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आदेश संख्या 30/2023-24/
Order No. 30/2023-24

सत्यमेव जयते

भारतीय विमानपत्तन आर्थिक विनियामक प्राधिकरण
AIRPORTS ECONOMIC REGULATORY AUTHORITY OF INDIA

केरल स्टेट इंडस्ट्रियल इंटरप्राइजेज लिमिटेड (केएसआईईएल) के संबंध में तिरूवनंतपुरम अंतरराष्ट्रीय हवाईअड्डे पर कार्गो हैंडलिंग सेवाओं के लिए तृतीय नियंत्रण अवधि (वित्त वर्ष 2021-22 से वित्त वर्ष 2025-26) के लिए टैरिफ निर्धारित करने के मामले में

IN THE MATTER OF DETERMINATION OF TARIFF FOR THE CARGO HANDLING SERVICES IN RESPECT OF KERALA STATE INDUSTRIAL ENTERPRISES LTD. (KSIEL) AT THIRUVANANTHAPURAM INTERNATIONAL AIRPORT FOR THE THIRD CONTROL PERIOD (FY 2021-22 to FY 2025-26)

जारी करने की तारीख : 20.12.2023
Date of Issue: 20.12.2023

ऐरा भवन/ AERA BUILDING
प्रशासनिक कॉम्पलेक्स/ ADMINISTRATIVE COMPLEX
सफदरजंग हवाईअड्डा/ SAFDARJUNG AIRPORT
नई दिल्ली – 110003/ NEW DELHI -110003

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List of Abbreviations

ACC	Air Cargo Complex
ACS	Annual Compliance Statement
AERA/ AUTHORITY	Airports Economic Regulatory Authority of India
AFS	Air Freight Station
ARR	Aggregate Revenue Requirement
ATP	Annual Tariff Proposal
BCAS	Bureau of Civil Aviation Security
CAGR	Compounded Annual Growth Rate
CAPEX	Capital Expenditure
CGF	Cargo Facility, Ground Handling & Supply of Fuel to the Aircraft
CPI	Consumer Price Index
CUDCT	Common User Domestic Air Cargo Terminal
DIAL	Delhi International Airport Limited
FIA	Federation of Indian Airlines
FFFAI	Federation of Freight Forwarders Associations in India
HO	Head Office
IDP	Integrated Development Plan
ISP	Independent Service Provider
KSIEL	Kerala State Industrial Enterprises Limited.
MIAL	Mumbai International Airport Limited
MoM	Minutes of Meeting
MoU	Memorandum of Understanding
MYTP	Multi-Year Tariff Proposal
MT	Metric Ton
OPEX	Operating Expenditure
O&M	Operation and Maintenance
PAT	Profit After Tax
PBT	Profit Before Tax
PSU	Public Sector Undertaking
RA	Regulated Agent
RAB	Regulatory Asset Base
TACC	Thiruvananthapuram Air Cargo Complex
TIAL	TRV (Kerala) International Airport
TRV	Thiruvananthapuram International Airport
YoY	Year on Year

CHAPTER 1: INTRODUCTION

1.1 Kerala State Industrial Enterprises Limited (KSIEL) is a State Public Sector Undertaking (PSU) owned by the Kerala Government and was incorporated on 25th January, 1973. KSIEL established Air Cargo Complex at Shangumugham, Thiruvananthapuram and was appointed as the Custodian of all Imported & Exported goods at Thiruvananthapuram International Airport (TRV) by the Commissioner of Customs, in accordance with the provisions of Chapter VII of the Customs Act, 1962. KSIEL commenced its Export & Import Cargo Handling activities at Thiruvananthapuram Airport in July 1984.

1.2 In the year 1991, Thiruvananthapuram International Airport was declared as an International Airport and the Air Cargo custodianship was entrusted to the Airports Authority of India (AAI). After a brief period of nearly two years, the custodianship of Air Cargo was again transferred back to KSIEL. From 01.03.2011, international flights operations at the Thiruvananthapuram Airport were shifted to the new Airport Terminal. Accordingly, KSIEL created necessary infrastructural facilities near the new Airport terminal at Chackai, to carry out export cargo handling operations smoothly.

1.3 Subsequent to handing over of the Thiruvananthapuram International Airport by AAI to Private Airport Operator, M/s KSIEL signed a Memorandum of Understanding (MoU) with TRV (Kerala) International Airport (new airport operator), hereinafter referred to as "TIAL", on 25th January, 2023, for provision of Export Cargo Handling Services at Thiruvananthapuram International Airport, valid up to 31.03.2025.

1.4 As per the MoU with Airport Operator (TIAL), KSIEL is required to surrender 1210 Sq. Mtr. land area, out of the 2050 Sq. Mtr. of land presently held by the ISP to TIAL. The above referred MoU requires the Airport Operator to give an alternate plot of land admeasuring to 840 Sq. Mtr. (adjacent to existing Cargo Complex) to KSIEL.

The details of land area in possession of the ISP & net land area likely to be available with KSIEL, after swapping of land area (as per the MoU) is given below:

Sl. No.	Particulars	Land Area
1.	Present Land Area available with the ISP	2050 Sq. Mtr.
2.	1210 Sq. Mtr. of land Area to be surrendered by the ISP to the Airport Operator	(-) 1210 Sq. Mtr.
3.	Alternate Plot of Land given by the Airport Operator to the ISP	840 Sq. Mtr.
4.	Likely Net Land Area after completion of land swapping (i.e. after surrendering of 1210 Sq. Mtr. of land area)	1680 Sq. Mtr.

As per the MoU, KSIEL shall utilize net land area of 1680 Sq. Mtr. for its international cargo operations and pay ₹ 1000/- per Sq. Mtr. per annum (along with applicable taxes) as license fee & utilities charges. As per the ISP, their international cargo operations will be continued from the net land area of 1680 Sq. Mtr. available with them, as an interim arrangement till July, 2024.

Thereafter, as per the MoU provisions, TIAL will provide a separate plot of land up to 2000 Sq. Mtr. to KSIEL by 01st July, 2024 or any other date as intimated by the Airport Operator. KSIEL shall construct, commission and shift their import and export cargo operations to new plot of land (2000 Sq. Mtr. approx.) by 31st March, 2025, at its costs & expenses and surrender the 1680 Sq. Mtr. of land area, on or before 31st March, 2025 to TIAL, for ensuring airport development as per the master plan.

1.5 KSIEL, was earlier operating the Common User Domestic Air Cargo Terminal (CUDCT) Facility from the Thiruvananthapuram International Airport. However, in compliance of the Bureau of Civil Aviation Security (BCAS) directions, ISP converted the existing Air Cargo Facility into the Regulated Agent (RA) Facility with effect from 01.07.2023 and commenced RA Facility related Services at the ACC, Thiruvananthapuram International Airport. In this regard, ISP submitted a copy of BCAS letter dated 31.07.2023 to the Authority. BCAS, vide aforesaid letter granted the Regulated Agent (RA) status to KSIEL for 5 years, from the date of issue or till validity of security clearance or till the period of agreement with the Airport Operator or until further order of the Director General, BCAS, whichever is earlier

1.6 The shareholding structure of the KSIEL is given as below:

Table-1: Shareholding Structure of KSIEL

Name of Shareholder	State Govt. Equity Holding (%)
M/s Kerala State Industrial Enterprises Limited (KSIEL)	100.00

1.7 Brief of the past Tariff approvals:

(i) The Authority, vide Order No. 36/ 2017-18 dated 23.01.2018 approved the tariff in respect of M/s Kerala State Industrial Enterprises Limited (KSIEL), providing Cargo handling services at Thiruvananthapuram International Airport, under the "Light Touch Approach" for the first three years of the Second Control Period. Thereafter, the Authority, vide Order No. 26/ 2019-20 dated 19.02.2020 approved the then existing Tariff (as on 31.03.2019) for the 4th and 5th tariff years of the Second Control Period. Subsequently, the Authority extended the tariff prevailing as on 31.03.2021 up to 31.03.2024, vide various Interim Orders issued by the Authority from time to time.

(ii) KSIEL, vide letter dated 08.06.2023 informed the AERA that they had been directed by the BCAS to deploy their own X-ray screeners at the existing Cargo Terminal at the Thiruvananthapuram International Airport latest by 30.06.2023; the ISP, accordingly requested the Authority to approve the Tariff for RA related Services, on ad-hoc basis, so as to comply with the BCAS instructions.

On request of the ISP, the Authority, vide Addendum to Order No. 42/2022-23 dated 28.06.2023 approved the Ad-hoc Tariff up to 30.09.2023 for the Regulated Agent (RA) related Services provided by KSIEL at Thiruvananthapuram International Airport.

MYTP Submission for the Third Control Period:

1.8 KSIEL submitted Multi Year Tariff Proposal ('MYTP') for the Third Control Period (FY 2021-22 to FY 2025-26) to the Authority on 20.03.2023, for the determination of Tariff in respect of Cargo Handling Services is being providing by the ISP at Thiruvananthapuram International Airport.

1.9 Based on the review of MYTP & the Authority's observations, the ISP vide email dated 07.08.2023 submitted the updated MYTP. In the updated MYTP, KSIEL incorporated the actual figures for FY 2021-22 & FY 2022-23 and proposed following % increase in the Tariffs for the FY 2023-24 to FY 2025-26 of the Third Control Period.

Financial Years	FY 2023-24	FY 2024-25	FY 2025-26
% Tariff Increase	25%	15%	10%

Consultation Paper

1.10 The Authority, after having examined the MYTP submission of the KSIEL in detail and taking into account the additional information/ clarifications furnished by the ISP from time to time, issued the Consultation Paper (CP) No. 15/2023-24 dated 18.10.2023 for the stakeholders' comments.

1.11 The Authority invited suggestions/ comments from the Stakeholders on the various proposals of the Authority in the Consultation Paper (CP) No. 15/2023-24 dated 18.10.2023, with the following timelines:

- Date for submission of written comments by Stakeholders: 9th November, 2023.
- Date for submission of counter comments: 16th November, 2023.

1.12 Pursuant to issuance of the aforesaid CP, the Authority received comments from M/s Federation of Freight Forwarders' Associations in India (FFFAI), M/s SpiceJet Limited, M/s Federation of Indian Airlines (FIA) on the various proposals of the Authority contained in the Consultation Paper No. 15/2023-24 and the same were uploaded on the AERA's website vide Public Notice no. 20/2023-24 dated 10.11.2023. Thereafter, the Authority, in response to Public Notice no. 20/2023-24 dated 10.11.2023, received counter comments from KSIEL on 15.11.2023.

1.13 The Authority, after considering the comments submitted by the stakeholders on the CP, including counter comments of service provider, has finalized this Tariff Order.

CHAPTER 2: PRINCIPLES FOR DETERMINATION OF TARIFF FOR THE "AERONAUTICAL SERVICES".

2.1 The Authority, vide Order No. 12/2010-11 dated 10.01.2011 finalized its approach in the matter of Regulatory Philosophy and Approach in Economic Regulation of the Services provided for Cargo Facility, Ground Handling and Supply of Fuel to the Aircraft at the major airports. Accordingly, the Authority issued the Airports Economic Regulatory Authority of India (Terms and Conditions for Determination of Tariff for Services provided for Cargo Facility, Ground Handling and supply of Fuel to the Aircraft) Guidelines, 2011 ("the CGF Guidelines"), vide its Direction No. 04/2010-11 dated 10.01.2011.

2.2 In accordance with the above mentioned CGF Guidelines (clause 4.3), the following procedure is adopted for determination of the Materiality Index of Regulated Service:

Materiality Assessment (MI_c):

$$Materiality\ Index\ (MI_c) = \frac{Cargo\ Volume\ at\ \text{Thiruvananthapuram}\ Airport}{Total\ Cargo\ Volume\ at\ all\ Major\ Airports} \times 100$$

The Materiality Index for Thiruvananthapuram Airport = *25511/3228862 x 100*

= ***0.79%***

The percentage share of Cargo volume for Thiruvananthapuram International Airport in respect of FY 2019-20 (pre-Covid year) is 0.79%, which is lower than Materiality Index (MIc) of 2.5% for the regulated service (Cargo Handling Services). Hence, the regulated service is deemed as **"Not Material"** at Thiruvananthapuram International Airport, during Third Control Period.

2.3 The Authority noted that at Thiruvananthapuram International Airport, apart from KSIEL, who is providing International (Export & Import) Cargo Handling Services, the Airport Operator (AO) i.e., TIAL is also providing Domestic & International (Export) Cargo Handling Services.

2.4 As per the clause 3.2 (i) of the CGF Guidelines, wherever the Regulated Service provided is **'Not Material'**, the Authority shall determine Tariff(s) for Service Provider(s) based on a **'Light Touch Approach'** for the duration of the Control Period. Hence, in the instant proposal, the Authority has decided to determine Tariff in respect of Cargo Handling Services (regulated services) provided by KISEL at Thiruvananthapuram International Airport under the "Light Touch Approach", for the Third Control Period.

2.5 The Tariffs for the ISP, in the instant proposal, has been determined under the Light Touch Approach; however, it is pertinent to mention that even in light touch approach, the Authority examines all the regulatory building blocks & underlying assumptions/ basis thereof, including projections relating to revenues, expenses, volumes etc. and considers other relevant aspects of the proposal, to ensure that no undue gains accrues to the Service Provider and the end users are not unduly burdened with higher Tariff(s). Accordingly, wherever required, additional details/ clarification etc. on the various aspects of the proposal, including regulatory building blocks, were sought from the ISP, in accordance with the provisions of CGF Guidelines / under the Section 13 (e) of the AREA Act, 2008.

Accordingly, in order to assess the reasonability of various building blocks, including tariff increase sought by the service provider, additional details/ clarifications etc. on the various aspects of the proposal were sought from the ISP, wherever required, in accordance with the provisions of CGF Guidelines and under the Section 13 (e) of the AERA Act, 2008.

2.6 KSIEL submitted the Annual Tariff Proposal (ATP) for the Control Period, along with its MYTP. The Authority noted that the KSIEL had conducted the separate Stakeholders' Consultation Meeting with the representatives of Airlines, Exporters association & AISATS on 31.01.2023 and submitted the Minutes of Meetings (MoM) to the Authority. As per the MoM, the representatives of Emirates, Air Arabia, Scoot, Sri Lankan Airlines, Air India, QR Airways and AISATS participated in the Consultation Meetings.

