authority's examination of Capital Expenditure (CAPEX) for the Second Control Period at Consultation Stage**

6.2.2 The Authority while analyzing the Aeronautical Expenditure proposed by AAI for the Second Control Period, had appropriately rationalized the proposed CAPEX, taking cognizance of essentiality of the CAPEX and which is absolutely required to cater current and future traffic demand for the smooth operations of the Airport, as explained in the following paragraphs.

The Independent Consultant appointed by the Authority performed an in-depth analysis of the submissions made by AAI for Varanasi Airport towards Aeronautical Capital Additions, Depreciation and RAB. In this respect, the Independent Consultant had performed the following functions:

- Reviewed construction plan submitted by AAI for Varanasi Airport, including various technical details, Airport Master Plan, BOQs, Letter of Award (LOA), Work Orders etc. The Independent Consultant also considered the responses of AAI to the clarification sought in relation with CAPEX plan from time to time.
- Sought documentary evidence and the process of approval of capital addition projects including process for award of various work orders to the contractors, wherever applicable.
- The consultants also visited VIA for a site visit on 29<sup>th</sup> & 30<sup>th</sup> June, 2024, focusing specifically on



review of current airport operations and proposed airport development plans.

Based on the review of documents as stated above and the essentiality and necessity for Airport operations, the Authority had rationalized the cost of various CAPEX projects submitted by AAI and also shifted the capitalization date of some of the projects, based on the project progress, verification of item rates and optimization of the capacity augmentation proposed by AAI for various assets.

Further, the Authority tried to ensure that there is no excessive capacity creation in this Control Period as it would result in higher tariff without actual utilization of services/facilities created at the Airport and the resultant high Aeronautical charges in such scenario would be unfair to the end users.

Hence, the Authority through its Independent Consultant had examined the entire CAPEX plan in detail including CWIP projects and the new CAPEX for VIA, considering the historical traffic trends and future traffic estimates such that only essential, reasonable and efficient CAPEX gets considered as part of RAB for the Second Control Period with a view to maintain a balanced approach between the sustainable operations of VIA and the interest of the airport users.

6.2.3 The Authority noted that AAI had conducted Airport Users Consultative Committee (AUCC) meeting with all the stakeholders, in respect of the capital expenditure for Construction of New Terminal Building to meet the requirements of robust traffic growth and passenger facilitation at Varanasi International Airport. The same had been approved in the AUCC meeting no AAI/APD/VNS-2019/ dated November 25, 2019.

Subsequently, AAI had also obtained approval of PIB through note no. 27(03)/ PFC-1/ 2024 dated February 20, 2024 for major capital projects such as the new Terminal Building, extension of Runway, NHAI Underpass.

6.2.4 The capital additions proposed by AAI for the Second Control Period had been segregated into the following categories:

- A. Capital Addition projects shifted from the First Control Period to the Second Control Period.
- B. New Capital Addition projects proposed by AAI for Varanasi International Airport for the Second Control Period.

6.2.5 The Authority, based on its site visit through its Independent Consultant and review of the documents submitted by AAI had considered the revised projections submitted by AAI, for its further analysis of the CAPEX proposed by Airport Operator for the Second Control Period.

- The Authority through its Independent Consultant raised various queries from time to time regarding CAPEX submitted by AAI. In this regard, AAI had submitted the revised estimates/ additional details for some of its key projects such as Construction of Terminal Building and Extension of Runway etc. vide email dated August 07, 2024.
- The Authority also noted that AAI projected green energy initiatives along with multiple projects. The Authority had combined them under the head Environment Management Works, while examining the CAPEX proposed for the Second Control Period.

The capital additions, as projected by AAI have been grouped and explained in the table below:

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*Table 33: Project wise revised Capital Expenditure submitted by AAI on August 7, 2024 for VIA for Second Control Period*

(₹ Crores)

S. No	Capital Expenditure Project	Financial Year of Commissioning	Revised project cost	Financing allowance	Total CAPEX (incl. FA)
			(includes design, PMC, Pre-operative expenses etc)	(FA)	
<b>A. Capital additions projects shifted from the First Control Period to the Second Control Period</b>					
<b>A1 Building- Terminal</b>					
i)	Construction of Terminal Building	2027-28	1,375.16	151.06	1,526.22
<b>A2 X-BIS</b>					
i)	X-BIS	2024-25	1.50	-	1.50
<b>A3 Environment Management Work</b>					
i)	Solar Power	2027-28	20.60	-	20.60
ii)	Rain Water Harvesting	2027-28	1.00	-	1.00
iii)	Solid Waste Plant	2027-28	0.50	-	0.50
iv)	Corporate Environment Responsibility	2027-28	3.50	-	3.50
		<b>TOTAL (A)</b>	<b>1,402.26</b>	<b>151.06</b>	<b>1,553.32</b>
<b>B. New Capital Addition projects proposed by AAI for the Second Control Period</b>					
<b>B1 Runways, Taxiways &amp; Apron</b>					
i)	Extension of Runway	2027-28	521.50	57.29	578.79
ii)	CAT- III lighting, apron flood lighting (Electrical)	2027-28	126.80	18.52	145.32
<b>B2 Road, Bridges &amp; Culverts</b>					
i)	Recarpeting of Perimeter Road	2024-25	2.42	-	2.42
ii)	Construction of Elevated Road	2027-28	50.02	4.56	54.48
iii)	Construction of National Highway Under Pass	2027-28	360.99	56.94	417.93
<b>B3 Boundary Wall</b>					
i)	Construction of B/Wall	2027-28	27.12	2.98	30.10
<b>B4 Other Buildings</b>					
i)	Box Culvert, LLZ, GP, DVoR Security Watch Tower	2027-28	11.58	1.27	12.85
ii)	Sub Station	2027-28	34.75	3.60	38.35
<b>B5 Plant and Machinery</b>					
i)	Body Scanner	2025-26	7.50	-	7.50
<b>B6 Office Furniture</b>					
i)	Providing Baggage checking table stamping and frisking stand	2024-25	1.39	-	1.39
		<b>TOTAL (B)</b>	<b>1,144.07</b>	<b>145.16</b>	<b>1,289.23</b>
	<b>Capital expenditure proposed for the Second Control Period</b>	<b>TOTAL (A+B)</b>	<b>2,546.33</b>	<b>296.22</b>	<b>2,842.55</b>

6.2.6 The Authority had examined the CAPEX projects submitted by AAI, in the following manner:



**A. Capital additions projects shifted from the First Control Period to the Second Control Period**

**A1 Terminal Building (TB)**

The Authority examined the capital expenditure for Terminal Building approved in the First Control Period and noted that major CAPEX had not been executed in the First Control Period due to COVID-19 pandemic. AAI, accordingly shifted the said CAPEX on Terminal Building from the First Control Period to the Second Control Period. The Authority on its examination noted the following:

i. **Background:**

AAI had initially proposed construction of a new Terminal Building (TB) in the First Control Period, by integrating it with the existing Terminal Building having an area of 24,000 sqm. The new Terminal Building area as per the initial plan was 52,000 sqm along with 15,000 sqm basement, totalling to 67,000 sqm, with an estimated cost of ₹ 948 Crores and capacity of 4.5 MPPA. Additionally, a separate Utility building of 4,800 sqm had also been proposed by AAI.

The Authority had assessed the proposed CAPEX of new Terminal Building of ₹676.48 crore for the First Control Period, including IDC. Due to anticipated capacity redundancy, only 75% was considered for RAB, reducing it to ₹ 507.36 crore (₹329.78 crore Civil, ₹177.58 crore Electrical), scheduled for capitalization in FY 2023-24. However, AAI did not commence with the construction of Terminal Building as approved and reasons for the same had not been stated in its MYTP submission. With current traffic exceeding pre-COVID levels, AAI had revised its proposal based on updated trends and forecasts.

The Authority noted from the Detailed Project Report (DPR) submitted by AAI to PIB in December 2023, that the proposal for the new Terminal Building had been revised. The new Terminal Building, as per the revised proposal, a standalone structure with 75,000 sqm built-up area, designed for 5,000 Peak Hour Passengers, with capacity of 6 MPPA. The new Terminal Building has been separated from the existing Terminal Building and AAI has proposed to use the existing Terminal Building for international operations. Traffic forecasts show total traffic would reach 6 MPPA by FY 2028-29, with domestic traffic surpassing this threshold in FY 2029-30.

ii. **EPC contract awarded for Terminal Building**

The Authority noted that AAI had awarded the contract on EPC basis for ₹ 893.48 Crores towards the construction of new Terminal Building and allied works. The above contract included the Civil and Electrical works proposed to be carried out for construction of Terminal Building.

However, the following works have been excluded from the Scope of Work of the above EPC contract, such as:

- a. Inline Baggage Handling System.
- b. Passenger Boarding Bridge.
- c. X-BIS HB with Automatic Tray Retrieval System.
- d. Dual View X-BIS HB & RB.
- e. Full Body Scanner.
- f. ETD, DFMD, HHMD.
- g. VHF FM System.
- h. Entertainment TV, In building Solutions etc.

- i. Interiors of Leased Spaces for Retail/ Commercial Spaces inside the Terminal Building.
- j. In flooring for all applicable building services within each leased space.

iii. **Challenges in completing the Project**

AAI had projected the timeline for completing the new Terminal Building project as 36 months. However, the Authority based on the site visit through its Independent Consultant, noted challenges in the completion and commissioning of this project within the above-mentioned timelines, due to the following reasons:

- State Highway SH 98, connecting the airport to the Babatpur railway station and NH 28 intersects the proposed Multi Level Car Parking (MLCP), city side of Terminal Building, Apron, and PTT areas.
- Successful completion of this project depends on diverting or closing this road, requiring finalization of a layout plan and land acquisition by the State government.
- It is understood that the State govt is yet to firm up a concrete proposal for closing or diverting this highway.
- Further, it is noted that AAI proposed to take up the works excluded in EPC tender by inviting tenders through other agencies potentially resulting in delays in the overall completion of the project.

Based on the above factors, the Authority was of the view that the new Terminal Building may be commissioned by June 2028 (FY 2028-29). Accordingly, the Authority proposed to consider the Commissioning of Terminal Building in FY 2028-29.

iv. **Inflation adjusted normative cost determination**

- a. The Authority, vide its Order No. 07/2016-17 dated June 6, 2016 (Normative Order), considered normative cost of ₹65,000/- per Sqm. for Terminal Building. The normative cost specifications were provided as Annexure-I of Normative Order. This mainly included cost toward structural works of the terminal building, air conditioning, fire-fighting system, water supply, sanitary, substation equipment for power supply including stand by system, passenger facilities viz FIDS, Furniture, Signages and Security surveillance, airlines related services viz Check-in, CUTE, CUSS and Baggage Reconciliation System, In-line X ray screening, Standalone screening, BHS for arrival and departure, Escalators, Elevators, Travellators and PBB. The cost of other items required for terminal building, such as, elevated road connecting the terminal building etc. was not covered in the aforementioned list. The cost of such items would be derived separately and added to the overall cost of the project.
- b. Subsequently, considering the superior specifications, fit & finishes, processes and the architectural features of modern Terminal Buildings, the Authority had considered a normative cost for construction of Terminal Building as ₹ 1,00,000 per sqm for FY 2020-21. Inflation adjusted normative cost of terminal building has been uniformly considered for other airports. In view of the same, the Authority in case of VIA, proposed to consider ₹ 100,000 per sqm in the base year FY 2021 for terminal building works.
- c. The Authority has derived the inflation adjusted normative rates for the proposed CAPEX in the current Control Period by considering the rate of inflation as follows:
  - FY 2021-22 –The Authority observed that FY 2021-22 was an exceptional year due to



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COVID -19 pandemic, wherein the inflation rate was 12.97%. However, during the period FY 2016-17 to FY 2020-21, the rate of inflation was in the range of 1.31% to 4.26%. Considering this extraordinary situation, the Authority felt that the inflation rate of FY 2021-22 had to be rationalized. Hence, instead of considering the inflation rate of 12.97% for FY 2021-22 (as per press release dated April 18'2022, by Dept. for Promotion of Industry and Internal Trade, Government of India), the Authority had considered the average rate of inflation of FY 2020-21 (1.29%) and of FY 2021-22 (12.97%), which works out to 7.14%. The Authority had considered this average rate of inflation for FY 2021-22, in order to smoothen out the volatility in commodity price caused by COVID-19 pandemic and the supply side disruptions.

- FY 2022-23 – 9.42% (considered as per the data published by the Office of the Economic Advisor, Department for Promotion of Industry and Internal Trade) and
- The inflation rates for the FY 2023-24 to FY 2026-27 have been considered as per 89<sup>th</sup> round of survey of professional forecasters a macroeconomic indicator as under:
  - a) FY 2023-24 - 3.00 %
  - b) FY 2024-25 - 3.00 %
  - c) FY 2025-26 - 3.20 %\*

*\* (The same rate has been considered for the remaining years of the Control Period)*

- d. In the Order No.07/2016-17 dated 13th June 2016 on "In the matter of Normative Approach to Building blocks in Economic Regulation of Major Airports - Capital costs Regarding" the ceiling cost mentioned was inclusive of service taxes applicable at that time i.e. 12%. Subsequently, GST was introduced wherein the GST rate was 18%. Hence, the inflation adjusted normative cost has been worked out below by adding another 6% to ensure the total GST rate of 18% was considered in the cost. The Authority, in this regard noted that the proposed normative cost of ₹ 1,00,000 per sqm (for FY 2020-21) was exclusive of GST. This rate is adjusted for inflation in subsequent years and after adding 6% GST, the Normative rate has been determined as ₹1,44,734 per sqm for FY 2028-29, as detailed in the table below:

*Table 34: WPI Inflation adjusted Normative rate (per Sq.m.) derived by the Authority for Terminal Building at Consultation Stage*

Financial Year	Inflation Rate	Inflation adjusted normative rate (in ₹ per sqm)	Inflation adjusted Normative cost (including GST) (in ₹ per sqm.)
FY 2020-21	-	1,00,000	1,05,357
FY 2021-22	7.14%	1,07,140	1,12,880
FY 2022-23	9.42%	1,17,233	1,23,513
FY 2023-24	0.30%	1,17,584	1,23,883
FY 2024-25	3.00%	1,21,112	1,27,600
FY 2025-26	3.20%	1,24,987	1,31,683
FY 2026-27	3.20%	1,28,987	1,35,897



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Financial Year	Inflation Rate	Inflation adjusted normative rate (in ₹ per sqm)	Inflation adjusted Normative cost (including GST) (in ₹ per sqm.)
FY 2027-28	3.20%	1,33,115	1,40,246
FY 2028-29	3.20%	1,37,374	1,44,734

**Note:**

Inflation adjusted base amount (inclusive of 12% GST) (A) = Rs. 1,00,000 per sqm

Inflation adjusted base amount (exclusive of 12% GST) (B=A\*100/112) = Rs. 89,286 per sqm

Add GST @ 18% (C=B\*18%) = Rs. 16,071 per sqm

Normative cost including GST (D = B+C) = Rs. 1,05,357 per sqm

As shown in the above table the normative rate (inclusive of GST) for FY 2028-29 is ₹ 1,44,734 per Sqm.

**v. Comparison of cost of Terminal Building submitted by AAI and Normative cost derived by Authority**

**Cost of construction of Terminal Building submitted by AAI**

The estimated costs of construction of Terminal Building submitted by AAI in its MYTP is as follows:

*Table 35: Cost of construction of Terminal Building submitted by AAI*

(₹ Crores)

Particulars	Formula	Estimated cost for capitalisation in FY 2027-28	Normative rate
Terminal Building Area (Sq.m)	A	77,660.00	
Cost Estimated (₹ Cr.)	B	1,375.15	
Less:- Additional Works	C		
i. Solar Energy		15.00	
ii. Dual View X-Bis-HB CTX with ATR		91.00	
iii. Self-Baggage Drop system		7.00	
iv. Deposit with Electricity Board		15.00	
Estimated Cost for TB excluding additional works	B-C	1,247.15	
Cost excluding GST (₹ In Cr.)	D = CX100 /118	1,056.91	
Cost of PMC @ 2.54%	E	26.18	
Cost excluding PMC (₹ Cr.)	F	1,030.73	
Cost per SQM (₹ Rs. )	F / A	1,32,722.94	1,42,617



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Particulars	Formula	Estimated cost for capitalisation in FY 2027-28	Normative rate
Cost proposed by AAI (₹ Cr.)		1,375.15	

For a meaningful comparison, the Authority had considered the cost of following works as a part of Terminal Building, whereas these works had been claimed separately by AAI.

- Substation building (refer B4 (ii) in Table 33) – Substation was considered as part of Normative cost as per AERA Guidelines.
- Elevated roads (refer B2 (ii) in Table 33) – As Elevated Road was considered essential as per design of the new Terminal Building at VIA. Therefore, the same had been proposed to be considered along with the cost of new Terminal Building.

The re-computed cost of Terminal Building based on AAI's submission is as follows:

*Table 36: Recomputed cost of construction of Terminal Building based on AAI's Submission (₹ Crores)*

Particulars of CAPEX	Amount
Aeronautical Cost of Construction of Terminal Building (refer Table 35) = A	1,375.15
Aeronautical Cost of Substation building = B	34.75
Aeronautical Cost of Elevated Roads = C	50.02
<b>Total Aeronautical cost of Terminal Building as per AAI's submission (A+B+C)</b>	<b>1,459.92</b>

**Normative cost of Terminal Building as per the Authority**

The total area considered for computation of normative costing was as follows:

- Area excluding Basement = 75,220 sqm.
- Fixed wing of PBB = 1,640 sqm
- Area of Substation/ Utility Building = 4,485 sqm
- **Total = 81,345 sqm.**

The Authority proposed to consider the area of 81,345 sqm. for deriving Normative cost, which amounts to ₹ 1,177.34 Crores (81,345 sqm. x ₹ 1,44,734 per sqm.)

The Authority noted that the above normative cost, derived based on Normative rate as per Table 34, included costs for civil work, electrical works, airport system, IT system, infrastructure, etc. However, by drawing inference from past experience in other similar airports, the Authority noted that there are certain exclusions to the normative costs such as Artwork, PMC, etc.

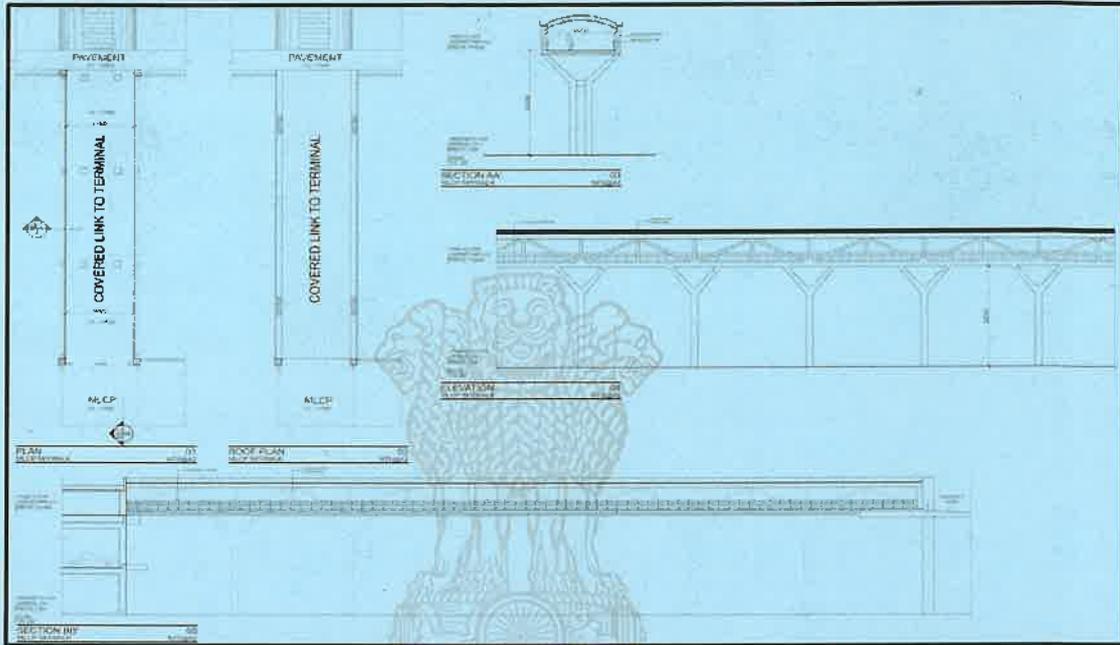
The details of inclusions/ exclusions from normative costs of Terminal Building, considered, based on details furnished by AAI vide email dated August 7, 2024, have been explained in the table below:



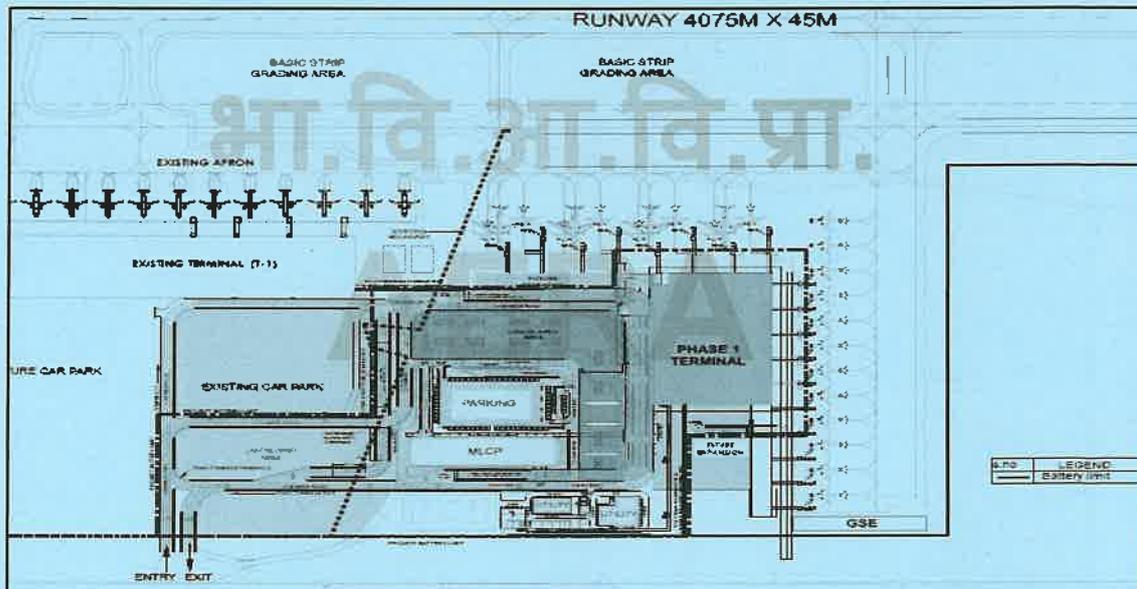


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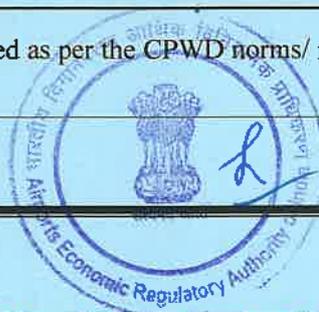
- v. Under Ground Water Tank – AAI proposed construction of an Under Ground Water Tank of 23 lakh liters capacity. This is not only for the Terminal Building, but for the overall airport and has not been considered as part of the normative costs. Based on the essentiality, the cost estimated were checked based on market rates and the same was considered to be reasonable.



- vi. Roads and Footpaths – Roads & Footpaths are not part of the Normative cost and are considered separately (Ref. Table 37). The cost estimates, in this regard has been checked as per the CPWD norms/ market rates by the aviation expert of the independent consultant and found it to be reasonable.
- vii. Underpass for road crossing – The existing Entry Road to the New Terminal Building is crossing the Exit Road of old Terminal Building, for smooth flow of traffic and the underpass is considered an essential requirement. It is proposed to have an Underpass, as shown in the map below:



The cost estimates have been checked as per the CPWD norms/ market rates by the aviation expert of



the independent consultant and found to be reasonable.

The Authority based on the above analysis, proposed to consider the aeronautical cost of construction of Terminal Building and other works for capitalization in FY 2028-29 as ₹ 1,287.94 Crores, as shown in Table 37.

#### A2 - X-BIS

- i X-BIS: AAI proposed ₹ 1.50 Crores towards the procurement of Double view XBIS (RB-3 no's and HB – 6 no's) to replace the Single view XBIS in the existing TB. The Authority noted that single view type X-BIS are available in existing Terminal Building. According to BCAS circular 11/2017, new X-BIS machines must be equipped with dual view image technology. This requirement extended to the computer-based programs associated with these machines, which should also incorporate dual view image capabilities as a standard feature. This directive aimed to enhance security screening effectiveness by providing multiple perspectives of scanned items. Based on the above factors, the Authority considered the proposal as justifiable and the estimated cost as reasonable, based on prevailing market rates, for capitalization in FY 2024-25.

#### A3 - Environment Management Works

The Authority noted that AAI has considered multiple Environment Management Works along with the estimate of new Terminal Building, which was as follows:

- a. Solar Power: AAI has proposed a 5 MW Roof top solar power plant above MLCP amounting to ₹ 20.60 Crores and it is comparable to costs considered for other similar airports.
- b. Rain Water Harvesting: AAI proposed to provide Rain Water harvesting along with drains amounting to ₹ 1.00 Crore. The cost estimated has been checked as per the CPWD norms/ market rates by the aviation expert of the independent consultant and found to be reasonable.
- c. Solid Waste Management Plant: AAI provisioned ₹ 0.50 Crore for Solid Waste Management Plant. The cost estimated has been checked as per the CPWD norms/ market rates by the aviation expert of the independent consultant and found to be reasonable.
- d. Corporate Environment Responsibility: AAI projected ₹ 3.50 Crores for Corporate Environment Responsibility as a statutory requirement to spend 0.25% of the project cost outside the Airport for Environmental works.

The Authority on the above lines proposed to consider ₹ 25.60 Crores towards Environment Management Works, as the same are part of Green Initiatives for reduction of carbon footprints, which has been accorded high priority by the Government and same is considered by the Authority, accordingly.

#### New Capital Addition projects proposed by AAI for the Second Control Period

##### B1 – Runways, Taxiways and Apron

- i **Extension of Runway:** AAI has proposed the Capital Expenditure of ₹ 521.50 Crores towards Extension of Runway for capitalisation in FY 2027-28.

Currently, the Airport features a single 2,745-meter asphalt runway (09/27) capable of accommodating B-767 and A-321 aircraft. The proposed plan of AAI aimed to extend the runway to 4,075 meters, enabling operations for larger Code E aircraft like the B-777. Also, the Authority noted that extension involved shifting the eastern threshold 374 meters westward to accommodate a CAT-I Approach Lighting System (upgradable to CAT-III) and adding 1,704 meters to the

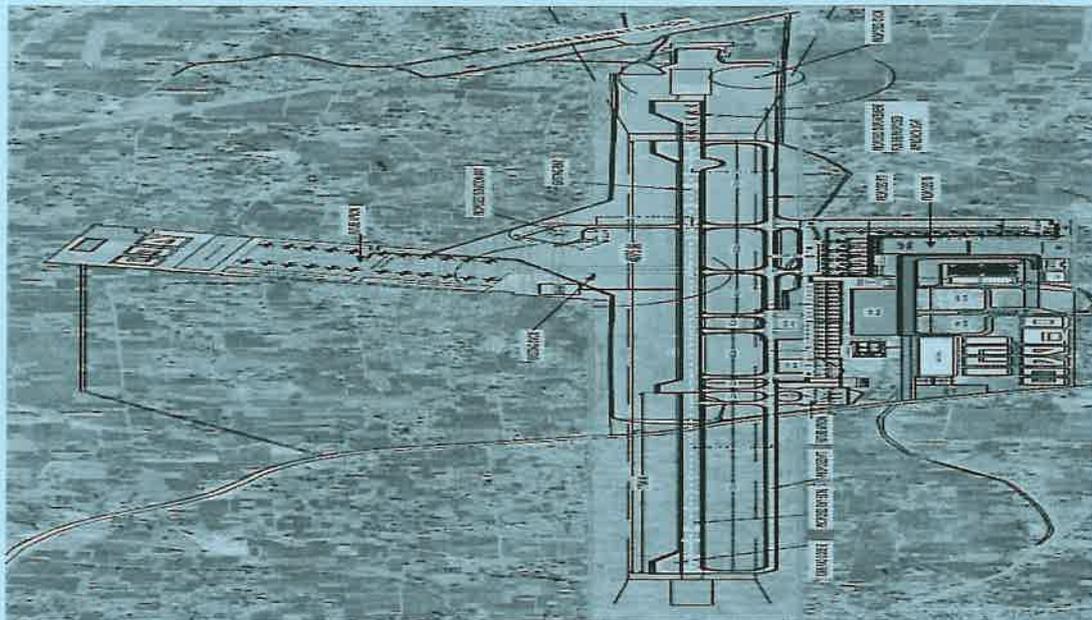


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western end.

Additional improvements proposed by AAI encompass a Runway End Safety Area (RESA), a Code E Runway Turning Pad, enhanced runway strip grading and a new drainage system. Infrastructure upgrades included a perimeter road, strengthening of existing Runway and Taxiways, an isolated parking bay for Code E aircraft, an expanded apron for 20 A321 aircraft, new link taxiways, a 3,400-meter parallel taxiway, and rapid exit taxiways. This approach aimed to modernize Varanasi Airport, significantly enhancing its operational capacity, safety, and efficiency to meet growing aviation demands.

The Master Plan provided below illustrates the layout and locations of the proposed works, explaining how the airport's infrastructure will be transformed to meet future aviation needs.



The Authority through the site visit conducted by its Independent Consultant noted that the project required addressing the issues connected with National Highway (NH-31) that intersects the area proposed for the Runway Extension work. Pictorial representation of the same had been presented below:



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In order to facilitate the execution of this project, two options were considered such as:

- diversion of the highway or
- construction of an underpass.

NHAI had provided the cost estimates for both the options and after evaluation, AAI opted for construction of underpass. In order to avoid the skewing of the underpass and to have smooth traffic flow it has been suggested to provide a separate alignment, as shown in the Layout Plan below:



NHAI finalized plans for the underpass to accommodate the runway extension at Varanasi airport and the same necessitated acquisition of approximately 10.70 hectares (26.44 acres) of land. AAI had requested the State Government to acquire this land and transfer it to NHAI for the project. As the underpass is essential for the runway extension, at the initial stage, AAI agreed to bear the costs associated with its construction. On April 26, 2024, NHAI provided AAI the following cost estimates for the Underpass project.

- a. Cost of land acquisition of 10.70 Hectares land, including cost of effected structure = ₹ 154.49 Crores
- b. Cost of Construction = ₹ 360.99 Crores (Initially, NHAI had given the estimated cost as ₹ 518.39 Crores, based on which the projections made in the MYTP)

The Authority noted that the State Government is yet to commence the process of land acquisition for NHAI/ AAI. It is understood that NHAI would be able to proceed with the underpass construction only after acquiring the entire land and after removing any affected structures. Completion of the underpass and associated roadwork is necessary before traffic can be re-routed from the current National Highway and portion of the current National Highway, which is crossing the proposed Runway Extension Area, is transferred to AAI for undertaking Runway Extension Project. The Authority through its Independent Consultant had assessed that 18 months to 24 months are required for completion of Underpass project, after the acquisition and transfer of encumbrance free land to NHAI.

Based on the above factors, it could be discerned that the runway extension could be commenced only upon acquisition of land, after resolving all encumbrances. Also, the PIB's recommendation emphasized the need for encumbrance-free land and obtaining necessary statutory clearances

before awarding the contract. Typically, runway extension work required a minimum of 24 to 30 months. As AAI has not provided a project schedule or PERT chart, the Authority is of the view that the runway extension project may be completed only in the next Control Period. However, if the same work gets completed in the current Control Period, the Authority would consider such projects on actual incurrence basis subject to efficiency and reasonability, at the time of determination of tariff of the next Control Period.

The Authority noted that there were **other associated works** which have been included under the Runway Extension project and the same are as follows:

a) **Provision of RESA on extended end of Runway measuring 240 m x 90 m.**

The Authority noted that this project is integral for the commissioning of **Runway Extension**, since the Civil Aviation Requirement (CAR) of DGCA stipulated that for all licensed airports, RESA of specified dimension needed to be provided. For the runway at Varanasi, with IFR and proposed Code E operations, the RESA of size 240m X 90m is required along with the Runway extension. Considering that the runway extension could be completed and commissioned only in the next Control Period, the Authority, therefore proposed to shift this project to the next Control Period.

b) **Provision of Runway Turning Pad for Code E.**

The Turning Pad at the west side is integral to the **Runway Extension**, therefore, the Authority proposed to shift this project to the next Control Period. The Turning Pad at the east side of the Runway is linked with the shifting of the threshold for the Approach Lighting System. Therefore, the Authority proposed to consider this work along with the "Strengthening of Existing Runway".

c) **Development of Runway Strip with suitable grading**

Runway strip is needed for the project on **Runway Extension** and hence, the Authority proposed to shift it to the next Control Period.

d) **Provision of drainage system**

Drainage/ rainwater disposal system is available for the existing operational area. Upon **Runway Extension** and additional infrastructure construction, there would be a need for redesign and construction of a proper drainage system. As this work relates to the project on extension of Runway, the Authority proposed to shift it to the next Control Period.

e) **Perimeter Road**

AAI had proposed to extend the runway on the west side and widen the existing Runway Strip on the east side. The total length of the Perimeter Road is 8,900 m, out of which, 3,460 m is in the operational area, where the land is available. However, with the widening of the Runway Strip, the perimeter road would need to be realigned and reconstructed closer to the new boundary. The Authority through its Independent Consultant noted that the road within the runway extension area could be completed along with the runway extension in the next Control Period, while the proposed perimeter road on the east side might be completed along with the project on Apron in FY 2028-29.

AAI has estimated the total cost for the perimeter road at ₹ 26.70 crore i.e. ₹ 15.46 Crores for the road in the **Runway Extension** area and ₹ 11.24 Crores for the road on the east side. Based on the above factors, the Authority proposed to consider ₹ 11.24 Crores for Perimeter Road on the East side, which is reasonable based on the prevailing market rates, for capitalisation in the Second

Control Period.

As elaborated, the Runway Extension is totally dependent upon acquisition of additional land, by following the due process of land acquisition as per the stipulated timeline and hence if the above associated works or its part directly related to Runway Extension as mentioned above at para (a), (b), (c), (d) and (e) gets started and then fully completed & capitalised in the current Control Period, then the Authority shall consider such projects on actual incurrence basis subject to efficiency and reasonableness at the time of determination of tariff of the next Control Period.

