भारतीय विमानपत्तन प्राधिकरण
AIRPORTS AUTHORITY OF INDIA

F.No.AAI/JVC/Kolkata -Tariff/2021-22/356 Date: 08/02/2022

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

Sub: - AERA's Consultation Paper No. 25/2021-22 in the matter of Determination of Aeronautical Tariff in respect of Kolkata Airport for the Third Control Period (01.04.2021 to 31.03.2026).
Ref:- AAI's counter comments in response to M/s Indigo, M/s SpiceJet, M/s Blue Dart & IATA submissions – Reg.

Sir,

This is in reference to Consultation Paper No. 25/2021-22 submissions of M/s Indigo, M/s SpiceJet, M/s Blue Dart & IATA comments received through AERA e-mail dated 31.01.2022

In this regard, please find attached herewith the AAI's counter comments in response to above stakeholder's submissions.

Thanking You,

Your faithfully

8/02/2022

(V.Vidya)
Executive Director (JVC & PPP)-I

Enclosed: *As above*

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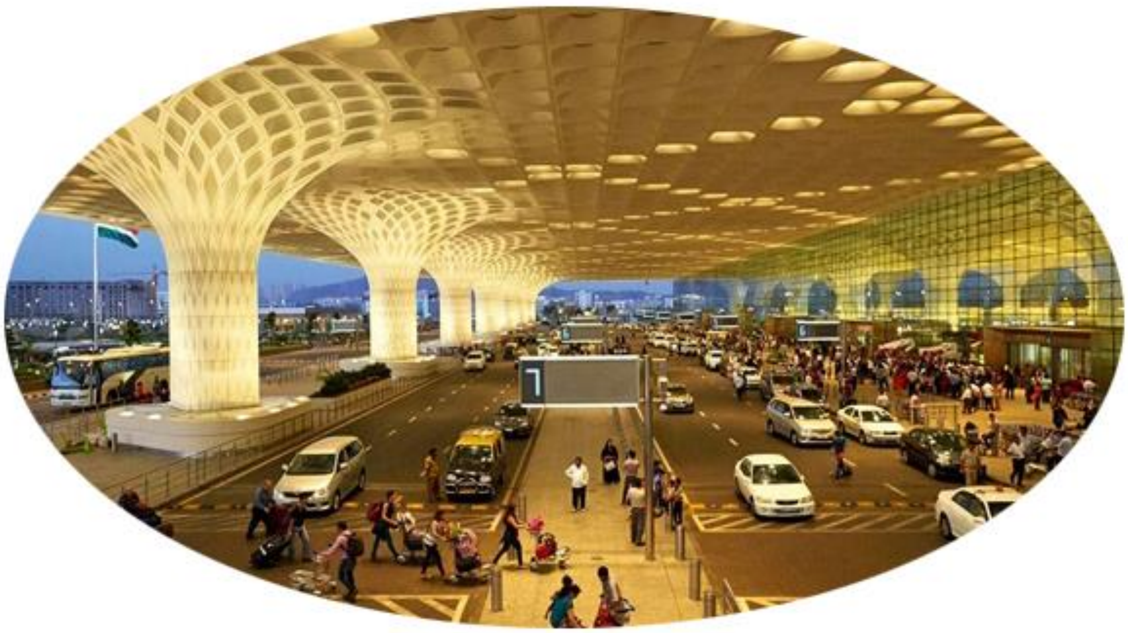

KOLKATA INTERNATIONAL AIRPORT

Response to Airports Economic Regulatory Authority (AERA)'s Consultation Paper No. 25/2021-22 dated 29th December 2021 Determination Of Aeronautical Tariff for Kolkata International Airport (CCU) for the Third Control Period (01.04.2021 - 31.03.2026)

Contents

1 Comments from IndiGo

1.1 Regarding Revenue from Air Navigation Services and Cargo Services (Para 2.2.5 & 2.2.6)

IndiGo submits that as per section 2 of Airport Economic Regulatory Authority of India Act, 2008 (AERA Act), under sub-section (a), "aeronautical services means any services provided-

i)For navigation, surveillance and supportive communication thereto for air traffic management.

v)for the cargo facility at an airport

IndiGo submits that considering the above provisions of the AERA Act, the revenue from Air Navigation Services and Cargo services which includes 100% revenue accruing to AAICLAS should be considered, instead of only 30%.

Additionally, in respect of Cargo, it is observed as per para 3.3.28/ Table 17 of the CP, that the capital expenditure amounting to Rs. 3.03 Cr. was capitalized as a true up for Regulatory Asset Base (RAB) for the Second Control Period. it appears that AERA has considered entire cargo additions to the RAB as proposed by AAI, we would request that 100% of cargo revenues AAI/AAICLAS are taken into account for computing aeronautical revenues at Kolkata Airport.

Accordingly, AERA should take into account the above and revise the Aggregate Revenue Requirement (ARR)/tariff card.

Comments of AAI

As per National Civil Aviation Policy (NCAP)-2016 there should be uniformity and level playing field across various operators, future tariffs at all airports will be calculated on a 'hybrid till' basis, unless otherwise specified for any project being bid out in future. 30% of non-aeronautical revenue will be used to cross-subsidise aeronautical charges. In case the tariff in one particular year or contractual period turns out to be excessive, the airport operator and regulator will explore ways to keep the tariff reasonable, and spread the excess amount over the future.

AAI has submitted its proposal to AERA on the basis of above NCAP during SCP and AERA has Considered it.

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-subsidizing 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 =Σ$ARRt$5t=1
ARRt = (FRoR x RABt) + Dt + Ot + Tt - s x NARt" (para 3.3.3.)

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

Tariff for Air Navigation Services (ANS) has been revised by MoCA whereas, AAICLAS (Cargo services) is 100% subsidiary of AAI and tariff is determined separately by AERA.

AAICLAS has separately filed their tariff proposal from FY 2017-18 onwards.

1.2 Regarding True Up of Second Control Period (Para 3.11.6)

IndiGo submits that as per Table 57 of the CP, AERA has computed an under-recovery of Rs. 1727.60 Cr. as on 31st March 2022 for Kolkata Airport.

In view of the above, IndiGo submits that AERA and AAI should undertake appropriate measures that to ensure that there are no/minimal case of over recovery, which will assist in lowering of burden of tariff on airlines/passengers.

While IndiGo appreciates that a study have been conducted by AERA on Operating Expenditure/O&M expenses, IndiGo submits that such studies should be undertaken prior to commencement of each 'Control Period' to minimize any large variations in projections and to ensure suitable benchmarking of costs.

Comments of AAI

According to AAI the shortfall to be recovered in the TCP whereas AERA has not accepted the full recovery model. The shortfall has been increasing due to non-recovery of ARR.AAI has proposed full recovery of ARR so that burden would not be there in the 4th control period.

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.

1.3 Regarding Traffic (Para 4)

In response to para 4.2.7/Table 60 of the CP, IndiGo request AERA to kindly review the conservative traffic growth (YOY) for the FY 2024 — 2026. Any figures of lower growth may be reviewed based on a higher traffic growth proposed in the AERA Tariff Order for other airports including Bengaluru airport (Third Control Period), as deemed fit.

Further, while IndiGo appreciates that AERA has considered various study/reports by international bodies like IATA, IndiGo requests AERA to conduct an independent study for traffic assessment, in accordance with the AERA Act.

IndiGo further requests AERA to consider traffic growth keeping in view the removal of all capacity restrictions by the Ministry of Civil Aviation.

Comments of AAI

- AAI's projection for Pax and ATM for the F.Y. 2020-21 is almost near to actuals.
- Kolkata Airport has achieved 7.79 Million Pax and 72.30 Thousand Aircrafts Movements up to Dec.2021. The Aircraft movements and Pax movements for FY 21-22(up to Dec-21) are as under:

Month	Aircraft Movements (in Nos.)			Passenger Movements (in Nos.)		
	International	Domestic	Total	International	Domestic	Total
Apr-21 TO Dec-21	5853	66453	72306	194051	7605940	7799991

- AAI has projected 111.88 (Million Passenger) in TCP and 858.6 Thousand Aircraft movement whereas AERA has projected 116 (million Passenger) and 870.99 Thousand Aircraft movement for the entire TCP. Mainly AERA has project 4.1 (million) more International passenger.
- Kolkata Airport may achieve approx. 11 Million Pax and 100 Thousand Aircrafts Movements for the F.Y. 2021-22 Whereas, AERA has proposed 62% i.e. 13.66 Million Pax and 102.04 Thousand Aircraft Movements. AAI proposes 50% of the Pax traffic and 62% ATM Traffic to be achieved in the Year 2021-22 in comparison to Pre-Covid period of 2019-20. ATM traffic & Pax comparison statement are given below: (For the F.Y 2019-20 to F.Y 2025-26)

Particulars	19-20	20-21	21-22	22-23	23-24	24-25	25-26
Pax –Dom (In Mn)	19.08	7.34	10.76	12.84	16.69	20.87	25.04
Pax-Intl (In Mn)	2.94	.11	.24	.29	.66	1.31	2.36

ATM-Dom ('000s)	141.79	62.80	93.02	103.62	129.53	155.43	183.41
ATM-Intl ('000s)	23.97	6.2	8.98	9.3	12.09	14.51	19.59

- AERA has proposed Airport will achieve pre-COVID period traffic in the F.Y 22-23 whereas as per AAI revised projection as mentioned above it will achieve in the F.Y 24-25 .

- The revised projections submitted by AAI for the F.Y. 2022-23 to 2025-26 may be considered as the pandemic has not yet ended.
- AERA may also like to offer its views.