2.7 From the Minutes of Meetings (MoM), the Authority noted that the ISP, inter-alia, explained to the stakeholders, the BCAS requirement to convert its CUDCT facility at Thiruvananthapuram airport into a Regulated Agent (RA) Facility. Accordingly, KSIEL included the proposed Tariff in respect of the 'RA related Additional Services' in its MYTP and also discussed the proposed Tariff with the Stakeholders during the meetings. As per the ISP submission, the Exporters Association agreed for the revision of Tariff; however, they proposed to verify the TSP and related Charges after approval of the same by AERA, preferably on a later date anticipating favorable business conditions.

As per the ISP, Airlines representatives during the consultation meeting told the service provider that they will submit their feedback, after getting the same vetted by their respective Head Offices.

Further, in response to AERA query, the ISP vide mail dated 02.09.2023 submitted that being the Regulated Agent, KSIEL sent draft agreements along with the Ad-hoc Tariff Rates for 'RA Services' to the Airlines for their concurrence. As per the ISP, they received certain suggestions etc., from some of the airlines. The ISP further informed that Airlines in their feedback in respect of the draft agreements did not raise the issue of upward revision of the Tariff.

2.8 **Stakeholders' Comments regarding Consultation Process for the determination of Tariff in respect of the ISP for the Third Control Period.**

Federation of Freight Forwarders' Associations in India (FFFIA).

2.8.1 In its comment regarding consultation meeting with the Stakeholders pertaining to the tariff proposed by the ISP, FFFIA submitted that *"As per AERA (Terms & Conditions for Determination of tariff for services provided for Cargo facility, Ground handling and supply of Fuel to the Aircraft) Guidelines 2011, stakeholders meeting is required to be conducted to include their comments/ recommendations/ observations in the MYTP by KSIEL before it is submitted to AERA for its approval. However, on perusal of the said consultation paper, it is observed that **no such meeting has been conducted before the submission of MYTP by KSIEL and issuance of Consultation paper by AERA.***

It is suggested that AERA may conduct the stakeholders' consultative meeting to incorporate the comments/recommendations/observations of the stakeholders in the Tariff Order. Also, KSIEL may be advised to collaborate with stakeholders in the supply chain including the Freight Forwarders, Customs House Brokers etc., to develop solutions that benefit all concerned leading to more sustainable and resilient global supply chain. This will support the recovery of the international trade and Logistics sector fulfilling the initiative(s) laid down in recently launched National Logistics Policy under PM Gati Shakti National Master Plan."

2.9 **Counter Comments of the KSIEL:**

2.9.1 In response to FFFIA's comments regarding consultation meeting with the Stakeholders pertaining to before MYTP submission, KSIEL has submitted that *"KSIE in the application for the MYTP have submitted along with other documents the minutes of the meetings held with the stake holders, as could be seen from the Consultation Paper document page 7&8, under item No.1.8 (c).*

1.8 As per the provisions of the Cargo Facility, Ground Handling and Supply of Fuel to the Aircraft (CGF) Guidelines, 2011, M/s KSIEL, vide its letter dated 20.03.2023 submitted the Multi-Year Tariff Proposal (MYTP) to the Authority, for the Determination of the Tariff for the period from FY 2021-22 to FY 2025-26, along with the following documents:

a) Annual Tariff Proposal (ATP) Forms as per AERA guidelines.

b) Memorandum of Understanding (MoU) between Kerala State Industrial Enterprises Limited (KSIEL) & TRV (Kerala) International Airport Limited (TIAL)."

c) Minutes of the meeting with stakeholders".

2.10 **Authority's analysis of the Stakeholders' comments regarding Consultation Process for the determination of Tariff in respect of the Third Control Period:**

2.10.1 The Authority notes from the submission of KSIEL that the service provider has conducted the stakeholders' consultation meeting with the Exporters Association and the representatives of the Airlines and had forwarded the minutes of consultation meeting to the concerned participants. The ISP also submitted Minutes of Meeting (MoM) to the Authority, along with its MYTP, in compliance of AERA CGF Guidelines 2011.

As regard to FFFIA comments that AERA may conduct the stakeholders' consultative meeting to incorporate the comments/recommendations/observations of the stakeholders in the Tariff Order, in this regard, it is informed that the Authority had issued consultation paper and sought the comments/suggestions from the stakeholders on the various proposals of the Authority contained in the consultation paper.

Many stakeholders have submitted their comments/view on the CP no. 15/2023-24 dated 18.10.2023 & their valuable comments/suggestions have duly been considered, along with the counter comments of the ISP, while finalization the Tariff Order for the ISP.

2.11 **Authority's decision regarding principles for determination of the Tariff for the Aeronautical Services for the Third Control Period.**

2.11.1 Based on the material before it and its analysis, the Authority decides the Cargo Handling Services provided by KSIEL at Thiruvananthapuram International Airport, in respect of the Third Control Period, is **'Not-Material'**. Accordingly, the Authority decides to determine the Tariff for the ISP in respect of its Third Control Period based on the **'Light Touch Approach'**.

CHAPTER 3: CARGO VOLUME PROJECTION

3.1 KSIEL submission on Cargo Volume Projection for the Third Control Period.

3.1.1 KSIEL, as part of its MYTP, submitted the actual International Cargo Volume handled by the ISP at Thiruvananthapuram International Airport during the Second Control Period, as under:

Table 2: International Cargo volumes handled by KSIEL at Thiruvananthapuram International Airport during the Second Control Period.

(Volume in MT)

Financial Year	Export	Import	Total	YoY % Change		
				Export	Import	Total
2016-17	26932	940	**27872**	-	-	-
2017-18	25402	767	**26169**	-6%	-18%	-6%
2018-19	22349	668	**23017**	-12%	-13%	-12%
2019-20	22989	495	**23484**	3%	-26%	2%
2020-21	14691	291	**14982**	-36%	-41%	-36%

3.1.2 The Cargo Volume projection (Cargo Volume to be handled by the ISP) for Third Control Period submitted by KSIEL is given below:

Table 3: Cargo Volume Projected (Cargo Volume to be handled by KSIEL) at Thiruvananthapuram International Airport for the Third Control Period at CP stage.

(Volume in MT)

Financial Year (FY)	Export	Import	Total	YoY % increase		
				Export	Import	Total
2021-22*	14909	261	**15170**	-	-	-
2022-23*	14686	155	**14841**	-1.50%	-40.23%	-2.16%
2023-24	15000	200	**15200**	2.14%	28.21%	2.41%
2024-25	15750	210	**15960**	5.00%	5.00%	5.00%
2025-26	16538	215	**16753**	5.00%	2.38%	4.97%

**Actual Cargo Volumes handled*

3.1.3 KSIEL submitted that they are handling two types of Export Cargo at Thiruvananthapuram International Airport (TRV):

(i) **Perishable Cargo-** Fresh vegetables, fruits, fish and meat, flowers etc. are the major perishable cargo moving from TRV to Middle East Countries. Major vegetables/fruits are banana, bitter gourd, long beans, curry leaves etc.

(ii) **Non-Perishables Cargo:** Engineering products, ready-made garment, spices etc. are some non-perishables cargo goods exported from the Thiruvananthapuram Airport. Around 5% of the total export cargo constitutes non-perishable cargo.

Similarly, two types of Import Cargo are handled by KSIEL at Thiruvananthapuram International Airport:

(i) **Unaccompanied Baggage (UB) or Personal effects**: 95% import cargo constitute of personal effects of NRIs based in gulf countries. UB also include electronic equipment like computers, TV and washing machine, fridge, air conditioners etc.

(ii) **Commercial Cargo**: Electronic spares & other equipment imported by BPL and other IT Companies based in Kerala, machinery & spares imported by ISRO, hospitals and other industrial units. This also includes some quantity of valuable cargo.

3.2 **Authority's Examination on Cargo Volume Projection in respect of KSIEL for the Third Control Period at CP stage:**

3.2.1 The Authority noted that the historical cargo volumes handled at Thiruvananthapuram International Airport during the Second Control Period had not shown any clear trend in the cargo volume growth. It was observed that in FY 2017-18, FY 2018-19 and FY 2020-21 cargo volume decreased by 6%, 12% and 36% respectively against the previous year and volume increased by 2% in FY 2019-20 over the FY 2018-19. The Authority observed that total cargo volumes declined at a CAGR of - 4.19% during the period from FY 2016-17 to FY 2019-20, in the Second Control Period before the Covid-19 pandemic.

3.2.2 In response to the AERA query regarding decrease in Cargo volumes during the Second Control Period, M/s KSIEL, vide email dated 02.09.2023 submitted that the nos. of flights especially wide body flights got reduced / stopped its services through Thiruvananthapuram International Airport during all these years and some of them shifted their operations to other neighboring airports. Further, due to the outbreak of the Covid Pandemic all over the Globe, Govt. of India amended the open sky policy to safeguard the domestic airlines; only few airports were permitted to operate foreign/ chartered flights for carrying the cargo goods, and the Thiruvananthapuram International Airport was not included in the list of approved airports during that time. ISP also submitted that the freight from Thiruvananthapuram airport was slightly higher when compared with the neighboring Airports. As per the ISP, these were the main reasons which led to decrease in cargo volume in the Second Control Period.

3.2.3 The Authority noted that actual cargo volume increased by just 1.25% in FY 2021-22 over FY 2020-21 and then decreased by 2.16% in FY 2022-23 against FY 2021-22. The Authority observed that KSIEL had projected a 5% YoY increase in the Cargo volumes for the FY 2024-25 & FY 2025-26 of the Third Control Period.

As per the ISP, while proposing the Cargo Volumes for the remaining tariff years of the Third Control Period, they had considered the market conditions, current cargo volume growth trend. ISP expected the stagnation in the volumes, of perishable cargo exports to Middle East countries as well as in the import cargo from the U.S.A, in the near future.

3.2.4 Considering the lack of clear historical trend in the cargo volume growth at Thiruvananthapuram International Airport and taking note of the actual cargo volumes handled by the ISP during first two tariff years of the Third Control Period, the Authority proposed to adopt projected increase of 2.41% in cargo volume during current FY and 5% YoY increase in cargo volumes for the remaining two tariff years of the Third Control Period i.e., FY 2024-25 & FY 2025-26, as submitted by the ISP.

3.3 **Stakeholders' Comments regarding Cargo Volume Projection for the Third Control Period:**

Federation of Freight Forwarders' Associations in India.

In its comment regarding Cargo Volume for the Third Control Period, FFFIA submitted that *"AERA has proposed 2.41% projected increase in the cargo volume during the current FY and 5% YoY* *increase in cargo volumes for the remaining two tariff years of the third control period i.e., FY 2024-25 & 2025-26.*

The proposed increase (2.41% to 5%) is without any justification, FFFAI suggests that AERA may reconsider its proposal after seeking detailed justification from KSIEL."

3.4 **Counter Comments of the KSIEL:**

3.4.1 In response to FFFIA's comments regarding Cargo Volume projected for the Third Control Period, ISP has submitted that "*AERA has given full details regarding the projected cargo handling at Trivandrum International Airport by KSIE for the projected control period. Full data and underlying assumptions for a moderate to medium slow ramp up of the volumes are quite justifiable. KSIE is a government backed organization and the improvement in the business volume of exports and imports is a mandate for the State Government and the recent takeover of Trivandrum by the ADANI group and their presence at the Vizhinjam International Seaport could very easily substantiate the modest cargo volume projections.*"

3.5 **Authority's analysis of the Stakeholders' comments regarding Cargo Volume Projection for the Third Control Period:**

3.5.1 The Authority notes the comments of FFFIA pertaining to cargo volume projection, wherein the stakeholder submitted that the increase in cargo volume proposed by Authority without any justification. In this regard the Authority informs that while proposing Cargo Volumes for the ISP in respect of Third Control Period (at CP stage), the Authority had duly considered relevant factors, including justifications/assumptions submitted by the service provider. In addition, the Authority had also reviewed the past trend of cargo volumes handled by KSIEL at the Trivandrum International Airport. Hence, the Authority carried out necessary due diligence in respect of the projected cargo volumes for the ISP (CP stage).

3.5.2 Further, subsequent to completion of consultation process, the Authority enquired about the actual volume handled by ISP during April, 2023 to October 2023. KSIEL, vide email dated 29.11.2023 submitted the actual figures of international cargo handled by the ISP at Trivandrum International Airport as given below:

Table 4: Actual Cargo Volume handled by KSIEL at Trivandrum International Airport from April to October 2023.

(In MT)

Months	Export	Import	Total	% Change in Total Volume
April	1481	15	**1496**	-
May	1451	11	**1462**	-2.27
June	1188	16	**1204**	-17.64
July	1311	12	**1323**	9.88
August	1502	11	**1513**	14.36
September	1375	19	**1394**	-7.87
October	1357	11	**1368**	-1.86

From the above, the Authority notes that there is no clear trend in the actual cargo handled by the ISP for the period April to October, 2023. The Authority, therefore, considering the actual Cargo Volume handled by the ISP in Second Control Period & taking note of clarification submitted by the ISP, decides to consider projected cargo volumes for FY 2023-24 to FY 2025-26 of the Third Control Period, as was proposed at CP stage.

3.6 Authority's decision regarding Cargo Volume for the Third Control Period.

Based on the material before it and its analysis, the Authority decides:

3.6.1 To consider the Cargo Volume projected by KSIEL for the Third Control Period as per Table 3.

CHAPTER 4: CAPITAL EXPENDITURE (CAPEX) REGULATORY ASSET BASE (RAB) AND DEPRECIATION.

4.1 KSIEL submission on Capital Expenditure for the Third Control Period.

4.1.1 KSIEL projected a total Capital Expenditure (CAPEX) of ₹ 371.44 lakhs towards augmentation of its Cargo Handling facilities & procurement of X-ray screening Machine during the Third Control Period (FY 2021-22 to FY 2025-26). The details of Capital Expenditure projected by KSIEL for the Third Control Period is given below:

Table 5: Capital expenditure proposed by the KSIEL for the Third Control Period.

(₹ in lakhs)

Particulars of Assets	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Other Buildings	-		-	150.00	-	**150.00**
Computers	-	0.03	-	-	-	**0.03**
Machinery	-		-	15.00	-	**15.00**
Tools & Plants	-	-	-	-	-	**-**
Furniture & Fittings	-	-	-	-	-	**-**
Elect Installation		0.03	-	27.70	-	**27.73**
Office Equipment	0.18	0.03	-	9.50	-	**9.71**
X- Ray Machine	68.97	-	100.00	-	-	**168.97**
Total	**69.15**	**0.09**	**100.00**	**202.20**	**0.00**	**371.44**

4.1.2 Out of the total CAPEX of ₹ 371.44 lakhs proposed for the Third Control Period, service provider earmarked a major portion of CAPEX (₹ 318.97 lakhs) for the proposed Civil & Electrical Works and procurement of X-Ray machine.

