File no. AERA/20010/MYTP/AAI-Varanasi/CP-I/2019-20
Airports Economic Regulatory Authority of India
*****

AERA Building,
Administrative Complex,
Safdarjung Airport,
New Delhi – 110 003.

Date: 11th December, 2020

Public Notice No. 20/2020-21

Sub: Comments/Submissions received from Stakeholders on the Addendum to Consultation Paper No. 05/2020-21 dated 24.11.2020 regarding the determination of aeronautical tariffs in respect of AAI Varanasi Airport.

Attention of all concerned is invited to Addendum to Consultation Paper No. 05/2020-21 dated 24.11.2020 regarding the determination of aeronautical tariffs in respect of AAI Varanasi Airport, vide which the Authority had sought comments from the Stakeholders.

2. In response thereof, the Authority has received comments/submissions from the following stakeholders.

Sl. No.	Stakeholders
1.	Federation of Indian Airlines (FIA)
2.	Airports Authority of India (AAI)

The comments/ submissions received, as above, are attached for information of all concerned.

(Ram Krishan)
Director (P&S)

Federation of Indian Airlines
E-166, Upper Ground Floor,
Kalkaji,
New Delhi - 110019.
Website: www.fiaindia.in

MOST URGENT

11 December 2020

To,
The Hon'ble Chairperson,
Airports Economic Regulatory Authority of India
AERA Building, Administrative Complex,
Safdarjung Airport,
New Delhi – 110003.

Kind Attention: Shri. B.S. Bhullar, IAS

Sub: Response to Addendum (dated 24 November, 2020) to Consultation Paper No. 05/2020-21 dated 1 June, 2020 - In the matter of determination of aeronautical tariffs in respect of Lal Bahadur Shastri International Airport (VNS), Varanasi (Varanasi Airport) for the First Control Period (1.4.2019 – 31.3.2024)

Dear Sir,

We, the Federation of Indian Airlines (**FIA**), on behalf of member airlines (i.e. IndiGo, Go Air, Spice Jet), write in response to the above captioned Addendum dated 24 November, 2020 to the Consultation Paper No. 5/2020-21 dated 1 June, 2020' ('**Consultation Paper**') in the matter of determination of aeronautical tariffs in respect of Varanasi airport for the First Control Period (1.4.2019 – 31.3.2024) (**First Control Period**), as issued by the Airports Economic Regulatory Authority of India (**AERA**).

At the outset, FIA is grateful to AERA for issuing an Addendum to the Consultation Paper ('**Addendum**') keeping in view the revised submissions made by the Airports Authority of India (**AAI**) on the traffic projections and capex plan (due to COVID- 19) and to gauge its impact on the aeronautical tariff, as also mentioned during the stakeholder consultation meeting dated 30th June, 2020. In response to the Addendum (read along with the Consultation Paper), FIA wishes to adopt and reiterate views/comments of one its member airline i.e. IndiGo, submitted vide letter dated 10 July, 2020 (**IndiGo Submission**) (enclosed) and would like to additionally submit the following:

1. **Traffic:** FIA understands that AERA has considered traffic studies/surveys by ICAO, IATA and other sectoral updates for the traffic projections for the First Control Period. However, keeping in view the wide fluctuations of traffic projected for the First Control Period by AERA (Table 2 of the Addendum) and the requirements of the Airports Economic Regulatory Authority of India Act 2008, FIA submits that AERA should consider an independent study on traffic which may also take into account the following:

    (i) Proposed increase in flight capacity to 80%, as issued vide Ministry for Civil Aviation's Order No. 11/2020 dated 3 December, 2020 and further relaxations, expected in due course; and

    (ii) Gradual easing of travel restrictions by state governments and robust movement of air traffic under '*Vande Bharat Mission*' and '*Transport Bubble/Air Travel Arrangement*'.

2. **Capital Expenditure:** In terms of Para 7.4 of the Addendum, FIA understands that AERA has agreed to consider the construction of New Terminal Building (**NTB**) at Varanasi Airport in the First Control Period. This is based on AAI's response on the saturation of existing terminal building by 2023 and keeping in view the planning and execution of NTB will take around three (3) years with the expected completion/readiness for commercial operations of NTB to be around November, 2023 i.e. end of the First Control Period.

   FIA further understands that despite the construction of the NTB, which will enhance the handling capacity of Varanasi Airport to 7.00 MPPA (i.e. Existing Terminal - 2.5 MPPA and Proposed NTB – 4.5 MPPA), the capacity utilization of the airport will be only to the extent of 51.57% by the end of the First Control Period. AERA has acknowledged that it will not be fair and reasonable for the passengers and the airlines to bear the consequence of the return of capital expenditure (i.e. by way of increase in tariff), in the scenario where, on one hand the construction of the NTB is completed and included in the RAB, and on the other hand, approx. forty eight (48) % of the building remains unutilized.

   FIA submits that despite the above acknowledgement by AERA, AERA has proposed to provide a headroom to AAI (by way of traffic multiplier of 1.45 times) to derive reimbursement of capital expenditure equal to seventy-five (75) % of NTB's aeronautical expenditure. Such headroom is allegedly intended for accommodating capital commitments made by AAI and allowance of future growth/expansion of capacity at Varanasi Airport, beyond the immediate short-term period. Further, as per Table 9 of the Addendum, ninety (90) % of the approved capital expenditure towards the NTB is proposed to be capitalized during the First Control Period.