1.4 Regarding Regulatory Asset Base RAB/Deferred Capital Addition (Para 5-5.2.29,5.2.78 &5.3.4)

It is observed that Kolkata Airport has deferred certain capital expenditure from the Second Control Period to the Third Control Period. In this regard, IndiGo recommends that an adjustment of 1% or higher of the project cost, from the ARR. as deemed fit, is made by AERA for capital expenditure projects is/are not completed/capitalised as per the approved capitalisation schedule, other than those affected solely by the adverse impact of COVID-19. Such adjustment can be made by AERA during the tariff determination for the Third Control Period.

IndiGo appreciates that considering the reduced traffic owing to COVID-19, AERA has rationalised the capital expenditure and excluded certain proposed additions by AAI to RAB. However, AERA and AAI must ensure the principles of the AERA Normative order no. 07/2016-17 dated 6 June, 2016 including "value for money". Further, Kolkata Airport should ensure that 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 AAI/Kolkata Airport for the time being.

Further, as per para 5.2.78, AERA has observed that the non-aeronautical component of terminal building ratio is ranging between 5-8% as proposed by AAI/Kolkata Airport which is in contrast as per IATA and IMG norms of 8-10%. IndiGo would request AERA to conduct an independent study on the same before issuing the order for Third Control Period in order to compute the suitable/accurate ratio of terminal building to be considered for aeronautical and non-aeronautical components.

Further, IndiGo requests AERA to conduct an independent study for allocation of assets and allowable capital expenditure in the Third Control Period in accordance with AERA Act, 2008.

Comments of AAI

Kolkata Airport has submitted calculation for Normative Cost for all the projects wherever applicable and the same has been validated by the Consultant appointed by AERA.

AERA has sought various details on the unplanned capital expenditure during MYTP process. 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”.

AUCC meeting has been conducted on 16.09.2021 and the same has been attended by various stakeholders. The detailed project investment file for AUCC has also been shared with all the stakeholders. Minutes of the Meeting of the AUCC has been provided to the AERA.

The ratios have been computed based on the actual space in the terminals. Hence, AAI submits that assuming a different ratio based on international benchmarks when there is no substantial change in the terminal building composition during TCP may not be justified. AERA has determined the Terminal Building ratio as 92.50% in SCP. Now again in TCP, AERA proposes 90% as TBLR for the Terminal Building. The basis for considering 10% as the commercial area is ad-hoc and without any basis. The earmarked area for commercial activities (Design) for Terminal Building works out to 7.5%. It is requested to keep the same. AAI has already submitted in this regard vide e-mail letter dated 28.01.2022.

1.5 Regarding Depreciation (Para 5.2.80)

While IndiGo acknowledges the depreciation, rate applied by AERA in accordance with AERA Order No. 35/2017-18 the 'Useful Life of Airport Assets', IndiGo requests that it is pertinent to note that useful life of assets at various international airports like London Heathrow, Sydney airport and Amsterdam airport indicated that terminal buildings have useful life of as long as sixty (60) years and aprons have it for as long as ninety-nine (99) years. IndiGo submits that the useful life of terminal building for Kannur and Cochin airports have been considered sixty (60) years by AERA. AERA should prescribe sixty (60) years for the 'Building' including 'Terminal Building as' is practiced by some of the developed aviation ecosystem.

Comments of AAI

AERA has implemented useful life of Asset after the study by Institute of Chartered Accountants of India & Comments received from the stake-holders

The annexure to Amendment No. 01 to Order 35/2017-18 issued by AERA states that the useful life for terminal buildings can be 30 or 60 years as evaluated by the airport operator. Hence, AAI submits that the useful lives adopted by AAI is in line with approved rates prescribed by AERA in its order.

If 60 Years useful life is considered, the return on RAB will be approximately double as compared to 30 years useful life.

1.6 Regarding Fair Rate of Return (FRoR) (Para 6)

IndiGo submits that fixed/ assured return favors the airport operators, and creates an imbalance against the airline, which are already suffering from huge losses and bear the adverse financial impact through higher tariffs.

Further, due to such fixed / assured returns, service provider like AAI has no incentive to look for the productivity improvement or ways of increasing efficiencies or take steps to drastically reduce costs as they are fully covered for all the costs plus their returns. Such kind of scenario may result in inefficiencies and higher costs, which are ultimately borne by the airlines.

in view of the above, AERA is requested to immediately review WACC/FRoR by capping the returns. Without prejudice to the above, while IndiGo appreciates that AERA has drawn references to independent studies for FROR conducted in case of DIAL and MIAL, AERA is requested to conduct an independent study for FROR should be done in case of Kolkata Airport.

AAI's Comments

AAI had appointed M/s KPMG to carry out a study on Cost of Equity during 2011 the results of which are given below:

Table 3: Beta of comparable airports

Airport / Group	Country	Equity Beta	Tax Rate	Debt (in Billion local currency)	Mkt Cap (in Billion local currency)	Debt /Mcap	Asset Beta
Airports of Thailand PCL	Thailand	1.14	30%	56.2	54.3	1.03	0.66
Beijing Capital International Airport	China	1.03	25%	18.5	14.8	1.25	0.53
Guangzhou Baiyun International Airport	China	0.91	25%	0.0	8.3	0.00	0.91
Shanghai International Airport	China	1.04	25%	2.5	22.0	0.11	0.96
Xiamen International Airport	China	0.95	25%	0.0	4.1	0.00	0.95
Grupo Aeroportuario del Sureste SAB de CV (Group of 9 airports in Mexico)	Mexico	0.94	30%	0.6	21.0	0.03	0.92
Grupo Aeroportuario del Pacifico SAB de CV	Mexico	0.84	30%	1.0	27.2	0.04	0.82
Grupo Aeroportuario Centro Norte, S.A. de C.V.	Mexico	0.99	30%	1.0	9.2	0.10	0.92

The median value of asset beta for the above comparable set is 0.92 which is being used as the asset beta for airport operations business of AAI. This needs to be re-levered as per the expected gearing of AAI in the control period to estimate the equity beta for AAI.

Table 4: Equity Beta for AAI

Estimated asset beta for AAI	0.92
Gearing for AAI	8.84%
Tax rate for AAI	32.45%
Equity beta for AAI	0.98

Equity beta for AAI works out to 0.98.

For full Report, please refer Consultation Paper No. 16/2012-13.

Based on the above report, AAI submitted during SCP consultation that the CoE was 16%. AERA in the SCP order had also considered CoE of 16% and since there was low debt, the FRoR was determined to be 14%. AAI submits that the debt was taken only during the end of FY 21 and hence, requests AERA to consider FRoR of 14% for SCP.

- The Equity estimation can also yield a range of values depending on the assumptions employed.
- Cost of Equity depends on ownership structure, Comparable Airports & Revenue Till
- Asset Beta plays an important role in determination of Equity Beta even if Debt/Equity Ratio is low (low gearing). Cost of Equity depends on both Asset Beta and Equity Beta.
- In 1st Control Period, AAI had submitted a study conducted by M/s KPMG in regards to calculation of Cost of Equity wherein, Estimated Asset Beta was 0.92 and corresponding Equity Beta works out to 0.98. The cost of Equity submitted by AAI works out to 16.82%
- If AERA considers the debt equity ratio as 48:52 as ideal ratio and provides Asset Beta @ 0.92 then the FRoR will increase to more than 16%.
- In MIAL, DIAL, HIAL and CIAL the Cost of Equity has been considered @ 15+%. Thus AERA is requested to consider the Cost of Equity @ 16% as submitted by AAI.
- AAI had requested AERA to consider the FRoR as submitted instead of an Average FRoR @ 13.96% for SCP.

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.

1.7 Regarding Operating & Maintenance Expenses (including true up for SCP) (Para 3.7 &8)

As per para 3.7.1 of the CP, AERA has itself have observed the inconsistencies with AAI's approach towards calculating the Operation expenditure/ operations & maintenance expenses (O&M expenses) and has made corrections for the categorization done by AAI. Further, as per para 3.7.4 of the CP, it is stated that while determining tariff for the Second Control Period, AERA had expected AAI to lower the O&M expenses over a period. However, IndiGo observes no that such reduction in the O&M Expenses have taken place and on the contrary, as per para 8.2.13/Table 90 of the CP, there has been a significant increase in the expenses.

In particular, IndiGo submits:

1. It is observed as per Table 91 of the CP, 'Payroll' expense has increased with 6% every year of Third Control period along with 9-14% increase in 'Administration & General' expenses, increase ranging between 5-10% for 'Repairs & Maintenance', 'Utilities & outsourcing expenses' & 'Other outflows'.

2. AERA may advise AAI to rationalize/re-negotiate all the cost/expenditure items or heads, as deemed fit. Further, no escalations should be permitted under these items or heads.

3. Expenses on account of CSR as given in Table 18 of CP may be excluded. This will be in line with the similar treatment to CSR expenditure, given to CIAL at Cochin International Airport.

Accordingly, it is requested that Kolkata airport should take considerable measures to reduce such amounts as well as not increase any employee expenses & any repairs or maintenance, unless required from security & compliance point of view.

Without prejudice to the above, while IndiGo appreciates that AERA has undertaken an independent study for Operating Expenditure/ Operations & Maintenance expenses for the Second Control Period, AERA may undertake similar independent study for the Third Control Period.

Comments of AAI

Payroll Cost: 7% is the average increase in the payroll due to annual increment of 3% in salary, increase in HRA, and quarterly increase in DA and Employer contribution to PF.

- The following illustration clearly shows that there is an average 7% increase in the Payroll expenditure.

