भारतीय विमानपत्तन प्राधिकरण
AIRPORTS AUTHORITY OF INDIA

FNO- No. AAI/JVC/Chennai-Tariff/2021 Date:18/10/2021

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

Sub: - Response to Stakeholders' comments w.r.t. Consultation Paper No:- 16/2021-22 in the matter of Determination of Aeronautical Tariff in respect of Chennai Airport for the Third Control Period (01.04.2021 to 31.03.2026).

Sir,

This has reference to the AERA's Consultation Paper No:-16/2021-22 in the matter of Determination of Aeronautical Tariff in respect of Chennai Airport for the Third Control Period (01.04.2021 to 31.03.2026).

AAI's response to the Stakeholders' comments w.r.t. Consultation Paper No:- 16/2021-22 is enclosed.

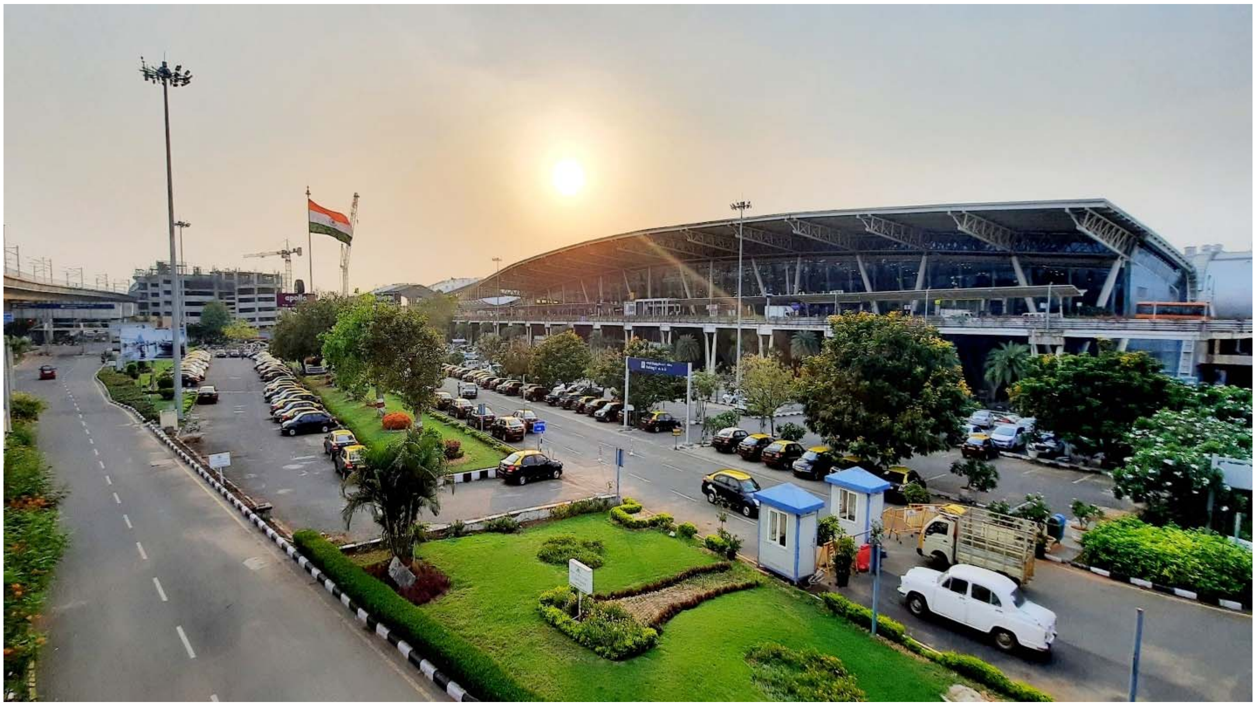
Thanking You,

Your faithfully

18/10/21

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

Encl: As above



CHENNAI INTERNATIONAL AIRPORT

Response to Stakeholder comments to Airports Economic Regulatory Authority of India's (AERA) Consultation Paper No. 16/2021-22 dated 7th September 2021

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

Contents

1 Comments from Airline Operators Committee (AOC)

1.1 Regarding T4 Arrival

"T4 Arrival is still unused by AAI for any passenger activity. Same was converted to departure but due to shortage of manpower from CISF/Immigration the cost spent towards the upgradation has been put to waste."

AAI's Submission

AAI submits that Initially there was a resentment from Immigration authorities to commence operations in T4 arrival due to manpower issues. However, this issue was resolved after due persuasion. It was agreed by M/s. Lufthansa to start flight operations from T4 arrival. However, due to COVID-19 pandemic, the international flight operations were stopped and thus, T4 arrival could not be utilized. However, AAI is confident that once the pandemic is over and the traffic improves, operations would continue in T4 arrival also.

1.2 Regarding BHS Utilization in T4

"Table 4 of the Consultation Paper has an expense shown by AAI towards BHS expenses incurred for T4 conversion which in reference to point 1 is still not utilized for any passenger activity."

AAI's Submission

Please refer para 1.1 of this document for the response.

For points 1.2 to 1.6, Table 4 is read as Table 14 as AAI has gone through the CP and has noted that the details discussed pertain to the contents of Table 14 instead of Table 4 of CP.

1.3 Regarding Upgradation of BHS

"Table 4 also shows modifications to BHS but there has been no significant changes done from 2013 ever since commissioning, except an upgrade of the XBIS machines which is covered as a capital expenditure."

AAI's Submission

AAI submits the following:

- BCAS requirements for BHS with ILBS system were complied with at both terminal (T1&T4)with TSA certification.
- Improvement of ILBS at Chennai airport at both terminal (T1&T4)
    - ILBS is upgraded with timing of checking from 25 sec to 90sec.
    - ILBS is also upgraded with ATR (auto tag reader) at both terminals (T1 & T4)
    - ILBS level 3 check stations are shifted to mezzanine floor along with level 2 check stations
    - ILBS level 4 check is at basement as it was positioned earlier.
- Provision of additional conveyors
    - provision of 20 nos of new additional conveyors for proposed new check-in counters
    - each 05 nos in eastern wing and western wing of both international and domestic departure and associated modifications.

- o making the existing PLCS installed at BHS control panels compatible for serial communication with 22 bytes telegram data structure for interfacing with the existing X-BIS
- Modifications to level -2a, level - 2b screening in mezzanine
  - o modifications in the existing conveyor line - 1 to 4 of both international departure and domestic departure conveyor
  - o providing necessary new conveyor and ss table & ss roller table for flow of rejected baggage of level - 2 for level -3 check
  - o re-load level – 3 cleared baggage to main clear conveyor
  - o separation of combined plc zone into independent zone of all lines.
- Conversion of arrival into departure (T4 ground floor)
  - o supply of weighable conveyor fixed electronic weighing scales /dispatch/flat/take-away conveyors along with drive units for 22 nos. of new check -in counters
  - o supply of 90-degree Power curve with drive unit fixed with SS side cover and MS side cover as per OEM ‘s standards and specifications for replacement & modification in the existing arrival transportation conveyor.
  - o supply of electrical panel suitable for above new conveyors complete with necessary accessories as per OEM’s standard specifications and features.
  - o modification of existing conveyor with supporting lugs and side guard.
  - o software development, site development and modification of low level control to integrate the new conveyor system with existing systems.
- Augmentation of effective length of arrival carousel at domestic terminal(T1)
  - o the effective length of arrival carousel along with additional feeder conveyor and additional new drive units & e-stop at domestic terminal (T1) were enhanced as below:
    - Carousel 1 – 30.0 mtr. –54%
    - Carousel 2 – 18.0 mtr. - 32%
    - Carousel 3 – 18.0 mtr. - 32%
    - Carousel 4 – 18.0 mtr. - 32%
  - o Overall length = 84 mtr – overall 37.5 % increase in capacity

1.4 Regarding Engineering Office

“Table 4 has an expense shown on engineering office which I understand as line maintenance building. But there is no justification for the cost incurred as no significant changes seen.

