Director Policy & Statistics,
Airports Economic Regulatory Authority of India,
AERA Building, Administrative Complex,
Safdarjung Airport, New Delhi – 110003,
INDIA.
Email: director-ps@aera.gov.in,
jaimon.skaria@gov.in , gita.sahu@aera.gov.in
cc secretary@aera.gov.in

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To whom it may concern:

IATA RESPONSE TO AERA'S CONSULTATION PAPER FOR THE DETERMINATION OF AERONAUTICAL TARIFF FOR RAJIV GHANDI INTERNATIONAL AIRPORT (HYD) FOR THE THIRD CONTROL PERIOD (TCP) (04/2021-03/2026)

The International Air Transport Association (IATA) is the trade association for the world's airlines, representing some 290 airlines or 82% of total air traffic. We support many areas of aviation activity and help formulate industry policy on critical aviation issues.

The aviation industry is facing the biggest challenge of its history; restarting an industry that has essentially ceased to operate across borders while ensuring it does not become a vector for the spread of COVID-19. All while taking an unprecedented economic hit that has crippled the industry and threatening its survival. Although we expect airline losses to shrink in 2021 compared to 2020, financial performance will be worse than what we expected in our December 2020 forecast (2021 net post-tax losses forecast at $47.7bn[1] vs $38.7bn in the December 2020 forecast).

Contrary to the misconception by some; airlines have not been bailed out by governments but in reality, they have accumulated more debts in addition to capital injection from shareholders to help them tide through this period of great uncertainty. However, airport operators are generally demanding/expecting to recover their losses from their users which further substantiate the notion that they possess market power as there is no such 'loss recovery' in normal/competitive markets. Hence, the role of AERA as the economic regulator is critical to bring the necessary balance and protection for airport users.

IATA is cognizant that existing frameworks are not intended to cover this exceptional circumstance brought about by the COVID-19 crisis. For this reason, we will provide a number of recommendations in this submission to deliver a balanced outcome for both the airport operator and users over the long term, on top of the good work already done by AERA so far to address this unprecedented situation.

Chapter 2 – Pre Control Period Entitlement (PCPE)

Proposal 2.3.1 The Authority proposes to consider the true-up of the entire Pre Control Period from 01.04.2008 to 31.03.2011.

We note that the Authority is applying the same principles as per TDSAT BIAL Order which is the appropriate course of action for the sake of consistency (regardless of whether we agree with the decision or not).

[1] April 2021 Forecast by IATA

Proposal 2.3.2 The Authority proposes a true up of Rs. 731.05 Crores (as on 31.03.2022) which shall be provided to the airport operator along with the proposed true up for the Second Control Period as part of the tariff determination for the Third Control Period. (Table no.3).

We do not see that AERA has properly scrutinised the various elements underpinning the building block calculation for the pre control period from an efficiency perspective (in particular, the period that has been added due to the TDSAT ruling). AERA should also scrutinize the various elements such as its Capex, Opex, assets allocation, WACC etc. and not only consider the returns and expenses at face value in the pre-control period. If AERA intends to true up expenses without an efficiency test then it should seriously consider the application of much lower WACC than what it is currently applying. We note that the true-up of 243.72 crore is being tripled solely because bringing the under-recovery to present value; so there needs to be a very careful consideration of the level of WACC applied and ensure it is commensurate with the risks faced by the airport (include the risks that have been mitigated through the application of the current regulatory framework).

Chapter 3 – True up for FCP

Proposal 3.9.1: The Authority proposes to consider the treatment of various issues raised by HIAL as per table no.5 and 6 in line with AERA Act, AERA Guidelines, TDSAT orders and the Authority's orders issued from time to time.(para 3.2).

Since Tables 5 & 6 refers to principles to be applied in both First and Second control period, we would like to make the following points in relation to the various issues raised in these tables:

- Treatment of CGF – IATA fully support the decision to classify these activities as aeronautical in line with global practice. All activities associated with air transport should be classified as aeronautical.
- Treatment of forex losses: We understand that AERA is choosing the lowest between a cost of debt in foreign currency and the cost of debt in local currency. So the approach is acceptable. What is more relevant is whether the assumed cost of debt in local currency is the "efficient" one. More on this particular item will be discussed later in the submission.
- Revenue from Real Estate operations: We agree with the approach as it is consistent with the TDSAT ruling for BLR.
- Income from dividend received from subsidiaries: We agree with the proposed treatment.
- Regulatory Till- Hybrid/Shared Till: This has been a long standing issue for IATA, as we consider that charges should be calculated under a Single Till approach (and a Single Till was consistent with AERA's White paper at the time).
- Cost of Equity: Noting that this table covers the FCP as well as the SCP, we consider that a 16% cost of equity compensates well in excess the risks borne by the airport; and hence should be lowered. More on this matter will be presented later in this submission.
- New Office Building: We agree with the approach. However, AERA should make itself satisfied that HYD is not occupying further floors solely for the sake of shifting the allocation from non-aeronautical to common (since each additional floor allocated to common implies a large change to aeronautical costs – due to the percentages used for splitting common assets).
- Site Office Building: We agree with the treatment of the Site Office Building as common. What we do not agree is the allocation keys to be used for splitting those common costs. More on this matter will be presented later in the submission.
- Township: We understand AERA's approach for splitting critical vs. non-critical stuff. Still, we would like to understand why there is a need for the airport to provide housing at all, even if it is to critical employees, and to then classify that as aeronautical. It is not common at airports elsewhere to have

such kind of arrangements. We would appreciate for AERA to reconsider its previous views on the matter and allocate such expenditure as non-aeronautical.

- Landscaping: Agree with the classification of common.
- We agree CGF, ICT, GPU are aeronautical in nature and do not understand why HIAL would proposed differently.

Proposal 3.9.2 The Authority proposes not to true up any building block other than CSR expenses. Subsequently, the Authority proposes no revision in computation of RAB and depreciation. (para 3.3.14 – 3.3.15), Equity and WACC (para 3.4.3), computation of tax, non-aeronautical revenue and aeronautical revenue.

We would appreciate that AERA reconsiders some of the calculations on the basis of what is mentioned in proposal 3.9.1.

Proposal 3.9.3 The Authority proposes to use non-aeronautical revenue for cross subsidisation under 30% shared till (Para 3.7.3 – 3.7.6)

We note that unfortunately the 30% hybrid till is being used (as opposed to a single till) due to a direction from MOCA.

Proposal 3.9.4 The Authority proposes to true up the operating expenses on account of CSR expenses (para 3.5.4).

We note AERA is adopting the decision from the TDSAT with respect to CSR. This should be respected and therefore trued up under certain criteria (as applied by AERA) in order to avoid overspending.

Proposal 3.9.5 The Authority proposes the true up of Rs. 0.54 Crores (as on 31.03.2022) which shall be provided to the airport operator along with the proposed true up for the Second Control Period as part of the tariff determination for the Third Control Period. (Table no.14).

We would appreciate for AERA to consider the elements highlighted in our response for proposal Tables 5 & 6. We recognize that going back to the First Control Period to change some of these elements may be going too far back in time (since AERA had already worked out the true up of the FCP on Order 34/2019-20), but at least to be considered during the true up of the Second Control Period.