4.1.3 KSIEL submitted the following justifications/ requirements for the major capital works proposed during the Third Control Period:

(i) **Purchase of new X- Ray machine** – KSIEL submitted that as per the BCAS directions, KSIEL has to convert its existing CUDCT facility into the Regulated Agent Facility. Accordingly, after getting the RA status, the new segments of activities are required to be performed by the ISP and same was considered while proposing CAPEX for the Third Control Period. As per the ISP, after the grant of RA status, all the activities inside the cargo terminal will be controlled and executed by the KSIEL, including Screening and Certification of the Cargo, Loading and Unloading, stuffing etc. Accordingly, the ISP proposed a CAPEX of ₹ 100 Lakhs for procurement of 01 no. of big tunnel size X-ray machine in FY 2023-24.

(ii) **Purchase of others Cargo Handling Equipment** – For converting CUDCT facility into RA facility and continuation of smooth cargo handling operations, ISP submitted that it required new cargo handling equipment like Forklifts, Trolleys, Hydraulic Pallet Trucks, etc. for handling the additional Cargo Services.

(iii) **Construction/Renovation of the Rooms** – ISP further submitted that there is a need for construction/renovation of rooms for handling Dangerous and Valuable Cargo, including upgradation of the Surveillance system at Export Cargo Terminal.

4.2 <u>Authority's Examination on CAPEX (Additions to RAB) proposed by the ISP for the Third Control Period CP Stage.</u>

4.2.1 The Authority observed that ISP had proposed to incur major portion of the projected CAPEX (₹ 302.20 lakhs) during FY 2023-24 & FY 2024-25.

4.2.2 Further, the Authority noted that KSIEL had proposed ₹ 318.97 lakhs, almost 86% of the proposed CAPEX for the Control Period, under the following two categories:

(i) Works relating to Other Buildings.

(ii) Purchase of 1 no. of X-Ray machine.

The CAPEX proposed by the ISP for the Third Control Period is discussed in the ensuing paras.

4.2.3 The Authority noted that KSIEL is converting its CUDCT facility into the Regulated Agent Facility in compliance to BCAS directions. Consequently, ISP is undertaking modification/ upgradation works in the existing Air Cargo Complex (ACC) for handling Dangerous Cargo and Valuable Cargo Goods etc.

4.2.4 KSIEL had proposed to incur CAPEX of ₹150.00 lakhs and ₹27.73 lakhs for Civil Works and Electrical Works respectively during the current Control Period. In this regard, ISP submitted that proposed Civil Works are related to the shifting of existing structure, extension of warehouse, partition of X-Ray cabin and office cabin, cold storage etc. ISP further submitted that estimation and supervision of the Civil Works is being done by their own engineering division, therefore, no external consultancy and Integrated Development Plan (IDP) cost is involved in the projected costs pertaining to Civil Works. As per the ISP, Civil Works estimated to cost @ rate of ₹10000/- per Sq. Mtr. for around 1500 Sq. Mtr. of area.

4.2.5 In its initial MYTP, KSIEL proposed Capex of ₹ 140.00 lakhs for the FY 2022-23. The Authority sought the status of actual CAPEX incurred during FY 2022-23, in response thereto, ISP vide email dated 07.08.2023 informed that during FY 2022-23 they had incurred only ₹ 0.09 lakh on computers, office equipment and electric installation. The ISP had submitted the revised CAPEX proposal for the Control Period, considering the actual CAPEX incurred in FY 2022-23. As per the service provider, unexecuted portion of original CAPEX plan for FY 2022-23 (₹ 140.00 lakhs - ₹ 0.09 lakh = ₹ 139.91 lakh) pertaining to the Civil & Electrical Works and purchase of cargo handling equipment will now be executed and capitalized during FY 2023-24 / FY 2024-25 of the Control Period.

4.2.6 The Authority observed that ISP had earlier incurred a Capex of ₹ 68.97 lakhs on the purchase of two X-Ray machines in FY 2021-22 and now proposed procurement of 1 no. additional X-Ray screening machine (big tunnel size machine) for Screening and Certification of the Cargo, at an estimated cost of ₹ 100 lakhs in FY 2023-24. In this regard, the Authority sought clarification from the KSIEL regarding the requirement of 1 no. additional big tunnel size X-Ray screening machine, considering that ISP had already purchased 2 nos. X-Ray screening machines in FY 2021-22. Further, service provider was asked to furnish the supporting documents towards estimated cost in respect of the 1 no. new X-Ray machine under procurement.

4.2.7 KSIEL submitted that additional 1 no. big tunnel size X-ray screening machine is required for screening of big size/ odd size Cargo. ISP informed that in the absence of big tunnel size X-ray screening machine, they were forced to go in for open examination by Customs officials, which caused lot of inconvenience to Exports/ Airlines. KSIEL, further submitted that the absence of X-ray screening machine of required size/ specifications, sometimes cause diverting of such cargo to other Ports. Hence, in order to overcome the limitations of screening big size cargo, new X-ray machine capable of screening big size/ odd size cargo is required.

4.2.8 KSIEL, vide email dated 26th August, 2023 submitted a copy of quotation from ECIL- Rapiscan Ltd. amounting to ₹ 96,99,600/- (including of GST @ 18%) as a supporting document towards the estimated cost of 1 no. new x-ray screening machine.

4.2.9 The Authority observed that the estimated cost of X-ray screening machine includes GST component of ₹ 14,79,600/-. In this regard, the Authority advised the ISP to avail the GST Input Tax Credit available on the procurement of new machine and capitalize the new X-ray screening machine excluding of GST. Accordingly, the Authority proposed to consider the cost of 1 no. new X-Ray Screening Machine at ₹ 82,20,000/- (excluding of GST), as against ₹ 1,00,00,000/- (including of GST) proposed by the service provider.

4.2.10 The Authority also observed that KSIEL is procuring other cargo handling equipment, such as Forklifts, Trolleys, Hydraulic Pallet Trucks, etc. which are used for handling cargo, including services being provided as a RA Facility.

4.2.11 From the above, the Authority noted that the CAPEX proposed by the ISP is mainly towards converting the existing CUDCT facility into RA Facility. The proposed CAPEX will help the ISP in providing secure cargo handling services as per the security norms and to provide efficient cargo handling facilities to the users.

4.2.12 On the basis of above analysis and considering the clarifications/justifications submitted by KSIEL, the Authority proposed to consider CAPEX for the Third Control Period as per the Table below:

Table 6: Capital expenditure proposed by the Authority for the Third Control Period at CP stage.

(₹ in lakhs)

Particulars of Assets	FY 2021-22*	FY 2022-23*	FY 2023-24	FY 2024-25	FY 2025-26	Total
Buildings	-		-	150.00	-	**150.00**
Computers	-	0.03	-	-	-	**0.03**
Machinery	-	-	-	15.00	-	**15.00**
Tools & Plants	-	-	-	-	-	**-**
Furniture & Fittings	-	-	-	-	-	**-**
Elect Installation		0.03	-	27.70	-	**27.73**
Office Equipment	0.18	0.03	-	9.50	-	**9.71**
X- Ray Machine	68.97	-	82.20	-	-	**151.17**
Total	**69.15**	**0.09**	**82.20**	**202.20**	**0.00**	**353.64**

**Actual Figures (unaudited)*

4.3 KSIEL submission on Depreciation for the Third Control Period:

4.3.1 KSIEL computed the Depreciation for the Third Control Period as given in Table below:

Table 7: Depreciation proposed by KSIEL for Third Control Period.

(₹ in Lakhs)

Particulars of the Assets	FY 2021-22*	FY 2022-23*	FY 2023-24	FY 2024-25	FY 2025-26	Total
Buildings	10.33	10.33	10.33	12.83	10.33	**54.15**
Computers	0.00	0.00	0.01	0.01	0.01	**0.03**
Machinery	0.14	0.14	0.14	0.14	0.14	**0.70**
Tools & Plants	0.77	0.77	0.77	1.27	0.77	**4.35**
Office Furniture	1.23	1.09	0.00	0.00	0.00	**2.32**
Electrical installations	5.90	5.90	5.90	7.29	4.39	**29.38**
Office Equipment	1.67	0.05	0.00	2.62	0.00	**4.34**
X-Ray Machines	4.69	4.69	8.03	11.36	11.36	**40.13**
Total	**24.73**	**22.97**	**25.18**	**35.52**	**27.00**	**135.40**

**Actual Figures (unaudited)*

4.4 Authority's Examination on the Depreciation proposed by the ISP CP stage:

4.4.1 The Authority observed that in its initial MYTP submission, KSIEL had computed the depreciation as per the Written Down Value (WDV) method and considered the depreciation rates & useful Life of Assets for some of the Asset Classes, which were not consistent with the AERA Order no. 35/ 2017-18. The Authority, accordingly, asked the ISP to review the useful life of the assets & depreciation rates and submit the revised calculations of depreciation. In its revised submission, KSIEL had claimed ₹ 135.40 lakhs as depreciation for the Third Control Period.

4.4.2 The Authority further noted that ISP had considered full year's depreciation on the most of the assets during the year of capitalization. However, the Authority following its consistent approach towards depreciation during the year of capitalization, computed the depreciation @ 50% of full year's depreciation in the year of capitalization (assuming capitalization of Assets in the middle of the financial year). The Authority, considering the CAPEX as per Table 6, proposed to adopt Depreciation for the ISP in respect of the Third Control Period as per Table given below:

Table 8: Depreciation proposed by the Authority for KSIEL for the Third Control Period at CP stage.

(₹ in Lakhs)

Particulars of Assets	FY 2021-22*	FY 2022-23*	FY 2023-24	FY 2024-25	FY 2025-26	Total
Other Buildings	10.33	10.33	10.33	12.83	15.33	**59.15**
Computers	0.00	0.00	0.01	0.01	0.01	**0.03**
Tools & Plants	0.14	0.14	0.14	0.14	0.14	**0.70**
Machinery	0.77	0.77	0.77	1.27	1.77	**5.35**
Office Furniture	1.23	1.09	0.00	0.00	0.00	**2.32**
Electrical installations	5.90	5.90	5.90	7.29	8.67	**33.66**

Office Equipment	1.67	0.05	0.04	0.95	1.90	**4.61**
X-Ray Machines	4.69	4.69	7.43	10.17	10.17	**37.15**
Total	**24.73**	**22.97**	**24.62**	**32.66**	**37.99**	**142.97**

***Actual figures (unaudited)**

4.5 KSIEL submissions on Regulatory Asset Base (RAB):

4.5.1 KSIEL submitted the Opening, Closing and Average RAB for the Third Control Period as per the Table given below:

Table 9: RAB for the Third Control Period submitted by KSIEL.

(₹ in lakhs)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Opening RAB	303.71	348.13	325.25	400.07	566.75	
+ Additions	69.15	0.09	100.00	202.20	0.00	**371.44**
(-) Disposals	0.00	0.00	0.00	0.00	0.00	
(-) Depreciation	24.73	22.97	25.18	35.52	27.00	**135.40**
Closing RAB	348.13	325.25	400.07	566.75	539.74	
Average RAB	325.92	336.69	362.66	483.41	553.24	

4.6 Authority's Examination on the Regulated Asset Base (RAB) for the Third Control Period at CP stage.

The Authority, considering Additions to RAB, as discussed in Para 4.2 above and after taking into account the Depreciation as per the Authority (Table 8), proposed to consider Opening RAB, Additions to RAB & Closing RAB for the Third Control Period as given in the Table below:

Table 10: RAB proposed by the Authority for KSIEL in respect of the Third Control Period at CP stage.

(₹ in Lakhs)

Particulars	FY 2021-22*	FY 2022-23*	FY 2023-24	FY 2024-25	FY 2025-26	Total
Opening RAB	303.71	348.13	325.25	382.83	552.37	
+ Additions	69.15	0.09	82.20	202.20	0.00	**353.64**
(-) Disposals	0.00	0.00	0.00	0.00	0.00	**0.00**
(-) Depreciation	24.73	22.97	24.62	32.66	37.99	**142.97**
Closing RAB	348.13	325.25	382.83	552.37	514.38	
Average RAB	325.92	336.69	354.04	467.60	533.37	

**Actual Figures (unaudited)*

4.7 Stakeholders' Comments regarding Capital Expenditure (CAPEX) Regulatory Asset Base (RAB) and Depreciation.

4.7.1 The Authority received no comments/views from stakeholders regarding Capital Expenditure (CAPEX), Regulatory Asset Base (RAB) and Depreciation proposed by the Authority in the Consultation Paper No. 15/2023-24.

4.7.2 In view of the above, the Authority decides to maintain the same view on the Addition to RAB, Depreciation and Average RAB for the Third Control Period, as was proposed at the Consultation stage.

4.8 Authority's decision regarding Additions to RAB (CAPEX), Depreciation & Regulatory Asset Base (RAB) for the Third Control Period.

Based on the material before it and its analysis, the Authority decides the followings:

4.8.1 To consider Additions to RAB (CAPEX) for the Third Control Period as per Table 6.

4.8.2 To consider the Depreciation for the Third Control Period as per Table 8.

4.8.3 To consider Average RAB for the Third Control Period as per Table 10.

CHAPTER 5: OPERATION & MAINTENANCE EXPENDITURE

5.1 As provided in Clause 9.4 of the CGF Guidelines mentioned in Direction No. 04/2010-11, the Operation and Maintenance (O&M) Expenditure incurred by the Service provider(s) include expenditure incurred on security operating costs, other mandated operating costs and statutory operating costs.

5.2 Operation and Maintenance Expenditure submitted by KSIEL is segregated into the following board categories:

a) Payroll Costs;
b) Administration and other Expenses;
c) Repair and Maintenance Expenditure;
d) Utility and Outsourcing Costs;

5.3 Operation & Maintenance Expenditure projected by KSIEL for the Third Control Period is given in the Table below:

Table 11: Operation & Maintenance Expenditure projected by KSIEL for the Third Control Period.

