



भारतीय विमानपत्तन प्राधिकरण
AIRPORTS AUTHORITY OF INDIA

F.No.AAI/JVC/Calicut -Tariff/2021

Date : 22/11/2021

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

Sub: - AERA's Consultation Paper No. 17/2021-22 in the matter of Determination of Aeronautical Tariff in respect of Calicut Airport for the Third Control Period (01.04.2021 to 31.03.2026).
Ref:- AAI's counter comments in response to Federation of International Airlines (FIA) submission - Reg.

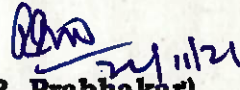
Sir,

This is in reference to the Federation of International Airlines (FIA) comments received through AERA e-mail dated 09.11.2021

In this regard, please find attached herewith the AAI's counter comments in response to FIA's submission.

Thanking You,

Your faithfully


(R. Prabhakar)

General Manager (F&A)-JV/Tariff Cell

Encl: As above



CALICUT INTERNATIONAL AIRPORT

Response to Stakeholder comments to Airports Economic Regulatory Authority of India's (AERA)
Consultation Paper No. 17/2021-22 dated 7th October 2021

Determination of Aeronautical Tariff for Calicut International Airport, Calicut (CCJ) for the Third
Control Period (01.04.2021 - 31.03.2026)

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1 Comments from Federation of International Airlines (FIA)

1.1 Regarding Revenue from Air Navigation Services and Cargo Services

"The methodology adopted by the Authority to determine Aggregate Revenue Requirement (ARR) is based on AERA Act, 2008 and the Airport Guidelines issued by AERA. (para 3.3.1.)"

As per the guidelines, for the Second Control Period, the Authority had adopted the Hybrid-Till mechanism for tariff determination, wherein, only 30% of the Non-aeronautical revenue is to be used for cross-subsidising the Aeronautical charges. The Authority has considered the same methodology in the true up of the Second Control Period and for tariff determination in the Third Control Period. (para 3.3.2.)

The ARR under hybrid till for the Control Period (ARR) shall be expressed as under:

$$ARR = \sum ARR/5_{t=1}$$

$$ARR_t = (FRoR \times RAB_t) + Dt + Ot + Tt - s \times NAR_t \text{ (para 3.3.3.)}$$

FIA's Submission

It is submitted 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.."

It is submitted 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 AERA should take into account of the corresponding revenue and revise the tariff card.

AAI's Submission

AAI submits that the tariff determination for airports by AERA is done only for the aeronautical charges collected by the AAI major airports.

Tariff for air navigation charges and cargo services is separately determined by MoCA and AERA respectively.

1.2 Regarding True Up of Capital Expenditure and Depreciation for Second Control Period

"Table 6: Capital additions during the Second Control Period submitted by Calicut International Airport

S. No	Asset category	Capex approved by AERA (₹ In crores)	Actual capex incurred by Calicut International Airport (₹ In crores)	Remarks
Capex Incurred towards projects approved by AERA for Second Control Period				
1	Terminal Building (NIAB)	78.61	76.43	
2	Electrical installation (NIAB)	28.93	28.93	
3	Runway	28.40	33.86	
4	Road, bridges and culverts	0.94	-	
5	Other Building – Unclassified	16.2	0.40	
6	Building Residential	0.25	0.18	
	Total Approved Capex (A)	153.33	139.80	
Unplanned/ Unapproved Capex Incurred by Calicut International Airport during Second Control Period				
7	Electrical Installations (Security related)	-	50.98	
8	Tools and Equipment	-	11.18	
9	Machinery	-	5.21	
10	Vehicles	-	6.26	
11	CFT & Fire fighting Equipment	-	4.36	
12	X-Ray Equipment	-	3.10	
13	Boundary Wall - Operational	-	2.80	

14	Roads, Bridges & culverts	-	2.71
15	ATM Furniture	-	2.30
16	Vehicles - Cars & Jeeps	-	0.76
17	Office Furniture	-	0.48
18	Office Equipment	-	0.48
19	Furniture & Fixtures - Trolleys	-	0.46
20	Security Fencing	-	0.42
21	Computer Software	-	0.07
22	Computers & Peripherals	-	0.04
Total Unapproved Capex (B)			96.01
Total Capex Incurred (A+B)			235.81