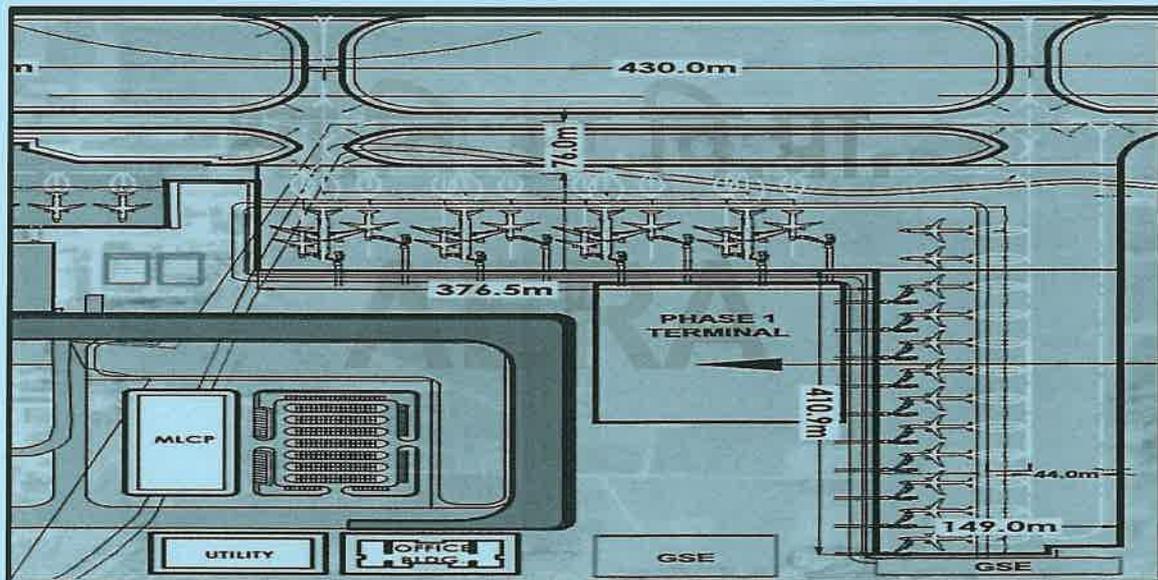
**f) Strengthening and Recarpeting of existing Runway and Taxiways**

AAI proposed to develop the operational area to accommodate Code E aircraft. This involved extending the existing runway, as previously mentioned, and strengthening both the runway and taxiways to support Code E operations. Additionally, any necessary corrections to the runway surface profile would also be undertaken. The last recarpeting of the runway had been carried out in December 2017. Typically, recarpeting is needed, on an average of every 10 years, based on the number of ATMs and therefore it is likely to be due within this Control Period. As the strengthening of runway needed to be completed before recarpeting, the Authority is of the view that this project could be undertaken and completed within this Control Period. AAI had provided estimates for various components of the project, based on which the cost of this project had been derived as ₹ 26.20 crore. The Authority considered the same as reasonable, based on review of prevailing market rates and proposed to consider capitalisation of this project in FY 2028-29.

**g) Construction of Apron for 20 Nos A-321 and Isolation Bay**

The Authority noted that currently there are 9 parking bays, suitable for parking of A-321. In the approved scope of work, the construction of Apron adjacent to the proposed new Terminal Building for parking of 20 Nos A-321 type of aircraft in Power in - Push back configuration had been considered. The layout plan of the same is shown below:

*Figure 1: Layout Map of new Apron & proposed Parking bays*



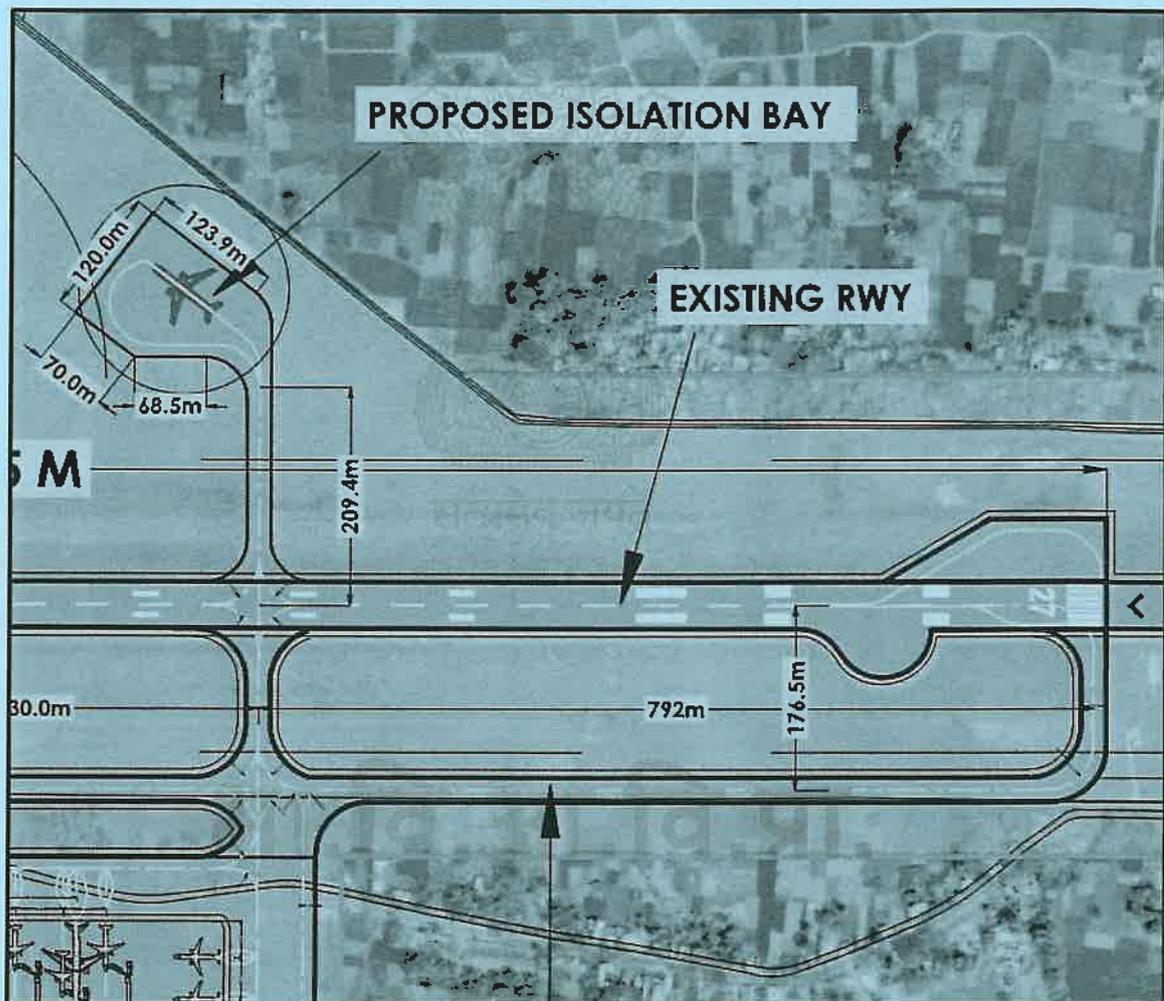
The Authority noted that out of the 20 bays, 8 parking bays would be designated for parking 4 nos.



CAPITAL EXPENDITURE (CAPEX), DEPRECIATION AND REGULATORY ASSET BASE (RAB) FOR THE SECOND CONTROL PERIOD

of Code E aircrafts or 8 nos. of A-321 type of aircrafts (Multiple Aircrafts Ramp System -MARS). The structural design of the Apron and its connecting Taxiways was for Code E operations. The Authority noted the importance of balancing Terminal Building capacity with Airside capacity. The new Terminal Building (TB) would increase the terminal capacity to accommodate up to 5,000 passengers during peak hours. To support this capacity, both Runway and Apron capacities must be enhanced. Considering the need for more contact bays and the optimal positioning of remote bays for efficient operations, constructing 20 bays for A-321 aircraft near the new Terminal Building is justified.

A new Isolated Parking Bay suitable for parking B-777 aircraft had been proposed by AAI at the North side of runway, as shown in the diagram below:



The Authority observed that the current Isolated Parking Bay obstructs the Parallel Taxi Track and the future Apron expansion. Moreover, it could only accommodate Code C aircraft. Considering the limitations, there was a need to construct a new Isolated Parking Bay in a more suitable location. Therefore, the Authority proposed to consider the proposal to build a new Isolated Parking Bay on the north side of the runway.

The estimated cost of Apron and Isolation Bay considered by AAI in the MYTP amounts to ₹ 208 Crores. The area of various pavements, taken by AAI in the estimate are given in Table below:

**CAPITAL EXPENDITURE (CAPEX), DEPRECIATION AND REGULATORY ASSET BASE (RAB) FOR THE SECOND CONTROL PERIOD**

*Table 38: Estimated area (sqm.) of Apron and Isolation Bay submitted by AAI*

Sl. No.	Particulars	Area (Sqm.)	Remarks
1(a)	Isolation Bay	15,000	
(b)	Shoulder of Isolation Bay	3,975	
2(a)	Apron-1	61,047	Apron 1 and 2 are not included in the Scope of Work of AAI and hence, no justification is available to consider them in Second Control Period.
(b)	Shoulder	12,209	
3(a)	Apron-2	28,607	
(b)	Shoulder	5,721	
4(a)	Apron- 3&4	1,29,295	
(b)	Shoulder	15,998	
	<b>Total</b>	<b>2,71,852</b>	

The Authority noted that the total area of Apron and Isolation Bay, including Shoulders, was derived by AAI as 2,71,852 sqm, for cost estimation purpose including Apron-1, a proposed 13-bay A-321 accommodation north of the existing ATC tower, and Apron-2, a planned 4-bay A-321 facility west of the new Fire Station. However, current traffic data suggests these additions may be premature.

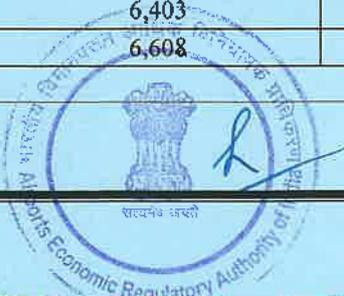
In FY 2022-23, the annual aircraft movements were 19,158, and same were efficiently handled by the existing 9 bays without congestion. Projections for FY 2033-34 indicated 60,277 movements, which could be managed by adding 20 bays to the current capacity. Furthermore, Apron-1 and Apron-2 were not included in the project's approved Scope of Work or the DPR submitted to PIB. Consequently, Apron-1 and Apron-2 had been removed from the current plan. The revised proposal now focuses on Apron-3, Apron-4, and the Isolation Bay for this phase of development.

The State Government had acquired and transferred the land necessary for Apron construction to AAI. However, the diversion or closure of State Highway 98 had not yet been carried out, as detailed in para 6.2.6 (A1) on the project on new Terminal Building. Considering that the Apron's utility is directly related to the new Terminal Building, the Authority proposed to consider commissioning of both Apron and Isolation Bay in FY 2028-29, along with capitalisation of the new Terminal Building.

AAI has consolidated the estimated costs for various civil works in the operational area under the project title "Extension of Runway". To determine the costs of individual assets, the Authority had extracted figures from the abstract of cost and detailed estimates. These extracted costs had been compared against Normative costs, with the results presented in the Table below:

*Table 39: WPI Inflation adjusted Normative rate (per Sq.m.) considered by the Authority for Apron at Consultation Stage*

Financial Year	Inflation Rate	Inflation adjusted normative rate (in ₹ per sqm)	Inflation adjusted Normative rate (in ₹ per sqm.) incl. GST
FY 2022-23		6,198*	6,530
FY 2023-24	0.30%	6,217	6,550
FY 2024-25	3.00%	6,403	6,746
FY 2025-26	3.20%	6,608	6,962



**CAPITAL EXPENDITURE (CAPEX), DEPRECIATION AND REGULATORY ASSET BASE (RAB) FOR THE SECOND CONTROL PERIOD**

Financial Year	Inflation Rate	Inflation adjusted normative rate (in ₹ per sqm)	Inflation adjusted Normative rate (in ₹ per sqm.) incl. GST
FY 2026-27	3.20%	6,819	7,185
FY 2027-28	3.20%	7,038	7,415
FY 2028-29	3.20%	7,263	7,652

\*Derived based on AERA Order on Normative Cost of TB & Apron

**Note:**

Inflation adjusted base amount (inclusive of 12% GST) (A) = Rs. 6,198 per sqm  
 Inflation adjusted base amount (exclusive of 12% GST) (B=A\*100/112) = Rs. 5,534 per sqm  
 Add GST @ 18% (C=B\*18%) = Rs. 996 per sqm  
 Normative cost for FY 2023 including GST (D = B+C) = Rs. 6,530 per sqm

As shown in the above table the normative rate (inclusive of GST) for FY 2028-29 is ₹ 7,652 Sqm.

*Table 40: Normative cost of Apron considered by the Authority for Varanasi International Airport at Consultation Stage*

Work	Derived from Estimated Cost of AAI (₹ in Crores)	Normative Cost proposed by the Authority (₹ in Crores)
Apron 3&4 and Isolation Bay.	125.84 <sup>#</sup>	125.70*
Work below subgrade		4.60
Add 3% extra for cost escalation for one year	3.78	
Cost of GSE area	3.75	3.75
<b>Total</b>	<b>133.37</b>	<b>134.05</b>

# The estimated cost of AAI for pavements of area 2,71,852 sqm, including painting is ₹ 208.25 Crores. The proportionate amount derived from the estimate cost, for 1,64,268 sqm (sum of sl. 1a, 1b, 4a and 4b of Table 38) is ₹ 125.84 Crores.

\*\*The Normative cost for pavements of area 1,64,268 sqm @ Rs 7,652/sqm is ₹ 125.70 Crores.

The Authority noted that estimated cost derived from AAI estimates has been lesser than the Normative costs as per AERA guidelines and same is considered reasonable. Therefore, the Authority had proposed to consider ₹ 133.37 Crores for this project for capitalization in FY 2028-29.

**h) Taxiway System Works**

The above works included Link Taxiways, Entry & Exit Taxiways and Parallel Taxi Tracks (PTT), developed in phases to optimize construction costs while meeting near-term capacity needs.

Currently, Varanasi Airport's limited taxiway infrastructure results in extended runway occupancy times, with restricted capacity of 10-12 movements per hour, which is sufficient for the present Peak Hour Passengers (PHP) of 1,050.

The new Terminal Building is proposed to increase capacity to 5,000 PHP, necessitating at least 30 movements per hour, within 7-8 years, to prevent congestion.



**CAPITAL EXPENDITURE (CAPEX), DEPRECIATION AND REGULATORY ASSET BASE (RAB) FOR THE SECOND CONTROL PERIOD**

The Authority noted that AAI's proposal to enhance the Taxiway System is justified, though some adjustments were needed. Considering the delays in land acquisition and construction of Underpass, the Authority proposed to consider the PTT only for the existing runway in this Control Period. The Authority is of the view that as RETs is currently not in the Master Plan and same might be taken up in the next Control Period based on future traffic demand.

The State Government had acquired land for the PTT of the existing runway. However, due to the challenges in the process of diversion of State Highway SH 98, the commissioning of PTT is likely to be delayed. Based on the above factors, the Authority proposed to consider 1,700m PTT for the existing runway, Entry/Exit Taxiways for the existing runway, two Link Taxiways to the new Apron, and a Link Taxiway to the Isolation Bay, in the current Control Period, for capitalisation in FY 2028-29.

AAI has not prepared the estimated cost of various assets separately. The areas of different pavements submitted in the estimate provided by AAI had been examined by the Authority and the same is as follows:

*Table 41: Area (sqm.) considered by the Authority for Taxiway system for Second Control Period at Consultation Stage*

S. No	Particulars	Area(sqm) taken by AAI	Area(sqm) taken by Authority	Remarks
1(a)	PTT	78,200	39,100	PTT for existing Runway considered
(b)	Shoulder of PTT	51,000	25,500	
2(a)	Entry/Exit/Link Taxiways	26,565	15,180	These are in the existing runway area and hence considered
(b)	Fillets	5,313	3,036	
(c)	Shoulder	17,325	9,900	
(d)	Shoulder Fillets	3,465	990	
3(a)	Link Taxiway to Isolation Bay	6,383	6,383	20% estimated by AAI. 10% considered by the Authority
(b)	Fillets	1,276	1,276	
(c)	Shoulders	4,163	4,163	
(d)	Shoulders Fillets	832	416	
4(a)	Runway & Turning Pad Shoulder and Blast Pad	31,403		Shifted to the next Control Period
5(a)	RET	9,200		Not considered as it is not part of Master Plan and approved Scope of Work
(b)	Fillets	1,840		
(c)	Shoulders	6,000		
(d)	Shoulders Fillets	1,200		
	<b>Total</b>	<b>2,44,165</b>	<b>1,05,944</b>	

Based on the above factors and details given in Table 41, the Authority proposed to consider Taxiway area of 1,05,944 sqm for the Second Control Period.



**CAPITAL EXPENDITURE (CAPEX), DEPRECIATION AND REGULATORY ASSET BASE (RAB) FOR THE SECOND CONTROL PERIOD**

AAI had consolidated the cost estimates under two main project headings: "Extension of Runway" for various civil works in the operational area, and "Electrical works - CAT-III Lighting, apron floodlighting etc" for all electrical works in the same area. To determine individual asset costs, figures have been extracted by the Authority's Independent Consultant, from the abstract of cost and detailed estimates. These extracted costs have been compared against Normative costs, with the results presented in the table below:

*Table 42: Normative Cost of Parallel Taxi Track derived by the Authority for Varanasi International Airport at Consultation Stage*

Work	Estimated Cost of AAI (₹ in Crores)	Normative Cost
PTT/Entry-Exit & Link Taxiways/ Isolation Bay Taxiway		
Taxiways (64975 sqm)	49.20	81.06
Shoulders (40969 sqm)	16.57	
Add: cost of earthwork	-	2.97
Add: 3% cost escalation one year	1.97	
<b>Total</b>	<b>67.74</b>	<b>84.03</b>

The Authority through its Independent Consultant had reviewed the cost estimates provided by AAI for the Taxiway System Works and found them to be reasonable and within normative costs. Therefore, the Authority proposed to consider ₹ 67.74 Crores for this project, for capitalisation in FY 2028-29.

As mentioned in the earlier paragraphs, AAI had grouped all civil works in the operational area under the broad heading "Ext of Runway" with a total projected cost of ₹ 521.50 Crores in the MYTP. For a better understanding of the cost of individual projects, the Authority had derived individual asset costs based on additional information provided by AAI from time to time. This breakdown, along with the costs of projects proposed to be considered by the Authority, is presented in the table below:

*Table 43: Cost of Runway extension and associated works derived by the Authority for Varanasi International Airport at Consultation Stage*

S. No	Particulars	Estimated Cost (₹ in Crores)		Remarks
		Projected by AAI	Proposed by the Authority	
	<b>Runway Extension</b>	123.70		All the items from S. No i to iv are integral to the Runway Extension. Therefore, the Authority proposes to shift these to the next Control Period.
i.	Extension of Runway			
ii.	Provision of RESA			
iii.	Turning Pad			
iv.	Grading of Runway Strip			
v.	Drainage System	5.80		Shifted to the next Control Period.
vi.	Perimeter Road	26.70	11.24	Partially considered in the Second Control Period.



**CAPITAL EXPENDITURE (CAPEX), DEPRECIATION AND REGULATORY ASSET BASE (RAB) FOR THE SECOND CONTROL PERIOD**

S. No	Particulars	Estimated Cost (₹ in Crores)		Remarks
		Projected by AAI	Proposed by the Authority	
vii.	Strengthening & Recarpeting of Existing Road	26.20	26.20	
	<b>Apron and Isolation Bay</b>	208.25	133.37	AAI has taken 37 bays in the estimate, which is beyond the approved scope of work of 20 bays. Therefore, the same has been rationalised.
viii.	Isolation Bay			
ix.	Apron for 20 Bays			
	<b>Taxiway System</b>	130.85	67.74	
x.	Link/ Entry-Exit Taxiways			PTT and Link Taxiways for the Runway Extension portion have been shifted to the next Control Period. Hence, the area has been reduced from 2,44,165 Sqm to 1,05,944 sqm and cost rationalised accordingly.
xi.	Parallel Taxi Track (PTT)			
xii.	RETs			
	<b>Total</b>	<b>521.50</b>	<b>238.55</b>	

The Authority as per the above table had considered ₹ 238.55 Crores for capitalization of assets pertaining to the runway extension and associated works in this Control Period. It has been ascertained at the ground level that Runway Extension and the Underpass are dependent on the acquisition of additional land and also consequent relief and rehabilitation of some of the oustees on the said land. At present the land acquisition process is yet to progress significantly on the ground. In the said background, if the required land is made available to AAI and NHAI for undertaking the projects related to Underpass and the Extension of Runway & other associated works as illustrated above and the work on these projects are completed by the NHAI and AAI in this Control Period, then such works would be considered on actual incurrence basis, subject to efficiency and reasonableness at the time of determination of tariff for the next Control Period.

- ii. **CAT III lighting, Apron flood lighting (Electrical):** AAI proposed ₹ 168.40 Crores towards the construction of CAT III lighting, Apron flood lighting and other miscellaneous electrical works to be capitalized in October 2027. The Authority noted that AAI had not provided any detailed breakup but subsequently, AAI submitted revised estimates for Electrical works vide email dated August 7, 2024 which is as follows:

*Table 44: Breakup of Electrical works as submitted by AAI for the Second Control Period*

S. No.	Particulars	Amount (₹ in Crores)
1.	AGL i/c CAT-III Approach Lighting System	107.50
2.	Apron Flood Lighting and Perimeter Lighting	10.50



**CAPITAL EXPENDITURE (CAPEX), DEPRECIATION AND REGULATORY ASSET BASE (RAB) FOR THE SECOND CONTROL PERIOD**

S. No.	Particulars	Amount (₹ in Crores)
3.	NAV-AIDS Electrical	8.80
	<b>Total</b>	<b>126.80</b>

The Authority noted that implementation of the Runway extension project at Varanasi Airport is undergoing delays, due to time lag in land acquisition for both the runway and the proposed underpass. Consequently, several associated projects may not be completed in the Second Control Period including the Advanced Ground Lighting (AGL) system with CAT-III Approach Lighting, and navigational aids like electrical perimeter lighting for the extended runway portion.

However, the Authority was of the view that the following works within the existing operational area may be undertaken during the Second Control Period:

*Table 45: Electrical works proposed by the Authority for the Second Control Period at Consultation Stage*

(₹ Crores)

S. No.	Particulars	Submission by AAI	Proposed by the Authority	Variance	Remarks
1.	AGL i/c CAT-III Approach Lighting System	107.50	42.20	65.30	The works relating to (AGL) that pertain to the area under extension of Runway have not been considered, as the project on Extension of Runway is proposed to be shifted to the next Control Period.  Therefore, the cost of the remaining areas (after excluding the areas/ pavements that pertain to Runway extension) have been considered for capitalization in this Control Period.
2.	Apron Flood Lighting and Perimeter Lighting	10.50	6.60	3.90	The proportionate costs of the works in the operational area (excluding those pertaining to area under extension of Runway) such as Apron Flood Lighting and Perimeter Lighting at the East portion of the operational area have been considered in this Control Period.
3.	NAV-AIDS Electrical	8.80	-	8.80	This work is required for facilitating the extension of Runway. Since the runway extension project, is shifted to the next Control Period, the subject work has also



**CAPITAL EXPENDITURE (CAPEX), DEPRECIATION AND REGULATORY ASSET BASE (RAB) FOR THE SECOND CONTROL PERIOD**

S. No.	Particulars	Submission by AAI	Proposed by the Authority	Variance	Remarks
					been shifted.
		126.80	48.80	78.00	

Hence, the Authority proposed to consider the CAPEX of ₹ 48.80 Crores towards CAT III lighting, Apron flood lighting (Electrical) for capitalization in FY 2027-28. However, if the balance project works amounting to ₹ 78 Crores (₹ 126.80 Crores less ₹ 48.80 Crores), is undertaken by AAI in this Control Period, then the same would be considered by the Authority, on actual incurrence basis, subject to efficiency and reasonableness during the determination of tariff for the next Control Period.

**B2 - Road, Bridges & Culverts**

- i **Recarpeting of Perimeter Road:** The Authority noted that AAI had proposed ₹2.42 Crores for recarpeting of Perimeter Road in FY 2024-25. Based on the assessment of its Independent Consultant, as per the Authority, the recarpeting of perimeter road is a part of maintenance work and hence proposed to shift the above-mentioned CAPEX as part of Repair & maintenance expenses under Operation and Maintenance expenses for the Second Control Period.
- ii **Elevated Road:** The Authority noted that AAI had proposed ₹ 41.48 Crores towards the construction of Elevated Road to be commissioned in October 2027. Subsequently, AAI vide email dated August 07, 2024, had revised the cost of the Elevated Road including Civil and Electrical works to ₹ 50.02 Crores. The Authority noted that the Elevated Road is integral to the New Terminal Building and same can be commissioned along with the capitalization of the new Terminal Building. Therefore, the Authority considered the cost of Elevated Roads (which seems to be reasonable as per prevailing market rates), along with the cost of new Terminal Building (refer Table 37).
- iii **National Highway Underpass:**
  - a. AAI proposed ₹ 518.39 Crores towards the construction of National Highway Underpass to facilitate work of Runway Extension and same was considered by AAI under the asset class 'Roads, Bridges and Culverts'.  
The Authority noted from the letter No. 27(03)/PFC-1/2024 dated February 20, 2024 of PIB, wherein it was stated that *MoCA has proposed ₹518.39 Cr. for an Underpass, to be constructed by NHAI and this is also proposed to be included for calculation of return on RAB.* Further, PIB had recommended MoCA to make submission before AERA to examine the appropriateness regarding inclusion of the road for consideration in RAB and the appropriate rate of return to be allowed on it as per extant guidelines.
  - b. The Authority, through the site visit conducted by its Independent Consultant, noted that the project requires to address the issues related to National Highway (NH-31) that intersects the proposed area for Runway Extension. It was noted that a portion of the National Highway was an obstacle in the Approach of Runway-09, due to which the runway threshold had been displaced by approximately 230 m; which implies that the 230m was not usable for landing of aircraft from the west side of the present runway.

To facilitate the execution of this project, two options were considered such as:





resulting in potential cost savings for NHAI.

- Further, for new road alignment, the gradients would be smoothened, facilitating better drive and comfort.
- Some portion of the existing road alignment, which may be cut off/ corrected (after the Underpass is constructed), can be used by NHAI for alternative purposes such as parking of vehicles

**Project Execution and cost sharing – can be a collaborative effort**

- i. It is noted that NHAI is collecting toll from the vehicles making use of the NH-31 between Babatpur and Jaunpur at the Hauj Toll Plaza to compensate the expenses on the construction, maintenance and operation of the National Highway and the toll fee is determined in accordance with the National Highways Fee (Determination of Rates and Collections) Rules. As per the above Rules, there is provision for annual revision, subject to conditions provided in the Concession Agreement.
- j. As the Underpass would be part of NH-31, the cost of constructing the roads to the Underpass, may be recovered through a nominal increase in toll charges, as the number of Road/ Highway users are more as compared to the Airport Users.
- k. Further, it is understandable that such facilities, be it Underpass or Extension of Runway are created to facilitate the general public and the State Government is also extending its support by providing necessary land at free of cost.

As both NHAI or AAI are Govt. of India Undertakings, the Authority is of the view that such facilities may be created by both the bodies in a collaborative manner such that there was no excessive burden on the end users through levy of high tariffs.

As explained in the above para, as users of this Underpass might be higher as compared to the Airport, with a nominal increase in toll charges, NHAI would be able to recover its costs, unlike Varanasi Airport, which might have to increase its aeronautical tariffs substantially to recover its investment in assets.

- l. Therefore, the Authority in response to PIB's recommendations, proposed to consider a balanced view, by suggesting AAI/NHAI to consider capitalization of Box Culvert/connecting road of Underpass in the next Control Period, as in order to extend the Runway there is a need of additional land overlapping/intersecting the current alignment of the NH-31, thereby entailing the shifting of the affected alignment of NH-31 stretch in the form of an Underpass, under the boundary/perimeter of the airport with connecting approach roads that will connect to the existing NH-31. It was therefore proposed that NHAI should bear the cost of constructing the connecting roads to the Underpass and also work out with AAI the modalities of sharing of the cost of the Box Culvert/Underpass. This view was also consistent with the International Civil Aviation Organization's (ICAO) principle of 'Cost-relatedness' such that the airport passengers or road users pay only for services that are availed by them.
- m. AAI and NHAI should work out the modalities for sharing of project cost relating to construction of Box Culvert/Underpass. It is to be noted that as NHAI would earn revenues through toll collection for the National Highway, which also includes this particular stretch where the cost of the Box Culvert/Underpass is proposed to be met by AAI in view of the factors mentioned above and as mentioned in the PIB minutes. Therefore, AAI should discuss



with NHAI about compensating AAI for the expenses incurred towards the same by working out a proportionate share of the Toll revenues for a certain period of time which might at least take care of the General maintenance of the Box Culvert/Underpass. AERA sought specific comments from the stakeholders on the above proposal.

### B3 – Boundary Wall

**Boundary Wall:** The Authority noted that AAI proposed ₹ 27.12 Crores towards the construction of Boundary Wall. AAI requested 350 acres of land from the Government of Uttar Pradesh for Varanasi Airport's expansion, including runway extension, new Terminal Building construction, and other facilities. As of July 28, 2024, 266.10 acres of land had been acquired, primarily in the operational area. The wall, spanning 9,524 meters (3,998m east, 5,526m west), was deemed necessary for security purposes. However, based on the analysis conducted by Aviation Expert of the Independent Consultant, the Authority, drew inference from the cost estimates of other similar airports including CPWD norms and considered the estimated cost of above work amounting to ₹ 20 Crores as reasonable. Based on the essentiality of the CAPEX from Security perspective, the Authority proposed to consider capitalization of this project in FY 2027-28.

### B4 – Other Buildings

- i **Box Culvert, LLZ, DVoR, Security Watch Tower:** The Authority noted that AAI proposed ₹ 11.58 Crores towards the construction of Box Culverts and other enabling works such as LLZ. This included construction of six box culverts across the extended runway portion, installing 600mm NP3 pipes for cable and pipeline crossings, relocating existing LLZ and GP systems to accommodate the runway extension and CAT-III Approach Lighting System, shifting of the DVOR to allow for future Apron construction on the runway's north side, and erecting 20 security watch towers along the new perimeter/operational wall. However, since all these components were directly related to the runway extension project, the Authority proposed to shift the capitalization of these projects to the next Control Period, in line with the proposed capitalization of the project on extension of Runway. However, if the same work gets started and then fully completed and Capitalized in the current Control Period, then the Authority shall consider this project on actual incurrence basis subject to efficiency and reasonableness at the time of determination of tariff of the next Control Period.
- ii **Sub-Station:** The Authority noted that AAI had initially submitted ₹ 32.76 Crores towards the construction of Sub-station to be commissioned in October 2027. Further, AAI vide email dated August 07, 2024 had revised the estimated cost of Sub-Station as ₹ 34.75 Crores. However, as per the AERA Order on Normative cost of Terminal Building, Substation is part of the Normative costs (as stated in para 6.2.6 A1). Therefore, the Authority had considered the capital costs of Substation, while determining the normative cost of constructing the Terminal Building (refer Table 37) and proposed not to consider the cost of Sub-station separately under this head.

### B5 – Plant & Machinery

**Body Scanner:** The Authority noted that AAI had proposed ₹ 7.50 Crores towards the procurement of Body Scanners. The Authority noted that as per BCAS guidelines Full Body Scanners (FBS) are to be provided in hypersensitive and sensitive airports. AAI had proposed to capitalize 3 nos. of Body Scanners for ₹ 7.50 Crores in FY 2025-26.

BCAS had mandated the installation of at least one FBS at airports with annual traffic exceeding five million passengers. Terminal Buildings serving both domestic and international flights were required to have a minimum of one FBS for each security checkpoint. The Authority

acknowledged that FBS technology was relatively new and in its nascent stage in Indian airports and suggested a phased implementation.

The Authority further noted that AAI hasn't specified the location for FBS, hence, it's assumed they're intended for the existing Terminal Building (TB). Considering the BCAS guidelines, space constraints in the current Terminal Building, and the proposal for making use of the existing Terminal Building for International operations once the new Terminal Building commissioned, the Authority proposed to consider capitalization of one FBS for ₹2.50 Cr (in line with the cost considered by the Authority for other similar airports) in FY 2025-26.

#### B6 - Office Furniture

**Providing Baggage checking table and stamping and frisking stand:** The Authority noted that AAI had proposed ₹1.39 Crores towards Baggage checking table and stamping and frisking stand to be commissioned by June 2024. The Authority noted that the work is in progress and expected to be completed by September 2024. The Authority further noted that the expected expenditure was ₹ 1 Crore. Therefore, the Authority proposed to consider capitalization of this project amounting to ₹ 1 Crore in FY 2024-25.

6.2.7 The Authority noted that VIA had claimed Financing allowance of ₹ 296.22 Crores as part of the CAPEX proposed for the Second Control Period.

6.2.8 The Authority had examined the AAI's claim towards Financing Allowance with the following views:

- The Authority considered that providing return on capital expenditure from the very beginning of construction will significantly lower the risks for an airport operator and might require revisiting the return on equity allowed to airport operators as the investment in the asset class would then be equated to risk free rate of return.
- Further, provision of Financing Allowance would disincentivize the Airport Operators from ensuring timely completion of projects and delivery of services to the users. Therefore, the Authority was of the view that a return should be provided only when the assets were made available to the airport users except in the case of certain costs like IDC that would have to be incurred in case debt is used for funding of projects.
- Furthermore, the project should generate adequate returns in future to cover the cost of equity during the construction stage. The AO is adequately compensated for the risks associated with the equity investments in a construction project once the project is capitalized by means of a reasonable cost of equity.
- Developments at greenfield airports inherently take longer durations to commission and operationalize. Thus, airport operators would have to wait for a considerable duration before getting returns on large capital projects. Keeping this in view, the Authority had earlier provisioned for financing allowance in initial stages to such airports. It might be further noted that the Authority had never provided financing allowance in the case of brownfield airports and any airport of AAI, in its any of the Tariff Orders. Further, financing allowance for greenfield airports of BIAL, HIAL, CIAL etc. was allowed only for the initial stages of their development, after which IDC was permitted on the debt portion of the proposed capital expenditure.
- Financing Allowance is a notional allowance and different from interest during construction. Therefore, the provision of Financing Allowance on the entire capital work in progress would lead to a difference between the projected capitalization and actual cost incurred, especially when the Airport Operator funds the projects through a mix of equity and debt. Further, the Authority opines



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that only IDC should be provided on the debt borrowings availed for execution of a project.

Therefore, based on the above analysis, the Authority proposed not to allow the Financing allowance of ₹ 296.22 Crores claimed by AAI for the Second Control Period.