Chapter 4 – True up for SCP

Proposal 4.12.1 The Authority proposes to true up Aeronautical RAB considering the actual additions and as per the asset segregation ratios as suggested by the independent study. The Authority proposes to reclassify an amount of Rs. 0.53 Crores from aeronautical assets to non-aeronautical assets in the Second Control Period, as part of additions to RAB for the Second Control Period based on the independent study (Table no. 27).

Noting AERA supports the principle to avoid adding capex to the RAB until assets can be beneficially used by users paying for them we request a pro-rata approach is applied to allow a portion of capacity actually utilised to be included in the RAB.

Neither IATA nor the airlines have the transparency required to take an informed view of a reasonable true-up of expansion capex, however noting the link the traffic, we suggest 85% of the proposed enhancement capex is allowed in the RAB noting SCP should enable capacity to 20MPA to allow for an element of efficiency unless AERA has conducted an independent cost analysis to demonstrate value for money for users.

We also consider there is little transparency regarding General Capex of 293.96 crores and this should be further scrutinised for efficiency as the total sum of the parts is significant.

Further, 1 or 2 meetings with stakeholders is not sufficient enough justification to enable capex of this scale to proceed, yet that is what has materialized here. Users received limited details regarding investment files, or detailed consultation on these matters.

Proposal 4.12.2 The revised allocation ratio for FY 2021 has been considered as Aeronautical 91.32% : Non-Aeronautical 8.68%. (Table no. 29).

Please refer to the comments included in proposal 7.7.3 on the same subject.

Proposal 4.12.3 The Authority proposes to revise WACC based on revised debt schedule based on the actual debt raised by HIAL and the projected debt requirement for FY2021. The proposed recalculated WACC for the Second Control Period is 10.84% (Table no. 32).

Cost of debt:

- We note that AERA is truing up the cost of debt on the basis that it is lower than the amount allowed in the SCP order.
- However, it is important that any true up are not only done on the basis that they were lower than that assumed, but also that the actual cost of debt can be considered efficient,
- For example. we note that the weight average cost of debt (the interest payable portion) is 9.27% for the period (9.34% if we include the proposed forex losses allowances). This is 0.16% higher than the proposed true up cost of debt for BIAL TCP (@9.11%) for that same period.
- Even more, the differences widen towards the end of the period. For example, AERA's proposed BIAL's average debt for FY2021 is 8.40% (which considered an interest rate reset to 7.85% in August 2020), whereas the proposed true up amount for HIAL for the same year is 9.43%. This is a full percentage point difference. While we understand that cost of debt may vary depending on when it was issued and the debt maturity, such large differences need to be challenged by AERA, especially since this forms the baseline for the Third Control Period cost of debt allowances. We would appreciate for AERA to give a further look at the cost of debt, in particular the rate proposed for true up for FY2021.

Cost of Equity

- We see that AERA in its SCP order commented that it may revise the Cost of Equity for the period during the true up phase at the time of the determination of the Third Control Period. We also note that the AERA's commissioned cost of capital study (As per appendix 3 of the CP) calculates a cost of equity of 15.12%, yet AERA is proposing to keep the 16%. It would be important for AERA to specify on what basis it would intend to reconsider the CoE during a true up exercise, if it is not taking into consideration the results of the updated study.
- In any case, and as thoroughly explained in our submissions for other major airports, we consider that the 16% cost equity allowance is overly generous, as it is not commensurate with the risks HIAL is facing. In particular, AERA is proposing to fully true up the traffic generated by a one-in-one-hundred-year event and on top of this reward the company with a 16% on equity, a rate that is almost 10

percentage points higher than that paid by the Indian Government. It is evident that traffic is one of the major risks an airport face and truing it up involves transferring this business risk towards users. AERA must be cognizant of this fact and adjust the cost of equity downwards accordingly.

Proposal 4.12.4 The Authority proposes to consider CSR expenses as pass through and proposes to true up these expenses computed as per provisions of Companies Act, 2013, on the aeronautical P&L of HIAL (para 4.5.17).

IATA is generally in agreement with the approach adopted by AERA (Noting that this reflects the implementation of the TDSAT ruling rather than us agreeing to the inclusion of CSR as part of the cost base).

Proposal 4.12.5 The Authority proposes to consider Efficient O&M Costs based on the adjustment as suggested by the independent study tasked with studying the O&M Cost segregation as submitted by HIAL (Table no.42).

We note that AERA has commissioned a study on operating costs allocation and efficiency for HYD, similar to those commissioned for the DEL, BOM and BLR determination processes. And while all the studies go into minute detail on cost allocation and make adjustments accordingly, neither of the studies are thorough enough in relation to adjustments on the basis of efficiency[2]. Since no major efficiency adjustments are proposed in these studies, by implication all airports are being considered to be at the "efficiency frontier" and we seriously doubt this is the case. In normal regulated environments, there is usually one company situated at an efficiency frontier and the gap between this and the rest (the efficiency gap) is used for setting efficiency targets for the latter airports. We encourage AERA to further improve the benchmarking of costs to allow it to better differentiate the performance of each of the airports and be able to promote more efficiency at those airports that are not delivering it in full.

Secondly, while we note that FY21 opex is proposed to decrease by some 22% over, we remain unconvinced if the airport has gone far enough. this reduction is still far from what other airports have managed to achieve elsewhere (see BLR submission) and certainly way shorter of what airlines have done over the same period (-40%). Also, and as mentioned in our comments about the efficiency report, the doubt that the position in FY20 could be regarded as efficient, so the scope reduction is high.

We also note HYD's statement in the consultation meeting that while their costs were 80% fixed, they managed to reduce costs by 22% in FY21. But in fact, If they had been so fixed, they wouldn't have doubled like they did between FY16 and FY20. So it does appear that HYD has not done enough to size its opex to the current environment.

Similarly to the issues raised for BIAL, one of the major issues is staff costs. While these have slightly decreased, these don't not reflect what a company would have needed to do in a competitive environment. AERA should allow a cost proposed by HIAL only if it is satisfied that the airport has considered (and implemented applicable/feasible) all possible cost reduction initiatives. Appendix A to this submission contains a non-exhaustive list of potential cost optimization initiatives which AERA may wish to test whether HYD has adopted them. While the list is generic and contains suggestions that may not be applicable in an Indian context, it is still a very useful starting point to challenge what an airport has done. If AERA allows true up of actuals (after cost allocation adjustments), this would, once again, reinforce the notion that the cost of equity proposed bears no relation to the risks upfronted by the airport).