   FIA submits that keeping in view the fact that: (a) the passenger terminal building (including NTB) at Varanasi Airport will only be utilized to almost half of its completed designed capacity; and (b) bulk of the passengers may not be using the NTB, as it is expected to be operationalized at the end of the First Control Period, there appears no rationale for capitalizing costs in excess of the projected usage of the facilities provided to the passengers and airlines. As already acknowledged by AERA, any excess capitalization of capital expenditures, more than what is required for projected usage will unnecessarily lead to an increase in tariff, which will be unfair, unreasonable and a burden on the passenger and airlines.

   It is also pertinent to note that, one of the principles enshrined under International Civil Aviation Organisation's (**ICAO**) 'Policies for Airports and Air Navigation Services' (Doc 9082), states that the proportion of costs allocable to various categories of users, should be determined on an equitable basis, so that no users are burdened with costs not properly allocable to them according to sound accounting principles.

   In view of the above, there does not appear any rationale to provide a 'headroom' for capitalizing capital expenditures more than the projected requirement/usage. Accordingly, FIA submits that AERA should ensure that any capitalization of cost for the passenger terminal building (including NTB), may not be more than the corresponding proportion of the projected usage of such passenger terminal building (including NTB).

   FIA understands that AERA has proposed the Terminal Building Ratio of 12.40% for the NTB. In this regard, FIA reiterates its request for conducting independent analysis for determining the asset allocation ratio of assets, including NTB.

Further, AAI/AERA may kindly ensure that:

(a) any non-essential capital expenditure projects may be kindly deferred to the subsequent control period. This may be done through suitable user consultations/AUCC, to the extent wherever not conducted; and
(b) any proposed capital expenditures, deemed essential for the first control period, should be within the ceiling limits of the normative norms prescribed by AERA.

3. **Non – Aeronautical Revenue (NAR):** FIA submits that the NAR may be revised keeping in view any upward revision in traffic as determined pursuant to para (1) above and construction of the NTB, which may yield higher NAR.

4. **Operations and Maintenance Expenditure (O&M Expenses):** FIA submits that O&M Expenses may be reduced keeping in view the projected underutilization of the NTB.

FIA observed that due to the revised submissions made by AAI, there is a further increase in the aeronautical tariff at Varanasi Airport, as proposed under the Addendum. In view of the same, FIA humbly requests AERA to review the comments/suggestions on the building blocks/tariff (mentioned herein read along with IndiGo Submission, as applicable), and to take appropriate adjustment/actions including conducting independent study, which is likely to reduce the Aggregate Revenue Requirement (ARR) of AAI at Varanasi Airport. The same will ensure lowering of tariffs including UDF, which will be beneficial to passengers and airlines.

FIA looks forward to a positive response from AERA.

Thanking you,

Yours sincerely,

For and on behalf of **Federation of Indian Airlines,**

UJJWAL DEY
Associate Director

Enclosed: IndiGo Submission dated 10 July, 2020

10 July, 2020

To,

Airports Economic Regulatory Authority of India (AERA)
AERA Building, Administrative Complex,
Safdarjung Airport, New Delhi – 110003

Kind Attention: Shri. B.S. Bhullar (IAS) Chairperson, AERA

Subject: In the matter of determination of aeronautical tariffs in respect of Lal Bahadur Shastri International Airport, Varanasi (Consultation Paper No. 5/2020-21 dated 1 June, 2020) and Shri Guru Ram Dass Jee International Airport, Amritsar (Consultation Papers No. 6/2020-21 dated 1 June, 2020)

Reference: Stakeholder Consultation Meeting (Video Conference) dated 30th June, 2020

Dear Sir,

We, InterGlobe Aviation Limited (**IndiGo**), write in response to the above captioned consultation papers issued by the Airports Economic Regulatory Authority of India (**AERA**) in the matter of determination of aeronautical tariffs in respect of Lal Bahadur Shastri International Airport, Varanasi (**VNS**) and Shri Guru Ram Dass Jee International Airport, Amritsar (**ATQ**) airport, each for the First Control Period (1.4.2019 – 31.3.2024), collectively referred to as '**Consultation Papers**' and stakeholder consultation meeting dated 30th June, 2020 on the same.

The Consultation Papers, inter alia, propose an increase/hike in aeronautical tariffs at VNS and ATQ as follows for FY 2021-22:

(i) Landing Charges – 10% (Domestic) and 5% (International) at VNS; 45% (Domestic) and 20% (International) at ATQ; and
(ii) Parking and Housing charges - 120% (Domestic) and 91% (International) at each VNS and ATQ;

The increase/hike in Landing, Parking and Housing Charges is proposed to be implemented by AERA in April, 2021, with a subsequent increase of 6% on a year to year (YoY) basis until 2023-24.

Pursuant to the issuance of the Consultation Papers, Airports Authority of India (**AAI**) in the stakeholder meeting dated 30th June, 2020 made a presentation (**PPT**) proposing revised tariffs (including UDF) which are even higher than those proposed by AERA under the Consultation Papers, and have further proposed the implementation of revised tariffs w.e.f August, 2020.

While IndiGo welcomes AERA's proposal to defer the increase/hike in Landing, Parking and Housing charges (domestic and international traffic) at VNS and ATQ to April, 2021, IndiGo submits that AERA should not allow/implement increase of aeronautical tariff, during the First Control Period, due to reasons stated below.

As you are aware, the airlines (including IndiGo) have suffered adverse financial impact due to operational restrictions on scheduled domestic and international air transport, imposed by government authorities due to COVID – 19, during the period of March to May, 2020. At the same time, airlines have continued to incur airport charges and further been directed to mandatory refund amount of cancelled tickets during such period, which has aggravated the financial impact.

