

Order No. 18/2015-16



सत्यमेव जयते

Airports Economic Regulatory Authority of India

**In the matter of Determination of Aeronautical Tariffs in
respect of Cochin International Airport, Cochin for the first
Control Period (01.04.2011 – 31.03.2016)**

Date of Order: 17th April, 2015

Date of Issue: 22nd June, 2015

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



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AERA



File No. AERA/20010/MYTP/CIAL/2011-12/Vol - I
Airport Economic Regulatory Authority of India
Order No. 18/2014-15

AERA Building,
Administrative Office,
Safdarjung Airport,
New Delhi - 110003

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In the matter of Determination of Aeronautical tariff in respect of Cochin International Airport, Cochin for the first Control period (01.04.2011-31.03.2016)

1. Brief facts

1.1. Cochin International Airport was the first airport in India to be built under Public Private Partnership (PPP), with equity participation from more than 15,000 individual investors, who are mostly Non Resident Indians (NRIs), Government of Kerala (GoK) and Financial Institutions. A distinctive feature of the capital structure of CIAL is that a large number of individuals have invested in the equity of CIAL.

1.2. The New Cochin Airport project was an alternative to the existing Civil Enclave in the Naval Airport at Cochin, which was not capable of handling larger aircraft due to runway limitations. According to CIAL, *"the involvement of airport users was a pioneering concept of this project, which was conceived even while a definite policy on private participation in airport infrastructure was not in place"*.

1.3. CIAL was incorporated on 30.03.1994 as a public limited company, with Rs. 90 crore authorised share capital. The construction work commenced in August 1994, and the airport was inaugurated by the President of India on 25.05.1999. Cochin International Airport's operations started from June 1999 with Air India operating the first flight to the Gulf.

1.4. The authorized equity share capital of the company as of today stands at Rs. 400 crore. The paid up share capital of CIAL as on 31.03.2013 was Rs. 306.06 crore. CIAL had for the first time declared dividend to its shareholders in the fifth year of its operation (i.e. 2003-04). It has been regularly paying dividend to its shareholders ever since.

Management Structure of CIAL

1.5. The Chief Minister of Kerala is the Chairman of CIAL. As per clause 125 (1) of the Memorandum and Articles of Association of the company, so long as the Government of Kerala and/or its Public Sector Undertakings jointly or severally hold not less than 26% of the paid up Equity capital of the company, the Government of Kerala shall have the right to



appoint one among the Directors as Managing Director of the Company for such term, not exceeding five years at a time, and it also has the right to withdraw/cancel the appointment so made at their discretion.

Land Acquisition

1.6. CIAL has in their submissions stated that Cochin airport has been developed over an area of 1,275 acres. The land was progressively acquired during the period 1993-1999 in multiple phases and aggregation of fragmented land parcels was done under the State Land Acquisition Act. CIAL has stated that the entire land was acquired at market rates by the Government of Kerala (GoK) and transferred to CIAL at cost. CIAL has submitted that the total cost of land acquisition was Rs. 124 crore (approximately) and no subsidy was provided by GoK or Government of India (GoI). CIAL has also stated that unlike other major airports where land has been leased to the airport operators by the Government/ Airport Authority of India for a nominal consideration, CIAL has purchased the entire land for the airport at market rates. CIAL has further stated as under:

"In keeping with its philosophy of providing a cost efficient airport, CIAL has been able to develop the airport with much lesser area of land as compared to other major airports. Any major future expansion would require additional land and may involve significant capital expenditure which may need to be acquired at market cost."

Commencement of CIAL Airport- Projects undertaken

1.7. The details of various projects undertaken by CIAL since its inception till 2012-13 are given in Table 1 below:

Table 1: Cost of Projects and Other Allied Capital Works (Rs. In Crore)

S. No.	Particulars	Year of Capitalization	Amount
1	Commissioning of Cochin Airport	1999-2000	196.46
		2000-2001	102.65
2	Inauguration of International Arrival Terminal and Airlines Office Building	2005-2006	41.18
3	Commissioning of Parallel taxi track	2007-2008	20.25
4	Commissioning of Centre for perishable cargo	2008-2009	45.92
5	Commissioning of New International Departure Terminal	2009-2010	89.10
6	CIAL Golf and Country Club	2010-2011	33.77
7	Commissioning of Trade Fair Centre	2012-2013	14.36



2. Airports Economic Regulatory Authority of India (The Act)

2.1. The Airports Economic Regulatory Authority of India (the Authority) was established under the Airports Economic Regulatory Authority of India Act, 2008, (AERA Act) to regulate tariff and other charges for aeronautical services rendered at airports and to monitor performance standards of airports. The Authority is also required to monitor the set performance standards at these airports. The Act came into force w.e.f. 01.01.2009 and the Authority's regulatory functions were notified with effect from 01.09.2009.

2.2. The statutory functions of the Authority are enshrined in Clause 13(1)(a), Chapter III of the Act, according to which the Authority is required to determine the tariff for the aeronautical services taking into consideration a number factors which have been reproduced here under:

- (i) *the capital expenditure incurred and timely investment in improvement of airport facilities;*
- (ii) *the service provided its quality and other relevant factors;*
- (iii) *the cost for improving efficiency;*
- (iv) *economic and viable operation of major airports;*
- (v) *revenue received from services other than the aeronautical services;*
- (vi) *the concession offered by the Central Government in any agreement or memorandum of understanding or otherwise;*
- (vii) *Any other factor which may be relevant for the purposes 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);

2.3. In addition, the Authority is also required to perform certain other functions in respect of major airports as has been laid down in Clause 13(1)(b) to 13(1)(f), Chapter III of the Act which are reproduced as under:

- “(b) To determine the amount of the Development Fees in respect of major airports;*
- (c) To determine the amount of the Passengers 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 such information as may be necessary to determine the tariff under clause (a);*
- (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 this Act.”*

2.4. After the functions of the Authority were notified, the Authority undertook an exhaustive and comprehensive exercise to arrive at its regulatory philosophy and approach for



economic regulation of aeronautical services rendered at major airports. The Authority's philosophy of economic regulation of airports is contained in its Order No. 13/2010-11 dated 12.01.2011 (Airport Order) and the Airports Economic Regulatory Authority of India (Terms and Conditions for Determination of Tariff for Airport Operators) Guidelines, 2011 issued as per its Direction No. 5/2010-11 dated 28.02.2011 (Airport Guidelines). The Authority, through Airport Order and Airport Guidelines, has indicated its position on aspects such as form of regulation, regulatory till, framework for determination of fair rate of return, various Regulatory Building Blocks, traffic forecasting, quality of service and the regulatory process for tariff determination at major airports.

2.5. The Authority also issued a separate Order No. 12/2010-11 dated 10.01.2011 and Guidelines vide Direction No. 04/2010-11 dated 10.01.2011 (CGF Guidelines) for the aeronautical services pertaining to Cargo, Ground Handling and Supply of Fuel to Aircraft at major airports noting that all the three activities are defined as Aeronautical services under AERA Act.

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

2.7. As per the Authority's Guidelines, all operators of major airports were required to submit their Multi Year Tariff Proposal (MYTP) for the first Control Period (set as five year period beginning from FY 2011-12) to the Authority for its consideration. Based on the MYTP submission, the Authority is required to determine tariffs at an airport, by initially determining an yield per passenger, and subsequently reviewing detailed Annual Tariff Proposal(s) (ATP) submitted by the Airport Operators (in consonance with the determined yield per passenger) in order to finalise the different components of the tariff card. In terms of Airport Guidelines, the last date for submission of the MYTP for the first control period was 30.06.2011.

2.8. The Authority was conscious about the fact that in the nature of the timelines specified in the Airport Guidelines, it would not be possible to determine the tariff in respect of any of the major airports before 01.04.2011. In this light, the Authority had proposed to permit the concerned airport operators, including CIAL, to continue charging the tariffs for aeronautical services provided by them, at the existing rates, in the interim period for which a separate order was issued after suitable consultation (Order No. 15/2010-11 dated 24.03.2011).

CIAL's MYTP submission

2.9. CIAL had in their submission dated 08.05.2014 stated that they have after evaluating suitable alternatives for augmentation of airport capacity and taking into consideration the requirements of optimal asset utilization, technical feasibility and cost effectiveness, opted for construction of a new international terminal with an area of 1,50,000 Sq.mts at an estimated capital expenditure of Rs. 650 crore.



2.10. Further, CIAL had vide MYTP submission stated that they do not intend to increase the aeronautical tariff namely Landing & Parking charges and Cargo Charges in the current control period (FY12-FY16).