- 6.2.9 The Authority proposed to readjust (reduce) 1% of the uncapitalized project cost from the ARR / target revenue as re-adjustment in case any particular capital project was not completed/ capitalized as per the approved Capitalization schedule. It was further proposed that if the delay in completion of the project is beyond the timeline given in the capitalization schedule, due to any reason beyond the control of Airport Operator or its contracting agency and is properly justified, the same would be considered by the Authority while truing up the actual cost at the time of determination of tariff for the next Control Period. The readjustment in the ARR/ Target Revenue is to protect the interest of the stakeholders who are paying for services provided by VIA and is also encouragement for VIA to commission/ capitalize the proposed assets as per the approved CAPEX plan/schedule.
- 6.2.10 The Authority noted that AAI submitted the Terminal Building ratio of 93%: 7% (Aeronautical: Non-Aeronautical) for apportionment of common assets within the Terminal Building at VIA for the Second Control Period. The Authority noted that AAI had revised the Terminal Building ratio from 90%:10% (as submitted initially in the MYTP by AAI) to 93%:7% due to shifting of Space allocated to Airlines from Non-Aeronautical to Aeronautical. As per the Authority, the space allotted to airlines by virtue of its nature of usage is a part of Aeronautical portion of Terminal Building area. Therefore, the Authority proposed to consider this Terminal Building ratio of 90%:10% (Aeronautical: Non-Aeronautical) as reasonable, in accordance with the decision considered in the Tariff Order for the First Control Period for Varanasi International Airport. Further, the above ratio of 90%:10% is also in line with the optimum non-aeronautical area allocation of 8% to 12% as recommended by IMG norms (for airports having passenger traffic of less than 10 MPPA).
- 6.2.11 In accordance with above, the Authority proposed the capital expenditure for the Second Control Period as per the table below:

*Table 46: Capital Expenditure (Project-wise) proposed by the Authority for Second Control Period at Consultation Stage*

(₹ Crores)

S. No	Description of the Project	Year of Capitalisation		Capitalisation			
		Submitted by AAI	Proposed by the Authority	Initial estimate of AAI (1)	Revised estimates of AAI (2)	Proposed by Authority (3)	Difference (4)=(3)-(2)
<b>A1</b>	<b>Terminal Building</b>						
i)	Construction of Terminal Building	2027-28	2028-29	1,375.16	1,375.16	1,287.94	(87.22)
<b>A2</b>	<b>X-BIS</b>						
i)	X-BIS	2024-25	2024-25	1.50	1.50	1.50	-
<b>A3</b>	<b>Environment Management Work</b>						
i)	Solar Power	2027-28	2028-29	-	20.60	20.60	-
ii)	Rain Water Harvesting	2027-28	2028-29	-	1.00	1.00	-
iii)	Solid Waste Plant	2027-28	2028-29	-	0.50	0.50	-
iv)	Corporate Environment Responsibility	2027-28	2028-29	-	3.50	3.50	-



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S. No	Description of the Project	Year of Capitalisation		Capitalisation			
		Submitted by AAI	Proposed by the Authority	Initial estimate of AAI (1)	Revised estimates of AAI (2)	Proposed by Authority (3)	Difference (4)=(3)-(2)
	<b>TOTAL (A)</b>			1,376.66	1,402.26	1,315.04	(87.22)
<b>B. New Capital Addition projects proposed by AAI for the Second Control Period</b>							
<b>B1.</b>	<b>Runways, Taxiways &amp; Apron</b>						
i)	Extension of Runway (includes PTT, Apron, Link Taxiways, etc.) (refer Table 43)	2027-28	2028-29	521.50	521.50	238.55	(282.95)
ii)	CAT- III lighting, apron flood lighting (Electrical) (refer Table 44)	2027-28	2027-28	168.64	126.80	48.80	(78.00)
<b>B2</b>	<b>Road, Bridges &amp; Culverts</b>						
i)	Recarpeting of Perimeter road	2024-25	-	2.42	2.42	-	(2.42)
ii)	Construction of Elevated Road*	2027-28	2028-29	41.48	50.02	-	(50.02)
iii)	Construction of National Highway Under Pass	2027-28	-	518.39	360.99	-	(360.99)
<b>B3</b>	<b>Boundary Wall</b>						
i)	Construction of Boundary Wall	2027-28	2027-28	27.12	27.12	20.00	(7.12)
<b>B4</b>	<b>Other Buildings</b>						
i)	Box Culvert, Security Watch Tower and relocation of LLZ, GP, DVoR	2027-28	-	11.58	11.58	-	(11.58)
ii)	Sub Station*	2027-28	2028-29	32.76	34.75	-	(34.75)
<b>B5</b>	<b>Plant &amp; Machinery</b>						
i)	Body Scanner	2025-26	2025-26	7.50	7.50	2.50	(5.00)
<b>B6</b>	<b>Office Furniture</b>						
i)	Providing Baggage checking cable stamping and frisking stand	2024-25	2024-25	1.39	1.39	1.00	(0.39)
	<b>TOTAL(B)</b>			1332.78	1,144.07	310.85	(833.22)
	<b>GRAND TOTAL (A+B)</b>			2,709.44	2,546.33	1,625.89	(920.44)
<b>Year-wise Capitalisation of Assets is as follows (₹ Crores)</b>							
		<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>FY 2026-27</b>	<b>FY 2027-28</b>	<b>FY 2028-29</b>	<b>Total</b>
		2.50	2.50	-	68.80	1,552.09	1,625.89

\*Included as part of cost of Terminal Building

**Note:** The Authority proposed to consider capitalization schedule of Aeronautical expenditure for VIA for the Second Control Period as ₹ 1,625.89 Crores, against CAPEX proposed by AAI amounting to ₹ 2,546.33 Crores (exclusive of Financing Allowance). Major reasons for variance in CAPEX was due to the following factors:

- Rationalization of Terminal Building based on Normative costs resulting in reduction of CAPEX by ₹ 87.22 Crores



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- ii. Shifting of Capitalization of projects such as Underpass, Extension of Runway to the Third Control Period resulting in reduction of CAPEX by ₹ 643.94 Crores.
- iii. Rationalization of cost of CAT-III lighting and apron flood lighting by ₹ 78.00 Crores.
- iv. Shifting of Capitalisation amounting to ₹ 84.77 Crores in respect of sub-station and elevated road (connecting to Terminal Building) to FY 2028-29.
- v. Rationalization of cost of body scanners by ₹ 5 crores. Shifting of expenses relating to recarpeting of Perimeter Road from CAPEX to O&M expenses amounting to ₹ 2.42 Crores.

The Authority proposes to consider capitalization of Aeronautical expenditure for VIA for the Second Control Period as ₹ 1,625.89 Crores.

The Authority also proposed to consider some projects as illustrated in the earlier paras on actual incurrence basis including works relating to Underpass, Runway extension & other allied works such as RESA, Turning Pad, AGL works, etc. subject to efficiency and reasonableness at the time of tariff determination in the next Control Period.

**6.3 Depreciation for the Second Control Period**

**AAI's submission on Depreciation for the Second Control Period for VIA**

- 6.3.1 VIA follows its approved rates of depreciation for different asset classes. While submitting the Multi-Year Tariff proposal for the Second Control Period for VIA, AAI had taken cognizance of the rates of depreciation approved by the Authority in previous tariff orders (Order No. 35 dated January 12, 2018, and Amendment No. 01 to Order No. 35/ 2017-18 on 'Determination of Useful Life on Airport Assets'). Accordingly, the rates of depreciation approved by the Authority had been applied by VIA from FY 2017-18 onwards.
- 6.3.2 Depreciation had been computed separately on opening block of assets and on the proposed additions.
- 6.3.3 The depreciation amount proposed by VIA for the Second Control Period had been presented in the table below:

*Table 47: Depreciation proposed by AAI for VIA for the Second Control Period*

(₹ Crores)

Particulars	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total
Land	0.00	0.00	0.00	0.00	0.00	0.00
Leasehold Land	0.00	0.00	0.00	0.00	0.00	0.00
Runways	1.21	1.21	1.21	10.84	20.48	34.95
Taxiway	0.00	0.00	0.00	0.00	0.00	0.00
Aprons	0.00	0.00	0.00	3.12	6.23	9.35
Road, Bridges & Culverts	0.16	0.25	0.24	31.31	62.38	94.33
Building- Terminal	2.99	2.99	2.99	26.90	51.27	87.14
Building – Temporary	0.00	0.00	0.00	0.00	0.00	0.00
Building – Residential	0.08	0.08	0.08	0.08	0.08	0.40
Security Fencing - Temporary	0.00	0.00	0.00	0.00	0.00	0.00
Boundary Wall -Operational	0.22	0.22	0.22	1.73	3.23	5.62
Boundary Wall - Residential	0.00	0.00	0.00	0.00	0.00	0.00
Other Buildings-Unclassified	0.73	0.73	0.73	1.54	2.36	6.08



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Particulars	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total
Computer & Peripherals: End User Devices	0.00	0.00	0.00	0.00	0.00	0.00
Computer & Peripherals: Servers & Networks	0.00	0.00	0.00	0.00	0.00	0.00
Intangible Assets- Software	0.01	0.01	0.01	0.01	0.00	0.04
Plant & Machinery	3.02	3.27	3.52	3.51	3.51	16.83
Tools & Equipment	0.93	0.88	0.88	0.88	0.88	4.44
Office Furniture	0.80	0.90	0.90	0.90	0.30	3.79
Furniture & Fixtures: Other Than Trolley	0.03	0.00	0.00	0.00	0.00	0.03
Furniture & Fixtures: Trolley	0.84	0.78	0.00	0.00	0.00	1.63
Other Vehicles	0.85	0.85	0.85	0.85	0.24	3.66
Vehicles- Car & Jeep	0.00	0.00	0.00	0.00	0.00	0.00
Electrical Installations	0.84	0.74	0.39	0.15	0.00	2.12
Other Office equipment	0.10	0.00	0.00	0.00	0.00	0.10
X Ray Baggage System	0.29	0.34	0.34	0.34	0.34	1.64
CFT/Fire Fighting Equipment	1.34	1.34	1.34	1.34	1.34	6.71
<b>Total</b>	<b>14.44</b>	<b>14.58</b>	<b>13.70</b>	<b>83.50</b>	<b>152.65</b>	<b>278.87</b>

**Authority's examination of Depreciation for the Second Control Period at Consultation Stage**

- 6.3.4 The Authority noted that the VIA had calculated the depreciation for the Second Control Period based on the useful life of the asset with the Order No. 35/ 2017-18 dated January 12, 2018. The Authority had reviewed the depreciation submitted by AAI for the Second Control Period with the rates as per the Order No.35/ 2017-18 dated January 12, 2018.
- 6.3.5 Based on changes in the allocation of opening gross block of assets and proposed capital expenditure, the Authority proposed the following depreciation for the Second Control Period.

*Table 48: Depreciation proposed by the Authority for the Second Control Period at Consultation Stage. (₹ Crores)*

Particulars	FY	FY	FY	FY	FY	Total
	2024-25	2025-26	2026-27	2027-28	2028-29	
Land	-	-	-	-	-	-
Leasehold Land	-	-	-	-	-	-
Runways	1.30	1.30	1.30	1.30	5.28	10.49
Taxiway	-	-	-	-	-	-
Aprons	-	-	-	0.81	1.63	2.44
Road, Bridges & Culverts	0.26	0.23	0.22	0.22	0.22	1.15
Building- Terminal	2.99	2.99	2.99	1.49	21.90	32.35
Building – Temporary	-	-	-	-	-	-
Building – Residential	0.08	0.08	0.08	0.08	0.08	0.40
Security Fencing – Temporary	-	-	-	-	-	-
Boundary Wall -Operational	0.22	0.22	0.22	1.22	2.22	4.11
Boundary Wall – Residential	-	-	-	-	-	-
Other Buildings-Unclassified	0.73	0.73	0.73	0.73	0.73	3.63
Computer & Peripherals : End User Devices	0.12	0.07	0.01	-	-	0.20



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Particulars	FY	FY	FY	FY	FY	Total
	2024-25	2025-26	2026-27	2027-28	2028-29	
Computer Servers & networks	0.01	0.01	0.01	0.01	0.00	<b>0.04</b>
Intangible Assets- Software	-	-	-	-	-	-
Plant & Machinery	3.11	3.19	3.27	3.26	3.26	<b>16.09</b>
Tools & Equipment	0.93	0.88	0.88	0.88	0.88	<b>4.44</b>
Office Furniture	0.80	0.85	0.55	0.39	0.29	<b>2.87</b>
Furniture & Fixtures: Other Than Trolley	-	-	-	-	-	-
Furniture & Fixtures: Trolley	0.07	0.07	0.07	0.07	0.07	<b>0.35</b>
Environment management Works	-	-	-	-	0.51	<b>0.51</b>
Other Vehicles	0.85	0.84	0.80	0.76	0.39	<b>3.64</b>
Vehicles- Car & Jeep	-	-	-	-	-	-
Electrical Installations	0.84	0.74	0.39	0.35	0.15	<b>2.47</b>
Other Office Equipment	0.04	0.01	0.01	0.00	-	<b>0.06</b>
X Ray Baggage System	0.29	0.27	0.27	0.27	0.27	<b>1.38</b>
CFT/Fire Fighting Equipment	1.34	1.34	1.34	1.34	1.34	<b>6.71</b>
<b>Total</b>	<b>13.98</b>	<b>13.81</b>	<b>13.15</b>	<b>13.19</b>	<b>39.21</b>	<b>93.34</b>

**Note:** The Authority proposed to consider depreciation for VIA for the Second Control Period as ₹ 93.34 Crores. The above depreciation was lesser than that proposed by AAI of ₹ 278.87 Crores, the difference was mainly on account of the following factors:

- i. Due to non-consideration of depreciation on Financing Allowance of ₹ 296.22 Crores.
- ii. Impact on depreciation due to rationalization of CAPEX by ₹ 920.44 Crores by shifting of Capitalization in respect of certain capital projects to the subsequent tariff years within the Second Control Period and to the Third Control Period.

**6.4 Regulatory Asset Base (RAB) for the Second Control Period**

**AAI's submission on RAB for VIA for the Second Control Period**

6.4.1 AAI's Submission on RAB for the Second Control Period for VIA is as follows:

*Table 49: RAB submitted by AAI for VIA for the Second Control Period*

Particulars	FY	FY	FY	FY	FY	Total
	2024-25	2025-26	2026-27	2027-28	2028-29	
Opening RAB	134.86	125.73	118.65	104.95	3,014.30	
Additions	5.31	7.50	-	2,992.84	-	<b>3,005.65</b>
Disposal/Transfers	-	-	-	-	-	-
Depreciation	14.44	14.58	13.70	83.50	152.65	<b>278.87</b>
<b>Closing RAB</b>	<b>125.73</b>	<b>118.65</b>	<b>104.95</b>	<b>3,014.30</b>	<b>2,861.64</b>	
<b>Average RAB</b>	<b>130.29</b>	<b>122.19</b>	<b>111.80</b>	<b>1,559.62</b>	<b>2,937.97</b>	

**Authority's examination of RAB for VIA for the Second Control Period at Consultation Stage**

6.4.2 The Authority proposed to adopt the capitalization of Aeronautical Expenditure in accordance with



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Table 46 and the depreciation amounts in accordance with Table 48.

6.4.3 Based on the above factors, the RAB proposed to be considered by the Authority for determination of Aeronautical tariff for the Second Control Period is as follows:

*Table 50: RAB proposed to be considered by the Authority for the Second Control Period at Consultation Stage*

Particulars	(₹ Crores)					Total
	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	
Opening RAB (A) (refer Table 13)	141.18	129.70	118.39	105.24	160.86	
Additions (B) (Refer Table 46)	2.50	2.50	-	68.80	1,552.09	<b>1,625.89</b>
Disposal/Transfers (C)	-	-	-	-	-	-
Depreciation (D) (refer Table 48)	13.98	13.81	13.15	13.19	39.21	<b>93.34</b>
Closing RAB (E) = [(A) +(B) – (C) – (D)]	129.70	118.39	105.24	160.86	1,673.73	
Average RAB = [(A) + (E)]/2	135.44	124.05	111.82	133.05	917.29	

The Authority proposed to consider Average RAB for the VIA for the Second Control Period as detailed in Table 50.

**6.5 Stakeholders’ comments on the Capital Expenditure (CAPEX), Depreciation and Regulatory Asset Base (RAB) for the Second Control Period**

During the stakeholders’ consultation process, the Authority has received comments/views from AAI and FIA in response to the proposals of the Authority in the Consultation Paper no. 05/2024-25 dated 26 October 2024. The comments of stakeholders are presented below:

6.5.1 AAI’s Comment on Terminal Building Ratio is as Follows:

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

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

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

*As far as IMG norms , 8% to 12% is earmarked as non-aero, we may request AERA to review whether it had considered the airlines space as Aero which was earlier treated as non-aero.*

*The Revised calculation of the Terminal Building Ratio based on the actual utilization is as follows: -*

Terminal Building area (Space allotted to Airlines considered as Aero instead of Non- Aero as per AERA Decision)						
Particulars	Location	2019-20	2020-21	2021-22	2022-23	2022-23
Space Rented (A)	Non-Aero-area (SQM)	1591.80	1561.21	1457.54	1353.39	1389.41
Space to Airlines (B) (Included in space rent)	Considered as AERO	411.03	389.62	389.62	389.62	438.94



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<b>Terminal Building area (Space allotted to Airlines considered as Aero instead of Non- Aero as per AERA Decision.</b>						
Particulars	Location	2019-20	2020-21	2021-22	2022-23	2022-23
Airlines space (%) on Non Aero		25.82%	24.96%	26.73%	28.79%	31.59%
Airlines space (%) on total Area		1.53%	1.45%	1.45%	1.45%	1.64%
C= (A-B)	Net Non Aero area (SQM)-Excluding airlines space	1180.77	1171.59	1067.92	963.77	950.47
Capacity (D)	T. B Area (SQM)	26822.79	26822.79	26822.79	26822.79	26822.79
Non-Aero %		4.40%	4.37%	3.98%	3.59%	3.54%
Revised Aero % for Consideration		95.60%	95.63%	96.02%	96.41%	96.46%

*It can be seen from the above table that Space utilized by airlines is 25% to 32% of total Non-Aero (Commercial), hence AERA is requested to include Space allotted to airlines as Aero while calculating Terminal Building Ratio.*

*AERA is requested to revise the TB Ratio in line with its consideration of Space rental income received from Airlines as Aero revenue instead of Non-Aero revenue and accordingly revise the apportionment of common assets within the terminal building for the First and Second Control Periods."*

**6.5.2 AAI's Comment Area of Terminal Building is as Follows:**

*"Difference in AREA of Terminal Building: -*

*AERA has considered the AREA of 81,345 sqm for terminal building, Fixed wing and substation as per the scope of work, however during pre-bid queries area of 682 sqm has been amended due to functional requirements and the final area considered in the tender by way of corrigendum as under. (Copy attached)*

<b>AREA considered for calculation of Normative cost</b>			
Name of work	Area (in Sqm)		
	AAI	AERA	Difference
T. Building inc Fixed wing-PBB	77542	76860	-682
Substation	4485	4485	
<b>Total Area</b>	<b>82027</b>	<b>81345</b>	<b>-682.00</b>

*We request AERA to consider the revised area and accordingly calculate revise normative cost.*

*Difference in Terminal Building Ratio (TBR) – Elevated road as common: -*

<b>Aero cost for TB, Sub station &amp; Elevated road (AAI vs AERA)</b>			
Name of Work	Cost	Cost-Aero (AAI)-93%	Cost-Aero (AERA)-90%
C/o T. Building	1478.66	1375.16	1059.60



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<b>Aero cost for TB, Sub station &amp; Elevated road (AAI vs AERA)</b>			
<b>Name of Work</b>	<b>Cost</b>	<b>Cost-Aero (AAI)-93%</b>	<b>Cost-Aero (AERA)-90%</b>
C/o Substation	34.75	32.32	
C/o Elevated Road	50.02	50.02	45.02
<b>Total</b>	<b>1563.43</b>	<b>1457.50</b>	<b>1104.62</b>

- *AERA is requested to consider the Terminal Building Ratio adopted by AAI for Terminal Building and Substation.*
- *Elevated Road-Airport Operator is always in pressure to increase non-Aero Revenue and it is also the responsibility of the Airport Operator to provide basic facility for the passenger as well as concessionaire to have smooth access to Terminal building.*

*We request AERA, to consider only the space allotted to concessionaire as non-aero instead of the basic facility like roads and sky walk etc as this is only essential for entering departure area of Terminal building and treat the elevated road and sky walk as 100% aeronautical.*

*Difference in treatment of Terminal Building Ratio (TBR) -Security equipment as common: -*

<b>Name of Assets (Rs. In Cr.)</b>	<b>Total cost</b>	<b>Aero Cost- AAI</b>	<b>Aero (%) - AAI</b>	<b>Aero Cost(AERA)</b>	<b>Aero (%) - AERA</b>	<b>Difference</b>
<i>CTX Machine</i>	91	91	100%	81.9	90%	-9.10
<i>Sky Walk</i>	9.54	9.54	100%	8.59	90%	-0.95
<i>Underground water tank</i>	6.9	6.9	100%	6.21	90%	-0.69
<i>Road &amp; Footpath</i>	41.29	41.29	100%	37.16	90%	-4.13
<i>Underpass</i>	18.77	18.77	100%	16.89	90%	-1.88
<i>Elevated Road</i>	50.02	50.02	100%	45.02	90%	-5.00
<i>Art Work</i>	10	9.3	93%	9	90%	-0.60
<i>PMC Charges</i>	26.18	24.35	93%	23.56	90%	-1.58

**CTX Machine:** - *AERA has considered CTX machine as common assets and applied TB Ratio, however CTX machine has been installed at airports as per BCAS guidelines and all the Capex (Security) will be done by the airport operator and will be reimbursed in tariff. It should be treated as 100% Aero as AAI does not charge for such facility.*

**Sky walk:** - *it is approach walkway from MLCP to Terminal Building which is a basic requirement of the passenger it should not be bifurcated on the basis of Terminal Building ratio and it should be treated as 100% Aero*

**Underground water tank:** -*it is a basic requirement of passenger facilitation (water for drinking and cleaning of toilets) and we are not getting any royalty from passenger.*

**Road & Footpath:** - *it is also basic requirement of the passenger and AAI does not used this roads and*



CAPITAL EXPENDITURE (CAPEX), DEPRECIATION AND REGULATORY ASSET BASE (RAB) FOR THE SECOND CONTROL PERIOD

footpath for commercial activity.

**Underpass:** - The existing Entry road to the New Terminal Building is crossing the Exit Road of Old Terminal Building for smooth flow of traffic and the same is considered as essential operational requirement. Hence it should be treated as 100% Aeronautical.

**Elevated Road:** - it is a new version of road connecting main road to airport and AAI does not award this area to concessionaire and airlines for any kind of commercial activities.

**ART work & PMC Charges:-** Terminal Building Ratio of 90% wrongly considered by AERA against 93% proposed by AAI excluding the airlines space considering the Aero.

Difference due to additional work not considered by AERA.

	COST (Rs. in cr.)	AAI	AERA	Diff
<b>Additional work proposed by AAI but not included by AERA while calculating cost of Proposed Terminal Building.</b>				
Solar Energy	15	15		-15
Self-Baggage Drop System	7	7		-7
Deposit with Electricity Board	15	15		-15
<b>Total</b>	<b>37</b>	<b>37</b>		<b>-37</b>

AAI has submitted the additional work of Rs.37. cr which was not considered in Consultation paper issued by AERA.

We request AERA to consider above additional work proposed by AAI.

Considering the above points, the revised normative cost of Terminal Building is as under: -"

	COST	COST-AERO (AAI)-93%	COST-AERO (AERA)-90%	Diff	
AERA (in Sqm)	82027	82027	81345	-682.00	Revised area has not been considered.
Cost of TB.Fixed Wing & Substation as per normative cost of Rs.144734/-	1187.21	1104.10	1059.60	-44.50	Lower Area and higher Ratio is applied
CTX Machine	91	91	81.9	-9.10	AAI does not charge from anyone, it's a security requirement (BCAS)-100% Aero.
Art Work	10	9.3	9	-0.30	90% instead of 93% is applied
PMC Charges	26.18	24.35	23.56	-0.79	90% instead of 93% is applied



**CAPITAL EXPENDITURE (CAPEX), DEPRECIATION AND REGULATORY ASSET BASE (RAB) FOR THE SECOND CONTROL PERIOD**

	<b>COST</b>	<b>COST-AERO (AAI)-93%</b>	<b>COST-AERO (AERA)-90%</b>	<b>Diff</b>	
Sky Walk	9.54	9.54	8.59	-0.95	It's a approach road from MLCP to TB, wrongly applied TBR (100% Aero)
Underground water tank	6.9	6.9	6.21	-0.69	It's a basic requirement for Passenger. (100% Aero)
Road & Footpath	41.29	41.29	37.16	-4.13	Not used for commercial activity, its totally outside of TB(100% Aero)
Underpass	18.77	18.77	16.89	-1.88	Not used for commercial activity(100% Aero)
Elevated Road	50.02	50.02	45.02	-5.00	It's a new version of approach road from main road to TB, wrongly applied TBR. Secondly no commercial activity is done there. (100% Aero)
<b>Total cost (In Cr.)(A)</b>	<b>1440.91</b>	<b>1355.27</b>	<b>1287.93</b>	<b>-67.34</b>	
<b>Additional work proposed by AAI but not included by AERA while calculating cost of Proposed Terminal Building.</b>					
Solar Enegry	15	15		-15.00	
Self-Baggage Drop Sys	7	7		-7.00	
Deposit with Electricity Board	15	15		-15.00	
<b>Total (B)</b>	<b>37</b>	<b>37</b>		<b>-37</b>	
<b>Total allowable cost (A+B)</b>	<b>1477.91</b>	<b>1392.27</b>	<b>1287.93</b>	<b>-104.34</b>	

**6.5.3 AAI's Comment on Space Allotted for Terminal Building Ratio is as Follows:**

*"In the recent Aeronautical tariff orders, AERA has changed his stand about, the space allotted to airlines by virtue of its nature of usage is part of Aeronautical portion. Which is 30% of the total space utilized for commercial activities, but on the other hand AERA has still considered the same space as Non-Aero for calculating Terminal Building Ratio Therefore, the Authority has wrongly proposed to consider this Terminal Building ratio of 90%:10% (Aeronautical: Non-Aeronautical) as against the 93% 7% (10%-3%-airlines space) proposed by AAI.*

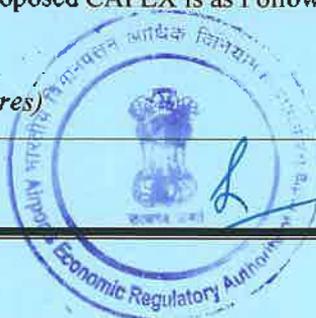
*AERA is requested to consider space to airlines as well as revenue from the same space either aeronautical or Non-Aeronautical.*

*As far as IMG norms, 8% to 12% is earmarked as non-aero, we may request AERA to review whether it had considered the airlines space as Aero which was earlier treated as non-aero."*

**6.5.4 AAI's Comment on Shifting of proposed CAPEX is as Follows:**

**"Land Acquisition Status**

- Land under acquisition (350 Acres)



**CAPITAL EXPENDITURE (CAPEX), DEPRECIATION AND REGULATORY ASSET BASE (RAB) FOR THE SECOND CONTROL PERIOD**

- For Terminal Building: 90 Acres (Acquisition completed >99%)
- For Extension of Runway: 270 Acres (~117 Hectares)
- 114 Hectares (Acquisition complete for > 88%)
- 3 Hectares Govt Land
- For Tunnel Work, Acquisition under progress under NH Act, Work Completion
- State Govt has authorized AAI to commence work on the land which has been acquired till date. (Email dated 14 Feb 2024)
- Work Awarded: • Terminal Building work: (Progress: Digging work for MLCP 80% Complete)
- New Boundary Wall : (Work Awarded : Jun 2024)

Copy of correspondence is attached

AERA is requested to consider the date of completion as proposed by AAI.

Impact of shifting of Capitalization of Terminal Building by AERA from FY 2027-28 to FY 2028-29

AERA has shifted the capitalization of Terminal building to FY28-29 against AAI's proposal of capitalizing in FY27-28.

AERA		AAI				IMPACT
Return on RAB and depreciation considering AERA's view of capitalizing terminal building in FY28-29		Return on RAB and depreciation considering AAI proposal of capitalizing terminal building in FY27-28				(Rs. In Cr.)
Amount in crs	FY28-29 (A)		FY27-28	FY28-29	TOTAL(B)	DIFFERENCE(A-B)
FROR(%)	12.21	FROR(%)	12.21	12.21		
Normative cost-as per CP (T-36)-A	1287.94	Normative cost	1378.94			
<b>Additional work proposed by AAI but not considered by AERA</b>						
Solar Energy			15			
Self Baggage Drop System			7			
Deposit with Electricity Board			15			
<b>Total (B)</b>			<b>37</b>			
<b>Total cost (A+B)</b>	<b>1287.94</b>		<b>1415.94</b>			
Depreciation	21.44 (1287.94 X 3.33% X 50%)	Depreciation	23.58	47.15	70.73	
Return on RAB	78.63	Return on RAB	86.44	172.88	259.32	
<b>TOTAL (Dep &amp; Return on RAB)</b>	<b>100.07</b>	<b>TOTAL</b>	<b>110.02</b>	<b>220.03</b>	<b>330.05</b>	<b>229.98</b>

AERA is requested to consider the capitalization of terminal building in FY27-28 as there is an impact of approx. Rs 229.98 crs in ARR as computed in the above table.

Impact of shifting of Capitalization of RUNWAY/TAXIWAY by AERA from FY 2027-28 to Next control period:



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- AERA has shifted some portion of runway extension project to the Third control period. However, in this regard, 80% of the land has been acquired and balance 20% acquisition is on fast mode and will be completed in next 4-5 months.
- The work is likely to be awarded by April 2025 and the work will be completed by FY 2028-29 and hence AERA is requested to consider the PDC as FY28-29.

<b>Impact of considering extension of runway fully in FY28-29 (Rs. In Cr.)</b>	
	<b>FY28-29</b>
<b>FRoR(%)</b>	12.21
<b>Part cost</b>	282.55
<b>Depreciation</b>	9.41
<b>Return on RAB</b>	34.55
<b>TOTAL</b>	43.96

AERA is requested to consider the capitalization of extension of runway fully in FY28-29, there will be an impact of approx. Rs 43.96 crs in ARR as computed in the above table."

6.5.5 FIA's comment on applying normative guidelines for CAPEX projects is as follows:

"FIA submits that the entire ecosystem needs to be operationally efficient, which can be implemented, amongst other things by capital expenditure efficiency studies, which AERA is requested to conduct.

We request that AERA apply the normative norms for capex projects as mentioned under AERA Order No. 7/2016-17 dated 13 June, 2016 in order to maintain the overall cost control and efficiencies in capex projects.

We submit that there should not be any incremental normative rate for capex projects. Further, it is requested that, in order to support the airlines to continue and sustain its operations, it is requested that all non-essential capital expenditure proposed by Airport operator be put on hold/deferred, unless deemed critical from a safety or security compliance perspective.

We request AERA to ensure that all aeronautical capex is efficient and without any unreasonable excesses. This is crucial to prevent stakeholders, including passengers, from bearing costs for services or facilities that are not utilized or availed by stakeholders.

In view of the above, we request AERA to conduct an independent study for 'efficiency of capex for SCP' before issuing the final order, which may help in understanding the exact needs of the airport and lower risk of unplanned and/or under-utilized capex in this control period."

6.5.6 FIA's Comment on Capital Expenditure is as follows:

"We note that AERA has conducted an in-depth analysis of the submissions made by the Airport operator by an independent consultant, which is appreciated. However, it is requested that, in case the airport operator wants to make capital expenditure, then it should be at no additional expense to the airlines until the project is completed and put to use by the airlines."

6.5.7 FIA's Comment on Construction of New Terminal Building is as follows:

"We would like to highlight the authority's observation that the Airports Authority of India (AAI) conducted an AUCC meeting with all stakeholders concerning the capital expenditure for the



*construction of the New Terminal Building at VNS. This was done to meet the demands of robust traffic growth and passenger facilitation, as per the meeting held on November 25, 2019 (AAI/APD/VNS-2019).*

*However, we wish to bring to attention the long gap that has occurred since this consultation, exacerbated by the challenges posed by the COVID-19 pandemic, which led to significant shifts in passenger traffic patterns and operational priorities. In light of these changes, we urge AERA to recognize the gaps in the consultation process and establish a clear mechanism to ensure that the mandated consultation protocols are followed in a timely manner. This will help address the evolving needs of airport operations and stakeholder engagement.*

*We have previously submitted recommendations to AERA for a best-practice consultation framework, designed to facilitate ongoing, inclusive, and collaborative engagement between the Airport Operator (AO) and its stakeholders. We hope this framework can be adopted to ensure more effective and timely consultations moving forward, particularly in the post-COVID."*

6.5.8 FIA's Comment on Adjustment of Capital Expenditure is as follows:

*"We agree with AERA's proposal that an adjustment of 1% (or higher of the project cost from the ARR, as deemed fit), is made by AERA for capital expenditure projects is/are not completed/capitalised as per the approved capitalisation schedule other than those affected solely by the adverse impact of COVID-19. Such adjustments can be made by AERA during the tariff determination for the Second Control Period instead of Third Control Period."*

6.5.9 FIA's Comment on Terminal Building Ratio is as Follows:

*"FIA submits that AERA has considered the Terminal Building Ratio ('TBLR') of 90:10 for the SCP. However, it is important to recognize the significance of Varanasi as a prominent destination and a vital hub in Uttar Pradesh, not only within India but also in a broader regional context. The city is renowned for its rich cultural heritage, bustling food scene, and growing prominence in sectors such as education, export, and tourism. Varanasi is quickly emerging as a key player in these fields, attracting both domestic and international visitors. Its role as a center for education, with a range of prestigious institutions, further enhances its appeal, making it a strategic location for academic and business collaborations.*

*In particular, Varanasi's educational institutions, including Banaras Hindu University (BHU), have become major draw cards for students, scholars, and researchers from across the globe. These institutions not only contribute to the intellectual vibrancy of the city but also support its growing role in the export sector, with research and technological innovation helping to drive local and national economies. Varanasi's export potential is also significant, particularly in the textile and handicraft industries, with local artisans producing world-renowned products such as silk, handwoven textiles, and brassware. The city's rich tradition of arts and crafts is increasingly reaching global markets, adding to its economic strength and providing new avenues for growth.*

*With its growing reputation and steady influx of tourists, business travellers, and culinary enthusiasts, Varanasi plays a crucial role in tourism. Its strategic location along the banks of the Ganges, along with proximity to popular tourist attractions such as Sarnath, Kashi Vishwanath Temple, and the ghats of Varanasi, strengthens its position as a major tourist destination. The development of Lal Bahadur Shastri International Airport and ongoing improvements in infrastructure further underscore its potential for increased non-aeronautical revenue including services related to tourism, business, and export logistics.*



*The current non-aeronautical revenue ratio proposed by AERA may not fully capture the extensive economic opportunities presented by Varanasi's diverse industries, educational institutions, and cultural significance. Compared to major airports like DIAL, MIAL, and BLAL, Varanasi's TBLR (Terminal Building Lease Revenue) is undervalued, despite the city's increasing contributions to tourism, exports, and education. As noted by AERA, airports with TBLR above 10% are often cited as benchmarks for success, and Varanasi's unique combination of cultural, educational, and business assets suggests that its economic impact will continue to rise, reinforcing its status as a major centre for both tourism and business.*

*In view of the above, we request AERA to kindly allot the best possible ratio towards Non-Aeronautical Revenue (NAR), while maintaining a consistent approach in applying IMG norms. We further urge AERA to consider conducting an independent study to assess the potential for higher allocation non-aeronautical allocation for Varanasi Airport."*

**6.5.10 FIA's Comment on Depreciation rate/Useful Life of Terminal Building is as Follows:**

*"While acknowledging the depreciation rate applied by AERA in accordance with AERA Order No. 35/2017-18 the 'Useful Life of Airport Assets', it is pertinent to note that useful life of assets at various international airports like London Heathrow, Sydney airport and Amsterdam airport indicated that terminal buildings have useful life of as long as sixty (60) years and aprons have it for as long as ninety-nine (99) years. FIA submits that the useful life of terminal building for Kanpur and Cochin airports have been considered sixty (60) years by AERA and accordingly AERA should prescribe sixty (60) years for the 'Building' including 'Terminal Building as' is practiced by some of the developed aviation ecosystem.*

*Hence, in view of that AERA should conduct an independent study on depreciation, as the current depreciation rationale does not provide clarity on the depreciation applied."*

**6.6 AAI's response to Stakeholders' comments regarding Capital Expenditure (CAPEX), Depreciation and Regulatory Asset Base (RAB) for the Second Control Period**

**6.6.1 AAI's response to FIA's comment on applying normative guidelines for CAPEX projects is as follows:**

*"FY2020-21 and 2021-22 of the first Control Period were unprecedented years affected due to the pandemic Covid-19 resulting in postponement of the capital expenditure to the future years. Wherever the normative cost is applicable on the capital work, AAI calculates and submit the normative cost and accordingly AERA allows/approves the same. Normative cost is required for construction of New Terminal Building/Apron/Taxi Way/Parallel Taxi Track etc.*

- 1. Tender process is carried out by AAI through competitive bidding only and invited tender through CPP portal Gem portal etc.*
- 2. In case any related party transaction, the same has been disclosed in annual report of the AAI and in compliance to rules in vogue."*

**6.6.2 AAI's response to FIA's comment on Capital Expenditure is as follows:**

*"AAI is incurring capital expenditure after detailed analysis and based on the need of the capex at the respective airport. The unplanned expenditure has been incurred after considering operational requirement at the airport. AAI has cautiously considered only that capex which are essential, through discussions with the Corporate Headquarters and stakeholders during these years. Any capital investment is eligible for return & Depreciation only after the assets put to use. AERA is considering return on RAB after the assets get capitalize and put to use."*



6.6.3 AAI's response to FIA's comment on Construction of New Terminal Building is as follows:

*"AAI had conducted AUCC meeting on 25th Nov, 2019. Thereafter one AUCC Meeting was proposed in Jan 2024 which was postponed AERA/AAI due to request raised by FIA to AERA/AAI. AUCC for the capital works will be called very soon for deliberation of various project before all the stakeholders. The capital works are planned to complete in timely in manner. Some time for the want of approvals from various outsides agencies may get work delayed which are beyond the control of Airport operator."*

6.6.4 AAI's response to FIA's comment on Adjustment of Capital Expenditure is as follows:

*"AAI is incurring capital expenditure after detailed analysis and need of the capex at the respective airport. The unplanned expenditure has been incurred after considering operational requirements. AAI has cautiously considered only that capex which are essential, through discussions with the Corporate Headquarters and stakeholders during these years."*

6.6.5 AAI's response to FIA's comment on Terminal Building Ratio is as follows:

*"AAI is making all efforts to increase Non- Aeronautical revenue. The Terminal Building are designed to comply IMG Norms/ICAO guidelines/BCAS Norms and other regulatory Authorities. (Further, non-aeronautical business is dependent on multiple factors such a demand, customer behavior, spending patterns and per capita income of the region. Therefore, a standardized approach may not accurately reflect the ground reality of non-aeronautical business and may be detrimental to the Airport Operator)."*

6.6.6 AAI's response to FIA's comment on Depreciation rate/Useful Life of Terminal Building is as follows:

*"AAI has computed the depreciation rates in compliance with AERA order no.35 on various fixed assets."*

**6.7 Authority's analysis on Stakeholders' comments regarding the Capital Expenditure (CAPEX), Depreciation and Regulatory Asset Base (RAB) for the Second Control Period**

6.7.1 The Authority notes the comments of AAI on Terminal Building ratio.

At the Consultation stage, the Authority had clarified (refer para 6.2.10) that the space allotted to airlines by virtue of its nature of usage is part of Aeronautical portion and therefore, the Authority had considered the Terminal Building ratio of 90%:10% (Aeronautical: Non-Aeronautical) as reasonable, in accordance with the decision taken in the Tariff Order for the First Control Period for Varanasi International Airport.