Calculation of incremental increase in Salary (in %age terms)								
								(In Rs.)
Particulars	**Per Month**	**Salary Year 1**	**Q1**	**Q2**	**Q3**	**Q4**	**Salary Year 2**	**Yearly Incremental**
Basic Pay	10000	120000	30900	30900	30900	30900	123600	3600
DA	1800	21600	6798	7725	8343	8652	31518	9918
HRA	2700	32400	8343	8343	8343	8343	33372	972
PERKS	3500	42000	10815	10815	10815	10815	43260	1260
EPF	1200	14400	3708	3708	3708	3708	14832	432
Total	**19200**	**230400**	**60564**	**61491**	**62109**	**62418**	**246582**	**16182**

Particular	**%age Increase**					
DA	18%		22%	25%	27%	28%
HRA	27%		27%	27%	27%	27%
Perks	35%		35%	35%	35%	35%
EPF	12%		12%	12%	12%	12%

Total Increase (in Rs)	**16182**
% increase	**7.02**

- ***Assumptions :***
- Year 1 Means Previous Year
- Year 2 Means Current Year
- Basic Pay – 3% yearly increase considered.
- Dearness Allowance- Quarterly increase considered.
- HRA, Perks & EPF – Considered Constant

- In the above-mentioned example, the Salary expenditure for Year 1 shown as Rs. 230400/- per employee. Whereas, in the year 2 the salary expenditure is shown as Rs. 246582/- per employee. On the basis of above assumptions, the incremental expenditure on the head of salary is Rs. 16182/- per employee which comes out to 7.02% on Year on Year basis.
- AAI requests AERA to consider 7% increase on Year on Year basis for the Third Control Period to maintain consistency.
- **R&M Expenses:** There are various heads of R&M expenses which are incurred for Operational Requirements, Regular maintenance of the airport infrastructure and equipment at the airport.
- The costs captured by the airports in their respective trial balances are based on the actual spend. To determine the costs, there are detailed tendering mechanisms for every contract and approving authorities. Further, the airports are subject to C&AG audit on a yearly basis.

CSR expenses: As per the provisions of Section 135 of the Act, the Companies (CSR Policy) Rules, 2014 and the DPE Guidelines, 2014, two percent of the average net profits (to be calculated in accordance with the provisions of the Act) during the three immediately preceding financial years will be allocated for CSR activities every year.

CSR Budget will be utilized for implementing CSR projects approved by the Board on an annual basis. The budget allocation to the CSR Schemes shall be made in the beginning of every financial year after considering the CSR budget for that year.

CSR provisions are made on the basis of 2% of Average profits of preceding 3 financial years at Corporate Level.

CSR calculation for 2nd control period has been carried out on the basis of Aeronautical and Non-Aeronautical Revenue for the F.Y. 2013-14, 2014-15 & 2015-16 (Single Till basis) whereas, 30% of the Non-aeronautical Revenue has been considered w.e.f. 2016-17 onwards.

In case of Kolkata Airport, the CSR amount to be reimbursed are as under:

Statement of Calculations for CSR Expenditure in respect of Kolkata Airport										In Crores
Particulars		**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**	**Total (5 Years)**
Revenue from Regulated Services	**A**	442.4	513.7	647.1	802.5	914.14	1137.64	1138.42	509.39	4,502.09
Revenue from Non-Aeronautical Services 30%	**B**	108.7	134.1	133.3	49.641	66.861	72.777	68.322	35.808	293.41
Operating Expenditure	**C**	229.3	287.3	296.3	341.14	326.75	339.51	426.6	388.65	1,822.65
Working Capital Interest	**D**				-	-	-	-	-	

Depreciation	**E**	83.5	154	156.6	147.13	150.9	161.71	169.66	180.77	810.17
Total Expenditure	**F=C+D+E**	312.80	441.30	452.90	488.27	477.65	501.22	596.26	569.42	2,632.82
Regulatory operating Profit before tax	**G=A+B-F**	238.30	206.50	327.50	363.87	503.35	709.20	610.48	-24.22	2,162.68
Average of previous 3 FY's Aeronautical profits	**H=G/3**				257.43	299.29	398.24	525.47	607.68	
2.00% of the average PBT (mandatory spend) (I=2%*k)	**I=G*2%**				**5.15**	**5.99**	**7.96**	**10.51**	**12.15**	**41.76**
NOTE: In the F.Y. 2013-14, 2014-15 & 2015-16 Tariff was determined on the basis of Single Till, therefore 100% Non-Aero Rev. Considered for these Years. From F.Y. 2016-17 Hybrid Till is considered.										

On the basis of the above statement, an amount of Rs. 41.76 Crores is required to be reimbursed by AERA for Kolkata Airport as AAI has incurred expenditure on account of CSR As per the provisions of Section 135 of the Act, the Companies (CSR Policy) Rules, 2014 and the DPE Guidelines, 2014.

AAI as a whole has incurred CSR Expenses from F.Y. 2016-17 to 2020-21 are as under:

In Crores

Particulars	2016-17	2017-18	2018-19	2019-20	2020-21
CSR Expenses	60.14	71.88	86.78	125.70	40.23

1.8 Regarding Non-aeronautical Revenue (Para 9)

In reference to para 9.2.5 of the CP, IndiGo appreciates increase of non-aeronautical revenue considered by AERA. However, AERA is requested to re-consider conducting a detailed scrutiny by way of an independent study to considered a higher amount of Nonaeronautical revenues for the Third Control Period.

Without prejudice to the above, IndiGo submits that:

1. Higher Non-aeronautical revenues should be considered in view of increase in capital for terminal building enhancement as well as terminal building capacity ratio. Non -Aeronautical revenue is a function of passenger traffic growth, inflationary increase and real increase/escalations in contract rates. AERA to

ensure no adjustments are proposed to non-aeronautical revenue which is not dependent on traffic but are derived from agreements with concessionaires. Non -Aeronautical revenue is a function of passenger traffic growth, inflationary increase and real increase/escalations in contract rates. AERA to ensure no adjustments are proposed to non-aeronautical revenue which is not dependent on traffic but are derived from agreements with concessionaires.

2. Royalty' is in the nature of market access fee, charged by the services providers under various headings. These charges are passed on to the airlines by the service providers. 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. In view of the above, we urge AERA to abolish such royalty which may be included in any of the cost items.

AAI's Comments

- Generally, increase in traffic is not proportionate with increase in NAR.

- It is to mention that in view of Covid-19 pandemic, AAI had provided Concessionaire Support Scheme (CSS) to various contractors linked to the passenger traffic till 31/12/2021. Under the CSS, license/concession fee was charged based on actual passenger traffic during a particular month. In addition, additional discount was also given due to adverse impact on buying behaviour of the passenger.

- In view of the above, revenue growth after 31/12/2021 is not to be linked with passenger traffic growth. Most of the commercial contracts have been awarded by AAI on fixed license fee basis having annual escalation provision of 10%. Therefore, AAI projections are based on the consistent revenue increment trend during pre- Covid years.

- Hence, projections from FY 2022-23 onwards should be delinked with total traffic numbers and AAI circulars 24&26. Further, in the revenue projection for FY 2021-22, additional discount provided under CSS in license fee due to adverse impact on passenger buying behaviour has also to be factored in.

- Certain contracts which are fixed license fee based with annual escalation and not linked to the passenger movements like Restaurant/Snack bar, Hoarding and Display, Car Rentals & Car Parking.

- As regards to TR stalls & Duty -free shops, the revenue share of sales figures are considered with a minimum annual guarantee. However, it is to be noted, the direct/ pro-rata increase in the revenue may not happen.

- AAI has provided same rate for Rent & Services to Airlines for the F.Y. 2020-21 as per rates of F.Y. 2019-20.

- **Royalty:** 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.

1.9 Regarding Methodology for Tariff Determination Hybrid till Vs. Single till (Para 2.2.2)

IndiGo submits that in the CP, it is stated that the AERA shall determine tariffs for using the 30% Hybrid Till model including for true ups as applicable

It is to be noted that IndiGo (including through Federation of Indian Airlines) has from time to time, advocated the application of a Single Till model across the airports in India. IndiGo submits that AERA should adopt Single Till basis across all Control Periods, including by way of true up, in view of the following legal framework:

In the Single Till Order, AERA has strongly made a case in favor of the determination of tariff on the basis of 'Single Till'. It is noteworthy that the AERA has, inter alia, in its Single Till Order:

I. Comprehensively evaluated the economic model and realities of the airport — both capital and revenue elements.
II. Considered the legislative intent behind Section 13(1)(a)(v) of the AERA Act.
III. Concluded that the 'Single Till' is the most appropriate for the economic regulation of major airports in India.
IV. The criteria for determining tariff after considering standards followed by several international airports (United Kingdom, Australia, Ireland and South Africa) and prescribed by ICAO.

Further, AERA in its AERA Guidelines (Clause 4.3) has followed the 'Single Till' approach while laying down the procedure for determination of ARR for Regulated Services.

The fundamental reasoning behind 'Single Till' approach is that if the consumers/passengers are offered cheaper air-fares on account of lower airport charges, the volume of passengers is bound to increase leading to more footfall and probability of higher non-aeronautical revenue. The benefit of such nonaeronautical revenue should be passed on to consumers/passengers and that can be assured only by way of lower aeronautical charges. It is a productive chain reaction which needs to be considered by the AERA.

Comments of AAI

As per National Civil Aviation Policy (NCAP)-2016 there should be uniformity and level playing field across various operators, future tariffs at all airports will be calculated on a 'hybrid till' basis, unless otherwise specified for any project being bid out in future. 30% of non-aeronautical revenue will be used to cross-subsidise aeronautical charges. In case the tariff in one particular year or contractual period turns out to be excessive, the airport operator and regulator will explore ways to keep the tariff reasonable, and spread the excess amount over the future.