2.11. CIAL had submitted that these charges were based on the tariffs of Airports Authority of India (AAI) prevailing in 2001. Further, CIAL has also stated that the existing tariffs, that were last revised in 2001, will continue till the end of this control period except for services such as ground handling, fuel supply and CUTE charges, where fees are collected based on separate user agreements.

2.12. CIAL had submitted the prevailing item wise tariffs of Landing, Parking and Cargo charges. CIAL also furnished the agreements pertaining to ground handling, fuel supply and CUTE charges along with the tariffs for these services.

2.13. In consideration of all the above factors, CIAL requested the Authority to consider a light touch approach for determining the aeronautical tariffs for Cochin International Airport in the first Control Period. CIAL has further submitted that the light touch approach would imply that:

2.13.1. *CIAL will not increase aeronautical tariffs in the current control period other than those governed by existing user agreements with providers of aeronautical services such as fuel supply, ground handling and CUTE.*

2.13.2. *Truing up of figures pertaining to first control period may be avoided.*

2.14. The Authority had after careful consideration of the submissions made by CIAL placed its views in respect of all relevant issues before the stakeholders for consultation vide Consultation Paper No. 03/2014-15 dated 05.06.2014. The last date for submission of comments was 30.06.2014. A stakeholders' consultation meeting was held on 17.06.2014 in the AERA Office, New Delhi, the Minutes of which have been uploaded on the Authority's website i.e. www.aera.gov.in.

Stakeholder Comments

2.15. In response to Consultation No.03/2014-15 dated 05.06.2014, the Authority received several responses from stakeholders, which has been uploaded on the Authority's website vide Public Notice No. 05/2014-15 dated 08.07.2014. Stakeholders, who have commented on the Consultation Paper, are listed in Table 2 below.

Table 2: Stakeholders' Comments

S. No.	Stakeholders	Issues Commented Upon
1	Airport Authority of India (AAI)	Tariff Rates
2	International Air Transport Association (IATA)	Cargo Services Ground Handling Services Fuel Services



S. No.	Stakeholders	Issues Commented Upon
		CUTE Counter Charges
3	Association of Private Airport operators (APAO)	Light Touch Approach
4	Indian Oil Corporation Limited (IOCL)	Fuel Throughput Charges
5	Hindustan Petroleum Corporation Limited (HPCL)	Fuel Throughput Charges

2.16. The Authority has carefully considered the comments made by above stakeholders. The proposals of the Authority in its Consultation Paper dated 05.06.2014, issue-wise comments of the stakeholders, response from CIAL thereon; Authority's examination and its decision are given in the following sections.

3. Traffic Trends and Projections

Traffic Trends

Passenger Traffic

3.1. The Authority had in the Consultation paper noted that at CIAL, historical growth in domestic traffic had been driven by a period of sustained increase in per capita incomes, low air fares, active promotion of Kerala's tourism industry and increasing business travel given Cochin's importance as a business centre in Kerala. Growth in international traffic at Kerala had been primarily driven by NRIs and tourists.

Table 3: Past Trends of passengers Traffic (In Million)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Domestic	1.1	1.6	1.4	1.7	2.0	2.1	2.0	2.1
International	1.4	1.8	2.0	2.2	2.4	2.6	2.9	3.3
Total	2.5	3.4	3.4	3.9	4.4	4.7	4.9	5.4

3.2. Domestic and International passenger traffic had shown a consistent growth since the year 2006-07, except the year 2008-09, when air traffic demand was impacted by the global financial crises. Passenger traffic grew at an average CAGR of 11.6% and it more than doubled between the years 2006-07 to 2013-14. The airport is only behind Delhi, Mumbai and Chennai by International traffic volumes for 2013-14 and seventh from point of view of total passenger traffic.



Air Traffic Movements

3.3. The Air Traffic Movements (ATMs) at CIAL for the period 2006-07 to 2012-13 are given in Table 4 below:

Table 4: Past Trends of Air Traffic Movement (In nos.)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Domestic	16,501	22,833	22,125	23,476	22,615	22,817	21,252	24082
International	14,172	16,335	19,047	18,068	18,465	18,324	20,286	23134
Total	30,673	39,168	41,172	41,544	41,080	41,141	41,538	47216

Cargo Movement

3.4. It is also noted by the Authority in the Consultation paper that the Air Cargo handled at CIAL had grown from 21,930 MT to 47,900 during the year 2006-07 to 2012-13 (refer Table 5).

Table 5: Past Trends of Cargo Movements (In MT)

Particulars	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Domestic	4,920	6,217	6,614	5,893	6,938	7,467	8,064	7975
International	17,010	20,851	27,543	35,498	34,153	36,885	39,836	46466
Total	21,930	27,068	34,157	41,391	41,091	44,352	47,900	54441

Traffic Projections

Passenger Movements

3.5. The Authority had in the Consultation Paper stated that it had detailed discussions with CIAL's Management during the field visit as well as subsequent discussions both at Cochin and Delhi. The Authority got the projections for traffic (passengers, cargo as well as ATM) that has informed the CIAL's management to undertake the proposed expansion of the Airport facilities. The point that emerged from these interactions that was also stated in the Consultation Paper is as under:

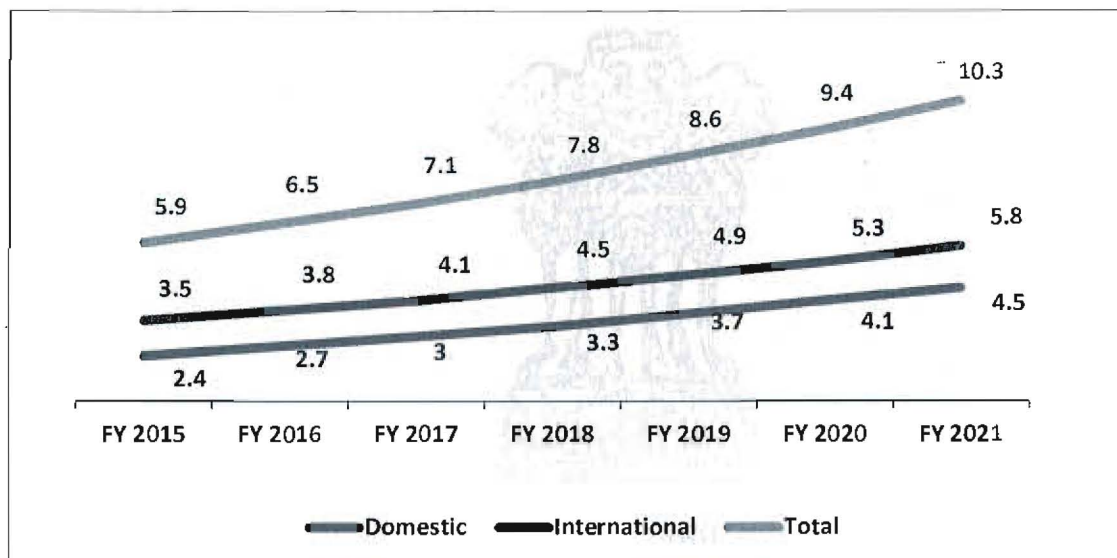
3.6. Passenger traffic is estimated to exceed 10 million by 2021 and reach 15 million by 2028. This forecast is estimated on a growth rate of 9.8% per annum after considering the historical growth rate (CAGR of 11.9% for the year 2006-07 to 2012-13).

3.7. The Airport's predominance as an international gateway and tourist destination in South India is expected to drive growth in domestic and international traffic. The Kerala Government's recent initiatives in developing feeder airports at Idukki and Wayanad besides the new impetus given to development of tourism infrastructure is expected to contribute further to the growth of air traffic in the state.



3.8. While new airports are being planned in Kannur and Aranmula, Cochin airport is expected to continue as the primary airport for domestic and international traffic in Kerala for some time.

Figure 1: Projected Passenger Traffic (In millions)



3.9. Based on the traffic forecast, peak hour passenger (PHP) movements are expected to increase to 2,600 domestic and 2,900 international passenger movements in the year 2020-21. The existing domestic passenger terminal had a design capacity of 800 PHP. The domestic terminal currently handles about 1000 PHP and requires capacity augmentation to handle the projected demand.

