

## AIRPORTS ECONOMIC REGULATORY AUTHORITY OF INDIA

Minutes of the Stakeholders' Consultation Meeting held on 14<sup>th</sup> January 2022 at 11:00 AM on Virtual Platform.

### **CONSULTATION PAPER No. 26/2021-22 TO CONSIDER THE MULTI YEAR TARIFF PROPOSAL FOR DETERMINATION OF AERONAUTICAL TARIFF FOR THIRD CONTROL PERIOD (F.Y. 01.04.2021 TO F.Y. 31.03.2026) IN RESPECT OF PUNE INTERNATIONAL AIRPORT, PUNE (PNQ)**

1. Section 13(4)(a) of AERA Act, 2008, prescribes transparency in Consultation Process for determination of tariff in the wider interest of the public and the stakeholders. Accordingly, a Stakeholder Consultation Meeting was convened by the Authority on 14.01.2022 at 11:00 AM through Video Conferencing to elicit the views of the Stakeholders on the Consultation Paper No. 26/2021-22 dated 30.12.2021 issued by the Authority to consider the Multi-year Tariff Proposal for Third Control Period (FY 2021-22 to FY 2025-26) in respect of **Pune International Airport, Pune (PNQ)**. The list of participants is enclosed as **Annexure-I**.
2. Secretary, AERA extended a welcome to all the stakeholders including Associations and Independent Service Providers, who are directly and indirectly associated with Aviation Sector. Thereafter, he requested the Chairperson, AERA to address all the stakeholders.
3. At the outset, Chairperson, AERA once again welcomed all the Stakeholders present in the meeting and set forth the agenda for the meeting to discuss the viewpoints of the stakeholders on Consultation Paper No.26/2021-22 issued by AERA for Tariff Determination of Pune International Airport for the 3rd Control Period. Chairperson invited Airports Authority of India (AAI) officials to present their submissions in response to the Consultation Paper for Pune International Airport informing that other stakeholders would get an opportunity to express their views after AAI's presentation.
4. **Airports Authority of India**
  - 4.1. It was conveyed that the presentation would be made in two parts. The first part would be presented by Airport Director (Pune) which includes the key features of Pune International Airport and that the second part would be presented by ED (JVC), AAI, in which responses to the Consultation Paper regarding Pune International Airport would be submitted.  
**Shri Santosh Dhoke, Airport Director (Pune), AAI made a presentation giving an overview of Operations and outlining the features of Pune International Airport**
  - 4.2. Airport Director (Pune) started the presentation by highlighting the technical details regarding the Airport. Further, he presented maps of the terminal building, runways, taxiways, NITB, City side, Digi Yatra and other pavement areas to provide a holistic layout of Pune International Airport. He explained that AAI is making conscious efforts to improve the passenger experience by increasing operational efficiency and has taken robust measures for prevention of Covid 19 in compliance with the directives of Ministry of Civil Aviation and Ministry of Health. Some of the key features of the Airport include:

  
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- Pune is a fast-emerging industrial hub with prominent location for expansion of IT and manufacturing companies. It has more than 50% of per capita income than that of entire country.
  - Pune Airport is a Civil enclave with total area of 42.45 acres. Pune is the 8<sup>th</sup> busiest airport in India.
  - The passenger traffic showed an increasing trend till FY 2018-19. There was a slight dip in FY 2019-20 and drastic decline in FY 2020-21 in passenger traffic due to the adverse impact of Covid-19 pandemic. However, the passenger traffic is showing an increasing trend for FY 2021-22 from April 21 to December 21.
  - During pre covid period, Pune International Airport was handling daily 85 scheduled arrivals and departures.
  - Average ASQ rating given by ACI for Pune International Airport for the year 2021 was 4.56, 4.58 for 2020 and 4.71 for 2019.
- 4.3. Subsequently, he presented a detailed list of the total capital additions that Pune International Airport had completed in the Second Control Period and what it envisages to achieve in the Third Control Period. He highlighted a few capitalized works such as the Solar power systems, escalators, interconnection corridor, passenger boarding bridges etc. He touched upon the difficulties caused due to the pandemic and explained that various capital works were commissioned despite the Covid-19 pandemic. He also explained the physical progress of various other airside works that are planned to be commissioned in the coming months.
- 4.4. Presented the construction plan of New Integrated Terminal Building of Pune International Airport. He stated that the NITB is expected to be completed in August 2022.
- 4.5. He explained the progress of Digi Yatra being carried out in two phases and expected to go live with 1<sup>st</sup> phase by June 2022 and 2<sup>nd</sup> phase by September 2022.
- 4.6. It was explained that sufficient precautions are being taken with respect to the Covid-19 pandemic. He added that the airport provided various facilities like rapid RT-PCR testing, regular sanitization in areas prone to contact, thermal scanning, etc. Further, he added that officials from Pune International Airport have been coordinating with the State Govt. with regard to passengers who test positive for Covid-19 in the best of public interests.
- 4.7. Lastly, conveyed that Pune International Airport has been winning various awards even during the pandemic.

**Ms. V Vidya, ED (JVC), AAI made a presentation which detailed AAI's submission to Consultation Paper No. 26/2021-22**

- 4.8. It was explained that a comparison was made as to what was originally submitted by AAI as part of the MYTP submission and what is proposed by the Authority. She started the presentation by addressing the true-up of the Second Control Period.

**Submissions for Second Control Period True Up**

- 4.9. AAI had projected an ARR of 628.98 Cr. while the Authority has proposed an ARR of 571.43 Cr. (a difference of Rs. 57.55 Cr.). AAI had submitted a present value of shortfall of Rs. 199.60 Cr. while the Authority in its examination has shown shortfall of Rs. 94.61 Cr.

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#### **Actuals for FY 2020-21**

- 4.10. AAI submitted actuals for F.Y. 2020-21 vide e-mail dated 24.12.2021 as part of true up of Second Control Period by AERA and has not been considered for Actual Revenue, Expenses, Assets and CHQ/RHQ expenses for the F.Y. 2020-21.

#### **Deduction of Financing Allowance**

- 4.11. She explained that the main reduction in ARR is due to the financing allowance (for 1st and 2nd Control Periods) that was proposed to be disallowed by the Authority. This, she said, has had an impact on the depreciation as well as the return on RAB. AAI stated that the AERA Order No.5 did not mention that the financing allowance would pertain only to the greenfield airports and that there is significant outlay of funds while taking up new capitalisation. It was also submitted that financial allowance was allowed to CIAL and BIAL till the Second Control Period. AAI requested that the Authority provides a level playing field to PPP and AAI airports.

- 4.11.1 Chairperson, AERA pointed out that AERA had not given Financial Allowance to any other Airport for the Third Control Period.

#### **Terminal Building ratio of 91.37% of Second Control Period Order**

- 4.12. AAI stated that TBLR of 91.37% has been considered by AERA, as against actual ratio submitted by AAI, which were based on actual floor space usage. AAI submitted that increasing the ratio to 91.37% by comparing with other airports/generally accepted ratios may not reflect the true ground scenario in Pune International Airport. AAI also expressed its view that new ratio may be applied for future when there is a new terminal space being added.

#### **Depreciation based on the date of Capitalization**

- 4.13. AAI stated that in respect of all other AAI airports, depreciation was computed @ 50% of rates in the first year of capitalization, but in Pune International Airport, AERA has proposed to compute depreciation on the date of capitalization of the asset. AAI has requested to consider a uniform methodology to be followed in this regard.

#### **Opex - Allocation of CHQ/ RHQ expense allocation:**

- 4.14. AAI submitted that AERA had reduced the O&M expenses significantly.
- 4.15. AAI expressed their concern over 20% of Pay and Allowances excluded by AERA. AAI submitted that 5% of the Net Expenses of CHQ & RHQ should be considered as non-aero expenses that includes commercial, Land and Common Staff those who are working for ANS as well for land and Commercial departments. AAI requested to consider Net expenses of CHQ/RHQ as per SCP order i.e. @ 5% as non-aero and common expenses instead of @20%.
- 4.16. AAI informed that they will review the method of allocation, as suggested by AERA.