AAI has prepared MYTP on hybrid till from SCP on the basis of above policy and AERA has considered it.

AERA may also like to offer its views.

1.10 Aggregate Revenue Requirement/Aeronautical Revenue-UDF Charges (13,14& Annx)

1) Overall Tariff/ ARR

Requested to review the suggestions /comments on the regulatory building blocks as mentioned under Annex — B, which is likely to reduce the ARR of AAI. This will further ensure the lowering of tariff including UDF, which will be beneficial to passengers and airlines.

(ii) Collection Charges

IndiGo would like to invite AERA's attention to para 17.2.4 of Annexure - Il of the CP. As observed rate of collection of UDF charges has not been clarified. We understand that such rate of Collection Charges (being clarified in other Consultation Papers/CP is Rs. 5 (Rupees five only) per departing passenger. We request that the same is clarified in the Tariff Order for Kolkata Airport.
We further request that the Collection Charges the entitlement for airlines, should be against AAI having received the 'undisputed' invoiced UDF amount with the applicable due date.

(iii) Shrinkage in Control Period

IndiGo submits that the Hon'ble TDSAT Order dated 16 December, 2020 for BIAL 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 for AAI, Kolkata Third Control Period will now be issued after the commencement of the Control Period i.e. 1 April, 2021.

iv)No compensation to AAI Exemption of Landing Charges for aircraft less than 80 seats (Para 14.2.8 to 14.2.11 of the cp)

IndiGo submits that the issue raised by M/S. SpiceJet relating to an apparent excess billing of landing charges by AAI (amounting to Rs. 2.80 Cr.), pertaining to aircraft with a maximum certified capacity of less than 80 seats, during the First Control Period, is a bilateral issue between M/S. SpiceJet and AAI, and as such should be dealt between the said parties.

In view of the above, IndiGo submits that AERA should not allow any compensation to be paid to AAI, including by way of adjustment in ARR (in the Third Control Period), for rectifying/reversing any excess billing by AAI in the First Control Period. AERA will appreciate that any such adjustment to ARR leading to an increase in tariffs, will unfairly burden the airlines and passengers at Kolkata Airport during the Third Control Period.

Comments of AAI

Overall Tariff/ ARR

The shortfall will increase if Rates are not increased. The burden will shift to 4th Control Period if Aeronautical Revenue does not increase.

The Tariff Proposed by AERA in this CP are already considerably lower then what was submitted by AAI in the MYTP, for which detailed comments already been submitted by AAI vide letter on dated 28.01.2022.

The entire aviation sector is facing liquidity crisis due to the ongoing effects of Covid-19 pandemic. Not considering the Tariff as proposed by AAI will further aggravated the cash crunch and AAI will also not able to recover ARR.

Collection Charges: 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 Credit Policy of AAI which has been provided in the tariff card by AERA.

Shrinkage in Control Period: AAI has submitted its proposal in the month of August'21 due to Covid-19 pandemic & 2nd wave. The SCP true up (01/04/16 to 31/03/21) and TCP projections are required to be updated in MYTP after finalization of accounts of the F.Y. 2020-21. In order to determine tariff, usually such time is required from Airport operator and AERA.

No compensation to AAI Exemption of Landing Charges for aircraft less than 80 seats

a) It needs to be placed on record that order for exemption from landing charges in respect of aircrafts with maximum certified seating capacity of less than 80 seats was issued by MOCA on 08/02/2004 (applicable from 00.00 hours of 12.02.2004). This was neither included in the consultation paper nor raised by any stakeholder during the stakeholder consultation. The tariff order for the first CP laid down the landing charges of all aircrafts including aircrafts with maximum certified seating capacity of less than 80 seats, and the same were recovered by AAI from all airlines.
b) It would be pertinent to point out that this is not a case of excess billing during first control period as claimed by M/s SpiceJet. AAI has rightfully recovered the landing charges as per the tariff order then in force. In case, AERA decided that exemption prevailing prior to 1/04/2011 should have continued and directs AAI to pay back the landing charges collected during the first CP with interest, then AAI must be compensated for the full amount including interest.
c) The case is time barred rather AERA has not considered it in the Tariff Order (Rate Card) of 1st Control Period. M/s SpiceJet has not raised their concern during the stakeholders meeting held during 1st Control Period. In case of DIAL and MIAL also the 80-seater exemption was not provided in the rate card.
d) If AERA agrees then It may include it in the ARR calculation for the TCP. It may be mentioned that no interest & Taxes to be paid to M/s SpiceJet.

2 Comments from SpiceJet Limited

2.1 Regarding Exemption of Landing Charges

Refund of Landing Charges (Refer 14.2.8 to 14.2.11 of the CP)

A AERA has proposed to compensate Airports Authority of India (AAI) the mutually agreeable amount pertaining to the landing charges that were levied by AAI Kolkata on aircraft operated by SpiceJet with a certified capacity of less than 80 seats.

Sir, in line with the recommendations of the Naresh Chandra Committee, the Ministry of Civil Aviation (MOCA) announced exemption of landing charges in respect of aircraft with maximum seating capacity of less than 80 seats (small aircraft) and being operated by domestic scheduled operators, vide its letter no. G-17108/07/2001-AAl dated February 9, 2004. Airports Authority of India (AAI) also issued orders in line with the above letter, vide its letter no. Av. 11014/22/2002-Rev/ dated February 1 1, 2004. All the airports (except Civil Enclaves at Défense Airports) stopped charging landing charges on small aircraft in line with the above letters.

In accordance with the above Government policy airline operators in India inducted small aircraft with less than 80 seats into their fleet to boost connectivity to small and far flung airports which has immensely helped in promotion travel, trade and tourism along with generating a lot of employment opportunities to the people in those areas. The small aircraft have played a vital role in the success of the ambitious UDAN scheme launched by the Government of India.

With the privatization of airports and constitution of Airports Economic Regulatory Agency (AERA), some airports, as part of their tariff, got landing charges on small aircraft approved from AERA which were not in line with the above letters of MOCA and AAI. Such landing charges were recovered by the airport operators from the airlines. Since such recovery was contrary to the government policy on the basis of which airlines had made large investments, airlines raised this issue with MOCA and AERA. After the representations, AERA stopped approving landing charges on small aircraft from second control period onwards on domestic flights. It is worth mentioning that as per the letter no. G-17108/07/2001-AAl dated February 9, 2004, no landing charges were to be charged in respect of the flights being operated by small aircraft by a scheduled domestic operator.

In view of the above, it is submitted that all the landing charges charged by AAI — Kolkata at NSCBIA Airport for operations of the aircraft with less than 80 seats be refunded to SpiceJet along with interest to be calculated as per interest charged by AAI — Kolkata from time of time.
The principal amount charged from SpiceJet by AAI — Kolkata are as under: -

Financial Year	Amount invoiced by AAI Kolkata (Including GST) (in INR)
2016-17	1,38,64,406
2017-18	**1,81,95,279**
Grand Total	**3,20,59,685**

Airports Authority of India (AAI) has submitted that it will accord credit to SpiceJet if AERA allows exemption from landing charge in respect of aircraft with a maximum certified capacity of less than 80 seats in 1st control period and suitably compensate AAI for amount of credit to be accorded. Hence to above mentioned amount may kindly be approved to be credited to SpiceJet.

B Compensation to AAI: (Refer 14.3.1 of the CP).

We are thankful to AAI for considering the claim of SpiceJet for the refund of the amounts as mentioned in Point I(a) above, and to rectify the errors that, had crept in to the MYTP, Consultation paper and Tariff Order for the First Control Period regarding the levying of landing charges in respect of aircraft with maximum seating capacity of less than 80 seats being operated by domestic scheduled operators, in contradiction with the Ministry of Civil Aviation, Government of India's letter no. G-17108/07/2001-AAl dated February 9, 2004 and AAI's letter no. Av. 11014/22/2002-Rev/ dated February 11, 2004. We are also thankful that this oversight has been rectified in the Tariff Order for the Second Control Period, in line with the MOCA's letter no. G-17108/07/2001-AAl dated February 9, 2004 and AAI's letter no. Av. 1 1014/22/2002-Rev/ dated February 11, 2004. We are also thankful that aforementioned exemption has been stated in the proposal of AAI — Kolkata for the Third Control Period and has been considered accordingly by AERA.

In our view, subject to the aforementioned amounts being refunded to SpiceJet, AAI — Kolkata may be suitably compensated for the deficit, if any, that may be created due to such refund to SpiceJet.

Comments of AAI

- AAI had requested AERA to compensate AAI if the Request/ proposal of SpiceJet was being agreed by AERA. In the instant case the AERA proposes to compensate AAI the mutually agreeable principal amount pertaining to the landing charges that were levied on aircrafts operated by SpiceJet with a certified capacity of less than 80 seats.

- AERA may include an amount of Rs.2.78 Crores it in the ARR calculation for the period AAI has to give credit to M/s SpiceJet. It may be mentioned that no interest & taxes to be paid to M/s SpiceJet and it is to be adjusted with the current dues.

2.2 Regarding Revenue from Air Navigation Services and Cargo Services: (Refer 2.2.5, 2.2.6 and 2.2.7 of the CP.

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.