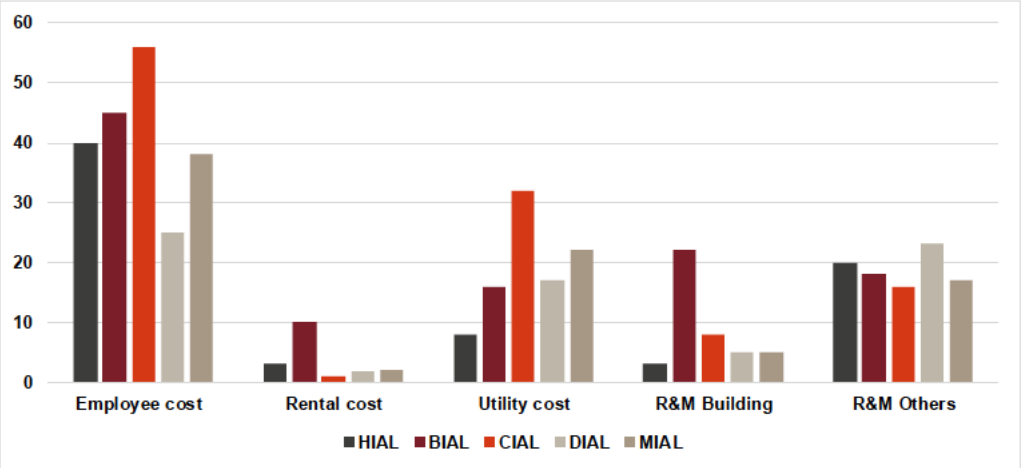
[2] Bar some exceptions in the case of the HYD study (e.g. the disallowances of bad debt, training academy)

Thirdly, we would also like to add further remarks in relation to the efficiency study:

- One of the major flaws of a trend analysis is that it assumes the "starting" point is as efficient as it could be. Based on the high-level external efficiency benchmark analysis that have so far been carried, we cannot be certain that this is the case.
- The trend analysis purposely omit 2021 figures on the basis that this is an extraordinary year, but it does not offer alternatives on how to analyze the efficiency of costs of that year.
- On the trend analysis it is mentioned that Head count increased by 20% annually between FY17 to FY20 (365 new staff). However, the study does not get unto the any detail as to whether such increase is justified or not. It simply limits to state "*We infer that the increase in payroll expenses is mainly attributable to increase in number of manpower on account of elevated level of operations and a nominal increase because of annual increments*." (Page 60). This cannot be used as a justification to determine that head count and staff costs are efficient. There should be explanations on why each of the head segments increased (Airport Operations, F&A, HR, IT, etc). Economies of scale should be achieved once the airport grows, but based on table 43, even with the inflation adjusted cost per pax measure, costs increase by almost 9% annually over the first four years of the period.
- Also, and as previously mentioned, an increase in volume cannot be used as a justification for cost increases, but then use the "fixed cost" argument to not decrease costs as much during a downturn.
- Similar to the analysis on staff costs, the report indicates that it "infers" that administrative costs is primarily due to the increase in operations. Again, this deserves further analysis, especially when the inflation adjusted cost per pax (a measure that already controls for increased volumes AND inflation) increases by a massive 11% per year between FY17 and FY20. With regards to legal expenses, it would be important that these do not contain expenses regarding appeals on AERA decisions (as it wouldn't be correct that users would be paying for the airport's legal expenses that are aimed at getting decisions that go against users themselves).
- Similar issues arise in the analysis of security costs and Other operating costs.
- The trend analysis uses per pax measures to see changes over time for utilities and R&M, when it clearly should have used other measures. The study recognizes this issue on the utility side but does not provide any alternatives.
- The flawed analysis is evidenced in the Summary of the section. For example, citing the conclusion on payroll costs: "*The overall payroll cost has increased, but payroll cost per pax has grown at a rate lower than passenger growth rate*." The comparison is flawed. The "cost per pax measure" already adjusts for traffic, so such measure cannot be compared against traffic growth. What the analysis would have needed to look at is whether the cost per pax was positive or negative.
- We note that the external benchmarking uses FY18 as the year for comparison (figure 25) where HYD does appears in the middle of the range on a opex per pax among the comparable airports. However, if we see the Efficiency study for on the BLR Consultation Paper (Figure 33), HYD appears with the highest cost per pax among the comparator airports (both figures are shown below). We urge AERA to look into this, because these studies could be making conclusions on the basis of incorrect information,

HYD Efficiency cost study (Fig 25)

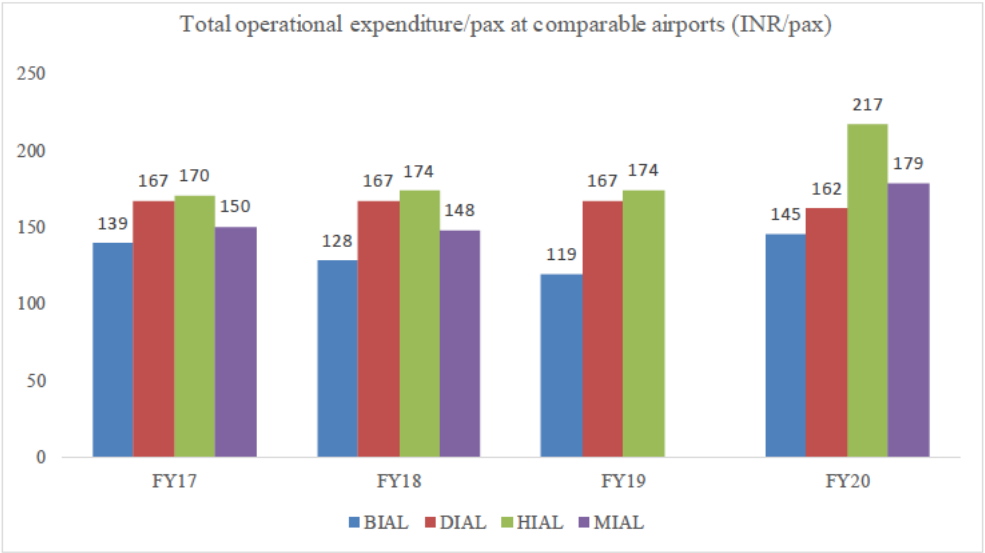
Figure 25 Various Costs per PAX for Comparable airports in FY18



We infer that HIAL has managed to outperform its peers under consideration for per PAX costs like utility, R&M building, employee cost. This has been a result of operational efficiencies measures undertaken at HIAL.

BLR Efficiency cost study (Fig 33)

Figure 33: Total operational expenditure/pax for comparable airports



In the light of the abovementioned items, we request AERA to reconsider the efficiency assessment of HYD.

In relation to the segregation of employee cost, it would be useful to understand the calculation by HIAL which is markedly lower than what AERA is assuming based on the independent study. Asset ratio itself might not accurately reflect the allocation of employee resources across the different asset type. For example, a runway represents a significant portion of the asset base for an airport but might not require as many employees to support its operation compared to another asset type at a lower asset value. It is much better to examine the

various functions of airport employees and as such apportion the costs more accurately and make the necessary adjustments reflecting the positive externalities that the aeronautical activities bring to the non-aeronautical ones.

Proposal 4.12.6 The Authority proposes to consider the concession fees paid by HIAL as per the recommendation of independent study and consider amount equal to 4% of gross aeronautical revenue for the Second Control Period (Table no.45).

It is our understanding that there is an obligation to include such concession fee as a cost (the aero portion) that need to be recovered through charges. It should still be mentioned, that users are already paying for the land lease costs and a cost of capital for all the aero investments been made at this Greenfield airport, so there is no justification for including a concession fee in the cost base (and even less, having it linked to revenues).

