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**Report of the
Comptroller and Auditor General of India
on**

**Implementation of Public Private Partnership project at
Chhatrapati Shivaji International Airport, Mumbai**

for the year ended March 2013



**Union Government
Ministry of Civil Aviation**

No. 15 of 2014
(Performance Audit)

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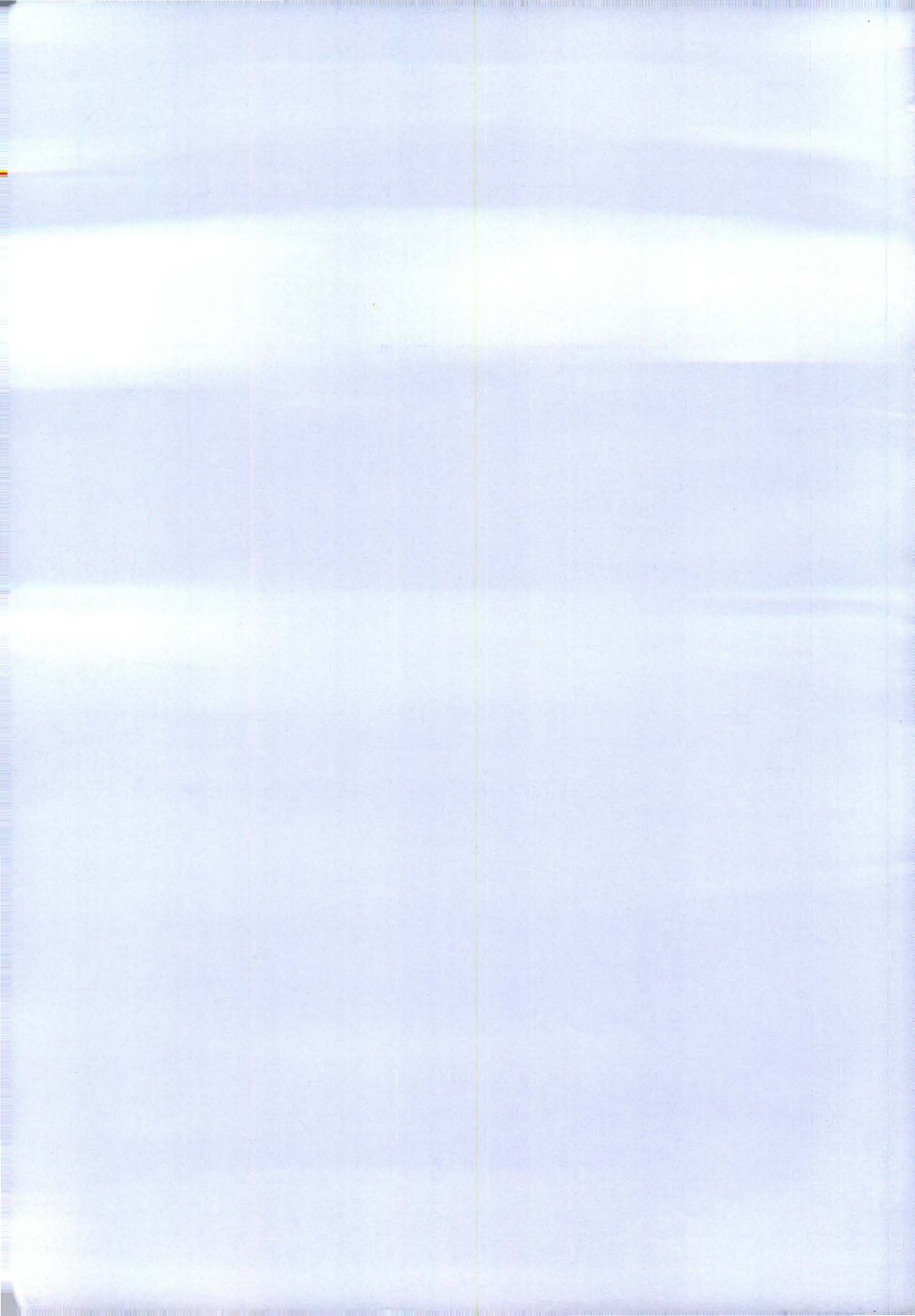
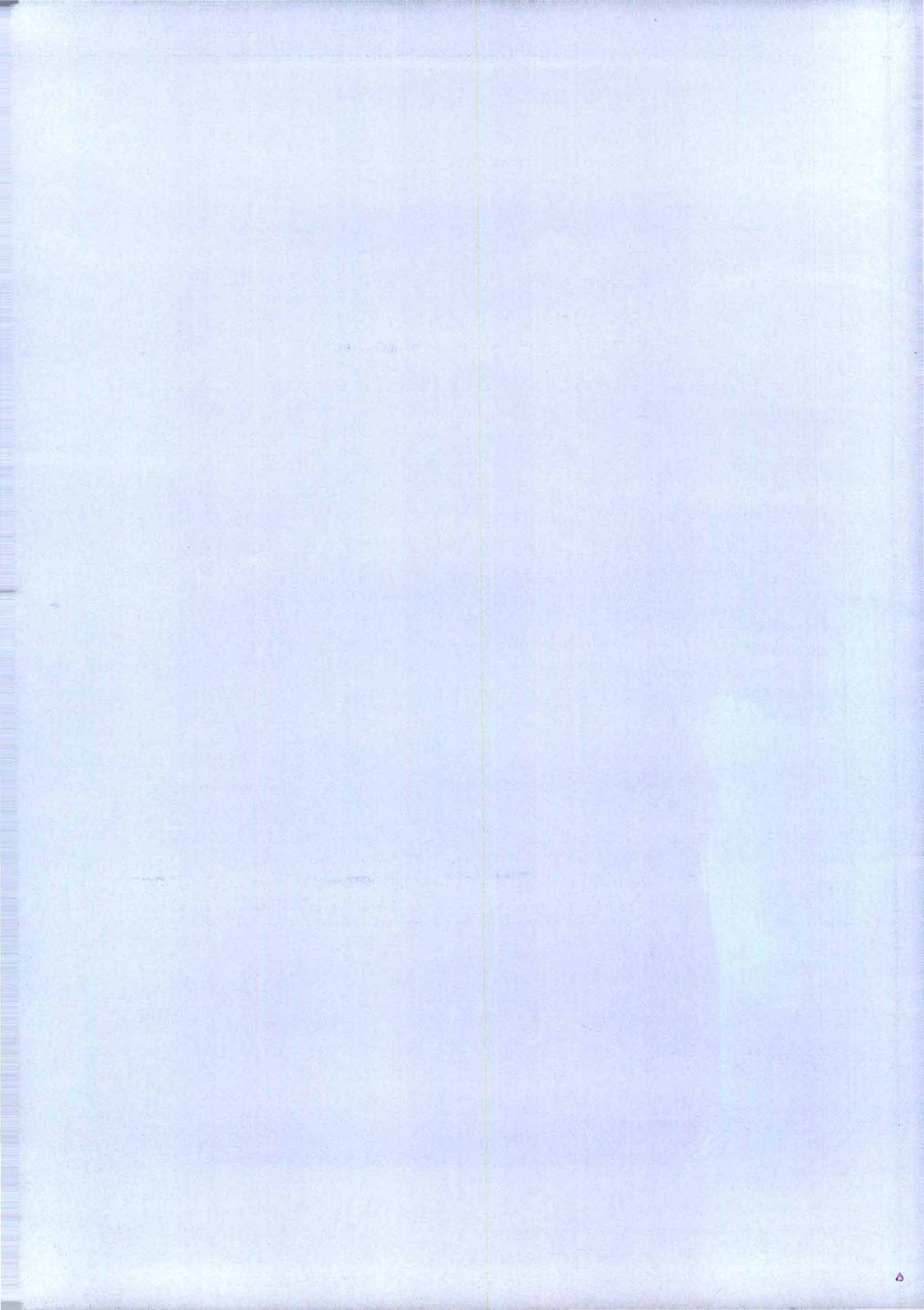


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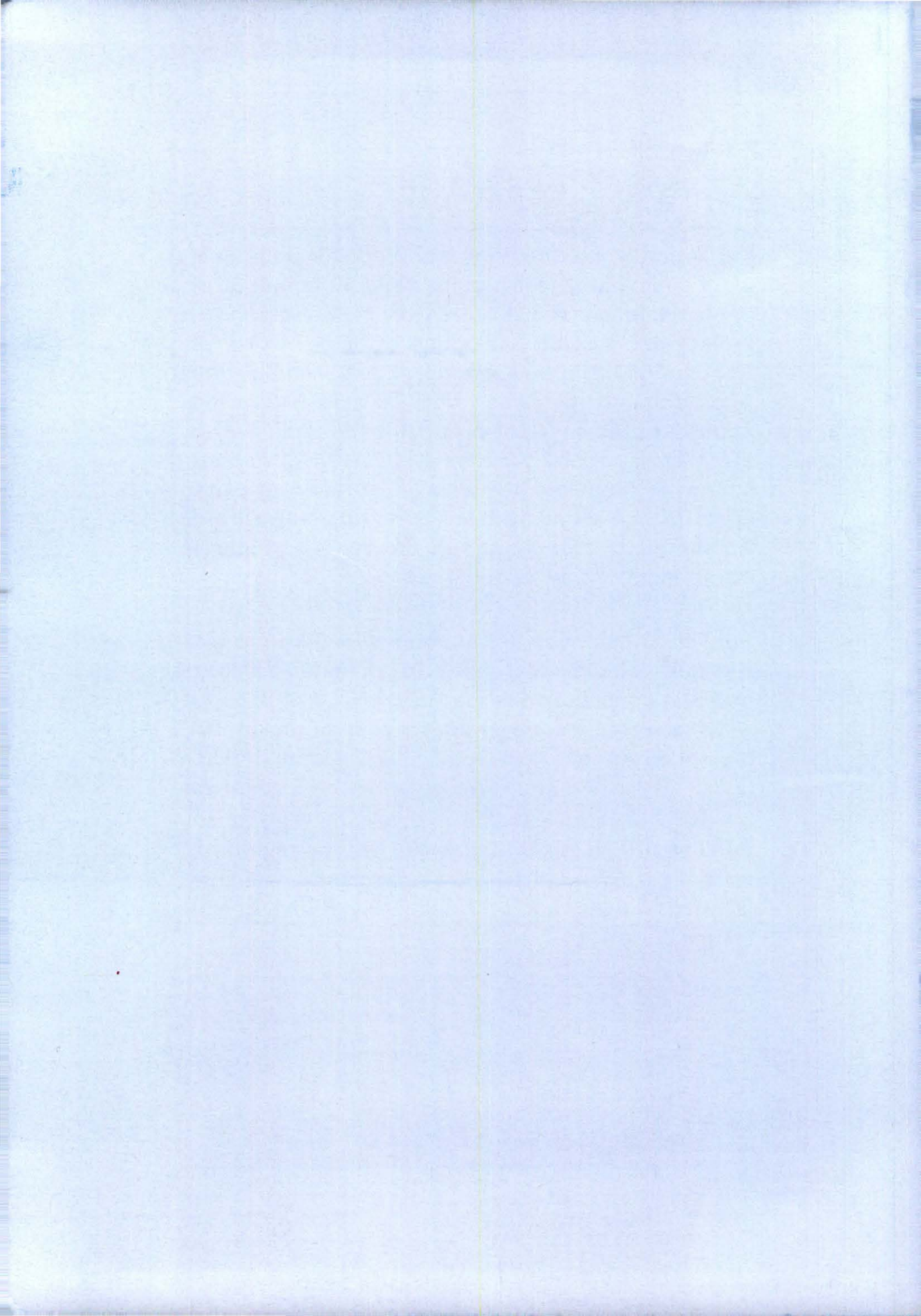


PREFACE

This Report of the Comptroller and Auditor General of India contains the results of the Performance Audit of Implementation of Public Private Partnership (PPP) Project by Airports Authority of India (AAI) at Chhatrapati Shivaji International Airport, Mumbai. The Audit covered the period from 2006 to 2012. The Report is based on scrutiny of documents pertaining to the Ministry of Civil Aviation (MOCA), AAI, Airports Economic Regulatory Authority of India (AERA), Operation, Management and Development Agreement of 2006, Passenger Service Fee (Security Component) Escrow Account, etc.

The Report has been prepared for submission to the President of India under Article 151 of the Constitution and is in continuation of the Report No. 5 of 2012-13 which covered the performance audit of similar PPP project by AAI at Indira Gandhi International Airport, Delhi.

Audit wishes to acknowledge the co-operation and assistance extended by the senior officers and staff of MOCA, AERA and AAI at all levels during the Performance Audit.



EXECUTIVE SUMMARY



Executive Summary

Background

Airports Authority of India (AAI) had been the sole air traffic service provider in the country. Unprecedented increase in passenger and cargo traffic led to congestion in airports, particularly airports in metropolitan cities. Government decided to adopt the Public Private Partnership (PPP) mode in modernisation of existing airports as well as development of new airports.

It was decided with the approval of Cabinet (September 2003) that restructuring of Delhi and Mumbai airports would be undertaken through the JV route by formation of two separate companies between AAI and selected JV partners. Following competitive bidding, the JV partners for Mumbai airport were selected in February 2006. Airports Authority of India (AAI), in the capacity of the State promoter, signed an Operation, Management Development Agreement (OMDA) with Mumbai International Airport Private Limited (MIAL), a Joint Venture Company (JVC), for development and modernisation of Chattrapati Shivaji International (CSI) Airport, Mumbai on 04 April 2006. As per this agreement, AAI handed over CSI Airport, Mumbai to MIAL on 03 May 2006 on 'as is where is basis'.

Results of Performance audit of implementation of PPP by AAI in Indira Gandhi International Airport, Delhi were reported in Audit Report No.5 of 2012-13 which was presented in Parliament in August 2012. The present report examines the implementation of PPP project at CSI Airport, Mumbai.

Significant findings in the implementation of PPP at CSI Airport, Mumbai

Design constraint to capacity

The two runways in CSI Airport, Mumbai (runways 09/27 and 14/32) intersect approximately at their mid points because of which simultaneous operation of both runways is not possible. This places a 'design constraint' on the handling capacity of the runways. In the Initial Development Plan submitted by GVK led consortium (JV Partner) at the time of bidding, an additional parallel runway situated south of runway 09/27 was envisaged to increase the runway capacity of the airport. The proposal for the parallel runway was later shelved as it involved large scale relocation of facilities and acquisition of privately owned land rendering such development and its schedule uncertain. With this constraint, the maximum capacity that can be handled at CSI Airport, Mumbai is 40 million passengers per annum (mppa). In contrast, the demand

at the airport is expected to reach 40 mppa by 2015 rising to 80 mppa by 2026. Thus, even after modernisation and up-gradation of CSI Airport, Mumbai, the airport would be unable to meet the demand of passengers. The problem is expected to be compounded with the delay in development of the second airport at Navi Mumbai.

(Para 3.2)

Right of First Refusal

The State Support Agreement (SSA) allows Right of First Refusal (ROFR) to MIAL for a second airport planned within a 150 km radius of the CSI Airport, Mumbai. A competitive bidding process was to be followed in which MIAL could also participate if it so chose. In the event of being unsuccessful in the bidding, MIAL would be allowed to match the most competitive bid (if its bid was within the range of 10 per cent of the most competitive bid) provided MIAL performed satisfactorily without any material default under any project agreement at the time of exercising ROFR. MOCA assured the Public Accounts Committee (PAC) during the examination of Audit Report No. 5 of 2012-13 that the second airport in Mumbai may not be needed till the traffic reaches the saturation point of 40 mppa. Adequate safeguards would need to be provided and ensured so that interests of competitiveness and transparency are not sacrificed especially as the traffic is expected to reach 40 mppa in 2015 itself. This provision should not be allowed to thwart competition and provide MIAL an advantage on the second airport. MIAL has incorporated a subsidiary company, M/s. Navi Mumbai Airport Developers Limited, in 2007.

(Para 3.4)

Concession Period

The proposal for restructuring of Mumbai and Delhi airports seeking adoption of JV route envisaged an initial concession period of 30 years which could be extended by another 30 years subject to mutual agreement and negotiation of terms. However, as per OMDA, MIAL enjoys unilateral right to extend the 30 years' concession period for another 30 years, provided no default had taken place during the 20th to 24th year of the first concession period. Absence of review clause and re-negotiation before extension of concession period appears to virtually allow MIAL the right to operate the airport for a period of 60 years with the terms and conditions frozen in OMDA. It is, thus, essential that a regular and well documented review of performance of MIAL at MOCA is in place to safeguard the interests of Government and to get MIAL to deliver the committed outputs.

(Para 3.5)

Status of Mandatory Capital Projects

MIAL had to complete 32 Mandatory Capital Projects (MCPs) by March 2010. Out of these 32 MCPs, 28 were to be completed by May 2008. One of the MCPs (S-06) was not completed on time and was delayed by two years. SSA provided for incentive to MIAL through a 10 per cent increase in airport base charges provided MCPs were completed by May 2008. MOCA allowed the incentive to MIAL though MIAL failed to complete the project in time. It needs to be ensured that incentives such as increase in base airport charges are not given when inordinate delays take place in completion of projects.

(Para 3.8)

Status of other capital projects

In addition to MCPs, Master Plan 2007 had listed a set of 45 other capital works which included airside works, terminal works and city side development which were necessary for overall execution of the project. Actual progress of work was slow with only three works having been completed in Phase 1 (ending 2010) as against the targeted eight. The Independent Engineer had reported progress in only thirteen works which indicated considerable scope for improving the pace of work.

(Para 3.9)

Increase in Project Costs estimates

The original transaction documents (OMDA, SSA) did not mention cost estimate for the project. The initial estimate of the project cost was ₹5,826 crore (2006). These estimates were revised upward by MIAL progressively in 2008, 2010 and finally in 2011 to ₹12,380 crore. The project cost approved by AERA for the period upto March 2014 is ₹11,647.46 crore. As significant expenditures have been shifted to future control periods (beyond 2013-14) by AERA, the project costs are set to increase further.

(Para 4.1)

Gap in funding and Development Fee

As per Article 13.1(a) of OMDA, MIAL shall arrange for financing and / or meeting all financing requirements through suitable debt and equity contributions in order to comply with its obligations including development of the Airport pursuant to the Master Plan and the Major Development Plan. Further, OMDA provided that MIAL may, if its development funding necessitated, procure the listing of shares of MIAL on the Mumbai and/ or the National Stock Exchange(s) at any time. As per the initial financing plan, the project cost of ₹5,826 crore was to be financed entirely through equity, internal accruals and debt. As the project cost increased progressively, MIAL sought and was allowed to levy Development Fee (DF) on passengers to

cover the funding gap. No efforts were made to secure sources of financing for the project as envisaged in OMDA. With AERA's approval to levy of DF of ₹3,400 crore in December 2012, DF accounted for 29.19 per cent of project funding while the equity stake of the private partners of MIAL at ₹888 crore contributed a mere 7.6 per cent. The debt of MIAL had also not altered even as the project cost nearly doubled thus indicating that the finance risk for the project had not been appropriately transferred to the JV partner.

(Paras 4.3 and 4.4)

Conflicts between OMDA and AERA Act in defining aeronautical and non-aeronautical services

There were inconsistencies between provisions of OMDA and State Support Agreement (SSA) signed for CSI Airport, Mumbai and the Airports Economic Regulatory Authority (AERA) Act, 2008. These would have long term repercussions on the regulator's role in tariff fixation for CSI Airport, Mumbai. The definition of aeronautical and non-aeronautical services differs substantially between OMDA and AERA Act. Ground handling and cargo handling services have been designated as non-aeronautical services in OMDA but are defined as aeronautical services under the AERA Act. The 'Target Revenue' for fixing airport charges takes into account only 30 per cent of the revenue generated from non-aeronautical services. Thus, tariff payable by the passengers will be cross subsidised only to the extent of 30 per cent by revenues generated from cargo and ground handling services in case of CSI Airport, Mumbai. As cargo and ground handling services constitute a major source of revenue for the airport, this provided undue financial advantage to MIAL at the expense of higher tariff imposed on the passengers. MOCA may need to critically assess the financial impact of concessions granted by the Government under OMDA and revenue ensured by the Government from MIAL after ground handling and cargo services were categorised as aeronautical services as recommended by PAC in its Report on Implementation of PPP-IGI Airport, Delhi.

(Para 5.2)

Outsourcing domestic and international cargo activities

Cargo revenue comprises mainly domestic and international cargo operations. MIAL had planned to outsource its cargo activities by September, 2012 and had estimated that the cargo revenue would, as a result, register a fall of 40 per cent from the 2011-12 actuals in a span of two years (viz. 2012-13 and 2013-14) on account of the outsourcing. As the cargo revenue subsidises tariff (30 per cent of cargo revenue is taken into account working out airport charges), a fall in cargo revenues would lead to higher tariff and burden on the passengers. Besides, the revenue share of AAI will also reduce substantially with significant reduction estimated in cargo revenues.