FIA's Submission

We note that Calicut/CCJ Airport has exceeded the approved capex for the Second Control Period by approx. 50%, which is a very large variation. Although it is mentioned by AERA that most of the expenses were incurred for purposes of security and passenger facilitation, and while AERA has approved almost all the unplanned capital expenditure, the Consultation Paper fails to provide the reasons/justifications as to why such capital expenditure was not anticipated by CCJ Airport at the time of finalisation of the capex proposal for the Second Control Period for Calicut Airport.

AERA is requested to discourage such unplanned capex proposals and untimely deviations other than those which may be related to unanticipated safety and security requirements, which resultantly impacts tariff of a subsequent control period in an adverse manner.

AAI's Submission

AERA has sought various details on the unplanned capital expenditure during MYTP process. The items on which amounts were spent on such unplanned capex has been adequately captured in para 4.4 of the CP. In addition to this, the full list of items has also been given in Annexure 3 of the CP.

It is re-iterated by AAI that most of these expenditures which were classified as unplanned are towards enhancing the safety and security of the airport as well as for passenger facilitation. At the cost of repetition, AAI submits that this largely consists of In line baggage screening systems as per latest BCAS guidelines, additional PBBs installed for better passenger movement, upgradation of FIDS, bomb detection system, etc. AAI submits that diligent plans and forecast of capital spend is made by the stations for the control period. However, deviations from the plans based on the requirements arising out of new guidelines, increased passenger traffic, change in circumstances, etc. is inevitable. AAI submits that these are legitimate spends made after various levels of approval within the organization. Depending on the quantum of spend, the regional/central head-quarters are also involved. AAI submits that after careful consideration and discussion at appropriate levels within the organization, the additional unplanned capex was categorized as "essential" and hence approved for purchase.

AAI's Request

AAI thus requests AERA to continue with its stand taken in the CP on the capital expenditure for the second control period.

1.3 Regarding Traffic Forecast for Third Control Period

"Considering the trend in the growth of traffic data, the Authority considers the growth rate of 25% in domestic passenger traffic and of 15% in domestic ATM for the FY 2023-24, as projected by AAI in their MYTP to be appropriate." (para 5.4.5.)

FIA's Submission

While we appreciate that AERA has drawn references to traffic outlook by ACI, IATA, CAPA India and ICAO, we request AERA to conduct an independent study for traffic assessment, in accordance with the AERA Act.

AAI's Submission

For determination of tariff for the third control period for Calicut airport, the traffic projections proposed by AERA appears to be highly optimistic.

The submissions of AAI are as furnished below:

1. The forecast for Calicut airport was submitted in the month of December 2020 wherein the traffic for FY 2020-21 was estimated. The same has now been reviewed on the basis of actual traffic for FY 2020-21 and 2021-22 (April-September).
2. The pre-covid level of traffic for domestic and international traffic is likely to be achieved in the year 2023-24 and 2024-25 respectively.
3. Accordingly, the aircraft movements has also been revised:

TRAFFIC FORECAST - CALICUT AIRPORT						
YEAR	AIRCRAFT MOVEMENTS(in Nos.)			PASSENGERS (in Nos.)		
	International	Domestic	Total	International	Domestic	Total
2019-20 (Actual)	18660	6695	25355	2700556	529354	3229910
2020-21 (Actual)	5611	3327	8938	712872	189140	902012
GROWTH RATE	70.0%	50.0%	62.6%	75.0%	65.0%	72.9%
2021-22	9539	4991	14529	1247526	312081	1559607
GROWTH RATE	40.0%	20.0%	33.1%	45.0%	35.0%	43.0%
2022-23	13354	5989	19343	1808913	421309	2230222
GROWTH RATE	30.0%	15.0%	25.4%	35.0%	25.0%	33.1%
2023-24	17360	6887	24247	2442032	526637	2968669
GROWTH RATE	12.0%	12.0%	12.0%	15.0%	15.0%	15.0%
2024-25	19444	7713	27157	2808337	605632	3413969
GROWTH RATE	8.0%	10.0%	8.6%	10.0%	12.0%	10.4%
2025-26	20999	8485	29484	3089171	678308	3767479

AAI's Request

AAI requests AERA to consider the above traffic projections which have been re-drawn by us considering the current scenario.