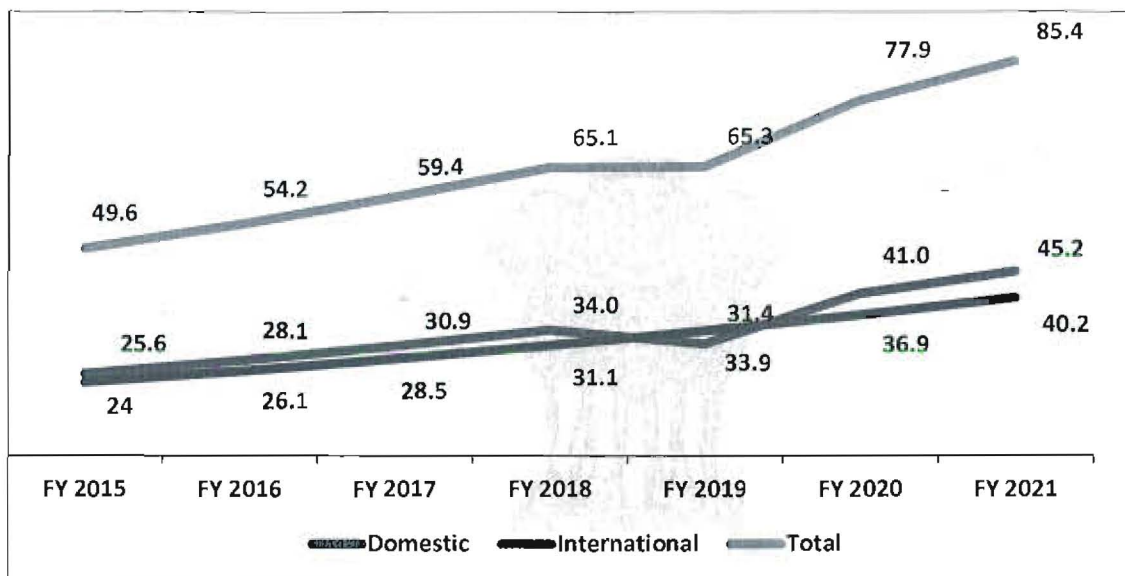
Table 6: Current and Projected Peak Hour Capacity (In Nos.)

Particulars	Design capacity	2011-12	2020-21	2027-28
Domestic Terminal	800 (400+400)	1,000	2,600	3,700
International Terminal	2,400 (1,200+1,200)	1,300	2,900	4,000

Air Traffic Movements

3.10. ATM is expected to grow at around 9% and is projected to reach 85,418 movements by 2021.

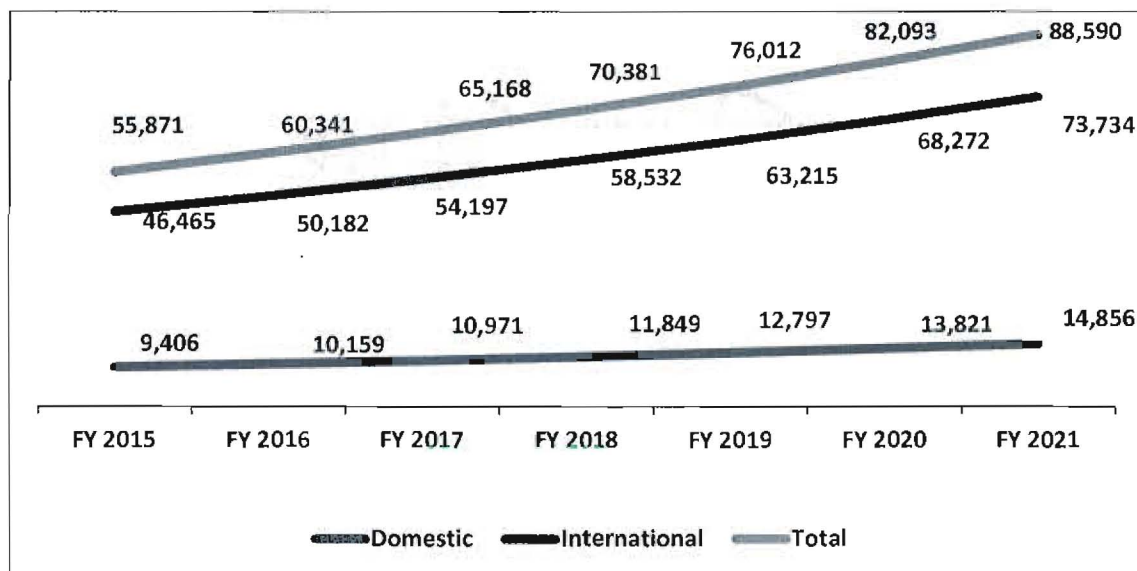
Figure 2: Projected Air Traffic Movements (In '000s)



Cargo Movements

3.11. Cargo traffic is expected to grow by 8% year-on-year and projected to reach 88,590 MT by 2021.

Figure 3: Projected Cargo Movements (in MT)



4. Passenger Throughput and Capital Investments

4.1. The Authority had in the Consultation Paper noted that CIAL presently operates two separate terminals for domestic and international traffic. Passenger traffic at CIAL has increased from 1.9 million in the Year 2005-06 to 5.4 million passengers in the Year 2013-14. Passenger traffic at CIAL is estimated to increase to 10 million by the Year 2020-21

Domestic Passenger Terminal

4.2. The domestic passenger terminal building was developed in the year 1999 and has a maximum peak hour handling capacity of 800 (400 arriving + 400 departing). As against this, CIAL has stated that during the year 2011-12, the peak hour passenger throughput at the airport was around 1,000 at domestic terminal. CIAL has submitted that the domestic terminal is already operating beyond its maximum passenger handling capacity, which has resulted in congestion during peak hour operations.

International Passenger Terminal

4.3. The international passenger terminal building was also developed in 1999 and has a maximum peak hour handling capacity of 2,400 Passengers (1,200 arriving + 1,200 departing). As against this, CIAL has stated that during the year 2011-12, the peak hour passenger throughput at the airport was around 1,300 at International Terminal. Hence the International Terminal is presently not saturated.

Need for Capacity Enhancement

4.4. The future projections of peak hour passenger throughput at Cochin airport has been estimated by CIAL as mentioned in Table 6 above. In order to address the capacity constraint at the domestic terminal as well as to cater to future growth in passenger traffic, the management of CIAL has proposed development of a new international terminal at the airport. The existing international terminal would thereafter be converted into a domestic terminal, thus enhancing both the domestic and international passenger handling capacity at the airport. Post expansion, the peak hour passenger handling capacity of the airport is expected to increase to 4,000 passenger movements for domestic operations and 4,000 passenger movements for international operations. The increased capacity is expected to be able to cater to the projected traffic till 2028.

4.5. CIAL had in their submission stated that they have after evaluating suitable alternatives for augmentation of airport capacity and taking into consideration the requirements of optimal asset utilization, technical feasibility and cost effectiveness, opted for construction of a new international terminal with an area of 1,50,000 Sqm at an estimated capital expenditure of Rs. 650 crore. The area of 1.5 lakh Sqm according to CIAL, also includes areas required for services and utilities such as power, air conditioning, additional storage for baggage, etc. hence the Authority has in the Consultation Paper noted that the area of 1.5 lakhs Sqm appears higher if computed as per IMG norms of Sqm per passenger may be justified having regard to the space consideration and the proposal to integrate additional



services as part of the building itself. Additionally other works (Elevated Road, Parking Bays etc.) of Rs. 225 crore is also proposed to be undertaken. Hence the total expansion plan proposed by CIAL is of Rs. 875 crore (Table 7).

Table 7: Project Cost Break-up of New International Terminal (Rs. In crore)

S. No.	Particulars	Total Cost Rs.Crs.
1	New International Terminal	650
2	Elevated Road	100
3	Parking Bays	100
4	Conversion of Existing International Terminal To Domestic Terminal	25
	Total Project Cost	875

4.6. CIAL had submitted that the construction work on the new International Terminal commenced on 01.02.2014. They have further submitted that the capitalization of New International Terminal Project amounting Rs.875 crore will be done only during the next control period beginning from FY2017 to FY 2021.



5. Cost Comparisons with other Airports (Capex and Opex)

5.1. In its submissions to the Authority, CIAL has stated that:

"CIAL is widely recognized as a low-cost functionally efficient airport. The CIAL management has constantly endeavored in keeping airport services affordable by keeping a strict control on costs and enhancing non-aeronautical revenues to balance the interests of both investors and users of the airport. This has been made possible through

Modular expansion

Award of multiple contracts through competitive tendering as opposed to a single large turnkey contract

Simple and no-frills master plan and development model

Use of locally available materials

Prudent financial management

The said modular approach has led to CIAL being the least cost airport among the major airports. CIAL is clearly ahead of its peers in controlling capital costs, and delivering a functional airport."

5.2. The Authority has noted that CIAL conducted a formal consultation process with airport users as per the guidelines of AERA, briefing them on details of the proposed new international terminal. The copy of the AUCC report was submitted to AERA along with the other tariff proposal. The Authority noted that the stakeholders have supported CIAL's proposal for expansion. The Authority also noted that the construction work on the new International Terminal has already being commenced from 01.02.2014.