(Para 5.4)

Award of concession for operation of Hotel near Terminal 1C to a Group Entity consortium

As per Article 8.3.7 of OMDA, all developments at the airport shall be as per the existing Master Plan and no development that is not envisaged in the Master Plan would be allowed to be undertaken. MIAL took up construction of a hotel near Terminal 1C in June 2009 though it was not included in the Master Plans in violation of the terms as above in OMDA. MIAL informed (February 2010) AAI that it had carried out competitive bidding for operation of a hotel in Terminal 1C and a Consortium of M/s. TAJ GVK Hotels & Resorts and Greenridge Hotels & Resorts had emerged successful. The successful bidder and MIAL were to have a revenue sharing arrangement of 4.65 per cent of the gross revenue with a minimum guarantee clause which was agreed to by AAI, though the arrangement would have significant adverse impact on the revenue share of AAI. AAI will receive only 1.79 per cent of the gross revenue earnings in the hotel project (38.7 per cent of the 4.65 per cent revenue share due to MIAL from the hotel concession). As the hotel concession has been awarded to a group entity of MIAL, the upside in revenue may benefit the GVK group even as it is not shared with AAI.

(Para 5.5)

Delay in receipt of Retirement Compensation

As per OMDA, MIAL was liable to pay Retirement Compensation to AAI for unabsorbed number of general employees. As per Article 1.1 of OMDA, Retirement Compensation was to be based on AAI's latest available Voluntary Retirement Scheme. AAI allowed MIAL to pay Retirement Compensation as monthly instalments over ten years in violation of specific directives from MOCA which stipulated that MIAL should pay the balance amount immediately. This resulted in undue favour to MIAL and consequent loss of interest (₹ 71.37 crore) to AAI. MOCA's attention is drawn to the recommendation of PAC on a similar issue in Audit Report No. 5 of 2012-13 relating to the implementation of PPP arrangements in Indira Gandhi International Airport, Delhi where PAC have concluded that MOCA had erred in safeguarding the interests of employees of AAI and failed to enforce its directives while also recommending that MOCA enforce contractual obligations as per OMDA.

(Para 5.7)

Survey of airport land and maintenance of land records

Neither OMDA nor the lease deed signed between AAI and MIAL demarcated and defined the specific details of leased land. Both documents were to have a map of the 'demised premises' which was left blank. AAI did not have up-to-date land records. As such, the area of CSI Airport, Mumbai stated to be 1875 acres in the Request for Proposals increased to 2006 acres on actual survey by MIAL. The very significant difference in areas quoted by AAI and MIAL raises questions on the quality of land records and documents maintained by AAI. MOCA's attention is drawn to the recommendation of PAC on a similar issue in Audit Report no. 5 of 2012-13 relating to the implementation of PPP arrangements in Indira Gandhi International Airport, Delhi that necessary survey of the land be undertaken and physical markings erected to identify the demised land and carved out assets for future and PAC apprised within six months.

(Para 6.1)

Carved out land transferred to MIAL on the basis of meagre upfront fee

'Carved out assets' were primarily intended for the use of AAI as per OMDA and could be transferred to MIAL, if required, for aeronautical purposes with the condition that the parties (AAI and MIAL) should negotiate the terms and conditions of such transfer. AAI agreed to transfer 48.15 acres out of carved out assets to MIAL against a meagre consideration based on upfront fee paid by MIAL without negotiation of terms and conditions as provided in OMDA. MOCA maintained that upfront fee paid had no relation to the extent of land and assets at airport, which, however, was the basis for transfer of part of carved out assets to MIAL.

(Para 6.2)

Commercial exploitation of 190.1 acres

Article 2.2.4 of OMDA allows MIAL to utilise ten per cent of the demised premises for provision of non-transfer assets. This is essentially the land available to MIAL for commercial exploitation. Initially (as per RFP and OMDA), the land area available for commercial utilisation was 179.8 acres. With the execution of Supplementary Lease Deed in December 2011, the potential non transfer asset land rose to 190.1 acres and transfer of carved out land resulted in further increasing the eligibility of MIAL for commercial exploitation to 196.67 acres. Though revenues from non-transfer assets would not form a part of the 'Target Revenue' used for determining aeronautical charges in terms of SSA, the same would be a revenue enhancing activity having the potential for reduction of burden in the form of various levies on passengers.

MOCA/AAI need to carefully work out the economics of commercial exploitation of land.

(Para 6.3)

Encroachment

There were no firm estimates of the area under encroachment which kept on increasing over time from 147 acres to 308.96 acres highlighting serious deficiencies in land records management. MIAL executed a contract with M/s. Housing Development and Infrastructure Limited (HDIL) to undertake activities relating to rehabilitation of encroachers and restoration of the Airport land under encroachment in lieu of the right to develop part of the land vacated by encroachers. The encroachment was to be removed within 48 months of commencement date *i.e.* by October 2011 or with further six months extension at MIAL's discretion. The contract was subsequently terminated by MIAL as the encroachment was not removed.

(Paras 6.7 and 6.8)

Unauthorised expenditure

SSA stipulated that airlines shall collect Passenger Service Fee (PSF) and distribute the Security Component (SC) to AAI and the Facilitation Component (FC) to MIAL directly. MIAL can revise FC under the provisions of SSA while SC can be revised on the direction of Government. MOCA issued instructions from time to time which mandated that the Airport operators, (instead of AAI) would collect and utilise the SC component of PSF for specified purposes. MIAL unilaterally procured computers, furniture, and fixtures designating them essential to maintenance of security. This resulted in an unwarranted favour amounting to ₹87.97 crore extended to MIAL during 2006-12.

(Paras 7 and 7.1)



1.1 Growth of Aviation Sector

Airports Authority of India (AAI) has been the sole air traffic service provider for the air space in the country covering an area of 2.8 million square nautical miles of land mass and the adjoining oceanic area as recognised by International Civil Aviation Organisation. With the opening of Indian airspace to private as well as international operators, air traffic in the country registered a phenomenal growth. The existing airport infrastructure proved to be inadequate to cope with the unprecedented increase in passenger and cargo traffic. It led to congestion at many airports and in particular in metropolitan cities. The country required new airports as also expansion and modernisation of existing ones to efficiently handle passengers, cargo and aircrafts. The Ministry of Civil Aviation (MOCA), in a Conference of Chief Secretaries held on 20 May 2006 projected a requirement of an additional ₹40,454 crore to augment and modernise existing infrastructure and to construct Greenfield airports. The revenue surplus generated by AAI was found to be grossly inadequate (₹812 crore in 2005-06) to meet this requirement and it was decided to adopt the Public Private Partnership (PPP) mode of development.

1.2 Background of the decision of Joint Venture

The Cabinet while approving the restructuring of airports of AAI in January 2000 through long term lease route directed that detailed plans be prepared for development and that each such case for lease should be separately brought up for consideration of the Cabinet Committee on Economic Affairs (CCEA).

Action was accordingly initiated by MOCA to restructure and upgrade Delhi, Mumbai, Chennai and Kolkata airports through the long term leasing route. Financial and Legal consultants were appointed and work regarding 'due diligence' as well as desirable transaction structure was initiated. During this exercise, MOCA felt that the Joint Venture (JV) route had certain advantages over long term leasing route. The matter was again put up for consideration of the Cabinet in December 2002 seeking approval to the proposal of restructuring of Delhi, Mumbai, Chennai and Kolkata airports through Joint Venture (JV) route by formation of separate Joint Venture Company for each of these airports with the respective selected bidder, in which AAI would have five per cent equity. The Cabinet directed MOCA to discuss the proposal further with Ministry of Finance and Ministry of Company Affairs and return to the Cabinet. In July 2003, the Ministry of Finance opined that the proposal should be restricted to Delhi and Mumbai only. Finally in

September 2003, the Cabinet approved the proposal of MOCA that restructuring of Delhi and Mumbai airports may be undertaken through JV route by formation of two separate companies between AAI and selected JV partners. The Cabinet also approved constitution of an Empowered Group of Ministers (EGOM) comprising Minister of Finance, Minister of Law and Justice, Minister of Disinvestment and Minister of State (Independent Charge) of Civil Aviation to decide on the detailed modalities including the design parameters, bid evaluation criteria etc. based on which the Joint Venture partner was to be selected. Subsequent to the formation of the new Government, the Government reconstituted (15 June 2004) the EGOM under the Chairmanship of Defence Minister to take the transaction forward.

In February 2005, EGOM approved the key principles of Request for Proposal (RFP) document along with the draft transaction documents i.e. Operation, Management and Development Agreement (OMDA), State Support Agreement (SSA), Shareholders Agreement (SHA), Lease Deed Agreement, Communication, Navigation and Surveillance/ Air Traffic Management (CNS/ATM) Agreement and State Government Support Agreement (SGSA). Thereafter, AAI initiated the process of selecting Joint Venture partners for executing the modernisation project at both the airports and undertook competitive bidding. The EGOM after evaluation of the technical and financial bids recommended (31 January 2006) the Joint Venture partners. The EGOM's recommendation was approved by the Cabinet on 1 February 2006.

Implementation of PPP in Indira Gandhi International Airport (IGIA), Delhi was examined and a report was placed in Parliament in Audit Report No. 5 of 2012-13 in August 2012. The report was examined by Public Accounts Committee (PAC) of Parliament and the final report of PAC was presented in Parliament on 06 February 2014.

The present report on the implementation of PPP at Chhatrapati Shivaji International (CSI) Airport, Mumbai, has been prepared taking into account the findings in Audit Report No.5 of 2012-13 and the recommendations of PAC thereon, mentioned above, in so far as they are relevant and applicable.

1.3 Formation of Mumbai International Airport Private Limited (MIAL)

M/s. GVK Consortium was selected as the JV partner for CSI Airport, Mumbai. The Consortium comprised three private entities:

GVK Industries Limited;
Airports Company South Africa Limited; and
Bidvest Group Limited.

On 02 March 2006, AAI incorporated a subsidiary Joint Venture Company (JVC) named Mumbai International Airport Private Limited (MIAL). Following signing of the Operation, Management and Development Agreement (OMDA) and Shareholders Agreement (SHA) on 04 April 2006 between AAI and the JV partners, AAI transferred 74 per cent of the equity shares in MIAL to JV partners in accordance with SHA. CSI Airport, Mumbai was handed over to MIAL with effect from 03 May 2006.

In terms of SHA, the issued share capital of MIAL was ₹200 crore which was jointly held by AAI (26 per cent), GVK Airport Holdings Private Limited (37 per cent), Bid Services Division (Mauritius) Limited (27 per cent) and ACSA Global Limited (10 per cent). Subsequently on 18 October 2011, 1,08,00,000 shares (out of 5,40,00,000 shares) of Bid Services Division (Mauritius) Limited were acquired by GVK Airport Holdings Private Limited raising its stake in MIAL to over 50 per cent. The paid up equity capital of MIAL as on 16 April 2012 was ₹1,200 crore held by AAI (26 per cent), GVK Airport Holdings Private Limited (50.5 per cent), Bid Services Division (Mauritius) Limited (13.5 per cent) and ACSA Global Limited (10 per cent).

1.4 Descriptions of the Transaction documents

Consequent upon the decision to hand over CSI Airport, Mumbai to MIAL and before physically handing over the airport to the latter, a number of agreements were signed among the concerned parties. These documents individually and collectively determined the terms and conditions of the handing over including economic benefits accruing to the parties. When these agreements were signed, the regulator, namely Airports Economic Regulatory Authority (AERA) was not in existence. These documents contain provisions relating to areas like tariff fixation for aeronautical services, which later, with the establishment of AERA came under the regulator's domain of decision making.

1.4.1 Operation, Management and Development Agreement (OMDA)

Together with the State Support Agreement (SSA), OMDA is the most important document and forms the soul of PPP in CSI Airport, Mumbai. Signed between AAI and MIAL, OMDA lays down obligations and responsibilities of both the parties, the terms of revenue sharing, duration of the concession, conditions of asset transfers (present and in future), terms and conditions of land transfers, etc. OMDA was signed on 04 April 2006.

1.4.2 State Support Agreement (SSA)

Complementary to the OMDA, the State Support Agreement (SSA) was signed between Government of India (GoI) represented by MOCA and MIAL on 26 April 2006. It lays down the responsibilities and obligations of MOCA

and MIAL in their respective domain and to each other. It lays down in Schedule 1, the principles of tariff fixation for aeronautical services.

1.4.3 State Government Support Agreement (SGSA)

State Government Support Agreement (SGSA) was signed on 27 April 2006 between the Government of Maharashtra and MIAL to provide support services to the project. The agreement provided that the State Government would provide support to MIAL in matters relating to removal of encroachment, procurement of additional land for development of airport, removal of obstruction outside the airport boundary to ensure safe and efficient air traffic movement, improve the surface area access to the airport and to provide all utilities on payment basis to MIAL.

1.4.4 Lease Deed Agreement

The Lease Deed agreement was signed on 26 April 2006 between AAI and MIAL to lease the demised premises on "as is where is basis" on an annual lease rent of ₹100 initially for a period of 30 years extendable for another 30 years by virtue of extension of concession period. The demised premises include all buildings, construction or immovable assets, if any on the premises as described in the agreement with the liberty to MIAL to construct, erect, renovate, alter or otherwise deal with the leased premises.

1.4.5 Communication, Navigation and Surveillance (CNS) / Air Traffic Management (ATM) Agreement

The agreement was signed on 26 April 2006 between AAI and MIAL according to which the former was to provide air traffic services support at the airport as AAI was authorised to provide necessary air traffic services within the country's air-space and at all civil airports.

1.4.6 Shareholders' Agreement (SHA)

Signed on 04 April 2006 by AAI and MIAL and other participants, SHA records the terms and conditions to govern the relationships in their mutual capacity as shareholders of JVC.

1.4.7 Airport Operator Agreement

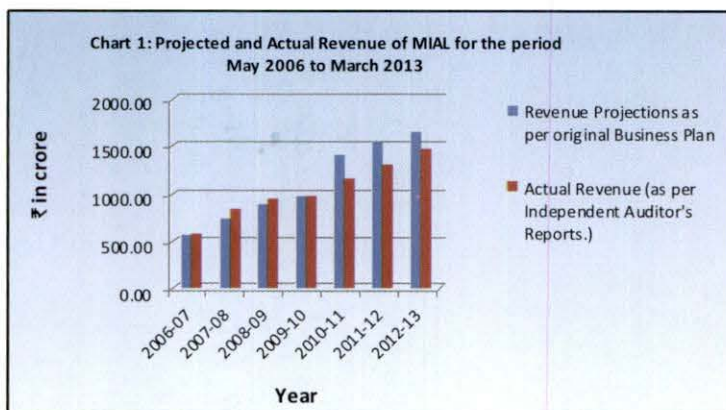
As per Schedule 8 of OMDA, MIAL is required to enter into an Airport Operator Agreement with the Airport Operator (AO) who is a member of the consortium (nominated if more than one AO are in the consortium). The Agreement sets out the role, responsibilities, accountabilities and financial arrangements between the AO and MIAL. Accordingly, an Agreement was signed on 28 April 2006 between MIAL and ACSA Global Ltd. (Airport Operator) to provide airport services.

1.5 Financial and Operational Performance of MIAL

AAI handed over CSI Airport, Mumbai to MIAL on 3 May 2006. MIAL continued the mandatory capital projects initiated by AAI and started other capital projects. Project cost increased from ₹5,826 crore as projected in 2006 to ₹11,647.46 crore in 2012 (as allowed by AERA). International terminal was inaugurated on 10 January 2014. Domestic terminal is understood to be poised to commence operations from August 2014. During the financial year 2012-13, MIAL earned ₹1478.58 crore, of which 38.7 per cent was to be shared with AAI (₹571.94 crore). MIAL, however, shared only ₹566.95 crore after adjusting the bad debts of M/s. Kingfisher airlines.

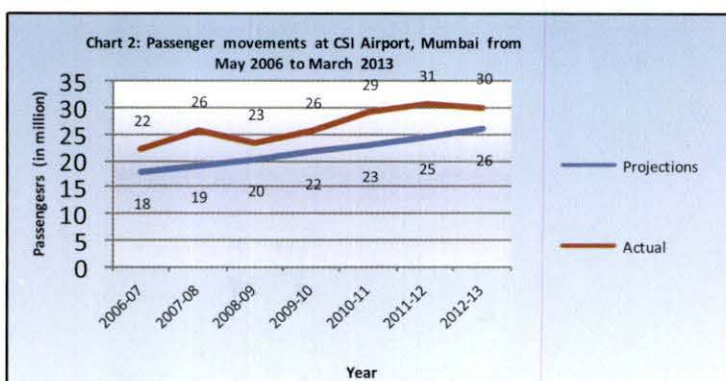
The performance of MIAL from May 2006 to March 2013 is given below:

a) Projected Revenue as per original Business Plan and Actual Revenue



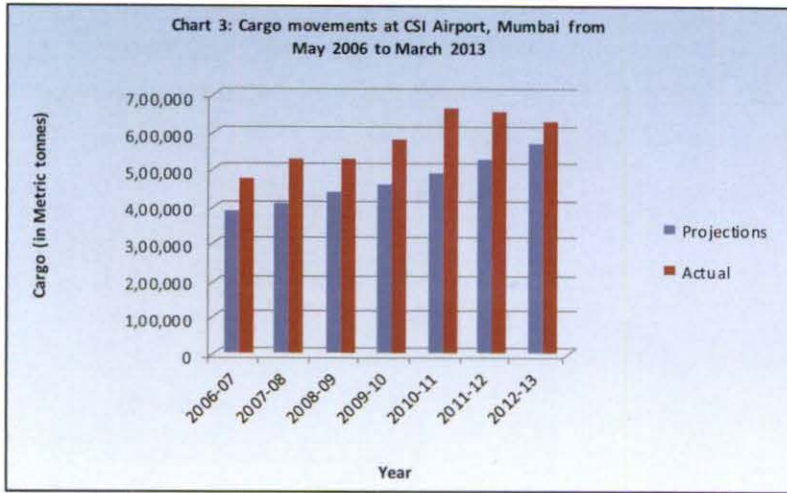
The actual revenue earnings were higher than the revenue projections for the period 2006-07 to 2008-09 but from 2009-10 onwards the actual revenues, though on an increasing trend over previous years, were lower than projections.

b) Passenger movements at CSI Airport, Mumbai



Passenger traffic movement has been consistently higher than projections for all the years from 2006-07 to 2011-12. However, actual passenger traffic decreased in 2012-13.

c) Cargo movements at CSI Airport, Mumbai



The cargo carriage has also been higher than the projections for the period 2006-07 to 2011-12. However, actual cargo carriage showed slight declining trend from 2010-11.

d) Aircraft Traffic movements at CSI Airport, Mumbai



Air traffic movements too increased consistently over the period covered in audit (2006-12) with a marginal decrease in 2008-09 and 2012-13.

The Performance Audit of "Implementation of Public Private Partnership at Indira Gandhi International Airport, Delhi" had been conducted earlier and the findings of the audit have been reported in CAG's Report No.5 of 2012-13 for Union Government, Ministry of Civil Aviation. The methodology and procedure of re-development of Chhatrapati Shivaji International (CSI) Airport, Mumbai were identical. The present report is a continuation of performance audit efforts in respect of PPP arrangements in Indira Gandhi International Airport, Delhi. This report also takes into account the recommendations of PAC on the Audit Report No.5 of 2012-13 mentioned above, that are contained in their final report presented to Parliament on 06 February 2014

MOCA has, *inter alia*, pointed out (November 2013) that the decision to restructure and modernise Mumbai Airport was a policy decision of the highest body i.e. Cabinet. The terms and conditions as well as the modalities of modernisation/restructuring as mentioned in the transaction documents were finalised and approved by EGOM and that there has been no change in the finalised transaction documents. Several issues such as JV route, leasing of land /assets, Concession Period, Right of First Refusal (ROFR) etc. were policy decisions of the Cabinet based on expert inputs in formulation and inter-ministerial consultation. Hence, these policy decisions should not be brought into question at this stage through audit observations.

Audit acknowledges the prerogative of Government to adopt the JV route in modernisation of Mumbai Airport and decide the terms of engagement. Audit exercise is to review implementation of the agreements to assess whether the interests of Government have been adequately protected and whether the arrangement ensured maximum value to Government.

2.1 Audit Objectives

The performance audit was conducted with the following objectives:

- To assess whether the interests of Government (through MOCA and AAI) have been adequately protected by the Public-Private Partnership (PPP) arrangements entered with the private operator and whether the risks and returns of the private operator were as envisaged in the arrangement;
- To study the actual operation of the PPP arrangements in CSI Airport, Mumbai in the elapsed period (2006-12) and assess its impact on Government (and its nominee AAI) and other stakeholders.