1.4 Regarding Deferment of Capital Expenditure – Regulatory Asset Base

"Table 6: Capital additions during the Second Control Period submitted by Calicut International Airport

S. No	Asset category	Capex approved by AERA (₹ in crores)	Actual capex incurred by Calicut International Airport (₹ in crores)	Remarks
Capex incurred towards projects approved by AERA for Second Control Period				
1	Terminal Building (NIAB)	78.61	76.43	
2	Electrical installation (NIAB)	28.93	28.93	
3	Runway	28.40	33.86	
4	Road, bridges and culverts	0.94	-	
5	Other Building – Unclassified	16.2	0.40	
6	Building Residential	0.25	0.18	
	Total Approved Capex (A)	153.33	139.80	
Unplanned/ Unapproved Capex incurred by Calicut International Airport during Second Control Period				
7	Electrical Installations (Security)	-	50.98	

S. No	Asset category	Capex approved by AERA (₹ in crores)	Actual capex incurred by Calicut International Airport (₹ in crores)	Remarks
	related)			
8	Tools and Equipment	-	11.18	
9	Machinery	-	5.21	
10	Vehicles	-	6.26	
11	CFT & Fire fighting Equipment	-	4.36	
12	X-Ray Equipment	-	3.10	
13	Boundary Wall - Operational	-	2.80	
14	Roads, Bridges & culverts	-	2.71	
15	ATM Furniture	-	2.30	
16	Vehicles - Cars & Jeeps	-	0.76	
17	Office Furniture	-	0.48	
18	Office Equipment	-	0.48	
19	Furniture & Fixtures - Trolleys	-	0.46	
20	Security Fencing	-	0.42	
21	Computer Software	-	0.07	
22	Computers & Peripherals	-	0.04	
Total Unapproved Capex (B)			96.01	
Total Capex incurred (A+B)			235.81	

Table 30: Capital Expenditure (Project wise) proposed by the Authority for Third Control Period

S. No	Capital Expenditure Project	Financial Year of Commissioning	Project cost (includes design, PMC, Pre-operative expenses etc.)	Financing allowance (FA)	Total Capex (incl. FA)
Runways, Taxiway & Aprons					
1	Civil minor capital works	2022-23	4.30	-	4.30
2	Grading of area beyond runway basic strip	2021-22	2.55	-	2.55
3	RMS	2022-23	2.00	-	2.00
Road, Bridges & Culverts					
5	Widening of existing perimeter road.	2022-23	4.00	-	4.00
6	Widening of present low lying area road	2023-24	5.00	-	5.00
7	Runway recarpeting work	2024-25	20.00	-	20.00
Terminal Building					
8	Internal Modifications and Integration of International and Domestic Terminal Buildings	2022-23	5.81	-	5.81
9	Contract for Civil Minor Capital Works in Terminal building	2023-24	1.45	-	1.45
10	Chairs	2023-24	1.55	-	1.55
Buildings- Others					
11	Reconstruction of equipment staging area and associated works	2021-22	1.05	-	1.05
Computers & Peripherals					
12	Desktop/laptop		0.29	-	0.29
13	Printer		0.04	-	0.04
14	Scanner		0.003	-	0.00
15	IT		0.02	-	0.02
Furniture and Fittings					
16	Trolleys	2024-25	0.58	-	0.58
Vehicles					
17	Diesel Bowser		0.09	-	0.09
18	Ambulance		1.67	-	1.67
Vehicles - Cars & Jeeps					
19	Bolero		0.99	-	0.99