Further, there should be continued efforts by AAI to increase efficiency in Airport operations, by generating sufficient non-aeronautical revenues for cross subsidization of aeronautical charges.

Some stakeholders have requested the Authority to consider the higher Terminal Building (TB) Ratio for Varanasi Airport, considering its immense potential for generating non-aeronautical revenues. However, it is noted that the existing terminal building is nearing its saturation capacity and new terminal building is likely to be commissioned only at the end of the Control Period.

Thus, the Authority taking a balanced view in the matter decides to maintain the same TB Ratio as was considered for the First Control Period.

It may be noted that merely accepting the TB ratio proposed by the Airport Operator would not bring in efficiencies in airport operations. AERA is inclined to consider other relevant factors such as IMG recommendations, IATA norms etc., relating to appropriate Terminal Building ratio, for determining the non-aeronautical area in the Terminal Building.



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Based on the above factors, the Authority decides to maintain the same TB Ratio (90:10) as was proposed at the Consultation Stage.

6.7.2 The Authority has noted the comments of AAI regarding the area of new Terminal Building considered by AERA for computing the Normative cost at the Consultation Stage. In this regard, the Authority has following views:

- a. The area of the new Terminal Building at the Consultation stage was considered by AERA based on the documents submitted by AAI, from time to time and observations of the Aviation Expert of the Independent Consultant as part of his site visit to the Varanasi Airport on June 29, 2024. As per the Detailed Project Report (DPR), the drawings and documents submitted by AAI to PIB, the total area of the Terminal Building was indicated as 75,000 sqm. However, the total area considered by AAI in the tender document was 75,220 sqm and that of the fixed fingers of 8 numbers of Aerobridges was 1,640 sqm, totaling to 76,860 sqm. AERA had considered the higher estimate (i.e. 76,860 sqm) for deriving the Normative cost of new Terminal Building, at the Consultation stage. Accordingly, total area of the new Terminal Building was considered as 76,860 sqm. (75,220 sqm. + 1,640 sqm. = 76,860 sqm.) in the Consultation Paper No. 05/2024-25 issued on October, 26, 2024.

Subsequently, AAI, as part of its comments on the aforementioned Consultation Paper submitted to AERA on November 22, 2024, has clarified that the area of new Terminal Building, during the pre-bid queries stage, was amended (increased) by 682 sqm. due to functional requirements and the final area of new terminal building considered in tender document by way of corrigendum was 77,542 sqm. The detailed breakup of the same is follows:

- (i) Passenger Terminal Building (PTB) – 60,011 sqm.
  - (ii) PTB basement – 15635 sqm.
  - (iii) Fixed fingers for aerobridges – 1896 sqm.
- Total – 77542 sqm.**

Based on the clarification submitted by AAI, the Authority decides to consider the area of new terminal building, including of basement and fixed fingers for aerobridges, as 77,542 sqm. (as against 76,860 sqm. proposed at the Consultation stage), for deriving the normative cost of the Terminal Building.

- b. As regard to the AAI's comment on treating certain infrastructure/ equipment such as Roads, Skywalk, Artwork, Elevated road, CTX machine etc., as common assets and the application of TB Ratio thereon by AERA, instead of treating them as 100% Aeronautical assets as proposed by AAI, the Authority is of the view that the Normative Cost of Terminal Building is considered in totality, taking into account the infrastructure/facilities within the terminal building related to Passenger Facilitation, Security Equipment, Airlines' related services etc., including of equipment and facilities such as Airconditioning, FIDS, Travelators, Escalators, Elevators, PBBs, Inline XBIS system & standalone XBIS, etc. and same is also in line with the AERA Order No. 07/2016-17 dated June 13, 2016 regarding the normative cost for terminal building etc.

The above approach is uniformly followed by the Authority in other similar airports. It is to be noted that when these equipment/ facilities are installed/developed along with the new Terminal Building, these are considered as sub-system and a part of Terminal Building. The cost of aeronautical portion of the terminal building is computed by applying appropriate TB ratio.

- c. It is pertinent to note that above approach has also been adopted by AAI, while submitting the MYTP for various airports, including the MYTP submitted for the First Control Period of Varanasi Airport.

In the MYTP submitted by AAI for the Second Control Period for Varanasi Airport, AAI has projected the



total cost of new Terminal Building project as ₹ 1,478.66 Crores., which covers all the equipment within the proposed Terminal Building, including CTX machine, as well as the Roads, Skywalk, Underground Tank etc. Out of the total cost of ₹1,478.66 Crores, the Aeronautical cost of new Terminal Building was projected at ₹1,375.15 Crores, which had been derived by applying the Terminal Building Ratio of 93% on the Total Cost of Project i.e. ₹ 1,478.66 Crores.

Thus, AAI itself in its MYTP submission had considered these assets/ equipment as common assets and had applied TB Ratio to derive aeronautical costs of these assets/ equipment.

Therefore, it is not prudent to change the accepted practice/approach, of treating the costs of all infrastructure and equipment that are integral to the Terminal Building as one unit, for the purpose of deriving the aeronautical costs of Terminal Building & allied assets/ equipment.

- d. Further, in the MYTP for the Second Control Period of Varanasi airport, AAI has projected the Elevated Road and Substation as fully Aeronautical, whereas, AERA has considered these as Common Assets and applied the Terminal Building ratio for deriving the Aeronautical costs. These assets are integral to the smooth functioning of the Passenger Terminal Building.

The elevated road connected to Terminal Building is also used by persons (other than passengers), who visit the airport to see off/ receive passengers and also by the non-aeronautical concessionaires etc., as such it has a common use (aero as well as non-aero). Similarly, electric sub-station supplies electricity to the terminal building, which includes non-aero activities also. Further, sub-station also caters to the electricity requirement of Residential areas, etc. Hence, same is also treated as common use asset.

- e. In the case of other airports, such as Lucknow, Patna, Guwahati etc. as well as in the First Control Period of Varanasi Airport, all the infrastructure connected with and integral to the Terminal Building, such as Elevated Road have been included in the total project cost of the Terminal Building. Thereafter, the Terminal Building Ratio is applied to the total cost to determine the aeronautical portion of the Terminal Building Cost. The Authority, is following the above approach consistently for determining the aeronautical portion of the cost of Terminal Building.

- f. As regard to AAI's comments to treat CAPEX pertaining to Assets such as Skywalk (connecting MLCP and Terminal Building), Underground Water Storage Tank, Underpass connecting New Terminal Building etc. as 100% Aeronautical, it is stated that these assets are not exclusively used by passengers / aeronautical activities. Such facilities are also used by non-aero concessionaires/ persons other than passengers etc., who visit airport for various purposes. Hence, these assets have been considered as common use assets and accordingly, the TB Ratio has been applied to derive the aeronautical cost of terminal building.

- g. With respect to AAI's comments regarding non-consideration of CAPEX related to additional works associated with the Terminal Building, it is clarified as under:

- i. Solar Energy - AAI had proposed ₹15 Crores for the Solar Plant. AERA notes that the Solar Plant is not specific or integral to the Terminal Building, but it is relatable to the entire airport. Further, as the solar energy plant is not a part of normative cost of the terminal building, the Authority considering the same as a green initiative and environment management work, has considered the CAPEX related to it under the Environment Management Works/ Green Initiatives and has considered estimated cost of Solar Plant at ₹ 20.60 Crores. Therefore, the AAI's comments regarding non-inclusion of the CAPEX relating to solar energy is not correct.

- ii. Self-Baggage Drop System - AAI had excluded the CAPEX of ₹7 Crores towards this asset, while deriving the normative cost of the Terminal Building (submitted as part of the MYTP). However, as per the Authority, the Self-Baggage Drop System is a part of passenger services within the



terminal building, hence is considered as part of the Normative cost of terminal building and same is in accordance with AERA Order on normative costs (referred above).

- iii. Deposit with Electricity Board - AAI has projected ₹ 15 Crores towards deposit with Electricity Board, for the augmentation of power supply for the airport. The augmentation of power supply is considered essential for the smooth functioning of the proposed new Terminal Building, which will have larger area for air-conditioning, more facilities & amenities & allied infrastructure, all of which will lead to increase in the power load of the airport. Considering the above, the Authority decides to consider CAPEX towards Deposit with Electricity Board, while determining the projected cost of the new Terminal Building.

6.7.3 The Authority has noted the comments of AAI regarding the land acquisition status.

- a. AAI has stated that 99% of the land required for the Terminal Building project has been acquired and major portion of the work has been awarded. Therefore, AAI is requesting AERA to consider capitalisation of Terminal Building in FY 2027-28, as against FY 2028-29 considered by AERA at the Consultation stage.

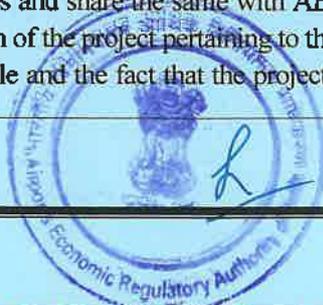
In this regard, the Authority notes that the diversion/ closure of the State Highway SH 98, connecting the Airport to the Babatpur railway station and NH 28, which intersects with the proposed Multi Level Car Parking (MLCP), city side of Terminal Building have not been addressed by AAI. Successful completion of the Terminal Building project depends on diversion or closure of this road, which requires finalization of a layout plan and land acquisition by the State government.

Further, the major package of the work (approx. 67%) have been awarded only in July'24 through an EPC contract. Currently, only earthwork for MLCP have been initiated. Contracts for the balance works are yet to be awarded, the details of which have not been provided to AERA. Further, AAI has not submitted the PERT chart or the Bar Chart showing all the activities from the commencement of the project, up to its completion. Based on the above and in the absence of any concrete documents showing the likely capitalization of Terminal Building in FY 2027-28, AERA does not find any reason for re-assessment/ preponement of the year of capitalization of the new Terminal Building.

- b. AAI has stated that 80% of the land required for runway extension has been acquired and the land acquisition process has been initiated for the Underpass work also.

In this regard, it has to be noted that AERA, at the consultation stage, has considered all the associated works related to runway extension project (such as construction of new Apron & Isolated Parking Bay etc.) proposed by AAI, which are not dependent on additional land acquisition & for which land is already available with AAI. Only the project on Extension of Runway and the works planned in the area earmarked for the runway extension have not been considered, as the full extent of the land required for the project is not available with AAI.

Also, AAI has not provided the survey map of the land acquisition pertaining to the runway extension area, clearly earmarking the land already acquired, without any encumbrances and handed over to AAI. In the absence of these details, it is not possible to assess the feasibility of initiating the project on extension of runway and its associated works. Further, the completion and commissioning of the extended portion of the runway depends upon the concurrent execution of the project relating to construction of Underpass by NHAI. At present, the entire land required for approach roads to the Underpass, has not yet been acquired. Further, construction of approach roads requires rehabilitation of outsees. In this regard, AAI was advised to obtain project timeline schedule from NHAI and synchronise the same with the AAI timeline schedule, within the overall project timelines and share the same with AERA, so as to enable AERA to analyse & assess the timelines for completion of the project pertaining to the Extension of Runway. In the absence of the above project timeline schedule and the fact that the project on runway extension is contingent upon



completion of the Underpass work, the Authority does not find any reason to change its assessment regarding completion and capitalization of the project related to Extension of Runway and its associated works.

Also, as stated, at the consultation stage, if the project of Extension of Runway and its associated works gets started and completed & capitalized in the current Control Period, then the Authority shall consider such projects on actual incurrence basis, subject to efficiency and reasonableness at the time of determination of tariff of the next Control Period.

- 6.7.4 The Authority has noted the comments of FIA on determining efficient CAPEX and AAI's response thereon.

In this regard, it is to be noted that AERA's Order No. 07/2016-17 dated 13th June 2016 on "In the Matter of Normative Approach to Building Blocks in Economic Regulation of Major Airports-Capital Costs Reg." (Order available on AERA's website) applies normative costs only on CAPEX relating to Construction of Terminal Building and Runway/Taxiway/Apron.

Accordingly, for Varanasi airport, the inflation indexed normative cost benchmarks (w.r.t. Terminal Building, Apron, Taxiways etc.) have duly been considered, while evaluating Capex proposals of AAI. Normative cost benchmarks are uniformly applied to all major airports, including AAI airports.

Further, the Authority, through the Aviation Expert of its Independent Consultant, has also carried out required due diligence in respect of CAPEX proposals of AAI with respect to its essentiality, cost reasonability etc. in the backdrop of AERA's Guidelines/CPWD norms and likely date of commissioning of Assets.

- 6.7.5 The Authority notes FIA's comment regarding undertaking only the essential CAPEX by the AO and AAI's response to the same.

The Authority, through aviation expert of its Independent Consultant, has examined in depth, the Capital expenditure incurred by AAI pertaining to the First Control Period and the CAPEX proposals for the Second Control Period submitted by the Airport Operator. The Consultant had sought required clarifications on the essentiality and the reasonableness of the proposed CAPEX, wherever required.

Accordingly, the Authority has considered only such capital expenditure, which is essential for safety/security/ operational requirements.

It is informed that CAPEX related to airport infrastructure/facilities is only made part of Regulatory Assets Base (RAB), when such infrastructure / facilities are commissioned/put to use and FRoR & Depreciation on such assets is considered accordingly.

- 6.7.6 The Authority notes FIA's comment on conducting AUCC meeting and AAI's response on the same.

AERA had already taken the cognizance of the stakeholder's request and asked AAI, during Stakeholders' Consultation meeting held on November 11, 2024, to hold a fresh AUCC meeting in respect of various capital projects proposed by AAI at Varanasi Airport. Minutes of the stakeholders' consultation meeting is available at AERA website.

The Authority notes that Varanasi airport, on the advice of AERA, has again conducted the AUCC meeting on December 20, 2024 and submitted the minutes of meeting to the Authority on December 27, 2024.

From the perusal of the Minutes of Meeting, it is noted that AAI made a Power Point Presentation (PPT) before the stakeholders, covering the topics relating to ongoing/ upcoming developmental projects at the Varanasi airport to meet the projected increase in the air & passenger traffic, including construction of the new Passenger Terminal Building, Runway Extension and allied infrastructure etc. It is noted that



stakeholders mainly raised matters connected with airport operations, such as low visibility landing/ take-off procedure at Varanasi airport, future plan for installation of ILS CAT-III at the airport etc. and AAI representatives appropriately replied/clarified the issues raised in the meeting. Further, some of the stakeholders sought details of cost sharing between AAI & NHAI in respect of construction of Underpass in connection with Runway Extension Project, to which, AAI team stated that underpass will be built by the NHAI and cost thereof will be borne by AAI. As regard to approach roads connecting the Underpass, the cost thereof will be borne by the State Govt.

As regard to the timely holding of AUCC meeting, the Authority in various Tariff Orders has emphasized the importance of conducting AUCC meetings by the Airport Operators, in accordance with the AERA Guidelines, 2011. Airport Operators are required to follow the laid down user consultation protocol and obtain the inputs from the concerned stakeholders with respect to major CAPEX/ Major Revisions in the CAPEX proposals of the Airport, for the applicable Control Period and its impact on tariff. Further, an advisory to all the airport operators in this respect, reiterating AERA's aforesaid position, has been issued by AERA vide File no. AERA/20010 /MISC/2010/Vol. IV/ 22319 dated January 1, 2025.

Regarding FIA's comments on best practice consultation framework, the Authority hereby states that Airports Economic Regulatory Authority of India (Terms and Conditions for determination of Tariff for Airport Operators) Guidelines, 2011 defines comprehensively the framework for conducting AUCC meetings at Major Airports, which includes formation of the consultative committee, scope of consultation, consultation process (including provisions for sharing the Project Investment File by the AO with the stakeholders), monitoring and compliances which has to be adhered to.

- 6.7.7 The Authority notes FIA's comment on adjustment of capital expenditure (in respect of projects that are not completed as per approved capitalization schedule) and AAI's response on the same.

It is pertinent to note that all CAPEX projects were on standstill during COVID 19 pandemic and the project on construction of Terminal Building could not be undertaken, as the required approval from Public Investment Board (PIB) was accorded only in February 2024. Considering that the reasons given by AAI for shifting of CAPEX relating to Terminal Building project to the next Control Period are justified, the Authority decides not to make adjustment of 1% in the ARR in the Second Control Period.

In this regard, the Authority's views relating to the adjustment of 1% of uncanceled project cost from ARR/ Target Revenue, as part of true up of the First Control Period have been provided in Para No.. 4.4.9.

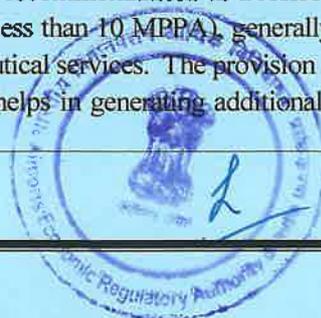
The Authority expects the airport operator to do the required planning and due diligence, while proposing the CAPEX and capitalization schedule in their MYTPs, considering all the relevant factors, upon which tariffs are determined.

- 6.7.8 The Authority has noted the comments of FIA on the Terminal Building ratio allocation and AAI's response to the same.

The area of terminal building is planned considering the projected traffic, area required for the passenger related activities, other Aeronautical & Non-Aeronautical services etc. Accordingly, Terminal Building area for aeronautical & non-aeronautical activities are identified and demarcated.

The Terminal Building Ratio (TB Ratio) is decided on airport-to-airport basis, considering the specifics of each airport.

The Authority also refers to IMG recommendations as a reference and notes that as per IMG Norms (for airports having passenger traffic less than 10 MPPA), generally, 8% to 12% of overall terminal building area is earmarked for non-aeronautical services. The provision of adequate TB space for non-aeronautical activities is very important as it helps in generating additional revenues for the Airport and also makes



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available a portion of the non-aeronautical revenue for cross subsidization of the Aeronautical charges.

Some stakeholders requested the Authority to consider a higher TB Ratio for Varanasi Airport, considering its immense potential for generating non-aero revenues. However, it is noted that the existing terminal building is nearing its saturation capacity and new terminal building is likely to be commissioned only at the fag end of the Control Period, the Authority decides maintain the same TB Ratio for the Second Control Period as was proposed at Consultation Stage.

Considering the above, the Authority decides to retain the Terminal building Ratio as 90:10 (Aeronautical: Non-Aeronautical) for the Second Control Period and the same is in line with the IMG recommendations and IATA norms and as followed in other similar airports. However, the Authority may consider review of TB Ratio at the time of tariff determination for the Third Control Period, considering the commissioning of new Terminal Building and other relevant factors.

6.7.9 The Authority notes FIA's comment on Depreciation rate/ Useful life of Terminal Building and AAI's response on the same.

As per Order No. 35/2017-18 dated 12th January 2018, the Authority has given the option to airport operators to decide the useful life for terminal buildings as either 30 years or 60 years. The AO, based on its assessment, has submitted the useful life for terminal building as 30 years and same has been considered by the Authority, in line with the aforementioned Order No. 35/2017-18 dated January 12, 2018.

The Authority does not find the need to conduct an independent study on depreciation as the rates followed by AAI are in line with the aforementioned Order of the Authority.

6.7.10 The Authority decides to adopt the forecast of inflation rates based on the latest RBI Survey results Round 91 dated December 06, 2024, for the purpose of computing inflation adjusted normative cost of the Terminal Building, as shown in the table below:

Table 51: WPI Inflation adjusted Normative rate (per Sq.m.) in respect of Terminal Building decided by the Authority for the Second Control Period

Financial Year	Inflation Rate	Inflation adjusted normative rate (in ₹ per sqm)	Inflation adjusted Normative cost (including GST) (in ₹ per sqm.)
FY 2020-21	-	1,00,000	1,05,357
FY 2021-22	7.14%	1,07,140	1,12,880
FY 2022-23	9.42%	1,17,233	1,23,513
FY 2023-24	0.30%	1,17,584	1,23,883
FY 2024-25	2.40%	1,20,406	1,26,857
FY 2025-26	3.00%	1,24,018	1,30,662
FY 2026-27	3.00%	1,27,739	1,34,582
FY 2027-28	3.00%	1,31,571	1,38,620
FY 2028-29	3.00%	1,35,518	1,42,778

**Note:**

Inflation adjusted base amount (inclusive of 12% GST) (A) = Rs. 1,00,000 per sqm

Inflation adjusted base amount (exclusive of 12% GST) (B=A\*100/112) = Rs. 89,286 per sqm



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Add GST @ 18% (C=B\*18%) = Rs. 16,071 per sqm  
 Normative cost including GST (D = B+C) = Rs. 1,05,357 per sqm

The total area (for FY 2020-21) considered for computation of normative costing is as follows:

- Area of Terminal Building = 75,646 sqm
- Fixed wing of PBB = 1,896 sqm
- Area of Substation/ Utility Building = 4,485 sqm
- **Total = 82,027 sqm.**

*Table 52: Normative cost of Terminal Building decided by the Authority for Varanasi International Airport*

		(₹ Crores)
S. No	Particulars	Amount
1)	Cost as per Normative Rate (82,027 sqm. x ₹ 1,42,778 per sqm. = ₹ 1,171.17 Crores)	1,171.17
2)	<b>Add:</b>	
	a. CTX machine	91.00
	b. Artwork	10.00
	c. PMC charges	26.18
	d. Skywalk from MLCP	9.54
	e. Underground water tank	6.90
	f. Roads and footpaths	41.29
	g. Underpass for road crossing	18.77
	h. Elevated Road	50.02
	i. Deposit with Electricity Board	15.00
	<b>Total (2)</b>	<b>268.70</b>
	<b>Total (1+2)</b>	<b>1,439.87</b>
	<b>Aeronautical cost of Terminal Building derived by the Authority, by considering TB ratio of 90:10 (refer para 6.2.10)</b>	<b>1,295.88</b>

Hence, the Authority based on the above computation, decides to consider the Aeronautical cost of construction of Terminal Building and other works as ₹ 1,295.88 Crores. for capitalization in FY 2028-29.

6.7.11 The Authority decides inflation adjusted Normative Cost of the Apron, as shown is the table below:

*Table 53: WPI Inflation adjusted Normative Cost (per sq.m.) decided by the Authority for Apron*

Financial Year	Inflation Rate	Inflation adjusted normative rate (in ₹ per sqm)	Inflation adjusted Normative rate (in ₹ per sqm.) incl. GST
FY 2022-23		6,198*	6,530
FY 2023-24	0.30%	6,217	6,550
FY 2024-25	2.40%	6,366	6,707
FY 2025-26	3.00%	6,557	6,908
FY 2026-27	3.00%	6,753	7,115
FY 2027-28	3.00%	6,956	7,329
FY 2028-29	3.00%	7,165	7,549

\*Derived based on AERA Order on Normative Cost of TB & Apron

**Note:**

Inflation adjusted base amount (inclusive of 12% GST) (A) = Rs. 6,198 per sqm



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*Inflation adjusted base amount (exclusive of 12% GST) (B=A\*100/112) = Rs. 5,534 per sqm*  
*Add GST @ 18% (C=B\*18%) = Rs. 996 per sqm*  
*Normative cost for FY 2023 including GST (D = B+C) = Rs. 6,530 per sqm*

**Table 54: Normative cost of Apron decided by the Authority for Varanasi International Airport**  
 (₹ Crores)

Work	Normative Cost decided by the Authority
Apron 3&4 and Isolation Bay.	124.00*
Work below subgrade	4.60
Cost of GSE area	3.75
<b>Total</b>	<b>132.35</b>

\*The Normative cost for pavements of area 1,64,268 sqm (refer notes to Table 40) @ Rs 7,549/sqm is ₹ 124.00 Crores.

**Table 55: Cost of Runway extension and associated works decided by the Authority for Varanasi International Airport**

S. No	Particulars	Estimated Cost (₹ in Crores)		Remarks
		Projected by AAI	Decided by the Authority	
	<b>Runway Extension</b>	123.70		All the items from S. No i to iv are integral to the Runway Extension. Therefore, the Authority proposes to shift these to the next Control Period.
i.	Extension of Runway			
ii.	Provision of RESA			
iii.	Turning Pad			
iv.	Grading of Runway Strip			
v.	Drainage System	5.80		Shifted to the next Control Period.
vi.	Perimeter Road	26.70	11.24	Partially considered in the Second Control Period.
vii.	Strengthening & Recarpeting of Existing Road	26.20	26.20	
	<b>Apron and Isolation Bay</b>	208.25	132.35	AAI has taken 37 bays in the estimate, which is beyond the approved scope of work of 20 bays. Therefore, the same has been rationalised.
viii.	Isolation Bay			
ix.	Apron for 20 Bays			
	<b>Taxiway System</b>	130.85	67.74	PTT and Link Taxiways for the Runway Extension portion have been shifted to the next Control Period. Hence, the area has been reduced from 2,44,165 Sqm to 1,05,944 sqm and cost rationalised accordingly.  RETs not considered as it is not part of Master Plan and approved Scope of Work,
x.	Link/ Entry-Exit Taxiways			
xi.	Parallel Taxi Track (PTT)			
xii.	RETs			
	<b>Total</b>	<b>521.50</b>	<b>237.53</b>	



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6.7.12 The Authority based on the above analysis and stakeholders' comments, including counter comments of the AO, decides to consider the total projected CAPEX as presented in the table given below:

*Table 56: Capital Expenditure (Project wise) decided by the Authority for the Second Control Period (₹ Crores)*

S. No	Description of the Project	Year of Capitalisation		Capitalisation			
		Submitted by AAI	Decided by the Authority	Initial estimate of AAI (1)	Revised estimates of AAI (2)	Decided by the Authority (3)	Difference (4)=(3)-(2)
<b>A1 Terminal Building</b>							
i)	Construction of Terminal Building	2027-28	2028-29	1,375.16	1,375.16	1,295.88	(79.28)
<b>A2 X-BIS</b>							
i)	X-BIS	2024-25	2024-25	1.50	1.50	1.50	-
<b>A3 Environment Management Work</b>							
i)	Solar Power	2027-28	2028-29	-	20.60	20.60	-
ii)	Rain Water Harvesting	2027-28	2028-29	-	1.00	1.00	-
iii)	Solid Waste Plant	2027-28	2028-29	-	0.50	0.50	-
iv)	Corporate Environment Responsibility	2027-28	2028-29	-	3.50	3.50	-
<b>TOTAL (A)</b>				<b>1,376.66</b>	<b>1,402.26</b>	<b>1,322.98</b>	<b>(79.28)</b>
<b>B. New Capital Addition projects proposed by AAI for the Second Control Period</b>							
<b>B1. Runways, Taxiways &amp; Apron</b>							
i)	Extension of Runway (includes PTT, Apron, Link Taxiways, etc.) (refer Table 43)	2027-28	2028-29	521.50	521.50	237.53	(283.97)
ii)	CAT- III lighting, apron flood lighting (Electrical) (refer Table 44)	2027-28	2027-28	168.64	126.80	48.80	(78.00)
<b>B2 Road, Bridges &amp; Culverts</b>							
i)	Recarpeting of Perimeter Road	2024-25	-	2.42	2.42	-	(2.42)
ii)	Construction of Elevated Road*	2027-28	2028-29	41.48	50.02	-	(50.02)
iii)	Construction of National Highway Under Pass	2027-28	-	518.39	360.99	-	(360.99)
<b>B3 Boundary Wall</b>							
i)	Construction of Boundary Wall	2027-28	2027-28	27.12	27.12	20.00	(7.12)
<b>B4 Other Buildings</b>							
i)	Box Culvert, Security Watch Tower and relocation of LLZ, GP, DVoR	2027-28		11.58	11.58	-	(11.58)



**CAPITAL EXPENDITURE (CAPEX), DEPRECIATION AND REGULATORY ASSET BASE (RAB) FOR THE SECOND CONTROL PERIOD**

S. No	Description of the Project	Year of Capitalisation		Capitalisation			
		Submitted by AAI	Decided by the Authority	Initial estimate of AAI (1)	Revised estimates of AAI (2)	Decided by the Authority (3)	Difference (4)=(3)-(2)
ii)	Sub Station*	2027-28	2028-29	32.76	34.75	-	(34.75)
<b>B5</b>	<b>Plant &amp; Machinery</b>						
i)	Body Scanner	2025-26	2025-26	7.50	7.50	2.50	(5.00)
<b>B6</b>	<b>Office Furniture</b>						
i)	Providing Baggage checking cable stamping and frisking stand	2024-25	2024-25	1.39	1.39	1.00	(0.39)
	<b>TOTAL (B)</b>			<b>1,332.78</b>	<b>1,144.07</b>	<b>309.83</b>	<b>(834.24)</b>
	<b>GRAND TOTAL (A+B)</b>			<b>2,709.44</b>	<b>2,546.33</b>	<b>1,632.81</b>	<b>(913.52)</b>
<b>Year-wise projected Capitalisation of Assets is as follows (₹ Crores)</b>							
		<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>FY 2026-27</b>	<b>FY 2027-28</b>	<b>FY 2028-29</b>	<b>Total</b>
		2.50	2.50	-	68.80	1,559.01	<b>1,632.81</b>

6.7.13 The variance between CAPEX decided by the Authority (₹1,632.81Cr) and as proposed at the Consultation stage (i.e. ₹ 1,625.89 Cr.) for the Second Control Period is on account of the following:

- i. Revision in allowable project cost of Terminal Building, by considering an additional area of 682 sqm. of the Terminal Building (for computing Normative costs) and deposit with the Electricity board amounting to ₹ 15 Crores (refer Table 52).
- ii. Considered Inflation forecast as per Round 91 of the Survey of Professional Forecasters on Macroeconomic Indicators, which is 0.20% lower than the forecast of inflation as per the Round 89 (at the Consultation Stage), while determining normative costs of Terminal Building and Apron (as stated in Table 51 and Table 53).

6.7.14 The Authority's independent consultant had requested AAI to provide details of estimated GST Input Tax Credit in respect of the CAPEX proposed for the Second Control Period pertaining to Varanasi Airport. However, during the stakeholder Consultation process, the requisite details/information have not been received from AO.

The Authority is aware that AAI would be eligible to claim GST Input Tax Credit on procurement of certain movable property. Therefore, the Authority expects AO to properly account for such credit, in accordance with Chapter V of Central Goods and Services Tax Act, 2017 and capitalise assets net of GST Input Tax Credit, wherever applicable.

The Authority may examine the accounting of Input Tax Credit and make necessary adjustments in this regard at the time determination of tariffs for the Third Control Period.

6.7.15 The Authority has recomputed the depreciation (as per Table 57) due to change in the projected CAPEX.



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The Depreciation decided by the Authority for the Second Control Period is given in the table below:

*Table 57: Depreciation decided by the Authority for the Second Control Period*

(₹ Crores)

Particulars	FY	FY	FY	FY	FY	Total
	2024-25	2025-26	2026-27	2027-28	2028-29	
Land	-	-	-	-	-	-
Leasehold Land	-	-	-	-	-	-
Runways	1.30	1.30	1.30	1.30	5.26	10.48
Taxiway	-	-	-	-	-	-
Aprons	-	-	-	0.81	1.63	2.44
Road, Bridges & Culverts	0.26	0.23	0.22	0.22	0.22	1.15
Building- Terminal	2.99	2.99	2.99	1.49	22.03	32.48
Building – Temporary	-	-	-	-	-	-
Building – Residential	0.08	0.08	0.08	0.08	0.08	0.40
Security Fencing – Temporary	-	-	-	-	-	-
Boundary Wall -Operational	0.22	0.22	0.22	1.22	2.22	4.11
Boundary Wall – Residential	-	-	-	-	-	-
Other Buildings-Unclassified	0.73	0.73	0.73	0.73	0.73	3.63
Computer & Peripherals: End User Devices	0.12	0.07	0.01	-	-	0.20
Computer Servers & networks	0.01	0.01	0.01	0.01	0.00	0.04
Intangible Assets- Software	-	-	-	-	-	-
Plant & Machinery	3.11	3.19	3.27	3.26	3.26	16.09
Tools & Equipment	0.93	0.88	0.88	0.88	0.88	4.44
Office Furniture	0.80	0.85	0.55	0.39	0.29	2.87
Furniture & Fixtures: Other Than Trolley	-	-	-	-	-	-
Furniture & Fixtures: Trolley	0.07	0.07	0.07	0.07	0.07	0.35
Environment management Works	-	-	-	-	0.51	0.51
Other Vehicles	0.85	0.84	0.80	0.76	0.39	3.64
Vehicles- Car & Jeep	-	-	-	-	-	-
Electrical Installations	0.84	0.74	0.39	0.35	0.15	2.47
Other Office Equipment	0.04	0.01	0.01	0.00	-	0.06
X Ray Baggage System	0.29	0.27	0.27	0.27	0.27	1.38
CFT/Fire Fighting Equipment	1.34	1.34	1.34	1.34	1.34	6.71
<b>Total</b>	<b>13.98</b>	<b>13.81</b>	<b>13.15</b>	<b>13.19</b>	<b>39.33</b>	<b>93.45</b>

6.7.16 Based on the CAPEX and Depreciation as per the Table 56 and Table 57 respectively, the RAB decided by the Authority for the Second Control Period is as per the table given below:

*Table 58: RAB decided by the Authority for the Second Control Period*

(₹ Crores)

Particulars	FY	FY	FY	FY	FY	Total
	2024-25	2025-26	2026-27	2027-28	2028-29	
Opening RAB (A)	141.18	129.70	118.39	105.24	160.86	
Additions (B)	2.50	2.50	-	68.80	1,559.01	1,632.81
Disposal/Transfers (C)	-	-	-	-	-	-
Depreciation (D)	13.98	13.81	13.15	13.19	39.33	93.45
<b>Closing RAB (E) = [(A) +(B) – (C) – (D)]</b>	<b>129.70</b>	<b>118.39</b>	<b>105.24</b>	<b>160.86</b>	<b>1,680.54</b>	



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<b>Particulars</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>	<b>FY 2026-27</b>	<b>FY 2027-28</b>	<b>FY 2028-29</b>	<b>Total</b>
<b>Average RAB = [(A) + (E)]/2</b>	135.44	124.05	111.82	133.05	920.70	

**6.8 Authority's decisions regarding Capital Expenditure (CAPEX), Depreciation and Regulatory Asset Base for the Second Control Period**

Based on the material before it and its analysis, the Authority decides the following with regard to Capital Expenditure, Depreciation and Regulatory Asset Base for the Second Control Period.