2.2 Audit criteria

The Performance Audit was carried out with reference to:

- The terms and conditions laid down in OMDA and the supporting agreements relating to concession period, levy of Development Fee, tariff determination, leasing of land, Master Plan, project cost etc.;
- Guidelines/directions issued by MOCA, Airports Economic Regulatory Authority (AERA) and AAI, the Agenda papers and Minutes of AAI Board Meetings.

2.3 Scope of Audit and Methodology

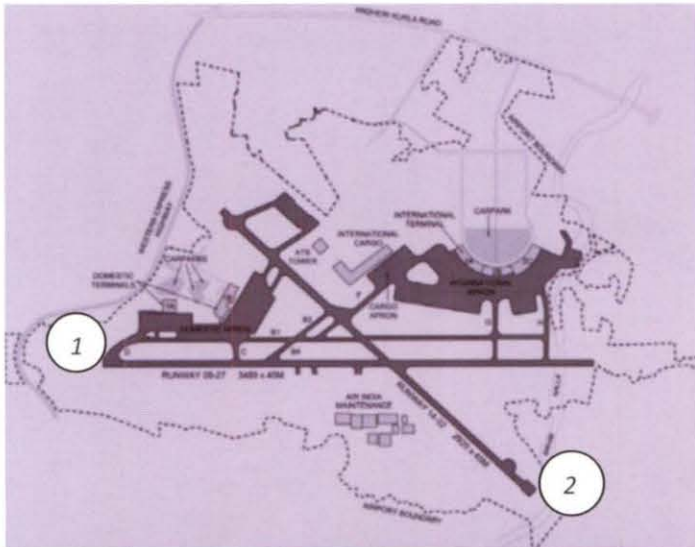
Audit was conducted on the basis of documents available with AAI and MOCA, records maintained at AAI's Airport Infrastructure Restructuring Department, New Delhi, JV Co-ordination Cell, Mumbai, Independent Engineer's Reports, Independent Auditor's Reports, Monthly Information System returns, records and information maintained by AAI for calculation of revenue share of AAI, and information/ data provided by MIAL through AAI. Audit covered the period 2006 to 2012. Audit methodology and objectives were discussed in the Entry Conference with the Member (Planning) AAI (Headquarters), Regional Executive Director-Western Region AAI, and MIAL representatives/ officials on 10 September 2012. A separate entry meeting was also held with the Joint Secretary, MOCA on 15 January 2013. The draft Audit Report was issued to AAI on 30 May 2013 and reply of AAI was received on 30 July 2013. Reply of AAI was incorporated and draft report issued to MOCA on 2 August 2013. Reply of MOCA was received on 18 November 2013. Audit findings were discussed during the Exit Conference on 18

December 2013 in which Secretary, MOCA and other senior officers of MOCA, AAI and MIAL were present.

2.4 Acknowledgement

Audit acknowledges the co-operation and assistance extended by the senior officers and staff of MOCA, AERA, AAI at all levels during the Performance Audit.

3.1 CSI Airport -Mumbai



Picture 1: Runways of CSI Airport, Mumbai

CSI Airport, Mumbai has two intersecting operational runways designated 09/27 and 14/32 (No.'s 1 and 2 in picture) which intersect at approximately their mid points. CSI Airport, Mumbai had essentially been operated as a 'Single Runway' airport with most operations handled throughout the year on runway 09/27 with runway 27 end being duty runway for 85 per cent of the year due to

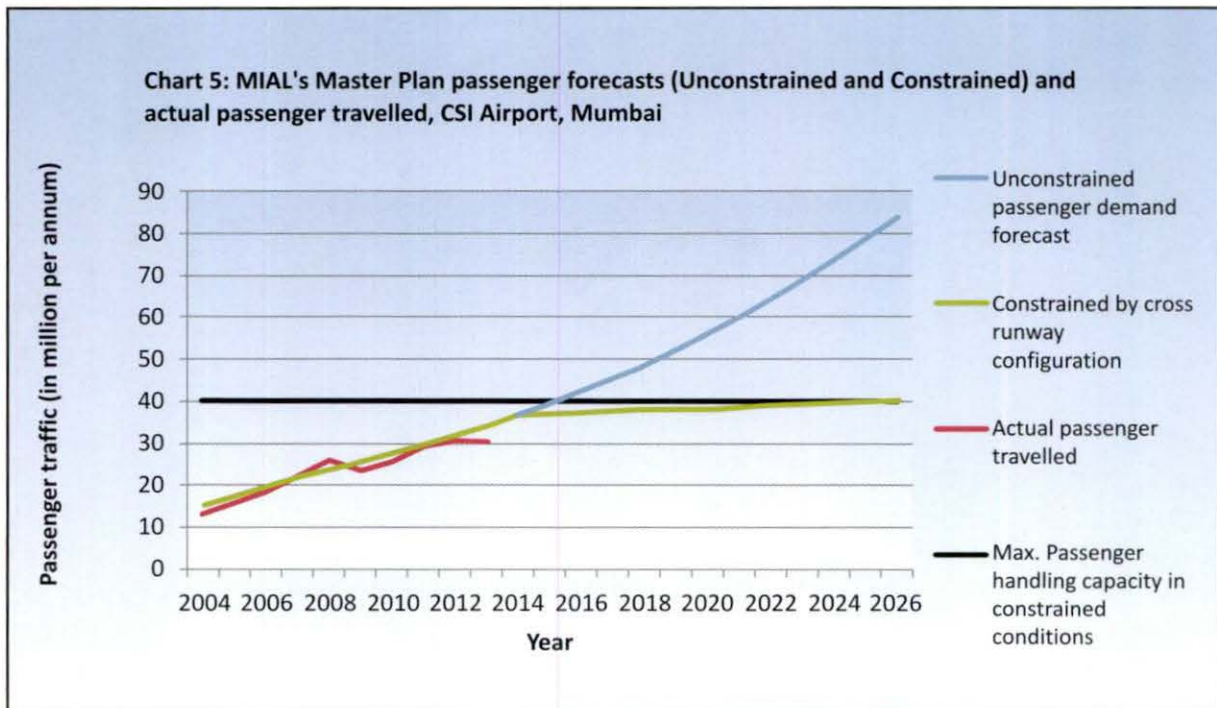
prevailing wind direction. Cross runway operations were introduced at CSI Airport, Mumbai with effect from 01 January 2006 on trial basis and regularised from 27 March 2006. On account of their cross design, simultaneous operation of both runways, however, is not possible. This, in turn, places a design constraint on the handling capacity of runways.

3.2 Design constraint to capacity

In the Initial Development Plan submitted by the GVK led consortium (JV partner) at the time of bidding, an additional parallel runway (situated south of runway 09/27) was envisaged to increase the runway capacity of the airport. However, this involved large scale relocation of facilities and acquisition of privately owned land which rendered such development and its schedule uncertain. As a result, the Master Plan submitted by MIAL (03 October 2006) shelved the proposal for the additional parallel runway. Thus the design constraint of the cross runway configuration in CSI Airport, Mumbai remained, restricting the overall traffic handling capacity of the airport.

Given this constraint, MIAL estimated (Master Plan 2006) that the maximum passenger traffic that could be handled at the airport was 40 million passengers per annum (mppa). The demand forecast (based on Air Traffic Forecasts Reports of M/s. NACO) for passenger travel through Mumbai was, however, expected to reach close to 40 mppa by 2015 and exceed 80 mppa by 2026. Thus, even after modernisation and up-gradation, the airport

would not be able to meet the growth of demand. This gap between demand and capacity was expected to be visible from 2014 onwards as indicated in the chart below.



Source: MIAL's Master Plan 2006, actual passenger travelled as per traffic data in the Multi Year Tariff Proposal submitted (October 2011) by MIAL to AERA

AAI agreed (July 2013) that due to various constraints in developing new facilities/ area, there is a limit to increasing passenger handling capacity of the Airport.

While stating that the parallel runway option was cost-prohibitive and time constrained, MOCA replied (November 2013) that after the initiatives taken by MIAL, airside capacity had improved and it was expected that the present airport could serve the capacity to some extent beyond 40 mppa. Further, MOCA also stated that the Navi Mumbai airport and Juhu airport which were at the planning stage, would address the congestion at CSI Airport, Mumbai.

The response needs to be considered in light of the Master Plan 2011 prepared by MIAL which stated that even after significant improvement of infrastructure in CSI Airport, Mumbai, the current airport site cannot match the traffic volume forecast for the region, given the constraint of runway capacity. In fact, the improved runway system using high intensity runway operations would be approximately 3 lakh air traffic movements per year which would translate into a traffic handling capacity of 40 mppa for the airport. Besides, both the Navi Mumbai airport and Juhu airport are presently at planning stage even as the traffic at CSI Airport, Mumbai is expected to reach its maximum capacity of 40 mppa by 2015.

3.3 Delayed second Airport at Navi Mumbai

In view of the limitation in traffic handling capacity of CSI Airport, Mumbai, a second airport was intended to be developed at Navi Mumbai. The Greenfield airport project was proposed to be developed in the Public-Private Partnership (PPP) mode by setting up a Special Purpose Company (SPC) with equity participation from City and



Picture 2: Site for International Airport Navi Mumbai

Industrial Development Corporation of Maharashtra Limited (CIDCO), AAI, Financial Institutions and an experienced private entrepreneur of repute as equity holders. The SPC would plan, design, obtain development approvals, arrange required resources, build and operate the airport, and finally transfer the assets back after the concession period. The SPC would be entitled to special benefits and incentives which were currently available to infrastructure development projects.

The proposal for Navi Mumbai International Airport (NMIA) was mooted in November 1997. Ten years later in July 2007, MOCA obtained an 'in principle' approval from the Cabinet for setting up the second airport. CIDCO was appointed as the nodal agency for implementation in July 2008. Though the Detailed Project Report and Business Plan for the project had been prepared (February 2007), the project was yet (July 2013) to take off. NMIA was to be developed in phases with the first phase intended to be put into operation by 2015 with a traffic handling capacity of 10 mppa. However, in view of its present status, meeting this milestone seems unlikely. Considering that CSI Airport, Mumbai is expected to reach saturation by 2015, this would imply increased congestion at the airport in near future.

MOCA replied (November 2013) that the delay in construction of NMIA was due to time taken for acquisition of required land and rehabilitation of 5000 people by the State Government.

3.4 Right of First Refusal for NMIA

The State Support Agreement for development of CSI Airport, Mumbai allows the Right of First Refusal (ROFR) to MIAL for a second airport planned within a 150 km. radius of the former. For the ROFR to apply, MIAL has to participate in the bidding process for the new airport. In the event of MIAL being

unsuccessful in the bidding with its bid within a 10 per cent range of the most competitive bid, it would be allowed to match the first ranked bid for the second airport, provided that MIAL has performed satisfactorily without any material default under any project agreement at the time of exercising the ROFR. This condition would be applicable for the first 30 years. Allowing such ROFR in relation to second airport is likely to thwart competition and provide MIAL with an advantage on the second airport. It is pertinent to note that MIAL has incorporated a subsidiary company, M/s. Navi Mumbai Airport Developers Limited, in 2007.

MOCA replied (November 2013) that ROFR was considered as an imperative to mitigate the significant risks to which MIAL making substantial investments in CSI Airport, Mumbai, would be exposed in the event of traffic diversion to the competing airport in close vicinity. MOCA also asserted that the provision does not thwart competition as the existing MIAL gets a chance only if their performance till the time of the bid was satisfactory and in the event of the bid being within 10 per cent of the highest bid offered for the second airport.

The concern of MOCA regarding significant investments made by MIAL needs to be viewed vis-à-vis the actual equity capital invested by the concessionaire in CSI Airport, Mumbai which amounts to a mere 7.6 per cent as against 29.19 per cent of the investment being funded out of development fees (as elaborated at para 4.4 of the report). The risk carried by MIAL is further mitigated by what would appear to be rather an unconditional extension of term upto 60 years that has been allowed in SSA as discussed in a subsequent paragraph. Besides, as PAC has remarked in its report on Indira Gandhi International Airport, Delhi, the new airport would be under the regime of AERA and would not have the benefit of dual or hybrid till system which may further affect the competitiveness of a new bidder for NMIA. Thus, the ROFR condition limits the risk to MIAL further, even as it has the potential to restrict competition and provides an advantage to MIAL on the second airport.

MOCA submitted before PAC with regard to similar provision in the arrangement of ROFR in SSA relating to Indira Gandhi International Airport, Delhi with the concerned JVC, namely, Delhi International Airport Private Limited (DIAL) mentioned in Audit Report No.5 of 2012-13, that safeguards had been provided to ensure transparency and competitiveness. This would need to be ensured in the case of MIAL too.

MOCA also assured the Public Accounts Committee (PAC) that the second airport in Mumbai may not be needed till the traffic reaches the saturation point of 40 mppa. Adequate safeguards would need to be provided and ensured so that interests of competitiveness and transparency are not sacrificed especially as the traffic is expected to reach 40 mppa in 2015 itself.

3.5 Concession Period

Article 18.1(b) of OMDA gives MIAL the unilateral right to extend the concession period for another 30 years '*on the same terms and conditions*', provided no event of default had taken place during the 20th to 24th year of the first concession period. Absence of review clause, thus, virtually allows MIAL the right to extend the term for another 30 years and the right to operate the airport for a period of 60 years with the terms and conditions frozen in OMDA.

MOCA stated (November 2013) that a financial consultant was appointed and as per their advice, a period of 30 years was considered reasonable for the investors to recoup their investment. MOCA confirmed that the Cabinet was informed (vide note dated 09 September 2003) that the lease period of 30 years could be extended by another 30 years subject to mutual agreement and negotiation of terms. MOCA also stressed that the Inter Ministerial Group (IMG) and EGOM which finalised the detailed terms of the agreement had also intended the renewal of term to be subject to satisfactory performance of the JV in the first term. MOCA stated in the Exit Conference that non-inclusion of provision regarding extension of concession period for 30 years beyond the initial term of 30 years subject to mutual agreement and negotiation of terms was a conscious decision and it was not intended to include such provisions in future too.

PAC in their report presented to Parliament on 06 February 2014 on the Performance Audit of Implementation of PPP in Indira Gandhi International Airport, Delhi contained in Audit Report No. 5 of 2012-13, have, inter alia, on the same issue, desired to be apprised how the Joint Venture (in Delhi airport) would pave the way for future airport development and modernisation in the country. MOCA would need to devise an appropriate strategy to effectively comply with the concern expressed in the above recommendation of PAC, especially in view of the benefit conferred upon the Airport Operator (MIAL) which would translate into almost an automatic extension of the initial concession period to another 30 years, without renegotiation of terms. A regular and well documented review of the performance of MIAL by MOCA would not only safeguard the interests of Government but also get MIAL to deliver the committed outputs.

3.6 Changes in Master Plans for CSI Airport, Mumbai

As per OMDA (Articles 8.3.5 and 8.4.2) for development of CSI Airport, Mumbai, Master Plan and Major Development Plan were to be submitted to AAI for its information and MOCA for its review and comments before the expiry of six months from the date of execution of OMDA. Specific schedule for MOCA's suggestions and MIAL's action thereupon leading to firming up of the plans is laid out in the SSA (Clauses 3.5.2, 3.5.3 and 3.5.4). Final Master Plan would be binding on MIAL and would govern the operations, management and development of the Airport. AERA would also accept this Master Plan and Major Development Plan as the final document for tariff fixation purposes (SSA Schedule 1).

MIAL submitted the initial Master Plan and Major Development Plan to AAI and MOCA on 03 October 2006. The Global Technical Advisor (GTA) appointed by AAI for implementing the restructuring of metro airports was to offer comments on the plans of MIAL as per their terms of appointment. However, GTA did not carry out this function. AAI has withheld 25 per cent of GTA's fees, because of non-completion of technical review of Master Plans by GTA. In the absence of GTA's opinion, AAI offered a set of interim comments which were forwarded by MOCA to MIAL within the stipulated period of 30 days. MIAL, however, submitted the revised Master Plan and Major Development Plan late (in 2007), after seven and thirteen months respectively as against the time limit of 15 days specified in SSA. There was no evidence of any action being taken by MOCA against delay by MIAL from the records made available to Audit. Subsequently in March 2011, MIAL submitted a modified Master Plan. Details of project are in Table 1 in para 4.1.

Thus, the Master Plan for the project remained flexible for over five years (October 2006 to March 2011). MOCA accepted changes in Master Plans and did not comment about the delay in submission of the same. In the Master Plan 2011, the constituent projects were restructured and re-scheduled--a major change in completion schedule for the terminal building from 2010 in the Master Plan of 2007 to 2013 (international) and 2014 (domestic). The delay also added to the project cost.

AAI stated (July 2013) that OMDA did not contain any specific provision for approval of Master Plan as well as its monitoring by AAI. MOCA added (November 2013) that depending upon the changed circumstances and change in scope of work, the Master Plan was revised.

The reply needs to be viewed against the fact that the procedure for finalisation of Master Plan including its schedule was laid down in OMDA and SSA. That a final Master Plan was to be in place within a specific time period which would be binding on MIAL, pointed to monitoring mechanism in AAI/MOCA for arriving at applicable Master Plan in accordance with the agreements and its timely implementation. The obligation of MIAL to develop

the airport as per applicable Master Plan prepared in accordance with the time limits set out in the agreements stood diluted as the Master Plan was delayed. Article 8.3.8 of OMDA also mandated an 'approved' Master Plan which implied the need for firming up of Master Plan with target dates for individual facilities. The fact that no action had been taken by AAI/ MOCA despite inordinate delays on the part of MIAL beyond the schedule specified in SSA highlights deficiency in monitoring.

3.7 Change in scope of work

Initial Master Plan of MIAL for CSI Airport, Mumbai (03 October 2006) had proposed a terminal building for all international passengers and 60 per cent domestic passengers at Sahar which was intended to be completed by 2010. For this, the existing international terminal was to be refurbished and partly reconstructed. MOCA (on the advice of AAI), suggested having a common user terminal for all passengers, both domestic and international. Accordingly, MIAL submitted a revised Master Plan in May 2007 centralizing passenger handling facilities at Sahar. The same plan for a common user terminal was reiterated in the subsequent Master Plan of March 2011. The Master Plan of March 2011 incorporated some changes vis-à-vis the Master Plan of May 2007 in re-location of some of the facilities (e.g., ATC technical block, MET farm, cargo terminal), as well as changes necessitated due to certain land pockets becoming un-available (e.g., land under P&T ownership) and operational requirements. There was delay in implementation of the individual projects which led to their re-scheduling in the Master Plan 2011 which has been separately commented at paras 3.8 and 3.9 of the report.

The change in scope of work for construction of a 'one roof' terminal building on the advice of AAI and MOCA led to increase in costs and contributed to delay in project execution. Audit was not provided disaggregated details of cost for examination. However, this did not alter the capacity constraint of the airport as capacity remained at 40 mppa. Net benefit of the altered scope thus remains uncertain even as the project suffered cost and time over-run on this account.

AAI stated (July 2013) that after reviewing the Master Plan submitted by MIAL, MOCA/AAI considered development of an 'ultimate' terminal under one-roof at Sahar. AAI further stated that MIAL considered various advantages of a common terminal such as:

- a) It would provide far greater passenger convenience and a significantly more operationally efficient cum flexible design as compared to split operations in Sahar and Santacruz;
- b) Existing terminals were not harmonious and efficient.

- c) Feasibility study of existing terminals revealed that existing piles required substantial structural modifications.

MOCA stated that though the ultimate capacity of the existing airport would remain around 40 mppa, a second airport was in any case planned on its saturation. MOCA also asserted that the change in scope advised was within the OMDA framework.

AAI/MOCA's contention that the integrated design provided for greater passenger convenience and efficiency needs to be viewed vis-a-vis the present plan of retaining both the domestic terminals, *i.e.* T 1A and T 1C which is a departure from the integrated terminal plan. Further, investigations by the consultant, appointed by MIAL at the time of preparation of the Master plan, had revealed that the technical condition of the existing terminal was sound and the structure could be adapted to the latest building regulations to allow for large voids and addition of a new structure to create a much better passenger experience and world class structure. This would indicate that modifications to the existing structure had been found to be feasible by MIAL. It has not been denied that the intermittent change in scope had contributed to delay and cost over-run.

3.8 Status of Mandatory Capital Projects

In line with OMDA, the Master Plan 2006 prepared by MIAL conceptualised a phased development of CSI Airport through MCPs and other capital projects in the following manner:

- Interim Measures: to be completed by 2008
- Phase 1: to be completed by 2010
- Phase 2: to be completed by 2015
- Phase 3: to be completed by 2020
- Phase 4: to be completed by 2026

(a) 32 Mandatory Capital Projects (MCPs) were included in Interim Measures and Phase-1 to be completed by March 2010. Of these, MIAL was required to complete 28 projects within two years from the effective date of 03 May 2006.