AAI's Submission

AAI submits that only by shifting the existing Engineering office from T3 building, the construction of Part-1 of NITB with planned facilities could be taken up to match the AOC requirements projected during various stakeholder meetings. Hence, AAI submits that the shifting was necessary.

1.5 Regarding CUTE Equipment

“Table 4 refers to cost incurred on CUTE equipment but we have not seen any changes in the hard ware except service and repair of hard ware. No significant additions or new equipment, except partial replacement when required.”

AAI's Submission

AAI submits the following asset additions with respect to CUTE equipment:

- AAI has provided new hardware at two counters in International (T4) Departure and 11 counters in T4 arrival and also at 4 boarding gates at T4.

- In Domestic Departure (T1), 12 counters were provided with new hardware.

1.6 Regarding Electrical Installations

"Table 4 refers to Electrical installations. No explanation on areas covered and value addition to operations."

AAI's Submission

AAI submits that the Electrical Installations at all Substations were augmented in order to meet additional load and providing uninterrupted power supply to Passenger facilities.

1.7 Regarding BHS and provision of tag readers

"Annex III under 17.3 refers to augmentation of BHS and provision of tag readers. Currently domestic and international BHS are non-tag readable and no facility for BSM."

AAI's Submission

In Domestic Departure (T1), 12 counters were provided with new hardware. ILBS is also upgraded with ATR (AUTO TAG READER) at both terminals (T1 & T4) in line with BCAS requirement with TSA certification and being put into operation too.

1.8 Regarding Reconstruction of TWY H Phase 1 & 2

"Annex III under 17.3 highlights reconstruction of TWY H Phase I & 2, however we did not see any complete reconstruction only minor modifications."

AAI's Submission

Complete reconstruction of H taxi is being taken up. Phase I work is completed and Phase II is in progress.

1.9 Regarding TWY B Straightening Work

"TWY B straightening work is not 100% complete yet."

AAI's Submission

AAI submits that Table 14 refers to "Capital additions approved by the Authority in Second Control Period but deferred to Third Control Period". Hence these items are work in progress in second control period.

Current status of the project is as follows:
The work has been completed on 18th August 2021.

1.10 Regarding Resurfacing of Secondary Runway 12/30

"Table 128 - Under 17.4 Resurfacing of secondary runway 12/30, construction of cargo bays, PBB and VDGS systems and level of activity for the Ph-2 of NITB Part-1 need close scrutiny. Also

secondary runway 12/20 still has obstruction which has defied use of Code-E for many years now, since the expansion of the runway."

AAI's Submission

Resurfacing of secondary runway 12/30 and cargo apron bays is in progress.

Last Aeronautical Survey for identifying obstacles at Chennai Airport was carried out in April 2019. Around 470 obstacles were identified. Out of this, 120 obstacles were removed and Notices were issued to 234 owners which is being followed up continuously through Obstacle Control Committee. We have taken up with AAI CHQ for conducting aeronautical survey once again to understand the current status of obstacles in the approach of Runway 12/30.

1.11 Regarding NITB project

"Since the NITB project is delayed and may open to passengers to sometime next year, UDF increase needs to be in line with the opening of the NITB for international passengers."

AAI's Submission

Tariff determination has been carried out by AERA as per Direction 05 where the various building blocks applicable for a period of 5 years is projected. Based on the projected figures (operating expenses, capital expenditure etc), the total revenue requirement is determined. This revenue is recovered from passengers and airlines depending on the traffic estimates. The traffic estimates have been made considering the pandemic scenario, timing of opening of the terminals etc. Hence, AAI submits that the tariff determination process considers the criteria of change in traffic, terminal opening, capital investment etc. and the same are inbuilt in the process.

1.12 Regarding Space Rent Increase

"AAI has increased the space rents for Non-Air conditioned space by 45% and air condition office space by 45% at T3 and 25% in T4 from 01 Apr 2022 which is not justified with no service value addition."

AAI's Submission

AAI submits that the rationalization of space license fee was last undertaken in the year 2008 which was implemented w.e.f 1st April 2008 for a period of three years. The same continued with application of annual escalation from time to time.

After this exercise a considerable change has been witnessed in the business landscape. Hence, it was thought fit to realign the rates with the prevailing market conditions. After a holistic review exercise, the proposal of the new rates was scrutinized in a detailed manner and then approved for implementation.

1.13 Regarding Ground Handling Agency

"Chennai airport also has only one GHA from Jan21 which is causing serious hardship to all airlines. The current GHA is under prepared to handle huge volume of business thrust upon them and they are slowly sprucing up their infrastructure. The requirement for a minimum of 3 GHA as per the aviation policy is not adhered to by AAI."

AAI's Submission

Contract between AAI and M/s Bhadra at Chennai Airport expired on 22.09.20. Thereafter, as per interim arrangement, M/s Bhadra was allowed to operate in Chennai Airport till 31.12.20. Thereafter, M/s Bhadra approached the Hon'ble high Court of Madras for continuing operations in Chennai Airport beyond 31.12.20. As per the High Court of Madras Order Dt. 16.6.21, M/s Bhadra exited the airport along with the equipment.

AAI had called for a global tender to appoint a Ground Handler in January-20. Due to Covid-19, the tender end date was extended from time to time till 31st July 20. M/s LAS Ground Force was identified as the highest bidder and issued LOI in January-21. However, after the issue of LOI, the agency did not fulfill the terms and conditions of the LOI (Security Deposit as per LOI was not deposited by the agency). Therefore, the LOI was cancelled in May-21. Also, Writ petition has been filed by M/s Global Flight Handling Services Limited (one of the participants in the Global tender for GH at Chennai Airport) in the high court of Delhi regarding the above-mentioned tender. The matter is sub-judice.

In Chennai Airport, almost all the domestic Airlines are self-handling except GO Air and Air Asia. Go Air and Air Asia have very few operations. The scheduled international operations are still not permitted by GOI. Only non- scheduled operations are currently operating in Chennai Airport. Also, the annual passenger traffic is projected to be less than 10 million for this financial year. M/s AIASL has been handling these non-scheduled operations. A meeting was held between CEO, AIASL and the stakeholders in September-21 to address the issues of Ground handling.

2 Comments from Bluedart

2.1 Regarding Tariff Increase in the Background of the Pandemic

"1. We wish to submit to AERA that the prolonged Covid19 pandemic has imposed a period of great distress on airlines. In the current scenario, based on the request by the Airport Operator, the AERA proposal of 42% CAGR increase in the Landing Charges and 55% CAGR increase in parking charges, are completely unacceptable and is not line with the support which is expected from an Airport Operator to protect the Airlines and Airport user community from further decline. Airlines are already severely challenged, with no relief from quarter and any further increase in charges at this time will irreparable damage.

2. In view of the current unprecedented situation in the history of the airline industry, we would request AERA to consider maintaining status quo for landing, parking and other aeronautical charges for the next 2 years, and conduct a mid-term review once the situation normalises.

3. The airline fraternity and other airport user community have taken drastic measures to reduce their cost of operations in order to sustain the aviation transportation infrastructure that is so crucial to our economy. As you are aware, when all connectivity was shut down during the various lockdowns in the face of the pandemic, our operations continued relentlessly, despite the risks to our people, to bring in essential materials and save lives. Any exorbitant increase as requested by AAI at this juncture will only negatively impact our critical aviation transportation infrastructure.

4. We look to AAI, as an entity established by the government, to equally share the burden of our current challenges, rather than seek an assured return on investment during these difficult times. We have always co-operated with AAI in the past towards our mutual growth and sustainability. Airlines *should be viewed as strategic partners towards progress, and the common interest of all stakeholders should be considered, especially during these exceptional times."*

AAI's Submission

AAI submits that the CAGR of 42% and 55% in Domestic and International traffic respectively has been computed from a very low tariff base (Eg. Rs 69 per pax for UDF). Further, AERA has carried forward a shortfall of Rs 372 crores to be recovered from the subsequent control periods. AERA has allowed only 20-30% of the tariff hike requested for. While AAI is well aware about the impact of the current pandemic situation on the aviation industry, it is re-iterated that AAI has also been severely affected by the pandemic too. AAI has, in its submissions, projected operating expenses, capital expenditure and traffic keeping in mind the impact of pandemic. Hence, AAI submits that the increase sought in MYTP submissions is reasonable even in the background of the pandemic and requests AERA to consider full recovery of ARR in the current control period itself.