5.3. The Authority had also noted that CIAL has submitted a comparative chart of costs of construction of passenger terminal buildings at other airports in the country which have been constructed in recent past. This is reproduced in Table 8.

Table 8: Costs of Passenger Terminal Development at various Major Airports as per CIAL

S No.	Airport	Terminal area constructed (sq. mts)	Terminal cost (INR crore)	Cost per square meter (INR)
1	Delhi - Terminal 3	553,887	6,836	123,418.68
2	Bangalore – Terminal 1 expansion	77,000	1,400	181,818.18
3	Chennai – New Dom. and Intl. Terminals	127,000	1,500	118,110.24
4	Mumbai - Terminal 2	410,000	5,500	134,146.34



S No.	Airport	Terminal area constructed (sq. mts)	Terminal cost (INR crore)	Cost per square meter (INR)
5	Kolkata – New Terminal	199,000	1,600	80,402.01
6	Trivandrum – New Terminal Building	32,000	289	90,312.50
7	Cochin – New Terminal proposed	150,000	650	43,333.33

5.4. The Authority had in the Consultation Paper noted that the figures of expenditure on Airport Terminal Building as reproduced in the Table 8 above by CIAL for different airports may have different scope like inclusion of some element of city side development (for e.g. car park or flyover or in some cases the canopy extending beyond the terminal building etc.) and that the same may however be taken as generally indicative.

5.5. The Authority had also noted that the cost of Rs. 43,333 per Sq. mts, for the new International Terminal as submitted by CIAL would be one of the lowest in country.

Operating and Maintenance Expenditure

5.6. In its submissions to the Authority, CIAL had also given its analysis of the operating and maintenance expenditure as compared with other major airports in the country shown in Table 9 below:

Table 9: Operating Expenditure per passenger for similar Major Airports as per CIAL

S. No.	Airport	Operating Expenditure for 2012-13 (In INR crore)	Passengers for FY 2012-13 (In millions)	Operating Expenditure per Passenger
1	Mumbai	547	30.2	181.13
2	Delhi	821	34.4	238.66
3	Kolkata	261	10.07	259.19
4	Chennai	334	12.78	261.35
5	Cochin	86	4.9	175.51

5.7. CIAL had stated that its operating and maintenance expenditure per passenger is the lowest amongst the Airports compared above.

5.8. CIAL, in its submissions to the Authority, had stated that the proposed development of the new terminal building is expected to have a marginal impact on the total operational expenditure on CIAL. Further, CIAL had also stated that the increased terminal area would result in increased utilities consumption such as power and water, and would require additional security, house-keeping and administrative staff. The terminal is expected to be



commissioned mid-year in FY 2016 and the full impact of the terminal building would be visible in FY2017.

5.9. CIAL had also submitted that it expects to deploy its existing employees for management of the new international terminal with minimum additions. As per CIAL, significant incremental increase in personnel cost due to addition of new employees is not expected as a result of the development of the new terminal.

Airport Service Quality (ASQ)

5.10. ASQ score is a result measured on "a five point scale" on 34 parameters by passenger surveys done at the participating airports by Airport Council International (ACI) across the world throughout the year.

5.11. Details of ASQ ratings obtained by CIAL for four quarters of year 2012-13 & 2013-14 is mentioned in Table 10 below:

Table 10: ASQ ratings of CIAL

S No.	Quarters/Years	Domestic	International	Average
1	Oct 2012-Dec2012	3.74	3.69	3.71
2	Jan 2013-Mar2013	3.69	3.75	3.72
3	April 2013-June 2013	3.78	3.71	3.74
4	July 2013-Sept 2013	3.60	3.79	3.70

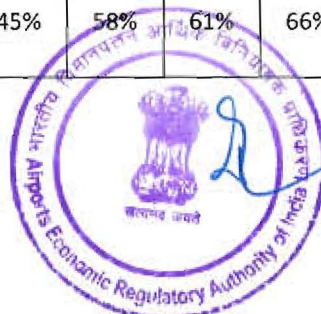
5.12. As indicated in Table 10, its ASQ ratings are above 3.5 for every quarter commencing October 2012.

6. Non Aeronautical revenue

6.1. CIAL, in their submission had stated that it has actively focused on enhancing non-aeronautical revenues which have helped in subsidizing aeronautical tariffs. CIAL had stated that the share of non-aeronautical revenue has been increasing consistently and is 71% of the total revenues of CIAL for the year FY 2012-13.

Table 11: Break-up of Revenue into Aeronautical and Non-Aeronautical (In Crore)

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Aeronautical	40	54	62	61	47	55	60	69	81	83	89
Non-Aeronautical	21	32	39	49	64	84	113	143	165	193	218
Total	61	86	101	110	111	139	173	212	246	276	307
Non-Aero as % of Total Revenue	35%	37%	38%	45%	58%	61%	66%	68%	67%	70%	71%



6.2. The Authority had noted that the duty free business of Cochin airport is managed and operated by CIAL itself. The duty-free business is a major contributor of non-aeronautical revenues comprising about 52% of the non-aeronautical revenues in the year 2012-13.

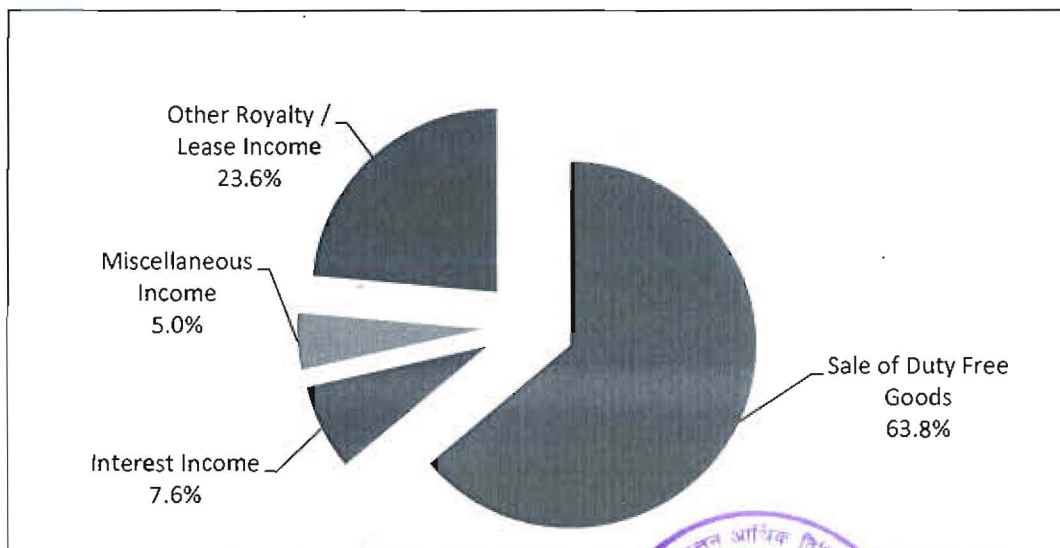
6.3. The Authority had noted that the non-aeronautical revenue figures indicated in Table 11 above furnished by CIAL also includes Revenues from Ground handling, Royalty from Fuel Farm and CUTE under Non Aeronautical Revenues. The Authority had also considered the revenues from ground handling services and supply of fuel to Aircraft, defined as aeronautical services in the AERA Act, 2008, as Aeronautical Revenues irrespective of the providers of such Aeronautical Services. Accordingly the Authority had in the Consultation Paper reworked the break-up of CIAL's revenue in to aeronautical and non-aeronautical revenue. The same is reproduced in the Table 12 below.

Table 12: Reworked Break-up of Revenue into Aeronautical and Non- Aeronautical (In Crore)

Particulars	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Aeronautical	40	54	62	61	47	55	60	69	117	121	130
Non-Aeronautical	21	32	39	49	64	84	113	143	129	155	177
Total	61	86	101	110	111	139	173	212	246	276	307
Non-Aero as % of Total Revenue	35%	37%	38%	45%	58%	61%	66%	68%	52%	56%	58%

6.4. The Authority noted that based on the reworked aeronautical and non-aeronautical revenue figures; the share of non-aeronautical revenue is 58% of the total revenue of CIAL for the year 2012-13. Further, the share of the duty-free business in non-aeronautical revenues is 63% of the total non-aeronautical revenues in the year 2012-13.

Figure 4: Different components of NAR (in %) for FY 2012-13



7. Aeronautical revenue

7.1. CIAL had in their proposal submitted that the airport's existing aeronautical tariffs are the lowest among most major airports in India which have not been revised since 2001. CIAL had also furnished a Table comparing its aeronautical charges with the tariffs at other major airports in the country, reproduced in the Table 13, which as per CIAL indicates that the tariffs at Cochin airport are on an average, less than half of most of other major airports.