Comments of AAI

As per National Civil Aviation Policy (NCAP)-2016 there should be uniformity and level playing field across various operators, future tariffs at all airports will be calculated on a ‘hybrid till’ basis, unless otherwise specified for any project being bid out in future. 30% of non-aeronautical revenue will be used to cross-subsidise aeronautical charges. In case the tariff in one particular year or contractual period turns out to be excessive, the airport operator and regulator will explore ways to keep the tariff reasonable, and spread the excess amount over the future.

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-subsidizing 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 =Σ$ARRt$5t=1
ARRt = (FRoR x RABt) + Dt + Ot + Tt - s x NARt” (para 3.3.3.)

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

Tariff for Air Navigation Services (ANS) for India as a whole has been revised by MoCA whereas, AAICLAS (Cargo services) is 100% subsidiary of AAI and tariff is determined separately by AERA. AAICLAS has separately filed their tariff proposal from FY 2017-18 onwards.

2.3 Regarding New Aeronautical Capital additions and Total Aeronautical capital additions proposed by the Authority:(Refer 5.2.60,5.2.74,5.2.75 and Table 71 & 72 of the CP)

We appreciate that considering the reduced traffic owing to COVID- 19, AERA has rationalized the capital expenditure and excluded certain proposed additions by AAI - Kolkata to RAB. Stoppage of non-safety related capital expenditure:

Authority acknowledged the effect of the pandemic in the Second Control Period, also opined that a delay in the capitalization of works would unfairly burden the airport users without passing on the benefits to them.

As mentioned above it will take around two (2) -three (3) years for the flight operations to reach to its pre COVID-19 peak levels.

In view of the above, in order to support the airlines to continue and sustain its operations, all non-essential capital expenditure proposed by AAI — Kolkata be put on hold/ deferred, unless deemed critical from a safety or security compliance perspective. Further, in case AAI — Kolkata 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. Similarly, if any proposed Capex projects can be deferred from the Third Control Period to the Fourth Control Period, same should be considered by the Authority.

<u>Comments of AAI</u>

AAI has cautiously considered those capex which are essentials, thorough discussions with the management. AAI has shifted the capex of major expansion of Terminal Building to 4th Control Period.

2.4 Regarding Terminal Building Ratios (Refer 5.2.78 of CP)

AERA has requested stakeholders on the non-aeronautical component of the terminal building ratio, as AAI Kolkata has proposed in the range of 5-8%, whereas AERA mentions that this is in contrast to the 8-12% that the IATA and IMG norms recommend.

In our view, we request AERA to kindly undertake detailed scrutiny examination with the assistance of an independent study to be conducted on before the tariff determination of the Third Period.

<u>Comments of AAI</u>

- The ratios have been computed based on the actual space in the terminals. Hence, AAI submits that assuming a different ratio based on international benchmarks when there is no substantial change in the terminal building composition during TCP may not be justified. AERA has determined the Terminal Building ratio as 92.50% in SCP. Now again in TCP, AERA proposes 90% as TBLR for the same Old Terminal Building. The basis for considering 10% as the commercial area is ad-hoc and without any basis. The earmarked area for commercial activities (Design) for Terminal Building works out to 7.5%. It is requested to keep the same TBLR Ratio as approved in the SCP.

2.5 Regarding Fair Rate of Return (FRoR) (Refer 6.2.6 of CP)

We appreciate that AERA has considered a lower FRoR of 13.38 %, which is net of income tax return to the airport operator, the Third Control Period.

However, while such fixed/ assured return favors the service provider, 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 AAI — Kolkata have no incentive to look for productivity improvement or ways of increasing efficiencies, 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 AAI - Kolkata, 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 Authority 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 AAI - Kolkata. Such independent study can be exercised by the Authority in terms of powers conferred under the Airports Economic Regulatory Authority of India Act, 2008, as amended, and in line with studies being conducted by Authority in case of certain major airport operators.

Comments of AAI

AAI had appointed M/s KPMG to carry out a study on Cost of Equity during 2011 the results of which are given below:

Table 3: Beta of comparable airports

Airport / Group	Country	Equity Beta	Tax Rate	Debt (in Billion local currency)	Mkt Cap (in Billion local currency)	Debt /Mcap	Asset Beta
Airports of Thailand PCL	Thailand	1.14	30%	56.2	54.3	1.03	0.66
Beijing Capital International Airport	China	1.03	25%	18.5	14.8	1.25	0.53
Guangzhou Baiyun International Airport	China	0.91	25%	0.0	8.3	0.00	0.91
Shanghai International Airport	China	1.04	25%	2.5	22.0	0.11	0.96
Xiamen International Airport	China	0.95	25%	0.0	4.1	0.00	0.95
Grupo Aeroportuario del Sureste SAB de CV (Group of 9 airports in Mexico)	Mexico	0.94	30%	0.6	21.0	0.03	0.92
Grupo Aeroportuario del Pacifico SAB de CV	Mexico	0.84	30%	1.0	27.2	0.04	0.82
Grupo Aeroportuario Centro Norte, S.A. de C.V.	Mexico	0.99	30%	1.0	9.2	0.10	0.92

The median value of asset beta for the above comparable set is 0.92 which is being used as the asset beta for airport operations business of AAI. This needs to be re-levered as per the expected gearing of AAI in the control period to estimate the equity beta for AAI.

Table 4: Equity Beta for AAI

Estimated asset beta for AAI	0.92
Gearing for AAI	8.84%
Tax rate for AAI	32.45%
Equity beta for AAI	0.98

Equity beta for AAI works out to 0.98.

For full Report, please refer Consultation Paper No. 16/2012-13.

Based on the above report, AAI submitted during SCP consultation that the CoE was 16%. AERA in the SCP order had also considered CoE of 16% and since there was low debt, the FRoR was determined to be 14%. AAI submits that the debt was taken only during the end of FY 21 and hence, requests AERA to consider FRoR of 14% for SCP.

- The Equity estimation can also yield a range of values depending on the assumptions employed.

- Cost of Equity depends on ownership structure, Comparable Airports & Revenue Till
- Asset Beta plays an important role in determination of Equity Beta even if Debt/Equity Ratio is low (low gearing). Cost of Equity depends on both Asset Beta and Equity Beta.
- In 1st Control Period, AAI had submitted a study conducted by M/s KPMG in regards to calculation of Cost of Equity wherein, Estimated Asset Beta was 0.92 and corresponding Equity Beta works out to 0.98. The cost of Equity submitted by AAI works out to 16.82%
- If AERA considers the debt equity ratio as 48:52 as ideal ratio and provides Asset Beta @ 0.92 then the FRoR will increase to more than 16%.
- In MIAL, DIAL, HIAL and CIAL the Cost of Equity has been considered @ 15+%. Thus, AERA is requested to consider the Cost of Equity @ 16% as submitted by AAI.
- AAI had requested AERA to consider the FRoR as submitted instead of an Average FRoR @ 13.38% for TCP.

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.

2.6 Regarding Return on Land -Third Control Period: (Refer 7.21 of CP)

It is noted that the Authority is of the opinion not to allow return on land as AAI has not provided the required information and relevant documentation to substantiate any purchase of land. Notwithstanding the foregoing, we recommend that no returns may be provided for investment in land by AAI - Kolkata? in view of the fact that Land value never depreciates, but appreciates.

Comments of AAI

- Since these are for aeronautical purposes only, request AERA to provide return on Land.
- These have been calculated based on the value of the Land appearing in the books of NSCBI Airport since 1980, which has been commuted in favour of AAI already. Considering the period in question, AERA is requested to allow the return on Land to NSCBI Airport, Kolkata on the same lines as done for Private Airport Operators.

2.7 Regarding Operating Expenses [Refer 8.1.4,8.2.14 and Table 85 & 91 of the CP)

We appreciate that the Authority had appointed an independent consultant, M/S EY LLP to assess the MYTP submitted by the airport operator of NSCBIA, CCU.

We are unaware as to whether AAI — Kolkata has taken cost cutting measures including renegotiations of all the cost items on its profit and loss account. It may be noted that cost incurred by AAI — Kolkata impacts the airlines, as such most of the cost is passed through or borne by the airlines.

Further, in "view of industry reports from IATA and CAPA, which foresee a minimum period of two (2)-three (3) years for air traffic and flight operations to reach pre COVID-19 levels, we request Authority should:

(a) Put on hold any increase in operational expenditure by AAI - Kolkata;

(b) Advise AAI - Kolkata to review its spending on operational expenditure and re-negotiate all the operational expenditure in a significant manner and address any increase in fees sought by AAI - Kolkata. It may be noted that across various industries, instead of cost escalations, all the costs have been renegotiated downwards substantially Accordingly, AAI - Kolkata needs to significantly reduce all such costs in a very aggressive manner. AAI - Kolkata may be advised to reduce its cost by at least 35% and no escalation should be permitted; and

(c) In view of the above, AAI - Kolkata should be advised to pass on cost benefits to the airlines.

(d) In particular, we submit that:

(i) Y-O-Y Increase in the O&M expenses proposed by AAI - Kolkata is approximately 7% to 9%. Instead of a significant reduction in cost items of operating expenses, Authority has proposed a Y-O-Y percentage increase of around 6% to 7% between 2022 and 2026 .Such an increase in the name of escalation, in a highly uncertain environment, where airlines are operating under curtailed operations, appears without any rationale and should be avoided.

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 each year by 6% over the five (5) year control period.

We submit that while the aviation sector, including airlines have incurred huge losses and are struggling to meet their operational costs, and are not able to pay even to the support staff, on the other hand AAI - Kolkata seems to have paid/will pay incremental salaries which may not appear prudent considering the significant losses incurred by the aviation sector.