#### **Opex - Repairs and Maintenance (R&M) expenses:**

- 4.17. AAI requested AERA to consider the actual costs incurred for the second control period, without restricting it to 6% on opening RAB, as Terminal Buildings were built more than

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15 years back and AAI submitted that with the ageing of the building and associated equipment, the R&M will only increase over the years.

**Opex - CSR expenses:**

- 4.18. AAI submitted that CSR expenses shown in MYTP are actual costs spent. AAI further submitted that CSR costs are allocated to a station from the CHQ and hence CSR computation based on Aero profit ought to be done for AAI as a whole and not station wise.

**FRoR-Cost of Equity:**

- 4.19. Furthermore, AAI submitted that the Authority had considered a cost of equity of 14% while AAI had submitted a cost of equity of 16%. She stated that for other private airports, the cost of equity taken was upwards of 15% based on previous studies.

**Submissions - Third Control Period:**

**Traffic in FY 2021-22 will reach 67% of Pre Covid-Level i.e. FY 2019-20**

- 4.20. AAI submitted that Pune International Airport may achieve approx. 3.60 million Pax and 30 Thousand Aircrafts Movements for the F.Y. 2021-22, whereas, AERA has proposed 67% i.e. 5.43 Million Pax and 36.36 Thousands Aircraft Movements. AAI proposed to consider the submission proposed in MYTP as the pandemic has not yet ended.

**Terminal Building ratio of 90:10**

- 4.21. AAI submitted that the ratio has been computed based on the actual space in the terminals and that AERA may consider the TBLR Ratio as approved in Second Control Period.

**Disallowance of financing allowance**

- 4.22. AAI raised similar concerns that are mentioned under the Second Control Period.

**Capital Additions -DIGI YATRA: - E BOARDING BIOMETRIC BOARDING SYSTEM (BBS)**

- 4.23. AAI submitted that entire amount of Rs. 14.08 Cr has been disallowed as AERA mentioned that details were not provided. AAI submitted that details were provided earlier and as presented by Airport Director of Pune that DIGI Yatra will go live in 2 phases i.e. 1<sup>st</sup> phase by June 2022 and 2<sup>nd</sup> phase by September 2022. In view of the above, AAI requested to consider DIGI Yatra cost of Rs. 14.08 crores in the Third Control Period.

- 4.23.1 Chairperson, AERA stated that the Authority has not disallowed such assets. However, if any, it will be trued up in the next control period, based on actual incurrence.

**1% readjustment to the RAB if project not completed**

- 4.24. AAI requested AERA to take it on a case-to-case basis, as due to pandemic/other genuine reasons, the delay in completion of project is unpredictable.

- 4.24.1 Chairperson, AERA stated that the Authority has largely accepted the Capex plan submitted by the Airport Operator for future Capex works. Given that there is no change proposed in plan for the Capex work, the Airport Operator should not be worried about the 1% readjustment clause as in case of unusual circumstances, the

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Authority would consider into account all facts and make a reasonable decision during true up of the Third Control Period.

**Interest on Term Loan:**

- 4.25. AAI submitted that the borrowing cost incurred subsequent to the capitalization of the asset is recognized as financing charges in the period in which they are incurred. AAI requested AERA to allow the borrowing cost after the date of capitalization in line with the AS and the accounting policy.

**Non-Aeronautical Revenue (NAR)**

- 4.26. AAI submitted that non-aeronautical revenues considered in the Consultation Paper were based on traffic rates and this may not be the correct treatment in order to project the same and requested AERA to not consider revenue from MLCP as the revenues from the present Car parking facility shall be subsumed under MCLP after operationalization of MCLP.