Table 13: Current Tariffs at various major airports as submitted by CIAL(in Rs)

Tariff head	CIAL	DIAL	MIAL	Kolkata	Chennai	Calicut	Trivandrum
Landing Fee # (above 100MT)	22,800 + 306 per MT	59,000 + 792 per MT	59,000 + 725 per MT	54,000 + 733 per MT	58,000 + 777 per MT	34,320+ 471.9 per MT	25,050 + 336.6 per MT
Parking / Housing Fee (per hr.)	700 + 10 per MT	1,415 + 18.74 per MT	1,426 + 18.88 per MT	1,570 + 9.9 per MT	800 + 10.5 per MT	824 + 15.5 per MT	1,220 + 16.20 per MT
UDF	0	452 (dom) 854 (int)	274 (dom) 548 (int)	400 (dom) 1,000 (int)	166(dom) 667 (int)	0	0 (dom) 575 (int)
Fuel Throughput Charge (per kl)	145	688	688	1,278	1,609	-	-

Notes: Tariffs for the year 2013-14; # for international flights

7.2. The Authority had in the Consultation Paper noted that there may be some minor variations in the numbers on account of averaging, rounding off as well as clubbing certain items together across different airports. The Authority understands that FTC at Calicut Airport is Rs. 109.20 per KL and Rs. 115.00 per KL at Trivandrum Airport. The Authority therefore regarded the above table as indicative.

Stakeholders' Comments

7.3. IATA has in its comments on the proposals in the Consultation Paper No. 03/2014-15 dated 05.06.2014, in the matter of Determination of Aeronautical Tariffs in respect of Cochin International Airport, Cochin for the first control period (01.04.2011-31.03.2016) stated as under:

"IATA fully agreed with the Cochin International Airport (CIAL) on its core philosophy of providing a cost efficient airport. By keeping a strict control on capital and operational expenditures without compromising on service levels and actively developing non-aeronautical revenue to subsidize aeronautical tariffs, CIAL would be able keep aviation sustainable over the long term and achieve a reasonable return on investment



for its shareholders in the process. In this regard, CIAL is an exemplary model for the other privatized airports in India.

As long as CIAL maintain this philosophy and airport charges are not increased or are brought down overtime, the need for strong-handed regulation would be less compelling. However, the Authority should be in a position to introduce strong-handed price- cap regulation in future control periods should there be an adverse shift in the philosophy of CIAL or if there were to be a significant incurrence of capital expenditure, both resulting in high airport charges.

One area that CIAL can make further refinement to its current approach of developing concession revenues from airport services that have a direct impact on air transportation namely Cargo, Ground handling Fuel Throughput Charges and CUTE Charges. While the airport had considered these to be non-aeronautical activities, the AERA Act has quite correctly classified these as aeronautical activities given its impact on aviation. Airlines' operational costs would rise if these concession fees continue to escalate. IATA would ask CIAL to consider not increasing the rate of concession payable for these services but instead look into decreasing these rates over time. CIAL may also want to confine its efforts to developing non- aeronautical revenue in areas that do not impact the cost of air transportation such as retailing and advertising.

IATA supports AERA's tentative decision outlined in the proposal No.1 of the Consultation Paper No. 03/2014-15 dated 05.06.2014 of Cochin International Airport".

IOCL's Comments

7.4. As per the IOCL comparison of various charges at Cochin airport and other major airports has been made.

It is suggested that with regard to FTC, comparison with charges at airports of equivalent size like Calicut and Trivandrum would be more appropriate rather than comparing with the country's largest airports like Delhi, Mumbai and Chennai etc.

AAI's Comments

7.5. AAI commented on the Tariff Charges by CIAL as follows:

As per AAI Aeronautical tariffs of the Consultation Paper No. 03/2014-15 dated 05.06.2014, an impression has been created that Cochin Airport's tariff are much lower than other major airports including Kolkata, Chennai, Calicut and Trivandrum.

The pictures shown in the tables are not complete to the extent that the various other additional charges being levied by CIAL but not by Airports Authority of India have not been depicted. The additional charges being levied by CIAL (which is not being charged by AAI) are as under:



Table 14: X-Ray Baggage Rental Charges on the Aircraft Seating Capacity

Aircraft upto seating Capacity	Amount (in Rs.)
25	150
26 to 50	250
51 to 100	500
101 to 200	800
201 and above	900

Table 15: Aerobridges Charges by Airline Operators based on the time of usage

Duration of Parking	Charges Applicable
Upto 90 Minutes	US \$ 60
For every 30 Minutes beyond 90 Minutes	US \$ 20

Table 16: Inline X-Ray Baggage Screening Charges as per seating capacity of Aircrafts

S.No.	Seating Capacity (Nos.)	Amount (In US \$)
1	1-100	150
2	101-150	180
3	151-180	220
4	181-300	250
5	Above 300	300

Table 17: Import Charges:

Delivery Order Charges:	
MAWB General Cargo/Courier	Rs. 1000.00 + Service Tax
MAWB Baggage	Rs. 500.00 + Service Tax
MAWB Baggage- Consultation	Rs. 1000.00 + +Service tax
Break Bulk Charges:	
General Cargo& Baggage	Rs. 500.00 for each HAWB + Service Tax



Other Charges:

Table 18: Palletisation / Depalletisation & Containerization/ Decontainerization (Charges to Airlines)

	Stuffing (Rs.)	Destuffing (Rs.)
Pallet-10 feet	2000/Each	1500/Each
Pallet- 10 ft Counter	2500/Each	1500/Each
Container	600/Each	500/Each
AMF	1700/Each	1500/Each
ALF	1200/Each	1000/Each
PLA/FLA	1300/Each	1000/Each
BULK	0.50 /Kg	0.50/KG (Min Rs. 100/-)

In the view of above, to reflect the true picture, comparison of tariff between CIAL and AAI airports should be made into after considering airport charges levied by CIAL under additional heads.

CIAL's response to Stakeholders' Comments on matter regarding Tariff charges

7.6. Responding to Stakeholders' Comments on Aeronautical Tariff Charges, CIAL Stated that

CIAL in its letter to AERA dated 08.05.2014 contains all the charges prevailing at Cochin Airport which interalia includes those charges specifically indicated in the above referred AAI and Hence, complete in all respect (Reference Annexure II of letter). However, in the covering letter we have made certain comparisons of major revenue items from where substantial revenues are generated. Further due to non-availability of data all small items of revenue could not be compared.

Moreover, CIAL has submitted that a comparison has been made wherever comparable services are rendered by two entities. For example, Cochin Airport renders security services to airlines by forming a separate security wing in the company, however, AAI does not provide security services to airlines, hence, and perhaps they may not charge X-ray charges/security charges etc. from Airlines.

Similarly CIAL has adopted a different model in respect of its cargo operations by acting as the custodian of domestic, international and perishable cargo activities. However, at Trivandrum Airport, which is the nearest AAI airport of Cochin, the cargo activities are outsourced to Kerala State Industrial Enterprises Lrd (KSIEL). CIAL has stated that the rate charged by KSIE at Trivandrum Airport is higher than that Cochin Airport. Further, CIAL has stated that the details of cargo charges prevailing in all AAI airports are not available with CIAL and not sure where in all AAI airports; AAI itself acts as Cargo Operators.



It would be seen above that all rates charged at Cochin International Airport is indicated in the Annexure II of the referred letter and comparison in the covering letter is made wherever comparable services/figures are available and based on materiality.

8. Cargo, Ground Handling and Fuel Throughput Charges

8.1. CIAL, in addition to being the Airport operator at Cochin International Airport also manages and operates the Cargo facility at Cochin International Airport.

8.2. The percentage share of cargo volume for CIAL, as per April' 2010 to March'2011 AAI Traffic statistics (as at the beginning of the first control period), is 1.8%.

Table 19: Cargo Handled by Major Airports of India as submitted by CIAL

S. No.	Airports	2012-13	% of Contribution to the total cargo handled
1	Mumbai	635,163	29.8%
2	Delhi	546,311	25.6%
3	Chennai	315,879	14.8%
4	Bangalore	226,548	10.6%
5	Kolkata	123,491	5.8%
6	Hyderabad	79,236	3.7%
7	Ahmedabad	48,175	2.3%
8	Cochin	46,906	2.2%
9	Trivandrum	39,533	1.9%
10	Calicut	27,612	1.3%
11	Pune	19,861	0.9%
12	Jaipur	6,672	0.3%
13	Guwahati	6,013	0.3%
14	Goa	4,952	0.2%
15	Lucknow	3,446	0.2%
16	Srinagar	3,027	0.1%

8.3. While CIAL have in their submissions included the cargo operations as part of the airport operations, they have requested the Authority to consider a "light touch" regulatory regime for cargo facility services as permitted by the Guidelines. Further CIAL has also not proposed for any increase in its existing Cargo tariffs during the current control period.