It appears that AAI - Kolkata 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 till the existing manpower is effectively utilised 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, AAI - Kolkata needs to considerably restructure its employee benefit expenses and other expenses and hollo any revisions at least for the next two (2) years.

Comments of AAI

- The O&M expenses are incurred by AAI are based on operational requirements. The expenses are incurred after due diligence based on the powers given to various authorities, and there are also tendering processes for awarding the O&M contracts.

- **R&M Expenses:** There are various heads of R&M expenses which are incurred for Operational Requirements, Regular maintenance of the airport infrastructure and equipment at the airport.
- The costs captured by the airports in their respective trial balances are based on the actual spend. To determine the costs, there are detailed tendering mechanisms for every contract and approving authorities. Further, the airports are subject to C&AG audit on a yearly basis.

Payroll Cost: 7% is the average increase in the payroll due to annual increment of 3% in salary, increase in HRA, and quarterly increase in DA and Employer contribution to PF. The figures for the F.Y. 2020-21 are actual as submitted by on 24.12.2021

- The following illustration clearly shows that there is an average 7% increase in the Payroll expenditure.

Calculation of incremental increase in Salary (in %age terms)								
								(In Rs.)
Particulars	**Per Month**	**Salary Year 1**	**Q1**	**Q2**	**Q3**	**Q4**	**Salary Year 2**	**Yearly Incremental**
Basic Pay	10000	120000	30900	30900	30900	30900	123600	3600
DA	1800	21600	6798	7725	8343	8652	31518	9918
HRA	2700	32400	8343	8343	8343	8343	33372	972
PERKS	3500	42000	10815	10815	10815	10815	43260	1260
EPF	1200	14400	3708	3708	3708	3708	14832	432
Total	**19200**	**230400**	**60564**	**61491**	**62109**	**62418**	**246582**	**16182**

Particular	**%age Increase**					
DA	18%		22%	25%	27%	28%
HRA	27%		27%	27%	27%	27%
Perks	35%		35%	35%	35%	35%
EPF	12%		12%	12%	12%	12%

Total Increase (in Rs.)	**16182**
% increase	**7.02**

- ***Assumptions:***
- Year 1 Means Previous Year
- Year 2 Means Current Year
- Basic Pay – 3% yearly increase considered.
- Dearness Allowance- Quarterly increase considered.

- HRA, Perks & EPF – Considered Constant
- In the above-mentioned example, the Salary expenditure for Year 1 shown as Rs. 230400/- per employee. Whereas, in the year 2 the salary expenditure is shown as Rs. 246582/- per employee.

On the basis of above assumptions, the incremental expenditure on the head of salary is Rs. 16182/- per employee which comes out to 7.02% on Year on Year basis.

In PSU/Govt sector, the increase in salary is lesser in compare to Private sector.

2.8 Regarding Non-Aeronautical Revenue [Refer 9.2.5 and Table 94 of the CP]

a. We request AERA to kindly undertake detailed scrutiny examination with the assistance of an independent study to be conducted on the non-aeronautical revenue before the tariff determination of the Third Control Period, as we are of the view that the low figures of Kolkata are disappointing. It is further requested that Kolkata Airport explores all avenues to maximize revenue from the utilization 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. AERA is requested to ensure no adjustments are proposed to non-aeronautical revenue which is not dependent on traffic but are derived from agreements with concessionaires.

b. Royalty:

Any attempt to award the contracts by the airport operator on highest revenue share basis should be discouraged as it breeds inefficiencies and tends to disproportionately increase the cost. It is general perception service providers has 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 operators.

s 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 Kolkata airport are as high as up to 32-33% for some services. 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.

Comments of AAI

- Generally, increase in traffic is not proportionate with increase in NAR.

- It is to mention that in view of Covid-19 pandemic, AAI had provided Concessionaire Support Scheme (CSS) to various contractors linked to the passenger traffic till 31/12/2021. Under the CSS, license/concession fee was charged based on actual passenger traffic during a particular month. In addition, additional discount was also given due to adverse impact on buying behaviour of the passenger.

- In view of the above, revenue growth after 31/12/2021 is not to be linked with passenger traffic growth. Most of the commercial contracts have been awarded by AAI on fixed license fee basis having annual escalation provision of 10%. Therefore, AAI projections are based on the consistent revenue increment trend during pre- Covid years.

- Hence, projections from FY 2022-23 onwards should be delinked with total traffic numbers and AAI circulars 24&26. Further, in the revenue projection for FY 2021-22, additional discount provided under CSS in license fee due to adverse impact on passenger buying behaviour has also to be factored in.

- Certain contracts which are fixed license fee based with annual escalation and not linked to the passenger movements like Restaurant/Snack bar, Hoarding and Display, Car Rentals & Car Parking.

- As regards to TR stalls & Duty -free shops, the revenue share of sales figures are considered with a minimum annual guarantee. However, it is to be noted, the direct/ pro-rata increase in the revenue may not happen.

- AAI has provided same rate for Rent & Services to Airlines for the F.Y. 2020-21 as per rates of F.Y. 2019-20.

- **Royalty:** 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.

2.9 **Regarding Tariff and Government Restrictions: [** Refer 14.2.12 17.2 Annexure 11 of the CP]

1. Tariff:

While AERA has proposed an increase of approx. 2% Y-O-Y every year on Landing Charges, Parking Charges, UDF and Aerobridge Charges (with a reduction in Q4 of FY 2026 for all the aforementioned charges); keeping in view the devastation caused by the COVID-19 pandemic, we are of the view that there should be a freeze on the existing charges for at least the next three years.

It is in the interest of all the stakeholders not to increase the tariffs in order to encourage middle class people to travel by air, which will help in sharp post-COVtD-t9 recovery of aviation sector.

2. Government Restrictions:

Please further note, there were no scheduled operations between March 25, 2020 to May 24, 2020 due to the restrictions imposed by the Government of India which was caused due to the lockdown during the pandemic period. Hence it is requested that:

a. no space rentals should be chargeable during the above-mentioned period to the airlines, and refund of rentals already charged should be made immediately;
b. no parking charges (including housing charges, if any) should be applicable during the afore mentioned period, and refund of such parking charges already charged should be made immediately;
c. After the above-mentioned period, there was a calibrated opening of operations allowed by the Government, and thus instead of applying the full rates, the space rentals and parking charges should only be applicable only in the same ratio as of the allowed operations, and refund in accordance with this request be made immediately;
d. no parking charges should be applicable on the aircraft which continue to be grounded due to the above-mentioned reasons, and refund of such parking charges already charged should be made immediately. In addition, it is requested that no further charges should be applicable till the end of the restrictions as outlined above.

Comments of AAI

The financial condition of AAI during the Covid-19 Pandemic has deteriorated to a great extent. AAI has incurred a loss of Rs. 1962 Crores (approx.) in F.Y. 2020-21. AAI has resorted to borrowing from market to finance its capital as well as opex. Although it is expected that the Aviation sector is likely to bounce back to Pre-Covid level by F.Y. 2023-24, yet for AAI's current survival, it is required to improve cash flows. Under the present situation there is no hope to augment Non-aeronautical revenue.

No increase in Space Rent was provided for the FY 2020-21.

The Tariff would increase significantly in the 4th control period due to the Carry forward of Shortfall. Moreover, in the 4th Control Period major expansion of Terminal Building would also come up.

3 Comments from IATA

3.1 Regarding True up of Second Control Period (SCP)

IATA supports AERA's proposal to exclude financing allowance and Return on Land sought by AAI in the Second Control Period. These are unjustified for the reasons stated by AERA in the consultation paper.

It is imperative that airports do their utmost to reduce and optimize their costs. Regrettably, we don't see much focus on this aspect, or if current measures are adequate to ensure the commercial sustainability of flights going forward.

We remain concerned about the clarity on funding for aviation security, which is the responsibility of the State and hence should be funded as such through the Aviation Security Fee (ASF).

The proposed FROR is still on the high side, especially given AAI's status as a government linked enterprise and traffic risks being excluded due to the true-up approach by AERA.

Regarding capital investments, IATA compliments AERA for its scrutiny and assessment that has been very methodical, however would like to raise some fundamental concerns. SCP capital additions and changes in scope were not consulted upon with the airline community and were unilaterally applied which ignores and undermines AERA, users and the AUCC Consultation process and obligations. In principle, none of the capital additions should be included or the airport is most likely to continue to pay lip service to user funding investments, which may or may not meet their operational and passenger's needs or have a business case strong enough to warrant their approval.

We note the need for investment in security infrastructure that could not be anticipated before the start of the SCP. However, we also request AERA to take account of the following important points:

- Clarify Rs. 78.31 Cr. should be funded through ASF and therefore is not allowable in SCP
- Confirm Item 2 - 6 automatic tray return systems with DV X ray Rs. 9.29 Cr. and Item 6 Biometric access control system - Kolkata Rs. 6.98 Cr. are critically required for security processing and mandated by regulation. If not and for efficiency, what other options were considered? We consider these items should not be allowable for true-up unless fully agreed by the airline community
- Has AERA assessed security costs in line with normative cost benchmarks or conducted independent analysis for capex efficiency?

IATA disagrees with AERA's proposal to approve the remaining items 6-17 in Table 14 noting its efforts to adjust costs. These items were added unilaterally and without consultation with the airline community and may or may not be required. Approving these projects based on retrospective analysis of airport scoping and tender documents under the auspices of efficiency sends the wrong message to the airport and users. Where are the Project Investment Files and efforts to consult with the community on what amounts to a significant amount of capex. It is easy for the airport to ignore user's consultation and assurances to users on what investment is required.

We therefore disagree with the true-up of Rs. 357.75 Cr. for Table 17 under Items IV "not approved in SCP but capitalised" and respectfully request AERA to reviews its position.