While the scheduled domestic air transport has been permitted a calibrated opening w.e.f. 25th May, 2020, such flight operations are subject to restrictions on capacity and fare, and adherence to safety protocols, as imposed by Ministry of Civil Aviation / Directorate General of Civil Aviation (**DGCA**). You will appreciate that until there is a complete opening of scheduled domestic and international flight operations, coupled with regaining confidence of passengers in air travel, airlines will continue to face a weak financial position.

We wish to highlight that the proposed increase in Landing Charges itself will adversely impact the domestic operating expenditure for IndiGo at VNS by approx. 10% (AERA proposed rates) and 48% (AAI PPT rates); and at Amritsar by approx. 45% (AERA proposed rates) and 47% (AAI proposed rates under PPT), at the current levels of operations. This impact is likely to further increase with the YoY increase of tariff proposed by AERA/AAI and increase of flight operations.

In the given circumstances, it is imperative that AERA does not take any steps, including by way of increase in aeronautical tariff, during the First Control Period, which precipitates any further adverse financial impact on the airlines.

Without prejudice to the above, and as desired by AERA, please find attached IndiGo's comments on the Consultation Papers and AAI PPT, as applicable, under **Annex – A**.

Thanking you,

Yours sincerely,

InterGlobe Aviation Limited

Vikram Chona
Vice President – Corporate Affairs
InterGlobe Aviation Limited ("IndiGo")

Encl: a/a

Copy to: **Shri Ram Krishan, Director (P&S Tariff), AERA**

Annex – A

Comments on Consultation Papers and AAI Presentation (PPT)

Please find below comments on the Consultation Papers, which are common to VNS and ATQ, except to the extent when separately identified for either VNS or ATQ:

<table>
<tr><th>S. No.</th><th>Para of CP</th><th>Particulars</th><th>Comments/Submission</th></tr>
<tr><td>1.</td><td>3.2 and 3.3</td><td>Revenue from Air Navigation Services and Cargo services</td><td>IndiGo submits that as per section 2 of Airport Economic Regulatory Authority of India Act, 2008 (AERA Act), under sub-section (a), "aeronautical services means any services provided-
(i)For navigation, surveillance and supportive communication thereto for air traffic management.....
(v) for the cargo facility at an airport.."

IndiGo submits that considering the above provisions of the AERA Act, revenue from Air Navigation Services, Cargo services (100% revenue accruing to AAICLAS) should form part of aeronautical revenues and accordingly Authority should take into account of the corresponding revenue and revise the tariff card.</td></tr>
<tr><td>2.</td><td>4</td><td>Traffic</td><td>AERA has adopted the following CAGR for Traffic Growth in the Consultation Paper:
<table>
<tr><th>Airport</th><th>Domestic Pax</th><th>International Pax</th><th>Domestic ATM</th><th>International ATM</th></tr>
<tr><td>ATQ</td><td>3 Year</td><td>3 Year</td><td>5 year</td><td>3 year</td></tr>
<tr><td>VNS</td><td>10 Year</td><td>5 Year</td><td>3 Year</td><td>5 Year</td></tr>
</table>
What is the rationale behind adopting different CAGR periods for domestic and international (Passenger and ATM) in ATQ and VNS. In other words, is there any methodology to select a particular category of CAGR? AERA to kindly clarify.

<u>Comments on AAI PPT</u>
AAI has not disclosed the details of traffic forecast (including comparison with any other forecast with industry forums like IATA etc.) in accordance with Clause A 5.6 of AERA (Terms and Conditions for Airport Operators) Guidelines, 2011 (AERA Guidelines).

IndiGo submits that the Authority of relying on projections provided by AAI, should conduct its own independent study on traffic projections in accordance with the AERA Act. The same assumes even more importance as AAI has claimed a share decline/negative growth in the traffic due to COVID – 19.</td></tr>
</table>

3.	5	Allocation of Assets between Aeronautical and Non – Aeronautical	IndiGo submits that the AERA's proposal to bifurcate assets between aeronautical assets is based on information received from AAI and no detailed technical evaluation of the same has been done by AERA. IndiGo submits that no basis or independent study has been conducted by AERA for this ratio. IndiGo submits that allocation of the airport assets between Aeronautical or Non- Aeronautical categories is critical under Hybrid Till approach, hence the same should be carried out on the basis of independent study in terms of the AERA Act. Without prejudice to the above, IndiGo requests AERA to clarify the allocation ratio of terminal building and electrical installation and basis for splitting the expenditure. IndiGo submits that the split of new terminal building cost between electrical installation and terminal building will have significant impact on depreciation as higher allocation of electrical installation will lead to accelerated depreciation and consequently higher ARR (as depreciation rate of electrical installation is higher than building).
4.	7	Capital Expenditure for the 1st Control Period	Terminal Buildings (i)Need for expansion of terminal building in the case of ATQ and Construction of new terminal building at VNS AERA should review the need for expansion and construction of new terminal building at ATQ and VNS, respectively, in light of (a) the proposed privatization of the airport – which may entail fresh assessment, capex requirements and consequent impact on tariff (b) any decline in passenger growth due to COVID - 19, as may be assessed by AERA. (i) Normative Costs of Construction IndiGo submits that AERA has adopted the normative approach towards determination of cost of terminal building and has considered a normative cost of INR 100,000 per sq. meters, as taken for other airport like Guwahati, Lucknow Chennai and Patna. However, IndiGo submits that as per Normative Order No. 07/2016-17 "In the matter of normative approach to building blocks in economic regulation of major airports – capital costs reg." dated 13.06.2016 (Normative Order), the ceiling cost per sq. metre for terminal building is stated as INR 65,000. IndiGo would also like to highlight that the cost per square meter of the terminal building in the case of Vishakhapatnam Airport is INR 58,546.60 per sq. mt. Without prejudice to the above, IndiGo submits that the regional dynamics of Varanasi and Amritsar is