Chennai is one of the largest airports in AAI and the tariff hike for the third control period has already been delayed for almost 6 months now. In addition to this, AERA proposes to increase the tariff only from 1st April 2022 and also proposes to carry forward the shortfall of about Rs 372 crores to the next control period. AAI has submitted in its comments that these two activities itself would severely burden the financials health of the airport and has requested for full recovery and has requested for tariff increase from 1st Jan 2022 itself.

3 Comments from International Air Transport Association (IATA)

3.1 Regarding Financing Allowance

"Chapter 3: True Up for the SCP

- 3.3.6: "The Authority notes that the opening RAB reported by AAI is higher than the approved RAB as computed in the Second Control Period Order. Upon examination, the Authority noted a discrepancy amounting to Rs. 87.17 Cr. between the approved and submitted RAB. Pertaining to this, the Authority has noted that AAI has included financing allowance amounting to Rs. 87.17 Cr. attributed to the First Control Period (FCP) in the opening RAB of FY 2016-17, thereby leading to a higher opening RAB. The Authority proposes that this be deducted from AAI's Opening RAB for the Second Control Period since the provision for financing allowance was not proposed by AAI in the First Control Period and, as a result, not approved by the Authority."

- 3.3.7: "The Authority has also noted that a separate provision for financing allowance for the First Control Period amounting to Rs. 89.54 Cr. is included in the true up calculation for the Second Control Period as submitted by AAI. The Authority believes that this expense is misattributed in the MYTP submission of the Third Control Period. Thus, the Authority proposes to exclude the same."

IATA supports AERA's proposal to exclude the financing allowance attributed by AAI to RAB of First Control Period amounting to Rs. 87.17 crores and Second Control Period amount to Rs. 89.54 crores."

AAI's Submission

- Direction 5 of AERA (which entails the methodology of aeronautical tariff determination) allows Airport operators to be eligible for Financing Allowance as a return on the value invested in construction phase of an asset including the Equity portion, before the Asset is put to use.

- The concept of Financing Allowance, its computation and how the Work in Progress Asset includes the Financing Allowance is provided in Paragraph 5.2.7 of the Direction No.05-2010-11. Extract of the same is provided below:

  "5.2.7. Work In Progress assets (a) Work in Progress Assets (WIPA) are such assets as have not been commissioned during a Tariff Year or Control period, as the case may be. Work in Progress assets shall be accounted for as:
  WIPAt = WIPAt-1 + Capital expenditure + Financing allowance – Capital receipts of the nature of contributions from stakeholders (SC) - Commissioned Assets (CA)

  Where:
  WIPAt = Work in progress Assets at the end of Tariff Year t
  WIPAt-1 = Work in progress Assets at the end of the Tariff Year t-1
  Capital Expenditure= Expenditure on capital projects and capital items made during Tariff Year t.

  The Financing allowance shall be calculated as follows:

$$\text{Financing Allowance} = R_d \times \left(\text{WIPA}_{t-1} + \frac{\text{Capex} - \text{SC} - \text{CA}}{2} \right)$$

  Where
  Rd is the cost of debt determined by AERA according to Clause 5.1.4.
  SC are capital receipts of the nature of contribution from stakeholders (including capital grants and subsidies) pertaining to the capital expenditure incurred in Tariff year t.
  CA are Commissioned Assets which pertain to the accumulated value of the WIPA attributable to all assets that have been put into effective operation during Tariff Year t.

- AERA has further provided an Illustration on Page 28 detailing the working. The extract of the illustration is as under:

Illustration 7: The following example illustrates this approach for calculation of Work in progress assets, financing allowance and commissioned assets. The numbers in the illustration have been rounded to the nearest integers.

Forecast Work in Progress Assets

		2010-11	Tariff Year 1	Tariff Year 2	Tariff Year 3	Tariff Year 4	Tariff Year 5
Opening WIP: $WIPA_{t-1}$	OW	-	-	-	558	638	-
Capital Expenditure	CE	-	833	521	-	-	-
Financing Allowance	FA = R_d x (OW+(CE-CA-SC)/2)	-	-	37	80	43	
Capital Receipts	SC	-	200	-	-	-	-
Commissioned Assets	CA	-	633	-	-	681	-
Closing WIP: $WIPA_t$	CW = OW + CE + FA - SC – CA	-	-	558	638	-	-

- *The cost of debt, R_d, used for calculation of financing allowance, is the cost of debt determined by the Authority under Clause 5.1.4.*
- *The example illustrates that those assets, which have been acquired or commissioned within the same Tariff Year (i.e. Tariff Year 1), have been included both in Capital Expenditure and Commissioned Assets.*
- *The value of commissioned assets, as calculated, shall be used for forecasting RAB for the Control Period.*

- Further, Para 5.2.5 of Direction No. 05 details the forecasting of RAB wherein the commissioned assets (including the Financing Allowance on the assets, when it was in Work in Progress stage) has been added to RAB and forms part of the closing and average RAB workings. The Illustration 4 in Page 23 is given below:

Forecast RAB

		2010-11	Tariff Year 1	Tariff Year 2	Tariff Year 3	Tariff Year 4	Tariff Year 5
Opening RAB_{t-1}	OR	22,750	20,500	18,826	16,462	13,998	12,277
Commissioned Assets	CA	-	633	-	-	681	-
Depreciation	DR	2,250	2,307	2,364	2,364	2,402	731
Disposals	Di	-	-	-	100	-	-
Incentive Adjustments	IA	-	-	-	-	-	-
Closing RAB_t	CR=OR+CA-DR-Di+IA	20,500	18,826	16,462	13,998	12,277	11,547
RAB for calculating ARR	RA=(OR+CR)/2		19,663	17,644	15,230	13,138	11,912

- The Clause (d) of Para 5.2.6 defines Commissioned Assets as below:

  "Commissioned Assets: Represents investments brought into use during Tariff Year t, consistent with Clause 5.2.7 herein below."

- Thus, from the above clauses it is clear that the Financing Allowance is computed on the Work in Progress balance based on Capital Expenditure incurred which is funded by Equity/Internal accruals and is capitalized as part of Commissioned assets for RAB Computation. In the case of AAI, financing allowance is computed on the equity portion and IDC is computed on the debt portion of the capital spend.

- Thus, Direction 5 provides an explicit, detailed elaboration of Financing allowance. Manner and formulae of computation and addition of the "commissioned assets" into RAB including the Financing allowance are elucidated in detail with examples.

The regulatory principles laid down by AERA and based on which the tariff orders are determined provide a fundamental foundation of the regulatory clarity to the stakeholders on the manner in which different components of costs and revenues are treated. Following are the examples and extracts of inclusion of financing allowance in RAB by AERA

- **CIAL TCP Order:** Vide para 4.4.52 of CIAL order for third control period, for true up of SCP, AERA noted that, in the tariff order for the SCP, it was decided that FA would be trued up based on the final capex. In its MYTP submission, CIAL had proposed an addition of Rs. 11.9 crores in FY 2021 only as Financing Allowance for true up of SCP. Accordingly, AERA recomputed FA based on actual WIP capitalized and allowed for inclusion in the Order.

- **BIAL TCP Order:** Vide para 3.3.78 of BIAL Order for the third control period, AERA has agreed to allow the financing allowance for the second control period.

- Financing allowance was approved and given by AERA in the First and Second Control period for BIAL and in second control period order of CIAL.

- **MIAL and DIAL:** It is further to be noted that MIAL and DIAL are governed by tariff determination principles set forth in SSA and OMDA. SSA and OMDA do not contain the concept of financing allowance. Hence, AAI submits that these 2 airports are not comparable with AAI airports.