(₹ in Lakhs)

Particulars	FY 2021-22*	FY 2022-23*	FY 2023-24	FY 2024-25	FY 2025-26	Total
Payroll Cost (A)	103.83	172.09	376.89	415.98	458.78	**1527.57**
Admin & General Expenses: (B)	250.14	151.81	154.65	172.07	194.74	**923.41**
Repair & Maintenance Expenditure (C)	13.38	11.23	12.36	13.59	14.95	**65.51**
Utility and Outsourcing Costs (D)	13.38	19.37	21.31	23.44	25.79	**103.29**
Total Operation and Maintenance Expenditure (A+B+C+D)	**380.73**	**354.50**	**565.21**	**625.08**	**694.26**	**2619.78**

**Actual figures (unaudited)*

5.4 **Authority's Examination regarding Operation and Maintenance Expenditure at CP Stage:**

5.4.1 The Authority examined the Operating Expenditure for the Third Control Period provided in Form F3 (P&L) of the MYTP submitted by the ISP. The Authority's analysis on the projected Y-o-Y increase in the various components of OPEX during the last three tariff years of the Control Period is given in the following paras:

5.4.2 **Payroll Cost** – The Authority noted that the ISP had submitted actual payroll expenses incurred for the FY 2021-22 & FY 2022-23 (as indicated in table 11). From the above table, the Authority observed that actual payroll cost in the FY 2022-23 increased by 66% as compared to previous financial year.
In this regard, ISP vide mail dated 02.09.2023 submitted that KSIEL had implemented the 9th & 10th Revision of Pay & Allowances in respect of the Managerial & Staff employees, as approved vide State

Government Order no. 23/2022/ID dated 25.02.2022, leading to increase in payroll cost by 66% during FY 2022-23 as compared to the FY 2021-22.

In respect of the projected Payroll Costs for the last three tariff years of the Control Period, the Authority noted that KSIEL had considered 119% increase in the payroll cost for the FY 2023-24, followed by 10% increase on Y-o-Y basis in respect of the FY 2024-25 & FY 2025-26.

As regard to the projected steep increase in the payroll expenses in FY 2023-24, KSIEL vide email dated 26.08.2023, stated that in order to fulfill the obligations of RA Facility, they require a minimum 18 nos. of X-Ray Screeners (as per the AVSEC Order no. 11/2015), 44 nos. of warehouse helpers and 6 nos. of Dangerous Goods Supervisors/Staff to undertake the X-ray Screening & Certification of Cargo and other allied activities related to RA Facility. Accordingly, number of manpower increased from 43 nos. (FY 2022-23) to 111 nos. (FY 2023-24), which is the main reason for the apparent steep increase of 119% in payroll costs during FY 2023-24, as compared to FY 2022-23.

5.4.3 Apart from increase in manpower numbers, another factor for the increase in payroll expenses is the impact of annual increments in salaries, increase in minimum wages and corresponding increase in the statutory components such as EPF etc.

In view of the above, the 10% YoY increase in payroll costs proposed by the ISP during the last two tariff years of the Third Control Period is reasonable. Accordingly, the Authority proposed to consider payroll expenses for the Control Period as submitted by the ISP.

5.4.4 **Administrative & General Expenses -** The Authority noted that KSIEL had proposed 11% to 13% annual increase in Administrative and General Expenses for the last three tariff years, except for FY 2023-24, where ISP proposed just 2% increase as compared to previous year.

The Authority observed that the watch and ward expenses, which account for 50% of the total Administrative & General Expenses in the FY 2021-22, decreased by 71% in FY 2022-33; therefore, the overall Administrative & General Expenses decreased by 39% in FY 2022-23. In this regard, the ISP vide mail dated 26.08.2023 clarified that after the Thiruvananthapuram International Airport was taken over by TIAL from the AAI, watch & ward bills were not raised by the contractor. Hence, KSIEL could not account for the same in P&L accounts, leading to steep decrease in expenses during FY 2022-23.

5.4.5 As regard to marginal increase in Admin. & General expenses in FY 2023-24 (2% increase) over the previous financial year, the Authority observed that Lease Rent, which formed 54% of the total Administration Expenses in FY 2022-23, projected to decrease by 76% in FY 2023-24. The ISP, in this regard, vide mail dated 26.08.2023 stated that after Thiruvananthapuram International Airport taken over by TIAL, their earlier Lease Agreement with AAI got cancelled and a new Agreement was executed between KSIEL and TIAL. As per the new Agreement, KSIEL has to surrender 1210 Sq. Mtr. land in respect of the existing Cargo Terminal to TIAL for the airport expansion and in turn, 840 Sq. Mtr. of new plot of land is allotted to KSIEL in the adjacent area. Accordingly, KSIEL now required to pay lease rental on the reduced land area (i.e., 1680 Sq. Mtr. of land area as against earlier 2050 Sq. Mtr. of land area) @ ₹ 1000 per Sq. Mtr. per annum (along with applicable taxes) in FY 2023-24 & FY 2024-25. As per the ISP, lease rental payable for the FY 2025-26 to the Airport Operator has not yet been decided, therefore, the same had been taken tentatively for FY 2025-26.

5.4.6 With respect to the apportionment of the KSIEL Headquarters' Cost Allocation to Thiruvananthapuram Air Cargo Unit, the Authority observed from the ISP's submission that KSIEL apportions its head office expenses to subordinate units, based on the proportion of revenue generated by the subordinate units.

In this context, the Authority sought the details of KSIEL's Headquarters expenses and the actual revenues generated by the all the subordinate units (profit centers) for the FY 2021-22 & FY 2022-23. However, the requisite information was awaited from the ISP at the CP stage. In order to avoid delay in issuance of CP, the Authority had rationalized the projected Headquarters' cost allocation to the Trivandrum ACC as per the Table 13 given below and the Authority decided to revisit the issue of Headquarters cost allocation to Trivandrum Air Cargo Complex at the time of finalization of Tariff Order.

Subsequently, ISP vide mail dated 25.10.2023 has submitted the detail of apportionment of Head Office expenses to various units of KSIEL. From the ISP submission, the Authority observed that ISP has allotted total HQ expenses to the Trivandrum cargo unit in the range of 9.69% to 12.19%, based on the proposition of Revenues generated by the subordinate units.

The Authority, taking into account above analysis and clarifications furnished by the ISP, proposed to consider the Admin. & General Expenses for the Control Period as per the Table 13.

5.4.7 **Repair and Maintenance Expenditure** - The Authority noted that KSIEL had proposed 10% Y-o-Y increase in the repair and maintenance expenditure from FY 2023-24 onward, during the Third Control Period. Considering that the ISP required to keep its equipment and other facilities in proper working conditions all the times, to avoid any disruption in the cargo handling operations, and taking into account the increase in repair & maintenance costs due to factors like annual general inflation, wear & tear of equipment etc., the Authority proposed to consider 10% Y-o-Y increase in the repair & maintenance expenses as considered by the ISP in its MYTP submission at CP stage.

5.4.8 **Utilities Expenses** - The Authority noted that KSIEL had proposed 10% Y-o-Y increase for electricity and water charges, during the Third Control Period. Upon query by the Authority regarding proposed increase in Utility Expenses, KSIEL submitted the detailed break up of electricity and water expenses. In this regard, the Authority from ISP's submission noted that supply of water and electricity is based on industrial rates which increased annually, and also taking cognizance of the projected increase in cargo volumes, the Authority proposed to consider 10% annual escalation in Utilities Expenses, as proposed by the ISP at CP stage.

5.4.9 The Authority observed that subsequent to ISP getting the status of RA facility, the total Operation & Maintenance expenditure of the service provider projected to increase by 59% in FY 2023-24 as compared to FY 2022-23 (FY before RA Facility status).

The Authority compared the projected OPEX of the ISP, before RA Facility status (FY 2022-23) with the O&M Expenditure after obtaining RA Facility status for Thiruvananthapuram ACC (FY 2023-24) as under:

Table 12: Comparison of O&M expenditure before & after obtaining RA status by the KSIEL.

(₹ in Lakhs)

Particulars	FY 2022-23 (Before RA Status)	FY 2023-24 (After getting RA Status)	% Increase
Payroll Cost	172.09	376.89	119%
No. of employees (KSIEL)	43	43+68=111	158%
Admin. & General Costs	151.81	154.65	2%
Repairs & Maintenance Expenses	11.23	12.36	10%
Utility Expenses	19.37	21.31	10%
Total O&M Expenditure	**354.51**	**565.21**	**59%**

**As per ISP understanding more than 50 no. of employees/loaders & 18 nos. screeners were engaged by the Airlines/Ground Handling Agency for carrying out activities relating to RA functions.*

5.4.10 As per the above table, the manpower count projected to increase by 158% in FY 2023-24 (after getting RA Status). In this regard, the Authority vide mail dated 23.08.2023 asked to the ISP regarding the number of manpower engaged by Airlines & Ground Handling Agencies (GHA) for activities related to X-ray screening & certification etc. (before RA Facility status). KSIEL, in its response, vide email dated 26.08.2023 submitted that earlier (before RA Facility status) Airlines were doing X-ray screening of Cargo and they were having a MoU with the Ground Handling Agency (GHA) operating at the airport, whereby GHA were providing the required numbers of workers for handling Cargo during peak hours and odd hours. As per the ISP's estimate, around 50 numbers of porters were available for handling cargo in all the shifts. The ISP further informed that unloading the Cargo from vehicles on the city-side and stacking the same in the warehouse were used to be done by the porters deployed by the Exporters.

The Authority noted from the submission of the KSIEL (email dated 26.08.2023) that apart from 18 nos. of X-ray screeners (required as per BCAS norms), the ISP, as against 50 numbers of porters provided by the Airlines to handle Cargo for X-ray Screening (inside the Cargo Terminal) and additional porters deployed by the exporters (on city-side for unloading of Cargo etc.); proposed to deploy a total of 44 numbers of warehouse helpers, 6 nos. of professionals for handling dangerous goods. Thus, after getting a status of RA Facility, the ISP is inducting additional manpower of 68 numbers, including 18 nos. for X-ray screeners.

5.4.11 From the above analysis, it is observed that the major impact of RA Facility status is on the payroll expenses of the ISP, which are projected to increase around 119% in FY 2023-24 as compared to FY 2022-23. However, it is pertinent to mention that subsequent to getting RA Facility status, there is projected increase in the manpower count by 68 numbers from 43 nos. (FY 2022-23) to 111 nos. (FY 2023-24), which include 18 nos. of X-Ray screeners (as per security norms) & 50 other workers, which is the main reason for the projected steep increase in payroll expenses during the FY 2023-24.

Considering the impact of proposed increase in manpower numbers by 158% in FY 2023-24 and taking into account the impact of annual salary increments, increase in minimum wages, increase in statutory components like EPF etc., the 119% increase considered by the ISP in Payroll Costs (after getting the RA Facility status) seems reasonable.

5.4.12 The Authority, after examination of the various elements of the Operations & Maintenance Expenditure projected by the ISP and taking into account the re-computation of Headquarters' Cost Apportionment & Admin. & General Expenses, proposed to consider the projected OPEX for the ISP in respect of the Third Control Period, as per table given below:

Table 13: OPEX proposed by the Authority for the ISP in respect of the Third Control Period at CP stage.

(₹ in Lakhs)

Particulars	FY 2021-22*	FY 2022-23*	FY 2023-24	FY 2024-25	FY 2025-26	Total
Payroll Cost (A)	103.83	172.09	376.89	415.98	458.78	1527.57
Admin & General Expenses (excluding Apportionment of HQ Expenses) (i)	236.66	137.06	116.14	125.77	141.34	756.97
Apportionment of HQ Expenses (ii)	13.48	14.75	25.66	30.85	35.60	120.34
Total Admin. & General Expenses (i)+(ii) = (B)	250.14	151.81	141.8	156.62	176.94	877.31
Repair & Maintenance Expenditure (C)	13.38	11.23	12.36	13.59	14.95	65.51
Utilities Expenses (D)	13.38	19.37	21.31	23.44	25.79	103.29
Total O&M Expenditure (A+B+C+D)=(E)	**380.73**	**354.50**	**552.36**	**609.63**	**676.46**	**2573.68**

**Actual Figures (unaudited)*

5.5 Stakeholders' Comments regarding to OPEX for the Third Control Period.

5.5.1 During the stakeholder consultation process, the Authority received no comments/views from stakeholders regarding the Operations & Maintenance Expenditure (OPEX) projected by the AERA in respect of the ISP for the Third Control Period.

5.5.2 In view of the above, the Authority decides to maintain the same view on the Operations & Maintenance Expenditure (OPEX) projected for the ISP, in respect of the Third Control Period, as was proposed at the Consultation stage.

5.6 Authority's decision regarding to OPEX for the Third Control Period.

5.6.1 Based on the material before it and its analysis, the Authority decides to consider the OPEX in respect of the KSIEL for the Third Control Period as per Table 13.

CHAPTER 6: AIR FREIGHT STATION (AFS)

6.1 Introduction

6.1.1 Ministry of Civil Aviation (MoCA), in order to strengthen Air Cargo Logistics Infrastructure in the Country, vide OM no. AV.13011/03/2013-ER dated 28th October, 2014 issued Policy guidelines on 'Air Freight Station' (AFS) to create an off-airport common user facility equipped with fixed installations of minimum requirements and offering services for handling International Air Cargo in the form of Air Freight Stations with a mandate to enable the Cargo Industry as follows:

i. Off-Airport common user facility equipped with fixed installations of minimum requirements and offering services for handling and temporary storage of import/ export goods, loaded and empty Unit Load devices (ULDs) and cargo in bulk/loose for outright export

ii. Create an enabling environment for promoting International Air Cargo operations by reaching out to hinterland regions of the country besides de-congesting the congested Air Cargo terminals in some gateway International Airports that face high dwell time.

iii. Authorizing some of the ICDs to cater to the International Air Cargo operations, the existing facilities in these ICDs, could be fully utilized.

The Policy document also emphasizes the following primary functions to be performed at Air Freight Station:

a. Receipt of Export cargo for processing and to make the cargo "Ready for Carriage" condition, including Unit Load Device (ULD), building of export cargo and scanning of Cargo. While ULDs will be the ideal mode of handling cargo for and from AFS, export/import consignments both in palletized /ULD and bulk, loose form shall also be facilitated

b. Transit operations by Road to and from serving Airport

c. All Customs related requirements for import and exports including inspection of cargo wherever required

d. Unitization of Cargo

e. Temporary storage of Cargo and Unit Load Device (ULDs)

f. Re-building of ULDs of export cargo

g. De-Stuffing of Import Cargo

h. Storage, Examination, Packing and Delivery of Import Cargo

i. Auction/Disposal of 30 days old uncleared Import Cargo

j. Maintenance and Repair of ULDs.

6.1.2 The policy guidelines governing Air Freight Station would be common and binding on all stakeholders concerned in the supply chain of International Air Cargo operations such as Airlines, Air Cargo Terminal operators, Airport Operators, Freight Forwarders / Customs Brokers, Exporters / Importers and all regulatory organizations.

6.1.3 The Authority is conscious of MoCA's policy initiative on AFS, which has a larger national intent to strengthen and develop air cargo logistics in the country and same is expected to reduce the bottlenecks in air-cargo logistics and help in ease of doing business, particularly for exporters. AERA supports the progressive step taken by the Govt. and feels that AFS Cargo needs to be incentivized by way of lower charges vis-à-vis rates applicable to normal cargo (Cargo directly received by the Cargo Terminal Operator).