			not similar to Guwahati, Lucknow, Chennai and Patna and therefore considering the cost escalations in those regions will not be appropriate. Accordingly, IndiGo submits that any cost to be allocated for capital expenditures should be within the normative norms prescribed by the Normative Order. <u>Comments on AAI PPT</u> AERA is requested to kindly review any additional cost claimed by AAI, exceeding the normative costs, as the same will have a significant impact on tariff.
5.	8	Depreciation	(i) Terminal Building IndiGo submits that on a review of useful life of assets at various international airports like London Heathrow, Sydney airport and Amsterdam airport indicated that terminal buildings have useful life of as long as 60 years and aprons have it for as long as 99 years. IndiGo submits that the useful life of terminal building for Kannur and Cochin airports have been considered 60 years by Authority. (ii) Residential Building IndiGo submits that as per Sl. No. 8 of Annexure - I of the Authority's Order 35/2017-18 "In the matter of determination of useful life of Airport Assets" dated 12.01.2018, residential buildings have a prescribed useful life of 30/60 years. It is pertinent to note here that unlike in case of terminal buildings where option of 30 or 60 years is to be evaluated by Airport Operator, the election of 30 years or 60 years is case of residential buildings is not to be evaluated by Airport Operator but is to be derived from provisions of Companies Act. IndiGo submits that Part C of Schedule II of Companies Act 2013 prescribes useful life of Buildings (other than factory buildings) having Reinforced Concrete Cement (RCC) frame structure to be 60 years. It is very unlikely that residential buildings will not be built on RCC Frame structure. IndiGo submits that residential building should be depreciated over a period of 60 years and not 30 years. In view of (i) and (ii) above, IndiGo submits that AERA should consider the useful life of Residential building and Terminal Building as 60 years as envisaged in Order 35/2017-18 read with Schedule II of Companies Act 2013, as applicable, and revise the amount of depreciation accordingly.

6.	10	Fair Rate of Return	The Consultation Papers provide the FRoR at the rate of 14% with the exception of VNS for the last year (FY ending March 2024) being given at 11.96%. IndiGo understands that AERA may consider a normative capital structure at a later date. IndiGo requests AERA to expedite the study for normative norms on capital structure to review the high cost of equity/FRoR being awarded to state entities like AAI, which are required to cate to public interest and not commercial interests.
7.	11	Non - Aeronautical Revenue	IndiGo submits that the increase in non-aeronautical revenue is a function of passenger traffic growth, inflationary increase and real increase/escalations in contract rates. IndiGo submits that despite all these factors increasing during the control period, on examination of the non-aeronautical revenue projection for the first control period by Authority, IndiGo has observed that a conservative approach has been taken by the AERA. In particular, as seen below: (i) In the case of VNS, the New terminal building is to be built over an area admeasuring 67,000 sqm. (c. 2.5 times capacity of existing terminal building admeasuring 25232 Sqm.). However, corresponding non aeronautical incomes not considered accordingly. (ii) In the case ATQ, AERA to review a higher increase in non – aeronautical income (including Admission tickets) considering the expansion of terminal building. (iii) Car Parking – AAI should be asked to clarify for the reasons of decline of car parking revenue in each of VNS and ATQ. (iv) Land Lease/Commercial contracts/building - AAI to clarify whether annual escalation as agreed under related contracts have been considered. <u>Comment on AAI PPT</u> AAI PPT states as follows: *"To extend waiver to commercial contracts by giving a reduction of 50% in FY20-21, 30% in FY21-22, Nil in FY 22-23 and thereafter 10% escalation are proposed to be charged."* AAI to clarify whether airlines are eligible to claim waiver of charges under the above referred 'commercial contracts'? If yes, kindly specify such contracts relevant for airlines.

8.	12	Operation and Maintenance Expenditure	IndiGo submits that the Operating Expenditure is one of the major components for determining ARR, hence, the AERA should evaluate such expenses in detail rather than accepting projections provided by AAI on an "as is" basis. IndiGo further submits that as per clause 5.4.2 of AERA Guidelines, while reviewing forecast of operating expenditure the Authority has to assess (a) baseline operation and maintenance expenditure based on review of actual expenditure indicated in last audited accounts and check for underlying factors impacting variance over the preceding year; and (b) efficiency improvement with respect to such costs based on review of factors such as trends in operating costs, productivity improvements, cost drivers as may be identified, and other factors as may be considered appropriate. IndiGo submits that in order to assess efficient operating expenditure, AERA should have conducted an independent analysis in terms of AERA Act. IndiGo submits that VNS and ATQ have already completed a significant period of operations, hence benchmarking the costs would not be difficult for the Authority. However, till the time study is conducted, IndiGo would like to highlight aeronautical allocation ratio proposed as per AERA CP 5/2014-15 of Normative approach of 80% should be used, hence INDIGO submits that aeronautical expenditure should be considered at 80% for the first control period. Without prejudice to the above, IndiGo submits that In Varanasi - IndiGo submits that for an increase of approx. 20% in operational hours, an increase of 40% in electricity charges seems unreasonable. AERA had accepted 30% in the case of Patna Airport considering a similar increase. IndiGo submits to the Authority to consider the increase in electricity expense in line with and proportional to the increase in operational hours.
9.	14	Taxation	IndiGo submits that as per para 5.5.2 of AERA Guidelines, "*The Authority shall review forecast for corporate tax calculation with a view to ascertain inter alia the appropriateness of the allocation and the calculations thereof*". IndiGo submits that as per proviso to sub-section (ii) Section 72 of Income Tax Act, 1961 "*if the loss cannot be wholly so set off, the amount of loss not so set off shall, in case the business so re-established, reconstructed or revived continues to be carried on*