S. No	Capital Expenditure Project	Financial Year of Commissioning	Project cost (Includes design, PMC, Pre-operative expenses etc.)	Financing allowance (FA)	Total Capex (Incl. FA)
20	Tata407		0.35	-	0.35
21	Thar Jeep		0.43	-	0.43
22	Maruti Swift		0.20	-	0.20
Electrical Installations					
23	Replacement of Chillers - Phase -I	2022-23	3.00	-	3.00
24	Replacement of Chillers - Phase -II	2023-24	3.50	-	3.50
25	Provision of PBB for Additional Bays	2022-23	2.50	-	2.50
26	Provision of Runway Centreline lights	2023-24	4.00	-	4.00
27	Installation of PBB for bay	2021-22	2.54	-	2.54
28	Body Scanner	2021-22	13.30	-	13.30
29	SCCTV	2023-24	1.00	-	1.00
30	FID	2024-25	1.00	-	1.00
31	PA	2025-26	1.00	-	1.00
X-Ray Equipment					
32	XBIS	2022-23	1.53	-	1.53
Fire Fighting Equipment/ CFT					
33	ASFT	2022-23	1.00	-	1.00
GRAND TOTAL			86.74	-	86.74

FIA's Submission

In this regard, AERA and Calicut Airport must ensure that all non-essential capital expenditure should be put on hold or deferred, and only such capital expenditure deemed critical from a safety or security compliance perspective may be undertaken by Calicut Airport. Further, in case Calicut Airport wants to make capital expenditure, then it should be at no additional expense to the airlines until the project is completed and put to use by the airlines.

Further, FIA requested AERA to conduct independent study on allocation of assets and ensure that any capex approved by the AERA is within the prescribed normative norms by AERA.

AAI's Submission

AAI submits that the total capital spend proposed for the third control period is only Rs 86.74 crores for an annual normal-expected passenger throughput of about 3-3.5 MPPA. AAI is cognizant of the current pandemic scenario has taken a conscious decision to keep the spend at the bare minimum levels. It can be seen from the above table that the major spend out of Rs 86.74 crores is about Rs 18 crores on safety and security equipment and Rs 20 crores on runway recarpeting. Almost 50% of the capital expenditure is only for enhancing safety and security. Rest of the spend is to replace/upgrade minimal assets which are old and worn out.

AAI's Request

Hence, AAI submits that there are no extraneous spends projected and requests AERA to continue to allow the capital expenditure as proposed in the CP.

1.5 Regarding Fair Rate of Return (FRoR)

"Based on the above, the Authority proposes to consider FRoR as per table below for Calicut Airport for the Third Control Period: (para 7.2.3.)

Table 35: Fair Rate of Return proposed to be considered by the Authority for the Third Control Period

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
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Fair Rate of Return	14.00%	14.00%	14.00%	14.00%	14.00%
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FIA's Submission

At present the Fair Rate of Return (FRoR) being considered by the AERA is 14 % towards Calicut Airport's investment. However, while such fixed/ assured return favors the airport operator, it creates an imbalance against the airlines, which are already suffering from huge losses and bear the adverse financial impact through higher tariffs.

Due to such fixed/assured returns, airport operators like Calicut Airport have no incentive to look for productivity improvement or ways of increasing efficiencies and take steps to reduce costs as they are fully covered for all costs plus their hefty returns. Such a scenario breeds inefficiencies and higher costs, which are ultimately borne by airlines. In the present scenario any assured return on investment to any services providers like Calicut Airport, in excess of three (3) % (including those on past orders), i.e., being at par with bank fixed deposits (i.e., return on investment after the income tax), will be onerous for the airlines.

Without prejudice to the above, in case the AERA is unable to accept our recommendation mentioned above, the Authority is requested to conduct an independent study for determination of FRoR to be provided to Calicut Airport. Such independent study can be exercised by the AERA in terms of powers conferred under the AERA Act, and in line with studies being conducted in case of certain major airport operators.

