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To whom it may concern:

SUBJECT: IATA RESPONSE TO AERA'S CONSULTATION PAPER FOR THE DETERMINATION OF AERONAUTICAL TARIFF FOR SWAMI VIVEKANADA AIRPORT (RPR) FOR THE FIRST CONTROL PERIOD

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

We would like to thank AERA for giving IATA an opportunity to present our views during the virtual stakeholder consultation organised on October 9th. This submission encapsulates our formal feedback of various aspects of the consultation paper circulated by AERA. It is worthwhile to note that the comments by IATA are based on the (limited) information made available to us.

Traffic Forecast – Chapter 4

The COVID-19 pandemic continues to devastate the aviation industry with no end in sight. As per IATA's revised estimates for the impact on airlines in India, demand in terms of passenger volumes is forecasted to fall by over 100 million or 52% in 2020 year-on-year resulting in US$12.4 billion loss of airline revenues.

We noted that AERA has proposed revised traffic forecasts computed after considering the key learnings from study and analysis on the impact of COVID-19 on aviation by various industry organizations including those from IATA. As RPR is purely a domestic airport, IATA would encourage validation from domestic airlines as well based on their own traffic forecasts.

Allocation of assets between Aeronautical and Non-Aeronautical – Chapter 5

We would like to highlight point 5.8— *"The Authority observed that 278.70 sq.mt. of area was used for advertising purposes. However, this area does not occupy any floor space and has therefore, not been considered while* calculating Terminal Area Ratio."

Inclusion of the area used for advertising purpose would add up approximately1.4% to the non-aeronautical area, which currently stands at 8.97%. We would also request for clarification regarding the basis for calculating 278.70 sq.mt of area under this category.

We would recommend that a partial inclusion is considered by AERA since infrastructure is required to support these advertisements such as walls, towers, power supply etc. A complete exclusion of such tangible elements will not be ideal and does not reflect proper cost allocation principle.

Capital Expenditure for the First Control Period- Chapter 7

We note and support AERA for its suggestion to defer the ₹ 762.65 Crores capitalisation of the terminal building until FY2026-27 taking into account the impact of COVID 19 on the sector, and appreciate the efforts to achieve this.

We note the AERA's comment (reference 7.3) that the AUCC was unable to be conducted under the circumstances and we would therefore subsequently appreciate consideration to arrange an AUCC virtual meeting, in order to enable the AAI to answer IATA queries regarding the capital plan such as those noted in this response.

We request further project details are shared to enable the airline community to provide better informed feedback and would request the Airport to categorise projects i.e.:

- Essential Investments – safety, security, or regulatory
- Capacity enhancing and passenger experience projects – IATA's default position is to defer ALL non-essential projects in the Control Period
- Asset replacements

The enormous impact of COVID on demand have unfortunately created an environment of extreme cost sensitivity where airlines (and passengers) are unable to afford any increases in airport charges resulting from non-essential airport investments. Relative to the airport RAB, the level of investments proposed are not unsubstantial. In addition, we request the Airport shares Business Cases for its investment proposals to explain the specific costs, benefits, risks, and dependencies etc.

Within this context we will take the opportunity to record the following questions and queries, recognizing there is very little detail shared by the airport to date.

Runways, Taxiways, Aprons 6.12 Crores:

- Construction of one additional parking bays for code 4C, AB-320/321 type of aircrafts – CIVIL
    - Is the rationale for this project to enable more parking capacity relating to capacity enhancements? If so, why is it required in this control period given the impact of COVID
    - If not, please explain the rationale for the project and why it is required now
- Leveling and grading of extended Runway 24 Area
    - Is the purpose of this project to extent the existing runway to accommodate CODE C aircraft? Or is it for example to enable existing CODE C aircraft to operate without restriction on Maximum Take Off Weight?
    - Are there safety elements related to this project such as runway extension safety areas?
    - Relates, 1.92 Crores Electrical Works for Runway Lighting System, the same question applied as above

Roads, Bridges and Culverts, 2.95 Crores:

- Construction of perimeter road along new boundary wall at 24 side on balance land
    - Is the rationale to support operational or passenger traffic for capacity or efficiency? Project details are requested

Terminal Building 3.24 Crores

- Construction of fixed finger rotunda, and augmentation of parking area
    - Are these projects predominantly capacity enhancing, and if so, why are they required in this control period. If passenger experience based with almost no traffic can they be deferred until the next control period?

Construction of Boundary Wall on Balance Land 2.97 Crores – have options been considered to ensure the most cost effective solution has been identified, for instance perimeter fencing rather than solid walls?