Supply of fuel to airlines and Fuel Throughput Charge at Cochin Airport

8.4. CIAL had in its submissions stated that they have entered into an agreement dated 19.05.1997 with Bharat Petroleum Corporation Limited (BPCL) for hydrant refuelling system consisting of product storage & receipt facilities, tank farms, pumps, filters, hydrant line and administration and other facilities for operation of the hydrant system to refuel the aircraft and mobile facilities at Cochin International Airport.

8.5. CIAL has stated that the royalty on re-fuelling of aircraft, i.e., Fuel Throughput charges, was fixed at Rs. 5 per kilo litre based on a Memorandum of Understanding between CIAL and BPCL dated 19.05.1997. It was also agreed that upon cessation of administered pricing mechanism of ATF, the rate of payment of this royalty will be reviewed between parties thereto and refixed according to market conditions. Accordingly the rates were revised w.e.f 01.04.2009 at the rate of Rs.70 per Kilo litre for a period of one year with effect from 01.04.2009 to 31.03.2010 and as agreed between CIAL and BPCL the royalty payable to CIAL by BPCL will be escalated cumulatively by 20% every year for a further period of five years. The parties had also agreed that the rate of royalty with effect from 01.04.2015 will be discussed and finalized during the month of March 2015. CIAL has furnished a copy of the Memorandum of Understanding between CIAL and BPCL dated 19.05.1997 and Minutes of the Meeting held on 06.11.2009 between CIAL & BPCL.

8.6. CIAL has submitted that as per the contract, BPCL is required to pay Fuel Throughput Charge at Cochin Airport at Rs. 145/KL (in the year 2013-14) to be escalated at 20% per annum.

8.7. Further, CIAL has also submitted that the subject agreement for supply of fuel to airlines at Cochin Airport was entered prior to the establishment of AERA in 2009. They have also submitted that these contracts will remain valid up to FY 2016-17 and CIAL will continue with the same annual escalation of 20% p.a for the FY 2015-16 i.e., until the end of current control period. CIAL has requested the Authority to increase the Fuel Throughput Charge at Cochin Airport in accordance with contract's terms and conditions between CIAL and BPCL.

Stakeholder's Comments

IOCL's Comments

8.8. IOCL commented on the Fuel Throughput Charges wherein stated

"With regard to proposed approval of Fuel Throughput Charges (FTC) for Cochin International Airport Ltd (CIAL), we would like to make the following submissions, which are further to the discussion on the subject during the stakeholder meeting on 17.06.2014.

As per Authority's communication dated 24th June, 2010, addressed to CIAL, the Authority had advised that '.....change in the rate of any existing fuel throughput charges at all major airports would require prior approval of the authority'. Exactly similar communications were issued to airport operators of all other major airports.



As per Authority's Order No. 07 dated 4th Nov, 2010, an ad hoc rate of Rs. 84 per KL, towards FTC has been approved by the Authority w.e.f. 01.04.2010. As on date, no other rate has been approved by the Authority for CIAL yet.

The above referred Order no. 07 mentioned the ad hoc rates for other major airports also. While all other airport operators have abided by FTC rates mentioned in the above referred Order, CIAL had chosen to demand higher FTC from Oil companies, through BPCL, without any approval from AERA. This was protested by Indian Oil and HPCL. However, this unfortunately met with the threats of withdrawal of Airport Entry passes of our employees. CIAL had even conveyed to the airlines customers of Indian Oil and HPCL that the Airport Entry Passes of Indian Oil and HPCL would be withdrawn due to non-payment of the higher FTC demanded by CIAL.

In wake of CIAL's unrelenting posture, a joint appeal was made by Indian Oil and HPCL, vide letter dated 3rd April, 2014 to the Authority for its intervention. However, in order to protect the interests of our airlines customers, in spite of our protests we were forced to release the payment under protest for higher amounts demanded by CIAL.

We would like to submit to the Authority that such actions of CIAL are in contravention to the Orders of the Authority, and the same if unchecked, would set procedure for other airports also for demanding higher tariffs without approval of the Authority.

As per the IOCL at few places of the Consultation Paper No. 03/2014-15, the Fuel Throughput Charge if Rs. 145 per KL has been mentioned as the "Current FTC". This is factually not correct, as the current fee is Rs. 84 only, which has been approved by AERA vide Order No. 07 dated 04.11.2010.

Further, as per the Consultation paper, CIAL has an agreement with BPCL, pertaining to handling of Fuel facilities. Although the agreement between CIAL and BPCL is dated 19.05.1997, which was prior to enactment of AERA, the escalation of 20% in FTC was decided amongst BPCL and CIAL as per their MOM dated 06.11.2009. As such, the agreement between CIAL and BPCL for annual escalation of 20% in the FTC has been finalised between these parties on 06.11.2009. i.e. after notification of Chapter-III of AERA Act (01.09.2009). Therefore, this may please not be treated as "Agreements existing prior to enactment of AERA".

IOCL would also like to submit that although the agreement for operation of fuel facilities at Cochin airport is executed between CIAL and BPCL, Indian Oil and HPCL are also using these facilities and therefore are affected by FTC applicable at the airport.

As mentioned above, the FTC for CIAL approved by the Authority as on date is Rs. 84 per KL, which was approved on ad hoc basis with effect from 01.04.2010, vide Order No. 7 dated 04.11.2010. No other rate has been approved by the Authority yet.

Also, vide Order no. 15/2010-11 dated 24.03.2011 the Authority has ordered that "..... the concerned airport operators be permitted to continue charging the tariffs/charges for all aeronautical services provided by them, at the existing approved rates (as on 28.02.2011), in the interim period i.e. from 01.04.2011 up to date the new tariffs as may be approved by the Authority become effective."



As per the Para 12.12 of the Consultation Paper No. 03/2014-15, the Authority has proposed that the tariffs, as existing in CIAL as per its previous Order No. 15/2010-11 dated 24.03.2011 may be continued for the current control period.....

In view of the foregoing, the existing approved FTC rate is Rs. 84 per KL, and the same may please be continued. However, in case the Authority proposes to increase the FTC rate from the existing Rs. 84 per KL, the increase may please be made only on prospective basis, and till that time, the rate of RS. 84 per KL may only be approved.

It is further submitted that in case, the suggested implementation of increased FTC on prospective basis is expected to result into losses for CIAL, the shortfall on account of previous period can be added to future charges."

HPCL's Comments

8.9. HPCL has stated as under:

HPCLnoted that the Fuel throughput Charges, were fixed at Rs. 5 per kilo litre based on the Memorandum of Understanding between CIAL and BPCL dated 19.05.1997. As per the MOU, upon cessation of administered pricing mechanism of ATF, the rate of payment of this royalty will be reviewed between parties thereto and refixed according to market conditions. Accordingly the rate were revised w.e.f.01.04.2009 at the rate of Rs. 70 per kilo liter for a period of one year with effect from 01.04.2009 to 31.03.2010 and agreed between CIAL and BPCL the royalty (Fuel Throughput Charges) payable to CIAL by BPCL escalated cumulatively by 20% every year for a further period of five years. The parties had also agreed that the rate of royalty with effect from 01.04.2015 will be discussed and finalized during the month of March 2015.

HPCL is of the opinion that since the Authority is the statutory authority for regulating tariff and other charges for aeronautical services rendered at airports, Fuel Throughput Charges agreed between CIAL and BPCL has no relevance. AERA vide its Order No. 07/2010-11 dated 4th Nov, 2010, had granted approval for Fuel Throughput Charges at major airports in India, with effect from 01.04.2010. As per the Order the rate approved an ad hoc basis for Cochin airport is Rs. 84 per kilo liter. The final determination of Fuel Throughput Charges for Cochin airport approved on ad hoc basis has not been issued by authority after that. Hence agreed Fuel Throughput Charges between CIAL and BPCL above Rs. 84 per kilo liter is in contravention of Authority's Order No. 07/2010-11 dated 4th Nov, 2010.

Despite there is no firm order from the authority, CIAL has pressurized HPCL/IOCL to pay with higher rate as per agreement with BPCL which we protested and approached to your good office vide our joint letter dated 3rd April, 2014.

It may please be noted that Fuel Throughput Charges are a pass through item for us and in the absence of any approval by AERA; we have not recovered the same from the airlines. Hence any revision in Fuel Throughput Charges on retrospective basis as suggested in the consultation paper will result in financial loss to HPCL.