- Further, AERA has stated in para 3.3.7 of CP as follows – *"The Authority has also noted that a separate provision for financing allowance for the First Control Period amounting to Rs. 89.54 Cr. is included in the true up calculation for the Second Control Period as submitted by AAI. The Authority believes that this expense is misattributed in the MYTP submission of the Third Control Period. Thus, the Authority proposes to exclude the same".* However, AAI submits that this amount of Rs. 89.54 crores represents the present value of cumulative depreciation and return on RAB impact of financing allowance for FCP. Computation of the same was provided in sheet name – FA FCP in the MYTP model

AAI's Request

- The AERA Act requires AERA to consider *"timely investment in improvement of airport facilities";* and *"economic and viable operation of major airports".* The statement of objects and reasons of the AERA Act requires Authority to encourage investment in airport facilities, create a level playing field and foster healthy competition.

- Financing allowance computation is fully in compliance with Direction 5, affirmed by Authority in its various Orders in the past.

- Based on the above submissions, AAI submits that non-consideration of Financing allowance is not in line with AERA's own guidelines .Further, allowing Financing allowance for private airports and not for AAI airports vitiates the principle of laying a level playing field for all airports – public or private in India and AAI airports would unjustly be denied of revenues that they are entitled to.

- AAI therefore requests AERA to consider the financing allowance of Rs. 87.17 crores computed for FCP additions, Rs. 89.54 crores which represents the present value of cumulative depreciation and return on RAB impact of financing allowance for FCP and Rs. 3.37 crores computed for SCP. Further, AAI requests AERA to also consider these additions by way of financing allowance for depreciation computation and return on RAB accordingly.

3.2 Regarding NITB – Part 2 Phase 2

"Table 15: "Capital additions proposed to be disallowed for true up of the Second Control Period by the Authority"

IATA compliments AERA for its scrutiny. The assessment has been very methodical, and IATA supports the decision on shifting the capitalization of new integrated terminal building Part 2, to the next control period."

AAI's Submission

AAI submits the following reasons for considering NITB part 2 in third control period i.e in FY 23-24 itself:

- The NITB was not planned to function separately as part-1 and part-2. It is a single Integrated building catering to both International and Domestic passengers (as per DPR submitted by PMC and approved by AAI, CCEA, PIB and MOCA). Only due to site constraints, and to have unhindered airport operations, the construction was planned in two parts.
- The contracts awarded to the agencies like L&T (Main work), Godrej (Interior works) and Pteris Global (Baggage Handling System) are consolidated contracts for both the parts of the terminal. Mobilizing material, Machinery, and labor after a break in construction is not feasible.
- There may be huge monetary escalations on material and labor costs.
- The Construction of a Terminal of this magnitude requires Specialized fabrications and skilled manpower. Bringing all the specialized agencies currently on board after a break may lead to coordination issues.
- There shall be contractual obligations, if the work is halted for more than the specified timelines in the contract. As it is already mentioned that the work awarded was for the entire project and not for parts.
- It is further submitted that AERA, in the Order No. 57/2020-21 for DIAL has analysed as follows:

4.5.2 Authority has also examined the comments made by IATA, AOC, BAOA and the response to their comments by DIAL regarding the freeze and review of Expansion Capex. In this regard, Authority is in agreement with DIAL and BAOA that the expansion of airport should not be put on hold as the traffic for the airport is expected to reach the pre-COVID levels within the next two years and post the same is expected to follow the past growth trajectory which would require the presence of the added capacity expansion facilities for efficient and effective handling of traffic. Authority is of the view that the current Covid-19 pandemic which has resulted in a massive drop in traffic could be utilized to expedite the construction activities in the airport.

4.5.3 Authority is of the view that capex projects being long term in nature should not be withheld or suspended due to temporary phenomenon including the pandemic which is expected to not have a consistent long-lasting impact on the traffic in the long-term future. The necessity for capex for Phase 3A could be questioned if there is enough justification that the traffic handled pre-COVID shall never be achieved. However, such a prediction could mean that economic growth will also come to a halt in the future and will never be able to achieve the earlier achieved levels. As such a prediction cannot be justified, Authority considers that the capex schedule for Phase 3A expansion has to be considered with the necessary delays due to Covid-19 as submitted by the airport operator.

Authority would like to add that given the magnitude of the capex that is being undertaken by DIAL, mandating a complete freeze on all capex activities could indeed lead to a much higher escalation in costs associated with delay and could in the end lead to a much higher cost burden being passed on to the passengers. Authority has hence decided to consider the timelines as submitted by DIAL for the capex for Phase 3A expansion which have been assessed post impact of COVID pandemic.

- Similar to the situation in DIAL, AAI submits that the current capacity of Chennai International Airport is only 17 MPPA though it was operating at 22.5 MPPA in pre-covid period. This is expected to grow to about 35 MPPA in the next 10 years. AAI submits that the current dip in traffic is only a temporary phenomenon, and this should not affect the development of infrastructure to cater to anticipated growth for the future. AAI re-iterates that all infrastructure projects should aim at future proofing and should not be hindered by short term situations.

AAI's Request

Considering the above facts, AAI requests AERA to allow Part 2 of the NITB in third control period itself i.e in FY 2023-24.

Further, AAI requests AERA to re-instate all operating costs (R&M, other operating costs, employee costs, utilities *(power cost may be considered as 40% as submitted in MYTP instead of 33% as proposed by AERA due to shifting of Part 2 of Phase 2)*, etc. which have been proposed to be disallowed by AAI due to shifting of part 2 to fourth control period) in third control period itself as proposed by AAI in its MYTP.

3.3 Regarding Return on Land

"3.6.6: The Authority notes that AAI has submitted Rs. 3.68 Cr. for return on land for the First Control Period and Rs. 6.72 Cr. for return on land for the Second Control Period. The Authority sought additional information from AAI regarding this land. AAI has not provided the required information and responded that land had been acquired free of cost. Moreover, since return on land should be sought prospectively and not retrospectively, the Authority is of the opinion that return on land will not be included in the true up calculation.

IATA supports AERA's view to not include the aforementioned amount for Return of Land in the true up calculation, since the land was handed over to AAI by the Tamil Nadu State Government free of cost & free of encumbrances."

AAI's Submission

AAI submits that the while majority of land was provided free of cost, following compensation was paid for various parcels of land. Details are provided below for consideration by AERA:

Asset Description	Operational area (Acres)	Non-Op area (Acres)	Capitalized on	Amount (Rs)
Transfer of 21 acres of defence land at pallavaram cantonment	1.76	19.24	24-Jan-11	3,37,20,579
Pallavaram & Meenabakkam village 1991 – 1992	1018.28	124.590	31-Mar-92	2,42,40,474
Land measuring 23.89 Acres - Meenabakkam village	23.89		31-Mar-04	1,05,06,764
Landowners, Advocate - Pozhichalur village - 1008 + 20 sqm	0.25		31-Mar-93	1,84,970
2.28 Acres Cowl bazar for parallel taxi track	2.28		25-Jan-18	50,001
Acquisition of Defence Land Vr.No.1451,16.09.97-De	0.48		31-Mar-98	9,750
Land received Free 126.56 acres - Kolapakkam Manapakkam	126.56		31-Mar-09	1
				6,87,12,539

AAI's Request

Since majority of the compensation was paid for land acquired for operational purposes, AAI requests AERA to consider the above details in their computation on return on land. AAI further requests AERA to consider this return in the ARR from the first control period.

3.4 Regarding Traffic

"Chapter 4: Traffic for the TCA

- Table 61: "Traffic projections proposed to be considered for Third Control Period by the Authority"

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."