Clause 1 of Schedule 6 of SSA, allowed a nominal increase of ten (10) per cent over the base airport charges for calculating aeronautical charges for the third year after the effective date as an "Incentive", provided MIAL duly completed and commissioned MCPs required to be completed during the first two years from the effective date. Thus, MIAL would be eligible for a 10 per cent increase in base airport charges if it had completed 28 MCPs by May 2008.

MIAL did not complete one MCP (project code: S-06 for realigning the B-1 taxiway) within the stipulated period of two years. MIAL had initially requested (June 2007) for deferment of the work citing resultant operational constraints for airlines. This was agreed to by MOCA (August 2007) and completion date was re-scheduled to March 2010. MIAL again requested (May 2009) extension of the completion date and MOCA approved a further extended schedule up to 31 December 2010 treating it as a onetime waiver. The work was finally completed by December 2010.

MIAL was, thus, not eligible for the 10 per cent increase in base airport charges as per the provisions of SSA. However, MOCA approved (12 December 2008) a 10 per cent increase in base airport charges w.e.f. 1 January 2009 as an incentive to MIAL though one of its MCPs remained incomplete.

AAI /MOCA stated (July/November 2013) that increase in tariff in airport charges had been approved considering justifications given by MIAL for the delayed completion of capital works. The fact, however, remained that in allowing rise in tariff despite non-completion of MCPs, SSA was violated.

(b) All 32 MCPs were to be completed by 31 March 2010. One of these projects (project code: S 09) is, however, yet to be completed. The project envisaged refurbishment and reconstruction of existing international terminal as per initial Master Plan. With change of plan in 2007, the scope of work of this MCP was also revised to provide for amalgamation of Terminals 2B and 2C, expansion by adding gates, demolition of Terminal 2A and construction of South West Pier. The schedule for completion of the project remained unchanged as March 2010. MIAL was unable to complete even this reduced scope of work under the project. An extension was allowed by MOCA for completion of the project by March 2012 by which time, the project with its reduced scope was completed.

However, the original scope of the project which intended to make the international terminal ready for operations by March 2010 could only be completed in January 2014 (terminal inaugurated on 10 January 2014) which was 21 months beyond the date of its intended completion.

AAI stated (July 2013) that except these two works, other MCPs were completed in time. AAI also stated that the reasons for delay were examined through an Independent Engineer based on whose recommendations and request of MIAL, competent authority found the delay justified.

In addition, MOCA replied (November 2013) that the delay in completion of MCPs was attributable to circumstances and situations beyond the control of MIAL as the works were being carried out with significant operational constraints.

The reply needs to be considered in the light of the inordinate delay of two years in completion of the reduced scope of project S-09. Such delays raise serious doubts on the achievement of efficiency advantages expected from the PPP arrangement, especially as the terminal facilities for international operations remained incomplete till January 2014 as against the original intent of completion by March 2010.

MOCA/AAI may ensure that incentives such as increase in base airport charges are not allowed as a matter of course, when inordinate delays take place in completion of projects.

3.9 Status of other capital projects

In addition to MCPs, Master Plan 2007 listed a set of 45 other capital projects which included airside works, terminal works and city side development which were necessary for overall execution of the project. These works were to be executed in three phases:

- Phase 1: upto 2010
- Phase 2: upto 2015
- Phase 3: upto 2020

Targeted completion dates for these works were progressively pushed into later phases in Master Plan 2011 in the following manner:

- 20 capital works were to be completed by Phase 1 as per Master Plan 2007. Of these, eleven were shifted to Phase 2, one was shifted to Phase 3 and one work was deleted in Master Plan 2011. One work was brought forward from Phase 3 to Phase 1 leaving a total target of 8 works to be completed by 2010.
- 14 capital works were to be executed in Phase 2 (2010-15) as per original plan (2007). This increased to 25 with additions from left over works of Phase 1.
- The works scheduled for Phase 3 continued to remain eleven.

Actual progress of work was even slower. It was noticed (from progress reports of Independent Engineer) that only three works had actually been completed in Phase 1 as against targeted eight as per Master Plan 2011. Two projects of Phase 2 and one project of Phase 3 had since been completed. Of the total of 44 capital works, progress had been reported in only 13 by the Independent Engineer indicating tardy progress. Reasons for delay were not brought out in the report. Audit did not have access to the original records of MIAL in this regard.

As per OMDA, target dates for construction of individual facilities as incorporated in the Master Plan had to be fully met by MIAL. In the event of delay in commencement or completion of projects, AAI had the right to levy liquidated damages on MIAL (Article 8.3.8). However, no communication from AAI to MIAL for levying of liquidated damages or urging that MIAL speed up the work was on record. The progressive re-scheduling of capital works to a later date contributed to an overall delay of the entire project even as inaction on the part of AAI and MOCA point to a gap in monitoring and oversight on the project.

AAI stated (July 2013) that OMDA did not contain any provision requiring AAI to monitor other capital projects and that the provision under Article 8.3.8 applies only to Major MCPs.

MOCA replied (November 2013) that development of CSI Airport, being a land constrained airport, heavily depended on timely availability of various land pockets and relocation of existing facilities. Further in absence of any linkage to traffic trigger, the imposition of Liquidated Damages under Article 8.3.8 was not applicable. MOCA also pointed out that Mumbai airport had a large number of inherent problems which were specific to the airport which caused delay and that MIAL could not be blamed for the same.

The reply needs to be viewed against the following:

As per Article 8.3.8 of OMDA ‘...to the extent not already covered under article 8.2.2, in the event that a project set out in the approved master plan is not commenced at the designated traffic trigger or such other trigger and there is no explanation provided by the JVC to AAI that is satisfactory to AAI, shall have the right to levy liquidated damages on JVC equivalent to 0.5 per cent of the estimated capital cost of the project for each week the project is delayed on the JVC.’ This meant an exercisable right by AAI to levy liquidated damages for all capital projects (mandatory capital projects as well as other capital projects) and had the responsibility of monitoring all such projects.

There is a need for MOCA and AAI to devise a time bound and regular monitoring structure related to progress of work in any future PPP arrangements. Similarly, there is a need to improve the assessment of construction risk allocated to JVCs.

Chapter 4 Project Financing

4.1 Increase in Project Costs estimates

The original transaction documents (OMDA/SSA) did not mention a cost estimate for the project. The initial estimate (prepared in 2006) of the project cost of ₹5,826 crore was revised upward by MIAL progressively in 2008, 2010 and finally in 2011 to ₹12,380 crore. A summary of project cost estimate prepared in October 2006, and its revision in July 2008, October 2010 and October 2011 by MIAL is shown in the table below:

Table 1: Project cost estimates prepared in October 2006, July 2008, October 2010 and October 2011 by MIAL

Details of Project costs	Initial estimates in 2006	July 2008	October 2010	October 2011
	Estimated costs (₹ in crore)			
Hard costs: Airside Projects, Terminal 1 & 2 projects, Miscellaneous projects and Technical Services & Consultancies Escalation/ Contingencies, Landside projects, AAI works taken over	4,417	7,487	7,982	9,172
Other Costs/ Soft Costs: Capital Expenditure for Operations, Capitalised Interest/ Interest during Construction, Pre-operative expenses, Upfront Fees to AAI	1,409	2,315	1,820	2,366
Additional Project: ATC Equipment & Technical Block, Sahar Elevated Access Road, Mithi River re-alignment, Relocation of Shivaji Statue	---	---	651	651
New Projects: Airside Projects due to NATS study, AAI-NAD Colony development, Cost Settlement of Land	---	---	---	191
	5,826	9,802	10,453	12,380
Note: Complete details of Project costs estimates made in 2006 are not available and, hence, the figures have been summarised based on available information.				
Source: MIAL's letter (July 2008) to AAI, Technical Auditor's and Financial Auditor's Reports (September 2012)				

Progressive cost escalations were largely, on account of the following:

- **2008:** The project cost increased by 68 per cent in comparison to 2006 estimate. The major contributor to the increase was revision of plan to build a new integrated terminal complex at Sahar as against the initial plan of modernising and expanding the existing facilities. This factor alone accounted for a cost increase of ₹2,565 crore though it did not enhance the capacity of the airport. In addition, estimates for support services,

consultants, contingency, escalation and interest during construction (IDC) were enhanced based on longer project implementation schedule consequent to the change in plans.

- **2010:** The project cost estimates were again revised in October 2010 due to loading the cost of Air Traffic Control Tower and Technical Block on the project as well as including contribution to Mumbai Metropolitan Region Development Authority (MMRDA) for Elevated Access Road, cost of widening of Mithi River (as per directions of Government of Maharashtra) and relocation of Chhatrapati Shivaji Maharaj statue in the project cost.
- **2011:** The project cost estimates were further revised by MIAL to ₹12,380 crore in October 2011. IDC expenses had significantly increased (an increase of ₹546 crore) and additional provision for contingencies was made by MIAL (₹445 crore) along with a set of minor scope changes of both airside and terminal projects.

Examination in audit revealed that:

- There was no provision in OMDA/SSA for MOCA to place a ceiling on project costs. As a result, there were frequent revisions which contributed to nearly doubling of estimates in 5 years.
- The Independent Engineer's duties (Schedule 21 of OMDA) did not contain any provision for monitoring project costs on a regular basis, except to review the 'benchmarking' exercise carried out by MIAL for the project specifications and costs vis-à-vis national and international airport projects of similar scope and nature.
- The major increase in cost estimates was for developing a new integrated common user terminal as recommended by AAI and MOCA which also extended the project schedule. This, however, did not alter the capacity constraints of the airport though it led to significant time and cost over-run in execution of the project.
- MIAL stated (October 2011) that the project had been delayed by 17 months for relocation of Shivaji Maharaj statue at the airport site leading to a cost escalation of ₹1,250 crore (on IDC and pre-operative cost, increase in costs of false ceiling and column cladding works for check in hall, additional cost for PMC and other consultants and provision for additional contingencies). The statue was located in the demised premises of CSI Airport, Mumbai that was handed over to MIAL in May 2006. MIAL was, therefore, in possession of the site and ought to have planned its relocation suitably in advance.
- The project cost estimates of ₹12,380 crore were later restricted by AERA to ₹11,647.46 crore for the period upto 2013-14 as part of the Authority's tariff

determination exercise for CSI Airport, Mumbai for the said control period¹ (under section 13(2) of the AERA Act, 2008). As such, the approved estimates are only for the period ending March 2014. Some significant items of expenditure such as re-development of AAI-National Airports Division colony and Air Traffic Control equipment with estimated cost of ₹422.34 crore, were not included in this estimate. This would imply that the project cost would continue to increase beyond 2014 and impact the tariff adversely in future control periods too.

AAI stated (July 2013) that OMDA did not contain any provision for approval of project cost by AAI/MOCA. Further, the scope of work of Independent Engineers also did not contain any provision for monitoring the project cost.

MOCA stated that

- (i) delay in completion of the project was beyond the control of MIAL because shifting of Shivaji statue was a complex issue and took lot of time to resolve.
- (ii) a cap was possible for smaller projects but was difficult for larger projects like CSI airport, Mumbai.

Though OMDA did not provide a cap on project cost or monitoring such costs, such control nevertheless is a desirable good practice, particularly in view of the very significant cost escalations in the project which were largely being funded through additional levies on passengers.

4.2 Assessment of efficiency of capital expenditure

The airport charges are to be decided by the airport regulator, AERA. Besides, as the project cost had increased significantly, MIAL had requested approval to the levy of Development Fee (DF) in order to meet the financing gap. AERA accordingly directed an audit of the process/ approach, cost estimates and expenditure incurred for the period upto March 2014 under the provisions of AERA Act, 2008. The Audit Reports of the Technical Auditor and Financial Auditor so appointed are dealt with in AERA's consultation paper of October 2012. The salient features include the following:

As part of AERA's tariff determination exercise for CSI Airport, Mumbai for the said period (under Section 13(2) of the AERA Act, 2008) the Technical Auditor

¹ **AERA considers a control period for tariff determination. Such a period is a five year period as defined in the AERA Act. As per the Section 13(2) of the AERA Act, 2008, "The tariff shall be determined once in five years and may, if so considered appropriate and in public interest, amend, from time to time during the said period of five years, the tariff so determined." The tariff order issued by AERA in January 2013 considered the five year control period upto 2013-14 for which the project cost was taken as ₹11,647.46 crore.**

(M/s. Engineers India Ltd.) and Financial Auditor (M/s. Ved Jain & Associates), conducted the audits and submitted their reports in September 2012. In their reports, the auditors recommended rationalisation / disallowance of some specific items included in the project cost by MIAL. A significant observation of the auditors was that certain items of work that had been included in project estimates for the period upto March 2014 were unlikely to be implemented in this period and ought to be considered in the subsequent periods. AERA had taken on board these specific observations and disallowed a cost of ₹310.20 crore and deferred cost of ₹ 422.34 crore to subsequent periods. This has restricted the project cost estimates to ₹11,647.46 crore for the period upto 2013-14.

The Technical and Financial Auditors have also highlighted a set of process related concerns, the effects of which have not been quantified. The process related concerns which could have a significant impact on the project costs, as pointed out by the Technical and Financial Auditors are as below:

- *The risk premium of all major contributors in the project implementation is remarkably high which has been shared by MIAL in totality. It seems that the main contractor, sub-contractors /venders had worked out their rates by considering a substantial risk premium.*
- The Technical Auditor has also pointed out shortcomings in the sub-contracting processes. It has been highlighted that tendering for all the sub-contract work packages were done by M/s. L&T along with the MIAL team. However, no estimation has been done either by MIAL or by M/s. L&T. *Negotiations have been done with all the techno commercially successful bidders on random basis and MIAL did not have their own cost estimates to compare the quotes given by sub-contractors.*
- MIAL awarded the EPC contract for construction of the project to M/s. L&T. The Financial Auditor has raised the following concerns regarding the contracting process:
 - During the contracting process, the two shortlisted bidders had estimated the project cost differently and had quoted their fee based on such estimated project cost (the fee had a variable component which was a percentage of the total project cost). MIAL had not computed any cost estimates for the EPC work and considered a rough average of the cost estimates for comparing the bids. Based on this average cost of ₹5,000 crore, M/s. L&T emerged L1 bidder and was awarded the contract. The auditor however observed that as the variable fee quoted by M/s. L&T was higher than its competitor, the fees payable to M/s. L&T would increase with increase in project cost. Beyond an EPC cost of ₹6,180 crore, it would turn out to be the more expensive alternative. The auditor also pointed out that the

total cost estimated for the EPC portion is ₹5,759 crore (as on July 2011).

- The contract with M/s. L&T was a cost plus contract. It had been intended to fix the contract sum within 14 months from the contract date (i.e. by December 31, 2008). However, based on the nature of the site, MIAL and L&T adopted the approach of breaking down the whole project into small activities and awarding separate contracts for each individual activity after completion of the design for the respective package instead of the program as a whole. The Financial Auditor commented that this change in approach after the award of the contract led to the contract cost being open ended, with its impact not possible to be quantified.
- The site overheads recoverable by M/s. L&T were not finalised which would mean that it was an open ended contract.
- The contract with M/s. L&T provided for a maximum cost for the structure at ₹1,100 per sq. ft. The Financial Auditor had pointed out that there was inadequate basis to decide on this provisioning in the absence of any design and comparative working at the time of the contract.

AERA considered these issues along with the submissions of MIAL and noted that 'MIAL is a Board- managed company with representations from AAI and MoCA at sufficiently senior levels. It was also noted that the most of the contracts in this project were already awarded and that the project was under advance stage of implementation. Therefore, any corrections or remedial measures did not appear to be feasible at this stage of the project. In view of the inability of the auditors to further quantify or identify losses in monetary term due to process issues, the authority had found itself unable to take any further action in the matter.'

During our Audit, details of action taken by AAI on reports of the Technical and Financial Auditors regarding non preparation of detailed cost estimates by MIAL prior to contracting, and deviations from normal tendering processes in selection of EPC contractor were sought for. In reply AAI stated that there was no such provision in OMDA for AAI to call for information on selection of contractors including preparation of cost estimates by MIAL.

As the financial effect of these process related concerns could not be specified, its effect on the expenditure remains vague. The efficiency with which capital expenditure is undertaken is therefore not comprehensively assessed. Besides, as evident from the response of AAI, no mechanism was designed in the agreements to go into the appropriateness of the processes/ systems followed by MIAL. Audit did not have access to these records.

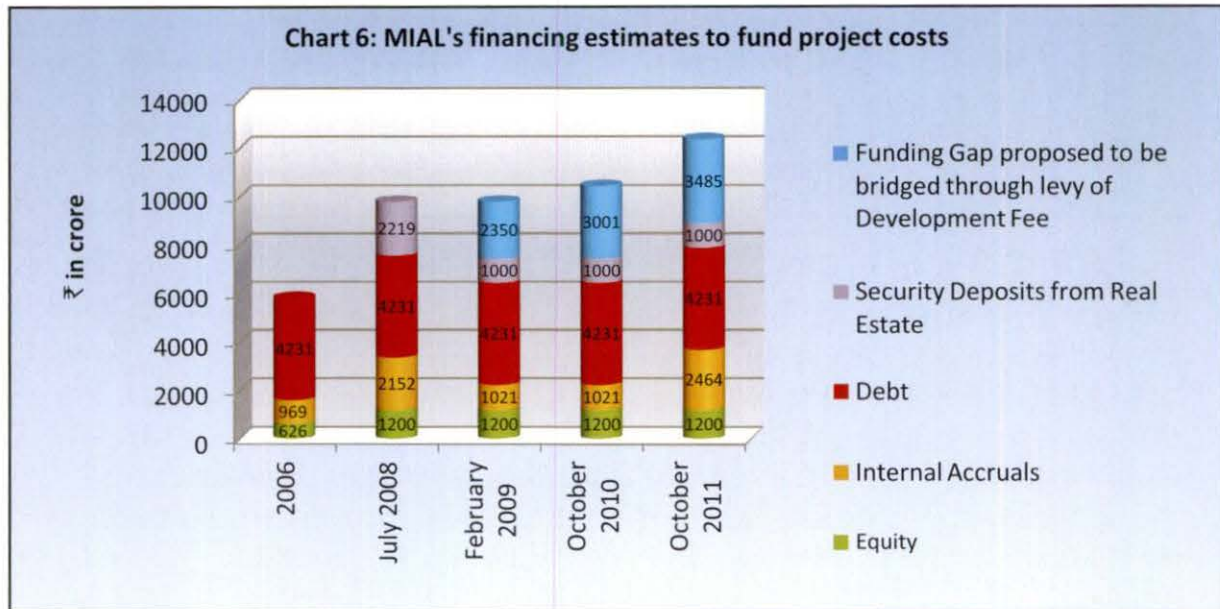
MOCA would need to review the issues highlighted above for necessary action to derive an assurance that interests of Government and that of the passengers are protected adequately.

4.3 Gap in funding and Development Fee

As per Article 13.1(a) of OMDA, MIAL should arrange for financing and / or meeting all financing requirements through suitable debt and equity contributions in order to comply with its obligations including development of the airport pursuant to the Master Plan and the Major Development Plan. Further, Article 2.5(d) of OMDA provided that MIAL may, if its development funding necessitated, procure the listing its shares on the Mumbai and/ or the National stock exchange(s) at any time. As per the initial financing plan, the project cost of ₹5,826 crore was to be financed entirely through equity, internal accruals and debt.

As the project cost increased to ₹9,802 crore, MIAL projected a funding gap of ₹2,350 crore and requested (February 2009) levy of Development Fee (DF) to meet the gap. MOCA allowed (order dated 27 February 2009) levy of DF upto an amount of ₹1,543 crore on an ad-hoc basis for a period of 48 months effective April 2009. With the creation of AERA in May 2009 the matter was referred to them. Meanwhile, MIAL intimated (January 2011) that the project cost had further increased to ₹10,453 crore (in October 2010) and to ₹12,380 crore (in October 2011) and requested for finalisation of DF citing the increasing funding gap. Interestingly, the equity stake of the private promoters increased merely from ₹463 crore to ₹888 crore and the debt exposure of MIAL remained un-altered even as the project cost had more than doubled.

Changes in the funding pattern with progressively increasing project costs are shown in the chart below:



Source: MIAL's correspondence with AAI/ MOCA, Technical Auditor and Financial Auditor Reports, AERA's Order December 2012

As can be seen from the chart, MIAL, in October 2011, estimated a gap of ₹3,485 crore and sought permission to levy DF on passengers to bridge the same. MIAL had earlier requested (January 2011) for levy of DF at the rate of ₹200 and ₹1,375 per departing domestic and international passenger respectively for a three year period April 2011 to March 2014 to bridge this gap.