			by the assesse, be carried forward to the following assessment year and so on for seven assessment years immediately succeeding". IndiGo submits that business losses can be carried forward for 8 years and can be set off with profits in future years. IndiGo submits that the actual tax paid by the Company in control period shall be lower due to the set off of carry forward of losses prior to the present control period. IndiGo submits that losses for periods prior to present control period (if any) that are allowed to carry forward as per Income Tax Act, 1961 should be considered while computing taxation in the first control period rather than leaving it for true up in the second control period. IndiGo submits that actual payment of income taxes should be considered for true up purposes.
10.	2.2	Methodology for Tariff Determination – Hybrid Till Vs. Single Till	IndiGo submits that as per para 2.2 of the Consultation Papers, it is stated that the AERA shall determine tariffs for VNS and ATQ Airport using the Hybrid Till model. It is to be noted that IndiGo has from time to time, advocated the application of a Single Till model across the airports in India. IndiGo submits that AERA should adopt Single Till basis the following legal framework being: In the Single Till Order, AERA has strongly made a case in favor of the determination of tariff on the basis of 'Single Till'. It is noteworthy that the Authority has inter alia in its Single Till Order: (i) Comprehensively evaluated the economic model and realities of the airport – both capital and revenue elements. (ii) Taken into account the legislative intent behind Section 13(1)(a)(v) of the AERA Act. (iii) Concluded that the Single Till is the most appropriate for the economic regulation of major airports in India. (iv) The criteria for determining tariff after taking into account standards followed by several international airports (United Kingdom, Australia, Ireland and South Africa) and prescribed by ICAO. AERA in its AERA Guidelines (Clause 4.3) has followed the Single Till approach while laying down the procedure for determination of ARR for Regulated Services.

			The fundamental reasoning behind 'Single Till' approach is that if the consumers/passengers are offered cheaper air-fares on account of lower airport charges, the volume of passengers is bound to increase leading to more foot-fall and probability of higher non-aeronautical revenue. The benefit of such non aeronautical revenue should be passed on to consumers/passengers and that can be assured only by way of lower aeronautical charges. It is a productive chain reaction which needs to be taken into account by the AERA.
11.	16.	Aeronautical Tariff	(i) Overall Tariff AERA is requested to review the suggestions/comments on the regulatory building blocks as mentioned under Annex – A, which is likely to reduce the ARR requirements of the airport operator. This will further ensure the lowering of tariff including UDF, which will be beneficial to passengers and airlines. (ii) User Development Fee Collection Charges - The Consultation Papers state *"To be eligible to claim collection charges, the airlines should have no overdue on any account with AAI."* IndiGo humbly submits that since collection charges are primarily for rendering of service of collection of UDF as part of ticket, and does not have any correlation with payment of utilities/rentals to the airport operators, it should be treated on a stand-alone basis and not held back on account of any other overdues in favour of the airport operator. AAI will appreciate, there are certain instances wherein invoices for utilities/rentals etc. are disputed between the parties. In such cases, airlines should be not be penalised in delayed recovery/disqualification of 'Collection Charges' when the airlines have deposited the UDF amounts, with the airport operator as per due timelines.

भारतीय विमानपत्तन प्राधिकरण
AIRPORTS AUTHORITY OF INDIA

FNO- No. AAI/CHQ/AERA/MYTP-Varanasi Date:08/12/2020

The Secretary,
Airports Economic Regulatory Authority of India,
AERA Building,
Administrative Complex,
Safdarjung Airport
New Delhi-110003

Sub: - AAI Comments on Addendum to Consultation Paper No:-05/2020-21 in the matter of Determination of Aeronautical Tariff in respect of Varanasi Airport for the first Control Period (01.04.2019 to 31.03.2024).

Sir/Madam,

Reference is invited to addendum to consultation paper no:- 05/2020-21 in the matter of Determination of Aeronautical Tariff in respect of Varanasi airport for first control period(01.04.2019 to 31.03.2024).

The following comments of AAI on Addendum to CP may also be considered for determination of Aeronautical tariff of Varanasi Airport:-

SNO	Consultation Paper	AAI Response
1.	**Refer Para-4.4 of Addendum to CP-Passenger Growth Rate** AERA has proposed to consider the Passenger and ATM growth rate as per AAI's Projection for FY 2020-21 and FY 21-22. Further the passenger and ATM growth have been considered at par with FY 2019-20 for FY 2022-23 and a 20% hike has been proposed on it for FY2023-24 as per Table-2 are as under: -	As per IATA study, IATA had revised down their passenger forecast over the next five-year period. In new forecast IATA expects RPKs to decline by a little more than 60% in 2020 compared to 2019, with a return to pre-COVID levels not occurring before 2024. As a result the CPMS Dte. of AAI has submitted in revised MYTP considering Passenger and ATM growth based on Actual upto Nov2019 as projected by CPMS which are as under: -

राजीव गांधी भवन
Rajiv Gandhi Bhawan
सफदरजंग हवाई अड्डा नई दिल्ली–110003
Safdarjung Airport, New Delhi-110003
दूरभाष : 24632950
Phone : 24632950