AAI's Submission

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

The submissions of AAI are as furnished below:

1. The traffic for the year 2021-22 has been estimated based on the previous year traffic trend and the traffic handled in the recent months (up to August 2021). The traffic handled for 2021-22 up to August 2021 is given in the table below:

PASSENGER TRAFFIC (in numbers)			
MONTH	INTERNATIONAL	DOMESTIC	TOTAL
APRIL	89380	576348	665728
MAY	38406	186079	224485
JUNE	33328	246995	280323
JULY	53291	446697	499988
AUGUST (Provisional)	83232	621095	704327
TOTAL (UPTO AUGUST)	297637	2077214	2374851
ESTIMATED TRAFFIC 2021-22	916935	8091824	9008759

2. As per AAI forecast, the estimated traffic for 2021-22 is 0.92 million for international and 8.09 millions for domestic passengers while AERA has forecasted the same to be 1.34 millions for international and 11.20 millions for domestic passengers.
3. As per the traffic forecast, domestic and international pre covid level of traffic will be achieved by the year 2024-25 and 2025-26 respectively.
4. The traffic started recovering after 1st Covid wave and reached 45% of pre covid level for the month of February 2021 as compared to February 2020. However, during the 2nd Covid wave, traffic recovery was hit badly and traffic declined by 66% during May 2021 as compared to April 2021.
5. As total uncertainty is still continuing regarding regular international flight operations, it is assumed that international flights are likely to continue under Vande Bharat Mission and Air Bubble Agreement for the year 2021-22 and regular international flight operations may resume in a phased manner w.e.f. April 2022 but the same will be dependent on the bilateral agreement between the countries.
6. As per health experts, the third wave of COVID may also hit this year. The forecast is prepared considering the impact of 3rd wave of COVID on Indian Aviation Sector.

AAI's Request

AAI thus requests AERA to consider the following traffic for the third control period:

TRAFFIC FORECAST - CHENNAI AIRPORT

YEAR	AIRCRAFT MOVEMENTS (in Nos.)			PASSENGERS (in Nos.)		
	International	Domestic	Total	International	Domestic	Total
2019-20 (Actual)	37768	130214	167982	5799387	16467335	22266722
2020-21 (Actual)	11817	52773	64590	591571	4904136	5495707
GROWTH RATE	20.0%	60.0%	52.7%	55.0%	65.0%	63.9%
2021-22	14180	84437	98617	916935	8091824	9008759
GROWTH RATE	30.0%	20.0%	21.4%	80.0%	35.0%	39.6%
2022-23	18435	101324	119759	1650483	10923963	12574446
GROWTH RATE	28.0%	20.0%	21.2%	70.0%	35.0%	39.6%
2023-24	23596	121589	145185	2805821	14747350	17553171
GROWTH RATE	26.0%	10.0%	12.6%	50.0%	15.0%	20.6%
2024-25	29731	133748	163479	4208732	16959452	21168184
GROWTH RATE	25.0%	10.0%	12.7%	40.0%	15.0%	20.0%
2025-26	37164	147123	184287	5892225	19503370	25395595
GROWTH RATE	14.0%	10.0%	10.8%	15.0%	15.0%	15.0%
2026-27	42367	161835	204202	6776058	22428876	29204934
GROWTH RATE	9.0%	7.0%	7.4%	10.0%	8.0%	8.5%
2027-28	46180	173163	219343	7453664	24223186	31676850
2028-29	50336	185285	235621	8199031	26161041	34360071
2029-30	54866	198255	253121	9018934	28253924	37272858

3.5 Regarding NITB Part 1 Phase 2

"Chapter 5: RAB & Depreciation for TCA

- 5.2.12: "The Authority acknowledges that the planned capitalization of modernization of Chennai International Airport, Phase II (NITB Part – 1) was to be done in FY 2020-21. However, AAI has

submitted vide its email correspondence on 25.05.2021("Information required from AAI-Regarding Chennai") that Part 1 of the plan is 71% complete and the projected date of completion of the same would be 31.03.2022. It also added that all efforts were being made by AAI to complete as per timeline, provided that the working conditions would be conducive given the pandemic situation. A site visit was conducted by AERA's consultant to assess the progress. Post site visit by AERA's consultant, the Authority is of the opinion that capitalisation of modernization of Chennai International Airport, Phase II (NITB Part – 1) would be due in FY 2022-23. Despite the physical progress of construction being 71%, the Authority believes that operationalising the building will take at least 6 months thereby making the commissioning possible only in FY 2022-23. Thus, the Authority proposes to postpone the commissioning to FY 2022-23."

In lieu of any project details provided by AAI with the Authority's logic that operationalization of New Integrated Terminal Building (NITB) phase 2 Part 1 is not likely to be feasible before FY2022-23 given delays resulting from COVID impacts, IATA confirms in principle that major development such as NITB ORAT takes at least 6 month per best practices."

AAI's Submission

AAI submits that it is in agreement with the treatment carried out by AERA in regard to Part 1 of Phase 2 of NITB in the Consultation Paper.

3.6 Regarding Terminal Building Ratio

"- 5.2.13: "The Authority notes that the non-aeronautical component of TBLR is in the range of 5-8%. This is in contrast to the 8-12% that the IATA and IMG norms recommend. Since, Chennai International Airport is one of the largest AAI airports and attracts a substantial amount of traffic, the Authority encourages AAI to incorporate larger non-aeronautical component at the airport (especially so since a new integrated terminal is being capitalised). Thus, the Authority proposes to consider a TBLR of 90:10 for the Third Control Period."

IATA supports AERA's proposal to consider the Terminal Building Ratio of 90:10 for the Third Control Period."

AAI's Submission

- As per the design, the new integrated terminal has commercial space of about 8.70%.
- The actual commercial area utilization in T1 and T4 is also lesser than 7.50%. AAI further submits that the commercial area cannot be increased due to space constraints inside the Terminal Building.
- Hence, if one considers the utilization in T1 to T4, the average % of commercial area will be lesser than 7.50% i.e average of T2 and T3's commercial space of 8.70% and the T1 and T4's commercial space of less than 7.50% will result in an overall average of less than 7.50% of commercial space.
- Since AERA has already considered 7.5% in SCP for the proposed terminal building, we request the same may be continued in TCP for the same proposed terminal building.
- AAI further submits that AERA has mentioned in Para 5.2.47 of the CP that 8-12% is the recommended range of commercial space by IATA and IMG norms. However, the basis for considering 10% as the commercial area is adhoc and without any basis.

AAI's Request

- AAI thus requests AERA to consider 7.50% as the terminal building ratio for the proposed additions in the third control period.

- True up of the ratio may be carried out in the next control period based on a study to determine the actual commercial space and re-determine the Terminal building ratio accordingly.

3.7 Regarding NITB

"5.2.25: "AAI submitted that the construction of modernization of Chennai International Airport, Phase II (NITB Part – 2) will be started after commissioning modernization of Chennai International Airport, Phase II (NITB Part – 1). Given that commissioning of modernization of Chennai International Airport, Phase II (NITB Part – 1) is to be postponed to FY 2022-23, the Authority envisages the construction of modernization of Chennai International Airport, Phase II (NITB Part – 2) of the project to commence towards the middle of FY 2022-23. AAI also submitted that a part of the existing terminal T3 is still operational and is therefore not demolished completely. This was verified during the site visit by AERA's consultant as well. Considering that the demolition of the existing T3 is yet to be done, the Authority estimates that the construction of modernization of Chennai International Airport, Phase II (NITB Part – 2) would be completed towards the end of FY 2025-26. Further, the Authority is of the opinion that modernization of Chennai International Airport, Phase II (NITB Part – 2) would take at least 6 more months to be made operational. Thus, the Authority proposes to shift the capitalisation of modernization of Chennai International Airport, Phase II (NITB Part – 2) to the first year of the Fourth Control Period (i.e., FY 2026-27). "

1. Based on AAI's information that NITB phase 2, Part 2 cannot progress until Part 1 is completed, we agree in lieu of details provided by the airport with Authority's logic the design, development, construction, and operationalization including ORAT is likely to push the programme beyond into the Fourth Control Period, with a cost estimate of 1202.59cr.