AERA determined (December 2012) the project cost (upto March 2014) as ₹11,647.46 crore and funding gap of ₹4,219.05 crore. Of this, AERA allowed funding of ₹3,400 crore through levy of DF and directed that MIAL would arrange for additional financing to address the balance gap of ₹819.05 crore. However, as MIAL would require the funds immediately and DF was mandated for collection over the period January 2013 to April 2021, this amount was to be securitised by MIAL, obtaining a loan with a commensurate interest cost. Thus, the actual DF that would be levied on the passengers would include the interest cost and be higher. Actual DF that would be collected from the passengers would be ₹4,589.45 crore.

Examination in Audit revealed that:

- Levy of DF as a means of financing was not envisaged in OMDA. Article 13.1 of OMDA enjoins upon MIAL to find the entire funds necessary for the project through equity and debt - "it is expressly understood that the JVC shall arrange for financing and / or meeting all financing requirements through suitable debt and equity contributions in order to comply with its obligations hereunder including development of the airport pursuant to the Master Plan and the Major Development Plans". The financing risk for the project had, thus, been transferred to MIAL through the PPP

arrangements formalised in the OMDA. In levying DF to meet the financing gap for the escalated project cost, this financing risk of MIAL was diluted.

- Despite specific provision in OMDA {Article 2.5(d)} that MIAL could list its shares on the Mumbai and/ or the National Stock Exchange(s) at any time for funding the project, neither did MIAL explore this option nor did MOCA or AAI insist upon MIAL to explore this option for raising funds.
- While fixing DF at ₹3,400 crore, AERA in its order dated 21 December 2012 stated that a justification for the DF was the comparable size of investment by Delhi International Airport Private Limited (DIAL) and MIAL and the fact that DIAL was allowed a DF of ₹3,415 crore. However, it cannot be denied that the two projects are entirely disparate with DIAL having completed the project on schedule while the CSI Airport has been delayed and remains incomplete, though the international terminal has since been inaugurated.

AAI stated (July 2013) that DF has been determined by AERA as per the provisions of AAI Act (clause 22A) and AERA in its order for levying DF had provided detailed reasoning for approval of DF.

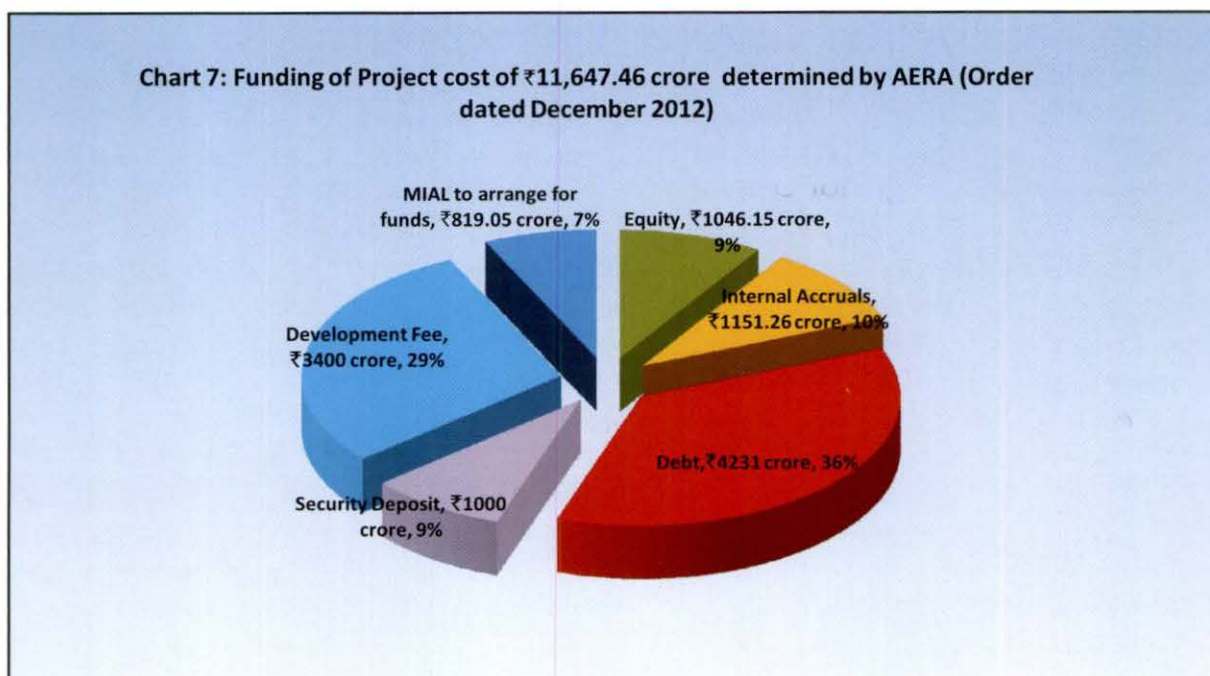
MOCA stated (November 2013) that GOI cannot assign the power to levy DF through an agreement and that DF can only be levied through statutory provisions which were known to all bidders upfront before issue of RFP. MOCA also stated that the listing option was found not feasible, considering that it would result in reduction of strategic interest of various stake holders.

While levy of DF may not be violation of statute, it cannot be denied that OMDA is unequivocal in respect of finding funds for the project which was specified as through equity and debt. Thus, levy of DF to enable MIAL meet the funding gap amounted to burdening the passengers at the cost of more effectively persuading the latter to follow through the equity/debt route as provided for in the concluded contract. Besides, MOCA's contention that listing was not feasible as it would reduce strategic interest of stake holders, ignores the fact that dilution of ownership to raise funds was specifically intended under Article 2.5(d) of OMDA, with conditions duly specified.

It is pertinent to note, in this connection, that PAC in their report presented to Parliament on 06 February 2014, on the Audit Report No. 5 of 2012-13 that dealt with Implementation of PPP in Indira Gandhi International Airport, Delhi, on the same issue, commented that the action of MOCA enabled the private partner to garner post contractual benefits in contravention of the provisions of OMDA.

4.4 Financing the project

The funding pattern for the project in the present control period (ending March 2014) based on the summary of project cost that AERA considered is presented in the chart below:



The contribution of the private partners of MIAL² through equity is a meagre ₹888 crore³ or only 7.6 per cent of total cost (₹11,647.46 crore).

AERA in its order (December 2012) on DF stated that shareholders of MIAL had expressed their inability for any further infusion of equity share capital. MIAL had also submitted (September 2012) the extract of its Board meeting of 26 July 2012 where inability to infuse more equity from the shareholders (ACSA Global, Bid Services, GVK group and AAI) was noted.

It is, however, noticed that AAI in its letter of 26 October 2012, had informed AERA their willingness to infuse additional equity in MIAL. Later in December 2012, AAI informed that AAI Board has approved infusion of equity amounting to ₹293 crore in MIAL as and when cash call was made by MIAL. AAI, however, did not receive any cash calls from MIAL. In November, 2012 MIAL informed AERA that after detailed deliberations by the Board of Directors of MIAL, it had been decided that there was no possibility of bringing any additional equity.

² Private partners of MIAL-GVK Airport Holdings Private Limited, Bid Services Division (Mauritius) Limited, ACSA Global Limited.

³ Out of MIAL's paid up equity of ₹1,200 crore, the private partners' contribution amounts to ₹888 crore (74 per cent).

In this regard, Clause 3.3.2 of Shareholders Agreement states that "the Private Participants hereby undertake and agree to subscribe to such number of Equity Shares as may be called upon to do so by JVC, proportionately in accordance with their respective shareholding in the JVC or in such other proportions as may be mutually agreed." With reference to Clause 3.3.2 of Shareholders Agreement, it appears that Government of India (acting through AAI) was ready to infuse additional equity in the JV. As per Shareholders' Agreement, other private parties ought to have come forward and contributed proportionately which would have reduced the burden of DF on the passengers. This did not happen as the private parties did not take the financing risk.

The financing arrangements in 2006 envisaged the entire project funding through equity, internal accruals and debt. This reduced progressively in the subsequent estimates of February 2009, October 2010 and October 2011 as shown below:

Table 2: Source of Fund

Source of Fund	Year			
	2006	February 2009	October 2010	October 2011
Equity, Internal Accruals and Debt funding to total funding (in per centage)	100	76.00	71.30	71.90

Compared to the equity investment of the private promoter, the collection through DF is much higher (the DF being nearly four times the equity stake of the private promoter). At ₹3,400 crore, DF accounts for 29.19 per cent of the total funding. This gives an impression that the project risks could have been transferred to the private partner more effectively as the latter does not appear to have any incentive to control costs, be efficient or complete the project on time.

While agreeing that all the risks associated with MIAL had to be borne by the private partner, MOCA stated (November 2013) that irrespective of various risks, AAI would be earning revenue as per OMDA provisions. Besides, MOCA pointed out that Audit had not considered the internal resource generation of MIAL of ₹1,151 crore.

One of the objectives of developing the project on PPP basis was to find private investment for the project. In the instant case, private partners of MIAL had invested a mere ₹ 888 crore which is only 7.6 per cent of the total project cost and the burden has shifted to travelling passengers through levy of DF. Internal resource generation by MIAL is the surplus generated through operations which is not an investment by the private partner and, hence, has not been considered in the equity comparison.

4.5 Assessment of funding gap

In response to the proposal of MIAL (October 2011) seeking approval to the levy of DF, AERA had determined (December 2012) the actual funding gap as ₹4,219.05 crore as against MIAL's own estimate of ₹3,485 crore. The major reason for the difference in estimates was that internal accruals of MIAL were assessed differently by MIAL and AERA. MIAL had assumed an internal accrual of ₹2,464 crore, as their total estimated retained earnings in 2014 (August 2014 being the targeted project completion date).

The Financial Auditor had estimated the same internal accrual at ₹4,021 crore after adding depreciation and deferred tax liability to profit after tax estimated to be achieved in 2014. AERA pointed out that accruals estimated by MIAL were based on their tariff expectations which were uncertain. AERA also noted that assessment of gap in the means of finance has an inter-linkage between determination of DF and tariff. AERA, accordingly, estimated an internal accrual of as ₹1,151.26 crore for the period upto March 2014, considering the actual cash balance (as on March 2012) and adding projected depreciation (for two years, 2012-13 and 2013-14 alone). The lower estimation of internal accrual resulted in a higher funding gap which in turn has led to levy of a larger DF on passengers.

In reply, MOCA pointed out that AERA has assessed the funding gap and determined DF as per provisions of AERA Act, 2008. It also stated that higher internal accrual calculated by independent auditor was based upon increased tariff sought by MIAL. As AERA has allowed much lower tariff (164.29 per cent as compared to 881.29 per cent sought), internal accruals had to be reduced correspondingly.

The contention of MOCA needs to be viewed against the facts that

- (i) Actual internal accruals were higher in 2011-12 and 2012-13 even at the earlier lower rates of tariff.
- (ii) Internal accruals as on March 2013 would be ₹1,408.49 crore which is higher than the internal accrual projected at ₹1,151 crore upto 2013-14 by AERA.
- (iii) Had a higher internal accrual been assumed by AERA, DF could have been suitably rationalised. DF is a means of last resort as acknowledged by AERA and minimising its quantum would have reduced the burden on passengers.

The sole financial bidding criterion for selection of JV partner was the revenue share of JV with AAI. The GVK led consortium emerged the highest bidder offering 38.7 per cent of the revenue to AAI.

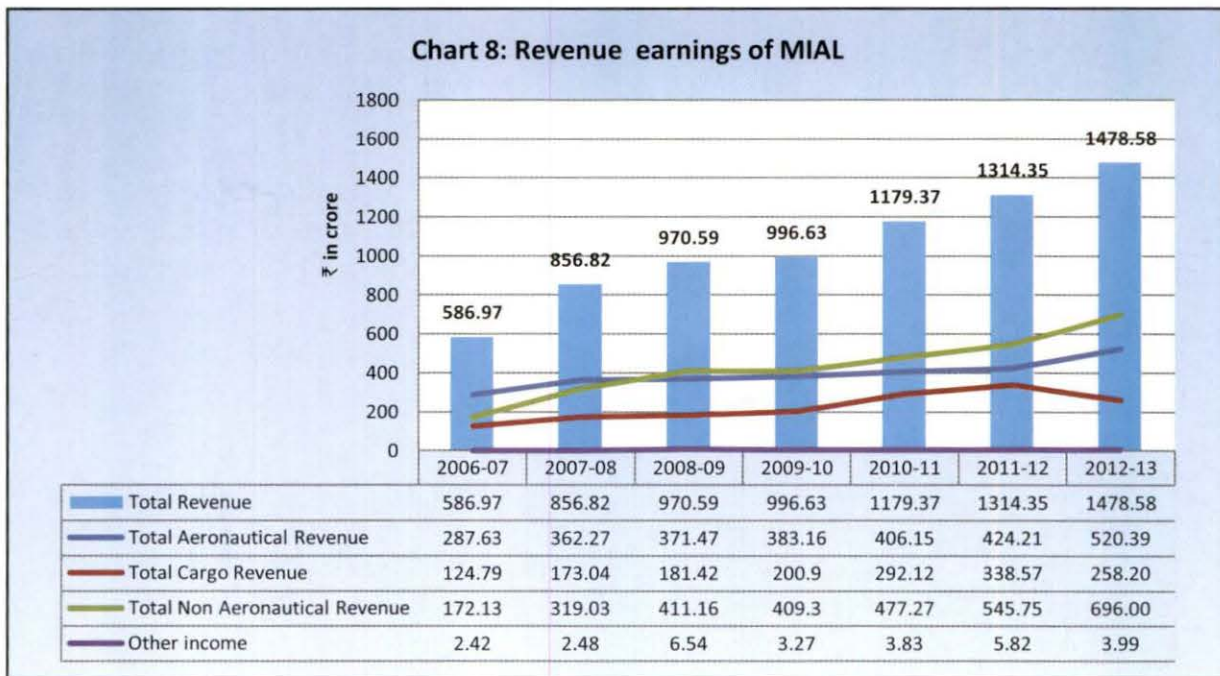
OMDA defines revenue as all pre-tax gross revenue of JV, excluding (a) payments made by JV, if any, for the activities undertaken by relevant authorities or payments received by JV for provision of electricity, water, sewerage, or analogous utilities to the extent of amounts paid for such utilities to third party service providers; (b) insurance proceeds except insurance indemnification for loss of revenue; (c) any amount that accrues to JV from sale of any capital assets or items; (d) payments and/or monies collected by JV for and on behalf of any governmental authorities under applicable law; (e) any bad debts written off provided these pertain to past revenues on which annual fee has been paid to AAI.

Revenue includes revenue from aeronautical as well as non aeronautical sources. The services provided at the airport comprise two distinct categories; - aeronautical services and services other than aeronautical services (termed as non-aeronautical services). Aeronautical services includes navigation, surveillance and supportive communication to air traffic management for the landing, housing or parking of an aircraft or any other ground facility offered in connection with aircraft operations at the airport. Non-aeronautical services include commercial activities like duty free shops, general retail, hotels etc.

Revenue earned by MIAL from aeronautical and non-aeronautical services as shared with AAI over 2006-07 to 2012-13 are shown in table 3 and chart below. It may be noted here that cargo revenue is treated as non-aeronautical revenue in MIAL.

Table 3 –Aeronautical and Non-aeronautical revenue (₹ in crore)

Year	Aeronautical revenue			Non-aeronautical revenue (including cargo)		
	AAI	MIAL (excluding AAI)	TOTAL	AAI	MIAL (excluding AAI)	TOTAL
	38.70%	61.30%	100%	38.70%	61.30%	100%
2006-07	111.31	176.32	287.63	115.84	183.50	299.34
2007-08	140.20	222.07	362.27	191.39	303.16	494.55
2008-09	143.76	227.71	371.47	231.86	367.26	599.12
2009-10	148.28	234.88	383.16	237.41	376.06	613.47
2010-11	157.18	248.97	406.15	299.24	473.98	773.22
2011-12	164.17	260.04	424.21	344.48	545.66	890.14
2012-13	201.39	319.00	520.39	370.82	587.37	958.19
Total	1,066.29	1,688.99	2,755.28	1,791.04	2,836.99	4,628.03



Source: Independent Auditors' Reports

Revenue earned by MIAL, in general, has shown an upward trend over the years. Revenue from non aeronautical sources accounted for 64 per cent of total revenue of MIAL. Besides, non-aeronautical revenues (excluding cargo revenue) registered 304 per cent growth in 2012-13 over 2006-07 revenues. In contrast, the growth of aeronautical revenues has been modest, growing by 81 per cent over the same period.

As per OMDA, MIAL is allowed to carry out commercial activities employing its assets utilising land area not exceeding ten per cent of the total land area constituting demised premises. These assets which do not form a part of the non-aeronautical assets are termed as 'non-transfer assets'. Income from non transfer assets in CSI Airport, Mumbai is yet to flow.

5.1 Aeronautical tariff in 'shared till' arrangement

As per section 13 of AERA Act, 2008, AERA determines the tariff for aeronautical services while charges for non-aeronautical services are not regulated.

In order to determine the tariff for aeronautical services (airport charges), three systems are in vogue - single till, dual till and shared till.

- **Single Till** considers the entire airport as one system. Airport charges are determined in a way to ensure that the sum of aeronautical and non-aeronautical revenue provides a pre-determined rate of return to the airport operator, over and above his operating costs, depreciation and taxes.
- **Dual Till** considers the entire airport as two independent systems – aeronautical and non-aeronautical. Airport charges are determined in a way to ensure that only the aeronautical revenues provide a pre-determined rate of return to the airport operator, over and above his aeronautical operating costs, depreciation and taxes.
- **Shared/Hybrid Till** is a combination of Single Till and Dual till. Airport charges are determined in a way to ensure that aeronautical revenues provide a pre-determined rate of return to the airport operator, over and above his operating costs, depreciation and taxes, cross-subsidised by a certain fraction of the non-aeronautical revenues.
- In case of Mumbai and Delhi airports, 30 per cent of the non-aeronautical revenues subsidised aeronautical expenses. Airport charges in CSI Airport, Mumbai are determined on a 'shared till' mode as defined in schedule I of the State Support Agreement (SSA). This is in contrast to other airports in the country (other than Delhi and Mumbai) where AERA follows the 'single till' system for determining the airport charges. In the shared till system, the costs associated with aeronautical services (including the cost of infrastructure creation as well as its maintenance and operation along with a reasonable return on this investment) are set off against 30 per cent of non-aeronautical revenue to arrive at the targeted aeronautical revenue leading to determination of airport charges at CSI Airport, Mumbai.

Aeronautical assets constitute 90 per cent of the total assets in CSI Airport, Mumbai. Besides, the cost of operation and maintenance of these aeronautical assets is also over 80 per cent of the total operation and maintenance expenditure. However, even as costs associated with non – aeronautical services are 10 per cent of the total costs, the non-aeronautical revenues (averaged over 2006-13) are 62 per cent of total revenues. Non-aeronautical services, are thus, more profitable with low cost of creation and operation of assets and high revenues.

As non-aeronautical costs are minimal while non-aeronautical revenues are large, the 'shared till' system is likely to lead to a higher airport charge vis-a-vis the 'single till' system. These higher airport charges would be passed on by the concerned airlines to passengers who would have to pay more for their airline ticket for flights through Mumbai while the return to MIAL for non-aeronautical services would remain high.

MOCA replied (November 2013) that OMDA provisions regarding system of permissible gross revenue generation from different sources, inclusion of cargo and ground handling in non-aeronautical services, cross subsidisation of 30 per cent of non aeronautical revenue towards tariff were laid down in transparent manner upfront before bidding and also approved by EGOM. Further MOCA stated that AERA Act also recognises that due consideration be given to provisions of OMDA and as such AERA has followed legal provisions.

While there is no issue regarding the bidding mechanism, it is a fact that in following the 'shared till' system, only 30 per cent of non-aeronautical revenue has been set off against the targeted revenue while determining tariff. This has increased the burden of the airport charges borne by passengers. The benefit of low-cost non-aeronautical revenues is largely retained by MIAL, placing a heavier burden on travelling passengers in Mumbai.

During the Exit Conference, MOCA stated that a comprehensive policy regarding the appropriateness of the system of 'till' is being formulated. Impact of such policy would be reviewed in subsequent audit.

It is pertinent to note that PAC in its report of February 2014 on Audit Report No. 5 of 2012-13 on Implementation of PPP in Indira Gandhi International Airport, Delhi, has urged the Government to consider the aspect that shared till actually increased the burden on travelling passengers as aeronautical tariffs were not subsidised by a significant part of non-aeronautical tariff which are low capital intensive and high revenue services while awarding airport contracts under PPP in future.

5.2 Conflicts between OMDA and AERA Act in defining aeronautical and non-aeronautical services

As has been pointed out in Audit Report No.5 of 2012-13 which dealt with Implementation of PPP in Indira Gandhi International Airport, Delhi, there are conflicts between provisions in OMDA and SSA on one hand and the AERA Act, 2008 on the other, which will have long term repercussions on the regulator's role and in fixation of tariff for CSI Airport, Mumbai. Definitions of aeronautical and non-aeronautical services differ substantially between OMDA and the AERA Act.