AAI's Submission

AAI submits that cost of equity when computed for these airports, would work out to about 15.5% to 16%. However, taking cognizance of the fact that using only equity based funds without debt leverage to fund the capital spends is not most efficient, AERA has proposed an FRoR of only 14%. The extract of the CP is provided below:

"7.2.1 The Authority has recognized that AAI's capital structure may not be regarded as an efficient one as it doesn't optimize the cost of funds from a regulatory perspective. The Authority desires that the FRoR allowed to AAI should come down over a period of time by optimizing capital gearing and leveraging AAI's credit ratings.

7.2.2 The Authority had earlier considered the Fair Rate of Return at 14% for similar airports such as Jaipur, Patna, Chennai etc. Accordingly, the Authority proposes to consider the Fair Rate of Return at 14%."

AAI's Request

AAI hence submits that not having a leveraged financing structure has already been factored by AAI by considering an FRoR of 14%. Further, suggesting that a return equal to interest rate of bank to be applied does not factor in the risks associated with the aviation business and more specifically the uncertainties in this current pandemic scenario.

1.6 Regarding Tendering Process and Royalty

"AAI has proposed revenues from Concession Agreements for FY 2021-22 and FY 2022-23 at the rate of 80% of FY 2019-20. Thereafter, an annual increase of 4%, 8% and 12% for revenues from Trading Concessions and Miscellaneous have been proposed for the last 3 tariff years such as FY 2023-24, FY 2024-25 and FY 2025-26, factoring in the growth in traffic for the above tariff years by assuming the passenger traffic for FY 2019-20 as the base. The Authority noted that the above waiver in the contractual revenues (20%) from the Concessionaires is allowed by AAI vide its Commercial Circular No. 24/ 2020 and 26/ 2020, considering the impact of COVID-19 on the Aviation sector." (para 9.2.3.)

FIA's Submission

Any attempt to award the contracts by the airport operator on the highest revenue share basis should be discouraged as it breeds inefficiencies and tends to disproportionately increase the cost. It is general perception service providers have no incentive to reduce its expenses as any such increase will be passed on to the airlines through tariff determination mechanism process and indirectly airlines will be forced to bear these additional costs.

There needs to be a mechanism for incentivizing the parties for increasing efficiencies and cost savings and not for increasing the royalty for the airport operator.

As you are aware, royalty is in the nature of market access fee, charged (by any name or description) by the Airport operator under various headings without any underlying services. These charges are passed on to the airlines by the airport operator or other services providers. The rates of royalty at Calicut airport are as high as up to 31-32%.

It may be pertinent to note that market access fee by any name or description is not practiced in most of the global economies, including European Union, Australia etc. Sometimes it is argued by the airport operators that 'Royalty' on 'Aero Revenues' helps in subsidizing the aero charges for the airlines, however royalty in 'Non-Aero Revenues' hits the airlines directly without any benefit.

In view of the above, we urge Authority to abolish such royalty which may be included in any of the cost items.

AAI's Submission

AAI has initiated tender as per the terms and conditions, period of license etc., mentioned in line with the AAI commercial manual. Commercial Department is collecting 13% of GTO from Inflight Caterers for doing business at Airport. Collection of 13% royalty from Inflight catering service provider is prevailing in all the AAI managed Airports as per the internal policies.

AAI is incurring huge expenditure on providing the infrastructure to facilitate the Ground Handling Agencies for providing their services to the airlines. Further, the royalty on Ground handling charges (Revenue Share) payable by Ground Handling Agency has been brought down to 3% of Actual Gross Revenue from Scheduled Domestic Passenger Flights and 15% of Actual Gross Revenue from users other than Scheduled Domestic Passenger Flights and RCS flights. This is effective from 1st October 2021.

Refer Annexure 1 for further details.

1.7 Regarding Non-Aeronautical Revenue

"The Authority notes that AAI's projection of Non-aeronautical revenues for the Third Control Period for Calicut Airport (₹ 189.76 crores) is lesser than the actual revenue reported by Calicut Airport for true up of the Second Control Period (which is at ₹ 194 crores). Further, the Authority notes that while the projections towards Operation and Maintenance expenses for the Third Control Period have increased substantially, the Non-aeronautical revenues have been projected less as compared to the Second Control Period. The Authority would like the stakeholders to comment on the above aspect." (para 9.2.1.)