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<tr><td>PAX</td><td>1920</td><td>2021</td><td>2122</td><td>2223</td><td>2324</td></tr>
<tr><td>D (%)</td><td>7.45</td><td>(-) 35.23</td><td>20</td><td>28.66</td><td>20</td></tr>
<tr><td>I (%)</td><td>16.62</td><td>(-) 61.16</td><td>80</td><td>43.04</td><td>20</td></tr>
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<tr><td>ATM</td><td>1920</td><td>2021</td><td>2122</td><td>2223</td><td>2324</td></tr>
<tr><td>D (%)</td><td>10.02</td><td>(-) 31.78</td><td>18</td><td>24.22</td><td>20</td></tr>
<tr><td>I (%)</td><td>12.81</td><td>(-) 56.50</td><td>75</td><td>31.37</td><td>20</td></tr>
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<tr><td>D (%)</td><td>7.45</td><td>(-) 35.23</td><td>20</td><td>15</td><td>15</td></tr>
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<tr><th></th><th>FY</th><th>FY</th><th>FY</th><th>FY</th><th>FY</th></tr>
<tr><td>ATM</td><td>1920</td><td>2021</td><td>2122</td><td>2223</td><td>2324</td></tr>
<tr><td>D (%)</td><td>10.02</td><td>(-) 31.78</td><td>18</td><td>14</td><td>14</td></tr>
<tr><td>I (%)</td><td>12.81</td><td>(-) 56.50</td><td>75</td><td>22</td><td>22</td></tr>
</table>
AERA is requested to consider the revised forecast as given above.
</td>
</tr>
<tr>
<td>2.</td>
<td>Refer Para-5 of Addendum to CP-Allocation of Assets between Aeronautical and Non-Aeronautical

AERA has proposed to consider Terminal Building Ratio 10% for allocation of assets to Non-Aeronautical.</td>
<td>AAI had submitted 5.93% Terminal Building Ratio for allocation of assets to Non-Aeronautical on the actual allotment basis. However, AERA has revised this 5.93% Actual to 10%. The Terminal Building has a designated capacity of 2.5MPPA and as per the actuals pax up to 2018-19(2.78 MPPA) indicates that the Terminal building is already saturated.</td>
</tr>
</table>

		Secondly, Space for Passengers and smooth operation is AAI's first priority and Terminal area allocation must depend on the specific characteristic of the airport terminal and should be based on actual area utilization rather than ideal Terminal building Ratio. The Terminal Building of Varanasi airport was constructed in FY 2011 and had been planned/designed 3-5 years earlier. The Terminal Building had been designed keeping the basic requirements of the passengers. The opening of the Airport sector to the private players has lead to greater focus on the generation of increased revenue through Non aeronautical activities. To keep pace with the private players, the new proposed Terminal Building has been planned with 12.4% for Non-Aeronautical which is in line with the recommendations by IATA. AERA is requested to consider Terminal Building ratio 5.93% instead of 10%.
3.	**Refer Para-5.5 of Addendum to CP –Employee Ratio-3/86** AERA has proposed to consider Employee Ratio 3:86.	As per MYTP out of 235 employees there are 140-ANS,1-Cargo,3-Non-Aero (Comml. & Land) and 92-Aero. • Common assets have been bifurcated on the same basis i.e.3:92 but AERA has considered the 9 employees out of 13 employees of HR & Finance as proportion of Finance & HR to ANS for allocation of Assets. • HR and Finance employee work for ANS, Non-Aero as well as Airport. In the same way, although, out of 48 CNS Staff 40% to 50% work for Passenger facilitation(FIDS/CCTV/X-Bis), they have not been considered for determination of Tariff (payroll and allocation of assets).

		• As per the previous orders issued by AERA on Form-11of MYTP payroll expenses of HR and Finance employees has already been bifurcated into: - ANS: Aero in proportion of Finance & HR to ANS. Aero: Non-aero proportion of Finance & HR to Non-aero. • Allocation of Assets is done on the basis of actual utilization for the facility provided for like Navigation/Airport services/Non-aero Activities. Hence AERA is requested not to consider proportion of HR & finance for allocation of common assets.
4	**Refer Para- Table-9 of 7.4 of Addendum to CP–DLP for 24 months and Capital expenditure Phasing of New Terminal Building** Authority notes from the PMC consultancy award letter that DLP of the PTB shall be for 24 months and an amount of INR 71 Crore (Aero portion)- (equivalent of 10% of total cost 712.09 cr.) shall be withheld for a period of 24 months post the proposed COD in April 2023. Therefore, the Authority proposes to change the capital expenditure phasing as follow: FY20-21 15% FY21-22 30% FY22-23 30% FY23-24 15% and balance after DLP FY 2025-26.	It is submitted that as per the accounting policy 100% Capital expenditure will be booked in the FY 23-24 and 10% withheld amount as per PMC will be shown as Liability in the Balance sheet. Terminal building will also be capitalized with the 100% cost in the FY23-24 and will be shown as Assets in the Balance sheet. As per the past experiences, it has been observed that most of the contractors submit the Bank Guarantee as security deposit, resulting AAI will lose not only cash flow but also return on capex (10%), depreciation, tax benefit, IDC and lesser Fair rate of return. Refer Para no:5.2.7-page no.27 of Guidelines issued by AERA regarding Work-in-progress "Asset acquired or commissioned within the same Tariff year, (including such assets as may be commissioned immediately upon acquisition) shall be included both in Capital expenditure and Commissioned Assets." Therefore, AERA is requested to consider phasing of capital expenditure as proposed in