Proposal 4.12.7 The Authority proposes to true up Rs. 498.47 Crores as on 31.03.2022 (adjusted amount for PCPE, First Control Period and Second Control Period) which is proposed to be recovered from the airport operator in the Third Control Period (Table no. 63).

We would appreciate for AERA to reconsider some of the SCP costs for true up taking into account the comments we have made throughout this chapter.

Chapter 5 – Traffic Projections for 3rd Control Period

Proposal 5.3.1 The Authority proposes to consider the traffic as shown in the (Table 69) for the Third Control Period which shall be trued up based on actuals at the time of tariff determination of the Fourth Control Period.

Given the high level of uncertainty due to COVID-19 at this point, IATA broadly support the proposal by AERA in in relation to the traffic estimates for the 3rd Control Period.

Chapter 6 – Regulatory Asset Base

Given the extreme cost pressures on our industry , minimizing all unnecessary costs is of utmost priority. It is necessary to reduce financial exposure by stopping all non-essential projects and in particular capacity enhancing projects in the TCP as a matter of urgency.

We call for a freeze of the CAPEX portfolio across all projects pending a review of project investment files and their associated Business Cases, as these have not been re-assessed since April 2018 AUCC with the airline community including those projects that are under construction to ensure they are viable to proceed considering Covid-19 impacts.

We note 34 MAP will not be achieved based on current data until well into CP4 or beyond. Expansion capex should be viewed in this context and taking into account the current market conditions to minimize remaining spend to all but essential investments limited to health and safety and regulatory items.

Overall, it is essential for users to avoid unnecessary investments and costs and as such if the infrastructure is not required in CP3, the related capex should not be allowed in CP3 even if already constructed unless required by users based on traffic demand.

We agree in principle with Authority's approach to reduce 1% of the total project cost from ARR/Target Revenue in case any capital project is not completed as per the capitalization schedule during the true up of the Third Control Period, at the time of determination of tariff for the Fourth Control Period. However, this principle should only apply once a review of capacity enhancing projects has been completed to determine the appropriate scale of investments to balance capacity with demand.

A – Capacity Expansion to 34 MPPA

- IATA noted the original plan to expand the existing capacity from12 mppa to 20 mppa in SCP, and subsequently changed to 34 mppa by HIAL, to be operationalized in 2024. Based on the proposed traffic forecast by AERA, the airport is expected to serve 26.45 m passengers by 2026, and only likely to achieve the traffic of 34 mppa by 2029-2030 according to ICF forecasts. The reality is that no party is able to accurately forecast demand in 2029/30 at this point in time, and there is a substantial risk excessive terminal capacity will be in place that remains unutilised.
- A common approach to airport planning is to introduce additional capacity in phases in a more gradual manner to ensure optimal utilization of the infrastructure without over-burdening users with unnecessary capital and operating costs for a prolong period. Identifying investment "demand triggers" taking into account traffic forecasts, Level of Service and construction lead times is applied to almost all major capital programs, however has been overlooked at HYD. While pre-covid demand was high, best practice is to form a phasing strategy towards major project milestones with the potential to pause developments if required, that would have bene a reasonable approach to identify natural breakpoints in the program given the very large increase in capacity planned. We recognise it is good airport planning practice to build a reasonable amount of additional capacity beyond the design date to allow for growth, however 34MAP is unfortunately too bullish resulting in overcapacity.
- Deferring unnecessary remaining expansion elements between 2022-2024 and avoiding operationalizing them to reduce the increases to the RAB in the TCP is recommended where feasible, including related infrastructure such as stands where IATA notes the overall number of stands is more than doubling from 42 to 93 requiring pier and remote apron investments. An assessment of the number of stands actually required given the traffic forecast in CP3 versus the traffic forecasts, and review of the mix of traffic is requested to enable an informed view to be taken regarding allowable capex in TCP.

- As a result under these exceptional condition, the bottom line is users should not be expected to pay for capex (and the associated maintenance/opex) without it's benefit use. We request the Authority takes a view to:

    1. Limit allowable capex in the RAB to capacity enhancements up to 26MAP for terminals and related stands and other infrastructure in CP3 (recognizing 20MAP is allowed for in SCP).
    2. The baseline to pro-rata from is AERA's INR4728.69 crores revised capital plan.

B – Metro Connectivity

- Our position is that the related investments in this infrastructure should not be funded by airport users. Users should not fund or pre-fund capex investments that are commercialized with revenue generated through services provided by an external party.
- The agreement between HIAL and the local authority was done without any prior consultation with airport users who are expected to fund the development that is fundamentally wrong. Any such commitment for investment should be segregated from the calculation of the RAB. Furthermore, our understanding is this investment does not generate any aeronautical revenue

for HIAL. If this is to proceed, the investment should be funded from the revenue generated by future users of the metro.
- We agree no allowance is made for capital investment for these projects in CP3.

C – General Maintenance Capital Expenditure

- We agree with the Authority's logic in excluding various investments from CP3 largely relating to capacity enhancing projects including for general and allied capital works:
    - There seems little justification for 36 (or any) ARTS lanes relating to the cargo facility. We can only assume this is an error.
    - We would require further details regarding drain covers before considering this item including broader underlying issues
    - NATS study can be deferred until capacity optimization is required considering the previous NATS study maximising existing runway and airfield capacity
    - AOCC business case and benefits should be shared in detail with AOC and IATA / AUCC as these investments are positive I principle, however difficult to demonstrate value in quantitative terms

o – CISF Quarters

- IATA supports the exclusion of the costs associated with the development of CISF Quarters in the TCP. In fact, all security related costs should be excluded from the determination of the ARR given that the funding should now come from the Aviation Security Fee (ASF) which has replaced the PSF (SC).
- The ASF has also increased significantly since its introduction (and replacing the PSF (SC)), without the necessary justification, transparency and consultation with stakeholders. It is necessary for AERA to establish a position on this matter to guide the determination of tariffs going forward to align with the transparency and cost-relatedness principles.

Notwithstanding these points and in particular our plea to take a view on pro-rata capacity enhancements, we defer to AERA's recommendation regarding matters of cost efficiency with limited consultation regarding these matters and local cost benchmarks i.e. while we do not support the full scope of the plan linked to traffic, we agree in principle with the reduction of costs from 5479.79 crores to 4728.69 crores based on the rationale stated.

Depreciation

The building block depreciation is derived from the asset base and thus directly linked to investments. As such, rationalizing new investments would minimize increases in depreciation. Since the rate of depreciation of an asset is related to its useful life, it is recommended to pursue the lowering of the level of depreciation by extending the life of assets (where possible). Depreciation timelines could be reviewed again to ensure alignment to global recommendations as outlined in ICAO's DOC 9562, 9161, and the IATA Airport Development Reference Manual (ADRM).

In certain cases, depreciation also covers complete write-offs of existing infrastructure, e.g., with the aim to replace. Such write-offs require a full review with regards to the immediate need in order to identify the possibilities of avoiding them and to postpone such write offs into the future.

IATA supports the approach taken by AERA to revise the useful life of assets in Table 103 but would encourage HIAL to seek opportunities to extend the life of these assets where possible in the most cost efficient manner by closely monitoring their performance and maintaining them properly.