FIA's Submission

With regards to para 9.2.1, wherein the projects Non-Aeronautical Revenue for Third Control Period is projected lower than the actual revenue Second Control Period, FIA requests the AERA to kindly undertake detailed scrutiny examination with the assistance of an independent study. With regards to para 9.2.5, it is requested that Calicut Airport explores all avenues to maximise revenue from the utilisation of terminal building for non-aeronautical purposes, as deemed fit.

Without prejudice to the above, our submission is that increase in non-aeronautical revenue is a function of passenger traffic growth, inflationary increase, and real increase/escalations in contract rates. However, AERA to ensure no adjustments are proposed to non-aeronautical revenue which is not dependent on traffic but are derived from agreements with concessionaires.

AAI's Submission

AAI submits that NAR is not directly proportional to the passenger traffic as there are various factor which impact the NAR including the spending habits after the onset of pandemic. AAI has also given various support schemes to the concessionaires to tide over these testing times.

AAI submits that the computation of NAR has been computed for the first 2 years of TCP as follows:

- For FY 22, based on internal AAI Circular 24 read with Circular 26 (copies of which have been shared during is it MYTP Review), support schemes were introduced in the airport in view of supporting the concessionaires during the pandemic period. Hence, concession on the fees paid in whatsoever form by the concessionaires was provided to the extent of 40% till Jun 21 and to the extent of 20% after this period. The revenue computation also took into consideration increase in the number of passengers wherever applicable.

AAI's Request

AAI requests the Authority to consider the NAR as submitted by AAI during MYTP for TCP.

1.8 Regarding Operating Expenses

"Table 47: Operation and Maintenance (O&M) expenses proposed to be considered by the Authority for the Third Control Period

Particulars	FY	FY	FY	FY	FY	Total
	2021-22	2022-23	2023-24	2024-25	2025-26	
Payroll Costs - Excluding CHQ/RHQ	34.55	36.28	38.10	40.00	42.00	190.93
Payroll Costs - CHQ/RHQ	8.03	8.44	8.86	9.30	9.77	44.40
Repair & Maintenance	15.68	15.13	16.00	16.20	14.92	77.93
Utilities & Outsourcing Expenses	12.67	12.77	12.87	12.98	13.10	64.39
Admin. & Other Expenses - Excluding CHQ/RHQ	9.41	10.14	10.94	12.04	13.61	56.14
Admin. & Other Expenses - CHQ/RHQ	24.75	25.99	27.29	28.65	30.08	136.76
Other Outflows	0.21	0.33	0.48	0.50	0.53	2.05
Total Operating Expenditure	105.30	109.08	114.54	119.67	124.01	572.60

Based on above considerations, the Authority proposes the following growth rates in Operation and Maintenance expenses. (para 10.2.15.)

Table 48: Growth rates in O&M expenses considered by the Authority for the Third Control Period

Particulars	FY	FY	FY	FY	FY
	2021-22	2022-23	2023-24	2024-25	2025-26
Payroll Costs - Including CHQ/RHQ	5.00%	5.00%	5.00%	5.00%	5.00%
Repair & Maintenance – Civil, Electrical, IT and Others	6.00%	6.00%	6.00%	6.00%	6.00%
Utilities (Power & Water charges)	0%	0%	0%	0%	0%
Outsourcing Charges and Consumption and Stores & Spares	10.00%	10.00%	10.00%	10.00%	10.00%
Upkeep Expenses	5.00%	5.00%	5.00%	5.00%	5.00%
CHQ and RHQ Expenses	5.00%	5.00%	5.00%	5.00%	5.00%
Admin. & Other Expenses – Excluding Upkeep and CHQ/RHQ Expenses	10.00%	10.00%	10.00%	10.00%	10.00%
Other Outflows	62.1%	61.1%	44.4%	5.1%	5.3%

FIA's Submission

We appreciate that an independent consultant, M/s R. Subramanian and Company LLP was appointed to assist in the examination of the MYTP submitted by Calicut Airport.