- 6.8.1 To consider allocation of gross block of assets as on April 1, 2024, between Aeronautical and Non-aeronautical assets as detailed in Table 31.
- 6.8.2 To adopt the capitalization of Aeronautical Capital Expenditure for the Second Control Period in accordance with Table 56.
- 6.8.3 To true up the Capital expenditure based on actuals, cost efficiency and reasonableness, at the time of determination of tariff for Third Control Period.
- 6.8.4 To reduce (adjust) 1% of the uncanceled project cost from the ARR in case any particular capital project was not completed/capitalized as per the approved capitalization schedule. However, if the delay in completion of the project is due to any reason beyond the control of AAI or its contracting agency and is properly justified, the same would be considered by the Authority, while trueing up the actual CAPEX at the time of determination of tariff for the Third Control Period.
- 6.8.5 To consider depreciation as per Table 57 for the Second Control Period.
- 6.8.6 To true up depreciation of the Second Control Period, based on the actual asset additions and actual date of capitalization during the tariff determination of the Third Control Period.
- 6.8.7 To consider average RAB for the Second Control Period for VIA as per Table 58.
- 6.8.8 To true up the RAB based on actuals at the time of tariff determination for the Third Control Period.

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**7 FAIR RATE OF RETURN (FRoR) FOR THE SECOND CONTROL PERIOD**

**7.1 AAI's submission regarding Fair Return of Return for the Second Control Period for VIA**

7.1.1 AAI had submitted that Varanasi International Airport would primarily utilize internal accruals to fund the capital expenditure projected for the Second Control Period.

7.1.2 AAI has considered Fair Rate of Return (FRoR) as 14%, based on the Authority's decision in this regard for the First Control Period.

**7.2 Authority's examination of FRoR for the Second Control Period at Consultation Stage**

7.2.1 The Authority noted AAI's submission that the capital expenditure proposed for the Second Control Period would be funded through internal accruals and no debt component is projected for the Second Control Period.

7.2.2 The Authority acknowledged the recommendations made by the Public Investment Board (PIB) in their Minutes of Meeting dated February 20, 2024 (No. 27 (03)/ PFC-I/ 2024), wherein, the PIB had stated that *"the Authority would also consider other factors while assessing fair rate of return in cases where there is a low level of gearing with the underlying objective of protecting the reasonable interests of Users"*. This recommendation emphasized the need to balance financial considerations, with a view to protect the Airport Users' interests.

7.2.3 The Authority in its past Tariff Orders of other similar Airports of AAI, had noted that the capital structure of AAI was not efficient and had asked AAI to make its capital gearing efficient by raising debt funds. Further, the Authority had also proposed to use the notional Debt-Equity ratio for AAI Airports in future, in line with the PPP Airports.

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

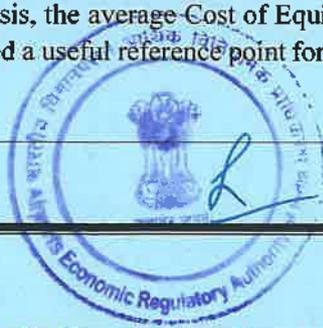
**Cost of Debt**

7.2.5 The Authority had determined the Cost of Debt for the Second Control Period, based on one-year Marginal Cost of Fund Based Lending Rate (MCLR) of the State Bank of India (SBI) as on October 15, 2024, which stood at 8.95%. The Authority had also taken into consideration the increasing trend in the MCLR rates (for one/ two/ three years) and based on the same, the Authority proposed to consider an average 9% as the Cost of Debt for the Second Control Period.

**Cost of Equity**

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

7.2.7 The above-referred independent study reports had drawn reference from the experience of international airports, wherein the median and average Cost of Equity was determined as 15.16% and 15.18%, respectively. Based on this analysis, the average Cost of Equity for these airports was determined to be 15.18%. This benchmark provided a useful reference point for evaluating airport financing strategies and



## FAIR RATE OF RETURN (FRoR) FOR THE SECOND CONTROL PERIOD

equity costs in the Indian context.

- 7.2.8 The above independent study reports had used the Capital Asset Pricing Model (CAPM) and a notional gearing (Debt: Equity) ratio of 48:52 to determine the levered Equity beta and accordingly, derived the Cost of Equity.
- 7.2.9 The above study report applies a methodology that factors in sovereign and business risks through components like the risk-free rate and business volatility, establishing a fair cost of equity within the FRoR calculation. This provided a relevant benchmark for estimating Varanasi Airport's cost of equity in the Second Control Period, given the similar business environment, risk profile and policy framework.
- 7.2.10 Based on the above reports, the Authority proposed to consider the Cost of Equity as 15.18% for Varanasi International Airport for the Second Control Period.

### Fair Rate of Return (FRoR)

- 7.2.11 Based on the above, the Authority proposed to consider FRoR as per table below for Varanasi International Airport for the Second Control Period:

Table 59: Fair Rate of Return proposed to be considered by the Authority for the Second Control Period at Consultation Stage

Parameter	%
Weighted Average gearing of Equity (A)	52.00%
Weighted Average gearing of Debt (B)	48.00%
Cost of Equity (C)	15.18%
Cost of Debt (D)	9.00%
Fair Rate of Return for the Second Control Period (E= A*C+(1-A)*D)	12.21%

### 7.3 Stakeholders' comments regarding Fair Rate of Return (FRoR) for the Second Control Period

During the stakeholders' consultation process, the Authority has received comments/views from AAI and FIA, in response to the proposals of the Authority in the Consultation Paper no. 05/2024-25 dated 26 October 2024. The comments of stakeholders are presented below:

- 7.3.1 AAI's comment on Fair Rate of Return is as follows:

*"Since, AERA has considered a notional gearing (Debt : Equity) ratio of 48:52 to determine the levered Equity beta considering an average 9% as the Cost of Debt for making capital gearing efficient by raising debt fund for the project proposed for the 2nd CP.*

*Since, AERA has shifted a few project proposed for 2nd CP to the next CP and also shift the PDC of New Terminal Building from FY 2027-28 to FY 2028-29, the FRoR proposed by AERA may be applied in the year of the capitalization of terminal building as Notional Debt is proposed for the project of the Terminal Building which is proposed to be capitalized in FY 2028-29.*

*It is also requested to AERA, 9% notional Interest on Debt may be considered/allowed as Interest during construction (IDC) for the 2nd Control period against the proposed capital investment in 2nd CP.*

*AERA is requested to consider the above point for FRoR since the Debt Equity is proposed for the proposed capex which would be completed/capitalized in FY 2027-28. Hence the FRoR of 12.21% may be applied in FY 2027-28 & F& 2028-29 and prior to that i.e. FY2024-25 to FY2026-27 14% Return on Average RAB may be provided."*



## 7.3.2 FIA's Comment on Fair Rate of Return is as Follows:

*"FIA submits that only reasonable Fair Rate of Return (FRoR) to airport operators should be provided. It is observed that AERA considered FRoR of 12.21%, which is based on cost of equity and cost of debt to the airport operator, for the Second Control Period. It may be noted, that AERA in the recent times, have approved lower FRoR for other AAI Airports (Third Control Period), such as Chennai (11.98%) and Pune (11.68%) on the same cost of equity and cost of debt i.e., 15.18% and 9%.*

*Further, it is to be noted, that such fixed/ assured return favours the service provider/airport operators, this also creates an imbalance against the airlines, which are already suffering from huge losses and are bearing the adverse financial impact through higher tariffs. Due to such fixed/assured returns, Airport Operators have no incentive to look for productivity improvement or ways of increasing efficiencies, take steps to reduce costs as they are fully covered for all costs plus their hefty returns. Such a scenario breeds inefficiencies and higher costs, which are ultimately borne by airlines.*

*Without prejudice to the above, we request AERA to consider:*

*1) In the present scenario any assured return on investment to any service providers like AAI, in excess of five (5) % (including those on past orders) will be onerous for the airlines, i.e., being at par with reasonable returns on other investments after tax based on the current economic situation of worldwide run-away inflation coupled with rising and historic interest rates offered by banks.*

*2) Consider the fact that airport industry in India has been established, hence the risk is lower as this is a cost-plus margin business; and*

*3) To review the financial closure details, debt to equity ratio based on actual weighted average rather than a notional percentage.*

*4) And, in case AERA is unable to accept our recommendation mentioned above, AERA is requested to conduct an independent study for determination of FRoR to be provided to the Airport operator. Such independent study can be exercised by the powers conferred under the AERA Act and in line with studies being conducted by AERA in case of certain major airport operators. This is particularly highlighted since other AAI airports like Chennai, Kolkata and Pune have a much lower FRoR."*

#### **7.4 AAI's response to Stakeholders' comments regarding Fair Rate of Return (FRoR) for the Second Control Period**

##### 7.4.1 AAI's response to FIA's comment on Fair Rate of Return is as Follows:

- 1. "The FRoR for an airport depends upon the cost of equity and cost of debt.*
- 2. AAI had submitted a study conducted by M/s KPMG in regards to calculation of Cost of Equity wherein, Estimated Asset Beta was 0.92 and corresponding Equity Beta works out to 0.98.*
- 3. AERA has been considering cost of equity at 13.36% as against 15.64% as per study report submitted by M/s KPMG. AERA has reduced FRoR to 13.36% against AAI's submission of 14%. AAI does not accept with the view of FIA that Airport industry is established with lower risk. However, huge capex and operating expenses are incurred to be maintain world class airport used mostly by the airlines and the pax. The variation in the FRoR rates at the airport is due to the gearing ratio and the actual cost of debt which is taken at varied rates over the years."*

#### **7.5 Authority's analysis on Stakeholders' comments regarding Fair Rate of Return (FRoR) for the Second Control Period**

##### 7.5.1 The Authority notes AAI's comment on FRoR.



In this regard, the Authority has drawn reference to the recommendations of Niti Aayog/ PIB during the PIB meeting held recently for few AAI airport projects, including Varanasi Airport. The issue of inefficient project financing of AAI airports due to predominance of equity and nil or negligible debt in the capital structure of AAI is not a new one, in fact, AERA has all along been advising AAI to migrate towards efficient capital structure and improve its gearing ratio.

Since, not much progress was noticed in this regard, the Authority considering the interests of all the stakeholders and taking note of the recommendations of Niti Aayog, decided to apply notional debt-equity ratio 48:52 (debt: equity) for the computation of FRoR pertaining to the Second Control Period of Varanasi airport.

Further, FRoR as per AERA Guidelines is computed as a weighted average cost of capital for the Control Period and same is uniformly applied on average RAB for all the tariff years of the Control Period and not just in the year of capitalization of the project. There is no provision in the Tariff Guidelines for applying different FRoR for different years, based on the date of capitalization etc.

As regards considering notional IDC @ 9% cost of debt requested by AAI, it is informed that IDC to airport operators is allowed only where they have actually availed debt for project financing. In the case of Varanasi airport, AAI hasn't considered any debt for the Second Control Period, hence no IDC could be allowed in this case.

Considering the above, the Authority finds no reason to revisit its proposal made at the consultation stage regarding notional gearing and FRoR @ 12.21% for Varanasi Airport in respect of the Second Control Period.

- 7.5.2 The Authority notes FIA's comments on FRoR of Varanasi Airport for the Second Control Period and AAI's response to the same.

In this regard, the Authority has rationalized the FRoR (refer Table 59) for the Second Control Period of Varanasi International Airport, including application of notional debt equity ratio of 48:52 (as discussed in the para 7.2.4). Further, Cost of Equity for Second Control Period has been considered based on the study conducted for cost equity for 5 PPP airports (DIAL, MIAL, HIAL, BIAL & CIAL). The Cost of Debt is considered on notional basis, based on the SBI's MCLR Rate for 1 year tenure.

With respect to FIA's suggestion to cap the FRoR, to avoid burdening the stressed airlines, the Authority is of the view that Airports Operator is highly capital intensive and investments have a long gestation period, wherein investors expect stable Return on Equity, commensurate with the business risks undertaken. The Authority feels that it is not pragmatic or fair to cap the FRoR for Airport Operator at 5% as suggested by the FIA. Further, AERA takes a balanced view in the interest of all stakeholders while deciding the FRoR for the AO.

As per the Authority, the requirement for an independent study will depend upon the size of the airport and the scale of their operations and the complexities involved. AERA, may commission an independent study in future for any Airport, if deemed necessary.

#### 7.6 Authority's decisions regarding Fair Rate of Return (FRoR) for the Second Control Period

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

- 7.6.1 To consider FRoR @ 12.21 % for VIA for the Second Control Period as per Table 59.  
7.6.2 To true up the FRoR while determining tariff for the next Control Period considering all the relevant factors.



## 8 INFLATION FOR THE SECOND CONTROL PERIOD

### 8.1 AAI's submission regarding Inflation for the Second Control Period for VIA

8.1.1 AAI had not made any submission related to inflation as part of its MYTP submission for VIA for the Second Control Period.

### 8.2 Authority's examination regarding Inflation for the Second Control Period at Consultation Stage

8.1.1 The Authority proposed to consider the recent "Results of the Survey of Professional Forecasters on Macroeconomic Indicators – Round 89" released on August 08, 2024 published by the Reserve Bank of India (RBI). Accordingly, the Authority proposed to consider the mean of WPI inflation forecasts (All Commodities) for FY 2025 till FY 2029 as given in the 89th round of survey of professional forecasters on macroeconomic indicators of RBI.

8.1.2 The Authority assumed that the inflation rate would be stable and had considered WPI Forecast for FY 2026-27 onwards based on forecast available for the FY 2025-26. Accordingly, the following table shows the inflation rates as proposed by the Authority for the Second Control Period.

Table 60: Inflation rates proposed by the Authority for the Second Control Period for VIA at Consultation Stage.

Particulars	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
WPI inflation	3.00%	3.20%	3.20%	3.20%	3.20%

### 8.3 Stakeholders' comments regarding Inflation for the Second Control Period

During the stakeholders' consultation process, the Authority has received comments/views from FIA in response to the proposals of the Authority in the Consultation Paper no. 05/2024-25 dated 26 October 2024. The comments made by the stakeholders are presented below:

8.3.1 FIA's comment on Inflation rate is as follows:

*"FIA submits that as per a report published by the Ministry of Finance dated 8th December 2023, the WPI inflation rate is 5%. However, we have noted that the proposed inflation rate by AERA is 3% - 3.2%. This proposed rate aligns closely with the current economic conditions and reflects a prudent approach towards the tariff adjustments."*

### 8.4 AAI's response to Stakeholders' comments on Inflation for the Second Control Period

8.4.1 AAI's response to FIA's Comment on Inflation rate is as follows:

*"We request AERA to verify the contents addressed by FIA and requested to reply accordingly."*

### 8.5 Authority's analysis on Stakeholders' comments regarding the Inflation for the Second Control Period

8.5.1 The Authority notes FIA's comment on Inflation and AAI's response on the same.

The Authority, while projecting inflation for the future periods, follows the practice of considering mean of WPI inflation forecasts (All commodities) as per the latest "Results of the Survey of Professional Forecasters on Macroeconomic Indicators". The same is considered as appropriate and is uniformly followed by AERA across all major airports. Accordingly, the Authority decides to consider the rates



## INFLATION FOR THE SECOND CONTROL PERIOD

published by Reserve Bank of India (RBI) in "the Results of the Survey of Professional Forecasters on Macroeconomic Indicators in the 91st Round released on 6th December 2024 in this Tariff Order. The Authority assumes that the inflation rate would remain stable in line with projection for FY 2025-26, for the remaining tariff years of the control period.

8.5.2 Based on the above, the Authority decides to consider Inflation rates for the Second Control Period as shown in the table below:

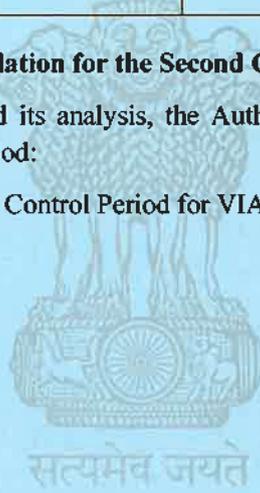
*Table 61: Inflation rates decided by the Authority for the Second Control Period*

Particulars	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
WPI inflation	2.40%	3.00%	3.00%	3.00%	3.00%

### 8.6 Authority's decision regarding inflation for the Second Control Period

Based on the material before it and its analysis, the Authority decides the following with regard to Inflation for the Second Control Period:

8.6.1 To consider Inflation for the Second Control Period for VIA as detailed in Table 61.



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## 9 OPERATION AND MAINTENANCE EXPENSES FOR THE SECOND CONTROL PERIOD

### 9.1 AAI's submission regarding Operation and Maintenance (O&M) Expenses for the Second Control Period

9.1.1 Operation and Maintenance (O&M) expenses submitted by AAI is segregated into the following:

- Payroll Expenses,
- Admin and General Expenditure,
- Repair and Maintenance Expenditure,
- Utilities and Outsourcing Expenditure, and
- Other outflows, i.e., Collection Charges on UDF

9.1.2 The expenses related to AAICLAS, ANS, and CISF Security, had not been considered by AAI.

9.1.3 AAI segregated the expenses into Aeronautical expenses, non-aeronautical expenses, and Common Expenses. The Common Expenses had been further segregated into Aeronautical and Non-aeronautical based on the relevant Ratios.

9.1.4 AAI submitted that the allocation of CHQ/RHQ expenses among individual airports had been done based on the revenue of each Airport.

9.1.5 The summary of Aeronautical O&M expenses proposed by VIA for the Second Control Period has been presented in the table below:

Table 62: Operation and Maintenance (O&M) expenditure submitted by AAI for VIA

(₹ Crores)

Particulars	FY	FY	FY	FY	FY	Total
	2024-25	2025-26	2026-27	2027-28	2028-29	
Payroll Costs	23.10	24.72	26.45	35.32	37.79	147.38
Retirement benefits of employees at VIA	3.18	3.41	3.65	4.81	5.15	20.20
Repair & Maintenance	13.35	14.68	16.15	20.24	22.26	86.68
Utilities & Outsourcing Expenses	6.81	7.09	7.39	8.92	9.28	39.49
Admin. & Other Expenses - Excluding CHQ/RHQ	12.28	13.33	14.49	16.59	18.03	74.72
Admin. & Other Expenses - CHQ/RHQ	41.36	43.43	45.60	47.88	50.28	228.55
Other Outflows	0.38	0.44	0.51	0.56	0.62	2.52
<b>Total O&amp;M Expenditure</b>	<b>100.47</b>	<b>107.09</b>	<b>114.23</b>	<b>134.33</b>	<b>143.42</b>	<b>599.54</b>

9.1.6 The summary of growth rates assumed by AAI for the O&M expenses had been presented in the table below:

Table 63: Growth rates in O&M expenditure submitted by VIA

Particulars	FY	FY	FY	FY	FY
	2024-25	2025-26	2026-27	2027-28	2028-29
Payroll Costs	7%	7%	7%	34%	7%
Retirement Benefits of employees at VIA	7%	7%	7%	32%	7%
Utilities & Outsourcing Expenses	4%	4%	4%	21%	4%

**OPERATION AND MAINTENANCE EXPENSES FOR THE SECOND CONTROL PERIOD**

Particulars	FY	FY	FY	FY	FY
	2024-25	2025-26	2026-27	2027-28	2028-29
Admin. & Other Expenses - Excluding CHQ/RHQ	9%	9%	9%	14%	9%
Admin. & Other Expenses - CHQ/RHQ	5%	5%	5%	5%	5%

9.1.7 Further, the summary of allocation of expenses between Aeronautical and Non-aeronautical as proposed by AAI is given in the table below:

*Table 64: Allocation of O&M expenses submitted by AAI for VIA for FY 2023-24*

Particulars	Aeronautical	Non-aeronautical
Payroll Costs	97.20%	2.80%
Retirement Benefits of employees at VIA	97.20%	2.80%
Repair & Maintenance – Civil	100%	0%
Repair & Maintenance – Electrical works	96.41%	3.59%
Repair & Maintenance – Electronics	97.39%	2.61%
Utilities	100%	0%
Upkeep Expenses	96.41%	3.59%
Admin. & Other Expenses - Excluding CHQ/RHQ	97.39%	2.61%
Admin. & Other Expenses - CHQ/RHQ	95%	5%
Other Outflows	100%	0%

**9.2 Authority’s examination regarding Operation and Maintenance Expenses for the Second Control Period at Consultation Stage**

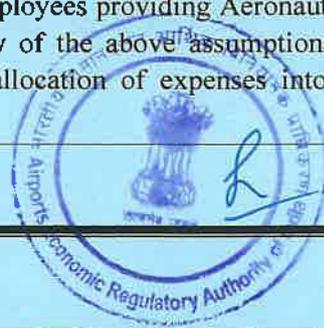
9.2.1 AAI had proposed ₹ 599.54 Crores towards Operation and Maintenance expenses for the Second Control Period.

9.2.2 The Authority observed that the O&M expenses approved in the Tariff Order for the First Control Period for VIA was for ₹ 313.26 Crores (refer Table 17), against which actual expenses of ₹ 410.87 Crores (refer Table 16) were submitted by AAI for true up of the First Control Period. The Authority examined the above actual O&M expenses and had proposed ₹ 356.87 Crores (refer Table 20) to be trued up for the First Control Period. However, AAI had submitted its projected O&M expenses for VIA for the Second Control Period as ₹ 599.54 Crores, which is 68% higher than the O&M expenses approved by the Authority for true up of the First Control Period (i.e. ₹ 356.87 Crores).

**Allocation of O&M expenses to Aeronautical and Non-aeronautical activities**

9.2.3 The Authority examined the allocation of Operational and Maintenance expenses by AAI between Aeronautical and Non-aeronautical activities for VIA. The same is explained in the following paragraphs.

9.2.4 AAI had segregated the payroll expenses, excluding CHQ/RHQ expenses, between Aeronautical and Non-Aeronautical in the employee ratio of 97.20%: 2.80% for FY 2022-23, which was derived based on the headcount of employees providing Aeronautical and Non-Aeronautical services at the Airport. Based on the review of the above assumptions, the Authority considered the basis of apportionment by AAI for allocation of expenses into Aeronautical and Non-Aeronautical as



OPERATION AND MAINTENANCE EXPENSES FOR THE SECOND CONTROL PERIOD

appropriate.

- 9.2.5 AAI had segregated the expenses towards utilities into Aeronautical and Non-aeronautical, after considering the recoveries made from the Concessionaires. Based on the review of the above assumptions, the Authority considered the basis of apportionment of expenses by AAI to be appropriate.
- 9.2.6 Upkeep expenses (included under Administrative and General Expenses) and Repairs & Maintenance (Electrical) had been apportioned in the ratio of Terminal Building by AAI which was 93.16%: 6.84%. However, the Authority proposed to re-allocate the above expenses in the Terminal Building ratio of 90%:10%, as detailed in para 6.2.10.
- 9.2.7 Repairs & Maintenance (Civil) had been considered as 100% Aeronautical by AAI. However, the Authority proposed to re-allocate the above expenses in the Terminal Building ratio of 90%:10%, as followed in other similar airports.
- 9.2.8 Repair and Maintenance expenses – Electronics includes Surveillance & security equipment, apportioned into Aero and Non-Aero in the Employee ratio of 97.39%: 2.61% as per AAI. The Authority's analysis shows that these expenses pertain to passenger facilitation. Further, the Authority noted that it also included hardware maintenance expenses of computers and other electronic items, which had been apportioned based on the headcount of IT Department engaged for Aeronautical purposes. As most of these equipment are located in the Terminal Building, the Authority proposed to re-allocate the above expenses in the Terminal Building ratio of 90%:10%.
- 9.2.9 Administration expenses of CHQ/ RHQ had been allocated based on methodology defined in para 4.7.2 (a) and (b).
- 9.2.10 Based on the above factors, the Authority had considered the following basis for allocation of expenses, which is as follows:

Table 65: Allocation of O&M expenses proposed to be considered by Authority for VIA for FY 2023-24 at Consultation Stage

Particulars	Aeronautical	Non-aeronautical
Payroll Costs	97.20%	2.80%
Retirement Benefits of employees at VIA	97.20%	2.80%
Repair & Maintenance – Civil	90.00%	10.00%
Repair & Maintenance – Electrical Works	90.00%	10.00%
Repair & Maintenance – Electronics	90.00%	10.00%
Utilities	100%	0%
Upkeep Expenses	90.00%	10.00%
Admin. & Other Expenses – Excluding CHQ/RHQ	95%	5%
Other Outflows	100%	0%

**Payroll expenses (Other than CHQ/RHQ)**

- 9.2.11 AAI considered a growth rate of 7% in payroll expenses for the period from FY 2024-25 to FY 2028-29. Further, an additional 5% increase (half year) had been proposed by AAI due to additional Staff Cost in FY 2027-28 as the New Terminal Building was proposed to be operationalized w.e.f. October

## OPERATION AND MAINTENANCE EXPENSES FOR THE SECOND CONTROL PERIOD

2027 as per AAI. Furthermore, AAI had proposed an additional growth rate of 20% in FY 2027-28 taking into consideration, the implementation of increase in payroll on account of recommendations of the 8<sup>th</sup> Pay Commission. However, the Authority proposed to consider a growth rate of 6% year-on-year from FY 2024-25 to FY 2028-29 in the payroll expenses (other than CHQ and RHQ), as uniformly followed in all AAI and PPP airports. The Authority upon taking cognizance of its proposal to shift the capitalization of the new terminal building to FY 2028-29, proposed to consider the additional increase of 10% in payroll (for full year) in FY 2028-29.

Further, the Authority proposed not to consider the additional increase 20% in payroll expenses submitted by AAI for FY 2027-28 on account of 8<sup>th</sup> pay commission for determining tariff for the Second Control Period for VIA and proposed to consider the same on an actual incurrence basis.

### CHQ/ RHQ Administration and General expenses

9.2.12 The Authority reviewed the basis for allocation of CHQ and RHQ expenses to Varanasi Airport for the Second Control Period. Based on the methodology and justification explained under para 4.7.6 (a) and (b) of this Tariff Order, the Authority had rationalized the CHQ and RHQ- Administration and General Expenses, projected by AAI for VIA for the Second Control Period, considering 5% Y-o-Y increase, based on the CHQ/ RHQ expenses considered for true-up of FY 2023-24. The same is presented in Table 67.

### Repair and Maintenance expenses

9.2.13 The Authority noted that VIA had incurred expenses amounting to ₹ 2.42 Crores towards Perimeter Road Recarpeting in FY 2024-25 and same had been considered as CAPEX by AAI in its MYTP submission. However, the Authority had considered it as Repair & Maintenance Expenses, as it did not lead to increase in the useful life of the Perimeter Road.

9.2.14 It was noted that AAI proposed an increase of 10% year- on- year on repair and maintenance expenditure for the Second Control Period and an additional increase of 40% was proposed during FY 2027-28 for R&M -Electrical and Electronics. AAI claimed the total Repairs & Maintenance expenses of ₹ 86.68 Crores for the Second Control Period.

9.2.15 The Authority noted that the additional increase of 40% increase in R&M expenses as per AAI is due to commissioning of New Terminal Building in FY 2027-28. The Authority based on its analysis done by its Independent Consultant, shifted the capitalization of new Terminal Building to FY 2028-29 and as most of the assets are expected to be newly constructed/ installed and also covered under warranty clauses, and may need only minimum maintenance in FY 2028-29. Hence, the Authority proposed not to consider the additional increase of 40% in R&M expenses during the Second Control Period.

9.2.16 Further, it was noted that R&M expenses proposed by AAI for the Second Control Period, were higher than the cap of 6% of the Opening RAB (net block of that year) generally considered by the Authority for capping of R&M Expenses. Accordingly, the Authority, at the Consultation Stage proposed to cap R&M Expenses at 6% of opening RAB (Net Block) as per Table 66.

9.2.17 However, the Authority on the aspect of capping of R&M Expenses of the airport at 6% of Opening RAB (Net Block) of the related tariff years, noted the submission of AAI, during the tariff determination process of other airports, wherein AO submitted that capping of R&M Expenses to 6% of Opening RAB (Net Block) needed review. As per the stakeholders, considering that the RAB (Net Block) of the airports, particularly smaller airports, with no major CAPEX additions, gradually decrease due to depreciation, whereas, due to normal wear & tear & aging of Assets, R&M Expenses tend to increase over a period of time. AAI requested the Authority to review the capping of R&M



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Expenses at 6% of Opening RAB (Net Block) appropriately, as capping of R&M Expenses as per present mechanism impacted adversely the AO due to lower ARR being considered (airports with low Regulatory Asset Base).

The Authority, taking note of the above submission, is of the view that existing approach across all the airports towards capping of R&M expenses [at 6% of opening RAB (Net Block) of respective tariff years] needs to be revisited and the Authority would look into alternative methodology/ benchmarks for evaluation of reasonability of R&M Expenses proposed by Airport Operators.

The Authority, at Consultation Stage, sought the specific views of the stakeholders on the capping of R&M Expenses at 6% of opening RAB (Net Block) and stated that, it would take a final view in the matter considering the views/ inputs from the stakeholders.

*Table 66: Repairs and Maintenance on Opening Net block of Assets claimed by AAI and Proposed by the Authority for the Second Control Period at Consultation Stage*

(₹ Crores)

Particulars	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	TOTAL
Expenses Claimed by AAI (Other than Perimeter Road Recarpeting) (A)	13.35	14.68	16.15	20.24	22.26	86.68
Perimeter Road Recarpeting (B)	2.42	0	0	0	0	2.42
Total (C= A+B)	15.77	14.68	16.15	20.24	22.26	89.10
Opening RAB (D) (refer Table 50)	141.18	129.70	118.39	105.24	160.86	
6% of Opening RAB (E= D*6%)	8.47	7.78	7.10	6.31	9.65	
Allowable expenses (F= 6% of Opening RAB or A, whichever is lesser)	8.47	7.78	7.10	6.31	9.65	39.32
Total R&M Expenses allowed by the Authority (G= F + B)	10.89	7.78	7.10	6.31	9.65	41.74
Difference (H= A-G)	2.46	6.90	9.05	13.93	12.61	44.94

**Administration and General expenses (other than CHQ/ RHQ and upkeep expenses)**

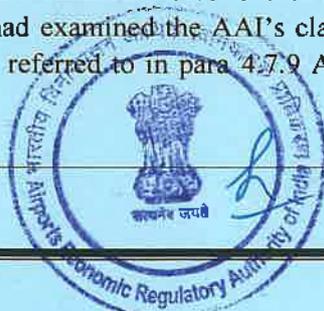
9.2.18 The Authority noted that AAI had projected a 10% increase year-on-year in Administration and General expenses (other than CHQ/ RHQ and upkeep expenses) for FY 2024-25 to FY 2026-27 and FY 2028-29. An additional 10% increase had been proposed by AAI for FY 2027-28 on account of construction of New Terminal Building. The Authority proposed to shift the additional 10% increase from FY 2027-28 to FY 2028-29, in line with its proposal of shifting the capitalization of Terminal Building to FY 2028-29.

**Interest on Loan**

Administration and General expenses (other than CHQ/ RHQ and upkeep expenses), included Interest on Loan amounting to ₹ 4.04 crores, apportioned to Varanasi Airport, from the total interest on loan incurred by AAI on the debts availed by AAI as a whole, for all airports. The Authority noted that AAI had not availed any debts for Varanasi Airport. Therefore, the Authority proposed not to consider the above interest on loan apportioned to Varanasi Airport by AAI.

**CSR Expenses**

9.2.19 The Authority noted that AAI had claimed ₹ 3.65 Crores towards CSR expenses for the Second Control Period. The Authority had examined the AAI's claim towards CSR and the views of the Authority in this regard may be referred to in para 4.7.9. Accordingly, the CSR expense was not



considered by the Authority for the Second Control Period.

**Expenses towards Utilities and Outsourcing Expenses**

9.2.20 The Authority examined the expenses towards utilities and noted the following:

**Power expenses:** AAI projected an increase of 3% per year after, netting off the recoveries made from the Concessionaires (which was assumed to be 3% of the total power costs). AAI had also claimed additional 20% increase in power expenses for FY 2027-28 due to operationalization of new Terminal Building. The Authority noted that the power recovery percentage was reasonably higher than that of comparable airports (recovery from Concessionaires was 17% in FY 2022-23).

The Authority noted that AAI had increased the net power costs of FY 2023-24 by 3% year-on-year for the Second Control Period, which the Authority considered reasonable. Hence, the Authority proposed to consider an increase of 3% y-o-y for FY 2024-25 to FY 2027-28 and shift the one-time increase of 20% to FY 2028-29, in line with its decision on capitalization New Terminal Building in FY 2028-29.

**Outsourcing expenses:** AAI projected the outsourcing expenses towards consultancy charges, which included consultation and professional service charges for Airport Council for ACI-Asia, ASQ Rating Survey Fees and other associated services. The Authority noted that the above projections were based on actual expenses incurred by AAI in FY 2023-24. The Authority was of the view that all outsourcing expenses may not increase by 10%, as proposed by AAI Y-o-Y. Therefore, the Authority proposed to consider a 5% increase Y-o-Y in outsourcing expenses as being done in other similar airports.

**Upkeep expenses**

9.2.21 AAI had proposed 10% increase year-on-year in upkeep expenses for the Second Control Period. The Authority noted that these were contractual expenses, wherein the rates had been finalized for the entire contract period (which is 3 years), and it includes the cost of materials, equipment and labour (including statutory benefits such as PF, ESI, Bonus etc.) and increase in minimum wages was being reimbursed to the contractors on actual basis. As manpower expense was a significant component and the revision of Minimum wages is based on statutory requirements, the Authority proposed to consider a 5% year-on-year increase towards Upkeep expenses across the Second Control Period, for Varanasi International Airport.

**Other Outflows- Collection charges on UDF**

9.2.22 For other outflows, i.e., Collection Charges on UDF, AAI considered the same growth rate as that of passenger traffic and the same appears to be a reasonable basis for projecting Y-o-Y increase in collection charges.