2. As context for the development of NITB Phase 2, Part 2, IATA would add:

a. All non-essential capital investment costs recovered through aeronautical charges should be avoided to the greatest extent possible given the crippling impact of Covid on airline users.

b. Consultation and transparency regarding AAI's capital investment plans is very limited with 1 or 2 short stakeholder update meetings. An effective AUCC consultation process would benefit both stakeholders and MAA to identify users' needs and ensure functionality meet required levels of service, capacity, and operational efficiency. IATA would be pleased to support such a process in coordination with AOC and users moving forwards.

c. Traffic Forecasts indicated there could be capacity challenges developing towards the end of CP3 assuming the passenger terminal capacity is 28 MAP. Every effort should be made by AAI to apply technology and design solutions to avoid constraints and level of service passenger impacts in this respect for existing and planned future facilities. COVID trends have accelerated the application and use of technology that can help to mitigate capacity impacts for DOM and INT traffic."

AAI's Submission

AUCC meeting was conducted as per guidelines set forth by AERA. Detailed discussion and presentation on the various projects proposed to be taken up including the part 1 and 2 of NITB.

In the AUCC meeting detailed discussion was there on both part 1 and part 2 of Phase II of the proposed terminal building. The head wise project cost is also shown in the MYTP.

Please refer to point 3.2 on why AAI submits that NITB part 2 of Phase 2 should also be carried out in the third control period itself.

Technological updations are already planned and under process. Passenger Flow Management System (PFMS), Automatic tray retrieval system (ATRS), Body Scanners, etc. are a few to name.

3.8 Regarding Residential Colony

"5.2.27: "AAI has proposed to build a new residential colony which is due to be completed in FY 2023-24. The Authority has examined the award letter of the residential building in construction. It was noted that the total amount of the award letter was Rs. 370.89 Cr. (excl. GST). The cost levied on the tariff determination at Chennai International Airport pertains only to the aeronautical portion of the airport. As per AAI's submission, the remaining part of the new colony would be used by non-aeronautical employees, including AAI officials posted in the Southern region. The Authority is of the opinion that the construction of the residential colony can be completed by FY 2023-24 and does not propose any change to the cost allocated to Chennai International Airport."

We would respectfully comment that the rationale for a Residential colony funded by users for staff with Aeronautical duties is rather unclear and an unusual practice to IATA's knowledge outside India, as employees are typically expected to commute to and from their place of work or find accommodations independently. We request the rationale is shared and if accepted, the cost of accommodation is reflected as a reasonable reduction in the relevant staff overhead costs."

AAI's Submission

Chennai is one of the major metro city in India. Chennai Airport is lying within city circle with dense road traffic conjunctions. Those who have staying faraway of Chennai Airport are very difficult to and from their place of work. Airport is mandatory to keep Fire Fighter Staffs and Operation Staffs for operation of flight handling purpose. The Fire Fighter staffs and Operation staffs are requiring to stay nearby the Airport **to meet any emergency of flight landing, avoid undue incidents and maintaining Chennai Airport in hassle free operations for 24 x 7.**

Residential colonies are situated very close to the airports. For operational requirements and better management, residential colonies have been set up by AAI for all its employees. This practice is common amongst all AAI airports.

Further, employees do not get House Rent Allowance as they are provided accommodation in these colonies. This practice has led to decrease in recurring employee cost as HRA would have been paid to employees if these quarters were not constructed. Hence, AAI states that this leads to operational efficiencies and better management of operations.

3.9 Regarding 1% Readjustment

"5.2.3: "Thus, the Authority proposes to reduce 1% of the total project cost from ARR/Target Revenue as readjustment in case any particular capital project is not completed as per the approved capitalization schedule. This will be examined during the true up of the Third Control Period, at the time of determination of tariff for the Fourth Control Period."

IATA welcomes the proposal of 1% readjustment to RAB if projects are not completed/capitalised as per the approved capitalization schedule. We would also like to reiterate the need for a more effective

AUCC process to ensure that users are consulted in a meaningful manner to obtain agreement for capital projects, including any subsequent changes over their development."

AAI's Submission

AAI submits that the shifting of the phase 1 of the terminal from second control period to third control period was because of the pandemic. Due to the severe impact of Covid-19 which resulted in lockdowns in Tamil Nadu, construction activities at site were severely impacted and there was steady migration of labor back to their native places, resulting in delays in completion of Terminal. Hence, AAI submits that the shifting of terminal work to third control period cannot be construed as a benchmark as it was due to a delay which was beyond the control of AAI.

AAI's Request

While AAI strives to stick to the committed deadlines, we request AERA to not levy any penalty in case any projects are not completed due to circumstances that may be beyond the control of the Airport.

3.10 Regarding Non-Aeronautical Revenues

"Non - Aeronautical Revenue

a. The non-aeronautical revenue which is used to cross-subsidize the aero charges, is clearly under-developed in the case of MAA. As also observed by AERA, the non-aeronautical revenue in Second Control Period as well as projections for the Third Control Period does not even cover for cost of inflation and is therefore far from a rational projection.

b. The AAI has shown an increase of 4.6% in the non-aeronautical revenue between the Second and Third Control Period. However, it must be noted that during the same period, we can see Mumbai International Airport (BOM) has provisioned an increase of 47% in the non-aeronautical revenue between the Second and the Third Control Period. There is clear case for the Airports Authority of India to further rationalise its non-aeronautical projections for MAA."

AAI's Submission

AAI submits that the computation of NAR which is based on passenger traffic has been computed for the first 2 years of TCP as follows:

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

AAI's Request

AAI requests the Authority to consider the above concession schemes together with the revised traffic submitted by AAI in the comments to CP document while deciding on the final non-aeronautical revenues.

3.11 Regarding CHQ and RHQ Expenses

"Clarity on CHQ & RHQ expenses as part of AAI's projections

a. The CHQ takes up 16.43% of the payroll expenses in the Third Control Period, in comparison to 14.69% in SCP. However, for the administrative & general expenses, CHQ's share has reduced from 78.47% in the Second control period to 72% in the Third Control Period.

b. There is opaqueness around the corporate and regional expenses that are being passed on to be borne by airlines and passengers flying from MAA 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."

AAI's Submission

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 Centers. It has adopted the same approach while finalising and submitting the tariff proposals for AERA in the past.

i. CHQ Expenses (Net off of Revenue) are allocated to all the profit Centers of AAI on the basis of Revenue earned.
ii. RHQ Expenses (Net off of Revenue) are allocated to all the profit Centers under the respective region on the basis of Revenue earned.
iii. Final allocation of CHQ & RHQ Expenses to the profit Centers

AERA has in the past considered the above approach in its determination of tariffs for Amritsar, Raipur, Trichy and Varanasi Airport. However, a change in the approach in the case of determination of tariffs for Chennai Airport is proposed now as "…………*AERA may choose to consider the lower of actual/approved apportionment expenses as per the Second Control Period Order."*

As the policy is uniform for AAI as a whole the change in approach / methodology between airports during the Control period would necessarily mean that the CHQ/RHQ apportioned expenses remain under recovered at Chennai Airport.

It was also stated in para 3.4 of Annexure VI, Page No 139 of CP, "*In the absence of data on the methodology/formula used by AAI to compute, apportionment expenses, AERA may choose to consider the lower of actual/approved apportionment expenses as per the Second Control Period Order."* AAI submits that AERA, during the consultation process, had elicited responses for the methodology of allocation of CHQ/RHQ expenses. This was duly submitted to AERA through email. AAI submits that there were no further queries/data requirements provided by AERA in this regard. Hence, AAI submits that "absence of data on methodology/formula" to validate the CHQ/RHQ expenses cannot be the basis for considering the expenses as per SCP order.

AAI's Request

In view of above, it is requested to go through the workings of CHQ/RHQ allocation submitted earlier as part of comments to CP and same may be considered in the true up exercise of 2nd control period. In addition to the above computations, 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.

3.12 Regarding Energy efficiency with airport modernization

"Energy efficiency with airport modernization

a. We would like to see a greater efficiency being realized from the airport modernization that is currently underway. AERA has allowed a 33% increase in power charges given the 33% increase in terminal building area after capitalization of NITB Part 1 in 2022-23. This is sub-optimal.

b. On a related point, we do agree with AERA insisting on a 25% minimum recovery of power charges by the airports – which helps in urging the airport operator for achieving greater operational efficiency."