We are unaware as to whether Calicut Airport has taken cost cutting measures including re-negotiations of all the cost items on its profit and loss account.

It may be noted that cost incurred by Calicut Airport impacts the airlines, as such cost is passed through or borne by the airlines. In order to ensure that there is no adverse impact/increase in the tariff we request AERA should:

- (a) Put on hold any increase in operational expenditure by Calicut Airport;
- (b) Advise Calicut Airport to review its spending on operational expenditure and re-negotiate all the operational expenditure costs in a significant manner and address any increase in fees sought by Calicut Airport. Calicut Airport may be advised to reduce its cost by at least 35% and no escalation should be permitted; and
- (c) In view of the above, Calicut Airport should be directed to pass on cost benefits to the airlines.
- (d) In particular, we submit that:
 - (i) Instead of a significant reduction in cost items of operating expenses, AERA has considered a Y-O-Y increase in O&M expenses. Such an increase in the name of escalation, in a highly uncertain environment, where airlines have made heavy losses, should be avoided.
 - (ii) Payroll Cost:

Although the activity level has gone down drastically, rather than significant reduction in the cost, the employee expenses are proposed to increase Y-O-Y by 5% each year of the control period. It appears that Calicut Airport wants to recover its full employee cost from the airlines, which are facing significant challenges to meet its operating expenses.

We submit that there should not be any increase in manpower or manpower costs till the existing manpower is effectively utilized as it will take another two (2) - three (3) years to recover. Existing manpower can be reviewed and any additional costs due to contract manpower or otherwise should be reduced.

Without prejudice to the above, Calicut Airport needs to considerably rationalize/restructure its employee benefit expenses and other expenses and hold any revisions at least for the next two (2) years.

AAI's Submission

AAI has introduced various cost cutting measures as per internal guidelines. This has been carried out in various heads of expense including manpower cost and operating expenses.

AAI takes cognizance of the fact there is a need to rationalize all costs in view of the pandemic scenario in the interest of all the stakeholders. AAI submits that various measures like limits on reimbursements, expense levels, etc. have been put in place. All these measures have broadly been considered in the projections of costs for the airport.

1.9 Regarding Return on Land – Third Control Period

"Based on the above observations, the Authority has re-computed the Return on the cost of Land as follows: (para 12.2.8.)

Table 53: Return on cost of land recomputed by the Authority for the Third Control Period

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Land Value (₹ Crores)	24.93	24.93	24.93	24.93	24.93	
Rate of Return	6.21%	6.21%	6.21%	6.21%	6.21%	
Return Value (₹ Crores)	1.64	1.64	1.64	1.64	1.64	8.2

FIA's Submission

It is noted that the Authority will allow return on land on the fourth control period (as per Order No. 42/2018-19). We recommend that no returns may be provided for investment in land by Calicut Airport in view of the fact that Land value does not depreciate.

AAI's Submission

Order No. 42/ 2018-19 dated March 5, 2019 which prescribes methodology for computing Return on Land has provided for return on land under various scenarios. Hence, the need for providing a return on land is a well settled matter.

However, AAI submits that the return on land may be provided from the second control period atleast though AAI has submitted the MYTP seeking return on land from the first control period itself. This submission is in view of the fact that the land was purchased in the 1970s. AAI has been deprived of the return on this land since the start of tariff determination exercise. Issuing of an Order by AERA at a later date does not change the facts and its position as at the start of the first control period.

AAI's Request

AAI requests AERA to kindly consider the return on land at least from second control period.

1.10 Regarding Aggregate Revenue Requirement / Shrinkage in Control Period

"After considering the above, the Authority proposes the following ARR and Yield, as presented in the table below. (para 14.2.3.)