9.2.23 Based on the above, the Authority determined the O&M expenses proposed to be considered for the Second Control Period. The same is presented in the table give below:

*Table 67: Operation and Maintenance (O&M) expenses proposed to be considered by the Authority for the Second Control Period at Consultation Stage.*

(₹ Crores)

Particulars	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total
Payroll Costs	23.01	24.39	25.85	27.70	32.13	133.08
Retirement Benefits of Employees at VIA	1.79	1.90	2.02	2.14	2.48	10.33
Repair & Maintenance	10.89	7.78	7.10	6.31	9.65	41.74



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Particulars	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total
Utilities & Outsourcing Expenses	6.80	7.07	7.35	7.66	9.22	<b>38.10</b>
Upkeep Expenses	4.65	4.89	5.13	5.39	5.66	<b>25.71</b>
Admin. & Other Expenses - Excluding CHQ/RHQ and Upkeep expenses	5.41	5.95	6.54	7.04	7.92	<b>32.86</b>
Admin. & Other Expenses - CHQ/RHQ	28.86	30.31	31.82	33.41	35.08	<b>159.48</b>
Other Outflows	1.26	1.46	1.69	1.87	2.06	<b>8.35</b>
<b>Total O&amp;M Expenditure</b>	<b>82.69</b>	<b>83.75</b>	<b>87.51</b>	<b>91.52</b>	<b>104.20</b>	<b>449.67</b>

**Note:** The variance between O&M expenses proposed by the Authority for the Second Control Period (₹ 449.67 Cr.) and that claimed by AAI (₹ 599.54 Cr.) is on account of the following:

- i. Rationalization of payroll expenses by ₹ 14.30 Crores.
- ii. Rationalization of allocation of Admin CHQ/ RHQ expenses by ₹ 69.07 Crores and Retirement benefits of employees by ₹ 9.87 Crores.
- iii. Rationalization of Repair and Maintenance expenses amounting to ₹ 44.94 Crores.

The Authority expected AAI to bring in efficiencies in the incurrence of O&M expenses for the benefit of airport users and in line with AERA Act, AERA Guidelines and ICAO Principles

9.2.24 Based on above considerations, the Authority proposed the following growth rates in Operation and Maintenance expenses for the Second Control Period.

*Table 68: Growth rates in O&M expenses considered by the Authority for the Second Control Period at Consultation Stage*

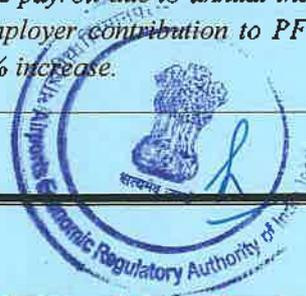
Particulars	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
Payroll Costs	6%	6%	6%	6%	16%
Retirement Benefits of Employees at VIA	6%	6%	6%	6%	16%
Utilities Expenses (Power expenses)	3%	3%	3%	3%	23%
Upkeep Expenses	5%	5%	5%	5%	5%
Other Outsourcing Expenses	5%	5%	5%	5%	5%
Admin. & Other Expenses - Excluding CHQ/RHQ and Upkeep expenses	10%	10%	10%	10%	20%
Admin. & Other Expenses - CHQ/RHQ	5%	5%	5%	5%	5%
Other Outflows	22%	16%	16%	10%	10%

### **9.3 Stakeholders' comments regarding Operation and Maintenance Expenses (O&M) for the Second Control Period**

During the stakeholders' consultation process, the Authority has received comments/views from AAI and FIA in response to the proposals of the Authority in the Consultation Paper No. 05/2024-25 dated 26 October 2024. The comments of the stakeholders are presented below:

9.3.1 AAI's Comment on Payroll Expense is as follows:

*"7% is the average increase in the payroll due to annual increment of 3% in salary, increase in HRA, quarterly increase in DA and Employer contribution to PF. In the recent past orders of AAI Major Airports, AERA has considered 7% increase.*



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The following illustration clearly shows that there is an average 7.71% increase in the Payroll expenditure. AAI requests AERA to consider the figures for the SCP as submitted by AAI.

Calculation of incremental increase in salary (in % Terms)											
Particulars (Rs.)	Year 1				Year 2				Total		Difference
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Year1	Year 2	
BASIC	30000	30000	30000	30000	30900	30900	30900	30900	120000	123600	3600
DA	5520	6960	8160	8820	9270	10042.5	10753.2	11494.8	29460	41560	12100
HRA	8100	8100	8100	8100	8343	8343	8343	8343	32400	33372	972
PERKS	10500	10500	10500	10500	10815	10815	10815	10815	42000	43260	1260
EPF	3600	3600	3600	3600	3708	3708	3708	3708	14400	14832	432
<b>TOTAL</b>									<b>238260</b>	<b>256624</b>	<b>18364</b>

Particulars	% Increase							
DA	18.40%	23.20%	27.20%	29.40%	30.00%	32.50%	34.80%	37.20%
HRA	27%	27%	27%	27%	27%	27%	27%	27%
PERKS	35%	35%	35%	35%	35%	35%	35%	35%
EPF	12%	12%	12%	12%	12%	12%	12%	12%

**Total Increase (in Rs.) 18364**

**% increase 7.71**

*Assumptions: -*

*Year 1 Means Previous Year*

*Year 2 Means Current Year*

*Basic Pay – 3% yearly increase considered.*

*Dearness Allowance- Quarterly increase considered.*

*HRA, Perks & EPF – Considered Constant*

*In the abovementioned example, the Salary expenditure for Year 1 shown as Rs. 238260/- per employee. Whereas, in the year 2 the salary expenditure is shown as Rs. 256624/- per employee. On the basis of above assumptions, the incremental expenditure on the head of salary is Rs. 18364/- per employee which comes out to 7.71% on Year on Year basis.*

*Also, AERA has proposed to reduce growth rate of Payroll expenses from 7% y-o-y to 6% y-o-y for the second control period resulting lower tariff rate, lower recovery of pay roll, increase in shortfall to be carry forward for the next control period and impact steep hike in tariff for the next control period. Hence, we request AERA to consider the 7% growth proposed by AAI to avoid low recovery of payroll.*

*Additional 25% increase proposed by AAI in the last tariff year considering the implementation of 8th Pay commission may also considered by AERA to avoid carry forward of shortfall to the Third control period."*

9.3.2 AAI's Comment on Utility and Outsourcing expenses is as follows:

*"It is submitted that Utilities and outsourcing expense other than power charges may be approved as submitted by AAI as it includes man power (Hiring of Vehicles/consultant) as well as material*



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cost(Consumption of stores).”

9.3.3 AAI’s Comment on Upkeep expenses is as follows:

“AAI has proposed Upkeep expenses 93.16%(Aero): 6.84% (Non-Aero) based on the actual utilization of the terminal building for commercial activity.

We request AERA to apply Terminal Building ratio only for proposed capex, Opex should be bifurcated based on the actual utilization basis i.e. 93.16: 6.84.”

9.3.4 AAI’s Comment on Repair and Maintenance (Civil) Expenses is as follows:

“It is brought to your kind notice that, R&M Civil includes the following works as submitted to AERA after allocating into Aero: Non- Aero based on the actual utilization which are as under (Trail balance FY 2023-24): -

GL Code	Particulars	Amount	Remarks (FY 2023-24)
731003000	R&M-TB&OTH.BLDGS-Ops	2,30,73,189.85	Rs.204L AMC (10% ANS & 90% Apt) & others- Painting R/w
731005000	R&M-RESDL.BLDG	68,65,636.02	Special repair B/wall-(Repair & Painting)
731006000	R&M-OTH.BLDG	98,13,637.29	10% ANS & 90% Apt AMC
731009000	R & M: CIVIL: GENERAL	-9,194.00	Actual basis (Reversal of wrong entries)

AAI has already bifurcated the R&M Civil expenses as mentioned above based on the actual utilization and it also included the maintenance of Runway/ apron and other operational area including runway painting, joint filling etc. which is 100% Aero, however, AERA has wrongly applied the Terminal Building ratio on the cost projected by AAI.

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

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

9.3.5 AAI’s Comment on Repair and Maintenance (Electrical & Electronics) expense is as follows:

“Similarly to R&M Civil, we wish to bring to your kind notice that R&M Electrical includes the following works

GL Code	Particulars	Amount (in INR)	Remarks (FY 2023-24)
731102000	R&M:POWR SU.&GEN.SET	-25,68,641.36	
731102000	R&M:POWR SU.&GEN.SET	-10,08,754.90	
731104000	R & M: ELEC. INSTAL.	71,42,334.06	AMC Ops Area Rs.116.11L(30%-ANS) & Elec-Installation Rs.22.66L-ATC(100%ANS)
731104000	R & M: ELEC. INSTAL.	3,04,98,913.05	Rs.107.44AMC TB(TBR) & Rs.25.39L-PBB, Rs.12.16L-GLS, Rs.74.64-BHS, Rs.16.09-Lift, Rs.5.57L-AVDGS & Rs.075L-Boom Lift.
731105000	R & M: ELEC.:OTHERS	4,40,385.58	CCR Wrongly booked
731105000	R & M: ELEC.:OTHERS	2,00,00,778.82	Rs.27.66-BHS, Rs.13.13L-Noise mapping, Rs.39.45L-F.Fighting, Rs.19.94L-LED C/Off, Rs.3.68L-Sliding doors, Rs.4.4L-Decoration, Rs.2.59L-CCR, Rs.1.44L-Smoke Elimination, Rs.87.70L-HVAC & 3.13L-Solar-(TB Ratio)

AAI has already bifurcated the R&M Electrical expenses based on the actual utilization and it also



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*included the maintenance of Runway/ apron and other operational area which is 100% Aero. however, AERA has wrongly applied the Terminal Building ratio on the cost projected by AAI.*

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

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

**9.3.6 AAI's Comment on Repair and Maintenance (Restricted by 6% of Opening RAB) expense is as follows:**

*"There are various heads of R&M expenses which are incurred for operational requirements & regular maintenance. of the airport operator infrastructure and equipment at the airport*

*Applying a ratio on the WDV will further reduce the cost whereas in reality is that the maintenance costs will increase to make good the wear and tear over the years*

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

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

*Even if buildings are new it is not justifiable reason to reduce the recovery of expenses to a percentage of opening RAB*

*Restricting R&M expense to 6% of Opening RAB discourages Airport Operator to spend on R&M to maintain the quality standard and enhance customer.*

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

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

Year	1st	2nd	3rd	4th	5th	6th	7th
AMC Cost	634192	728660	1E+06	1216113	1361593	1473695	1583277
% of AMC on Net RAB	13%	19%	34%	51%	86%	187%	158327700%
6% of Net RAB	283403	236169	188935	141701	94468	47234	0
Net loss to AAI (Diff.)	-350789	-492491	-891774	-1074412	-1267125	-1426461	-1583277

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

*Hence, AERA is requested to remove the cap of R&M expenses at 6 % of Opening RAB and consider the*



*total expense of Rs. 89.10 Crore as projected by AAI."*

9.3.7 FIA's Comment on Power Expense is as follows:

*"AAI is requested to constitute a committee to verify the bills relating to Power expenses or submit a report on the same to AERA, if the same has already been conducted as part of Stakeholder comments / feedback."*

9.3.8 FIA's Comment on rationalization of O&M expenses is as follows:

*"While we appreciate the rationalization by AERA of each line item on the submitted O&M expenses by AAI, however, at the same time we request AERA to not provide such a huge jump in O&M expenses especially in FY 2028-29.*

*FIA respectfully urges AERA to further explore avenues to minimizing escalations across the expense categories. This action would significantly enhance our ability to manage overall costs more effectively. It is further submitted that the current estimated O&M expenses necessitate additional scrutiny through an Independent Study in this Control Period. This measure is vital to prevent deviations from being carried forward to the Second Control Period, doing so would help avoid over recovery of ARR in the control period under the guise of True up.*

*FIA wishes to highlight that the same has been proven in cases of other PPP Airports like DIAL, MIAL, BIAL that while truing up the O&M in subsequent control periods, it always leads to over estimation which has been observed leading to higher tariff in past control periods.*

*We further submit that, while the aviation sector, including airlines have incurred huge losses and are struggling to meet their operational costs, the Airport operator on the other hand seems to have incurred/will incur incremental expenses which may not appear prudent considering the significant losses incurred by the aviation sector.*

*In view of the aforementioned reasons, we request AERA to conduct an independent study for determining the true value of the O&M expenses before approving the tariff for the Second Control Period."*

**9.4 AAI's response to other stakeholders' comments on Operation and Maintenance Expenses for the Second Control Period**

9.4.1 AAI's response to FIA's Comment on Power Expense is as follows:

*"It is submitted that AAI cannot levy electricity charges over and above the units consumed by the concessionaires and the same is approved by the competent Authority."*

9.4.2 AAI's response to FIA's Comment on rationalization of O&M expenses is as follows:

*"There are various heads of R&M expenses which are incurred for Operational Requirements, Regular maintenance of the airport infrastructure and equipment at the airport. The costs captured by the airports are based on the actual spend.*

*To determine the costs, there are detailed tendering mechanisms for every contract and approving authorities as per delegation of powers approved by Board. Further, the accounts of airports are subject to C&AG audit on a yearly basis. Since the New building is proposed in FY 2027-28, therefore R&M cost of building will be increased for up keep of building, Air-conditioning, New X-BIS, Escalators, Aerobridges etc."*



**9.5 Authority's analysis on Stakeholders' comments regarding the Operation and Maintenance Expenses for the Second Control Period**

**9.5.1 The Authority has noted AAI's comments on Payroll expenses.**

It is observed that in its illustration, AAI has considered an increase around 41% of DA, from Y1 to Y2 which is not realistic, whereas actual DA increase during the past one year (October 2023 to October 2024) was around 4% [as per data available at the website of Department of Public Enterprises (DPE)]. Considering the impact of annual salary increments, DA increase and associated increase in HRA, Perks etc., the 6% Y-o-Y increase in payroll expenses considered by the Authority seems to be appropriate. Based on the above factors, the Authority decides to consider a growth rate of 6% year on year in payroll expenses for the Second Control period, as considered for other similar AAI Airports and PPP airports.

However, the Authority will true up O&M Expenses, including Payroll expenses pertaining to Second Control Period at the time of tariff determination for the next control period, subject to reasonability and efficiency of expenses.

Regarding AAI's comments on one-time increase of 25% in the payroll expenses in FY 2027-28, due to implementation of 8th Pay Commission, the Authority decides to consider impact of such increase in the payroll expenses due to any change in legal/ statutory requirement (such as 8th Pay Commission) for Varanasi Airport, on actual incurrence basis, at the time of true up of the Second Control Period, while determining tariff for the next Control Period, subject to reasonableness and efficiency.

**9.5.2 The Authority has considered 5% Y-o-Y increase in Utilities and Outsourcing expenses (other than power charges) in line with increase considered in other similar airports.**

It may be noted that the 5% increase considered by the Authority is more than the inflationary increase considered for the Second Control Period. Further, O&M expenses for the Second Control Period will be true up, subject to reasonability and efficiency of the cost, at the time of tariff determination for the Third Control Period.

Hence, the Authority decides to maintain the same basis for the Y-o-Y increase in the Utilities and Outsourcing expenses (other than power charges) as considered at the Consultation Stage.

**9.5.3 Regarding AAI's comments on the apportionment of the Upkeep expenses into Aeronautical and Non-aeronautical expenses, the Authority as stated in Chapter No. 6 (refer para 6.7.1), decides to consider the Terminal Building ratio as 90:10, in accordance with the decision taken in the Tariff Order for the First Control Period for Varanasi International Airport, IMG recommendations and the approach followed for other similar airports.**

Therefore, the Authority has decided to maintain its proposal regarding allocation of upkeep expenses, made during the consultation stage (refer para 9.2.6).

**9.5.4 The Authority has noted the comments of AAI regarding allocation of R&M Civil expenses into Aeronautical and Non-aeronautical expenses for the Varanasi Airport.**

Based on the details submitted by AAI on the bifurcation of the R&M expenses (into Aero & Non-aero), the Authority decides to consider application of TB ratio in respect of the R&M expenses pertaining to the Terminal Building only. The expenses incurred on the airside have been considered as 100% aeronautical.

Further, as stated in the chapter no. 9 (Para 9.2.7), the Authority decides to consider the Terminal Building ratio as 90:10 for the purpose of allocation of R&M expenses - Civil, in accordance with the decision taken in the Tariff Order for the First Control Period for Varanasi International Airport, IMG recommendations and as per the approach followed for other similar airports.

9.5.5 The Authority notes the comments of AAI on R&M Electrical. As stated in para 9.2.6 in this Tariff Order, the Authority, at the consultation stage, had adopted the TB Ratio of 90:10 in respect of the R&M Electrical expenses as against 93.16: 6.84 as submitted by AAI in the MYTP.

Further, the airside R&M Electrical expenses had been treated as 100% aeronautical, at the consultation stage.

Based on the above factors, the Authority decides to maintain its proposal made at the Consultation stage, regarding allocation of R&M Electrical expenses into Aeronautical & Non-aeronautical expenses.

9.5.6 The Authority notes the comments of AAI on the need for review of the capping being applied by AERA on R&M expenses, as per its current approach. AAI in its comments has highlighted that various kind of R&M Expenses are incurred at the airport for operational reasons and for regular maintenance of airport infrastructure & equipment. It is further informed that most of the AMC (Annual Maintenance Contracts) includes a component of manpower and related labour rates are revised by Ministry of Labour, from time to time.

AAI submitted that applying cap on R&M Expenses as a % of Net Block of assets, reduces allowable expenses, whereas in reality maintenance costs tends to increase with the ageing of the asset.

Further, the Authority is cognizant of the fact that there are many airports where there is no substantial new CAPEX and value of RAB (including old and new CAPEX) is not significant, hence, applying the cap of 6% of opening RAB by factoring in depreciation does not give sufficient provision for R&M expenses, since the old assets would require more R&M expenses with passage of time.

The Authority, therefore, feels the need for review the existing approach across all airports towards capping of R&M Expenses to 6% of Opening RAB (Net Block) of respective tariff years and would look into alternative methodology benchmarks for evaluation of reasonableness of R&M expenses proposed by the Airport Operators.

As the process for review of capping of R&M Expenses is being considered and it will take some time to arrive at final decision in the matter, in the interim period, the Authority decides to continue with the present approach of capping of R&M Expenses to 6% of opening RAB (net block) and consider the R&M expenses accordingly.

However, the Authority would true up the R&M Expenses pertaining to the Second Control Period at the time of determination of tariff for the next Control Period, based on the outcome of the review exercise and the Authority's final view on the matter.

9.5.7 The Authority has noted FIA's comments regarding power expenses and AAI's response thereon. The Authority, through its Independent Consultant, has examined the power expenses of Varanasi International Airport. The Authority is aware that the Trial Balance of Varanasi International Airport is part of AAI's books of accounts which are audited annually by CAG, it is noted that CAG reports have no comments/ exceptions regarding power expenses of Varanasi Airport. Further, the Independent Consultant has also reviewed power expenses and sought explanations, invoices etc., wherever required. Hence, the Authority does not find the need to separately verify the bills relating to power expenses of Varanasi International Airport.

9.5.8 The Authority has noted FIA's comments regarding rationalization of O&M expenses and AAI's response thereon. The Authority would like to emphasize that AERA, through its Independent Consultant, has examined in detail each component of the O&M expenses submitted by the AO, with respect to its essentiality and reasonableness and has considered only the O&M expenses that are needed for meeting operational requirements. Based on the above factors, the Authority has rationalized the various components

**OPERATION AND MAINTENANCE EXPENSES FOR THE SECOND CONTROL PERIOD**

of O&M expenses proposed by the AAI for the Second Control period.

As regard to the comments of FIA on conducting an independent study on O&M expenses. In this regard, the Authority believes that the requirement for an independent study will depend upon the size of the airport and the scale of operations. AERA, may commission an independent study in future for any airport, if considered necessary.

9.5.9 Considering the above, the Authority decides the O&M Expenses for the Second Control Period in respect of VIA as per the table given below:

*Table 69: Operation and Maintenance (O&M) expenses decided by the Authority for the Second Control Period*

(₹ Crores)

Particulars	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total
Payroll Costs	23.01	24.39	25.85	27.70	32.13	133.08
Retirement Benefits of Employees at VIA	1.79	1.90	2.02	2.14	2.48	10.33
Repair & Maintenance	10.89	7.78	7.10	6.31	9.65	41.74
Utilities & Outsourcing Expenses	6.80	7.07	7.35	7.66	9.22	38.10
Upkeep Expenses	4.65	4.89	5.13	5.39	5.66	25.71
Admin. & Other Expenses - Excluding CHQ/RHQ and Upkeep expenses	5.41	5.95	6.54	7.04	7.92	32.86
Admin. & Other Expenses - CHQ/RHQ	28.86	30.31	31.82	33.41	35.08	159.48
Other Outflows	1.26	1.46	1.69	1.87	2.06	8.35
<b>Total O&amp;M Expenditure</b>	<b>82.69</b>	<b>83.75</b>	<b>87.51</b>	<b>91.52</b>	<b>104.20</b>	<b>449.67</b>

**9.6 Authority's decision regarding Operation and Maintenance Expenses for the Second Control Period**

Based on the material before it and based on its analysis, the Authority decides the following with regard to O&M expenses for the Second Control Period.

9.6.1 To consider O&M expenses for the Second Control Period for VIA as per Table 69.

9.6.2 To true-up the O&M expenses pertaining to the Second Control Period, at the time of tariff determination for the next Control Period subject to reasonableness and efficiency of expenses.

**AERA**



**10 NON-AERONAUTICAL REVENUE FOR THE SECOND CONTROL PERIOD****10.1 AAI's submission regarding Non-aeronautical Revenue for the Second Control Period**

10.1.1 AAI projected revenue from non-aeronautical services for VIA as below:

*Table 70: Non-aeronautical Revenue projections for the Second Control Period submitted by AAI for VIA*

Particulars	FY	FY	FY	FY	FY	Total
	2024-25	2025-26	2026-27	2027-28	2028-29	
<b>1. Passenger related revenue</b>						
Restaurant / snack bars	4.45	4.90	5.39	6.46	7.11	<b>28.31</b>
T.R. stall	6.67	7.34	8.08	9.69	10.66	<b>42.44</b>
Hoarding & display	4.94	5.43	5.97	7.17	7.88	<b>31.39</b>
Car rentals	0.92	1.01	1.11	1.33	1.47	<b>5.83</b>
Car parking	3.32	3.65	4.02	4.82	5.30	<b>21.11</b>
Admission tickets	0.06	0.06	0.07	0.07	0.08	<b>0.34</b>
<b>2. Other Revenue</b>						
Land leases	0.30	0.35	0.35	0.35	0.35	<b>1.71</b>
Building (residential)	0.02	0.02	0.02	0.02	0.02	<b>0.10</b>
Building (non-residential)	2.04	2.19	2.36	2.77	2.98	<b>12.34</b>
Other Misc. Income	4.02	4.22	4.43	4.66	4.89	<b>22.22</b>
<b>Total</b>	<b>26.74</b>	<b>29.17</b>	<b>31.79</b>	<b>37.34</b>	<b>40.74</b>	<b>165.78</b>

(₹ Crores)

10.1.2 The growth rates assumed by AAI have been presented in the table below.

*Table 71: Growth rates assumed by AAI for VIA for Non-aeronautical Revenue*

Particulars	FY	FY	FY	FY	FY
	2024-25	2025-26	2026-27	2027-28	2028-29
<b>1. Passenger related revenue</b>					
Restaurant / snack bars	10.00%	10.00%	10.00%	20.00%	10.00%
T.R. stall	10.00%	10.00%	10.00%	20.00%	10.00%
Hoarding & display	10.00%	10.00%	10.00%	20.00%	10.00%
Car rentals	10.00%	10.00%	10.00%	20.00%	10.00%
Car parking	10.00%	10.00%	10.00%	20.00%	10.00%
Admission tickets	10.00%	10.00%	10.00%	10.00%	10.00%
<b>2. Other Revenue</b>					
Land leases	0.00%	15.00%	0.00%	0.00%	0.00%
Building (residential)	0.00%	0.00%	0.00%	0.00%	0.00%
Building (non-residential)	7.50%	7.50%	7.50%	17.50%	7.50%
Other Misc. Income	5.00%	5.00%	5.00%	5.00%	5.00%

**10.2 Authority's examination regarding Non-aeronautical Revenue for the Second Control Period at Consultation Stage**

10.2.1 The Authority reviewed sample contracts executed with the Concessionaires by AAI during FY 2023-24 and considered the NAR for FY 2023-24 as the basis, to assess the non-aeronautical revenue projected by AAI for the Second Control Period.

**Revenue from Passenger-related services**

- 10.2.2 The Authority noted that the total NAR projected by AAI for the Second Control Period, i.e. ₹ 165.78 Crores is 83% higher than NAR of ₹90.63 Crores achieved in the First Control Period by AAI for Varanasi Airport. Further, the revenue from Passenger services (other than Rent and Services) projected for the Second Control Period amounts to ₹ 129.42 Crores, which is 79% higher than ₹ 72.17 Crores achieved by AAI in the First Control Period.
- 10.2.3 The Authority took cognizance of the fact that the New Terminal Building was proposed to be commissioned only by the end of the current Control Period. Therefore, the Authority viewed that the projected NAR submitted by AAI for the Second Control Period is commensurate with the traffic growth projected for the Second Control Period. Further, the Authority noted that AAI had projected a growth of 10%Y-o-Y in the passenger related revenues and an additional 10% increase in FY 2027-28, due to operationalization of the Terminal Building. The Authority, based on the above factors, proposed to consider the 10% Y-o-Y increase projected by AAI for the FY 2024-25 to FY 2027-28 and shifted the additional increase of 10% to FY 2028-29, in line with its proposal to consider capitalization of the New Terminal Building in FY 2028-29.
- 10.2.4 Varanasi being a tourist destination and with the commissioning of new Terminal Building during the Second Control Period, the Authority was of the view that passenger traffic would grow substantially leading to the growth in Non-aeronautical Revenue also.

**Other revenue – Rent and Services**

- 10.2.5 The Authority examined the Revenue from other services proposed by AAI as follows: -
- Revenue from Building (residential): The Authority noted that AAI had assumed revenue from Building (residential) to be constant for the Second Control Period and the Authority proposed to consider the same.
  - Land Lease: AAI had proposed nil growth for FY 2024-25 as the land rental rates are revised after the period of 3 years. The last revision was done in FY 2022-23 as per the land management Circular No. 166 dated June 4, 2022. Accordingly, the Authority proposed to consider the increase in land lease rate by 15% in FY 2025-26 as projected by AAI.
  - Building (Non-Residential): AAI projected increase of 7.50% increase from FY 2024-25 to FY 2026-27 and FY 2028-29. Further, AAI had projected an additional increase of 10% for FY 2027-28 for Building (Non- Residential) due to operationalization of the New Terminal Building. The Authority proposed to consider the increase of 7.5% Y-o-Y from FY 2024-25 to FY 2027-28 and shifted the additional increase of 10% to FY 2028-29, in line with its proposal to consider capitalization of the New Terminal Building in FY2028-29.
- 10.2.6 Based on the above analysis, the NAR proposed to be considered by the Authority for VIA in respect of the Second Control Period at Consultation Stage is presented in the table below:

*Table 72: Non-aeronautical Revenues proposed by the Authority for VIA for the Second Control Period at Consultation Stage.*

Particulars	FY	FY	FY	FY	FY	Total
	2024-25	2025-26	2026-27	2027-28	2028-29	
<b>1. Passenger related revenue</b>						
Restaurant / snack bars	4.45	4.90	5.39	5.93	7.11	27.78
T.R. stall	6.67	7.34	8.08	8.88	10.66	41.63



**NON-AERONAUTICAL REVENUE FOR THE SECOND CONTROL PERIOD**

Particulars	FY	FY	FY	FY	FY	Total
	2024-25	2025-26	2026-27	2027-28	2028-29	
Hoarding & display	4.94	5.43	5.97	6.57	7.88	30.79
Car Rentals	0.92	1.01	1.11	1.22	1.47	5.72
Car parking	3.32	3.65	4.02	4.42	5.30	20.70
Admission tickets	0.06	0.06	0.07	0.07	0.08	0.34
Other Misc. Income	4.02	4.22	4.43	4.66	4.89	22.22
<b>2. Other Revenue</b>						
Land Leases	0.30	0.35	0.35	0.35	0.35	1.71
Building (residential)	0.02	0.02	0.02	0.02	0.02	0.10
Building (non-residential)	2.04	2.19	2.36	2.53	2.98	12.10
<b>Total (1+2)</b>	<b>26.74</b>	<b>29.17</b>	<b>31.79</b>	<b>34.65</b>	<b>40.74</b>	<b>163.09</b>

*Note: The NAR derived by the Authority ₹ 163.09 Cr (as per above table) is lesser than that projected by AAI which is ₹ 165.78 Cr, due to shifting of one-time increase in some revenue components from FY 2027-28 to FY 2028-29, on account of shifting of anticipated operationalization of the Terminal Building to FY 2028-29 (from FY 2027-28 as per AAI).*

10.2.7 The revised growth rates as per Authority's examination have been presented in the table below:

*Table 73: Growth rates in Non-aeronautical Revenue proposed by the Authority at Consultation Stage.*

Particulars	FY	FY	FY	FY	FY
	2024-25	2025-26	2026-27	2027-28	2028-29
<b>1. Passenger related revenue</b>					
Restaurant / snack bars	10.00%	10.00%	10.00%	10.00%	20.00%
T.R. stall	10.00%	10.00%	10.00%	10.00%	20.00%
Hoarding & display	10.00%	10.00%	10.00%	10.00%	20.00%
Car Rentals	10.00%	10.00%	10.00%	10.00%	20.00%
Car parking	10.00%	10.00%	10.00%	10.00%	20.00%
Admission tickets	10.00%	10.00%	10.00%	10.00%	10.00%
Other Misc. Income	5.00%	5.00%	5.00%	5.00%	5.00%
<b>2. Other Revenue</b>					
Land Leases	0.00%	15.00%	0.00%	0.00%	0.00%
Building (residential)	0.00%	0.00%	0.00%	0.00%	0.00%
Building (non-residential)	7.50%	7.50%	7.50%	7.50%	17.50%

**10.3 Stakeholders' comments regarding Non-Aeronautical Revenue (NAR) for the Second Control Period**

During the stakeholders' consultation process, the Authority has received comments/views from FIA in response to the proposals of the Authority in the Consultation Paper no. 05/2024-25 dated 26 October 2024. The comment of FIA is presented below:

10.3.1 FIA's Comment on NAR is as follows:

*"It has been observed that the non-aeronautical revenues projected by AAI is conservative. Typically, non-aeronautical revenue is expected to cover about 50% of the operation and maintenance expenses (OPEX). However, it is noted that in this Control Period (CP), AAI has projected the non-aeronautical revenue to be only about 27% of OPEX. Even accounting for the reductions in OPEX proposed by AERA, the non-aeronautical revenue would remain at approximately 36% of the OPEX, which is still too low.*

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*We strongly recommend that AAI explore all possible avenues to maximise revenue from the utilisation of the terminal building for non-aeronautical purposes.*

*Additionally, we would also like to highlight that the INR 90.63 crore NAR achieved during the first control period (CP) was based on traffic movement that was only half of the proposed traffic movement for the second control period. The COVID-19 pandemic and other external factors significantly impacted the NAR during the first Control period, further limiting the airport's nonaeronautical revenue potential. Given that the traffic movement is expected to be more than double in the second control period, the proposed NAR of 163.09 crore remains a conservative estimate. In light of these challenges, we recommend that AAI take proactive steps to leverage available space and resources to enhance their non-aeronautical activities and revenue generation, which will positively contribute towards the airport's financial performance in future periods.*

*We respectfully request AERA to mandate AAI to enter into suitable agreements with concessionaires to fully exploit the potential growth of non-aeronautical revenue at VNS.*

*In this context, we also request AERA to undertake a detailed examination of non-aeronautical revenue by commissioning an independent before determining tariff for the SCP.*

*Without prejudice to the above, it should be noted that factors such the expansion of terminal building area, growth in passenger traffic, inflationary pressures and real increases in contract rates influence the increase in NAR. Despite these factors contributing to increased revenue potential, it appears that AERA's projections for non-aeronautical revenue in the second control period are conservative. Given the substantial opportunities for growth, we request that AERA adopt a more optimistic and expansive approach to NAR projections, aligning them with the actual potential and economic benefits for VNS.*

*It is worth noting that in other airports, truing up of NAR in subsequent control periods has often led to underestimation of potential revenue, resulting in higher tariffs in those control periods. FIA submits that Varanasi is increasingly recognized as a key destination for cultural, educational, and business tourism, attracting visitors from around the world. With air travel being the preferred option for many, the city's air traffic is projected to see significant growth.*

*Accordingly, we request AERA:*

- a) To mandate AAI to enter into more agreements with concessionaires to exploit the growth potential of NAR at Varanasi Airport (VNS).*
- b) To kindly undertake a detailed examination, with the assistance of an independent study, of the NAR before the tariff determination of the Second Control Period.*
- c) To further determine, re-assess their estimates in line with other comparable airports. It may also include the impact of the tourism lineage that Varanasi must increase their NAR in accordance with the submissions above.*

*AERA is requested to ensure no adjustments are proposed to non-aeronautical revenue which is not dependent on traffic but are derived from agreements with concessionaires. In view of the above, we request AERA to allow higher non-aeronautical revenues for VNS."*

### **10.4 AAI's response to Stakeholders' comments on Non-aeronautical Revenue for the Second Control Period**

#### **10.4.1 AAI's response to FIA's Comment on NAR is as Follows:**

*"Increase in Non-aeronautical revenue is not proportionate with increase in traffic. The percentage of non-aeronautical business is dependent on multiple factors such a demand, customer behavior,*

*spending patterns and per capita income of the region. Therefore, a standardized approach may not accurately reflect the ground reality of non-aeronautical business and may be detrimental to the Airport Operator. Non-Aeronautical revenue may not be linked with operating expenditure as the passenger may not be insist for spending of money on Non-aero activities however airport operator is bound to maintain the airport.*

*The operating Expenditure is consistently required to be incurred to maintain Terminal building/Airport to world standard where as non-aero Revenue generation depends upon consumer behavior/ Licence Fees quoted by Concessionaires. So both may not be correlated. Further, 25% (approx.) of non-aeronautical area is occupied by airlines (airlines offices) and AAI is getting only space rental which is now considered as Aero Revenue by AERA. In view of above, AERA is requested to consider the growth rate as submitted in the MYTP for SCP."*

### **10.5 Authority's analysis on Stakeholders' comments regarding the Non-Aeronautical Revenue for the Second Control Period**

10.5.1 The Authority has noted FIA's comments on NAR projected by AAI for the Second Control Period and AAI's response on the same. AAI has aptly explained the generation of non-aero revenue in context of consumer behaviour and spending pattern at the airports. Further, there is no direct relationship between the O&M Expenditure of the airport and generation of the non-aeronautical revenue.

In addition, the Authority, through its Independent Consultant, has also reviewed the existing commercial contracts and while deciding non-aero revenue, necessary clarifications and additional details have been called from the AO, wherever felt necessary.

It is pertinent to note that AAI has projected NAR amounting to ₹ 165.78 Crores, which is 83% higher than NAR of ₹ 90.63 Crores achieved by AO during the First Control Period of Varanasi Airport (refer para 10.2.2 of this Tariff Order).

However, the Authority feels that AAI should continue to make efforts to increase its non-aeronautical revenue at Varanasi airport, so as to make it comparable to other similarly placed airports.

Based on the above, the Authority decides to maintain the NAR projections for the Second Control Period as proposed at the Consultation stage.

As regards the comments of FIA on conducting an independent study on the Non-Aeronautical Revenue, the Authority believes that the requirement for an independent study depends upon the size & scale of airport, operations and complexity involved. As per the Authority, at present there is no need for such study, as Authority has carried out required due diligence in-house.

### **10.6 Authority's decision regarding Non-Aeronautical Revenues for the Second Control Period**

Based on the material before it and based on its analysis, the Authority decides the following with regard to Non-Aeronautical Revenue for the Second Control Period:

- 10.6.1 To consider Non-Aeronautical Revenues for the Second Control Period in respect of VIA as per Table 72.
- 10.6.2 To consider actual Non-Aeronautical Revenue achieved by AAI for VIA in respect of Second Control Period, while determining tariff for the next Control Period, subject to evaluation of efficiency and reasonableness.