AAI's Submission

a. AAI has requested in its response to CP that the increase in power costs may be reinstated to 40% as submitted by AAI in its submissions. This request is in the background that the part 2 of NITB should also be allowed for the third control period itself instead of deferring the same to the fourth control period. AAI is operating at energy efficient levels by taking up many measures for energy cost optimization like replacement of all bulbs to LED bulbs, etc. Hence, AAI submits that AAI is only asking for an increase in the power cost in proportion to increase in terminal area from an already efficient base of expense.

b. As a general business principle, the infrastructure and utilities at an Airport are being provided by the Airport Operator and the cost of providing such utilities have been charged to the concessionaire to the extent the area occupied by the concessionaire. Accordingly, the cost of utilities which are recovered from the concessionaire (i.e., non-aeronautical portion) gets reduced from the overall utility cost of the Airport Operator and hence the net utility cost left with the airport operator is fully aeronautical in nature.

   It is further to be noted that the airport also recovers the power cost from Air Navigation Services, Southern Region as well as Cargo operations from the respective cost centers. Such recovery is netted off with the power cost ledger itself. Hence, AAI submits the following revised computation for computing the power charges recovery for kind consideration by AERA:

Expenses (Rs in crores)		FY 2016	FY 2017	FY 2018	FY 2019
OAAI/726001000Electricity Expenses		73.95	75.82	68.51	63.99
Cargo		-	-	4.03	8.87
Southern Region		0.82	0.79	0.80	0.83
ANS		3.09	3.31	3.33	3.85
Gross Expenses	**A**	**77.86**	**79.91**	**76.67**	**77.54**

Recovery (Rs in crores)		FY 2016	FY 2017	FY 2018	FY 2019
OAAI/940017000EWChgs(Oth)		-6.49	-8.24	-6.28	-7.16
OAAI/980012000EWC(Staff)		-0.21	-0.24	-0.27	-0.27
Cargo		-	-	-4.03	-8.87
Southern Region		-0.82	-0.79	-0.80	-0.83
ANS		-3.09	-3.31	-3.33	-3.85
Gross Recoveries	**B**	**-10.61**	**-12.57**	**-14.71**	**-20.98**

Recovery %	**C=B/A**	**14%**	**16%**	**19%**	**27%**

AAI's Request

AAI requests AERA to consider the above computations and would like to re-iterate that the total recovery from concessionaires plus ATC, cargo etc. has been consistently growing over the years and has reached even up to 27% in FY 2019.

3.13 Regarding Carry forward of shortfall

"Carry forward of shortfall

a. We note the carry forward of the shortfall of Rs. 372.55 crores. (as per Table 112) to the Fourth Control Period, which is being considered with a view to not burden the airlines further.

B. We would like to request AERA to consider a larger carry-forward amount to the Fourth Control Period. It has been noted that a greater percentage of the ARR has been carried forward to the next control period in the case of other recent tariff orders like for BLR & HYD."

AAI's Submission and Request

- After considering all the changes submitted by AAI, AERA is requested to consider full recovery of ARR as our rates are in line with that charged by comparable airports of BIAL and HIAL.
- AAI in its MYTP submission proposed to increase the rate from 1st April 2021
- AERA in its CP proposed to increase the rate from 1st April 2022.
- However, AAI requests AERA to consider increase in rate as submitted from 1st January 2022.

AAI submits to AERA to kindly recompute the IDC, expenses capitalization, interest on working capital, non-aeronautical revenues and other all other building blocks in which there would be consequential changes/impact based on the revised considerations/points submitted in this document.

3.14 Regarding Reduction of Landing & UDF charges

"Reduction of Landing & UDF charges

IATA supports AERA's recent tariff orders for BLR & HYD where the charges both landing & UDF will reduce in the last quarter of the control period in order to moderate a constant increase of user charges. We hope the same will be followed in the case of MAA as well."

AAI's Submission

Chennai airport's reduction in tariff in the second control period was around 90%. This led to very low tariff in Chennai – eg: UDF for both domestic and international passengers was as low as Rs 69 per passenger. Hence, any increase sought by AAI would seem very large in % terms as the base rate currently in force is very low. However, the rates sought by AAI, optically are not very large and is comparable with its nearby airports of Bangalore and Hyderabad. Further, rates allowed by AERA are far lower than the rates allowed to be adopted in Bangalore and Hyderabad. Due to these low rates, AERA has carried forward a shortfall of Rs 372 crores to the next control period. AAI is also affected by the pandemic equally as its peers in this segment and submits that such low increases in tariff would further affect the financial health of the airport.

3.15 Regarding Quality of services for the Third Control Period

"Quality of services for the Third Control Period

a. IATA notes that AAI has not made any submissions related to Quality of Service as part of its MYTP submission made in March 2021, which, as per the AERA Act, 2008, should be taken into consideration to determine the tariff for aeronautical services. The airport would benefit greatly from the introduction of a regulated service level agreement based on a blend of passenger and operational quantitative and qualitative metrics agreed with the airline community.

b. In this regard, we have received following feedback from the airline community operating out of MAA:

- MAA has only one single Ground Handling Agency since January 2021, i.e AIATSL which caters to both International and Domestic flights.

- The handling and manpower coverage is sub-optimal. Airlines also have to deal with GHA equipment shortage and lack of professionalism.

- The matter has been highlighted to AAI Regional office as well as headquarters, but no resolution has been achieved thus far.

c. This is not in line with India's Ground-handling policy which requires that an "airport having annual passenger throughput of ten million passengers per annum or above, the airport operator shall ensure that there will be three ground-handling agencies". The requirement for a minimum of 3 ground-handling agencies (GHA) as per the policy, has not been adhered to by AAI.

d. This is also not in line with the recommendation made by ICAO in its Doc 9587- Policy and Guidance Material on the Economic Regulation of International Air Transport. ICAO states that competition may have the beneficial effect of reducing ground-handling charges without compromising the quality of the service provided."

AAI's Submission:

Contract between AAI and M/s Bhadra at Chennai Airport expired on 22.09.20. Thereafter, as per interim arrangement, M/s Bhadra was allowed by CHQ ti operate in Chennai Airport till 31.12.20. Thereafter, M/s Bhadra approached the Hon'ble high Court of Madras for continuing operations in Chennai Airport beyond 31.12.20. As per the High Court of Madras Order Dt. 16.6.20, M/s Bhadra exited the airport along with the equipment.

AAI had called for a global tender to appoint a Ground Handler in January-20. Due Covid-19, the tender end date was extended from time to time till 31st July-20. M/s LAS Ground Force was identified as the highest bidder and issued LOIA by CHQ in January -21. However, after the issue of LOIA, the agency did not fulfill the terms and conditions of the LOIA (Security Deposit as per LOIA was not deposited by the agency). Therefore, the LOIA was cancelled in May-21. Also, Writ petition has been filed by M/s Global Flight Handling Services Limited (one of the participant in the Global tender for GH at Chennai Airport) in the high court of Delhi regarding the above mentioned tender. The matter is sub-judice.

In Chennai Airport, almost all the domestic Airlines are self-handling except GO Air and Air Asia. Go Air and Air Asia have very few operations. The scheduled international operations are still not permitted by GOI. Only, non- scheduled operations are currently operating in Chennai Airport. Also, the annual passenger traffic is projected to be less than 10 million for this financial year. M/s AIASL has been handling these non- scheduled operations. A meeting was held between CEO, AIASL and the stakeholders in September-21 to address the issues of Ground handling.

3.16 Regarding Additional Feedback from Local Airline Community

a. *Terminal 4 Arrival area is still unused by AAI for any passenger activity. It was converted to departure but due to shortage of manpower from CISF/ Immigration, the cost spent towards the upgradation has been put to waste.*

b. *Referring Table 14: 'Capital additions incurred in the Second Control Period but not approved in the Second Control Period Order"*

   - Expense shown by AAI towards BHS expenses incurred for Terminal 4 conversion, which in reference to the first point, is still not utilised for any passenger activity.

   - Shows modifications to BHS, but there have been no significant changes done from 2013 ever since its commissioning, except an upgrade of the XBIS machines which is covered as a capital expenditure.