Chapter 7 – Operating Costs for the TCP

Proposal 7.3.1 The Authority proposes to disallow interest cost on PSF assets considered by HIAL as part of operating expenditure for the Third Control Period

We agree with the proposed treatment of PSF assets pending decision from TDSAT on the matter.

Proposal 7.3.2 The Authority proposes to not allow the net off of incidental income from operating expenses

We would appreciate for AERA to further explain the reasoning behind its proposals in order to be able to provide an informed opinion on the proposal.

Proposal 7.3.3 The Authority proposes to consider allocation ratio as set out in Para 7.2.2 for the Third Control Period

Our concerns remain similar to those highlighted in previous occasions. We see that again with concern the approach to split common assets mainly on the basis of surface area. While the usage of surface area can be considered as a relatively simple and common approach, it raises important concerns in the context of allocation costs at airports.

The issue become clear when that in airports most commercial activities are inextricably linked to air transport. Simply put, if there is no aeronautical activity there wouldn't be a non-aeronautical one. This implies that there is a direct externality from aeronautical activities towards non-aeronautical ones that needs to be reflect in the cost allocation (this applies to both capital expenditure and operating costs). A system that allocates revenues or costs purely based surface area assumes that each business could exist without the other, when it is clear this is not the case for the non-aeronautical activities at airports. There is an urgent need for AERA to reconsider its approach towards cost allocation at Indian airports to incorporate this very important principle and are open to have further discussions on the subject.

Proposal 7.3.4 The Authority proposes to consider the operating expenditure as set out in Table 112 for the Third Control Period

IATA would like to commend AERA for its thorough assessments leading to the rationalization of the operating costs compared to what HIAL has requested. It is clear that the capacity expansion to 34 mppa will have an immense impact on the overall operating costs in the TCP, at a time where the industry faces an affordability crisis.
Deep and sustainable cost reductions are the necessary starting point for the industry's economic recovery. Airlines have managed to dramatically reduce their operating costs by 45%, including a 39% reduction in employment costs and a 54% reduction in maintenance cost.

With staff costs representing a major element of an airport's cost base (34% according to ACI), additional sustainable cost reduction measures are required moving forward. This may include elements linked to outsourcing or re-evaluation of function as demonstrated by some airports restructuring programs. IATA would expect HIAL to rationalize its expenses (including staffing level) to correspond to its operation in degraded capacity mode during the pandemic and the subsequent recovery period. As highlighted in the SCP section, this has not been done to the extent needed. There is a need for airport to optimize its operation and reduce costs (without compromising safety) in light of the crisis. A year-to-year projected increase is simply not acceptable and unjustifiable under current environment. IATA is glad to see that AERA has proposed to reduce the manpower and associated costs requested by HIAL. However, greater efforts can be made to ensure operating costs are efficiently incurred (and in line with the current levels of traffic).

We would like to make the following comments regarding AERA assumptions on opex:

Manpower costs:

- We agree with AERA the addition above WPI is unjustified. We also agree that traffic will still be affected (to a lesser extent) in 2022.
- We also note that the AERA has calculated the additional manpower on the basis of the calculated 43.15 employees per MPPA. However, there is a need to take into consideration the fact:
    - Based on our comments in relation to the SCP true up, we are not convinced that 863 reflect an efficient level of operations.
    - Economies of scale should be achieved through growth. We request AERA to determine which part of the workforce would be directly linked to a growth in traffic/expansion. For instance, based on Table 42 of the "Efficiency" study (see below) there are a number of support activities which should not increase with the additional capacity/volume:

Segment	FY20
Airport Operations	495
F&A	70
HR	20
Infra Planning and development	21
Enterprise IT	36
Corporate relations	46
Commercial	34
Business Support	30
Others (SPG, Corporate Communication, Legal)	111
Total	863
Source: AERA Efficiency study (Table 42)	

Based on the above, we would request that in its manpower calculation AERA considers only those functions that would need to be increase due to an increase in volume/capacity. Also, manpower should not be any higher than the FY20 at least until FY20 traffic levels are reached. In this regard, we see that AERA is already increasing manpower in FY23, and therefore should consider delaying any increase until FY24.

Administrative expenses

- We agree that there is no justification for increases above WPI. Even more, AERA should consider the implementation of efficiency targets rather than automatically allowing for inflation.

- It would be important for the Authority to elucidate why Administrative costs would increase by 32% on the basis of capacity expansion.

- We agree with the legal cost split to 50:50. Actually, this rule is what we have been proposing in past years to be applied to all common costs.

Security cost

- We agree with the lack of justification on allowing increases above inflation.

- With regards to the elasticity calculations with respect to the increase in terminal area. It should be noted that security costs already increased with the creation of the interim terminals during the SCP when the airport was already handling 20mpa. So it is unclear as to whether the increase in terminal area is the right baseline for security costs. Moreover, we note that the efficiency study indicates that these costs are mostly related to Baggage screening, AEP and SOCC; so it would be important to have a proper explanation on how these costs will double with the terminal expansion.

- Based on the above, we request AERA to reconsider the security allowances.

Bank Charges

- AERA should challenge HYD on ways to decrease its working capital days. For example, if it is appropriate to increase the months receivable, then the airport also be seeking for ways to increase its months payable. It should also be noted that the receivable conditions should be available to everyone, as otherwise airlines not benefiting from such conditions would be paying for those that do.

- It would be beneficial if AERA shared HYD's annual audited accounts as that would allow us to make further comments on financial matters.

Utility costs

- We fully agree that utility costs should increase with the expansion. What we are unconvinced is with the scale of the increase proposed. Similar to our comments made on the BLR submission, there isn't enough information on whether energy consumption is being efficient or not. And to do this, AERA will need to carry our an appropriate benchmarking exercise.
- There would also be a need to segregate how much of the utility costs are driven by volume and how much by capacity.

Repairs & Maintenance
- We agree that new infrastructure should not be subject to the same level of Repair & Maintenance needed than existing infrastructure.

- We also note that the level of repairs & maintenance is 150bps (This level is lower than that applied by BLR and therefore AERA may wish to review to the BLR rates for existing assets and apply the same as those applied at HYD).

Outsourced Manpower costs

- We understand that some outsourcing costs may be driven by expansion, but we lack the detail to be able provide a meaningful comment. The request AERA to closely scrutinize such costs and provide further explanation on such costs increases before the Order.

Housekeeping costs

- We see AERA is using FY20 as the base year for forecasting housekeeping costs. However, it would be important to ensure that such costs (or any other costs using FY20 as the base year) do not reach FY20 levels until traffic has also reached FY20 levels. For instance, in FY22 AERA is proposing housekeeping costs of INR 33.95 crore, which is already 24% higher than the amount reported for the same concept in FY20 (INR 15.06 crore). We urge AERA to have a look into this issue (as well as for all other accounts where it is using FY20 as the baseline).

Other Operating costs

- We see AERA is using FY20 as the base year for forecasting Other Operating costs. However, it would be important to ensure that such costs (or any other costs using FY20 as the base year) do not reach FY20 levels until traffic has also reached FY20 levels.