6.1.4 The Authority observed that KSIEL in its initial MYTP proposal did not propose separate tariff for Cargo originating from /destined to AFS. Accordingly, the Authority asked the ISP to provide separate Tariff rates for BUPs pertaining to the approved AFS. KSIEL, vide email dated 07.08.2023 submitted composite Tariff Rates for Built up Pallets (BUPs) pertaining to AFS cargo, both for Exports & Imports, as indicated below:

Table 14: TSP Charges for Exports in respect of AFS Cargo proposed by the KSIEL.

(Charges Per Unit in ₹)

Sl. No.	BUP Charges – General Cargo	FY 2023-24	FY 2024-25	FY 2025-26
1	BUP Charge (up to LD3) 1588 Kgs	1413	1636	1794
2	BUP Charge (above LD3 - lower deck pallet) 3175 Kgs	2826	3270	3588
3	BUP Charge (above LD3 - main deck pallet) 6800 Kgs	6052	7004	7684
	BUP Charges - Other than General Cargo			
4	BUP Charge (up to LD3) 1588 Kgs	1191	1366	1509
5	BUP Charge (above LD3 - lower deck pallet) 3175 Kgs	2381	2731	3061
6	BUP Charge (above LD3 - main deck pallet) 6800 Kgs	5100	5848	6460

6.1.5 In addition to the TSP charges for AFS Export Cargo, ISP also proposed separate TSP charges pertaining to AFS Import Cargo, as given in table below:

Table 15: TSP Charges for Imports in respect of AFS Cargo proposed by the KSIEL.

(Charges Per Unit in ₹)

Sl. No.	BUP Charge – General Cargo	FY 2023-24	FY 2024-25	FY 2025-26
1	BUP Charge (up to LD3) 1588 Kgs	6701	7702	8464
2	BUP Charge (above LD3 - lower deck pallet) 3175 Kgs	13399	15399	16923
3	BUP Charge (above LD3 - main deck pallet) 6800 Kgs	28696	32980	36244
	BUP Charge – Other than General Cargo			
4	BUP Charge (up to LD3) 1588 Kgs	6701	7702	8464
5	BUP Charge (above LD3 - lower deck pallet) 3175 Kgs	13399	15399	16923
6	BUP Charge (above LD3 - main deck pallet) 6800 Kgs	28696	32980	36244

6.1.6 The Authority noted that proposed TSP Charges for BUPs (General Cargo & Other than General

Cargo pertaining to AFS) as compared to rates of TSP Charges, on per kg basis, for normal cargo (cargo received directly by the CTO at its cargo terminal), were lower by around 25% in all categories of BUPs, except BUP charges in 'Other than General Cargo' under Import Cargo, where ISP had proposed around 44% lower charges.

6.1.7 The Authority, taking cognizance of intent of MoCA's AFS Policy dated 28.10.2014 and to encourage the concept of AFS Cargo, as step towards improvement of air cargo logistics in the country, proposed to consider 30% lower TSP Charges for all categories of BUPs/ ULDs pertaining to AFS (under Export & Import Cargo), except in case of 'Other than General Cargo' under the Imports, where 44% lower TSP charges were proposed on BUPs, based on ISP submission.

6.1.8 The Tariff Rates proposed by the Authority pertaining to BUPs/ ULDs in respect of approved AFS, for Stakeholders' Consultation, were placed at Annexure – II of the CP.

6.2 Stakeholders' Comments regarding Tariff Rates for Built up Pallets (BUPs) pertaining to AFS Cargo for the Third Control Period.

Federation of Freight Forwarders' Associations in India.

6.2.1 In its comment regarding Tariff Rates for Built up Pallets (BUPs) pertaining to AFS Cargo for the Third Control Period, FFFAI submitted that *"Based on the submission by KSIEL in the MYTP, AERA has proposed 30% lower TSP charges in all category of BUPs (Export and Import cargo) pertaining to AFS except 'other than General Cargo' BUPs under imports, where 44% lower TSP charges are proposed for the third control period.*

AERA has sought specific views/comments of the stakeholders on the proposal regarding lower TSP charges for AFS cargo, particularly considering the AFS is a relatively new concept in Indian Civil Aviation.

OBSERVATIONS / RECOMMENDATIONS

In accordance with the AFS Policy, issued by MoCA vide OM no. AV.13011/03/2013-ER dated 28th October, 2014, Air Cargo Terminal Operators will not insist on levying full TSP charges on consignments/cargo meant for/received from AFS and AERA, while approving the TSP charges shall give the break-up of Transit, Storage and Processing charges. KSIEL, has failed to do so in the said MYTP.

On perusal of the above chart, it may be seen that 85% of the above-mentioned activities will be carried out at AFS premises, hence it is recommended 85% reduction in the TSP charges for AFS cargo.

On perusal of the subject Consultation paper, it is observed that KSIEL has not submitted the TSP charges on 'per kg' basis, proposed to be leviable on AFS consignments by KSIEL, but instead, has submitted composite tariff for Built Up Pallets (BUPs).

The levy of the TSP charges depends on the activities performed by the Air Cargo Terminal Operator/AFS Operator from the point of accepting the export cargo at AFS premises till handing over to the Air Cargo terminal Operator for shifting to Air side to enable Airline(s) upliftment for its foreign destination.

The detailed activities which will be carried out at AFS, earlier being carried out by Air Cargo Terminal for both export and import is as follows:

Sr No		Presently done by		Later through AFS	
	IMPORT PROCESS	**AGENCY**	**TERMINAL OPERATOR**	**AFS OPERATOR**	**TERMINAL OPERATOR**
1	Payment of Cost recovery charges	TERMINAL OPERATOR	a	a	NO
2	Import cargo (ULD/Bulk) shifted to cityside for loading on the AFS truck.	AIRLINES	a	r	a
3	Documents readied and handed over to AFS representative after Customs approval.	TERMINAL OPERATOR/AIRLINES	a	r	a
4	ULDs loaded on AFS truck and sealed by Customs	TERMINAL OPERATOR/CUSTOMS	a	r	a
5	Cargo truck arrives at AFS and seal inspected by Customs	TERMINAL OPERATOR	r	a	r
6	Unloading of trucks and destuffing of ULDs	TERMINAL OPERATOR	r	a	r
7	Binning of cargo and location in the bonded area.	TERMINAL OPERATOR	r	a	r
8	Segregation report and data updation in EDI system.	TERMINAL OPERATOR	r	a	r
9	Filing of Bill of Entry and	IMPORTER/CHA	r	a	r

	Customs examination				
10	*Out of Charge by Customs.*	*CUSTOMS*	*r*	*a*	*r*
11	*Payment of Duty and Custodian charges*	*IMPORTER/CHA*	*r*	*a*	*r*
12	*Generation of Gate pass and final delivery*	*TERMINAL OPERATOR*	*r*	*a*	*r*

- *On perusal of the above chart, it may be seen that 85% of the above-mentioned activities will be carried out at AFS premises, hence it is recommended 85% reduction in the TSP charges for AFS cargo.*

Sr No		***Presently done by***		***Later through AFS***	
	IMPORT PROCESS	***AGENCY***	***TERMINAL OPERATOR***	***AFS OPERATOR***	***TERMINAL OPERATOR***
1	*Payment of Customs Cost recovery charges*	*TERMINAL OPERATOR*	*a*	*a*	*r*
2	*Carting order to Agent*	*AIRLINES*	*a*	*a*	*r*
3	*TSP Charges receipt*	*TERMINAL OPERATOR*	*a*	*a*	*r*
4	*Gate checking of goods/docs*	*TERMINAL OPERATOR*	*a*	*a*	*r*
	Docs receipt of goods	*TERMINAL OPERATOR*	*a*	*a*	*r*
	a) Goods to be off loaded from trucks	*TERMINAL OPERATOR*	*a*	*a*	*r*
	b) Weight check of Goods	*TERMINAL OPERATOR*	*a*	*a*	*r*
5	*c) Truck Dock (TD) Entry*	*TERMINAL OPERATOR*	*a*	*a*	*r*
6	*Cargo X ray /screening*	*TERMINAL OPERATOR*	*a*	*a*	*r*
7	*Packages brought for examination after locating from lot as per Customs requirement.*	*TERMINAL OPERATOR*	*a*	*a*	*r*
8	*Opening and repacking of boxes*	*TERMINAL OPERATOR*	*a*	*a*	*r*
9	*Repairing and proper stacking of boxes after customs examination.*	*TERMINAL OPERATOR*	*a*	*a*	*r*

10	*Warehouse location given to agents on AWBs and other docs.*	*TERMINAL OPERATOR*	*a*	*a*	*r*
11	*Docs handed over to Airlines.*	*TERMINAL OPERATOR*	*a*	*a*	*r*
12	*ULD(BUP) off loading and location.*	*TERMINAL OPERATOR*	*r*	*a*	*a*

- *Since shippers will not be willing to pay TSP charges, twice, one each to AFS and M/s GHAC, shippers may be given the option to pay TSP charges to AFS operator only are physically handling the cargo and cargo terminal Operator may be permitted to handle loaded ULDs only as forwarded by AFS for the Airlines to be loaded in their respective Aircrafts.*

- *M/s KSIEL may charge Rs 1250/- per pallet (up to 1500 kgs) and 50% of the General cargo TSP charges for pallets more than 1500 kgs i.e., [(Total weight of the pallet – 1500 kgs) X 50% of General Cargo TSP rate].*

The above recommendations, it is felt will go a long way in further developing the AFS concept and de-congestion of the Airport premises which will be utilized for only movement of the cargo and AFS facility will be utilized for storing and processing of the cargo."

6.3 <u>Counter Comments of the KSIEL:</u>

In response to FFFIA's comments regarding Tariff Rates for Built up Pallets (BUPs) pertaining to AFS Cargo for the Third Control Period ISP has submitted that *"Authority may please note that since AFS is relatively a new concept in the Indian Civil Aviation, we have proposed the BUP charges for Export and Import Cargo at 33% reduction to the normal Export Import Cargo services. This is relatively a competitive offer from the part of KSIE taking into account all the related services utilizing the manpower, equipments, warehouse space keeping the norms of BCAS/Customs. Hence the proposal submitted by FFFAI for reducing the tariff for BUP charges cannot be agreed to".*

6.4 <u>Authority's analysis of the Stakeholders' comments regarding Tariff Rates for Built up Pallets (BUPs) pertaining to AFS Cargo for the ISP:</u>

6.4.1 The Authority notes the comments of stakeholders, including counter comments of service provider, relating to service charges for the AFS cargo. In this regard, the Authority is of the view that even after processing of cargo in the AFS premises, there are number of important activities that are required to be performed at the cargo terminal, including receiving the AFS cargo on city side, storing and transporting the built-up pallets/ ULDs to the airlines on air side.

The major activities required to be performed at cargo terminal with respect of AFS cargo are indicated below:

a. Acceptance of Built-up-Pallet/ ULDs at city-side of Cargo Terminal.
b. Unloading of Pallets/ ULDs from trucks at truck dock area.
c. Transferring & moving Cargo to Storage Racks/ Security Hold Area (SHA).
d. Transporting of Cargo from Built-up Station/ SHA to Cargo Release Bays.
e. Shifting ULDs/ BUPs from Release Bays to Ground Handler's Dollies, digital messages to customer's airlines etc.

In view of the activities performed by cargo terminal operator at its terminal pertaining to AFS cargo (as indicated above), 30% lower TSP Charges considered by the Authority as against 25% lower charges proposed by the ISP in all category of BUPs (Export and Import cargo) pertaining to AFS, except 'other than General Cargo' BUPs under the Imports, where 44% lower TSP Charges were proposed by the ISP in respect of AFS Cargo vis-à-vis normal cargo directly received from the shippers at cargo terminal, is reasonable.

Accordingly, the Authority decides to maintain same view on the application of lower TSP Charges to AFS Cargo, as was taken at consultation stage.

6.4.2 As regard to FFFAI comments that the ISP has not submitted TSP Charges on Per Kg basis in respect of AFS Cargo consignments; the Authority, in this regard informs that as the AFS Cargo is expected to be received at Cargo Terminal in a palletized form, therefore, levy of TSP Charges on AFS Cargo based on Pallets (in place of Per Kg of Cargo) is appropriate. As regard to stakeholder's comments (FFFAI) that TSP Charges may be broken-up into further components, as per the Authority, Terminal Storage & Processing Charges (TSP) is a composite charge for various activities undertaken by the service provider for handling of cargo and it is not practically feasible to give break-up of charges for each activity relating to cargo handling. Moreover, as per industry practice, TSP Charges are indicated as a composite comprehensive Service Charges for Cargo Handling at airports.

6.4.3 The Authority, notes that the concept of AFS in Air Cargo Logistics is still at nascent stage in India, accordingly, based on the performance of AFS and the feedback of the stakeholders, the Authority may review the tariff determination methodology for the AFS Cargo, at an appropriate time in future.

6.5 <u>Authority's decision regarding differential Tariff Rates for Built-up-Pallets (BUPs) pertaining to AFS Cargo for the Third Control Period.</u>

6.5.1 Based on the material before it and its analysis, the Authority decides to consider 30% lower TSP Charges in all category of BUPs (Export & Import Cargo) pertaining to AFS, during the Third Control Period, except in case of 'Other than General Cargo' BUPs under Imports, where 44% lower TSP Charges have been considered, as per the Tariff Rate Card placed at **Annexure-I**.

CHAPTER 7: AGGREGATE REVENUE REQUIREMENT (ARR)

7.1 KSIEL, in its MYTP submission for the Third Control Period considered Fair Rate of Return (FRoR) of 11.11% for computation of Return on Regulatory Assets Base (RAB).

7.2 Aggregate Revenue Requirement (ARR) projected by KSIEL for the Third Control Period:

7.2.1 KSIEL, considering FRoR @ 11.11%, projected Aggregate Revenue Requirement (ARR) for the Third Control Period for its Thiruvananthapuram Cargo operations, as under:

Table 16: Aggregate Revenue Requirement submitted by KSIEL for the Third Control Period.

(₹ in lakhs)

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
RAB	325.92	336.69	362.66	483.41	553.24	
Fair Rate of Return	11.11%	11.11%	11.11%	11.11%	11.11%	
RAB* FroR	36.19	37.39	40.28	53.69	61.45	**229.00**
Depreciation	24.73	22.98	25.18	35.52	27.00	**135.41**
Operation and Maintenance expenditure	380.73	354.50	565.21	625.08	694.26	**2619.78**
Tax	0.00	0.00	77.47	109.54	140.02	**327.03**
Non-Aeronautical Revenues	34.98	36.96	40.65	44.72	49.19	**206.50**
Aggregate Revenue Requirement	**406.68**	**377.91**	**667.48**	**779.10**	**873.54**	**3104.71**

7.3 Authority's Examination of ARR in respect of the ISP for the Third Control Period at CP stage:

7.3.1 The Authority observed that in its ARR computations for the Third Control Period (Table 16), the ISP had not calculated the Net Present Value (NPV) of the ARR.