In view of above, HPCL do not agree for any upward revision in Fuel Throughput Charges for previous period and request to be kept at the same levels as approved in



the AERA Order No.07/2010-11 dated 4th Nov,2010 i.e. Rs. 84 per kilo liter till the revised order issued on prospective basis.

If AERA feel that CIAL has suffered any losses on account of non-revision of charges for previous period, authority may decide and factor it appropriately by upward revision for the future period i.e. on prospective basis so that we can recover the same from the airlines customers and there is no financial loss to us as well as to CIAL.

CIAL's response to Stakeholders' Comments on Matters regarding the FTC

Responding to the stakeholders Comments on FTC, CIAL has stated that IOCL and HPCL do not have any contractual agreement with CIAL to operate ATF facilities at Cochin International Airport. CIAL had given an exclusive right to BPCL to put up refueling facilities and supply fuel to aircraft calling at Cochin International Airport. This agreement is in existence since inception of this airport and BPCL has been paying a small royalty of Rs. 5 per KL during the initial years. As per clause no.2.5(c), the royalty of Rs. 5 per KL was fixed for the sales volume of ATF supplied to aircraft at Cochin International Airport, as long as the selling is based on the administrative red pricing mechanism and upon cessation of administered pricing mechanism of ATF, the rate of royalty will be reviewed between the parties and re-fixed according to the market conditions. Based on this agreement, BPCL had been paying Rs. 5 per KL from June 1999 to 2007-08 and thereafter during 2008-09 the rate was fixed at Rs.35 per KL. In fact CIAL did not insist for the market rate during the intermittent years, despite the dismantling of administrative pricing mechanism of ATF since 2002 onwards. Subsequently, CIAL and BPCL have initiated discussions to reaffix the fuel throughput charges from April 2009 and the rates have been finalized during the meeting held on 06.11.2009 wherein it was refixed at Rs. 70 per KL for the year 01.04.2009 to 31.03.2010 and thereafter, the royalty payable will be escalated cumulatively by 20% every year for a further period of five year. It was also agreed that the rate of royalty with effect from 01.04.2015 will be discussed and finalized during the month of March 2015.

The above contractual arrangement has been effectively functioning in CIAL till date. As such, no agreement or understanding is in existence or possible with IOCL/HPCL in whatsoever manner, as the exclusive right has already been awarded to BPCL for a period of 20 years.

In the meantime, AERA came into existence on 01.09.2009 and as per the Act, the Airport Operations, Cargo, Ground Handling and Fuel Supply was defined as Aeronautical Services, for which, the rate are to be determined through a traffic determination process. Accordingly, each category of service providers including Fuel suppliers were directed to file the tariff proposals to AERA before 30.07.2011. CIAL in full compliance of the said directions, has filed the Multi Year Tariff Proposal for its Airport Operations and Cargo Operations. Similarly, the Ground Handling Operator of M/s. CIAL namely BWFS has also filed the tariff proposal with AERA. However, the fuel service providers of Cochin International Airport have not filed any tariff proposals, as required under the AERA Order No. 17/2010 dated 31.03.2011. In the meantime, AERA vide letter dated 24.03.2011 has also ordered that the airport operators are permitted to continue charging the tariff at the existing rates in the interim period from 01.04.2011 up to the date of new tariff, as may be approved. As regards CIAL, the



determination process was not completed in all respects till date and therefore, CIAL continued to charge the rates either as per the approved tariffs for Landing, Parking etc. and in respect of other charges such as Ground Handling, Fuel supply etc., the rates applicable as per relevant agreements were charged. As such, no tariff revision has occurred at Cochin International Airport during these periods. CIAL has stated that perhaps, it may be the reason that all stakeholders of CIAL, including BPCL, who operates the ATF facility, has been paying the aeronautical charges to CIAL. Further, CIAL has also submitted that it has become a practice of IOCL and HPCL to take recourse on an Interim Order of AERA issued vide Order dated 24.03.2011 and tries to establish an ambiguity in the whole issue with certain ulterior commercial motives, which are very well known to them and CIAL. In this regard they are trying to misinterpret certain regulatory processes by selectively picking out few lines out of the one Interim Order issued by AERA.

In respect of IOCL/HPCL comments CIAL have in their submissions reiterated as under:

CIAL does not have any contractual agreement with IOCL and HPCL and their continuation or Discontinuation of activities at Cochin International Airport is beyond the ambit of regulation. Further issue of airport Entry Permits to any agency will be guided by the security and other applicable directions/Orders issued by DGCA/BCAS from time to time for airport sector.

IOCL and HPCL are repeatedly trying to create an ambiguity on the regulatory processes to achieve certain ulterior commercial interest at Cochin International Airport by misinterpreting an Interim order of AERA on a selective basis.

The agreement with BPCL is for 20 years and the rate charged by CIAL is based on the relevant clauses in existence in the agreements. Further, any subsequent negotiated settlements are also covered under the relevant clauses of the original agreement dated 19th May, 1997 and which have a currency of 20 years period. Neither BPCL nor CIAL has so far violated any contractual obligation falling under this agreement.

In the view of above facts, CIAL has requested AERA not to take cognizance of the complaints of IOCL and HPCL.

Ground Handling Services

8.10. As per the provisions of the AERA Act, service provided for Ground Handling Service relating to aircraft, passengers and cargo at an airport is an aeronautical service. Authority regards CUTE services as a part of Ground Handling Services under the AAI Ground Handling Regulations, 2007 (Passenger related services).

8.11. CIAL have in their submission stated that they have appointed two Ground Handling Agencies namely Air India and BWFS for providing ground handling services at the Cochin International Airport. CIAL had entered into an agreement with BWFS through an open competitive tendering process in 2009 and the third party ground handling royalty was fixed @ 35.2% with an annual escalation of 0.5%. CIAL has stated that the validity of the agreement is for seven years w.e.f 23.01.2009 and has also furnished the applicable rates for each year. Further, CIAL has stated that consequent upon executing an agreement with BWFS, Air India



also matched with the rates of BWFS without entering into a formal agreement and have furnished a copy of the same.

Royalty on CUTE Charges

8.12. CIAL has submitted that an agreement with SITA was executed on 23.04.2009 and concession fee of US\$ 0.41 per domestic/international passenger was fixed as royalty for CUTE charges for all airlines excluding Jet airways. The concession fee is US\$ 0.36 per domestic/ international passenger for Jet Airways. CIAL has stated that these rates are contractually agreed to be valid until 30th November 2014. CIAL has submitted that there is an in-built escalation clause in the agreement between SITA and CIAL, wherein, US\$ 0.45 per departing passenger is chargeable for the period 01.12.2014 to 31.05.2015. CIAL also stated that it will continue with this escalated rates until FY 2015-16 i.e., during the current control period.

8.13. CIAL has requested that the Authority consider the contractual agreements entered in to by CIAL with ground handling agencies and Oil Marketing Companies and allow for increasing the tariffs as per the relevant agreements.

8.14. The Authority notes that as per CIAL, the Ground Handling services at Cochin International Airport are provided by Agencies namely Air India and Bird Worldwide Flight Services. CIAL has treated the revenues received from these agencies as aeronautical revenue.

9. Additional Issues

Contingent Liabilities

9.1. CIAL has stated that at the end of the year FY 2012-13 it had contingent liabilities of Rs.222 crore. CIAL has stated that cases in this regard are currently being heard by Income Tax Tribunal and High Court of Kerala and requested that such liabilities may be adjusted towards the revenue requirement in the next control period if and when CIAL is required to make such payments.

10. Proposal of Aeronautical tariff in the first control period

10.1. CIAL has submitted that they do not intend to increase its aeronautical tariffs namely Landing & Parking charges and Cargo Charges in the current control period (FY12-FY16).

10.2. CIAL has submitted that these charges were based on the tariffs of Airports Authority of India (AAI) prevailing in 2001. Further, CIAL has also stated that the existing tariffs, that were last revised in 2001, will continue till the end of this control period except for services such as ground handling, fuel supply and CUTE charges, where fees are collected based on separate user agreements.



10.3. CIAL has submitted the prevailing item wise tariffs of Landing, Parking and Cargo charges. CIAL has also furnished the agreements pertaining to ground handling, fuel supply and CUTE charges along with the tariffs for these services.