Table 55: ARR proposed to be considered by the Authority for the Third Control Period

Particulars	Table Ref.	FY	FY	FY	FY	FY	Total
		2021-22	2022-23	2023-24	2024-25	2025-26	
Average RAB = A	34	256.79	259.43	268.33	259.35	235.93	1,279.83
Fair Rate of Return = B	35	14%	14%	14%	14%	14%	14%
Return on average RAB C= A*B		35.95	36.32	37.57	36.31	33.03	179.18
O&M expenses – D	47	105.30	109.08	114.54	119.67	124.01	572.60
Depreciation – E	32	22.09	23.68	25.54	26.87	26.79	124.99
Working capital interest – F		2.82	1.89	0.00	0.00	0.00	4.71
Return on Land – G	53	1.64	1.64	1.64	1.64	1.64	8.22
Tax expense – H	50	0	0	0	0	20.22	20.22
Less: 30% NAR – I	39	5.66	9.03	17.57	18.50	19.50	70.25
ARR per year (C+D+E+F+G+H-I)		162.14	163.58	161.72	165.99	186.19	839.67
Add: True up shortfall of Second Control Period claimed by AAI (₹ Crores)	21	168.93					
Discount factor (@ 14%)		1	0.88	0.77	0.68	0.59	
PV of ARR (₹ Crores)		331.07	143.49	124.44	112.04	110.24	821.29
Sum Present value of ARR (₹ Crores)		821.29					
Total Traffic (million passengers)		7.28					
Yield per passenger (YPP) (₹)		1,128.14					

FIA's Submission

1. It is appreciated that AERA has, in para 15.2.7 of the CP, held a view not to burden the airlines further which are already suffering with the COVID-19 pandemic's impact, as also the other Users, with excessive tariff at this juncture. However, AERA is requested to review the suggestions/comments on the regulatory building blocks as mentioned under Annex – B, which is likely to reduce the ARR (including shortfall) of the operator. This will further ensure the lowering of tariffs including UDF, which will be beneficial to passengers and airlines.

2. We submit that the Hon'ble TDSAT Order dated 16 December 2020 stated as follows: '100... However, there is substance in this grievance and AERA will do well to ensure that if delay is caused by the Airport operator, its consequences should not fall upon the users. Tariff orders should be prepared well in time so that the burden of recovery is spread over the entire period for which the order is passed...'

In view of the above, AERA is requested to ensure that airlines/passengers are not burdened in view of the apparent shrinkage in the period of recovery of the aeronautical tariff from passengers/airlines, as the AERA Tariff Order Third Control Period will now be issued after the commencement of the Control Period i.e., 1 April 2021.

AAI's Submission

AAI submits that the MYTP submission was carried out before the commencement of the third control period. Further, any shrinkage in the control period also affects AAI as the increase in rate is not smoothened out over the five years. The cash flows in the first couple of years till finalization of revised tariff becomes very strained and critical.

AAI's Request

Hence, after considering all the above changes, the AERA is requested to consider full recovery of ARR. AAI in its MYTP submission proposed to increase the rate from 1st April 2021. AERA in its CP proposed to increase the rate from 1st April 2022. However, AAI requests AERA to consider increase in rate as submitted from 1st January 2022 .

1.11 Regarding Tariff / Government Restrictions / Collection charges

"Collection charges: If payment is made within 15 days from receipt of invoice, then collection charges per departing passenger shall be paid by AAI, as per the policy pertaining to such charges between the Airport Operator and the airlines. No collection charges shall be paid in case the airline fails to pay the UDF invoice to AAI within the credit period of 15 days or in case of any part payment.

No collection charges are payable to casual operator/non-scheduled operators." (Note to Annexure 2 – Tariff Card).

FIA's Submission

We request you to kindly clarify the amount of '**Collection Charges**' and the specific details of the 'Policy' being referred in the tariff card. We further submit that the same should not be conditional upon Calicut Airport having received the '**undisputed invoiced UDF**' amount with the applicable due date.

AAI's Submission

Policy referred to with respect to collection charges: Rs.5/- plus GST per passenger will be paid by AAI to the Airline Operators if they make the payment within 15 days from the receipt of the invoice. No collection charges shall be paid in case the airline fails to pay the UDF invoice to AAI within the credit period of 15 days or in case of any part payment. This is as per the internal policies of AAI which have been provided in the tariff card by AERA.