7.3.2 As regard to FRoR, the Authority sought the basis of FRoR at 11.11% from the KSIEL. The ISP, in its response submitted that they had considered Cost of Equity @ 12%. As regard to Cost of Debt, the ISP further submitted that the Thiruvananthapuram Air Cargo Complex (TACC) is functioning as a separate profit center (of KSIEL) and all the fund transfers from the Headquarters to the Thiruvananthapuram Unit are treated as loans for accounting purposes. However, no interest is charged on such fund transfers from the Headquarters to TACC.

7.3.3 The Authority noted from KSIEL's submission that the ISP had not availed any external debt for their cargo operations at Thiruvananthapuram International Airport. The ISP further submitted that as and when there are surplus funds available with Thiruvananthapuram Unit from its air cargo operations, Head Office account is credited for the funds received from the Head Office. From the above, the Authority has drawn inference that Thiruvananthapuram ACC Unit is ultimately utilizing their internal accruals for the cargo operations at Thiruvananthapuram Airport.

7.3.4 The Authority further noted that KSIEL had proposed FRoR for its Thiruvananthapuram operations, considering the Cost of Equity at 12%, which seems to be reasonable. As regard to Cost of Debt, the Authority from ISP's submission deduced that there is no external debt availed by the ISP in respect of its Thiruvananthapuram operations. Considering above, the FRoR proposed by the ISP for the Third Control Period was considered as reasonable.

Accordingly, the Authority proposed to consider FRoR @ 11.11% as submitted by the ISP for the Third Control Period.

However, the Authority advised the ISP to adopt optimum capital structure, by availing debt from the banks/financial institutions, to bring in efficiency in the Cost of Capital.

7.3.5 The Authority, after review and analysis of various regulatory building blocks, as discussed in previous chapters, computed Aggregated Revenue Requirement (ARR) for KSIEL in respect of the Third Control Period as per Table given below:

Table 17: ARR proposed by the Authority for KSIEL for the Third Control Period at CP stage.

(₹ in Lakhs)

Particulars	FY 2021-22*	FY 2022-23*	FY 2023-24	FY 2023-24	FY 2024-25	FY 2025-26	Total
Average RAB *(Refer Table 10)*	325.92	336.69	236.02	118.02	467.60	533.37	
Return on RAB @ 11.11% (A)	36.21	37.41	26.22	13.11	51.95	59.26	224.16
O&M Expenses (B) *(Refer Table 13)*	380.73	354.50	368.24	184.12	609.63	676.46	2573.68
Depreciation (C) *(Refer Table 8)*	24.73	22.97	16.41	8.21	32.66	37.99	142.97
Tax @ 33.34% (D) *(Refer Table 22)*	0.00	0.00	0.00	0.00	53.11	98.94	152.05
Revenue from Non-Regulated Services (E) (Refer Table 22)	34.98	36.96	27.10	13.55	44.72	49.19	206.50
Aggregate Revenue Requirement (F)=(A+B+C+D-E)	**406.69**	**377.92**	**383.77**	**191.90**	**702.63**	**823.45**	**2886.36**
Discount/ Compounding Rate	11.11%						
PV Factor at @ 11.11 (G)	1.23	1.11	1.00	1.00	0.90	0.81	
PV of ARR (H) = (F*G)	**502.08**	**419.91**	**383.77**	**191.90**	**632.37**	**667.01**	**2797.04**
Total Revenue from the Regulated Services at the prevailing Tariffs (I)	273.84	278.33	386.75	193.37	609.13	639.36	2380.78
Tariff Increase (%) proposed	-	-	-	**20%**	**14%**	**10%**	
Total Revenue from Regulated Services after the Proposed Tariff Increase (J)	273.84	278.33	386.75**	232.04#	833.29	962.11	2966.36
PV of Total Revenue (K)= (J*G)	**338.07**	**309.25**	**386.75**	**232.04**	**749.97**	**779.32**	**2795.41**

**Actual Figures (unaudited).*

*** Revenue projected as per the existing Tariff.*

 # Revenue projected as per the revised Tariff.

7.3.6 The Authority computed ARR for the ISP in respect of the Third Control Period at ₹ 2886.36 Lakhs (PV at ₹ 2797.04 Lakhs) as indicated in the Table 17 above.

7.3.7 As per the ARR calculations, the Authority proposed to consider 38.31% one-time Tariff increase for the ISP over the prevailing Tariff rates. However, in order to reduce the burden of one-time steep tariff increase on the users, the Authority proposed to consider staggered tariff for the period from FY 2023-24 (effective from December, 2023) to FY 2025-26 in respect of the Third Control Period at CP stage.

7.4 Stakeholders' Comments regarding Aggregate Revenue Requirement (ARR) for the Third Control Period.

7.4.1 During the stakeholders' consultation process, the Authority received no comments/views from stakeholders regarding the Aggregate Revenue Requirement (ARR) proposed by the AERA in the Consultation Paper No. 15/2023-24 for the ISP, in respect of the Third Control Period.

7.4.2 In view of the above, the Authority decides to maintain the same view on the projected ARR for the ISP in respect of the Third Control Period, as was proposed at the Consultation stage.

7.5 Authority's decision regarding Aggregate Revenue Requirement (ARR) for the Third Control Period:

7.5.1 Based on the material before it and its analysis, the Authority decides to consider the ARR in respect of KSIEL, Thiruvananthapuram, for the Third Control Period, as per Table 17.

CHAPTER 8: REVENUE FROM OPERATIONS, PROFITABILITY & TAXATION.

8.1 KSIEL's submissions on its projected Profitability for the Third Control Period.

8.1.1 KSIEL forecasted the Revenues for the Third Control Period, based on the projected Cargo Volumes at the current Tariff as under:

Table 18: Revenue Projected by KSIEL for the Third Control Period before the proposed Tariff increase.

(₹ in Lakhs)

Particulars	FY 2021-22*	FY 2022-23*	FY 2023-24	FY 2024-25	FY 2025-26	Total
Cargo Volumes	15170	14841	15200	15960	16753	**77924.00**
Revenues from Regulated Services	273.84	278.33	580.12	609.13	639.36	**2380.78**
Revenues from Non-Regulated Services	34.98	36.96	40.65	44.72	49.19	**206.50**
Total Revenues	**308.82**	**315.29**	**620.77**	**653.85**	**688.55**	**2587.28**

**Actual Figures (unaudited).*

8.1.2 KSIEL, while projecting Revenues for its Thiruvananthapuram operations for the Third Control Period proposed the following % age increase in the existing Tariff Rates of various Cargo Handling Services at Thiruvananthapuram International Airport.

Table 19: Percentage increase in Tariff rates proposed by KSIEL for the Third Control Period.

Services	FY 2023-24	FY 2024-25	FY 2025-26
Export & Import Cargo Handling	25%	15%	10%

Based on its proposed Tariff increase indicate above, KSIEL had proposed Tariff Rate Card for the Third Control Period as per Annexure-I of the CP.

8.1.3 The ISP, further submitted the projected Profitability Statement for the Third Control Period, after considering the proposed Tariff increase, as per Table given below:

Table 20: Profitability Statement submitted by the KSIEL (after proposed tariff increase) for the Third Control Period.

(₹ in Lakhs)

Particulars	FY 2021-22*	FY 2022-23*	FY 2023-24	FY 2024-25	FY 2025-26	Total
Revenue From Regulated Services	273.84	278.33	782.16	944.53	1092.18	**3371.04**
Revenue From Non-Regulated Services	34.98	36.96	40.65	44.72	49.19	**206.50**
Total Revenues	308.82	315.29	822.81	989.25	1141.37	**3577.54**
Total Operating Expenditure	380.73	354.50	565.21	625.08	694.26	**2619.78**
Profit before Depreciation	-71.91	-39.21	257.60	364.17	447.11	**957.72**

Depreciation	24.73	22.97	25.18	35.52	27.00	**135.41**
Profit Before Interest and Taxation	-96.64	-62.18	232.42	328.65	420.11	**822.36**
Total Interest and Finance Charges	0.00	0.00	0.00	0.00	0.00	**0.00**
Profit Before Tax (PBT)	-96.64	-62.18	232.42	328.65	420.11	**822.35**
Tax	0.00	0.00	77.47	108.54	140.02	**326.03**
Profit After Taxation (PAT)	-96.64	-62.18	154.95	219.11	280.09	**495.32**

**Actual Figures (unaudited).*

8.2 <u>Authority's Examination on the projected Revenue from Operations & Profitability for the Third Control Period at C.P stage:</u>

8.2.1 The Authority observed that KSIEL in its MYTP submission had considered corporate tax @ 33.34%; accordingly, the Authority proposed to adopt the same Tax Rate for the Third Control Period, as proposed by the ISP.

8.2.2 The Authority noted that KSIEL had proposed Tariff increase in the Cargo Handling Services for the remaining tariff years (FY 2023-24 to FY 2025-26) of the current Control Period (as per the Table 19) on the following grounds/ justifications:

i. As per MoU with TIAL, ISP has to pay lease rent of 1.65 lakhs per month for the land taken on lease from TIAL for Cargo Handling Services at Thiruvananthapuram International Airport.

ii. Tariff Rates were last revised by the AERA for Thiruvananthapuram Air Cargo Complex in February, 2020 and the same tariff is continuing for the last 03 years.

iii. For converting the CUDCT facility into RA facility, additional manpower is required to be deployed at the TACC, which increases the payroll expenses. Similarly, after getting the status of RA facility, other Costs such as Fuel, Electricity, Water, Transportation etc. also expected to increase.

8.2.3 The Authority observed that in its Tariff Rate Card, KSIEL had proposed Tariff Rates for new services, viz. services pertaining to 'Special Cargo' (TSP & Demurrage Charges) under the Export and Import Cargo, 'Transshipment Charges' under the Export Cargo and Documentation Charges under Import; which are not part of the existing Tariff Rate Card.

In response to AERA query, the ISP submitted that the 'Special Cargo' was not in their existing tariff rate card and KSIEL might have lost the business in the same heads. Hence, to avoid the probable loss of business, they have included the Special Cargo as a new item under the TSP & Demurrage Charges, for both Exports and Imports. Further, ISP submitted that they are expecting transshipment of cargo in Export category also, hence this new charge is proposed.

8.2.4 The Authority noted that generally, other cargo terminal operators also have separate rates for "Special Cargo", "Transshipment Charges" and "Documentation Charges" in their Tariff Rate Cards. The rates of new services proposed by the ISP seems reasonable as compared to rates prevalent at nearby airports, for similar services.

8.2.5 The Authority, noted that projected Revenue for KSIEL in respect of the Third Control Period at the existing tariff rates, is not sufficient to meet ARR requirement of the ISP.

Therefore, the Authority, based on its computation of ARR for the Third Control Period, calculated the one-time tariff increase of 38.31% over the prevailing tariff. However, in order to reduce the burden of one-time steep tariff increase on the users, the Authority proposed to consider staggered tariff increase from FY 2023-24 (December, 2023 onward) to FY 2025-26 for the Third Control Period, based on the ARR computed by the Authority (Table 17) for the ISP as indicated in the Table below:

Table 21: **Percentage increase in Tariff rates proposed to be consider by the Authority for the Third Control Period.**

Service	FY 2023-24*	FY 2024-25	FY 2025-26
Cargo Handling	20%	14%	10%

**Proposed to be effective from December, 2023*

8.2.6 The Tariff Rate Card proposed by the Authority for KSIEL in respect of its Third Control Period, was placed at Annexure-I of the C.P.

8.2.7 The Authority had computed the projected Profitability for KSIEL (after the proposed Tariff increase) for the Third Control Period as per Table given below:

Table 22: Projected Profitability proposed by the Authority in respect of KSIEL (after proposed Tariff increase) for the Third Control Period at CP stage.

(₹ in Lakhs)

Particulars	FY 2021-22*	FY 2022-23*	FY 2023-24**	FY 2023-24#	FY 2024-25	FY 2025-26	Total
Regulated Revenues *(Refer table 17)*	273.84	278.33	386.75	232.04	833.29	962.11	2966.36
Non-Regulated Revenues *(Refer table 17)*	34.98	36.96	27.10	13.55	44.72	49.19	206.50
Total Revenues	308.82	315.29	413.85	245.59	878.01	1011.30	3172.86
Total O & M Expenditure *(Refer table 13)*	380.73	354.50	368.24	184.12	609.63	676.46	2573.68
Profit before Depreciation, Interest & Tax	-71.91	-39.21	45.61	61.47	268.38	334.84	599.18
Depreciation *(Refer table 8)*	24.73	22.97	16.41	8.21	32.66	37.99	142.97
Profit after Depreciation before Interest and Tax	-96.64	-62.18	29.20	53.26	235.72	296.85	456.21
Interest	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Profit Before Tax	-96.64	-62.18	29.20	53.26	235.72	296.85	456.21
Tax	0.00	0.00	0.00	0.00	53.11	98.94	152.05
Net Profit	**-96.64**	**-62.18**	**29.20**	**53.26**	**182.61**	**197.91**	**304.16**

**Actual Figures (unaudited).*

*** As per existing tariff.*

#As per the proposed tariff.

8.2.8 From the above Table, the Authority noted that the ISP had suffered losses during the first two tariff years of the Control Period (FY 2021-22 & 2022-23). Thereafter, it is expected that ISP will maintain a reasonable level of profit for remaining period of the Third Control Period.

8.3 Stakeholders' Comments regarding Annual Tariff Proposal for the Third Control Period.

Federation of Freight Forwarders' Associations in India.

8.3.1 *In its comment regarding annual Tariff proposal for the Third Control Period, FFFIA submitted that*

*"AERA has **proposed 25% increase to the existing tariff** in the Consultation Paper for handling of both Export and Import cargo by KSIEL.*

*This steep increase in the tariff will be an additional burden on exporters/importers and will be a deterrent to their business in Global market. It is suggested that **reasonable increase, in due consultation with the stakeholders may be affected in the final order by AERA.***

TSP charge for Export Perishable cargo viz-a-viz Export General cargo

*On perusal of Annexure I of the said Consultation Paper, it is observed **that TSP charges for export General cargo is higher than the TSP charges for export Perishable cargo.** Since the perishable cargo requires cold storage facilities to maintain the cool chain for the perishables, whereas General cargo handling does not require any special handling. Hence the TSP charges for General cargo should be less than that for Perishable cargo. As per the trend followed by other CTOs pan India, the TSP charges for General cargo is 50% less than that for Perishable cargo.*

*Accordingly, it is suggested that **AERA may re-look on the TSP charges for General cargo for amendments including the Demurrage charge for export Cargo.***

Higher rate of TSP charges for Valuable cargo

As per Annexure I of the Consultation paper, AERA has proposed Rs 7.50 per Kg (minimum Rs 1250/- per AWB) as TSP charges for handling of Valuable cargo. This tariff is extremely high as compared to General Cargo for which the TSP tariff is Rs 1.19 per kg (minimum Rs 190 per AWB).