Regarding the remaining proposed aeronautical capital additions in the SCP, we respectfully make the following comments:

- Reference I Approved and Commissioned Projects – we agree with a true-up of Rs. 243.72 Cr. The overspend of approved projects of Rs. 29.62 Cr. should not be approved without prior consultation on scope changes with the airline community via a change control process through the AUCC.
- Reference II Approved in SCP but deferred to TCP – the rational to defer the majority of Rs. 110.61 Cr. investment seems unclear for most projects. The benefits associated with these projects should be delivered as planned or the airport held to account unless agreed to with users via the AUCC e.g. penalty applied to as a % of the project value to incentivise airports.
- Reference III – Approved in SCP but dropped – again the rationale for major changes should be discussed regarding dropped projects to ensure users agree they are no longer required. A major change. In particular a major change in terminal development strategy should be agreed with users as there will be significant dependencies with TCP investments, in particular that relates to the Extension of airside corridor at terminal T2 (international and domestic). In this respect the total cost of the terminal development should be reviewed and agreed alongside the PIF before any investment is incurred. We do however support the decision on shifting the capitalization of new integrated terminal building Part 2, to the next control period.
- Reference V – we agree with AERA's assessment of Rs. 23.0 Cr.

Comments of AAI

AAI had appointed M/s KPMG to carry out a study on Cost of Equity during 2011 the results of which are given below:

Table 3: Beta of comparable airports

Airport / Group	Country	Equity Beta	Tax Rate	Debt (in Billion local currency)	Mkt Cap (in Billion local currency)	Debt /Mcap	Asset Beta
Airports of Thailand PCL	Thailand	1.14	30%	56.2	54.3	1.03	0.66
Beijing Capital International Airport	China	1.03	25%	18.5	14.8	1.25	0.53
Guangzhou Baiyun International Airport	China	0.91	25%	0.0	8.3	0.00	0.91
Shanghai International Airport	China	1.04	25%	2.5	22.0	0.11	0.96
Xiamen International Airport	China	0.95	25%	0.0	4.1	0.00	0.95
Grupo Aeroportuario del Sureste SAB de CV (Group of 9 airports in Mexico)	Mexico	0.94	30%	0.6	21.0	0.03	0.92
Grupo Aeroportuario del Pacifico SAB de CV	Mexico	0.84	30%	1.0	27.2	0.04	0.82
Grupo Aeroportuario Centro Norte, S.A. de C.V.	Mexico	0.99	30%	1.0	9.2	0.10	0.92

The median value of asset beta for the above comparable set is 0.92 which is being used as the asset beta for airport operations business of AAI. This needs to be re-levered as per the expected gearing of AAI in the control period to estimate the equity beta for AAI.

Table 4: Equity Beta for AAI

Estimated asset beta for AAI	0.92
Gearing for AAI	8.84%
Tax rate for AAI	32.45%
Equity beta for AAI	0.98

Equity beta for AAI works out to 0.98.

For full Report, please refer Consultation Paper No. 16/2012-13.

Based on the above report, AAI submitted during SCP consultation that the CoE was 16%. AERA in the SCP order had also considered CoE of 16% and since there was low debt, the FRoR was determined to be 14%. AAI submits that the debt was taken only during the end of FY 21 and hence, requests AERA to consider FRoR of 14% for SCP.

- The Equity estimation can also yield a range of values depending on the assumptions employed.
- Cost of Equity depends on ownership structure, Comparable Airports & Revenue Till.
- Asset Beta plays an important role in determination of Equity Beta even if Debt/Equity Ratio is low (low gearing). Cost of Equity depends on both Asset Beta and Equity Beta.
- In 1st Control Period, AAI had submitted a study conducted by M/s KPMG in regards to calculation of Cost of Equity wherein, Estimated Asset Beta was 0.92 and corresponding Equity Beta works out to 0.98. The cost of Equity submitted by AAI works out to 16.82%

- If AERA considers the debt equity ratio as 48:52 as ideal ratio and provides Asset Beta @ 0.92 then the FRoR will increase to more than 16%.
- In MIAL, DIAL, HIAL and CIAL the Cost of Equity has been considered @ 15+%. Thus, AERA is requested to consider the Cost of Equity @ 16% as submitted by AAI.
- AAI had requested AERA to consider the FRoR as submitted instead of an Average FRoR @ 13.96% for SCP.

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.

AUCC has been conducted as per AERA guidelines. The Minutes of the AUCC and Project Investment file has been shared with all the stakeholders.

1. As per MOCA order No AV-13024/03/2011-AS (Pt. I) dated 18.02.2014 the capex expenditure (Security) to form part of RAB for Tariff determination and it is not to be met out of PSF(Security).
2. Regarding unplanned expenditure AAI has cautiously considered those capex which are essentials, and not to be avoided due to Operational requirements.
3. for TCP, Capital expenditure those are incorporated in the MYTP are essential and after thorough discussion with AAI's Management.
4. All reply to the queries raised by consultant regarding unplanned and Approved SCP Capex and TCP projection of Capex provided to AERA Consultant.

3.2 Regarding Traffic for Third Control Period

AERA's proposal is realistic and in line with IATA's own expectations for recovery. The traffic forecast submitted by AAI was much more conservative.

Comments of AAI

- AAI's projection for Pax and ATM for the F.Y. 2020-21 is almost near to actuals.
- Kolkata Airport has achieved 7.79 Million Pax and 72.30 Thousand Aircrafts Movements up to Dec.2021. The Aircraft movements and Pax movements for FY 21-22(up to Dec-21) are as under:

Month	Aircraft Movements (in Nos.)			Passenger Movements (in Nos.)		
	International	Domestic	Total	International	Domestic	Total
Apr to Dec-21	5853	66453	72306	194051	7605940	7799991

- AAI has projected 111.88 (Million Passenger) in TCP and 858.6 Thousand Aircraft movement whereas AERA has projected 116 (million Passenger) and 870.99 Thousand Aircraft movement for the entire TCP. Mainly AERA has project 4.1 (Million) more International passenger.

- Kolkata Airport may achieve approx. 11 Million Pax and 100 Thousand Aircrafts Movements for the F.Y. 2021-22 Whereas, AERA has proposed 62% i.e. 13.66 Million Pax and 102.04 Thousand Aircraft Movements. AAI proposes 50% of the Pax traffic and 62% ATM Traffic to be achieved in the Year 2021-22 in comparison to Pre-Covid period of 2019-20. ATM traffic & Pax comparison statement are given below: (For the F.Y 2019-20 to F.Y 2025-26)

Particulars	19-20	20-21	21-22	22-23	23-24	24-25	25-26
Pax –Dom (In Mn)	19.08	7.34	10.76	12.84	16.69	20.87	25.04
Pax-Intl (In Mn)	2.94	0.11	0.24	0.29	0.66	1.31	2.36
ATM-Dom (‘000s)	141.79	62.80	93.02	103.62	129.53	155.43	183.41
ATM-Intl (‘000s)	23.97	6.2	8.98	9.3	12.09	14.51	19.59

- AERA has proposed Airport will achieve pre-COVID period traffic in the F.Y 22-23 whereas as per AAI revised projection as mentioned above it will achieve in the F.Y 24-25.

3.3 Regarding Regulatory Asset Base and Depreciation for Third Control Period (TCP).

IATA welcomes AERA’s scrutiny to reduce capex per table 72 from Rs. 1066.26 Cr. to Rs. 818.70 Cr. While noting efforts to consult with the airline community in September 2021, few details have been shared by the airport regarding the design, development process, concept of operations, outcomes, level of service, capacity, flexibility, resilience, and fit with the master plan regarding these projects (particularly in the content of Covid-19 pandemic impacts) that make it difficult to assess the need and whether the optimal option has been selected. For instance:

- Metro extension - for a 200m distance it is feasible to have travellators at a much-reduced cost – why is a metro extension required at presumably much greater cost? Have all the options been thoroughly considered by the airport and consulted with the airlines?
- A significant shift in terminal plans/design has been proposed that may well be beneficial to the airline community, however to our knowledge few details have been shared or consulted upon on with airlines regarding capacity, LoS, future expansion potential and operational costs for example.
- Deferral of SCP-TCP projects – there is underlying assumption these projects are still required. Is this the case agreed to via consultation with the airline community?

- If SCP projects are still required, 1% penalty should apply for non-delivery unless specifically agreed to by the airlines. This should also be applied retrospectively for SCP true-up per other regulated airports.

IATA supports the proposal by AERA to exclude some capex items from TCP such as the CISF complex pending a clear business case. In addition, this should be appropriately funded by the revenue generated through the ASF. Airport users should not be paying twice, once through the ASF and also through the PSF or UDF for aviation security expenses.

Capital investments should be limited to only essential projects to meet safety and security requirements. We call for deferral of other projects until such time there is more certainty of the business case to do so. In addition, IATA would like to continue highlighting the need for ongoing, more structured consultation with the airport community on capital projects and to review options, both planned and those in progress especially when changes are being considered. We see that some projects in the second control period have been adjusted (increase in scope, costs, delay, not delivered) but without the necessary consultation with the airport community. We request AAI as the airport operator to establish an airport consultative committee with nominated industry representatives which meets regularly, and not just resorting to a one-off AUCC before the tariff determination by AERA every 5 years. We hope this process can improve going forward. IATA has shared some global best practices on consultation and would be happy to provide further guidance. IATA supports the proposal by AERA to consider a terminal building ratio of 90:10. Modern terminal designs have evolved resulting in reduction of aeronautical footprint (e.g. increased efficiency) required to facilitate the processing of passengers and their baggage. Percentage wise, nonaeronautical footprint would naturally experience an increase as airport operators focus on generating more non-aeronautical revenues.