**Opex: AAI submitted the following:**

- 4.27. Payroll: AAI requested the Authority to consider 5% increase in employee cost, as considered in other airports, instead of 3%. Similarly, AAI requested for increase in number of employees by 15% due to expansion of proposed terminal building instead of 10%.
- 4.28. General & Admin Expenses: AAI requested the Authority to consider 10% increase instead of 4.9% inflation in Third Control Period.
- 4.29. Repairs and Maintenance: AAI stated similar concerns as mentioned for Second Control Period. AAI expressed its view that New Integrated Terminal Building will get capitalized in FY 2022-23 and defect liability period will be of 1 year, therefore requested AERA to consider AMC of Civil work of NITB and consider 10% increase in other R&M expenses instead of considering 4.9% inflation.

**CHQ/ RHQ expenses allocation**

- 4.30. AAI requested AERA to reconsider the SCP numbers and accordingly re-estimate TCP numbers.

**Tariff Proposal**

- 4.31. Ms. Vidya requested that AERA implement the Airport Charges w.e.f. 01.04.2022 (which AERA has already proposed in Consultation paper) after incorporating the submissions of AAI in the full recovery model as proposed in TCP.

5. Chairperson, AERA thanked AAI officials for their presentations and invited stakeholder to present their views/comments on the consultation paper.

**Airport & Airport Associations:**

**6. Federation of Indian Airlines (FIA)**

- 6.1. Mr. Ujjwal Dey welcomed and encouraged the reduction in Parking & Housing and UDF Charges.
- 6.2. FIA stated that they will provide written comments to the Authority on this Consultation Paper for Pune International Airport for the Third Control Period.



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## **7. Indigo Airlines**

- 7.1. Mr. Dushyant Deep from Indigo Airlines stated that occupancy level for New Integrated Terminal Building will be about 59% whereas 100% of project cost of NITB is being considered as RAB in Third Control Period. He therefore requested that AERA, based on past orders, use proportional allocation of cost since the entire NITB will not be fully used in the Third Control Period.
- 7.2. Mr. Dushyant stated that they encourage AAI to conduct AUCC for any pending capex works exceeding over Rs. 50 crores or 5% of Opening RAB which is not completed. He noted that it will also be a good forum to discuss the progress of NITB although 65% of building has already been completed.
- 7.3. Mr. Dushyant stated that AERA has observed that the Non-Aeronautical revenue opportunities have been inadequately utilized so far, and AAI can certainly do better in terms of earnings from Non aeronautical area and the Authority may consider higher revenue projection for the Third Control Period.
- 7.4. Mr. Dushyant stated that they disagree with AAI in considering Cost of Equity at 16%. He requested and encouraged AERA to conduct study for Cost of Equity and FRoR for AAI airports similar to the study conducted for private airports.
- 7.5. Mr. Dushyant stated that AERA has done reasonable analysis of CHQ/ RHQ cost in the Second Control Period and highlighted certain observations on the expenses where AAI can improve further. He requested AERA to scrutinize the O&M expenses for Third Control Period further.

## **8. SpiceJet Ltd**

- 8.1. Mr. G.P. Gupta from SpiceJet Ltd. explained the concerns of Pandemic and its detrimental effect to the aviation sector as a whole. Certain specific feedback shared were as follows.
- 8.2. Mr. G.P. Gupta elaborated his views on FRoR stating that the risk-free return regimes in India have changed course over the last few years. He added that pre-income tax fixed deposit returns were only 5%, which imply that a post income tax return would only be 3%. He stated that in this context, the FRoR provided to Airport Operators needs to be reconsidered.
- 8.3. Mr. G.P. Gupta stated that post pandemic, all Airlines have gone into bad times and most of them are into deep losses. Airlines in last two years specifically, have taken a lot of austerity measures in terms of drastically reducing expenditure and these include lease rentals, pilot salaries and these have been reduced by 30-40%. Airlines has renegotiated expenditure substantially in last two years except the charges levied by the Airport Operator such as parking, space rental etc. He requested AAI to also take austerity measures like those taken by Airlines. He explained the need to keep the tariffs low in order to engage more passengers to travel.
- 8.4. Mr. Gupta said that market access fees has been highly discouraged across globe and in lot of countries of Europe, these have been declared illegal and banned. He expressed

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that the same is an unnecessary cost, as there is no underlying service and hence no Royalty should be charged.