Rates & taxes, Land Lease Rent of GoT, Stores and Spares, Insurance Costs. Interest on PSF assets, collection charges.

- No major comments

Proposal 7.3.5 To true up the operating expenditure for the current control period based on actuals subject to reasonableness and efficiency, at the time of determination of tariff for the next control period

We agree with the proposed approach.

Chapter 8 – Non Aeronautical Revenue for 3rd Control Period

IATA would like to reiterate our position that Single Till is the fairest and optimal approach in regulating airports. HIAL in its submission recognized the importance of aeronautical activities and its direct impact of non-aeronautical revenues as the forecasted non-aeronautical revenues were mainly based on aeronautical growth drivers. The Hybrid Till clearly does not fully translate the significant reliance of non-aeronautical revenues on aeronautical activities.

It is regrettable that AERA is required to adhere to the Government's policy/directive on the application of Hybrid Till despite the need for its independence as the economic regulator, especially when Single Till has been determined as the most appropriate and adopted as AERA's regulatory philosophy in its early years.

Until such objective is achieved, we call on AERA to resolutely ensure that revenues related all aeronautical services, including revenues from activities that are essential in supporting the delivery of these aeronautical services are classified as such. (e.g. Cargo, GH, Fuel Farm, GPU, catering, etc).

Proposal 8.3.1 To treat revenues from Cargo, Ground Handling, Fuel farm, Ground Power Unit, ICT services (CUTE, CUSS, BRS & IT) as aeronautical in nature.

We agree with AERA that such incomes should be treated as aeronautical as they are directly related to the provision of aeronautical activities.

Proposal 8.3.2 To treat other income comprising of interest income and dividend income under the regulatory purview on the basis of the nature of service.

We broadly agree with this approach. As highlighted above, we call on AERA to more strictly identify and classify aeronautical services and activities.

Proposal 8.3.3 To treat revenue from real estate development as non-aeronautical in nature.

We have no further comments as this is in line with the TDSAT ruling.

Proposal 8.3.4 To treat gross non-aeronautical revenues for cross subsidisation purpose instead of PBT of nonaeronautical revenues.

IATA fully support AERA in maintaining the stance and correcting HIAL on this aspect. It is egregious for HIAL to deduct the concession fee paid to the Government from the non-aeronautical revenues before computing the 30% cross-subsidy. This exemplifies the critical role AERA has in ensuring the right principles are upheld in delivering fair and positive outcomes for airport users and the aviation industry.

Proposal 8.3.5 To consider Non-Aeronautical Revenues as set out in Table 117 above.

Since flight catering is an essential aeronautical service, we would appreciate AERA to consider reallocating this income as aeronautical revenue (similar to that of Cargo, Ground handling, etc).

As domestic traffic is expected to be back by FY2023 (as per AERA forecast), F&B domestic revenue should be at the same level as that of FY2020 (plus inflation). We request AERA to consider this further adjustment.

The estimated Public Admission Fee for the TCP seems to be very low compared to the FY2020 actual of 5.86 crores (Table 52). This is despite AERA's projection of international traffic achieving 75% in FY2023 and 100% in FY2024 compared to FY2020 baseline. Physical distancing requirement would likely not be required once the vaccination rate reaches the required critical threshold and as we overcome the COVID-19 crisis.

Proposal 8.3.6 To true up non-aeronautical revenues for the current control period, at the time of determination of tariff for the Fourth Control Period.

We agree with the proposal.

Chapter 9 – WACC for the TCP

Many of the comments that were submitted in our BLR TCP response also apply for this consultation paper. For completeness, all relevant portions from that submission are also being incorporated in to this one.

Proposal 9.3.1 The Authority proposes to consider cost of equity as 15.17% as per the outcome of the independent study.

We would like to make the following comments in relation to assumptions underpinning the calculation of the cost of equity in the study:

Beta:

In order to determine an appropriate Beta (which is a reflection of the risk the airport faces vis a vis the market), the study should have first started by understanding what are the risks faced by BIAL (regulatory, demand, supply risks) and then how these risks compare to those faced by airports where financial/regulatory information is available. The study intends to do this through the application of the proximity scores, which is a good approach, but we think that the factors that are used for the calculation of the proximity scores are not complete enough to provide an adequate result.

The regulatory regime of HIAL is close to a "rate of return" regulation. At the end of the regulatory period, AERA "trues up" most of the components that underpin the calculation of charges. There are true ups on traffic, non-aeronautical revenues, OPEX, CAPEX (with certain disallowances), taxes and the WACC (with the exception of cost of debt ceiling). So, in practical terms, HIAL is highly protected from a series of risks (not all) that many of the other regulated airports do face.

One of the biggest business risks borne by an airport is demand risk, as has been made evident by the pandemic. If the demand risk is eliminated via the implementation of true ups, then the risks borne by this airport would tend to be closer to the risks that of water or electricity companies face rather than that of other airports. As far as we understand, none of the final comparator airports is under a regulatory regime in which there is a 100% true up of demand.

We understand that some risks still remain in the non-aeronautical side, but that is a consequence of having a hybrid model (Which users did not ask, as our position has always been to implement a Single till). Consumers were against the proposal to move to a hybrid till and now should not be further penalized by rewarding a higher WACC due to this decision.

We note that page 47 of the study mentions that Betas of developed countries could be used because traffic is trued up. We would like to make the point that the Beta for HYD could (and should) be even lower than these since most of such airports do still have traffic risk.

With this in mind, we strongly request AERA to reconsider the calculation of the Beta for HIAL, by making a significant downwards adjustment of the Beta calculated in the report since the risks faced by the comparator group are much higher than those faced by HIAL (at least to somewhere around or below 0.4). This downwards adjustment should be informed by Betas applied by regulators for utilities companies.

On a separate note:

- Table 2.17 is out of date in relation to the determination of the Beta for Dublin airport. The table makes reference to the 2014-19 determination, when 2020-24 determination has already been made and can be downloaded from here (And the supporting study from here). The allowed asset beta for Dublin airport is 0.50 (noting that traffic risk is faced by the airport, and therefore HIALs beta should arguable be lower than that). We also do not see what the study references as "complicated"

- Only Beta decisions or studies commissioned by the UK CAA should be included in table 2.15. This table makes a reference to a study (NERA) that has not been commissioned by the regulator.

- We note that the study calculates equity betas from Bloomberg. We would appreciate for AERA to confirm whether the consultants have used the "raw" or "adjusted" Beta from Bloomberg. The problem is that the adjusted based (aka Blume adjustment) assumes that Beta tends to the value of 1 over time, which is fundamentally wrong in the context of determining a Beta of a regulated company.

Equity Risk premium

From what we have seen for regulatory decisions, the most accepted and used method for calculating the ERP is based on historic information (and the longer in time the dataset, the better).

Models based on predicted future ERP (e.g. dividend growth model) are much less reliable as they are constructed on the basis of a number of assumptions and introduce certain optimism bias, and therefore we would request AERA not to consider it.

