GROUPE ADP

The Chairman,
Airport Economic Regulatory Authority,
AERA Building
Administrative Complex,
Safdarjung Airport, New Delhi – 110003

Mr. Camilo PEREZ PEREZ
camilo.perezperez@adp.fr

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Subject : Consultation Paper No.11/2021-22 dated July 2, 2021 in respect to GMR Hyderabad International Airport Limited (GHIAL)

This has reference to the captioned consultation paper of the Authority for determination of aeronautical charges for GHIAL for the Third Control Period. We would like to share our observations on the Consultation Paper based on our experience of working with multiple Regulators across geographies.

At the outset we would like to thank the Authority for its evolution and maturity in the tariff determination process over the period and standardization of issues to provide predictability in the entire determination exercise. However, we have the following suggestions for further streamlining the tariff determination process:

A. **Timeliness –** It is paramount that the tariff gets implemented at the beginning of the control period which will help the airport operator to prepare the business plan and mitigate the risk of significant variations in cash flows.

B. **Return on Investment –** Apart from "high teens" growth in aviation traffic in India, what pulled the overseas investors to this sector is regulated nature of business where return on investment commensurate to the risks undertaken is assured. The capital cost of rolling out infrastructure in India is very competitive compared to our experience in airports in other geographies. The benefits of lower infrastructure cost translates to significantly lower airport charges being levied on airlines and passengers across Indian Airports.

   The Authority should adopt the market mechanism of price discovery to ascertain what would be the ideal capital cost of building the infrastructure as the disallowance shall lead to significantly lower return on investment. In order to mitigate the risk of airport operator on disallowance of capital cost, the Authority should have sole reliance on market discovery of price through competitive bids. The consultant estimates of cost should be used as benchmark and an additional cushion should be built-in to factor the uncertainty priced in by the bidders at the time of actual bidding. The Authority has prudently applied that in case of similarly placed airport in the second consultation paper wherein additional 10% cushion was provided over RITES cost estimates.

With regard to the soft cost provisions, the Authority may adopt global benchmark of preliminaries at 3%, Design and PMC at 5% and contingency at 5%. Such upfront clarity shall help the airport operator to plan its capex program with greater degree of certainty and the debt provider will also get assurance of a predictable return on the investment which will be channelized to first meet the debt commitments.

C. **Contract Enforcement –** The key diligence documents for overseas investors while evaluating an investment proposal is Concession agreement and other related project agreements to form a view on what would be in the realms of regulation and outside regulation. The Authority while being pragmatic, needs to keep in perspective of concession terms based on which the risk capital was allocated by the Sponsors of the project to set up the infrastructure.

India needs investment in trillions of dollars in infrastructure to propel the growth and derive demographic dividend. Encouraging investment by adhering to Concession Agreement shall set the right precedent before the investor community.

We request the Authority to consider the above while determining tariff for airports.

For Groupe ADP

Camilo PEREZ PEREZ
Head of Economic Regulation, Traffic, Airport Capacity
Director of GMR Hyderabad International Airport Ltd.