**11 TAXATION FOR THE SECOND CONTROL PERIOD****11.1 AAI's submission regarding Taxation for the Second Control Period**

11.1.1 AAI considered the revenue from regulated services, aeronautical operating expenses, interest & financing charges, and depreciation on written down value (WDV) of assets as per income tax for the computation of Aeronautical Taxes. After calculating the Profit Before Tax (PBT), a tax rate of 25.17% is applied, after setting off prior losses. The Aeronautical tax submitted by VIA for the Second Control Period is shown in the table below:

Table 74: Tax Expense submitted by AAI for VIA for the Second Control Period

(₹ Crores)

Particulars	FY	FY	FY	FY	FY	Total
	2024-25	2025-26	2026-27	2027-28	2028-29	
Aeronautical Revenue with Revised Rates	200.46	327.14	380.99	424.73	473.94	1,807.26
O&M expenses	100.47	107.09	114.23	134.33	143.42	599.54
Interest on working capital	-	-	-	-	-	-
Depreciation	16.35	15.20	13.89	161.83	295.02	502.30
<b>Profit Before Tax</b>	83.64	204.85	252.87	128.57	35.50	705.42
Set-off of prior period tax losses	(83.64)	(74.66)	0.00	0.00	0.00	(158.30)
PBT after set-off of prior period losses	0.00	130.19	252.87	128.57	35.50	547.12
Tax rate (%)	25.17%	25.17%	25.17%	25.17%	25.17%	
Tax	0.00	32.77	63.65	32.36	8.93	137.71

**11.2 Authority's examination of Taxation for the Second Control Period at Consultation stage**

11.2.1 The Authority noted that VIA had calculated income tax based on the projected Aeronautical revenues. The Authority had re-computed the taxes based on the revised regulatory blocks for the Second Control Period proposed in the previous chapters. The following table summarizes the Aeronautical taxes proposed by the Authority for the Second Control Period.

Table 75: Taxation proposed to be considered by the Authority for the Second Control Period at Consultation Stage.

(₹ Crores)

Particulars	FY	FY	FY	FY	FY	Total
	2024-25	2025-26	2026-27	2027-28	2028-29	
Aeronautical Revenue (refer Table 84)	128.66	174.37	209.60	240.98	276.94	1,030.56
Less: O&M expenses (refer Table 67)	82.69	83.75	87.51	91.52	104.20	449.67
Less: Depreciation (as per Income Tax Act, 1961)	16.21	14.56	12.96	14.82	92.87	151.42
Less: Interest on Loan	1.05	0.97	0.82	0.67	0.52	4.05
<b>Profit Before Tax</b>	28.72	75.09	108.31	133.97	79.35	425.43
Set-off of prior period tax losses*	28.72	75.09	2.05	0.00	0.00	105.87
PBT after set-off of prior period tax losses	0.00	0.00	106.25	133.96	79.34	319.56
Tax rate (%)	25.17%	25.17%	25.17%	25.17%	25.17%	
Tax	0.00	0.00	26.74	33.72	19.97	80.43

\*Prior period losses pertain FY 2019-20 to FY 2022-23.



**11.3 Stakeholders' comments regarding Taxation for the Second Control Period**

11.3.1 No comments were received from the Stakeholders' regarding Taxation for the Second Control Period.

**11.4 Authority's analysis on Stakeholders' comments regarding Taxation for the Second Control Period**

11.4.1 The Authority notes that no comments were received from the Stakeholders regarding Taxation for the Second Control Period.

11.4.2 Based on the Aeronautical revenue determined by the Authority for the Second Control Period for Varanasi International Airport (as per Chapter 14) and the revised CAPEX, the Authority has recomputed the Aeronautical Taxation, considering Interest Cost as an allowable deduction for the purpose of computing Income Tax for the Second Control Period. The same has been detailed as follows:

*Table 76: Aeronautical Taxation decided by the Authority for the Second Control Period for Varanasi International Airport*

(₹ Crores)

Particulars	FY	FY	FY	FY	FY	Total
	2024-25	2025-26	2026-27	2027-28	2028-29	
Aeronautical Revenue	123.05	168.50	209.63	248.15	287.59	1,036.93
Less: O&M expenses	82.69	83.75	87.51	91.52	104.20	449.67
Less: Depreciation (as per Income Tax Act)	16.21	14.56	12.96	14.82	93.21	151.76
Less: Interest on Loan	1.05	0.97	0.82	0.67	0.52	4.05
<b>Profit Before Tax</b>	<b>23.11</b>	<b>69.22</b>	<b>108.34</b>	<b>141.13</b>	<b>89.65</b>	<b>431.45</b>
Set-off of prior period tax losses*	23.11	69.22	13.54	-	-	105.87
PBT after set-off of prior period tax losses	-	-	94.80	141.13	89.65	325.58
Tax rate (%)	25.17%	25.17%	25.17%	25.17%	25.17%	
Tax	-	-	23.86	35.52	22.57	81.95

**11.5 Authority's decisions regarding Taxation for the Second Control Period**

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

11.5.1 To consider the Taxation for the Second Control Period for Varanasi International Airport as per Table 76.

11.5.2 To true up the aeronautical tax of the Second Control Period, at the time of tariff determination for the next Control Period.

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**12 QUALITY OF SERVICE FOR THE SECOND CONTROL PERIOD**

**12.1 AAI's submission regarding Quality of Service for the Second Control Period**

12.1.1 VIA has not made any submission related to Quality of Service as part of its MYTP submission. The Authority was informed that the same was available on AAI's website (station-wise).

**12.2 Authority's examination regarding Quality of Service for the Second Control Period at Consultation Stage**

12.2.1 The Authority noted that:

- As per section 13 (1) (d) of the AERA Act, 2008, the Authority shall "monitor the set performance standards relating to quality, continuity and reliability of service as may be specified by the Central Government or any Authority authorized by it in this behalf."
- As per section 13(1)(a)(ii), the Authority was required to determine the tariff for Aeronautical services taking into consideration "the service provided, its quality and other relevant factors."

12.2.2 The Authority noted from AAI's website that the ACI ASQ survey results for VIA for the years 2018 to 2024 had been in the range of 4.77 to 4.95 (overall score), as against the average score of AAI Airports which range from 4.57 to 4.81

Table 77: ASQ rating for VIA for the years 2018-2024

Calendar Year (CY)	ASQ rating
2018	4.77
2019	4.80
2020	4.94
2021	-
2022	4.95
2023	4.90
2024	4.89

12.2.3 The Authority noted that the ASQ ratings achieved by VIA were by and large higher than the average rating of the AAI airports.

12.2.4 Also, the Authority reviewed the MoU between AAI and MoCA for the year 2019-20 and noted that the ASQ rating target for the year 2019-20 was 4.68. The actual ASQ rating achieved by Varanasi International Airport for CY 2019 was 4.80 which was higher than the target rating. The ASQ rating for CY 2021 was not available as the survey was not conducted due to COVID 19 pandemic. Further, the Authority noted that currently, the MoU between AAI and MoCA does not contain parameter on ASQ ratings.

12.2.5 The Authority proposed no adjustment towards tariff determination for the Second Control Period on account of quality of service maintained by VIA, as the Airport had already achieved 4.95 rating.

**12.3 Stakeholders' comments on the Quality of Service for the Second Control Period**

12.3.1 No comments received from the Stakeholders' regarding Quality of Service for the Second Control Period.



**12.4 Authority's analysis on Stakeholders' comments regarding the Quality of Service for the Second Control Period**

12.4.1 The Authority notes that no comments were received from the Stakeholders regarding Quality of Service for the Second Control Period.

**12.5 Authority's decision regarding Quality of Service for the Second Control Period**

Based on the material before it and its analysis, the Authority decides the following with regard to Quality of Service for the Second Control Period:

12.5.1 Not to consider any adjustment towards tariff determination for the Second Control Period with regard to Quality of Service.



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AERA



AGGREGATE REVENUE REQUIREMENT (ARR) FOR THE SECOND CONTROL PERIOD

**13 AGGREGATE REVENUE REQUIREMENT (ARR) FOR THE SECOND CONTROL PERIOD**

**13.1 AAI's submission regarding Aggregate Revenue Requirement for the Second Control Period**

13.1.1 AAI submitted ARR and Yield per Passenger (YPP) for the Second Control Period, based on the regulatory building blocks proposed by it for the Second Control Period.

13.1.2 The summary of ARR and YPP proposed by AAI are presented in the table below.

*Table 78: ARR submitted by AAI for VIA for the Second Control Period*

Particulars	FY	FY	FY	FY	FY	Total	
	2024-25	2025-26	2026-27	2027-28	2028-29		
Average RAB	136.43	128.07	117.42	1564.99	2943.08	4890.00	
Fair Rate of Return	14%	14%	14%	14%	14%		
Return on average RAB	19.10	17.93	16.44	219.10	412.03	684.60	
O&M expenses	100.47	107.09	114.23	134.33	143.42	599.54	
Depreciation	14.69	14.84	13.95	83.75	152.91	280.15	
Tax expense	0.00	32.77	63.65	32.36	8.93	137.71	
True up shortfall of First Control Period claimed by AAI	305.36	-	-	-	-	305.36	
Less: 30% NAR	8.02	8.75	9.54	11.20	12.22	49.73	
<b>ARR per year (₹ Crores)</b>	<b>431.60</b>	<b>163.88</b>	<b>198.73</b>	<b>458.34</b>	<b>705.07</b>	<b>1957.62</b>	
Discount factor (@ 14%)	1.00	0.88	0.77	0.67	0.59		
PV of ARR	431.60	143.75	152.92	309.37	417.46	1455.10	
Sum Present value of ARR (₹ Crores)						1,455.10	1,455.10
Total Traffic (million passengers)						12.06	12.06
<b>Yield per passenger (YPP) (₹)</b>						<b>1,206.55</b>	<b>1,206.55</b>

**13.2 Authority's examination of Aggregate Revenue Requirement (ARR) for the Second Control Period at Consultation Stage**

13.2.1 The analysis and proposals of the Authority across the regulatory building blocks impact the computation of ARR and Yield. Consequent to detailed examination of each regulatory building block, the Authority proposed the ARR and YPP for the Second Control Period, as presented in the table below.

*Table 79: ARR proposed by the Authority for the Second Control Period at Consultation Stage.*

Particulars	Table	FY	FY	FY	FY	FY	Total
		2024-25	2025-26	2026-27	2027-28	2028-29	
Average RAB (A)	49	135.44	124.05	111.82	133.05	917.29	
Fair Rate of Return (B)	50	12.21%	12.21%	12.21%	12.21%	12.21%	
Return on average RAB (C)= (A)*(B)		16.54	15.15	13.65	16.25	112.00	173.58
Depreciation (D)	47	13.98	13.81	13.15	13.19	39.21	93.34
O&M expenses (E)	57	82.69	83.75	87.51	91.52	104.20	449.67
Tax expense (F)	64	-	-	26.74	33.72	19.97	80.43
Shortfall carried forward from First Control Period (G)	24	225.41					225.41



**AGGREGATE REVENUE REQUIREMENT (ARR) FOR THE SECOND CONTROL PERIOD**

Particulars	Table	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total
Gross ARR (H)= SUM (C:G)		338.61	112.71	141.05	154.68	275.38	1,022.43
NAR (I)	61	26.74	29.17	31.79	34.65	40.74	163.09
Less: 30% NAR (J= I*30%)		8.02	8.75	9.54	10.40	12.22	48.93
Net ARR = (K= H - J)		330.59	103.96	131.51	144.28	263.16	973.50
Discount factor (@ 12.21%)		1.00	0.89	0.79	0.71	0.63	
PV of ARR (₹ Crores)		330.59	92.64	104.45	102.12	166.00	795.80
Sum of Present Value of ARR (₹ Crores)				795.80			795.80
Total Traffic (MPPA)	28			24.12			24.12
Yield per passenger on Total Traffic (YPP) (₹)				329.92			329.92
Departing passenger (MPPA)				12.06			12.06
Yield per Departing Passenger (₹)				659.84			659.84

13.2.2 AERA had determined Net Present Value (NPV) of ARR as ₹ 795.80 Crores, as against the NPV of ARR of ₹ 1,455.10 Crores proposed by AAI. The variation of ₹ 659.30 Crores between the ARR proposed by the Authority and that claimed by AAI were attributable to the following factors:

- i Rationalization of CAPEX (refer Table 46) amounting to ₹ 920.44 Crores, resulting in reduction of depreciation and the return on RAB.
- ii Determination of FRoR by the Authority as 12.21% as against 14% claimed by AAI.
- iii Rationalization of O&M expenses like Payroll expenses, CHQ/ RHQ expenses, Administration expenses, R&M Expenses etc. amounting to ₹ 149.87 Crores.
- iv Reduction in taxation, due to rationalization of other building blocks such O&M expenses, depreciation and the Aeronautical revenue determined by the Authority (based on the proposed Tariff Rate card of the Authority) amounting to ₹ 57.28 Crores.

**13.3 Stakeholders' comments on the Aggregate Revenue Requirement (ARR) for the Second Control Period of Varanasi international Airport**

During the stakeholders' consultation process, the Authority has received comments/views from AAI and FIA in response to the proposals of the Authority in the Consultation Paper No. 05/2024-25 dated 26 October 2024. The comments of stakeholders are presented below:

13.3.1 FIA's Comment on Aggregate Revenue Requirement (ARR) is as follows:

*"As per the "guiding principles issued by the International Civil Aviation Organization (ICAO) on charges for Airports and Air Navigation Services (ICAO DoC 9082), which lays down the main purpose of economic oversight which is to achieve a balance between the interest of Airports and the Airport Users."*

*This policy document explicitly advises "that caution be exercised when attempting to compensate for shortfalls in revenue considering its effects of increased charges on aircraft operators and end users". This caution is especially pertinent during periods of economic difficulty (such as the adverse financial impact on airlines following the post Covid-19).*

*Any attempt to award the contracts by AAI on the highest revenue share basis should be discouraged as it breeds inefficiencies and tend to disproportionately increase the cost.*

## AGGREGATE REVENUE REQUIREMENT (ARR) FOR THE SECOND CONTROL PERIOD

*It is general perception that service providers have no incentive to reduce its expenses as any such increase will be passed on to the airlines through tariff determination mechanism process and indirectly airlines will be forced to bear these additional costs.*

*There should be a mechanism for incentivizing the parties for increasing efficiencies and cost savings and not for the royalty for the airport operator.*

*In light of the financial challenges faced by the airlines, as outlined in this letter, FIA requests AERA that, no higher tariff shall be fixed for this control period."*

### **13.4 AAI's response to Stakeholders' comments on Aggregate Revenue Requirement (ARR) for the Second Control Period**

13.4.1 AAI's response to FIA's comment on ARR is as follows:

*"Landing, Parking and UDF charges are worked out to recover the ARR as per AERA methodology. Further, the collection charges will be paid to Airlines as per the credit policy of AAI."*

### **13.5 Authority's analysis on Stakeholders' comments regarding the Aggregate Revenue Requirement (ARR) for the Second Control Period**

13.5.1 The Authority has noted FIA's comments on the need to maintain a balance in the interest of airports and the airport users and the response thereon by AAI. The Authority has following views:

AAI has on-going capital expenditure and other planned works, together with the shortfall in ARR recovery pertaining to the First Control Period (carried forward to the Second Control Period), resulting from lower Aeronautical revenue caused by the adverse impact of COVID-19 pandemic, which has resulted in higher ARR for the Second Control Period.

Keeping the tariff at the current level for the entire Control Period and postponing the full recovery of shortfall to the subsequent Control Period would create substantial recovery burden (along with carrying cost), which may lead to steep tariff increases in the Third Control Period.

FIA has drawn reference to the guiding principles issued by the International Civil Aviation Organization (ICAO") on charges for Airports and Air Navigation Services (ICAO DOC 9082).

The Authority, in line with ICAO's guiding principles as part of tariff determination exercise for the airport operators, does its own due diligence in respect of all regulatory building blocks to strike an optimal balance between the interest of various stakeholders.

Regarding FIA's views on the award of contracts by AAI on highest revenue share basis, the Authority considers that being a Govt. entity (Central PSU) AAI is required to follow approved manuals & tendering procedures for awarding contracts/ concessions.

AERA is in the process of formulating the revised tariff guidelines, which will include mechanism for incentivizing the airport operators for cost savings & improving operating efficiency.

Keeping the intent of the ICAO's guiding principles on airport charges, Regulatory Guidelines of the AERA, the Stakeholders' comments on record and to ensure the economic & viable operations of Varanasi airport, the Authority decides to increase the tariff for the aeronautical services for the Second Control Period as per the Annexure I of this Tariff Order.

13.5.2 Based on the decisions taken by the Authority with respect to the various regulatory building blocks, including re-computation of a few building blocks (O&M expenses, Taxation, NAR, etc.) in respect of the Second Control Period, the recomputed ARR for the Second Control Period is given below:



AGGREGATE REVENUE REQUIREMENT (ARR) FOR THE SECOND CONTROL PERIOD

Table 80: ARR decided by the Authority for the Second Control Period

(*₹ Crores*)

Particulars	Ref	Table	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total
Average RAB	A	58	135.44	124.05	111.82	133.05	920.70	
Fair Rate of Return	B	59	12.21%	12.21%	12.21%	12.21%	12.21%	
Return on average RAB	C=A*B		16.54	15.15	13.65	16.25	112.42	174.00
Depreciation	D	57	13.98	13.81	13.15	13.19	39.33	93.45
O&M expenses	E	69	82.69	83.75	87.51	91.52	104.20	449.67
Tax expense	F	76	-	-	23.86	35.52	22.57	81.95
Shortfall carried forward from First Control Period	G	25	225.41					225.41
Gross ARR	H= Sum (C:G)		338.61	112.71	138.17	156.48	278.51	1,024.48
NAR	I	72	26.74	29.17	31.79	34.65	40.74	163.09
Less: 30% NAR	J= I*30%		8.02	8.75	9.54	10.40	12.22	48.93
Net ARR	K=H-J		330.59	103.96	128.63	146.09	266.29	975.55
Discount factor (@ 12.21%)	L		1.00	0.89	0.79	0.71	0.63	
PV of ARR (₹ Crores)	M=K*L		330.59	92.64	102.16	103.40	167.97	796.76
Sum Present value of ARR (₹ Crores)					796.76			
Total Traffic (MPPA)		29			24.12			
Yield per passenger on Total Traffic (YPP) (₹)					330.32			
Departing passenger (MPPA)					12.06			
Yield per Departing Passenger (₹)					660.64			

13.5.3 As shown in the above table, there is a variance of ₹ 0.96 Crore between the NPV of ARR computed by the Authority at the Order stage i.e. ₹ 796.76 Crores, as compared to ₹ 795.80 Crores (refer Table 79) proposed at Consultation Stage. The variance is primarily on account of the following:

- i. Increase in Return on RAB and Depreciation, due to revision in allowable project cost of Terminal Building, (as shown in Table 52)
- ii. Considering Inflation as per Round 91 of the Survey of Professional Forecasters on Macroeconomic Indicators, while determining tariff for the Second Control Period.

### 13.6 Authority's decisions regarding Aggregate Revenue Requirement (ARR) for the Second Control Period

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

13.6.1 To consider the ARR and Yield for the Second Control Period for VIA in accordance with Table 80.

13.6.2 To true up the ARR of Second Control Period at the time of tariff determination of Third Control Period.



**14 AERONAUTICAL REVENUE FOR THE SECOND CONTROL PERIOD****14.1 AAI's submission regarding Aeronautical Revenue for the Second Control Period**

14.1.1 AAI in its MYTP submission proposed to increase the Aeronautical tariffs with effect from October 1, 2024 as per the schedule given below:

- **Landing charges** – For domestic and international ATM, AAI proposed a one-time increase of 60% over the existing charges, w.e.f. October 1, 2024 and thereafter increase of 6% year on year basis.
- **Parking charges** - For domestic and international ATM, AAI proposed a one-time increase of 110% over the existing charges, w.e.f. October 1, 2024 and thereafter increase of 6% year on year basis.
- **User Development Fee (UDF)** – AAI proposed the one time increase in UDF rates, over the existing rates of UDF i.e. ₹ 400 (Domestic) and ₹ 1,300 (International), for the Second Control Period as per the Table given below:

Table 81: Increase in UDF rates proposed by AAI

Particulars	FY 2024-25 (October 1, 2024 to March 31, 2025)	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
Domestic UDF (in ₹)	1,223	1,223	1,223	1,223	1,223
Domestic UDF (%)	205.75%	0.00%	0.00%	0.00%	0.04%
International UDF (in ₹)	1,620	1,620	1,620	1,620	1,620
International UDF (%)	24.62%	0.00%	0.00%	0.00%	0.00%

Table 82: Aeronautical Revenue submitted by AAI for VIA for the Second Control Period

(₹ Crores)

Particulars	FY	FY	FY	FY	FY	Total
	2024-25	2025-26	2026-27	2027-28	2028-29	
Parking charges	0.53	0.61	0.71	0.79	0.89	3.54
Landing	27.01	30.53	34.53	38.00	41.82	171.90
UDF charges	80.95	94.54	110.54	122.73	136.31	545.08
Land Lease	0.80	0.92	0.92	0.92	0.92	4.47
Ground Handling charges	2.48	2.80	3.16	3.47	3.82	15.73
CUTE charges	4.24	4.90	5.67	6.26	6.91	27.98
Revenue Share from AAICLAS	1.04	1.10	1.15	1.21	1.27	5.77
Space rent from Airlines	0.82	0.88	0.94	0.69	0.74	4.07
<b>Total Revenue</b>	<b>117.87</b>	<b>136.28</b>	<b>157.63</b>	<b>174.08</b>	<b>192.68</b>	<b>778.55</b>

14.1.2 In respect of the revenues which are based on contractual agreements i.e., Land lease from oil companies and Ground handling companies, AAI has considered the revenue projected for the FY 2025-26 as a base for projecting revenues for the FY 2026-27 to FY 2028-29.

**14.2 Authority's examination regarding Aeronautical Revenue for the Second Control Period at Consultation Stage**

14.2.1 The Authority noted that domestic traffic of VIA had surpassed the pre-COVID levels of FY 2019-20 and there has been a reasonable growth in passenger traffic (domestic and international) in the current Financial Year.

14.2.2 Based on the above, the Authority proposed to increase the Landing and Parking charges in a staggered



**AERONAUTICAL REVENUE FOR THE SECOND CONTROL PERIOD**

manner from FY 2024-25 (w.e.f. December 01, 2025) on the following basis:

- i. One time increase of 40% in Domestic and International Landing charges and 6% increase Y-o-Y for the remaining tariff years in the Second Control Period.
- ii. One time increase of 40% in Domestic and International Parking charges and 6% increase Y-o-Y for the remaining tariff years in the Second Control Period.

14.2.3 The Authority proposed to rationalize the increase in UDF considered by AAI. UDF proposed by Authority for the Second Control Period for VIA at the Consultation Stage is as follows:

*Table 83: UDF charges proposed by the Authority for VIA for the Second Control Period at Consultation Stage*

Passenger	FY 2024-25 (April 1, 2024 to November 30, 2024) (existing rates)	FY 2024-25 (December 1, 2024 to March 31, 2025)	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
Domestic (in ₹)	400	440	480	500	520	540
% increase proposed		10%	9%	4%	4%	4%
International (in ₹)	1,300	1,350	1,360	1,370	1,380	1,390
% increase proposed		4%	1%	1%	1%	1%

14.2.4 The Authority proposed the Aeronautical Revenue for the Second Control Period, based on the proposed Aeronautical Charges as under:

*Table 84: Aeronautical Revenues proposed by the Authority for the Second Control Period at Consultation Stage.*

Particulars	FY					Total
	2024-25	2025-26	2026-27	2027-28	2028-29	
<b>PV of ARR (as per Table 79)</b>	<b>795.80</b>					<b>795.80</b>
<b>Aeronautical Revenue</b>						
Parking Charges (₹ in Crores)	0.70	1.07	1.32	1.56	1.85	<b>6.50</b>
Landing Charges (₹ in Crores)	32.92	48.83	58.69	68.54	80.06	<b>289.05</b>
UDF (₹ in Crores)	86.25	114.49	138.39	158.69	181.75	<b>679.58</b>
CUTE charges (₹ in Crores)	4.33	5.00	5.79	6.39	7.05	<b>28.56</b>
Royalty from Ground Handling (₹ in Crores)	2.63	2.96	3.34	3.68	4.04	<b>16.65</b>
Royalty from AAICLAS (₹ in Crores)	1.04	1.10	1.15	1.21	1.27	<b>5.77</b>
Land Lease – Oil Companies / Ground Handling Companies (₹ in Crores)	0.80	0.92	0.92	0.92	0.92	<b>4.47</b>
<b>Total Revenue (b)</b>	<b>128.67</b>	<b>174.38</b>	<b>209.61</b>	<b>240.99</b>	<b>276.94</b>	<b>1,030.58</b>
PV factor	1.00	0.89	0.79	0.71	0.63	
<b>PV of Aero Revenue (c)</b>	<b>128.67</b>	<b>155.40</b>	<b>166.47</b>	<b>170.57</b>	<b>174.69</b>	<b>795.80</b>
<b>Σ PV Projected Aero Revenue (d)</b>	<b>795.80</b>					

14.2.5 As can be seen from the above table, as per the Authority's proposals, AAI was entitled to recover an ARR of ₹ 795.80 Crores (in NPV terms). The present value of total Aeronautical Revenues projected based on the Landing, Parking and UDF proposed by the Authority was ₹ 795.80 Crores (in NPV terms), which is equivalent to Target Revenue/ ARR proposed by the Authority for the Second Control Period



at the Consultation Stage.

### 14.3 Stakeholders' comments regarding Aeronautical Revenue for the Second Control Period

During the stakeholders' consultation process, the Authority has received comments/views from the two stakeholders in response to the proposals of the Authority in the Consultation Paper no. 05/2024-25 dated 26 October 2024. The comments of stakeholders are presented below:

#### 14.3.1 FIA's comment on Proposed Annual Tariff Proposal is as follows:

*"In accordance with the preamble of the National Civil Aviation Policy, which envisages to make air travel affordable and sustainable, AERA is requested to review the suggestions/comments on the regulatory building blocks as mentioned above which is likely to reduce the ARR. This will further ensure the lowering of tariffs including UDF, which will be beneficial to passengers and airlines.*

*It is in the interest of all the stakeholders that the proposed excessive hikes in the tariffs be reduced and also in order to encourage middle class people to travel by air, which will help in sharp post-COVID-19 recovery of the aviation sector.*

*Also, the proposed tariff increase in the CP is quite steep in the first year, with a gradual reduction in subsequent years. This sudden increase could place a significant burden on airlines and passengers. We request that the increase be more evenly distributed across the control period, ensuring that the airport operator still meets the required target revenue while minimizing the financial impact on airlines and passengers.*

*It is the stated vision of the government to make UDAN ("Ude Desh ka Aam Naagrik") a reality and this can only happen if we have the lowest possible cost structure, such that we can bring more and more people to airports to travel by air.*

*In addition, we request AERA and AAI to clarify the following:*

#### *1. Ref: Notes to User Development Fee (UDF) Charges:*

*Collection Charges: We would like to invite AERA's attention to notes 1 of 17.2.5 UDF charges in the Annexure -2 of CP, wherein the rate of collection of UDF charges is not mentioned by AERA. We request AERA to consider the collection charges at Rs. 5.00 embarking passengers as proposed by AAI in annexure 1 of CP. Further, AERA is kindly requested to consider that in light of the increasing administrative expenses due to inflation and other reasons (example - 5% inflationary / administrative increase each year), the collection charges may kindly be increased to keep pace with the proposed increase in UDF, as airlines only get a fixed rate, which results in disincentivizing the airlines.*

#### *a) Ref: Notes to User Development Fee (UDF) Charges:*

*We further request that in the Collection Charges, the entitlement by airlines for the same may kindly be against AAI having received the 'undisputed' invoiced UDF amount within the applicable due date.*

#### *i. UDF effective from 1st December 2024 to 31st March 2029:-*

*Comment to Note. a. of Collection Charges: Please note that the same is paid by the airport operator to airlines separately after airlines raise an invoice against the same as a standard industry practice. We request the same practice be applied.*

*ii. There is no mention of Collection charges for PSF in the MYTP submitted by the Airport operator. In the event the PSF is subsumed in the UDF, then airlines may kindly be eligible to claim collection charges at 2.5% of PSF per passenger, which is being done currently. If PSF is not subsumed in the UDF, then current practices may kindly be continued.*



iii. It is requested to define the applicability or exemption of any of the tariff charges pertaining to RCS Flights which have been excluded.

Please clarify w.r.t UDF applicability in both below scenarios:

- Passenger embarking from VNS on a domestic flight and then a connecting flight to an international destination.
- Passenger disembarking in VNS from a domestic flight, however he originated his journey from an international destination.

2) Parking Charges (17.2.4)

Refer Note of Table 87:

a) FIA recommends to add note ( i ) in Para 17.2.4 of the Annexure 2, as follows:

"No additional parking charges other than normal parking charges be payable by the airlines for any force majeure reasons or for any technical or meteorological situation, which is beyond the control of any airline".

b) "Note 8" – It is requested that AERA should propose the definition of 'Unauthorised Overstay', which will provide clarity to all stakeholders regarding charges to be applied for such overstay by the airport operator.

3. Landing charges:

a) AERA has proposed to increase the Landing Charges for all flights to 40% to 77% approx. from the existing charges. We request AERA to kindly consider rationalising the same.

b) CUTE, CUPPS, CUSS

AERA is kindly requested to provide transparency by clearly publishing the detailed breakdown of CUTE and BRS charges, in accordance with the AERA Act, for the benefit of all stakeholders.

14.3.2 FIA's Comment on Shrinkage in Control Period is as follows:

"A. Shrinkage in Control Period

FIA submits that the Hon'ble TDSAT Order dated 16 December 2020 for BLAL stated as follows: '100...However, there is substance in this grievance and AERA will do well to ensure that if delay is caused by the Airport operator, its consequences should not fall upon the users. Tariff orders should be prepared well in time so that the burden of recovery is spread over the entire period for which the order is passed...'

In view of the above, AERA is requested to ensure that airlines/passengers are not burdened in view of the apparent shrinkage in the period of recovery of the aeronautical tariff from passengers/airlines, as the AERA Tariff Order for VNS- Second Control Period, will now be issued after the commencement of the Control Period i.e., 1 April, 2024.

We submit that cost of operations for the airlines are increasing continuously every year and airlines are incurring losses in the current challenging scenario, even while airport operators have an assured rate of return on their investment. At the same time, it is projected by most agencies that over 1,200 new civil aviation aircraft will be inducted by airlines in India over the next 5 years. While economies of scale are a big factor for the airlines to keep the cost of operations low, this applies to airport operators as well. With the huge increase in aircraft, there is bound to be huge benefits for the airport operators as well due to economies of scale.



Hence, we request AERA to conduct a study of the passengers and air traffic at selected airports taking data over the past 20 years wherein it may please be made transparent as to what is the cost of one take off separately to the airport operator and an airline, for various class of aircraft, at a periodicity of every 5 years (excluding the pandemic times period).

It is felt that cost of business is simply passed on to the airlines by some airport operators, as it appears that there are multi layered companies undertaking various activities at the same airport, which not only add to the cost of doing business, but also force airlines to pay tax on tax for availing services through multi-layered companies. This study will then make it evident who is actually bearing the cost of doing business at the airport, and whether the same is justified.

**B: Royalty**

Any attempt to award the contracts by the airport operator on highest revenue share basis should be discouraged as it breeds inefficiencies and tends to disproportionately increase the cost. It is general perception service providers has no incentive to reduce its expenses as any such increase will be passed on to the airlines through tariff determination mechanism process and indirectly airlines will be forced to bear these additional costs.

There needs to be a mechanism for incentivizing the parties for increasing efficiencies and cost savings and not for increasing the royalty for the airport operator.

As you are aware, royalty is in the nature of market access fee, charged (by any name or description) by the Airport operator under various headings without any underlying services. These charges are passed on to the airlines by the airport operator or other services providers. The rates of royalty at the airport are as high as up to 21% for some services.

It may be pertinent to note that market access fee by any name or description is not practiced in most of the global economies, including European Union, Australia etc. Sometimes it is argued by the airport operators that 'Royalty' on 'Aero Revenues' helps in subsidizing the aero charges for the airlines, however royalty in 'Non-Aero Revenues' hits the airlines directly without any benefit.

In view of the above, we humbly urge AERA to abolish such royalty which may be included in any of the cost items”

**14.3.3 FIA's Comment on proposed landing charge is as follows:**

“Table A: AERA has proposed an increase in the Landing Charges (Domestic & International) on Q-400/ATR (80 & above seater) & on A320 / B-737-800 approximately increase by 40 to 77% from existing charges.”