Other Building

- Construction of fire station, medical emergency centre, fire drill tower, 12.77 Crores
    - While these projects are clearly health and safety and regulatory related, considering the relatively large costs has the scope and scale of the project been constructively challenged to ensure best value is being achieved, in addition to AERA's review of costs

Plant and Machinery – 2.64 Crores

- Is the installation of a new PBB and AVDGS required during this Control Period if capacity enhancing projects?

Tools and Equipment 13.14 Crores (13.81 AERA). There are a range of projects here of relatively high value. Both FIDS and Body Scanners are presumably terminal related projects and should be classified as such.

- New FIDS – why can this project not be deferred until the next Control Period? Does this relate to replacement of existing time expired assets or the implementation of new FIDS for the new terminal?
- Body scanners – is this a regulatory requirement? Can this project be deferred?
- What is the purpose of the ILBS trans-installation project?

Electrical Installation

- SITC of additional conveyor belt in arrival area 3.39 Crores
    - Is this a capacity enhancing project, and if so, can it be deferred until required beyond this Control Period?

<u>Depreciation- Chapter 8</u>

We are generally in agreement with the depreciation rates utilized by AERA.

<u>Regulatory Asset Base ('RAB') for the First Control Period- Chapter 9</u>

Under the current circumstance, we recommend the approach of minimizing CAPEX, especially in FY2020-21, and defer as much as possible to later in the control period. Another alternative would be to true up these projects once capitalized in the 2nd control period.

Adding a CAPEX of Rs. 54 crores which is about 42% to the opening RAB will increase charges significantly and would put at risk the recovery of domestic traffic/demand at RPR.

<u>Fair Rate of Return ('FRoR')- Chapter 10</u>

The FRoR stated by AERA in the consultation paper does not reflect the level of commercial risk being taken by AAI as an airport operator, since they are shielded to a certain extent by the true up mechanism, unlike other regular commercial entities.

In addition, airport users should not be paying for the inefficiency of airport operator's capital structure. Therefore, the returns should be set at a level that will drive airport operator to optimize their costs rather than allowing it to be passed on fully as incurred as suggested.

<u>Non-Aeronautical revenue- Chapter 11</u>

We would like to seek clarification as to why has the new car parking contract been awarded at a much lower rate, i.e. Rs. 6.57 lakhs as against the Rs.18.31 lakhs per month in the previous contract.

Operation and Maintenance expenditure- Chapter 12

As we see a robust year on year growth in the coming years, it would be useful to understand cost reduction/optimization initiatives taken/planned by the airport operator. For example, payroll expenses continue to increase but if there is a general reduction in the number of staff due to the impact of the COVID-19 crisis, we would also expect payroll expenses to go down as well along with other associated expenses dependent on the level of operation/traffic projected going forward.

Aeronautical Revenue- Chapter 13

We would also encourage smoothening of the increases by avoiding the significant increase of 45% in FY2021-22 and spread them out more evenly across the whole control period. This would be critical to ensure travel costs are minimized to aid in the recovery of traffic as we restart and stabilize our industry in coming years.

Aggregate Revenue Requirement ('ARR') for the First Control Period- Chapter 15

Based on our comments stated above with regard to RAB, O&M, Taxation, Non Aeronautical Revenue, we recommend AERA to consider the suggestions above in lowering the Aggregated Revenue Requirement for RPR in the first control period.

Airport Privatization

We are also mindful that the tariffs determination for RPR is driven by the privatization exercise despite the airport not automatically qualify as a major airport to be regulated by AERA. The Ministry of Civil Aviation (MoCA) has manually declared RPR as major airport to enable the tariffs to be determined by AERA in anticipation of the privatization exercise.

IATA would like to reiterate our view that the timing to bid out RPR (along with other airports) is not right given the high level of uncertainty plaguing the industry. We are also concerned with the possibility of the application of network pricing given the bundling of airports approach in this exercise. This does not reflect the cost-relatedness principle outlined by ICAO and practiced by AERA.

There is also a need to ensure that the concession agreement is in alignment with AERA's principles and processes, rather than the other way around which would introduce different treatments or levels of regulation on the regulated entities based on the terms of their respective OMDAs. The bidding process and the terms should be conducted in a transparent manner with direct inputs from AERA and users to the Indian Government.

IATA looks forward to AERA's favourable consideration of our concerns and recommendations highlighted above. We are available should AERA requires further clarification during the review process of the stakeholder submissions.

Yours sincerely,

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cc Amitabh Khosla, IATA Country Director for India