Comments of AAI

This project an Integrated Bimanbandar Metro Station is being constructed in the vicinity of NSCBI Airport, Kolkata. Subway is being undertaken by AAI to connect the metro station with terminal building. The need to execute this subway is exclusively for the airport bound passengers. This Project constitution will improve service level to the passengers as well as overall operational improvement for day to day increasing traffic demand. The project was discussed at AUCC meeting recently conducted by Kolkata Airport.

AUCC meeting has been conducted on 16.09.2021 and the same has been attended by various stakeholders. The detailed project investment file for AUCC has also been shared with all the stakeholders. Minutes of the Meeting of the AUCC has been provided to the AERA consultant.

AAI submits that 1% adjustment of ARR may not be deducted and request to take it on case to case basis as due to pandemic/other genuine reasons, work delay is unpredictable.

CISF Accommodation

The accommodation has to be provided to the CISF as per BCAS guidelines and this is an operational requirement A/A & E/S for the work has already been accorded by the Competent Authority. The existing

CISF barracks were vacated due to the structure falling under F-Taxi track alignment and CISF have been shifted to temporary accommodation. Accordingly, the work is being taken up and shall be completed in 3rd Control period itself. It has a strategic advantage because it is within the Airport complex.

DIGI Yatra

Ministry of Civil Aviation (MoCA) had published the Digi Yatra policy document covering guidelines for implementation of the Digi Yatra system at Airports, which would ensure paperless and hassle-free journey to all passengers and enhance the security of travel through biometric passenger authentication. Further, DGCA had published the Civil Aviation Requirement (CAR) document mandating the Airports to implement the Digi-Yatra E-Boarding system. AAI had proposed to implement the system in the Third Control Period.

Terminal Building Ratios

The ratios have been computed based on the actual space in the terminals. Hence, AAI submits that assuming a different ratio based on international benchmarks when there is no substantial change in the terminal building composition during TCP may not be justified. AERA has determined the Terminal Building ratio as 92.50% in SCP. Now again in TCP, AERA proposes 90% as TBLR for the same Old Terminal Building. It is requested to keep the same TBLR Ratio as approved in the SCP.

3.4 Regarding Fair Rate Of Return for the Third Control Period (TCP)

Comparing with global benchmark, the fair rate of return proposed is still considerably high and doesn't reflect the reality of the market condition. In addition, the continuation of the true-up approach by AERA means that there is no significant risk for the airport operator despite the uncertainty in the market. Hence, the WACC needs to reflect the same.

Comments of AAI

AAI had appointed M/s KPMG to carry out a study on Cost of Equity during 2011 the results of which are given below:

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- The Equity estimation can also yield a range of values depending on the assumptions employed.
- Cost of Equity depends on ownership structure, Comparable Airports & Revenue Till
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- If AERA considers the debt equity ratio as 48:52 as ideal ratio and provides Asset Beta @ 0.92 then the FRoR will increase to more than 16%.
- In MIAL, DIAL, HIAL and CIAL the Cost of Equity has been considered @ 15+%. Thus, AERA is requested to consider the Cost of Equity @ 16% as submitted by AAI.
- AAI had requested AERA to consider the FRoR as submitted instead of an Average FRoR @ 13.38% for TCP.
- The Return on Investment (FRoR) is minimum regulated return and which will be same for almost all the control period depending on the debt and equity ratio.

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.

3.5 Regarding Return on Land

IATA supports AERA's proposal to disallow a Return on Land

Comments of AAI

- Since these are for aeronautical purposes only, request AERA to provide return on Land.
- These have been calculated based on the value of the Land appearing in the books of NSCBIA Airport since 1980, which has been commuted in favour of AAI already. Considering the period in question, AERA is requested to allow the return on Land to NSCBI Airport, Kolkata on the same lines as done for Private Airport Operators.

3.6 Regarding Operation and Maintenance for the Third Control Period (TCP).

There is opaqueness around the corporate and regional expenses that are being passed on to be borne by airlines and passengers flying from CCU and it is not clear what is their relationship with services delivered at the airport. This is not in line with ICAO's principles of transparency and cost relatedness. And we would urge AERA to delve deeper into the allocation of CHQ & RHQ costs to individual airports to eliminate the risk of cross-subsidization of airports managed by AAI, especially those which are not regulated by AERA.

Comments of AAI

In this regard it is submitted that AAI is an entity established under an Act of the Parliament and its accounts, after audit by the C&AG is tabled before the Parliament.

AAI has been consistently following the below given approach methodology/formula for the purpose of allocation of CHQ & RHQ Expenses to all the Profit Centres. It has adopted the same approach while finalising and submitting the tariff proposals for AERA in the past.

AAI has also submitted a document which entails the allocation methodology. AAI submits that based on the above computation, the expenses for TCP may also be considered by AERA as per MYTP.

3.7 Regarding Non-Aeronautical revenue for TCP

IATA supports the proposal by AERA to increase the projected non-aeronautical revenue for the TCP which more closely reflects the traffic projection. If the airport operator insists that aeronautical traffic does not have a bearing on non-aeronautical revenue (as claimed in the consultation meeting on 18 January 2022), theoretically for this to be true, there shouldn't be a decline in non-aeronautical revenues in the SCP due to the COVID-19 crisis.

Comments of AAI

- Generally, increase in traffic is not proportionate with increase in NAR.
- It is to mention that in view of Covid-19 pandemic, AAI had provided Concessionaire Support Scheme (CSS) to various contractors linked to the passenger traffic till 31/12/2021. Under the CSS, license/concession fee was charged based on actual passenger traffic during a particular month. In addition, additional discount was also given due to adverse impact on buying behaviour of the passenger.
- In view of the above, revenue growth after 31/12/2021 is not to be linked with passenger traffic growth. Most of the commercial contracts have been awarded by AAI on fixed license fee basis having annual escalation provision of 10%. Therefore, AAI projections are based on the consistent revenue increment trend during pre- Covid years.
- Hence, projections from FY 2022-23 onwards should be delinked with total traffic numbers and AAI circulars 24&26. Further, in the revenue projection for FY 2021-22, additional discount provided under CSS in license fee due to adverse impact on passenger buying behaviour has also to be factored in.
- Certain contracts which are fixed license fee based with annual escalation and not linked to the passenger movements like Restaurant/Snack bar, Hoarding and Display, Car Rentals & Car Parking.
- As regards to TR stalls & Duty- free shops, the revenue share of sales figures are considered with a minimum annual guarantee. However, it is to be noted, the direct/ pro-rata increase in the revenue may not happen.
- AAI has provided same rate for Rent & Services to Airlines for the F.Y. 2020-21 as per rates of F.Y. 2019-20.

3.8 Regarding Taxation for the Third Control Period (TCP)

IATA has no further comments and supports AERA in lowering the tax projection provided by AAI in the TCP.

Comments of AAI

It depends on Aeronautical Revenue and Aeronautical expenses, Depreciation etc. The lowering of taxes is due to non-increase of tariff and consequently lower Aero Revenue. The taxes would increase when Aero revenue will increase.

3.9 Regarding Inflation for the Third Control Period (TCP)

IATA does not support the approach in passing on inflationary costs to airport users. This is simply not a standard practice in a competitive environment as commercial businesses would strive for greater efficiency and costs management to offset inflations as a first resort.

Comments of AAI

AERA may like to offer its views.

3.10 Regarding Quality of Services for the Third Control Period (TCP)

Despite positive results from the assessments by ACI's ASQ which is subjective in nature, feedback from local aircraft operators indicate that service levels have degraded. We request AERA to supplement existing requirements with a robust program to assess the service levels in a quantitative manner. IATA has provided some guidance on best practices to AERA in the past and would be happy to support the effort by AERA to improve this aspect.

Comments of AAI

ACI/ASQ ratings are followed worldwide. AAI is also following same practice.

AERA may also like to offer its views.

3.11 Aggerate Revenue Requirement for the Third Control Period (TCP)

IATA requests AERA to further adjust the ARR downwards to reflect the suggestions made in the respective sections above.

Comments of AAI

It is requested to consider ARR after considering all submission made by AAI.

3.12 Aeronautical Revenue for the Third Control Period (TCP)

IATA supports AERA's recent tariff orders for BLR & HYD where the charges will reduce in the last quarter of the control period in order to moderate a constant increase of user charges. We see that AERA is proposing the same approach for CCU.

Regarding the discriminatory practice for some charges such as landing and parking charges, we request AERA to consider narrowing the gap. This would also aid in the recovery of international traffic for CCU and would benefit all stakeholders over the longer term.

Comments of AAI

In case of Kolkata Airport, the reduction in Tariff of last Quarter of FY 25-26 will lead to increase in ARR and the burden of Tariff increase will shift to 4^{th} control period. It is requested to AERA to consider the same rate as projected by AAI for entire FY.

4 Comments from Blue Dart

Landing and Parking charges at Kolkata airport are over 10 times higher than the charges at similar AAI airports like Chennai Airport, and much higher in comparison to private airports in the country. The CAGR for landing charges since 2009, over a 14-year period, is over 10%, which is cost-prohibitive, especially given the aviation industry environment at present. Under these circumstances, we would request you to kindly consider a reduction in charges to reasonable levels commensurate with similar airports in India, in the interest of the aviation industry and to support the growth of passenger and cargo traffic.

Comments of AAI

Airport charges increase or decrease on the basis of ARR requirement and Aeronautical Revenue.