		MYTP as under and consider the total cost of the Terminal building in the year of Capitalization as per the accounting principles and AERA guidelines. FY20-21 16% FY21-22 32% FY22-23 32% FY23-24 20% Even after considering the full cost of proposed Terminal Building, the Tariff proposed by AERA would remain the same, and only the shortfall will increase that will be subject to true up in the next control period.
5.	**Refer Para- Table-9 of 7.4 of Addendum to CP– Reimbursement of 75% of Capital expenditure of New Terminal Building** Cost of Terminal Building Rs 676.48 Cr AERA Recommended (75%)Rs 507.36 Cr AERA has not considered cost of Rs 169.12 Cr for capitalization. AERA has stated that this balance should be included in the RAB when it is utilized possibly in the next control period. Moreover, in case the actual traffic flow is more than the projected figure of 3.61 MPPA at any time of the control period and the capacity utilization is more than 51.57%, the amount of the cost of the building would be suitably adjusted at the time of true up.	Due to extraordinary adverse impact of Covid-19 Pandemic on Domestic and International air travel, most of the Passenger Terminal Buildings all over India are unutilized and it is very difficult to forecast passenger growth for future. AAI will capitalize the entire cost of Terminal Building in FY 2023-24 and accordingly depreciation will be provided AERA is requested to consider the entire cost of Terminal Building capitalized in 2023-24 as per the accounting principles and shortfall will be subject to true up in the next control period.

6 **Refer Para-10.5 table no.34- Calculation of FRoR for FY23-24.**

AERA has calculated the FRoR for FY 23-24 considering cost of Equity @14% on Opening Assets as per table no.34 as given: -

Calculation of FRoR for FY 23-24 (In Cr.)

	Particulars	Value
	Assumptions:-	
a.	Opening RAB	187.38
b.	Additions made in last year TB	507.36
c.	Additions made in last year Others	19.12
d.	Portion of Debt	60%
e.	Portion of Equity	40%
f.	Cost of Debt	8.03%
g.	Cost of Equity (Additions)	16%
	Cost of Equity (Initial RAB)	14%
h.	**Calculation of FRoR:**	
i	Cost of Debt(b x c x e)507.36*60%*8.03%	24.44
j.	Cost of Equity-additions (b x d x f)507.36*40%*16%	32.47
k.	Cost of Equity-balance assets{ (a x g)206.5*14%	28.91
	Total Capital (a+b)206.5+507.36	713.85
	FRoR-% (k/a) fr.Nov23-24)	**12.02**

The following observations have been made in calculation of FRoR as given below: -

- AERA has calculated IDC up to 1st Nov 2023 i.e. the date of capitalization while the 10% is capitalized in Nov 25 as per Table 10 of Addendum to CP.
- IDC which is part of capitalization has also not been considered while calculating FRoR.
- AERA is requested to consider the full Aero cost as AERA had allowed for Trichy airport and also consider IDC. The shortfall will be carried forward for the next control period which is subject to true-up.

AERA is requested to consider the revised FRoR as under considering the above changes: -

Calculation of FRoR for FY 23-24 (In Cr.)

	Particulars	Value
	Assumptions:-	
a.	Opening RAB	210.49
b.	Additions made in last year	712.09
	Other than TB(19.12+53.69IDC)	72.81
c.	Portion of Debt	60%
d.	Portion of Equity	40%
e.	Cost of Debt	8.03%
f.	Cost of Equity (Additions)	16%
g.	Cost of Equity (Initial RAB)	16%
	Calculation of FRoR:	
h.	Cost of Debt(b x c x e)712.09*60%*8.03%	34.31
i	Cost of Equity- additions (b x d x f)712.09*40%*16%	45.57
j.	Cost of Equity-balance assets{ (ax g)72.81*16%(apn+IDC)	11.65
k	Cost of Equity-Opening assets{ (a x g)-210.49*16%	33.68
l.	Total Capital (a+b)210.49+712.09+72.81)	995.39
	FRoR-% (Nov23-Mar24)	**13.41**
	FRoR-% (Apr23-Oct23)	**14**
	Weighted Average FRoR-%	**13.41**

<table>
<tr>
<td>7.</td>
<td>Refer Para-12.3 –Operation & Maintenance Exp- Interest on Loan (Post construction Period)

Refer para no.12.3:-As per AERA "IDC is a capital expense and has been allowed along with the capital cost of the new Terminal Building."</td>
<td>AAI had proposed to charge off Rs.83.34 cr towards Interest for FY2023-24 (Nov23 to Apr24-post construction period.) as part of Operating expenditure.

As per the Accounting policy "IDC is a capital expenditure and is capitalized with the cost of Asset" i.e. Terminal Building-PDC 1st Nov 2023 whereas interest post capitalization will be treated as operating expenditure.

AERA is requested to allow Rs.83.34 cr Interest expense as part of Operating expenditure in FY 2023-24.</td>
</tr>
<tr>
<td>8.</td>
<td>Refer Para-12.3 –Operation & Maintenance Exp. Pay Roll Expenses

AERA considered a growth rate of 5% in payroll expenses for the FY 2019-20 to FY2024-25.</td>
<td>AERA is requested to consider a growth rate of 7% in payroll expenses for the FY 2019-20 to FY 2024-25.

Justification: 7% is the average increase in the payroll due to annual increment of 3% in salary, quarterly increase in Dearness allowance and Employer contribution to PF and Pension fund.