AERA is suggested to consider reasonable TSP charges for valuable cargo while finalizing the Cargo Tariff Order.

TSP /Demurrage charges for Import Perishable cargo not included in the Cargo Tariff schedule.

On perusal of the Annexure I of the Consultation Paper, it is observed that TSP and Demurrage charges for handling of Perishable cargo has not been included in the Cargo Tariff schedule.

*AERA is advised **to consider the inclusion of reasonable TSP and Demurrage rates for handling of Import Perishable cargo** by KSIEL at Thiruvananthapuram International Airport.*

As a concluding observation on the subject Consultation paper, circulated by AERA to all the concerned stakeholders, FFFAI wishes to inform that AERA plays a very crucial role in ensuring that tariff proposals submitted by Air Cargo Terminal Operators for Cargo handling Services are reasonable and transparent.

AERA should ensure that rationalized tariff proposals are approved and issue guidelines/directions in this regard to all the Cargo Terminal Operators so that fair and efficient tariff structure is provided by all the stakeholders."

8.3.2 Further, in its comment, regarding AERA position on Telecom Disputes Settlement & Appellate Tribunal (TDSAT) order dated 13.01.2023, FFFIA submitted that *"Prior to finalizing the order by AERA in the matter of Determination of Tariff for the Cargo Handling Services in respect of Kerala State Industrial Enterprises Ltd (KSIEL) at Thiruvananthapuram International Airport for the Third*

Control Period (FY 2021-22 to 2025 -26), it is imperative for AERA to elucidate its position regarding the Telecom Disputes Settlement & Appellate Tribunal (TDSAT) order dated 13-01-2023 ruling that categorizes Cargo services as non-aeronautical. In light of this TDSAT order, Cargo tariff issued by AERA has been declared as inoperative and unenforceable, as being passed without jurisdiction. Accordingly, M/s Celebi Delhi Cargo Terminal Management India Pvt Ltd (CDCTM) at IGI Airport, New Delhi, Mumbai Cargo Service Center Cold Chain Solutions Pvt Ltd (MCSCCCPL) at CSI Airport and other Cargo Terminal Operators, have issued their own Cargo Tariff."

FIA Comments

8.3.3 In its comment regarding the Tariff proposed for the Third Control Period, FIA submitted that "*the tariff proposed by AERA in Annexure II of the Consultation Paper no.15/2023-24 dated 18th October 2023 for determination of tariff for Cargo handling services for KSIEL at Thiruvananthapuram International Airport, for the Third Control Period (FY 2021-22 to FY 2025-26) ('**CP**'), for export international cargo operations have reflected an increase of 20% in FY23-24, over and above the existing 5% increase in interim approved rates provided by AERA on export cargo handling services vide Addendum to AERA order no. 42/2022-23 dated 28th June 2023, and a subsequent increase of 14% and 10% for FY 24-25 and FY 25-26, in this CP.*

In this regard, it is submitted that such increase in tariff twice in one financial year of approx. 25% (twenty-five percent) and 10-14% year-on-year for services such as x-ray usage, screening and certification is enormous and will degenerate the growth of air cargo operations and negatively impact the airlines to generate the load from the Thiruvananthapuram International Airport.

In view of the above, we request AERA to not implement and approve such proposed hike in tariff, during this Control Period, which would precipitate adverse financial impact on the airlines. We look forward to your continued support in these challenging times."

SpiceJet Limited Comments

8.3.4 In its comment regarding proposed Tariff rates for the Third Control Period, SpiceJet Limited submitted that "*while AERA had computed a one-time tariff increase of 38.31% over the rates in its Order no. 42/2022-23 dated 23rd March 2023 for export and import of cargo as per para 7.3.8 of the CP, however as per para 8.2.5 & Table 20 of the CP, AERA has proposed to stagger the increase on annual basis over the remaining control period @ 20%, 14% and 10% Y-O-Y respectively, as reflected Annexure II of the Consultation Paper.*

However, this method of Y-O-Y increase would result in extraordinarily high increase @ 150.48% by the commencement of FY2025-26, which is barely 16 months away. In addition, in the event KSIEL again seeks upward revision for the tariff for the fourth control period, the increase would be sought on the then existing tariff of 150.48% instead of 138.31%, making the tariff of the fourth control period exorbitantly high. Thus, AERA is requested to please review the proposed Y-O-Y percentage increase.

The high increase proposed in tariff for the third control period will hinder air cargo growth and airlines' ability to generate load at Thiruvananthapuram due to the lack of competitive market forces caused by monopolistic cargo operations by Regulated Agent.

Market trends are not very stable in the current scenario of freight movement and a further cooling period for 2 years should be maintained to review the proposed hike by the authorities. Further details are attached as Annexure A.

In view of the above, we request AERA to not implement or approve the proposed hike in tariff during this Control Period as it would have a detrimental impact on the airlines' financial standing."

8.4 Counter Comments of KSIEL

8.4.1 In response to FFFIA's comments regarding annual tariffs proposal for the Third Control Period, KSIEL has submitted that *"the tariff revision has been proposed after a period of FIVE years, wherein during that period KSIE was absorbing the annual increase in wages, operational costs etc. This was done in order to support the industry during the COVID and ensuing period. The cumulative impact of the short fall in revenue as well as increase in expenditure is to be recovered over a period from future operations. During 2023-24, where a 20% is proposed the effective realization will be only for a limited period (December 23 to March 24). This increase is after a period of five years, which is therefore in effect not even 4.5 % per annum if worked out on a cumulative basis. The proposed tariff increase thereafter is only in the range of 14% and 10% respectively which is reasonable when compared to the normal cost of inflation.*

In this connection you may note the observation of AERA in the consultation paper which reads as follows:

As per the ARR calculations, the Authority computed 38.31% one-time Tariff increase for the ISP over the prevailing Tariff rates. However, in order to reduce the burden of one-time steep tariff increase on the users, the Authority proposes to consider staggered tariff increase from FY 2023-24 (effective from 1st December, 2023) to FY 2025-26 for the Third Control Period.

Hence, you could observe that as against an eligible increase of 38%, AERA is proposing on an average of 14.66% spread over three years, exposing KSIE to face the uncontrollable price increase and inflation.

8.4.2 *The broad percentage of increase in tariffs proposed for the control period will yield a Fair rate of return of only 11.1%, which when compared to other Cargo Handling agencies at other Airports and according to the industry standards is low as shown in the Table below, wherein the FroR approved by AERA is all above that of 11.1%.*

MENZIES AVIATION (BENGALURU) PRIVATE LIMITED (MABPL)	*12.01*
GMR HYDERABAD AIR CARGO (GHAC) AT RAJIV GANDHI INTERNATIONAL AIRPORT, HYDERABAD	*12.08*
M/s CELEBI DELHI CARGO TERMINAL MANAGEMENT INDIA PVT. LTD. (CDCTMIPL) AT INDIRA GANDHI INTERNATIONAL AIRPORT, DELHI	*13.47*

8.4.3 *The main factors contributing to the proposed increase are the additional Capital expenses and the increase in security cost, manpower to meet the new services and better services to the clients. The comments of AERA in the consultation paper are reproduced below for further clarity.*

From the above analysis, it is observed that the major impact of RA Facility status is on the payroll expenses of the ISP, which are projected to increase around 119% in FY 2023-24 as compared to FY 2022-23. Is pertinent to mention that subsequent to getting RA Facility status, there is projected increase in the manpower count by 68 numbers i.e. from 43 nos. (FY 2022-23) to 111 nos. (FY 2023-24), which include 18 nos. of X-Ray screeners (as per security norms) & 50 other workers, which is the main reason for the projected steep increase in payroll expenses during the FY 2023-24.

Considering the impact of proposed increase in manpower numbers (by 158%) in FY 2023-24 and taking into account the impact of annual salary increments, increase in minimum wages, increase in statutory components like EPF etc., the 119% increase considered by the ISP in Payroll Costs (after getting the RA Facility status) is reasonable."

8.4.4 *In the case of valuable cargo, the existing tariff was Rs.6.00 per Kg subject to a minimum of Rs.1000 per AWB. The same is proposed to be revised to Rs.7.50 per Kg and Rs.1280 per AWB. However, the Authority after making necessary assessment, the same got reduced to Rs.7.20 per Kg and Rs.1200 per AWB. This is also reasonable when compared to the nearby Airport.*

No separate tariff is proposed for Import Perishable cargo but it is treated under Commercial cargo and the tariff is applicable as such."

8.4.5 *In response to FFFIA comments on TDSAT order dated 13.01.2023, ISP submitted that "We are unable to comment on the jurisdictional validity of AERA over tariff fixation."*

8.4.6 *In response to FIA's & SpiceJet comments on tariff rates for the Third Control Period, KSIEL has submitted the same response as submitted in para no 8.4.1 to 8.4.4 for FFFIA. Further,* in response to SpiceJet's comments on 150.48% tariffs increase, ISP has submitted that "*contention of 150.48% is erroneous and opposed to facts. In fact, if you consider the effective aggregate rate from the control period 2024-25 (For the period 2023-24, the effect is only from December 23), the rates for 2025-26 will show only an increase of 25.4%."*

Further, KSIEL submitted that "the observation regarding market trends etc. are equally applicable to KSIE also and without a tariff hike KSIE cannot survive."

8.5 Authority's analysis of the FFFAI comments on the Annual Tariff Proposal for the ISP in respect of the Third Control Period.

8.5.1 The Authority notes the comments of FFFAI, including counter comments of service provider, relating to proposed tariff increase & structure of Tariff Rate Card. In this regard, the Authority observes that proposed 20% tariff increase for FY 2023-24 is effective from December, 2023 onwards. On average, it comes only 5.83% increase for FY 2023-24, thereafter, tariff increase is proposed in the range of 14% & 10% for FY 2024-25 & FY 2025-26 respectively.

Further, it is informed that the Authority, while proposing tariff increase for the ISP (at CP stage), had analyzed various regulatory building blocks, including the projected CAPEX, OPEX, Traffic Volume etc. Further, the Authority, wherever felt necessary, had sought the required clarifications/ additional information pertaining to the various regulatory building blocks etc. Based on the extensive review/ analysis of the MYTP etc., the Authority had also rationalized the projection relating to CAPEX, Depreciation, few other components of Operating Costs etc.

Thus, the Authority, at CP stage, had done the required due diligence & proposed tariff increase for KSIEL accordingly, after considering the relevant factors, including CAPEX (₹ 135.40 lakhs for the Control Period), OPEX, Cargo Volumes etc., projected by the ISP. It is also pertinent to mention that the Tariff Rates for the service provider (KSIEL), at Trivandrum Airport, were last revised about three and half years back.

Furthermore, as per the profitability statement submitted by the ISP (refer Table 20), KSIEL had incurred losses during the first two Tariff Years of the Control Period. Considering additional OPEX on account of ISP getting status of RA facility, which requires additional manpower, CAPEX etc., as per the Authority, ISP requires necessary YoY increase in Tariff Rates to cover-up annual increase in operating expenditure and past losses of First two tariff years of the current Control Period.

8.5.2 Subsequent to completion of consultation process, the Authority, as part of its consultation process, has considered the comments/ views of the stakeholders, including the counter comments of the ISP, relating to the proposed tariff increase & profitability etc., before finalizing revision in tariff rates for the ISP.

8.5.3 In respect of FFFAI's comment pertaining to TSP Charges for Export General Cargo is higher than the TSP charges for Export Perishable Cargo, the Authority is aware that generally, TSP Charges for Perishable Cargo are higher than the General Cargo but, in the case of KSIEL, at Calicut and Trivandrum airports, prevailing and proposed Tariff Rates for the Perishable Cargo are lower than the charges applicable to General Cargo. The lower charges proposed toward Perishable Cargo are expected to promote export of the Perishable Cargo from the Trivandrum.

The Authority also notes that the tariff rates proposed by the ISP for General Cargo and Perishable Cargo are still lower than the Tariff Rates charged by the other Cargo Operators at other major Airports. In view of the above, the Authority has considered the Tariff Rates for General and Perishable Cargo as submitted by the ISP.

8.5.4 In respect of FFFAI's comment pertaining to higher rate of TSP Charges for the Valuable Cargo, the Authority notes that the prevailing tariff rate for Valuable Cargo is ₹ 6.00 per kg (Minimum ₹ 1000/- per AWB) & the Authority has considered 20% tariff increase as has been considered for all other components of Rate Card for FY 2023-24. It is pertinent to mention that the Authority has decreased the Charges for Valuable Cargo from ₹ 7.50 per kg (Minimum ₹ 1250/- per AWB), proposed by the ISP, to ₹ 7.20 per kg (Minimum ₹ 1200/- per AWB).

8.5.5 In respect of FFFAI's comment pertaining to TSP Demurrage Charges, ISP has clarified that TSP/ Demurrage Charges for Import Perishable Cargo is treated under Commercial cargo/Unaccompanied Baggage charges.

8.5.6 The Authority also notes the comments of FFFAI requesting AERA to elucidate its position on Hon'ble Telecom Disputes Settlement & Appellate Tribunal (TDSAT) Order dated 13-01-2023, wherein 'Cargo Services' have been categorized as 'non-aeronautical'.

In this regard, it is informed that AERA CGF Guideline, 2011, specified that "*services provided for (i) ground handling services relating to aircraft, passengers and cargo at an airport; (ii) the cargo facility at an airport; and (iii) supplying fuel to the aircraft at an airport*", are "*aeronautical services*", in terms of section 2(a) of the Airports Economic Regulatory Authority of India Act, 2008 (the Act). Further, it is clarified that the aforesaid TDSAT order is applicable only to IGI Airport, Delhi & CSMIA, Mumbai. Even in the referred cases, the AERA has submitted an Appeal in the Hon'ble Supreme Court of India and appeal of AERA has been admitted by the Hon'ble Supreme Court.