- Cargo Handling Service has been designated as a non-aeronautical service in OMDA (Schedule 6) but is an aeronautical service as per AERA Act (Section 2, v).
- Ground Handling Services have been included as non-aeronautical services in OMDA (Schedule 6) but are aeronautical services as per the AERA Act (Section 2, iv).

The Consultation Paper 22/2012-13 dated 11 October 2012 of AERA refers to MOCA's letter dated 10 September 2012 which states " revenue from Cargo and Ground Handling services accruing to the airport operator should be categorised as non-aeronautical revenues as provided under the OMDA. Section 13 (1)(a)(vi) of the AERA Act clearly states that concessions offered by the Central Government in any Agreement or Memorandum of Understanding or otherwise will have to be taken into consideration while determining the tariff."

Revenue generated from cargo and ground handling services are considered as 'non-aeronautical' for CSI Airport, Mumbai during tariff determination and only 30 per cent of such revenue is available for setting off aeronautical costs while determining the airport charges. As cargo revenues are very significant constituting 34 per cent of the total non-aeronautical revenues (over 2006-07 to 2012-13), this affords a higher return to MIAL and hence, the private partner of JV, while contributing to higher airport charges at CSI Airport, Mumbai.

AAI stated (July 2013) that there is no conflict between AERA Act and SSA and that these two provisions of OMDA and AERA Act have been harmonised. Accordingly, the charges for Cargo and Ground Handling services for Delhi/ Mumbai airports are being fixed / regulated by AERA considering these as aeronautical services as per provisions of AERA Act. AAI, however, agreed that the airport tariff is being determined as per the formula provided in SSA in line with section 13(1)(a)(vi) of AERA act and schedule I of SSA.

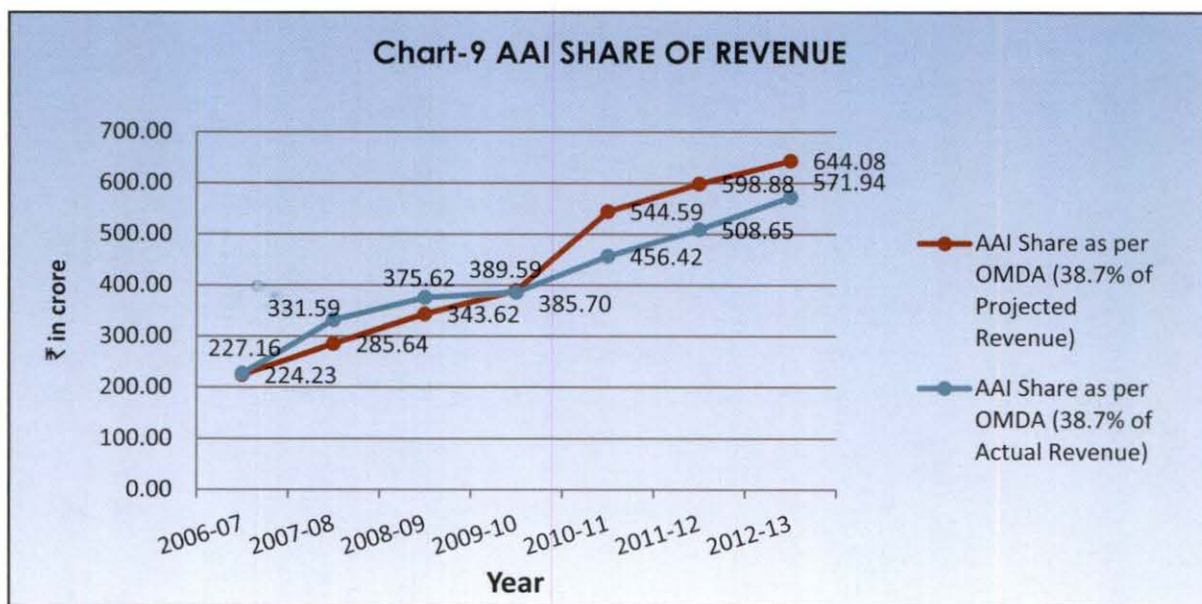
Though the charges for Cargo and Ground Handling services for Delhi/ Mumbai airports are being regulated by AERA, revenues from these services are being treated as non-aeronautical revenue as per the provisions of OMDA and SSA in determining the airport charges. As only 30 per cent of gross non-aeronautical revenue is considered for fixation of airport charges vis-a-vis 100 per cent of net aeronautical revenue, this difference in definition of 'aeronautical' and 'non-aeronautical' revenue in OMDA and AERA provisions allows a financial benefit to MIAL and, hence, the private partner of JV, while loading the passenger with higher airport charges.

It is pertinent to note, in this connection, that PAC have recommended in their report presented to Parliament on 06 February 2014, on the Audit Report

No. 5 of 2012-13 that dealt with Implementation of PPP in Indira Gandhi International Airport, Delhi, on the same issue, that MOCA may apprise PAC of the financial impact of the concessions granted by Government under OMDA and the revenue ensured by the Government from the JV after Ground Handling services and Cargo Handling services were categorised as aeronautical services.

5.3 Revenue accruing to AAI

The entire revenue earned (both aeronautical and non-aeronautical) by MIAL is shared with AAI, the share of AAI being 38.7 per cent. The revenue that accrued to AAI from 2006-07 to 2012-13 is shown in the following chart.

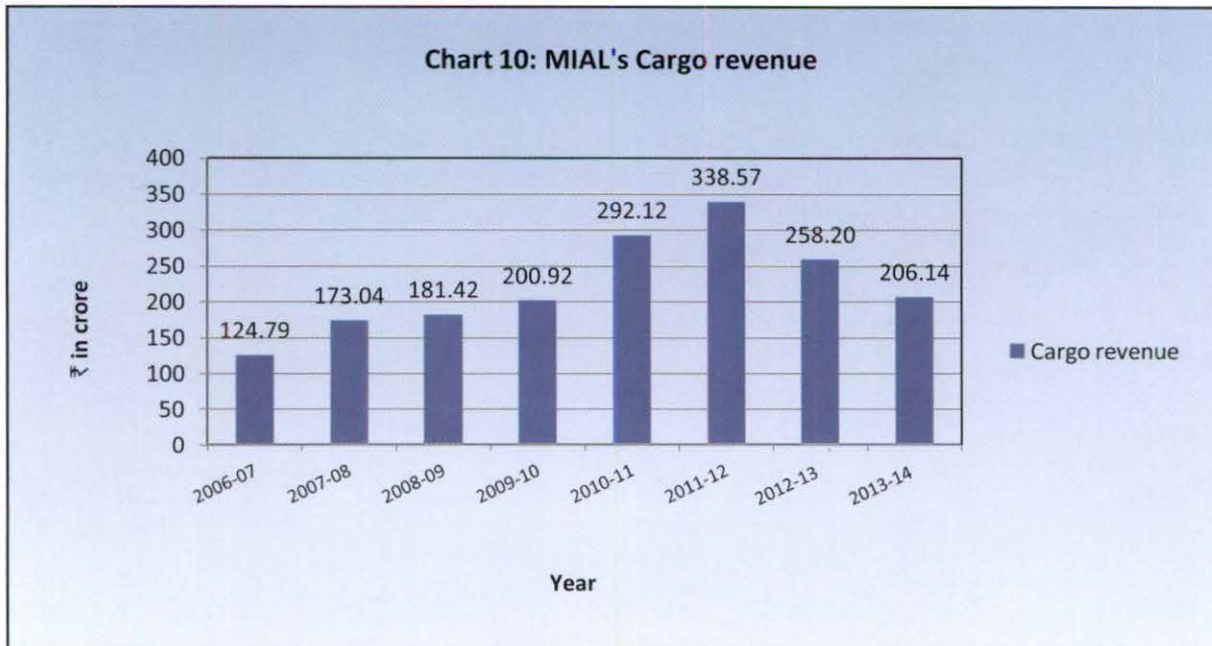


Source: Business Plan and Independent Auditors' Reports

While AAI share has increased steadily over the years, with MIAL having outsourced some of its activities, the percentage of additional revenue inflow to AAI is expected to diminish in future as has been brought out in the subsequent paragraphs.

5.4 Outsourcing domestic and international cargo activities

Cargo revenue comprises mainly domestic and international cargo operations. A review of MIAL's revenues particularly with regard to actual cargo revenues of MIAL for the period 2006-07 to 2012-13 and the estimates for 2013-14 revealed that the cargo revenue projections declined from 2012-13 onwards as indicated in the chart below:



Source: Independent Auditors' Report and MIAL's correspondence with AERA
 Note: Figures for 2013-14 are estimates submitted by MIAL to AERA

The fall in estimated cargo revenues is on account of intended outsourcing of both the domestic and international cargo operations. It had originally been planned to operationalise the outsourcing arrangement for domestic as well as international cargo by 01 September 2012. Domestic cargo was outsourced (May 2013) to M/s. Container Corporation of India on Build Own Operate Transfer basis (BOOT) and perishable cargo handling was outsourced to M/s. Cargo Service Centre India Private Limited (16 May 2011). International cargo had been concessioned to M/s. Concor Air Limited (18 February 2014). Revenue share of MIAL from domestic cargo is 42 per cent (with a minimum annual guarantee of ₹7 crore) while that for perishable goods is 15.11 per cent (with a specified minimum guarantee based on estimates of cargo).

As seen from the chart, the cargo revenue is estimated to fall by ₹132.43 crore in a span of two years from (2011-12 to 2013-14) registering a 40 per cent reduction. However, in 2012-13, cargo revenue decreased to ₹ 258.20 crore. As 30 per cent of cargo revenue is taken into account in target revenue while arriving at the tariff rates, the fall in cargo revenues would lead to higher tariff and corresponding higher burden on passengers. Besides, significant reduction in cargo revenue would also reduce revenue share of AAI substantially.

AAI /MOCA stated (July/November 2013) that OMDA gives the right to MIAL to contract and / or sub-contract with third parties. AAI also pointed out that in the initial period, cargo operation had been handled by MIAL which decided to develop these facilities on BOOT basis. AAI agreed that there would be a drop in revenue in the initial period due to outsourcing but

pointed out that it would result in better infrastructure and increase in handling capacity.

Reply of AAI substantiates the audit observation. MOCA would be well advised to monitor and review the extent and adequacy of promised improvements in infrastructure and handling capacity compared to the projected reduction in revenues.

5.5 Award of concession for operation of Hotel near Terminal 1C to a Group Entity consortium

As per Article 8.3.3 and 8.3.7 of OMDA all developments (Aeronautical Assets, Non Aeronautical Assets, Transfer Assets, Non-Transfer Assets) at the Airport shall be as per the existing Master Plan and no development that is not envisaged in the Master Plan shall be allowed to be undertaken. OMDA also stipulates that MIAL shall clearly demarcate and distinguish, Transfer Assets and Non-Transfer Assets in the Master Plan {Article 13.1 (b)(ii)}.

MIAL took up construction of a hotel near Terminal 1C in June 2009 though it was not included in Master Plans (October 2006 and May 2007). In February 2010, MIAL informed AAI that it had carried out competitive bidding for operation of a hotel in Terminal 1C of the airport and a Consortium of (i) M/s. TAJ GVK Hotels & Resorts and (ii) Greenridge Hotels & Resorts had emerged as a successful bidder. MIAL was to receive 3 per cent of the gross revenue from the first year of commencement of operations of the hotel. A minimum annual guarantee of ₹45 lakh from second year and ₹90 lakh from third year onwards was also stipulated. AAI did not raise any objections though construction of the hotel was in violation of the provisions of OMDA {Articles 8.3.3, 8.3.7 and 13.1 (b)(ii)}. AAI being a shareholder in MIAL would have been aware of the development, yet no action was initiated against the violation. MIAL later included the proposal in the Master Plan of 2011.

Subsequently, MIAL proposed a set of amendments to the agreement with the successful bidder which were also agreed by AAI with the suggestion that MIAL comply with the provisions of OMDA. The amendments included:

- increase in number of rooms from 92 to 300;
- increase in concession period from 15 years to 30 years (i.e. upto 02 May 2036, the expiry date of 30 years of OMDA);
- revenue share of MIAL to be increased from 3 per cent to 4.65 per cent;
- change in the shareholding pattern among the Consortium partners (M/s. TAJGVK - 49 per cent in place of 20 per cent and M/s. Greenridge - 51 per cent instead of 80 per cent).

Examination in Audit revealed that:

- MIAL had included the cost of construction of the hotel in the total project cost. Later, AERA disallowed it and desired that MOCA/AAI decide whether it is a 'transfer asset'⁴ or 'non transfer asset'⁵. If the hotel was designated a transfer asset, it could be included in the project cost and 30 per cent revenue would also be available for tariff fixation. AAI decided to consider it as a Non-transfer Asset.
- The bidder consortium which emerged successful for operation of the hotel comprised of M/s. TAJ GVK Hotels & Resorts (20 per cent stake) and Greenridge Hotels & Resorts (80 per cent stake). It is seen that both entities were GVK group companies. These entities formed a Joint Venture company M/s. Green Woods Palaces and Resorts Private Limited. As M/s. GVK Airport Holdings Private Limited which is a part of the GVK group has management control of MIAL (with a 50.5 per cent equity shareholding), the agreement entered into by MIAL with this consortium could benefit the parent company. It was also noticed that the terms of the agreement were subsequently altered in favour of the consortium allowing an increase in number of hotel rooms from 92 to 300 and extension of the concession period from 15 years to 25 years. The post bid changes were a violation of the principles of contracting and was an undue favor granted to the selected consortium which assumes further significance in view of the shareholding pattern of the concerned companies.
- AAI is eligible to share 38.7 per cent of the revenue generated from this asset. Since MIAL had agreed to receive only 4.65 per cent revenue from the concessionaire, the actual revenue which would accrue to AAI on account of the hotel project would be a miniscule fraction of the actual revenues (38.7 per cent of 4.65 i.e. 1.79 per cent) generated by this activity. However, as both the consortium members namely M/s. TAJ GVK Hotels & Resorts and Greenridge Hotels & Resorts are GVK group entities, the share of M/s. GVK from the hotel operations would be far higher.
- MIAL had forwarded (February 2010) the draft License Agreement and Concession Agreement to be executed with the successful bidder to AAI for comments. AAI, however, did not object (February 2010) to the arrangement though it would have significant adverse impact on its revenues.

⁴ *'Transfer assets' encompass assets used for both aeronautical and non-aeronautical purposes which would be transferred back to AAI at the conclusion of the agreement.*

⁵ *'Non-transfer assets' imply land available for commercial exploitation by MIAL for which AAI does not have the obligation (though it has the right) to acquire MIAL's rights, titles and interests at the conclusion of the agreement. Land available for 'non-transfer asset' is limited to 10 percent of the demised premises according to OMDA.*

AAI stated (July 2013) that its comments were not required as both the Master Plans of 2006 and 2007 did not envisage construction of the Hotel at Terminal 1C. AAI also asserted that the Hotel could not be designated as a 'Transfer Asset' as in such a case it would have been included in the project cost and had to be financed through DF which would also have increased the load on the passenger. Besides, appropriate procedure for appointment of Probity Auditor was done and its report was considered before permitting the contract.

In addition, MOCA stated (November 2013) that modifications could have been taken up by MIAL keeping AAI informed.

The reply needs to be viewed against the following:

- (a) AAI is represented on the Board of MIAL and ought to have been aware of the initiation of construction of the Hotel in June 2009 without it being included in the Master Plan, 2007. The Independent Engineer also failed in reporting the Hotel construction which was in deviation to the then operational Master Plan.
- (b) Considering that the revenue of AAI vis-à-vis the promoter of MIAL would be adversely affected through the concession agreement with a group entity of the private promoter, a higher degree of vigilance and due diligence was required.
- (c) MIAL included the Hotel project only in the Master Plan of 2011 and proposed that it be developed as a Transfer Asset. AAI has stated that the Hotel would not be developed as a Transfer Asset.

5.6 Undue benefit of ₹3.17 crore to MIAL

MIAL was liable (Article 5.1 of OMDA) to perform all obligations (including payment obligations) of AAI under all contracts and agreements between AAI and any third party with effect from the effective date (03 May 2006). Further, MIAL was also liable {Article 5.2 (b) (ii)}, for completion of all work-in-progress at CSI Airport, Mumbai and payments in respect of all capital work-in-progress at CSI Airport, Mumbai from 30 August 2005. The payments were to be made by MIAL to AAI within 15 days of the effective date on the basis of separate detailed accounts maintained by AAI and furnished to MIAL on the effective date.

In a meeting (14 June 2006) AAI agreed that all payments for the works in progress after the effective date would continue to be discharged by AAI. Bills for the work done would be raised by AAI on MIAL every fortnight which MIAL would reimburse. AAI raised claims for reimbursement of capital work-in-progress cost for the period 30 August 2005 to 02 May 2006 only on 15 September 2006. Besides, the claims for works-in-progress after the effective date (03 May 2006) were also delayed upto 159 days against the

prescribed time of a fortnight. MIAL also defaulted in reimbursing the claims in time and delayed reimbursement by upto 511 days resulting in loss of interest of ₹3.17 crore to AAI.

AAI/MOCA stated (July/November 2013) that raising of bills for reimbursement of capital work-in-progress was delayed due to procedures involved for preparation of bills. It was not possible to prepare bills on any particular date. Being new, MIAL also took some time to understand and reimburse the claims raised by AAI.

Reply ignores the fact that AAI was fully aware of the procedure involved in the preparation of bills and, hence, it would have been possible for AAI to have taken action to avoid delays. Further, as per the terms of OMDA, MIAL had committed to timely reimbursement of claims.

5.7 Delay in receipt of Retirement Compensation

Article 6.1.1 of OMDA stipulated operation support by AAI with the help of general employees to MIAL for a period of 3 years from 03 May 2006 to 02 May 2009. OMDA also stipulated (Article 6.1.4) that MIAL shall make an offer of employment not later than 3 months prior to the expiry of Operation Support Period, to a minimum of 60 per cent of employees. In the event of MIAL being able to absorb less than 60 per cent of such employees, MIAL was liable to pay Retirement Compensation to AAI for such unabsorbed number of general employees. As per Article 1.1 of OMDA, Retirement Compensation was to be based on the latest available Voluntary Retirement Scheme of AAI.

During the operation support period, only 185 employees were absorbed by MIAL and for the balance 1,245 unabsorbed employees, MIAL was liable to pay Retirement Compensation as per the provisions of OMDA. AAI raised bill on MIAL for ₹260.86 crore in March 2010. Of this, MIAL, till March 2010, had released an amount of ₹154.23 crore in four instalments and the balance of ₹106.63 crore was outstanding (as of May 2010).

MOCA observed (November 2009) that payment of Retirement Compensation from MIAL became due immediately after the operation support period i.e. post 02 May 2009. However, a lenient view was taken with the approval of Minister of State of Civil Aviation (Independent Charge), and accordingly MOCA directed AAI to recover the Retirement Compensation without penal interest from MIAL by March 2010. MOCA also intimated (May 2010) that any payment due after 01 April 2010 automatically attracted penal interest on State Bank of India Prime Lending Rate plus 10 per cent.

In a meeting between AAI and MIAL (August 2010) a decision was taken to allow MIAL to pay the balance amount in instalments. Consequent to the

decision, AAI (October 2010) revised the balance due and recommended for monthly instalment payable in 10 years from November 2010.

Thus, AAI allowed MIAL to pay Retirement Compensation as monthly instalments over ten years in violation of the directives from MOCA. This resulted in undue favour to MIAL and consequent loss of interest to AAI amounting to ₹71.37 crore, calculated at 10 per cent per annum.

Further, AAI had claimed (in March 2011 and April 2011) an additional amount of ₹33.40 crore towards Retirement compensation due towards revision of pay of non-executives. However, MIAL paid the same in 2 instalments (June 2011 and September 2011). Allowing MIAL to pay the same in instalments was also an undue benefit conferred on MIAL by AAI.

AAI /MOCA stated (July/November 2013) that they had failed to raise the final bill on MIAL in time (by 31 March 2010). When MIAL made a part payment of ₹ 154.23 crore on the provisional bill of ₹ 260.86 crore, AAI did not claim the balance as the procedure for payment of retirement benefit had changed from a one-time to a monthly basis. Following deliberations of AAI with MIAL, an agreement was reached according to which MIAL would make full payment of *ex-gratia* amount in *lump-sum* and the balance would be a monthly payment over the next ten years. AAI justified (July 2013) its actions stating that as the claim of Retirement Compensation from MIAL was as per the Voluntary Retirement Scheme of AAI, no loss had been incurred by AAI.