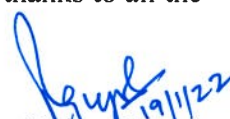
- 8.5. Mr. Gupta mentioned about Government Notification in 2004 to encourage connectivity and bring small aircraft population in India, landing charges were exempted at all AAI airports. AAI took cognizance of the same and issued separate circular to that effect that this landing charges with not apply to aircrafts having seating capacity less than 80. However, at Pune Airport, these charges are still being levied by IAF. He requested the Authority to take note of the same during the tariff determination process for the Third Control Period.

**9. International Air Transport Association (IATA)**

- 9.1. Mr. Ujjwal Bakshi from IATA expressed that Aviation Industry is still not really out of the impact of COVID-19 and recovery is still some time away but appreciated the fact that the Authority has incorporated the effect of the Covid-19 pandemic while critically analyzing the regulatory blocks in the Consultation Paper. He added that in general, IATA agrees with the proposals by the Authority in the Consultation Paper.
- 9.2. Mr. Ujjwal Bakshi and Mr. Richard Tan from IATA expressed that while AERA's mandate of carrying out AUCC for capital expenditures is appreciated; a more frequent and continuous consultation process is encouraged and would be a welcome activity.

**Federation of Freight Forwarders Association of India (FFFAI)**

- 9.3. Mr. Vipin Vohra expressed issues relating to landing of Cargo planes at Pune International Airport due to smaller runways, IAF timing restrictions etc.
- 9.4. Mr. Vinod Sharma and Mr. Pradeep Kale expressed that Pune city is having IT, automobile etc. industries which is an opportunity to bring EXIM business. Therefore, they requested AAI to augment cargo facilities like exploring international flights, improving runways, cargo building etc. in order to augment International cargo operations.
10. Chairperson, AERA thanked all the stakeholders and AAI for making a clear and crisp presentation which helped in a smooth stakeholder deliberation. In addition, he requested all the stakeholders to provide their written comments within the stipulated timeline.
11. The meeting concluded with Col. Manu Sooden, Secretary AERA extending thanks to all the participants who attended the meeting.

  
(Rajan Gupta)  
AGM (Tariff)

**List of Participants**

**Airports Economic Regulatory Authority of India**

1. Sh. B. S. Bhullar, Chairperson
2. Sh. S. K. Vyawahare, Member
3. Col. Manu Sooden, Secretary
4. Mr. Ram Krishan, Director (Tariff, P&S)
5. Mr. Rajan Gupta, AGM (Tariff)
6. Mr. Satish Kumar, AGM (Tariff)

**Airport Operator, Airports Authority of India (AAI)**

1. Ms. V. Vidya, ED (JVC / Tariff)
2. Shri R. Prabhakar, GM(F)-JVC/Tariff
3. Shri Santosh Dhole, Airport Director, Pune

**Airlines and Associations**

1. Mr. Ujjwal Dey, Federation of Indian Airlines
2. Mr. Dushyant Deep, IndiGo Airlines
3. Mr. GP Gupta, Chief Strategy Officer, SpiceJet
4. Mr. Suryavir S. Bisht, Sr. General Manager, Regulatory Affairs, SpiceJet
5. Mr. Richard Tan, IATA
6. Mr. Ujjwal Bakshi, IATA
7. Mr. Vipin Vohra, FFFAI
8. Mr. S. Ramakrishna, FFFAI
9. Mr. Vinod Sharma, FFFAI
10. Mr. Pradeep Kale, FFFAI

**AERA Consultants**

1. Ms. Seethalakshmi, PKF Sridhar & Santhanam LLP
2. Ms. Yamini, PKF Sridhar & Santhanam LLP

  
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