10.4. In consideration of all the above factors, CIAL has requested this Authority to consider a light touch approach for determining the aeronautical tariffs for Cochin International Airport in the first Control Period. CIAL has further submitted that the light touch approach would imply that:

10.4.1. *CIAL will not increase aeronautical tariffs in the current control period other than those governed by existing user agreements with providers of aeronautical services such as fuel supply, ground handling and CUTE.*

10.4.2. *Truing up of figures pertaining to first control period may be avoided*

Stakeholders' Comments

10.5. APAO had stated as under:

APAO have in response to the proposals contained in the Consultation Paper No.03/2014-15 dated 5th June, 2014 noted that CIAL does not intend to increase its Aeronautical tariff namely landing, parking and Cargo charges in the current control period (FY 2011-12 to FY 2015-16). Additionally CIAL has declared that these charges were based on the tariff of AAI prevailing in 2001. As such the existing tariffs that were last revised in 2001 will continue till the end of the current control period except for services such as Ground Handling, Fuel Supply and CUTE Charges where fees are collected based on separate user agreements. In Consideration of the above facts, CIAL has requested the Authority to consider a Light Touch Approach for determining the Aeronautical tariff for Cochin International Airport for the first control period.

APAO supports this request of CIAL. APAO has also noted that the Authority has permitted increase of the tariff of Ground Handling and Fuel Services for which the increase proposed is as per the relevant agreements entered into with oil companies etc., and the Authority has proposed to determine the tariff of these services under Light Touch Approach. We think the Authority in considering a Light Touch Approach. We thank the Authority in considering a Light Touch Approach for CIAL and would like to propose that a similar approach should be adapted for all other major PPP airports in future.

11. Authority's Examination on CIAL's Proposals

11.1. The Authority has considered the submissions made by Cochin International Airport Ltd. (CIAL) in respect of regulatory approach. CIAL has requested that AERA may follow light touch approach in this control period.

11.2. The Authority had issued its philosophy and frameworks for economic regulation of major airports vide its Order No. 13 of 2011 dated 12th January, 2011 (hereinafter called "Airport Order"). As indicated in Para 17.5.13 of the Airport Order, it had also indicated that it proposes to operationalize the regulatory philosophy and approach as decided in the Airport



Order through detailed guidelines. The Authority had also stated that draft of the "Airports Economic Regulatory Authority of India (Terms and Conditions for determination of tariff for Airport Operators) Guidelines 2011" is being issued separately for stakeholders' consultation before its finalized. Accordingly, the Authority issued a Consultation Paper on 2nd February, 2011, for the purpose of Airport Guidelines. After stakeholders' meeting thereon (held on 14th February, 2011), it finally issued the Airport Guidelines vide its Order No. 14 of 2010-11 dated 28th February, 2011. The Authority has made it clear in both the Order and the Guideline that it is passing the Airport Order and Guidelines in discharge of the legislative mandate under the AERA Act 2008.

11.3. Light touch regulation, as requested by CIAL or contemplated by APAO, is not within the framework of Authority's Order and Authority's Guidelines, and the Authority does not propose to follow the path of light touch regulation in respect of tariff determination for Cochin International Airport.

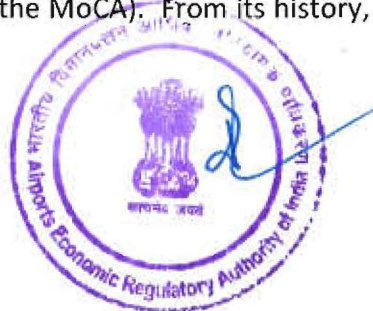
11.4. Based on the Authority's experience of tariff determination under shared revenue till in respect of airports of Delhi, Mumbai and Consultation Paper for Bangalore and comparing it with the experience of tariff determination under single till, and noting the various issues involved that are similar to what the Competition Commission had observed in its report 2002, the Authority has come to the considered view that in the Indian context, single till is the appropriate regulatory approach.

11.5. According to CIAL's submission, the work of construction of the new terminal building has commenced but is expected to be capitalized during the next control period (namely, 01.04.2016 to 31.03.2021). The Authority also noted that CIAL has embarked on expansion programmed of around 1.5 Lakh Sq. mts for a new international building at an estimated capital expenditure of Rs.650 crores and additional works at a cost of Rs. 225 crores towards appurtenant works (refer Table 7). These works are proposed to be funded through a combination of debt and internal resources (comprising of retained earnings etc.).

11.6. The Authority notes that CIAL is a Board Managed company, where the Chief Minister of the State is the Chairman of the Board of CIAL. The Authority presumes that while executing the new international Terminal project and while contracting debt, the Board will supervise the Management to make all reasonable efforts to contain the project costs.

11.7. The Authority has also noted that CIAL is having a passenger throughput of around 5.4 million (FY 2013-14) and is the seventh largest airport in India. Further, the Authority has also noted that this is the only privately operated airport as of now where land of 1275 acres has been paid for by CIAL at a cost of Rs. 124 crores in phases (refer Para 1.6) and this is reflected in its balance sheet.

11.8. The Authority, issued an Order No. 15/2010-11 dated 24.03.2011 stating that the concerned airport operators be permitted to continue charging the tariff/charges for all the aeronautical services provided by them, at the then existing approved rates (as on 28.02.2011) in the interim period i.e. from 01.04.2011 up to the date new tariffs as may be approved by the Authority become effective. Hence as of now, the aeronautical tariffs, as were levied prior to the Authority having come into force, has continued. These rates were approved by the erstwhile regulator (the MoCA). From its history, it has been noted that CIAL



had collected UDF from 14.04.2000 to 31.12.2005 @ Rs. 500 per International Departing Passenger.

11.9. The Authority further notes that CIAL has not sought for any enhancement in Landing, Parking or Housing charges. The Authority also notes that CIAL has not asked for any increase on account of WPI for the remaining part of the current control period and have proposed to keep tariffs constant at the level of 2001. CIAL has also not proposed any levy of User Development Fee (UDF) for the current control period.

11.10. The Authority also notes that CIAL has not increased its aeronautical tariffs since 2001. The increase of 10% of landing, parking and housing charges that were approved for AAI airports as well as airports of Delhi, Mumbai, Bangalore and Hyderabad in 2009 was also not approved for CIAL at that point of time and MoCA had referred this proposal to AERA that had been established in the meantime.

11.11. The Authority notes that CIAL proposes to increase tariffs for ground handling services, cargo and fuel services as per the relevant agreements entered into with the service providers. The Authority also notes that CIAL has entered into agreements with the service providers of Ground Handling. The Authority has already determined tariffs related to Ground Handling services provided by the BWFS and Air India separately.

11.12. The Authority further notes that as per Authority Order No. 07 dated 4th Nov, 2010, a rate of Rs. 84 per KL, towards FTC has been 'ad hoc' approved by the Authority w.e.f. 01.04.2010. As on date, no other rate has been approved by the Authority for CIAL yet. While all other airport operators have abided by the FTC rates mentioned in the above mentioned order, CIAL had chosen to demand higher FTC from oil companies, through BPCL, without any approval from AERA. This was protested by IOCL and HPCL; however this was unfortunately met with the threats of withdrawal of the Airport entry passes of their employees. CIAL had even conveyed to the airlines customers IOCL and HPCL that the entry passes withdrawn due to non-payment of the higher FTC demanded by CIAL. The Authority noted that as per CIAL issue of Airport Entry permits to any agency will be guided by the security and other applicable directions/orders issued by DGCA/BCAS from time to time for airport sector. The Authority would examine this issue separately and will pass appropriate orders in due course.

11.13. The Authority has also noted that less than one year is left for completion of the 1st Control Period in respect of Cochin International Airport which is set to expire on 31.03.2016. It was further noted that fresh determination of tariff for the 2nd control period, which is due in less than one year, would lead to frequent fluctuation in tariffs, which may best be avoided.

12. Order of the Authority

12.1. Upon careful consideration of material available on record, the Authority, in exercise of powers conferred by Section 13(1)(a) of the Airports Economic Regulatory Authority of India Act, 2008, hereby orders that:

- (i) CIAL, which is pending for determination for the first control period, would continue at the existing level on ad hoc basis.

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- (ii) The Fuel Throughput Charges at Cochin International Airport was approved by the Authority vide its Order No. 07/2010-11 dated 4th Nov., 2010 @ Rs.84 per KL, on ad hoc basis, till further determination by the Authority. However, the Authority has noted that CIAL is charging FTC at a higher rate without the approval of the Authority. The Authority would examine this issue separately and will pass appropriate orders in due course.
- (iii) CIAL is advised to submit the MYTP for the Second Control Period well in time as per Guidelines by incorporating the actual financials of 2014-15 which would be examined by Authority along with Aggregate Revenue Requirement for the first control period.

By the Order of and in the
Name of the Authority


(Alok Shekhar)
Secretary

To

Cochin International Airport Pvt. Ltd.,
Nedumbassery, Kochi Airport P.O.,
Ernakulam – 683 111,
Kerala.
(Through: Shri V. J. Kurian, IAS, Managing Director)



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