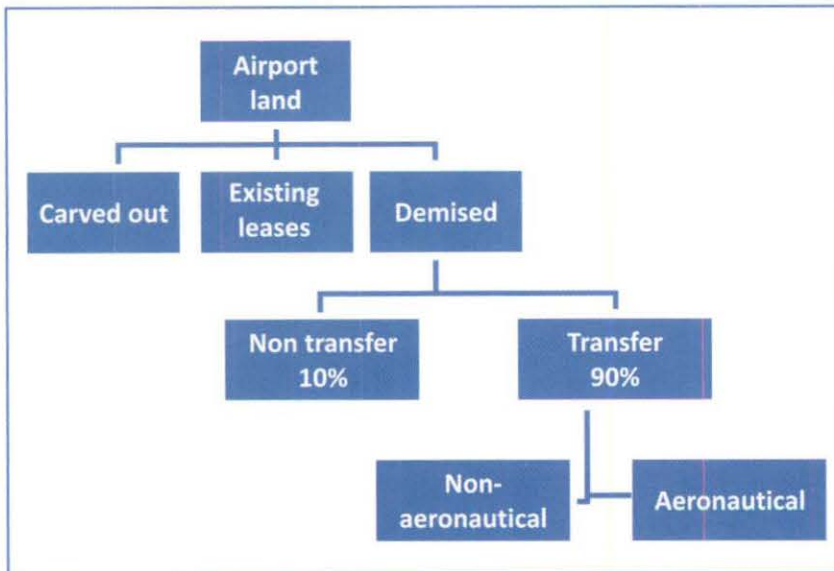
Reply needs to be viewed against the facts that

- (i) MOCA stated in November 2009 that payment of retirement compensation to AAI amounting to ₹260.86 crore became due immediately after the end of Operational Support Period (*i.e.* 03 May 2009 as per OMDA).
- (ii) AAI, however, allowed MIAL to pay ₹154.23 crore in four instalments and to make balance payments in monthly instalments spread over a period of 10 years against the directions of MOCA, which was an undue favour to MIAL by AAI.

MOCA's attention is drawn to the recommendation of PAC on a similar issue in Audit Report No. 5 of 2012-13 relating to the implementation of PPP arrangements in Indira Gandhi International Airport, Delhi where PAC concluded that MOCA had erred in safeguarding the interests of employees of AAI and failed to enforce its directives while also recommending that MOCA enforce the contractual obligations as per OMDA.

As per Article 2.6.1 of OMDA, AAI had agreed to lease out land in CSI Airport other than the land under existing lease and 'carved out assets' to MIAL for development of Airport. This was designated as 'demised premises'. The lease deed agreement between MIAL and AAI provided (Article 2.1.2) that on expiry or early termination of existing leases of AAI, the underlying land of these leases would form an integral part of demised premises. The 'carved out assets' were retained with AAI and did not form a part of the demised premises. The carved out assets included the Air Traffic Control (ATC) tower, AAI-National Airports Division (NAD) staff colony, leased land to Hotel Leela, retail fuel outlets outside airport operational boundary and the convention centre. It was agreed (Article 2.6.3 of OMDA) that land underlying the carved out assets could be leased to MIAL, if required for aeronautical purposes.

Chart-11 Airport Land



Following the agreement with MIAL thus, the airport land comprised 'demised premises' leased to it and 'carved out assets' retained by AAI. MIAL could use the 'demised premises' to create 'transfer assets' as well as 'non-transfer assets'. 'Transfer assets' encompass assets used for both

aeronautical and non-aeronautical purposes which would be transferred back to AAI at the conclusion of the agreement. 'Non-transfer assets' imply land available for commercial exploitation by MIAL for which AAI does not have the obligation (though it has the right) to acquire MIAL's rights, titles and interests at the conclusion of the agreement. Land available for 'non-transfer asset' is limited to 10 per cent of the demised premises according to OMDA.

6.1 Survey of airport land and maintenance of land records

OMDA (April 2006) under which 'demised premises' were handed over to MIAL did not define the specific details of the leased land. Schedule 25 of

OMDA was required to have a map of the 'demised premises' which was left blank. Lease deed between AAI and MIAL (April 2006) also did not demarcate the 'demised premises'. Relevant schedule (Schedule 1) of the lease deed was also left blank. OMDA (Schedule 27) only delineated 'carved out assets' as 3,08,747.15 sq.m.(76.3 acres⁶). Thus, the actual area and demarcation of leased premises were not firmly defined before handing over the land to MIAL. Even the extent of 'demised premises' was not mentioned in OMDA or the lease deed.

AAI had indicated in its RFP (2005) that the total area of Mumbai Airport was 1,875 acres. MIAL, in its Master Plan of 2007 attempted a property map of the airport land. The total area of airport land as ascertained by MIAL was 2,001 acres, much higher compared to AAI's figure of 1,875 acres. MIAL indicated the 'carved out assets', existing and expired leases, land in possession of other government agencies, land under dispute and encroached land in the map, separately. Demised premises were indicated as 1,912.9 acres and 'carved out assets' as 88 acres. The very significant difference in the extent of land quoted by AAI and MIAL raises questions on the quality of records and documents maintained by AAI.

AAI had constituted a Committee (11 May 2011) to carry out proper verification of land records for execution of Supplementary Lease Deed. As per the Committee's Report (05 July 2011) the total area, as per Property Register Cards, was 2001.36 acres. It was however noticed that the Supplementary Lease Deed signed by AAI and MIAL in December 2011 recorded the total land vested with AAI (lessor) at CSI Airport, Mumbai as 2006.73 acres. Thus, even after 4-5 years of signing of OMDA and handing over of CSI Airport, Mumbai to MIAL, the total area of the airport land was not firmed up.

The total area of the airport land as it altered progressively from 2006 to 2012 is shown below:

Table 4: Land holding at CSI Airport, Mumbai

LAND HOLDING AT CSI AIRPORT			
Status as on 03 May 2006 (After signing OMDA)	Status as per re-survey held in 2006-2007	Status as per the Committee Report (05 July 2011)	Status as on December 2011 (after signing of Supplementary Lease Dead)
1875 acres	2001 acres	2001.36 acres	2006.73 acres

⁶ One acre = 4,046.82 sq.metre.

AAI stated (July 2013) that the area of the airport land could be determined only after removal of encroachment.

MOCA replied (November 2013) that OMDA provided only map of the 'demised premises' and 'carved out assets' and that the land was handed over on as-is-where-is basis. While agreeing that no proper land records were available with AAI, MOCA stated that even after carrying out the survey, the land in possession with MIAL might alter as the exchange of land with MIAL was still in progress.

It is pertinent to mention in this regard that PAC in their report on Performance Audit of Implementation of PPP- Indira Gandhi International Airport, Delhi contained in Audit Report No. 5 of 2012-13, on a similar issue relating to Delhi Airport, recommended that necessary survey of the land be undertaken and physical markings erected to identify the demised land and carved out assets for future and PAC apprised within six months. MOCA and MIAL would be well advised to act on the above recommendation in respect of MIAL and CSI Airport too.

6.2 'Carved out land transferred to MIAL on the basis of meagre upfront fee

'Carved out assets' were primarily intended for the use of AAI as per OMDA and could be transferred to MIAL, if required, for aeronautical purposes only. MIAL requested MOCA (in 2007) to transfer nearly the entire land under 'Carved Out Assets' for establishing aeronautical services and carrying out expansion/ development of CSI Airport, Mumbai. The matter was considered by AAI (109th Board Meeting/ 27 April 2007 and 119th Board Meeting/ 07 April 2008) and it was decided to lease out an additional 28.98 acres out of 'carved out assets' (15 acres of National Airport Division (NAD) Colony, 11 acres of Convention Centre and 2.98 acres of Air Traffic Control Tower area). It was also agreed that appropriate payment for the additional lease would be decided separately. Subsequently, it was decided (16 April 2008) that 25 acres of NAD colony and 16 acres of Convention Centre would be leased to MIAL. MIAL also agreed to identify in lieu of the above, a suitable area of 5 acres to be provided to AAI for its future requirements. AAI agreed to transfer 43.98 acres out of 'carved out assets' to MIAL which was approved by AAI Board in its 129th Board Meeting of 06 March 2009.

AAI Board decided (March 2009) that the additional carved out land of 43.98 acres would be transferred to MIAL against a consideration based on upfront fee paid by MIAL. An amount of ₹3.52 crore was worked out as consideration for this land on the basis of the upfront fee of ₹150 crore paid by MIAL ($\frac{₹150 \text{ Crore}}{1875 \text{ acres}} \times 43.98 \text{ acres} = ₹3.52 \text{ crore}$). The Supplementary Lease Deed for the additional land was executed on 15 May 2009. Audit noticed that AAI subsequently transferred an additional pocket of land measuring 4.17 acres

on MIAL's request basing its valuation on the upfront fee of ₹150 crore. A supplementary Lease Deed was executed on 15 April 2010 to lease out 4.17 acres of 'F' block in NAD Colony to MIAL on payment of ₹0.33 crore ($\frac{₹150 \text{ Crore}}{1875 \text{ acres}} \times 4.17 \text{ acres}$).

MOCA stated (March 2012) that the upfront fee paid by MIAL to AAI had 'no relation to the extent of land and asset at an airport and it was only a part of the OMDA fee'. Hence, it would not be proper to use upfront fee as the base for calculating price of additional land provided by AAI to MIAL.

Article 2.6.3 of OMDA states that 'with respect to land underlying the carved out assets, the parties further agreed that if, at any time during the term, MIAL requires the said land for providing any aeronautical services or developing and/ or constructing any aeronautical assets, the parties shall come together to negotiate in good faith, the terms and conditions on which AAI shall lease to MIAL and MIAL shall take on lease from AAI, the said land'. Allowing additional leased land to MIAL without negotiation, at the rates based on upfront fee, was, thus, inappropriate.

AAI stated (July 2013) that additional land was leased out for aeronautical use only and not for commercial exploitation. Hence, commercial rate could not be demanded from MIAL. In addition, MOCA stated (November 2013) that income from these assets would offset aeronautical charges benefitting general public.

The reply needs to be viewed against the following facts:

- (i) OMDA enjoined that the terms and conditions for lease of carved out land should be negotiated which was not done. That the land was leased out for aeronautical purposes does not alter this provision.
- (ii) Besides, with the increase in the extent of demised premises, the quantum of land available to MIAL for commercial exploitation also increased which would be available for 30 years with an assurance of continuation for another 30 years.

6.3 Commercial exploitation of 190.1 acres

Article 2.2.4 of OMDA allows MIAL to utilise ten *per cent* (or such different percentage as set forth in the master plan norms of the competent local authority of Mumbai, as the same may change from time to time) of the demised premises for provision of non transfer assets. This is essentially the land available to MIAL for commercial exploitation.

RFP issued by AAI in 2005 indicated the total area of Mumbai Airport as 1875 acres. OMDA signed on 4 April 2006 did not indicate the total area of the

airport but fixed the area of 'carved out assets' as 76.3 acres (schedule 27 of OMDA). Considering the total area as 1875 acres (as mentioned in the RFP), the balance land of 1798.7 acres would be 'demised premises'. Thus, as per the RFP and OMDA, MIAL would be eligible to utilise 179.8 acres (10 per cent of 1798.7 acres) for commercial exploitation. Subsequently, AAI signed a supplementary lease deed with MIAL (December 2011) which placed the area of demised premises (as on 26 April 2006) as 1901.03 acres. This increased the area available to MIAL for commercial exploitation to 190.1 acres. Thus, MIAL would be benefitted through additional commercially exploitable land admeasuring 10.23 acres.

While claiming the exact area of land available for commercial exploitation as 187.5 acres (10 per cent of original demised premises), MOCA stated (November 2013) that MIAL could not utilise even this land for commercial exploitation, due to delay in vacating the encroachment of land.

The reply needs to be viewed against the following:

- (i) RFP of 2005 had placed the total airport area as 1875 acres. OMDA (April 2006) had set aside 76.3 acres as carved out assets, with the balance demised premises of 1798.7 acres. The land available for commercial exploitation is 10 per cent of *demised premises* and not the total area as per OMDA (Article 2.2.4). Thus, the contention of the MOCA that 187.5 acres of land were initially available for commercial exploitation to MIAL is incorrect.
- (ii) AAI has signed a supplementary lease agreement (December 2011) agreeing to an area of 1901.03 acres for demised premises as on April 2006. This increases the availability of land for commercial exploitation to 190.1 acres as per the provisions of OMDA.
- (iii) AAI had earlier (April 2010) signed another supplementary lease deed restricting the carved out assets to 39.95 acres. As the total area of the airport is 2006 acres (as indicated in the supplementary lease deed signed in December 2011), the demised premises would actually be higher at 1966.76 acres, further increasing the land eligibility of MIAL for commercial exploitation to 196.67 acres.
- (iv) During Exit Conference, the representative of MIAL informed that the local authority (MMRDA) had allowed commercial exploitation of 133 acres at present. MIAL subsequently informed that the quantum of commercial exploitation might increase as and when the encroachment of 204.99 acres was removed and that it was unlikely to cross 190 acres.

Thus, the quantum of land available for commercial exploitation remains undefined. It may not be prudent to overlook the earning potential of even the minimum of 133 acres. Benefit from the earning potential would accrue to MIAL as revenue out of 'non-transfer' asset. Though the same would not be

considered for determination of airport charges in terms of SSA, the same would be a revenue enhancing activity having the potential for reduction of burden in the form of various levies on passengers.

MOCA/AAI need to carefully work out the economics of commercial exploitation of land.

6.4 Unwarranted benefit to MIAL on relocation of activities and change in land use

As mentioned in para 6.2 above, the 'carved out assets' were retained by AAI for its own usage and could be transferred to MIAL only if the latter required it for aeronautical purposes. After the transfer of 48.15 acres of land out of carved out assets on the request of MIAL, the remaining carved out land (39.95 acres) comprised essentially of AAI's NAD staff residential colony. MIAL proposed to relocate the Air India Cabin Catering and Chef-Air Flight Kitchen located in the demised premises to AAI's balance carved out land. AAI/ MOCA agreed to this proposal.

Relocation of these non-aeronautical facilities in carved out land amounts to usage of additional carved out land for non-aeronautical purposes and was a violation of the OMDA provisions which enjoined that 'carved out land' could be used by MIAL only for aeronautical purposes.

MIAL subsequently requested for change in end use of this vacated land for non-aeronautical purpose which was agreed to by MOCA on the condition that MIAL provide an alternate location of identical size for aeronautical purpose. The alternate site was in an encroached area but was accepted by AAI/MOCA.

While accepting that end use was altered for 3 acres, MOCA stated (November 2013) that Air India had long discontinued use of the Air India Cabin Catering and Chef-Air Flight Kitchen facility.

The reply has to be viewed against the facts that

- (i) the intent had been to relocate non-aeronautical activities from the demised premises into the balance portion of 'carved out asset' earmarked for the exclusive use of AAI.
- (ii) there were no provisions in OMDA that allowed change in end use of land. However, land use continued to be altered by AAI at the request of MIAL.
- (iii) The alternate site (3 acre) earmarked by MIAL at Agripada for aeronautical purposes or for transfer to AAI was actually encroached (as seen from the Master Plans of 2007 and 2011). AAI,

however, did not raise any objections in this regard with MIAL. Thus, effectively, the land under non-aeronautical use by MIAL increased while relegating equivalent land for aeronautical functions to encroached areas.

6.5 AAI's Traffic Management Centre

MIAL had been directed to earmark 5 acres of land for AAI's Air Traffic Management Centre while agreeing to lease additional 25 acres NAD land and 16 acres Convention Centre out of carved out land as demised premises. In the Master Plan 2011, MIAL marked the area of 5 acres in the encroached region for AAI. Subsequently, it was decided in the 15th OIOC meeting (14 September 2012) that AAI did not have an immediate requirement of land and the same would be made available by MIAL as and when required. The matter was treated as closed for the time being without actual transfer of land to AAI.

The decision taken in the 15th OIOC meeting to treat the issue of transfer of 5 acres land to AAI as closed for the time being indicates that AAI was not proactive about its requirement and that MIAL was able to prevail upon OIOC for postponing the provision of land to AAI that would be contingent upon availability post slum rehabilitation.

AAI stated (July 2013) that its Planning Department in coordination with Air Navigation Services Department was in the process of identification of area which MIAL would be asked to handover. MOCA replied that in 15th OIOC meeting, AAI requested MIAL to hand over 5 acres immediately; however MIAL stated that they would hand over land only after removal of encroachment.

MIAL confirmed in the Exit Conference that it would provide suitable land to AAI after discussion. MOCA would do well to monitor the developments closely and ensure that the desired outcome is not delayed further.

6.6 Land in possession of other government agencies

Pockets of land in and around CSI Airport had been in the possession of other government agencies. Master Plan 2007 prepared by MIAL lists nine such plots. This includes land in possession of Posts & Telegraph (P&T) Department, Air Force, Indian Navy, Central Public Works Department (CPWD), Yellow Fever Hospital and Indian Meteorological Department (IMD). Some of these plots were outside the boundary of the 'demised premises', as in the case of P&T colony. MIAL, in its Master Plan, pointed out that these plots of land may be required for future use. The status of these plots as seen from the Master Plan 2011 and study of minutes of OIOC was as below:

- Land in possession of P&T Department, Air Force, Navy: The land in possession of Air Force and Navy has been permanently transferred to them as seen from Master Plan 2011. A major portion of the land in possession of P&T Department is outside the demised premises. It was indicated (Master Plan 2007) that this land would be required for development of CSI Airport. However in the Master Plan 2011, it has been deemed to be 'presently not required'.
- IMD premises: It has been decided to relocate these buildings to 'carved out assets'. The cost of construction of the new office is to be borne by MIAL.
- Land in possession of CPWD: Central Public Works Department (CPWD) occupies 17.36 acres of land within the demised premises of the airport. Though the title of the land is with AAI, it has been in the possession of CPWD for historical reasons (CPWD being in charge of maintenance of Mumbai Airport till 1972). As per the Master Plan (2007 and 2011), this land was necessary for developing the air cargo facility at the airport. MIAL entered into an agreement with CPWD (Memorandum of Understanding signed in May 2009) according to which CPWD would vacate the said land in lieu of MIAL constructing offices, residences and godowns for CPWD at identified locations. The cost of construction in this case would also be borne by MIAL .

AAI /MOCA stated (July / November 2013) that any expenditure involved in relocation of various facilities and consequent increase in project cost, if any, has to be considered by AERA at the time of determination of tariff as per the provisions of AERA Act.

The fact remains that land requirement for the airport and intended use of such land has been altered over time as per successive Master Plans of MIAL. AAI/ MOCA did not significantly comment on these plans and allowed such changes to be made. Transfer of possession of identified land pockets (in possession of IMD, CPWD) to MIAL involves significant expenditure which would be loaded to the project cost in subsequent control periods and would, thus, lead to future increases in airport charges and possibly additional burden on passengers.

6.7 Encroachment

While Schedule 2 of Lease Deed 2006 (signed on 26 April 2006) indicated the area under encroachment as 147 acres, Schedule 2 of State Government Support Agreement (SGSA) of 2006 (signed a day later on 27 April 2006) the area under encroachment was depicted as 171 acres, approximately. Mention of two different figures as area under encroachment in the two documents signed by AAI on two successive days in 2006 indicated lack of

clear understanding of AAI regarding the area that was actually under encroachment. Incidentally, OMDA did not demarcate the area under encroachment though a map of such area was to be included in Schedule 26 which was left blank. MIAL reported (2nd OIOC meeting – 05 January 2007) that the area under encroachments was about 276 acres. Subsequently, in correspondence with the Collector, Mumbai Suburban District, (17 January 2011) AAI stated that the land under encroachment was 308.96 acres. AAI stated (July 2013) that encroachment of land could be ascertained and finalised only after proper removal of encroachment and survey thereafter. While accepting the fact that AAI had no proper land records including encroachment due to its legacy, MOCA stated that survey had been carried out by MIAL and removal of encroachment is getting delayed due to involvement of various complex issues.

This reinforces poor quality of land management at the Airport by AAI already touched upon in paragraph 6.1 of this report.

6.8 Removal of encroachment

MIAL executed a contract with M/s. Housing Development and Infrastructure Limited (HDIL), on 15 October 2007 to undertake activities relating to rehabilitation of encroachers and restoration of airport land under encroachment. HDIL was accordingly granted rights to develop part of the land vacated by encroachers in a phased manner. The encroachment was to be removed within 48 months of commencement date *i.e.* by October 2011 or with a further six months' extension at MIAL's discretion. The contract was subsequently terminated by MIAL as the encroachments were not removed.

AAI stated (July 2013) that the contract with HDIL for removal of slums/encroachment by MIAL was terminated due to failure of HDIL to execute the work. MOCA also informed (November 2013) that HDIL and MIAL had appointed an arbitrator and arbitration proceedings were in process.

With the termination of the contract and lack of progress in removal of encroachment, development plans at the airport would continue to suffer.