There is more recent data to feed into the Damodaran approaches (i.e. Bond linked & CDS). The latest available information from Damodaran (see link), the equity risk premium for India is 6.23% on the basis of the bond rating approach (rather than the 8.60% mentioned in the report), and 5.5% on the basis of the CDS approach (rather than the 7.87% provided in the study). The calculation are as follow:

> Bond approach: 4.38% (mature market implied risk premium) + 1.82% (rating based default spread) * 1.0154 (multiplier) = 6.23%
>
> CDS approach: 4.38% (mature market implied risk premium) + 1.1% (sovereign CDS net of US) * 1.0154 (multiplier) = 5.50%

There is also an inconsistency issue in the ERP comparators and the other Return on Equity assumptions. While the study introduces the Damodaran approximations for an Indian ERP by adding a sovereign risk estimate (based on CDS and sovereign bond ratings) on top of the ERP of a mature market, it then double counts the same risk by using Indian government bond yields as the basis for the Risk Free Rate (which by definition, as it is not a AAA rated bond, its yield already includes a sovereign risk). In fact, as highlighted by Damodaran in its paper "*Country Risk: Determinants, Measures and Implications – The 2020 Edition*", (Table 30: Risk free rates in Currencies with non-AAA Rated government issuers), the author calculates the risk free rate for India as of 1 July 2020 (Government bond rate: 5.82%, Rating Moody's Baa2, Default spread 2.23% with the consequent "risk free rate" of 3.59% (5.82%-2.23%).

So, while the approximation done by Damodaran for an Indian ERP is perfectly valid, and to be taken into account when assessing the ERP for BIAL, the study should then make the necessary adjustments in the Risk Free rate to avoid any "double counting" of risk.

So, there are two items for AERA's consideration with regards to equity risk premium

- Consider using latest data available for the calculation of the ERP under the bond rating and CDS approach.
- Ensure that there is no "double counting" of risk in between assumption for the equity risk premium and Risk free rates.

Separately, we note that the cost of equity for HIAL has been set at a higher level than that of BIAL (15.17% vs. 15.05%). We understand that such difference is generated from the application of the proximity scores (ops portion). Linked to the points raised above (true ups), it would be important to further explain why the cost of equity should be different among these airports.

Risk free rate:

- There is no justification as to why an 18-year average has been used for the calculation of the government bond. Since this average is on nominal yields, it picks up inflation expectation from more than a decade ago which may not be the same as nowadays. More generally the worldwide situation is completely different from

more than decade ago. We recommend AERA to consider a much shorter period (somewhere between 1 and 5 years).

- We also note that over the past year the Indian Government bonds have been significantly lower than that assumed in the study. While the risk free rate is assumed to be 7.56%, the 10-year government bonds yield has been less than that rate since April 2019. AERA may need to take this into consideration.

In summary, below are the recommendations with respect to the Return on Equity:

- Acknowledge that HIAL (as well as the other Indian regulated airports) demand risks are significantly mitigated (due to the true up mechanism) and therefore use a lower asset beta relative to any other comparator airport (or even consider using betas of utilities).

- Ensure that there is consistency between the ERP assumption and the Risk free rate to avoid "double counting" of risks.

- Consider updating data for the bond based and CDS based approaches for calculating the Return on Equity

- Consider dropping the forward-looking analysis on ERP

We are convinced that, once the recommendations above are taken into account, the Return on Equity would be significantly lower than that proposed by AERA.

Proposal 9.3.2 The Authority proposes to consider cost of debt as 8.82% based on its assessment of the cost of Rupee Term Loan and the effective cost of the bonds already raised by HIAL.

As highlighted in our submission on Bangalore airport, AERA should have the information to compare the cost of debt at different airports and be able to form an opinion on whether any proposed cost of new debt is in line with what could be achieved in the market. In this case, we note that the cost of debt reported by BLR was 7.85% on the FY21 and that has been assumed as the cost of debt for the Third Control Period.

We understand that it may be more difficult to apply the above mentioned rate to the existing hedged USD denominated debt, but we see no reason on why a rate of 10.50% should be accepted for the term loan aimed at funding the capex balance. We note that AERA is accepting the proposal because it is lower than what it allowed in the 2019-20 order, but markets have changed significantly (in particular, the risk free rate), so it merits a reconsideration. We urge AERA to reconsider the interest rate allowance for this new debt on the basis of the lowest available rates at Indian airports, and consider an interest rate closer to 8% for such term loan. If there is no such pressure, we fear that airports may not be incentivized to minimize their cost of debt.

Proposal 9.3.3 The Authority proposes to consider a notional debt equity ratio of 48%:52% as suggested by the independent study.

We support the usage of a notional gearing, as the regulated companies should be encouraged to implement the most efficient capital structure.

Proposal 9.3.4 The Authority proposes to consider the Fair Rate of Return/Weighted Average Cost of Capital as 12.12% for the Third Control.

While we welcome that AERA's proposal is significantly lower than proposed by HIAL, we consider that there is still a significant scope for an even further reduction, on the basis of the risks borne by the airport and the rates available elsewhere. We would appreciate for AERA to reconsider its proposals on the basis of what has been proposed in this chapter and lower the proposed WACC.

Proposal 9.3.5 The Authority proposes to true up actual value of cost of debt subject to a cap of 10.50%.

Based on our response to proposal 9.3.2, we consider that the cost of debt should be lower and therefore, the corresponding cap should be lower as well. Moreover, we see that AERA is proposing to cap the entire cost of debt at 10.50% when there is already hedged debt at fixed lower rates than 10.50%. We would appreciate for AERA to review its proposals on the basis of these points.

Chapter 10 – Taxation

Proposal 10.3.1 The Authority proposes to determine aeronautical taxes for the Third Control Period by allocating total taxes as per the aggregate profit & loss account between aeronautical and non-aeronautical components based on the ratio of taxes as per the aeronautical and non-aeronautical profit and loss accounts.

We agree with the methodology used to derive the tax allowances. In particular with the decision on not including the 30% contribution, for the reasons clearly stated in paragraphs 10.2.2 to 10.2.4, as well as being consistent with our previous submissions on the subject.

Proposal 10.3.2 To consider Aeronautical Taxes as set out in Table 125 above.

The calculated tax values may be affected by the application of a number of proposals included in this submission. However, and as expressed in our answer to AERA's proposal in para 10.3.1, we agree with the overall methodology.

We also note that in its proposal, AERA is not mentioned that it proposes to true up tax. We don't know if this is on purpose or unintentionally. In this regard, it would be important for AERA to clarify its intention in its Final order.

Chapter 11 – Inflation

Proposal 11.3.1 The Authority proposes to consider the max WPI for Q4:2020-21 of 4.6% based on the RBI survey of professional forecasters on macroeconomic indicators – 63rd round.

We don't have any major comments regarding the proposal.

Chapter 12 – Quality of Service

Proposal 12.3.1 The Authority proposes not to consider any adjustment in the aeronautical tariff during the Third Control Period with regards to Quality of Service.

IATA has highlighted in our past submissions on the need for improvements to the existing framework that is predominantly driven by ACI's ASQ standard, which is qualitative and perception based while completely overlooking quantitative, objective measurement of CIAL's actual performance and the customer (airline Users) – supplier relationship.