8.5.7 The Authority also notes the comments of FIA and SpiceJet, wherein the stakeholders have requested the Authority not to implement and approve the proposed 20% hike in the Tariff Rates, over and above the existing 5% increase in interim tariff rates approved by AERA on Export Cargo Handling Services for the ISP vide AERA Order no. 42/2022-23 dated 28 June 2023, and not to consider subsequent increase in Tariff Rates @ 14% and 10% for FY 2024-25 and FY 2025-26 respectively.

In this regard, the Authority informs that at the time of approval of Ad-hoc Tariff Rates by the AERA, vide Order no. 42/2022-23 dated 23rd March 2023, the Authority did not consider 5% increase in Tariff Rates, as commented by the FIA, The Authority, vide aforesaid Interim Order, approved the Tariff Rates in respect of 'RA related additional services' for the ISP only; which were based on the prevailing tariffs for similar services provided by the Cargo Operators at the nearby major airports. Further, as regard to 20% hike in Tariff Rates considered by AERA for FY 2023-24, it is informed that this hike in tariff rates is effective from December, 2023 onwards for the remaining period of FY 2023-24 (around three & half months in FY 2023-24 only). Thereafter, subsequent increase in Tariff Rates @14% & 10% YoY for FY 2024-25 & FY 2025-26 respectively, have been considered to cover-up increase in the Operating Expenditure, due to factors like annual general inflation, annual salary increments, increase in minimum wages etc.

8.5.8 As regard to SpiceJet comments regarding YoY increase would result in extraordinarily high increase @ 150.48% by the commencement of FY2025-26, in this regard, the Authority clarifies that the cumulative impact of Tariff increase @ 20% in FY 2023-24, 14% in FY 2024-25 & 10% in FY 2025-26 comes to 50.48% only not '150.48% increase in Tariff inferred & commented by SpiceJet'

8.5.9 The Authority at CP Stage has done the required due diligence and has carried out detailed analysis the various regulatory building blocks & computed ARR of ₹ 2886.36 lakhs, in place of ₹ 3104.71 lakhs proposed by the ISP, for the Third Control Period. Based on its ARR computation, the Authority had calculated the one-time tariff increase of 38.31% over the prevailing tariff; however, in order to reduce the burden of one-time steep tariff increase on the users, proposes to consider staggered tariff increase from FY 2023-24 (effective from December, 2023) to FY 2025-26 for the Third Control Period.

8.6 <u>Authority's decision regarding projected Revenue, Profitability Statement and Tariff for the ISP in respect of the Third Control Period.</u>

Based on the material before it and its analysis, the Authority decides:

8.6.1 To consider total Revenue (after Tariff increase) & Profitability Statement in respect of the ISP, for the Third Control Period, as per Table 22.

8.6.2 To consider the Tariff Rate Card for Cargo Handling Services (after Tariff increase) in respect of the KSIEL, Thiruvananthapuram for the Third Control Period, as per **Annexure-I.**

CHAPTER 9: SUMMARY OF AUTHORITY'S DECISIONS

The below mentioned summary provides the Authority's decisions relating to relevant chapters regarding the tariff determination process for KSIEL, providing Cargo Handling Services at Thiruvananthapuram International Airport:

Chapter	Para	Summary of Authority's Decisions	Page No.
Chapter No.2	**2.11.1**	The Authority decides to determine the Tariffs for the Cargo Handling Services provided by KSIEL at Thiruvananthapuram International Airport for the Third Control Period, under the **'Light Touch Approach'**.	10
Chapter No.3	**3.6.1**	The Authority decides to consider the Cargo Volume projected by KSIEL for the Third Control Period as per Table 3.	14
Chapter No. 4	**4.8.1**	The Authority decides to consider Additions to RAB (CAPEX) for the Third Control Period as per Table 6.	20
	4.8.2	The Authority decides to consider the Depreciation for the Third Control Period as per Table 8.	
	4.8.3	The Authority decides to consider Average RAB for the Third Control Period as per Table 10.	
Chapter No. 5	**5.6.1**	The Authority decides to consider the OPEX in respect of the KSIEL for the Third Control Period as per Table 13.	25
Chapter No. 6	**6.5.1**	The Authority decides to consider 30% lower TSP Charges in all category of BUPs (Export & Import Cargo) pertaining to AFS, except 'Other than General Cargo' BUPs under Imports, where 44% lower TSP Charges are considered for the Third Control Period, as per **Annexure-I.**	32
Chapter No. 7	**7.5.1**	The Authority decides to consider the ARR in respect of KSIEL for the Third Control Period as per Table 17.	35
Chapter No. 8	**8.6.1**	The Authority decides to consider the projected Profitability Statement (after proposed Tariff increase) for the Third Control Period as per Table 22.	44
	8.6.2	The Authority decides to consider the Tariff for Cargo Handling Services in respect of the KSIEL for the Third Control Period as per **Annexure-I.**	

CHAPTER 10: ORDER

Upon careful consideration of the material before it, the Authority, in exercise of powers conferred by Section 13(1) (a) of the Airport Economic Regulatory Authority of India Act, 2008, hereby orders that:

(i) The services relating to Cargo Handling being provided by KSIEL at Thiruvananthapuram International Airport, for the Third Control Period, is deemed 'Not-Material'. Accordingly, the Authority has determined the Tariff for the Third Control Period, in respect of KSIEL at Thiruvananthapuram International Airport, under the **'Light Touch Approach'**.

(ii) KSIEL is allowed to levy the revised Tariff in respect of the Cargo Handling Services, for the Third Control Period (FY2021-22 to FY 2025-26), as per the **Annexure-I**, effective from **26.12.2023.**

(iii) Tariff determined hereinunder is the maximum Tariff to be charged to Users. No other charge(s) is to be levied over and above the approved Tariff Rates.

(iv) The Tariff Rates approved hereinunder are excluding of all applicable taxes, if any.

(v) M/s KSIEL, at the end of each tariff year, shall submit the Annual Compliance Statement (ACS), including annual audited accounts, separately for its Air Cargo Operations at the Thiruvananthapuram International Airport, in accordance with the AERA CGF Guidelines, 2011 (Clause 11.4).

(vi) The Airport Operator shall ensure the compliance of this Order.

By the Order of and in the Name of the Authority

(Suyash Narain)
Secretary

To

Mr. Jayaraj. P.V,
Head of Department (Air Cargo Complexes),
M/s Kerala State Industrial Enterprises Limited,
St. Joseph Press Building, Cotton Hill,
Thiruvananthapuram-695014.

Copy for information to:

1. Secretary, Ministry of Civil Aviation, Rajiv Gandhi Bhawan, Safdarjung Airport New Delhi-110003.
2. Shri Manoj Chanduka, Head Regulatory Affairs, Adani Corporate House, Shantigram, Near Vaishno Devi Circle, S G Highway, Khodiyar, Ahmedabad - 382421, Gujarat. India.

Annexure-I

AERA APPROVED TARIFF RATE CARD FOR THE CARGO HANDLING SERVICES PROVIDED BY KSIEL AT THIRUVANANTHAPURAM INTERNATIONAL AIRPORT FOR THE THIRD CONTROL PERIOD (FY 2021-22 TO FY 2025-26).

Revised Tariff is effective from 26.12.2023

Rates in INR

Sno.	Particulars	Unit	FY 2023-24	FY 2024-25	FY 2025-26
A	**EXPORT CARGO**				
1)	**Terminal Storage & Processing Charges (TSP)**				
a)	Perishable Cargo	Per Kg	0.96	1.09	1.20
		Minimum Charges/AWB	180	205	226
b)	General Cargo	Per Kg	1.14	1.30	1.43
		Minimum Charges/AWB	180	205	226
c)	Newspaper	Per Kg	0.84	0.96	1.06
		Minimum Charges/AWB	150	171	188
d)	Valuable Cargo	Per Kg	7.20	8.21	9.03
		Minimum Charges/AWB	1200	1368	1505
e)	Special Cargo	Per Kg	2.00	2.28	2.51
		Per Consignment	350.00	399	439
f)	**BUP Charges-AFS Cargo**				
	General Cargo				
	BUP Charge (up to LD3) Capacity-1588 Kgs	Per Unit	1267	1444	1588
	BUP Charge (above LD3 - lower deck pallet) Capacity-3175 Kgs	Per Unit	2534	2889	3178
	BUP Charge (above LD3 - main deck pallet) Capacity-6800 Kgs	Per Unit	5430	6190	6809
	Other than General Cargo				
	BUP Charge (up to LD3) Capacity-1588 Kgs	Per Unit	1067	1216	1338
	BUP Charge (above LD3 - lower deck pallet) Capacity-3175 Kgs	Per Unit	2134	2433	2676
	BUP Charge (above LD3 - main deck pallet) Capacity-6800 Kgs	Per Unit	4572	5212	5733
2)	**Demurrage Charge - Export Cargo**				
a)	Perishable Cargo	Per Kg Beyond 36 hours	0.96	1.09	1.20
		Minimum Charges/AWB	180	205	226
b)	General Cargo	Per Kg Beyond 36 hours	1.14	1.30	1.43

		Minimum Charges/AWB	180	205	226
c)	Newspaper	Per Kg Beyond 36 hours	0.84	0.96	1.06
		Minimum Charges/AWB	150	171	188
d)	Valuable Cargo	Per Kg Beyond 36 hours	7.20	8.21	9.03
		Minimum Charges/AWB	1200	1368	1505
e)	Special Cargo	Per Kg Beyond 36 hours	2.00	2.28	2.51
		Per Consignment	350.00	399	439
3	**X-ray Machine Usage Charge.**				
	For all types of Cargo	Per Kg	1.80	2.05	2.26
		Minimum Charges/AWB	180	205	226
4	**Screening and Certification Charge**				
	For all types of Cargo	Per Kg	1.80	2.05	2.26
		Per Consignment	126	144	158
5	**Export Documentation Charges***	per Flight	500	570	627
6	**Handling Charges#**	Per Kg	2.05	2.34	2.57
		per Consignment	485	553	608
B	**IMPORT CARGO**				
1	**Terminal Storage & Processing Charges (TSP)**				
a)	Commercial Cargo / Un-accompanied Baggage (1- 7 Days)	Per Kg	5.40	6.16	6.78
		Minimum Charges/AWB	240	274	301
b)	Special Cargo (1- 7 Days)	Per Kg	10.00	11.40	12.54
		Minimum Charges/AWB	300	342	376
c)	Valuable Cargo (1- 7 Days)	Per Kg	7.20	8.21	9.03
		Minimum Charges/AWB	1200	1368	1505
d)	**BUP Charges-AFS Cargo**				
	General Cargo				
	BUP Charge (up to LD3) Capacity-1588 Kgs	Per Unit	6003	6843	7527
	BUP Charge (above LD3 - lower deck pallet) Capacity-3175 Kgs	Per Unit	12002	13682	15050
	BUP Charge (above LD3 - main deck pallet) Capacity-6800 Kgs	Per Unit	25719	29320	32252
	Other than General Cargo				
	BUP Charge (up to LD3) Capacity-1588 Kgs	Per Unit	6403	7299	8029
	BUP Charge (above LD3 - lower deck pallet) Capacity-3175 Kgs	Per Unit	12802	14594	16053
	BUP Charge (above LD3 - main deck pallet) Capacity-6800 Kgs	Per Unit	27434	31275	34403

2	**Demurrage Charges**				
a	**Commercial Cargo /Un-accompanied Baggage**				
i)	From 8 to 14 days	Per Kg	1.44	1.64	1.80
		Minimum Charges/AWB	300	342	376
ii)	From 15 to 21 days	Per Kg	1.80	2.05	2.26
		Minimum Charges/AWB	300	342	376
iii)	22nd day onwards	Per Kg	1.98	2.26	2.49
		Minimum Charges/AWB	300	342	376
b	**Special Cargo**				
i)	From 8 to 14 days	Per Kg	2.00	2.28	2.51
		Minimum Charges/AWB	300	342	376
ii)	From 15 to 21 days	Per Kg	4.00	4.56	5.02
		Minimum Charges/AWB	300	342	376
iii)	22nd day onwards	Per Kg	6.00	6.84	7.52
		Minimum Charges/AWB	300	342	376
c	**Valuable Cargo**				
i)	From 8 to 14 days	Per Kg	7.20	8.21	9.03
		Minimum Charges/AWB	1200	1368	1505
ii)	From 15 to 21 days	Per Kg	12.00	13.68	15.05
		Minimum Charges/AWB	1500	1710	1881
iii)	22nd day onwards	Per Kg	12.00	13.68	15.05
		Minimum Charges/AWB	1500	1710	1881
d)	**Import Documentation Charges**				
	Unaccompanied Baggage/ Commercial Cargo	Minimum Charges/AWB	50	57	63
3	**Transshipment Charges (Airline/Transporter)**				
a	**Import- International to International/Domestic**	Per Kg	3.00	3.42	3.76
		Minimum Charges/AWB	250	285	314
b	**Export- International to International/Domestic**	Per Kg	2.00	2.28	2.51
		Minimum Charges/AWB	250	285	314

The above Transshipment charge is to be borne by Exporter/Agent (This includes Terminal Storage and Processing & Transshipment charges).
However, Payment towards X-ray Machine Usage, Screening and Certification and Handling Charges are to be borne by Airlines.

**To be paid by Airlines at Export for providing Manifest and Envelope Services provided. Export: Cargo Manifest + Envelope.*
#Acceptance of Cargo, Stacking, Feeding into X-ray Machine and to Pallets/ULDs. To be paid by Airlines.

Notes:

1. For the purpose of calculations of Demurrage Charges on Export/ Import Cargo, the free period shall be governed as per the Orders of Ministry of Civil Aviation, issued from time to time.
2. Consignments of Human Remains, Coffins including unaccompanied Baggage of deceased and Human Eyes will be exempted from the purview of the TSP and Demurrage Charges.
3. The Charges will be levied on "Gross 'Weight" or "Chargeable Weight" whichever is higher. Wherever there is a misdeclaration of the Gross or chargeable weight on the AWB, the actual Gross Weight or Actual Chargeable Weight will be used for the Charges, whichever is higher.
4. All bills will be rounded to the next INR 1 as per Rules.
5. Valuable Cargo consists of Gold Bullion, Currency Notes, Shares, Share Coupons, Traveler's Cheque, Diamonds (including Diamonds for industrial use), Diamond Jewelry, Watches made of Silver, Gold, Platinum, and items valued at USD 1000/KG and above.
6. Special Cargo Consists of Live Animals, Hazardous Goods, Ornamental Fish, Chicks etc.
7. For consolidation of TSP Cargo - TSP Charges will be levied to all types of Cargo, in addition to Transshipment Charges mentioned above. Demurrage Charges will be applicable per General Cargo Tariff.
8. All Statutory Taxes as per Government will be charged extra.