Licensee (MIAL) of an airport is entitled to collect fees known as Passenger Service Fee (PSF) from the embarking passengers at such rate as the Central Government may specify (Rule 88 of the Aircraft Rules 1937). The licensee is also liable to pay for security component to any security agency designated by the Central Government for providing security service at the airport. Article 12.4.1 of OMDA stipulates that PSF shall be collected and disbursed in accordance with the provisions of SSA. Clause 3.1A.1 of SSA states that PSF chargeable at the airport shall be inclusive of security expenditure on the designated security agency. Security Component constitutes 65 per cent, and the Facilitation Component 35 per cent of the total PSF charge, per embarking passenger.

Clause 3.1A.4 of SSA also states that respective airlines shall collect the entire PSF and distribute the Security Component (SC) to AAI and the Facilitation Component (FC) to MIAL directly. FC payable to MIAL can be revised under the provisions of SSA while SC can be revised as and when directed by GOI. MOCA issued instructions⁷ from time to time which allowed the airport operators to collect the SC component of PSF and laid down certain conditions for its utilisation. Broadly, these instructions were:

- i) PSF at airports would be collected by the respective Airport Operator, which could be AAI, JVC or a private operator;
- ii) For the SC of PSF, a separate Escrow account would be opened and operated by the JVC or private operator;
- iii) PSF (SC) of ₹130 (65 per cent), collected out of total ₹200 per passenger to be deposited in the escrow account, for meeting the expenses relating to the Central Industrial Security Force (CISF). The collection must be utilised to meet security related expenses only; and
- iv) Any balance amount remaining in PSF (SC) account would be transferred to AAI by the airport operator through a process of mutual consultation for payment to CISF deployed for security purposes at other airports.

⁷ May 2006, June 2007, April 2010 and July 2010 and Standard Operating Procedure in January 2009.

However, MOCA subsequently amended the provision regarding transfer of balance funds to AAI and directed (June 2007) that PSF (SC) collected at an airport operated by a JVC or private operator would be utilised at the concerned airport only to meet the security related expenses of that airport. In the Standard Operating Procedure (SOP) issued by MOCA on 19 January 2009 for Accounts and Audit of PSF (SC) by JVC/ Private Operators, MOCA also mandated, *inter-alia*, that the Escrow account would be subject to audit by C&AG.

Thus, MOCA progressively allowed MIAL to operate the PSF (SC) account which was a deviation from the provisions of the SSA. MIAL incurred expenditure out of these funds on ineligible items. A paragraph titled 'Unauthorised withdrawal of ₹15.22 crore from the Escrow Account' had been reported (C&AG's Report No. 3, (Commercial) of 2011-12). MOCA informed (December 2011) the Committee on Public Undertakings (COPU) that MIAL has been directed to remit the amount back in the escrow account. MOCA confirmed to COPU (November 2013) that M/s. MIAL has remitted the amount in the PSF (SC) Escrow Account on 19 August 2013. MOCA however informed COPU that penal interest had not been recovered as MIAL had filed a writ petition in Delhi High Court claiming expenses incurred by them on deployment of private security guards which is presently sub-judice. COPU expressed their strong disapproval of the inaction of the Ministry and desired that needful be done at the earliest along with all out efforts to expedite the legal process.

In addition, persistent irregularities have been noticed over the years like incurring expenditure on items other than the permitted purchases from PSF (SC) as listed below:

7.1 Unauthorised expenditure

(i) Clause 3.3.5 of SSA states that JVC shall be responsible for procuring and maintaining at its own cost all security systems and equipment (except arms and ammunitions) as required by the Government of India (GOI) or the Bureau of Civil Aviation Security or its designated nominee(s)/ representative(s) from time to time. However, MOCA in its Order dated 16 April 2010 permitted that entire cost incurred on security equipment deployed at the airports could be met from PSF (SC), over-riding the provisions of SSA. It was noticed that MIAL unilaterally procured various ineligible equipment including computers, furniture and fixtures and designated them as being essential for maintenance of security. This has resulted in extending unwarranted favour to MIAL amounting to ₹ 87.97 crore during 2006-12.

(ii) As per Article 8.5.6 (i) of OMDA, JVC shall, during the term, maintain at its own cost the insurances set out in Schedule 11. However, MOCA specified

(January 2009) in SOP that all fixed assets acquired through PSF (SC) shall be adequately insured by Private Operator and insurance charges shall be paid from PSF (SC). MIAL charged ₹2.55 lakh as insurance charges in the PSF (SC) account for the period upto 2011-12.

Instructions of MOCA with respect to insurance charges to be charged to PSF (SC) account were against the OMDA provisions which led to undue favour to the tune of ₹2.55 lakh to the MIAL upto the year 2011-12.

MOCA replied (November 2013) that a need was felt by the Government to upgrade the security equipment available at the airports to the level of the best in the world.

Reply of MOCA is not acceptable as its letter dated 16.04.2010 stated that in the case of new airports, the entire cost of the security equipment would be borne by the airport operator. However in case of CSI Airport, Mumbai, though MIAL was required to bear the cost of security equipment as per SSA, MOCA permitted the same to be borne out of PSF(SC).

It is pertinent to note that PAC in their report presented to Parliament on 06 February 2014 regarding implementation of PPP in Indira Gandhi International Airport, Delhi while noting the assurance of MOCA in the matter, had observed that such lapses should not recur.

7.2 Unjustified charge

As per Para No. 3(V) of MOCA's Order dated 08 January 2010, "The permissible expenditure out of PSF (SC) shall not include the expenditure on any other security staff (other than CISF) or other administrative set-up created/engaged by the Airport Operators. The administrative cost, consultant's cost etc. in respect of PSF (SC) handling shall not be chargeable to PSF (SC) account."

MIAL charged salary of ₹12.36 crore from PSF (SC) Escrow Account during the year 2009-10 to 2011-12 in respect of security employees and other miscellaneous services from private agencies deployed at Mumbai Airport, which was not permissible out of PSF (SC) and is a violation of MOCA's order of January 2010.

MOCA replied (November 2013) that in view of the frequent observations of C&AG in respect of improper utilisation of PSF(SC) funds by the airport operators, it has been decided to amend the modus operandi of PSF handling by way of creating Aviation Security Fee by further amending Rule 88 of the Aircraft Rules, 1937.

It is pertinent to note, in this connection, that PAC recommended (report presented to Parliament on 06 February 2014) while considering implementation of PPP in Indira Gandhi International Airport, Delhi that MOCA look into the matter and fix responsibility on the part of officials responsible for avoidable loss to Government.

Further action in this regard in MIAL would be watched in future audits.

Conclusion

PPP projects are designed to bring in private capital, enhance efficiency and ensure professional management. One of the goals of a PPP arrangement is to effectively allocate risks among the contracting parties. Examination in audit indicated that risks had not been appropriately transferred to the concessionaire in the development of CSI Airport, Mumbai. Though the project cost more than doubled from ₹5,826 crore to ₹12,380 crore (restricted to ₹11,647.46 crore for the period upto March 2014 by AERA), the concessionaire did not appear to have faced financial vulnerability for the same as the funding gap was being largely absorbed by the passengers through levy of Development Fee (DF), though such levy was not in OMDA. Further, the project has been delayed by four years (from 2010 to 2014) with tardy progress noticed in mandatory capital projects as well as other projects. This delay, however, did not affect the concessionaire adversely as MIAL had not been penalised on this account and MOCA/AAI instead, approved extensions and agreed to reschedule the projects across different phases. As a result of the delay in project implementation, the terminal building is expected to be fully ready operationally, only by the time the airport would have reached its design capacity.

The agreement provides for a shared till system which, coupled with the treatment of significant revenue generating activities like ground and cargo handling as 'non-aeronautical', would lead to higher airport charges payable by the passengers as compared to other airports in the country (except Delhi).

Rights of commercial exploitation of 179.8 acres of land were provided to the concessionaire in the agreement. However, owing to poor maintenance of land records by AAI, the commercially exploitable land potentially increased to 190.1 acres. It may not be prudent to overlook the earning potential of even the minimum of 133 acres as allowed by the local authority. Benefit from the earning potential would accrue to MIAL as revenue out of 'non-transfer' asset. Though the same would not be considered for determination of airport charges in terms of SSA, the same would be a revenue enhancing activity having the potential for reduction of burden in the form of various levies on passengers. *MOCA/AAI need to carefully work out the economics of commercial exploitation of land.*

Besides, the provision of automatic extension of the contract period to 60 years with terms and conditions frozen in OMDA and the right of first refusal for a second airport would appear to confer a benefit on the concessionaire/private partners of MIAL.

AAI has received a gross revenue share of ₹2,857.33 crores over the period 2006-13. The revenue share of AAI is however set to decline with outsourcing of activities as noticed in the case of domestic and international cargo activities and the airport hotel project. The private partners have, on the other hand, received gross revenues of ₹4,526 crore during the same period on an investment of ₹888 crore without taking into account other potential benefits that would accrue over time from commercial exploitation of land.

The conflict between OMDA and AERA Act in respect of cargo and ground handling was resolved by MOCA's decision to categorise the revenues thereof as non-aeronautical as provided under OMDA. Ministry invited attention to AERA Act on determination of tariff duty considering the concessions offered by Central Government in the agreement. However, while levying development fee the express provisions of OMDA on financing have not been accorded the same centrality and the funding gap was bridged through levy of development fee on passengers.

There is a strong case for Government to critically review the outcomes from the PPP arrangement in MIAL in line with the findings in this report and recommendations of PAC in the report on Implementation of PPP in Indira Gandhi International Airport, Delhi and protect the interests of Government and passengers duly ensuring sanctity of various agreements entered into as also benefits in the form of open ended project cost and dilution of financial risk allocated to the private partner are not allowed in such arrangements in future.

Recommendations

Absence of review clause and re-negotiation appears to virtually allow MIAL the right to operate the airport for a period of 60 years with the terms and conditions frozen in OMDA. It is essential that a regular and well documented review of performance of MIAL by MOCA is in place to safeguard the interest of Government and to get MIAL to deliver the committed outputs. This would enable MOCA to address the concern expressed by PAC in a similar PPP arrangement for Delhi airport.

(Para 3.5)

There is a need for MOCA and AAI to devise time bound and regular monitoring structure related to progress of work.

(Para 3.9)

MOCA may continuously and critically review the financing pattern of MIAL and ensure that finance risk for the project as allocated in the agreement to private partners is duly observed.

(Paras 4.3 and 4.4)

MOCA/AAI may ensure that necessary survey of land is undertaken and physical markings erected to identify the demised land and carved out assets clearly. MOCA/AAI need to carefully work out the economics of commercial exploitation of land.

(Paras 6.1 and 6.3)


MOCA may critically assess the financial impact of concessions granted under OMDA and revenue ensured from MIAL after ground handling and cargo services were categorised as aeronautical services. MOCA may monitor and review the extent and adequacy of promised improvements in infrastructure and handling capacity in CSI Airport, compared to the projected reduction in revenues.

(Paras 5.2 and 5.4)

MOCA may note that PAC in its report of 06 February 2014 on Audit Report No. 5 of 2012-13 on Implementation of PPP in Indira Gandhi International Airport, Delhi, urged the Government to consider the aspect, while awarding airport contracts in future, that 'shared till' actually increased the burden on travelling passengers as aeronautical tariffs were not subsidised by a significant part of non-aeronautical tariff which are low capital intensive and high revenue in nature.

(Para 5.1)

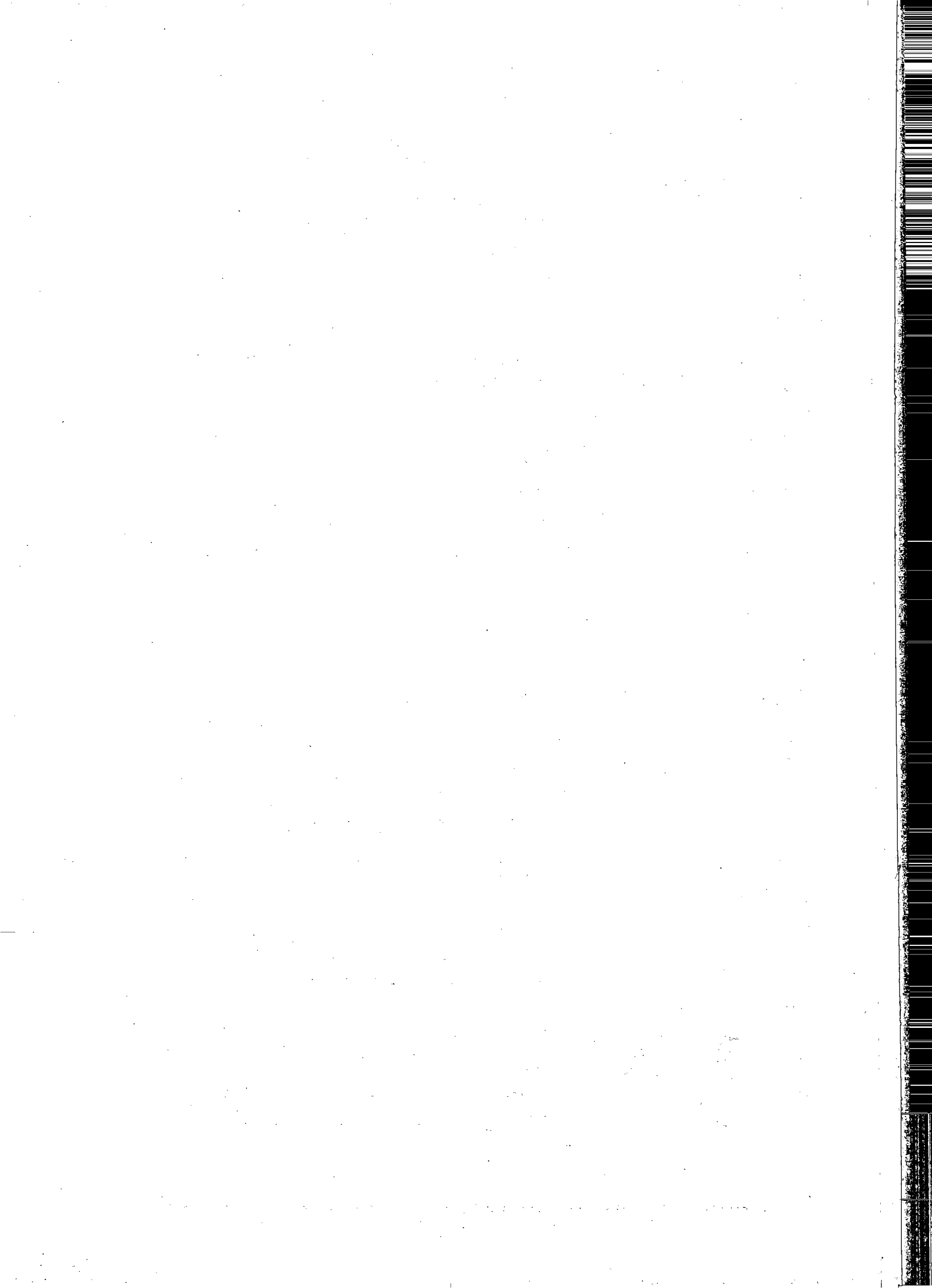
New Delhi
Dated : 29 May 2014


(USHA SANKAR)
Deputy Comptroller and Auditor General
and Chairperson, Audit Board

Countersigned

New Delhi
Dated : 30 May 2014

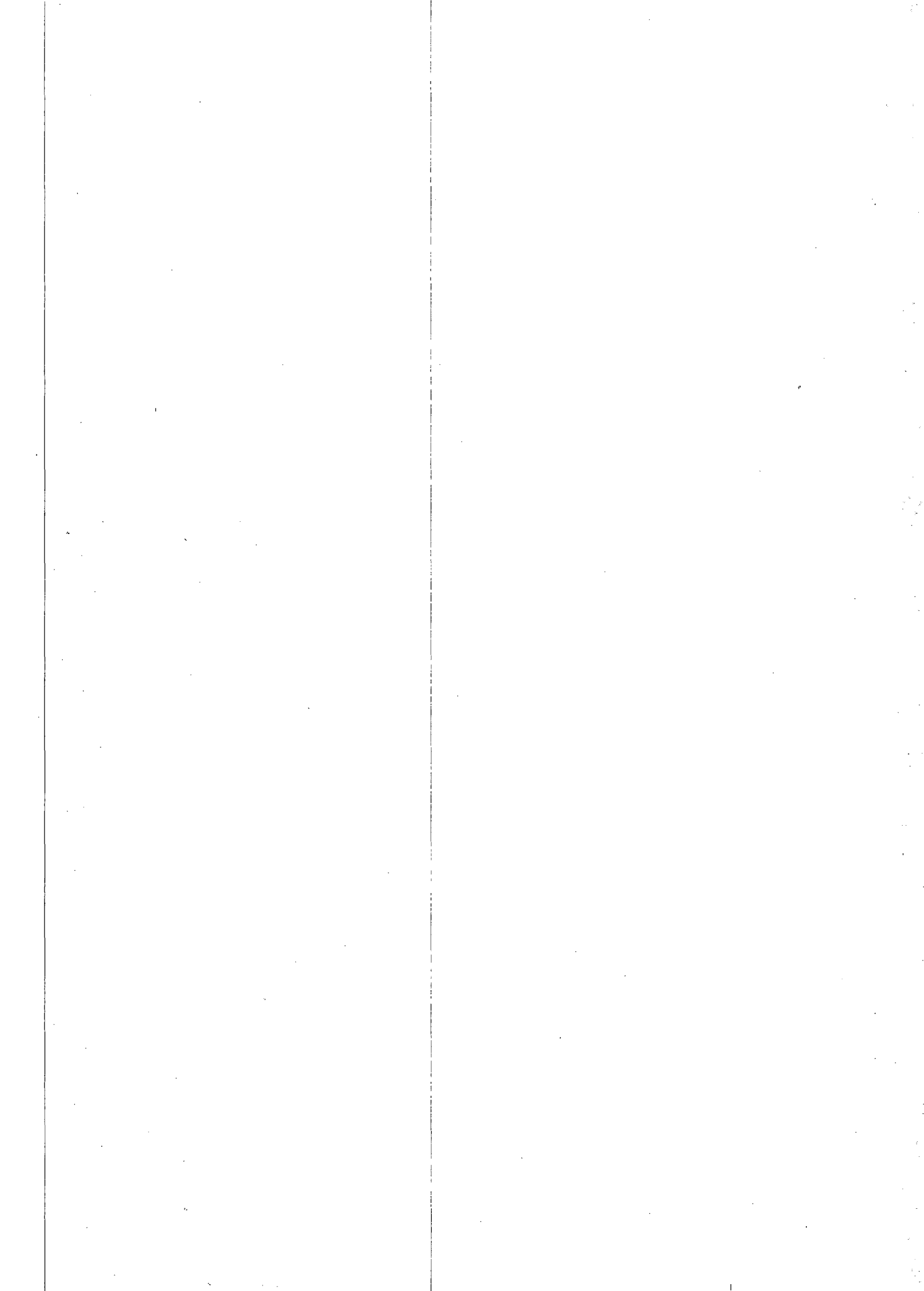

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India



Glossary

AAI	Airports Authority of India
AERA	Airports Economic Regulatory Authority of India
ANS	Air Navigation Services
AO	Airport Operator
ATC	Air Traffic Control
BOOT	Build, Own, Operate and Transfer
CIDCO	City and Industrial Development Corporation of Maharashtra Limited
CISF	Central Industrial Security Force
CNS/ ATM	Communication, Navigation and Surveillance/ Air Traffic Management
COPU	Committee on Public Undertakings
CPWD	Central Public Works Department
CSI Airport, Mumbai	Chhatrapati Shivaji International Airport, Mumbai
DF	Development Fee
DIAL	Delhi International Airport Private Limited
EGOM	Empowered Group of Ministers
FA	Financial Auditor
FC	Facilitation Component (PSF)
GOI	Government of India
GTA	Global Technical Advisor
IDC	Interest during construction
IMD	Indian Meteorological Department
IMG	Inter Ministerial Group
JV	Joint Venture
JVC	Joint Venture Company
k.m.	kilometre
MCP	Mandatory Capital Projects
MIAL	Mumbai International Airport Private Limited
MOCA	Ministry of Civil Aviation
mppa	million passengers per annum
NAD	National Airports Division (AAI)
NMIA	Navi Mumbai International Airport
OIOC	OMDA Implementation Oversight Committee
OMDA	Operation, Management and Development Agreement

P&T	Posts and Telegraph
PPP	Public-Private Partnership
PSF	Passenger Service Fee
RFP	Request for Proposal
ROFR	Right of First Refusal
SC	Security Component (PSF)
SGSA	State Government Support Agreement
SHA	Shareholders' Agreement
SSA	State Support Agreement
SOP	Standard Operating Procedure for Accounts/Audit of PSF(SC)
SPC	Special Purpose Company
sq. m.	square meter
TA	Technical Auditor





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