This is also in line with the earlier tariff orders

by AERA.

Illustration: -

<table>
<tr><th>Component of salary</th><th>Existing</th><th>Incremental due to 3% annual increment</th><th>Incremental Yearly impact due to 6% (average increase) in DA</th></tr>
<tr><td>Basic Salary</td><td>10000</td><td>300</td><td></td></tr>
<tr><td>DA</td><td>1800</td><td>54</td><td>618</td></tr>
<tr><td>HRA</td><td>2400</td><td>72</td><td></td></tr>
<tr><td>Perks</td><td>3500</td><td>105</td><td></td></tr>
<tr><td>Total</td><td>18900</td><td>567</td><td>692.16</td></tr>
</table>
</td>
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<tr>
<td></td>
<td></td>
<td>
<table>
<tr><td>Total incremental</td><td></td><td>1259.16</td><td>Total incremental</td></tr>
<tr><td>% increase 1259.16/18900</td><td>6.66%</td><td></td><td></td></tr>
<tr><td>% increase round off</td><td>7%</td><td></td><td></td></tr>
</table>
</td>
</tr>
<tr>
<td>9.</td>
<td>Refer Para 13.4 , Parking Charges Growth rate.

AERA proposes a onetime increase of 45% in Domestic and International for FY 2021-22 and thereafter a 10% increase in the Fy 2022-23 and 6% increase in the FY 2023-24 <u>w.e.f. 1st April '2021.</u></td>
<td>In the CP dated 1.6.2020, AERA had proposed to increase Domestic and International parking and housing charges by 120% and 91% respectively for FY 2021-22 Further, the Authority had also proposed parking and housing charges to be increased by 6% on compounded basis every year. However, in the addendum to CP dated 24.11.2020 AERA has proposed to increase Domestic and International parking and housing charges by 45% for FY 2021-22 and thereafter 10% increase in FY 2022-23 and 6% increase in FY 2023-24. The comparison of increase in rates proposed by AAI vis a vis AERA are as under:-

<table>
<tr><th>Particulars</th><th>AERA as per CP dated 1.6.2020</th><th>AAI proposal (Revised)</th><th>AERA Addendum</th><th>AAI Proposal (now)</th></tr>
<tr><td>2020-21</td><td>----</td><td>129% (D)

98% (I) w.e.f. 1st Jan 2021</td><td>----</td><td>120%(D.)

91% (I) w.e.f. 1.1.2021</td></tr>
<tr><td>2021-22</td><td>120% (D)
91% (I)</td><td>4%</td><td>45%</td><td>6%</td></tr>
<tr><td>2022-23</td><td>6%</td><td>4%</td><td>10%</td><td>6%</td></tr>
<tr><td>2023-24</td><td>6%</td><td>4%</td><td>6%</td><td>6%</td></tr>
</table>

The average increase in rates proposed by AAI are not much in absolute terms.

AERA is requested to consider the percentage increase in landing/parking as proposed by AERA</td>
</tr>
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<table>
<tr><td></td><td></td><td>in the CP dated 1.06.2020. Further the date of implementation may be taken as 1.1.2021 considering the financial crunch faced by AAI due to Covid-19.</td></tr>
<tr><td>10</td><td>Refer Para 13.4, Annual Tariff Proposal

AERA has allowed AAI to recover the ARR leaving a shortfall of Rs.61.34cr., with ATP are as under :
-

1. <u>Landing charges:-</u> One-time increase of 45% in Domestic and International for FY 2021-22 and thereafter a 10% increase in the Fy 2022-23 and 6% increase in The Fy 2023-24. <u>w.e.f. 1st April '2021.</u>

2. <u>Parking Charges:-</u>One time increase of 45% in Domestic and International for FY 2021-22 and thereafter a 10% increase in the Fy 2022-23 and 6% increase in the FY 2023-24 <u>w.e.f. 1st April '2021.</u>

3. <u>UDF:-</u> Rs.400 and Rs.1300 respectively in Domestic and International for FY 2020-21 <u>w.e.f. 1st April '2021.</u></td><td>AERA is requested to change the date of implementation tariff for all revenue streams w.e.f. 1.1.2021 in order to meet the cash flow requirement of AAI necessitated due to COVID - 19.

The revised ATP is as under: -

1. Landing charges:-
<table>
<tr><td>Pariculars</td><td>AERA</td><td>AAI proposal</td></tr>
<tr><td>2020-21</td><td>--</td><td>45% w.e.f. 1st Jan 2021</td></tr>
<tr><td>2021-22</td><td>45%</td><td>10%</td></tr>
<tr><td>2022-23</td><td>10%</td><td>6%</td></tr>
<tr><td>2023-24</td><td>6%</td><td>6%</td></tr>
</table>
2. Parking Charges:-
<table>
<tr><td>Pariculars</td><td>AERA</td><td>AAI Proposal</td></tr>
<tr><td>2020-21</td><td>----</td><td>120%(D.)
91% (I)
w.e.f. 1st Jan 2021</td></tr>
<tr><td>2021-22</td><td>45%</td><td>6%</td></tr>
<tr><td>2022-23</td><td>10%</td><td>6%</td></tr>
<tr><td>2023-24</td><td>6%</td><td>6%</td></tr>
</table>
UDF:- Rs.400 and Rs.1300 respectively in Domestic and International for FY 2020-21 w.e.f. 1st January '2021 instead of 01st April 2021.</td></tr>
</table>

This issue with the approval of the Competent Authority.

Your sincerely

8/1/2020

(V.Vidya)

Executive Director (JVC)