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**AERONAUTICAL REVENUE FOR THE SECOND CONTROL PERIOD**

Particulars	Unit	Tariff Proposed by AERA					
	MT	FY 2024-25 (Tariff w.e.f. 01.04.2024 to 31.09.2024)	FY 2024-25 (Tariff w.e.f. 01.12.2024 to 31.03.2025)	FY 2025-26 (Tariff w.e.f. 01.04.2025 to 31.03.2026)	FY 2025-27 (Tariff w.e.f. 01.04.2026 to 31.03.2027)	FY 2027-28 (Tariff w.e.f. 01.04.2027 to 31.03.2028)	FY 2028-29 (Tariff w.e.f. 01.04.2028 to 31.03.2029)
<b>LANDING DOMESTIC (INR/MT)</b>							
Eg: Impact on Q400 Landing charges for 80 & PLUS seater (Rs.)	30 MT	7180.5	10060	10670	11315	11995	12710
Variance % from existing	Q-400		40%	49%	58%	67%	77%
Variance % from YoY			40%	6%	6%	6%	6%
A320 / B737-800 (Rs.)	79 MT	26148	36621	38828	41168	43641	46247
Variance % from existing	A320 / B737-800		40%	48%	57%	67%	77%
Variance % from YoY			40%	6%	6%	6%	6%
<b>LANDING INTERNATIONAL (INR/MT)</b>							
Eg: Impact on Q400 Landing charges for 80 & PLUS seater (Rs.)	30 MT	12473.5	17460	18510	19630	20820	22080
Variance % from existing	Q-400		40%	48%	57%	67%	77%
Variance % from YoY			40%	6%	6%	6%	6%
A320 / B737-800 (Rs.)	79 MT	50182	70254	74476	78964	83718	88767
Variance % from existing	A320 / B737-800		40%	48%	57%	67%	77%
Variance % from YoY			40%	6%	6%	6%	6%

**14.3.4 FIA's Comment on proposed Parking Charges is as follows:**

*"Table B: AERA has proposed to increase in the Parking Charges (Domestic) on Q-400 (80 & above seater) and on A320 / B-737-800 approximately increase by 40 to 77% from existing charges and for International Q400/ATR (80 & above seater) approximately increase by 49 to 88% and approximately 62 to 105 % for A320/B737-800 from existing charges."*



**AERONAUTICAL REVENUE FOR THE SECOND CONTROL PERIOD**

Particulars	Unit	Existing Rates	Tariff Proposed by AERA				
	MT		FY 2024-25 (Tariff w.e.f. 01.04.2024 to 31.03.2025)	FY 2024-25 (Tariff w.e.f. 01.12.2024 to 31.03.2025)	FY 2025-26 (Tariff w.e.f. 01.04.2025 to 31.03.2026)	FY 2026-27 (Tariff w.e.f. 01.04.2026 to 31.03.2027)	FY 2027-28 (Tariff w.e.f. 01.04.2027 to 31.03.2028)
<b>DOMESTIC PARKING CHARGES - INR/ Hr/ MT ( for 1st 2 chargeable hrs)</b>							
Eg: Impact on Q400 Parking charges for 80 & PLUS seater (Rs.)	30 MT	98	137.25	145.5	153.75	163.5	173.25
Variance % from existing	Q-400		40%	48%	57%	67%	77%
Variance % from YoY			40%	6%	6%	6%	6%
A320 / B737-800 (Rs.)	79 MT	349.5	489.55	518.85	549.6	582.85	617.55
Variance % from existing	A320 / B737-800		40%	48%	57%	67%	77%
Variance % from YoY			40%	6%	6%	6%	6%
<b>INTERNATIONAL PARKING ( INR Per HOUR /MT)( for 1st 2 chargeable hrs)</b>							
Eg: Impact on Q400 Parking charges for 80 & PLUS seater (Rs.)	30 MT	98	145.75	154.25	164	174	184.25
Variance % from existing	Q-400		49%	57%	67%	78%	88%
Variance % from YoY			49%	6%	6%	6%	6%
A320 / B737-800 (Rs.)	79 MT	349.5	566.35	599.8	636.2	674.8	714.9
Variance % from existing	A320 / B737-800		62%	72%	82%	93%	105%
Variance % from YoY			62%	6%	6%	6%	6%

**14.3.5 FIA's Comment on proposed UDF is as follows:**

*"Table C: AERA has proposed an increase in the UDF of by 10 to 35 % for Domestic Embarking Passenger and 4% to 7% for International Embarking Passengers from existing charges.*

*It is also seen that the increase in UDF charges for VNS is disproportionate as compared to the increase in the aeronautical chares. The authority is requested to take cognizance of the fact that this will place undue burden on airlines leading to increase in operating costs. Compared to increase in UDF charges, increase in aeronautical charges."*



**AERONAUTICAL REVENUE FOR THE SECOND CONTROL PERIOD**

Particulars	Unit	Tariff Proposed by AERA					
	MT	FY 2024-25 (Tariff w.e.f. 01.04.2024 to 31.09.2024)	FY 2024-25 (Tariff w.e.f. 01.12.2024 to 31.03.2025)	FY 2025-26 (Tariff w.e.f. 01.04.2025 to 31.03.2026)	FY 2026-27 (Tariff w.e.f. 01.04.2026 to 31.03.2027)	FY 2027-28 (Tariff w.e.f. 01.04.2027 to 31.03.2028)	FY 2028-29 (Tariff w.e.f. 01.04.2028 to 31.03.2029)
UDF	Per Embarking	UDF					
DOMESTIC	Inr/Per Embarking pax	400	440	480	500	520	540
Variance % from existing			10%	25%	25%	30%	35%
Variance from YOY			10%	9%	4%	4%	4%
INTERNATIONAL	Inr/Per Embarking pax	1300	1350	1360	1370	1380	1390
Variance % from existing			4%	5%	5%	6%	7%
Variance from YOY			4%	1%	1%	1%	1%

**14.4 AAI's response to Stakeholder's comments on Aeronautical Revenue for the Second Control Period**

14.4.1 AAI's response to FIA's Comment on Proposed Annual Tariff proposal is as follows:

a) "UDF is collected by Airlines on behalf of Airport operator at the time of issuance of ticket, which is normally well before the actual date of travel. Airlines make payment of UDF only after the actual travel executed by Passengers and using such amount as working capital.

Collection charges paid to Airlines by Airport operator to get the payment timely and to maintain cash flow. AAI is making payment of collection charges as per approved credit policy.

b) The parking charges proposed by AAI is as per industry practices.

c) Landing Charges are proposed to recover Capital cost & Operating cost incurred and proposed to be incurred by the Airport Operator.

d) CUTE/CUSS is managed by Third Party appointed through call of Open Tender as per the award letter the payment receivable by AAI is Rs.24 out of Rs.35 per embarking pax collected by the Third party."

14.4.2 AAI's response to FIA's Comment on Shrinkage in Control Period is as follows:

"AERA may please comment."

14.4.3 AAI's response to FIA's comment on landing, Parking and UDF charges is as follows:

Increase in landing, parking and UDF charges has been proposed for Varanasi International Airport on account of:

a) true up of First Control Period and the resultant shortfall due to various reasons including the COVID-19 pandemic.

b) Proposed capex, opex and other components of building block in order to work out the target revenue for the SCP

Parking charges are applicable after two hours free parking available to airlines. Parking of Aircraft



*is neither encouraged by the Airport Operators nor by the Airlines Operators. Parking of aircraft beyond two hours at any airport reflects inefficiency of Airport Operations as well as Airline Operations. Further, it contributes less than 5% of AAI revenue.*

*In respect of chargeability of UDF and landing it is the methodology to recover the cost incurred by Airport operator i.e. for Varanasi International Airport from passenger / Airlines who are the ultimate user of the airport.*

#### **14.5 Authority's analysis regarding Stakeholders' comments on Aeronautical Revenue for the Second Control Period**

14.5.1 The Authority has reviewed FIA's comments on Tariff Rate Card and other matters and AAI's response on the same.

The Authority endeavors to balance the interest of all stakeholders and ensure that the tariff rates determined are reasonable, while ensuring the economic and viable operations of the major airports as envisaged under the Section 13(1) (a) of the AERA Act, 2008.

The Authority, in the case of Varanasi airport, as part of the tariff determination exercise, rationalized various regulatory building blocks such as CAPEX, O&M Expenses, Non-Aeronautical Revenues etc. submitted by the AO for the Second Control Period.

It is pertinent to note that the new Aeronautical tariff is implemented from April 01, 2025, thereby leaving with just four years available for the recovery of the ARR, which is another factor leading to increase in tariff rates of aeronautical services.

It may be noted that the domestic UDF of Varanasi International Airport are comparable with other non-major airports having passenger throughput of more than 1 MPPA. Further, the major portion of ARR for the Second Control Period is recovered by way of UDF, since majority of the CAPEX at the Varanasi Airport is related to Passenger related Infrastructure, which includes the new Terminal Building.

With respect to FIA's comment on payment of collection charges, the Authority is of the opinion that the payment of UDF collection charges is a commercial policy matter between the Airport Operator and the Airlines.

Regarding FIA's comments on Landing charges, the Authority hereby clarifies that as against AAI's proposal of one time increase of 60% in FY 2024-25 w.e.f. October 1, 2024 and 6% increase Y-o-Y, the Authority had at the Consultation stage, had only proposed a one-time increase of 40% in FY 2024-25 and 6% increase Y-o-Y for the remaining tariff years of the Second Control Period (refer para 14.2.2 of the Tariff Order).

Further, AAI had proposed one time increase of 110% in parking charges w.e.f. October 1, 2024 and 6% increase Y-o-Y for the remaining tariff years in the Second Control Period. As against this, the Authority, at the Consultation stage had considered a one-time increase of 40% in FY 2024-25 and 6% increase Y-o-Y for the remaining tariff years of the Second Control Period.

Therefore, the increase proposed by the Authority in Landing and Parking charges, at the Consultation stage, is substantially lesser than the tariff increase proposed by AAI.

As regard to CUTE and BRS Charges, AAI's response provides the requisite details sought by the stakeholder. Other issues raised by FIA like applicability of UDF, Parking Charges have been clarified in the Tariff Rate Card.

14.5.2 The Authority notes FIA's comments on the recovery burden on account of shrinkage in the Control

**AERONAUTICAL REVENUE FOR THE SECOND CONTROL PERIOD**

Period.

The Authority's analysis of MYTP submission of airport operator is exhaustive in nature and requires a reasonable amount of time to examine and evaluate the various building blocks, keeping in mind the need to balance the interests of all stakeholders.

During the process of evaluation, the Authority had sought various clarifications from time to time, from AAI on the various regulatory building blocks, based on which aeronautical tariff were proposed by the Authority at the Consultation stage. Further, in case of less recovery period to recover the entitled revenue, as per the Authority, the option of carry forward of shortfall to future control periods, which results in a further carrying cost, may not be in the interest of all stakeholders.

The timely completion of tariff determination process depends upon various factors. The sequence of events relating to the tariff determination process in respect of Varanasi Airport has been elaborated in Para 2.1.7. of this Tariff Order. Further, AERA keeps advising all Airport Operators to submit their MYTPs well in advance i.e. 6 months before the commencement of the new Control Period.

As regard to the comments of FIA on conducting an independent study on passengers and air traffic at selected airports, in this regard, the Authority believes that the requirement for an independent study will depend upon the size of the airport and the scale of operations. AERA, may commission an independent study in future for any airport, if considered necessary.

The Authority notes the comments of FIA on the issue of revenue share/royalty payable to Airport Operators by the Service Providers. In this regard, it is pertinent to note that the Royalty paid by the ISPs on the Cargo Handling Services, Ground Handling Services and Supply of Fuel to aircraft services (CGF services) to the Airport Operators are considered as Aeronautical Revenue in the hands of AAI (AO) by the Authority during tariff determination process, thus, reducing the burden of the Airport Users by way of lowering of Aeronautical charges.

In the case of Non-Aeronautical Revenues, the revenue share (Royalty), payable by service provider to AO, is a commercial arrangement between the Concessionaires and Airport Operators. The Authority considers 30% of the Non-Aeronautical Revenues after due evaluation, for cross subsidization of Aeronautical Charges.

14.5.3 Considering the above, the Authority has recomputed the Aeronautical revenue to be collected from users in the form of Landing, Parking, UDF, etc. based on the tariff rate card placed at Annexure-I. The Aeronautical Revenue and ARR for the Second Control Period is as follows:

*Table 85: Aeronautical Revenue decided by the Authority for the Second Control Period  
(₹ Crores)*

Particulars	FY	FY	FY	FY	FY	Total
	2024-25	2025-26	2026-27	2027-28	2028-29	
<b>PV of ARR (Refer Table 80)</b>	<b>796.76</b>					<b>796.76</b>
<b>Aeronautical Revenue</b>						
Landing Charges (₹ in Crores)	29.05	46.07	55.58	65.16	76.40	<b>272.25</b>
Parking Charges (₹ in Crores)	0.62	1.01	1.25	1.49	1.77	<b>6.13</b>
UDF (₹ in Crores)	83.78	110.57	140.65	168.63	195.41	<b>699.03</b>
CUTE charges (₹ in Crores)	4.33	5.00	5.79	6.39	7.05	<b>28.56</b>
Royalty from Ground Handling (₹ in Crores)	2.63	2.96	3.34	3.68	4.04	<b>16.65</b>
Royalty from AAICLAS (₹ in Crores)	1.04	1.10	1.15	1.21	1.27	<b>5.77</b>
Land Lease – Oil Companies / Ground Handling Companies (₹ in Crores)	0.80	0.92	0.92	0.92	0.92	<b>4.47</b>



AERONAUTICAL REVENUE FOR THE SECOND CONTROL PERIOD

Particulars	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29	Total
Space Rent from Airlines	0.82	0.88	0.94	0.69	0.74	4.07
<b>Total Aeronautical Revenue</b>	<b>123.05</b>	<b>168.50</b>	<b>209.63</b>	<b>248.15</b>	<b>287.59</b>	<b>1,036.93</b>
PV factor	1.00	0.89	0.79	0.71	0.63	
<b>PV of Aeronautical Revenue</b>	<b>123.05</b>	<b>150.17</b>	<b>166.49</b>	<b>175.64</b>	<b>181.41</b>	<b>796.76</b>
<b>∑ PV Projected Aeronautical Revenue</b>	<b>796.76</b>					

**14.6 Authority's decisions regarding Aeronautical Revenue for the Second Control Period**

Based on the material before it and its analysis, the Authority decides the following with regard to Aeronautical Revenue for the Second Control Period.

14.6.1 To consider Aeronautical Revenue for the Second Control Period for VIA as per Table 85.

14.6.2 To true up Aeronautical Revenue based on actual figures for the Second Control Period, at the time of determination of tariff for the Third Control Period.



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## 15 SUMMARY OF AUTHORITY'S DECISIONS

### Chapter 4: True Up of the First Control Period

- 4.11.1 To consider capital additions as detailed in Table 11 for true up of the First Control Period.
- 4.11.2 To consider Aeronautical depreciation as mentioned in Table 12 for true up of the First Control Period.
- 4.11.3 To consider RAB as per Table 13 for true up for the First Control Period.
- 4.11.4 To consider FRoR as 14% for the purpose of true up of the First Control Period.
- 4.11.5 To consider the Non-aeronautical revenues as presented in Table 14 for the purpose of true up of the First Control Period.
- 4.11.6 To consider O&M expenses as detailed in Table 20 for the purpose of true up of the First Control Period.
- 4.11.7 To consider actual Aeronautical revenue as per Table 23 for true up of the First Control Period for VIA.
- 4.11.8 To consider ARR and Under-recovery as detailed in Table 25 for true up of the First Control Period for VIA and readjust the shortfall in the Second Control Period.

### Chapter 5: Traffic for the Second Control Period

- 5.6.1 To consider the ATM and passenger traffic for the Second Control Period for VIA as per Table 29.
- 5.6.2 To true up the traffic volume (passenger traffic and ATM ) on the basis of actual traffic in the Second Control Period while determining tariff for the Third Control Period.

### Chapter 6: Capital Expenditure (CAPEX), Depreciation and Regulatory Asset Base for the Second Control Period

- 6.8.1 To consider allocation of gross block of assets as on April 1, 2024, between Aeronautical and Non-aeronautical assets as detailed in Table 31.
- 6.8.2 To adopt the capitalization of Aeronautical Capital Expenditure for the Second Control Period in accordance with Table 56.
- 6.8.3 To true up the Capital expenditure based on actuals, cost efficiency and reasonableness, at the time of determination of tariff for Third Control Period.
- 6.8.4 To reduce (adjust) 1% of the uncapitalized project cost from the ARR in case any particular capital project was not completed/capitalized as per the approved capitalization schedule. However, if the delay in completion of the project is due to any reason beyond the control of AAI or its contracting agency and is properly justified, the same would be considered by the Authority, while trueing up the actual CAPEX at the time of determination of tariff for the Third Control Period.
- 6.8.5 To consider depreciation as per Table 57 for the Second Control Period.
- 6.8.6 To true up depreciation of the Second Control Period, based on the actual asset additions and actual date of capitalization during the tariff determination of the Third Control Period.
- 6.8.7 To consider average RAB for the Second Control Period for VIA as per Table 58.
- 6.8.8 To true up the RAB based on actuals at the time of tariff determination for the Third Control Period.

### Chapter 7: Fair Rate of Return for the Second Control Period

- 7.6.1 To consider FRoR @ 12.21 % for VIA for the Second Control Period as per Table 59.



7.6.2 To true up the FRoR while determining tariff for the next Control Period considering all the relevant factors.

**Chapter 8: Inflation for the Second Control Period**

8.6.1 To consider Inflation for the Second Control Period for VIA as detailed in Table 61.

**Chapter 9: Operation and Maintenance Expenses for the Second Control Period**

9.6.1 To consider O&M expenses for the Second Control Period for VIA as per Table 69.

9.6.2 To true-up the O&M expenses pertaining to the Second Control Period, at the time of tariff determination for the next Control Period subject to reasonableness and efficiency of expenses.

**Chapter 10: Non-aeronautical Revenue for the Second Control Period**

10.6.1 To consider Non-Aeronautical Revenues for the Second Control Period in respect of VIA as per Table 72.

10.6.2 To consider actual Non-Aeronautical Revenue achieved by AAI for VIA in respect of Second Control Period, while determining tariff for the next Control Period, subject to evaluation of efficiency and reasonableness.

**Chapter 11: Taxation for the Second Control Period**

11.5.1 To consider the Taxation for the Second Control Period for Varanasi International Airport as per Table 76.

11.5.2 To true up the aeronautical tax of the Second Control Period, at the time of tariff determination for the next Control Period.

**Chapter 12: Quality of Service for the Second Control Period**

12.5.1 Not to consider any adjustment towards tariff determination for the Second Control Period with regard to Quality of Service.

**Chapter 13: Aggregate Revenue Requirement (ARR) for the Second Control Period**

13.6.1 To consider the ARR and Yield for the Second Control Period for VIA in accordance with Table 80.

13.6.2 To true up the ARR of Second Control Period at the time of tariff determination of Third Control Period.

**Chapter 14: Aeronautical Revenue for the Second Control Period**

14.6.1 To consider Aeronautical Revenue for the Second Control Period for VIA as per Table 85.

14.6.2 To true up Aeronautical Revenue based on actual figures for the Second Control Period, at the time of determination of tariff for the Third Control Period.

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**16 ORDER**

- 16.1 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 Tariff to be levied at Varanasi International Airport for the Second Control Period as placed in Annexure-I.
- 16.2 In exercise of power conferred by Section 13(1)(b) of the AERA Act, 2008, read with rule 89 of the Aircraft Rules, 1937 made under the Aircraft Act, 1934, the Authority hereby determines the rate of UDF as indicated in the Rate Card, placed at Annexure-I to the Order of the Second Control Period.
- 16.3 The tariff determined herein are ceiling rates, exclusive of taxes, if any.
- 16.4 The Order shall be made effective from April 01, 2025.
- 16.5 The Airport Operator shall submit its MYTP to the Authority for the Third Control Period in a timely manner as per the Authority's Guidelines.



By the Order and in the name of the Authority

  
(Suyash Narain)  
Secretary

To,

**The Chairman**  
**Airports Authority of India**  
**Rajiv Gandhi Bhawan, Safdarjung Airport**  
**New Delhi -110003**

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Copy to:

1. The Secretary, Ministry of Civil Aviation, Rajiv Gandhi Bhawan, Safdarjung Airport, New Delhi - 110003
2. Directorate General of Civil Aviation: For issuance of AIC



**17 ANNEXURE TO TARIFF ORDER****17.1 Annexure I: Annual Tariff approved by the Authority for Varanasi International Airport for the Second Control Period (April 01, 2024 to March 31, 2029) - effective from April 01, 2025****17.1.1 Landing Charges**

Landing charges decided by the Authority for Varanasi International Airport for the Second Control Period is as follows:

Table 86: Landing charges(domestic) decided by the Authority for VIA for the Second Control Period

(Rates in ₹)

Weight of the Aircraft	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
	Existing rates	Tariff w.e.f. 01.04.2025	Tariff w.e.f. 01.04.2026	Tariff w.e.f. 01.04.2027	Tariff w.e.f. 01.04.2028
Up to 25 MT	211.20 per MT	295.68 per MT	313.42 per MT	332.23 per MT	352.16 per MT
Above 25 MT up to 50 MT	5,280.00 + 380.10 per MT in excess of 25 MT	7,392.00 + 532.14 per MT in excess of 25 MT	7,835.50 + 564.07 per MT in excess of 25 MT	8,305.75 + 597.91 per MT in excess of 25 MT	8,804.00 + 633.78 per MT in excess of 25 MT
Above 50 MT up to 100 MT	14,782.50 + 391.90 per MT in excess of 50 MT	20,695.50 + 548.66 per MT in excess of 50 MT	21,937.25 + 581.58 per MT in excess of 50 MT	23,253.50 + 616.47 per MT in excess of 50 MT	24,648.50 + 653.46 per MT in excess of 50 MT
Above 100 MT to 200 MT	34,377.50 + 396.40 per MT in excess of 100 MT	48,128.50 + 554.96 per MT in excess of 100 MT	51,016.25 + 588.26 per MT in excess of 100 MT	54,077.00 + 623.56 per MT in excess of 100 MT	57,321.50 + 660.97 per MT in excess of 100 MT
Above 200 MT	74,017.50 + 382.60 per MT in excess of 200 MT	1,03,624.50 + 535.64 per MT in excess of 200 MT	1,09,842.25 + 567.78 per MT in excess of 200 MT	1,16,433.00 + 601.85 per MT in excess of 200 MT	1,23,418.50 + 637.96 per MT in excess of 200 MT

Notes:

- The Authority has decided one time increase of 40% in Domestic Landing charges with effect from April 01, 2025 and 6% increase Y-o-Y thereafter till FY 2028-29.
- Existing tariff will continue up to March 31, 2025.

Table 87: Landing charges(international) decided by the Authority for VIA for the Second Control Period

(Rates in ₹)

Weight of the Aircraft	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
	Existing rates	Tariff w.e.f. 01.04.2025	Tariff w.e.f. 01.04.2026	Tariff w.e.f. 01.04.2027	Tariff w.e.f. 01.04.2028
Up to 25 MT	355.10 per MT	497.14 per MT	526.97 per MT	558.59 per MT	592.11 per MT
Above 25 MT up to 50 MT	8,877.50 + 719.20 per MT in excess of 25 MT	12,428.50 + 1,006.88 per MT in excess of 25 MT	13,174.25 + 1,067.29 per MT in excess of 25 MT	13,964.75 + 1,131.33 per MT in excess of 25 MT	14,802.75 + 1,199.21 per MT in excess of 25 MT
Above 50 MT up to 100 MT	26,857.50 + 804.30 per MT in excess of 50 MT	37,600.50 + 1,126.02 per MT in excess of 50 MT	39,856.50 + 1,193.58 per MT in excess of 50 MT	42,248.00 + 1,265.19 per MT in excess of 50 MT	44,783.00 + 1,341.10 per MT in excess of 50 MT
Above 100 MT to 200 MT	67,072.50 + 915.30 per MT in excess of 100 MT	93,901.50 + 1,281.42 per MT in excess of 100 MT	99,535.50 + 1,358.31 per MT in excess of 100 MT	1,05,507.50 + 1,439.81 per MT in excess of 100 MT	1,11,838.00 + 1,526.20 per MT in excess of 100 MT



## ANNEXURE TO TARIFF ORDER

Weight of the Aircraft	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
	Existing rates	Tariff w.e.f. 01.04.2025	Tariff w.e.f. 01.04.2026	Tariff w.e.f. 01.04.2027	Tariff w.e.f. 01.04.2028
Above 200 MT	1,58,602.50 + 944.60 per MT in excess of 200 MT	2,22,043.50 + 1,322.44 per MT in excess of 200 MT	2,35,366.50 + 1,401.79 per MT in excess of 200 MT	2,49,488.50 + 1,485.90 per MT in excess of 200 MT	2,64,458.00 + 1,575.05 per MT in excess of 200 MT

**Notes:**

- The Authority has decided one time increase of 40% in International Landing charges with effect from April 01, 2025 and 6% increase Y-o-Y thereafter till FY 2028-29.
- Existing tariff will continue up to March 31, 2025.

**Notes:**

- No Landing Charges shall be payable in respect of a) aircraft with a maximum certified capacity of less than 80 seats, being operated by domestic schedule operators at airport, b) helicopters of all types, and c) DGCA approved Flying school/flying training institute aircrafts.
- All domestic legs of international routes flown by Indian operators will be treated as domestic flights as far as landing charges concerned irrespective of flight number assigned to such flights.
- Domestic leg of international routes of foreign carriers shall be treated as international flights.
- Charges shall be calculated on the basis of nearest MT (i.e. 1000 kg).
- A minimum Landing charge of ₹ 4,000 per Flight in respect of Domestic Non-Scheduled Operators/GA operators or the applicable landing charges whichever is higher will be applicable.
- Flight operating under regional connectivity scheme will be completely exempted from Landing charges from the date of the scheme is operationalized by GOI.

17.1.2 Parking charges decided by the Authority for VIA for the Second Control Period is as follows:

Table 88: Parking charges (per hour) (Domestic ATM) decided by the Authority for up to four hours after first two free hours for the Second Control Period

(Rates in ₹)

Weight of the Aircraft	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
	Existing rates	Tariff w.e.f. 01.04.2025	Tariff w.e.f. 01.04.2026	Tariff w.e.f. 01.04.2027	Tariff w.e.f. 01.04.2028
Up to 25 MT	3.00 Per Hour Per MT	4.20 Per Hour Per MT	4.45 Per Hour Per MT	4.72 Per Hour Per MT	5.00 Per Hour Per MT
Above 25 MT up to 50 MT	75.00 + 4.60 per MT per hour in excess of 25 MT	105.00 + 6.44 per MT per hour in excess of 25 MT	111.25 + 6.83 per MT per hour in excess of 25 MT	118.00 + 7.24 per MT per hour in excess of 25 MT	125.00 + 7.67 per MT per hour in excess of 25 MT
Above 50 MT up to 100 MT	190.00 + 5.50 per MT per hour in excess of 50 MT	266.00 + 7.70 per MT per hour in excess of 50 MT	282.00 + 8.16 per MT per hour in excess of 50 MT	299.00 + 8.65 per MT per hour in excess of 50 MT	316.75 + 9.17 per MT per hour in excess of 50 MT
Above 100 MT to 200 MT	465.00 + 8.80 per MT per hour in excess of 100 MT	651.00 + 12.32 per MT per hour in excess of 100 MT	690.00 + 13.06 per MT per hour in excess of 100 MT	731.50 + 13.84 per MT per hour in excess of 100 MT	775.25 + 14.67 per MT per hour in excess of 100 MT
Above 200 MT	1,345.00 + 9.00 per MT per hour in excess of 200 MT	1,883.00 + 12.60 per MT per hour in excess of 200 MT	1,996.00 + 13.36 per MT per hour in excess of 200 MT	2,115.50 + 14.16 per MT per hour in excess of 200 MT	2,242.25 + 15.01 per MT per hour in excess of 200 MT



## ANNEXURE TO TARIFF ORDER

Note:

1. The Authority has decided one time increase of 40% in Parking charges with effect from April 01, 2025 and 6% increase Y-o-Y thereafter till FY 2028-29.
2. Existing tariff will continue up to March 31, 2025.

Table 89: Parking charges (Domestic ATM) decided by the Authority for beyond first four hours for the Second Control Period

(Rates in ₹)

Weight of the Aircraft	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
	Existing rates	Tariff w.e.f. 01.04.2025	Tariff w.e.f. 01.04.2026	Tariff w.e.f. 01.04.2027	Tariff w.e.f. 01.04.2028
Up to 25 MT	6.00 Per Hour Per MT	8.40 Per Hour Per MT	8.90 Per Hour Per MT	9.44 Per Hour Per MT	10.00 Per Hour Per MT
Above 25 MT up to 50 MT	150.00 + 9.20 per MT per hour in excess of 25 MT	210.00 + 12.88 per MT per hour in excess of 25 MT	222.50 + 13.66 per MT per hour in excess of 25 MT	236.00 + 14.48 per MT per hour in excess of 25 MT	250.00 + 15.34 per MT per hour in excess of 25 MT
Above 50 MT up to 100 MT	380.00 + 11.00 per MT per hour in excess of 50 MT	532.00 + 15.40 per MT per hour in excess of 50 MT	564.00 + 16.32 per MT per hour in excess of 50 MT	598.00 + 17.30 per MT per hour in excess of 50 MT	633.50 + 18.34 per MT per hour in excess of 50 MT
Above 100 MT to 200 MT	930.00 + 17.60 per MT per hour in excess of 100 MT	1,302.00 + 24.64 per MT per hour in excess of 100 MT	1,380.00 + 26.12 per MT per hour in excess of 100 MT	1,463.00 + 27.68 per MT per hour in excess of 100 MT	1,550.50 + 29.34 per MT per hour in excess of 100 MT
Above 200 MT	2,690.00 + 18.00 per MT per hour in excess of 200 MT	3,766.00 + 25.20 per MT per hour in excess of 200 MT	3,992.00 + 26.72 per MT per hour in excess of 200 MT	4,231.00 + 28.32 per MT per hour in excess of 200 MT	4,484.50 + 30.02 per MT per hour in excess of 200 MT

Note:

1. The Authority has decided one time increase of 40% in Parking charges with effect from April 01, 2025 and 6% increase Y-o-Y thereafter till FY 2028-29.
2. Existing tariff will continue up to March 31, 2025.

Table 90: Parking charges (per hour) (International ATM) decided by the Authority for up to four hours after first two free hours for the Second Control Period

(Rates in ₹)

Weight of the Aircraft	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
	Existing rates	Tariff w.e.f. 01.04.2025	Tariff w.e.f. 01.04.2026	Tariff w.e.f. 01.04.2027	Tariff w.e.f. 01.04.2028
Up to 25 MT	3.10 Per Hour Per MT	4.34 Per Hour Per MT	4.60 Per Hour Per MT	4.88 Per Hour Per MT	5.17 Per Hour Per MT
Above 25 MT up to 50 MT	77.50 + 5.30 per MT per hour in excess of 25 MT	108.50 + 7.42 per MT per hour in excess of 25 MT	115.00 + 7.87 per MT per hour in excess of 25 MT	122.00 + 8.34 per MT per hour in excess of 25 MT	129.25 + 8.84 per MT per hour in excess of 25 MT
Above 50 MT up to 100 MT	210.00 + 6.70 per MT per hour in excess of 50 MT	294.00 + 9.38 per MT per hour in excess of 50 MT	311.75 + 9.94 per MT per hour in excess of 50 MT	330.50 + 10.54 per MT per hour in excess of 50 MT	350.25 + 11.17 per MT per hour in excess of 50 MT



## ANNEXURE TO TARIFF ORDER

Weight of the Aircraft	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
	Existing rates	Tariff w.e.f. 01.04.2025	Tariff w.e.f. 01.04.2026	Tariff w.e.f. 01.04.2027	Tariff w.e.f. 01.04.2028
Above 100 MT to 200 MT	545.00 + 10.20 per MT per hour in excess of 100 MT	763.00 + 14.28 per MT per hour in excess of 100 MT	808.75 + 15.14 per MT per hour in excess of 100 MT	857.50 + 16.05 per MT per hour in excess of 100 MT	908.75 + 17.01 per MT per hour in excess of 100 MT
Above 200 MT	1,565.00 + 10.30 per MT per hour in excess of 200 MT	2,191.00 + 14.42 per MT per hour in excess of 200 MT	2,322.75 + 15.29 per MT per hour in excess of 200 MT	2,462.50 + 16.21 per MT per hour in excess of 200 MT	2,609.75 + 17.18 per MT per hour in excess of 200 MT

Note-

- The Authority has decided one time increase of 40% in Parking charges with effect from April 01, 2025 and 6% increase Y-o-Y thereafter till FY 2028-29.
- Existing tariff will continue up to March 31, 2025.

Table 91: Parking charges (International ATM) decided by the Authority for beyond first four hours for the Second Control Period

(Rates in ₹)

Weight of the Aircraft	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	FY 2028-29
	Existing rates	Tariff w.e.f. 01.04.2025	Tariff w.e.f. 01.04.2026	Tariff w.e.f. 01.04.2027	Tariff w.e.f. 01.04.2028
Up to 25 MT	6.20 Per Hour Per MT	8.68 Per Hour Per MT	9.20 Per Hour Per MT	9.76 Per Hour Per MT	10.34 Per Hour Per MT
Above 25 MT up to 50 MT	155.00 + 10.60 per MT per hour in excess of 25 MT	217.00 + 14.84 per MT per hour in excess of 25 MT	230.00 + 15.74 per MT per hour in excess of 25 MT	244.00 + 16.68 per MT per hour in excess of 25 MT	258.50 + 17.68 per MT per hour in excess of 25 MT
Above 50 MT up to 100 MT	420.00 + 13.40 per MT per hour in excess of 50 MT	588.00 + 18.76 per MT per hour in excess of 50 MT	623.50 + 19.88 per MT per hour in excess of 50 MT	661.00 + 21.08 per MT per hour in excess of 50 MT	700.50 + 22.34 per MT per hour in excess of 50 MT
Above 100 MT to 200 MT	1,090.00 + 20.40 per MT per hour in excess of 100 MT	1,526.00 + 28.56 per MT per hour in excess of 100 MT	1,617.50 + 30.28 per MT per hour in excess of 100 MT	1,715.00 + 32.10 per MT per hour in excess of 100 MT	1,817.50 + 34.02 per MT per hour in excess of 100 MT
Above 200 MT	3,130.00 + 20.60 per MT per hour in excess of 200 MT	4,382.00 + 28.84 per MT per hour in excess of 200 MT	4,645.50 + 30.58 per MT per hour in excess of 200 MT	4,925.00 + 32.42 per MT per hour in excess of 200 MT	5,219.50 + 34.36 per MT per hour in excess of 200 MT

Note:

- The Authority has decided one time increase of 40% in Parking charges with effect from April 01, 2025 and 6% increase Y-o-Y thereafter till FY 2028-29.
- Existing tariff will continue up to March 31, 2025.

**Notes:**

- 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.
- For calculating chargeable parking time, part of an hour shall be rounded off to the nearest hour.



- iii. Charges shall be calculated on the basis of nearest MT.
- iv. Charges for each period parking shall be rounded off to nearest rupee.
- v. 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.
- vi. It is proposed to waive off the night parking charges in principle for all domestic scheduled operators at Varanasi Airport if the State Government has brought the rate of tax (VAT) on ATF  $\leq 5\%$ . The above waiver of night parking charges (between 2200 hrs. to 0600 hrs.) will be made applicable from the date of implementation of  $\leq 5\%$  tax on ATF by the State Govt. 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.
- vii. Flight operating under Regional Connectivity Scheme will be completely governed by AIC issued on this subject by DGCA.
- viii. For unauthorized overstay of aircraft an additional charge of ₹ 20.00 per hour per MT beyond 24 hours is to be payable or as per revised rate if any.

17.1.3 **User Development Fees (UDF):** UDF decided by the Authority for VIA for the Second Control Period is as follows:

**Applicable rates for travel date from April 1, 2025 to March 31, 2026**

(Rate in ₹)

Type of Passenger	Domestic	International
Embarking passenger	460	1,360

**Applicable rates for travel date from April 1, 2026 to March 31, 2027**

(Rate in ₹)

Type of Passenger	Domestic	International
Embarking passenger	510	1,370

**Applicable rates for travel date from April 1, 2027 to March 31, 2028**

(Rate in ₹)

Type of Passenger	Domestic	International
Embarking passenger	560	1,380

**Applicable rates for travel date from April 1, 2028 to March 31, 2029**

(Rate in ₹)

Type of Passenger	Domestic	International
Embarking passenger	590	1,390

**Notes:**

1. Collection charges: If payment is made within 15 days from receipt of invoice, then collection charges per departing passenger shall be paid by AAI, as per the policy pertaining to such charges between the Airport Operator and the airlines. 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.
2. No collection charges are payable to casual operator/non-scheduled operators.
3. For calculating the UDF in foreign currency, the RBI conversion rate as on the last day of the previous month for tickets issued on the 1<sup>st</sup> fortnight and rate as on 15<sup>th</sup> of the month for



tickets issued in the 2<sup>nd</sup> fortnight shall be adopted.

4. No UDF will be levied for transit passengers.
5. Revised UDF charges will be applicable on tickets issued on or after April 1, 2025 for FY 2025-26 and thereafter applicable on date of travel from April 1, 2026 to March 31, 2029.
6. The existing UDF charges will be applicable on the tickets issued till March 31, 2025.

**17.1.4 Exemption from levy and collection from UDF at the Airports.**

In terms of DGCA AIC No. 14/2019 dated 16.05.2019 and AIC No. 20/2019 dated 06.11.2019 (decision of Ministry of Civil Aviation, Govt. of India vide order no. AV 29012/39/2018-AD dated 30.10.2019) the following categories of persons are exempted from levy and collection of UDF.

- (a) Children (under age of 2 years),
- (b) Holders of Diplomatic Passport,
- (c) 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),
- (d) Persons travelling on official duty on aircraft operated by Indian Armed Forces,
- (e) Persons traveling on official duty for United Nations Peace Keeping Missions.
- (f) Transit/transfer passengers (this exemption may be granted to all the passengers transiting up to 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").

**17.1.5 Aviation Security Fee:** Rates and Exemption as prescribed by MoCA from time to time.

**17.1.6 General Condition:**

- a) All the above Charges are excluding GST. GST at the applicable rates is payable in addition to above charges.
- b) Flight operating under Regional Connectivity Scheme will be completely exempted from charges as per Order No. 20/2018-19 dated 31/03/2017 of the Authority from the date the scheme is operationalized by GoI.

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