The reason this is so important is to create a clear link between major capital investments and the realization of outcomes and benefits reflected in clear KPI' and quality of service monitors (which should be clearly stated in PIF's). Qualitative metrics cannot measure the performance and reliability of critical infrastructure such as baggage systems or passenger facing equipment such as lifts, escalators or moving walkways, or their associated resilience if they fail.

Similarly, there is no measurement of passenger queuing standards to our knowledge that is a critical quantitative element of passenger experience. Perhaps this is unsurprising given HIAL is applying outdated level of service inputs from IATA ADRM 9th edition that is now enhanced to include queuing times in addition to space. The latest frameworks should be applied reflecting global best practices (based on major airport, industry feedback). The 11th Edition planning manual was published I 2019, and we are planning a further release in 2022.

IATA provides best practice industry guidance regarding Airport Service Level Agreements[3] broadly used, and we strongly encourage adoption of our policy in users and consumers interests. This will also assist AERA in conducting a more objective assessment of the service level performance of the airport operator.

IATA would be pleased to support AERA in improving this aspect of the regulatory framework.

The limitation of concession agreements specifying a fixed level of service would seem to be a major constraint to adapting with the market and improving passenger experience and operational performance over time, and may even supersede regulatory efforts to apply more comprehensive frameworks. This needs to be addressed moving forwards or major Indian airports will not be held to the latest industry best practices or have the incentives to adapt over time to meet users needs.

Chapter 13 – ARR for the TCP

Proposal 13.3.1 The Authority proposes to consider ARR and YPP for the Third Control Period as per Table 129

While we note and appreciate that AERA's proposals are significantly lower than those proposed by HYD, we are convinced that there is significant scope for further reducing the ARR (in particular, noting the commentaries expressed on opex, capex, WACC and true up of the SCP). We urge AERA to take into account the commentaries included in our present submission, and hopefully incorporate them ahead of the Final order.

Proposal 13.3.2 The Authority directs HIAL to submit the detailed Annual Tariff proposal and tariff rate card in line with the ARR and Yield arrived at by the Authority within 7 days of issue of the Consultation Paper for Stakeholder's Consultation.

We received the Annual tariff proposals (that would be in line with the Authority's calculated ARR). In addition to the horrendous substantial increases, we also note that there is still different treatment to airlines (since

[3] https://www.iata.org/contentassets/4eae6e82b7b948b58370eb6413bd8d88/airport-service-level-agreement.pdf

equivalent aircraft would be paying differential charges on whether they are domestic or international). This appears to be contrary to the TDSAAT decision for BLR (as summarised by the Authority in paragraph 1.4.3 v).

The HIAL proposals not only do not aim at correcting such discrimination, but on the contrary aim to widen it:

	Existing charges	01-Apr-25 (HYD rate card)	Change (%)
Landing charges - International	Rs 251 per MT	Rs 668	166.1%
Landing charges – Domestic	Rs 188 per MT	Rs 469	149.5%
UDF – International	Rs 393 per pax	Rs 2200	459.8%
UDF – Domestic	Rs 281 per pax	Rs 728	159.1%

While during the pandemic times it wouldn't be advisable to carry our structural changes, AERA should at least forbid the widening of such discrimination (e.g. percentage changes should be the same) and lay out a plan on how such discrimination could be phased out after the pandemic.

Separately we would also like to comment on the Variable Tariff Plan. This falls under the marketing cost and as highlighted earlier it should not be considered as a cost for the determination of the ARR. HIAL is most welcomed to offer the scheme in a non-discriminatory and transparent manner but it shouldn't be cross subsidized by other users as per ICAO policies on charges.

We thank AERA for its consideration of all the points raised in this submission in order to provide a balanced determination taking into account the needs of users and ultimately consumers.

IATA is also available for any further clarifications that AERA may require during the review process of the stakeholder submissions, to the AERA Consultation paper for HYD airport for the TCP.

Yours Sincerely,

Allan Young
Head Airport Infrastructure
APCS-Airport, Infrastructure and Fuel

Tel: +41227702558
younga@iata.org

International Air Transport Association

Cesar Raffo
Head Airport Charges
APCS-Airport, Infrastructure and Fuel

Tel: +41227702778
raffoc@iata.org

International Air Transport Association

IATA Center, 33 Route de l'Aéroport, PO Box 416,
1215, Geneva, Switzerland
iata.org

IATA Center, 33 Route de l'Aéroport, PO Box 416,
1215, Geneva, Switzerland
iata.org

Appendix A: Examples of Operation cost reduction initiatives

1. Personnel

- Regular evaluation of which functions can be outsourced and the cost/benefit
- Early retirement and departure packages
- Government wage subsidy, part-time work and unemployment schemes
- Repurposing of staff across functions
- Wage reductions (Temporary or permanent)
- Hiring freezes and non-renewals
- Cut performance bonuses and executive salaries
- Review benefits packages (as opposed to salaries)
- Identify a level of activity or a duration at which dismissing staff and re-hiring is less costly than keeping staff considering government benefit schemes
- Change from defined benefit to defined contribution pension systems,

2. Contracted services

- Re-evaluation of the business case for outsourcing where relevant
- Review of force majeure clauses permitting prices and quantities to be modified
- Balancing fixed-price vs. variable-price contacts with ceiling and floor levels. Variable-price contracts based on volume are advantageous in a low-growth market but there should be caps to avoid costs exploding when traffic grows
- Eliminate redundancies (are multiple consultants used to produce reports for the same projects?)

3. Materials, equipment, supplies

- Ensure there is appropriate inventory management to minimize stocks on hand
- Consider multifunctional equipment where appropriate (snow-clearing equipment that can perform other functions in the summer, etc.)

4. Communications, utilities, energy and waste

- Review agreements with telecommunication and IT providers to shut down unneeded services when not in use
- Lease IT and telecom equipment as opposed to purchasing the equipment where this makes sense
- Consider lowering/raising temperature and operating hours of HVAC systems where relevant to conserve energy
- Building shutdown / pier shutdown / gate consolidation where relevant to save costs on energy etc.
- Consider temporary substitution of ground transportation solutions by less costly solutions if volumes justify (busses vs. people movers or trains)
- Review use of airfield lighting within the constraints of regulation to turn off lighting when not needed
- Consider whether parts of the baggage system can be switched off or whether with re-organization a smaller subset of the baggage system can be used.

5. Insurance, claims, settlements

- Review contracts to see whether they can be volume based

6. Maintenance

- Switch from “scheduled maintenance” to “usage-based maintenance” where possible to reduce required intervention

- Consider closing airside infrastructure that is only required when there are higher levels of traffic (e.g. dual taxiways, additional runways, multiple towers) without compromising safety

7. Lease, rent and concession fees
- Request deferrals of payments in lease, rent and concession fees

8. General and administration expenses
- Consider outsourcing the invoicing and collection of revenues
- Cut business travel, internal and external events, marketing spend
- Implement better A/P and A/R management
- Consider renting and leasing equipment in the COVID context rather than purchasing

9. Broader cost-reduction initiatives
- Consider closing terminals or parts of terminals where there is little activity
- Consider moving airport management offices from off-site premises to the terminal if there is space and renting the off-site locations to tenants
- Close certain facilities (e.g. restrooms etc) either during parts of the day or permanently to save on cleaning and utilities