   - An expense shown on engineering office which one understands as line maintenance building. But there is no justification for the cost incurred as no significant changes seen.

   - Cost incurred on CUTE equipment- there is no change in the hardware except service and repair of hardware. No significant additions or new equipment, except partial replacement when required.

   - Electrical installations- no explanation on areas covered and value addition to operations.

c. *Referring 17.3: Annexure III- 'Capital additions in the Second Control Period'*

   - Mentions augmentation of BHS and provision of tag readers. Currently domestic and international BHS are non-tag readable and no facility for Baggage Source Message (BSM).

   - Highlights reconstruction of TWY H Phase I & 2, however we did not see any complete reconstruction only minor modifications.

d. *Referring Table 124 'Capital additions approved by the AERA in Second Control Period but deferred to Third Control Period', the TWY B straightening work is not 100% complete yet.*

e. *Referring Table 128: 'Capital additions approved by the AERA in Second Control Period but dropped', and w.r.t point 17.4, the resurfacing of secondary runway 12/30, construction of cargo bays, PBB and VDGS systems and level of activity for the Ph-2 of NITB Part-1 need close scrutiny. Also secondary runway 12/30 still has obstruction which has defied use of Code-E for many years now, since the expansion of the runway.*

f. *AAI has increased the space Rents for Non-Air-Conditioned space by 45% and Air condition office space by 45% at T3 and 25% in T4 from 01 Apr 2022 which is not justified with no service value addition."*

AAI's Submission

Sl No.	Reference Above	Reference for Response in this document
1	a	1.1
2	b	1.2 to 1.6
3	c	1.7 to 1.8
4	d	1.9
5	e	1.10
6	f	1.12

4 Comments from Indigo

4.1 Regarding ANS and Cargo Services

"Revenue from Air Navigation Services and Cargo Services

Indigo submits that as per section 2 of Airports 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, revenue from Air Navigation Services, Cargo Services (100% revenue accruing to AAICLAS) should form part of aeronautical revenues and accordingly Authority should take into account of the corresponding revenue and revise the tariff card."

<u>AAI's Submission</u>

AAI submits that the tariff determination for airports is done only for the charges collected by the airports. Tariff for air navigation charges and cargo services are separately determined.

Air Navigation Services - Following was quoted in the consultation paper released by the Ministry of Civil Aviation in respect of tariff determination for air navigation services:

5.4.2. Powers and Functions of Airport Economic Regulatory Authority of India (AERA) are laid out in Section 13(1) of the AERA Act, 2008, which is reproduced below:
"…13. Functions of Authority—(1) The Authority shall perform the following functions in respect of major airports, namely:—
(a) to determine the tariff for the aeronautical services taking into consideration—
(i) the capital expenditure incurred and timely investment in improvement of airport facilities;
(ii) the service provided, its quality and other relevant factors;
(iii) the cost for improving efficiency;
(iv) economic and viable operation of major airports;
(v) revenue received from services other than the aeronautical services;
(vi) the concession offered by the Central Government in any agreement or memorandum of understanding or otherwise;
(vii) any other factor which may be relevant for the purposes of this Act:
Provided that different tariff structures may be determined for different airports having regard to all or any of the above considerations specified at sub-clauses (i) to (vii);
(b) to determine the amount of the development fees in respect of major airports;
(c) to determine the amount of the passenger service fee levied under rule 88 of the Aircraft Rules, 1937 made under the Aircraft Act, 1934 (22 of 1934);
(d) to monitor the set performance standards relating to quality, continuity and reliability of service as may be specified by the Central Government or any authority authorized by it in this behalf;
(e) to call for such information as may be necessary to determine the tariff under clause (a);
(f) to perform such other functions relating to tariff, as may be entrusted to it by the Central Government or as may be necessary to carry out the provisions of this Act…"
5.4.3. Definition of "Aeronautical services" as per Section 2(a) of the AERA Act is as follows:
"…"aeronautical service" means any service provided—

(i) for navigation, surveillance and supportive communication thereto for air traffic management;
(ii) for the landing, housing or parking of an aircraft or any other ground facility offered in connection with aircraft operations at an airport;
(iii) for ground safety services at an airport;
(iv) for ground handling services relating to aircraft, passengers and cargo at an airport;
(v) for the cargo facility at an airport;
(vi) for supplying fuel to the aircraft at an airport; and
(vii) for a stake-holder at an airport, for which the charges, in the opinion of the Central Government for the reasons to be recorded in writing, may be determined by the Authority;…"

5.4.4. Through combined reading of the above definitions contained in the AERA Act, it is determined that AERA has the authority to determine the tariff relating to air navigation services in "major" airports. However, ANS is a service which treats Indian airspace as a single sky/entity. The Indian airspace is indivisible and cannot be attributed to its constituent airports.

5.4.5. Further, the following sections are present in the AAI Act, 1994 as amended by the AAI Amendment Act 2003:
"…22. The Authority may,-
(i) With the previous approval of the Central Government, charge fees, or rent-
(b) for providing air traffic services, ground safety services, aeronautical communications and navigational aids and meteorological services at any airports and at any aeronautical communication station;"
"…22A. The Authority may, after the previous approval of the Central Government in this behalf, levy on, and collect from, the embarking passengers at an airport, the development fees at the rate as may be prescribed and such fees shall be credited to the Authority and shall be regulated and utilized in the prescribed manner, for the purposes of…."
"…41. (1) The Central Government may, by notification in the Official Gazette, make rules for carrying out the provisions of this Act…"

5.4.6. Sections 22A and 41 of the AAI Act were further amended with the introduction of AERA Act, 2008.

Through this amendment, the determination of 'development fees' by AAI, with approval of Central Government was restricted to other than major airports. However, such amendment was not extended to Section 22(i)(b). Hence, it is inferred that it was not the intention of law that AERA should determine tariff for Air Navigation Services. Further, through Section 22 of the AAI Act, AAI has the authority to levy charges for air navigation services with prior approval of the Central Government (in this case, with prior approval of the Ministry of Civil Aviation (MoCA)).

Similarly, cargo is a service provided by a separate legal entity from 1st April 2017 - AAICLAS. AAICLAS is a 100% subsidiary of AAI providing cargo services. Hence, the determination of tariff for cargo services is submitted and approved for the respective cargo terminals from this separate legal entity.

4.2 Regarding True Up of SCP

"True Up of Second Control Period
Indigo submits that as per Table 58 of the Consultation Paper, it appears that on true up of the Second Control Period, AAI has made an over recovery of INR 472.90 Cr.

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 independent studies 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 minimise any large variations in projections and to ensure suitable benchmarking of costs."

AAI's Submission

AAI submits that this over recovery of Rs 472 crores stems from the large disallowances made by AERA. Some of the disallowances include CHQ/RHQ expenses, disallowance of Financing Allowance, etc. On the other hand, the traffic in pre-Covid years was higher than anticipated. Hence, in AERA's computation, an excess recovery of Rs 472 crores was computed. However, in AAI's submission, as per Table 56 of the CP, AAI had submitted a shortfall of Rs. 172.13 crores.

4.3 Regarding Traffic

"Traffic
Indigo requests AERA to conduct an independent study for traffic assessment, in accordance with the AERA Act.
Indigo further requests AERA to consider gradual increase in traffic - passenger and ATM along with gradual relaxation in operational capacity (domestic) allowed by the Ministry of Civil Aviation i.e. 85%."

AAI's Submission

Please refer to para 3.4 of this document for responses.

4.4 Regarding RAB

"Regulatory Asset Base (RAB)
Indigo submits that AERA has observed AAI's historical trend in postponing the proposed capex to a subsequent 'Control Period' and has rightly held that the passenger must not bear the burden in case of a delay in capitalisation due to the airport operator.
In view of the above, and similar to proposal under para 5.2.3 of the CP for Third Control Period, Indigo requests AERA to impose the penalty of 1% or higher, as deemed fit, on the total project cost from the ARR for all the delays in capex by AAI till date. This approach is in line with the decision of Hon'ble TDSAT judgement dated 16 December, 2020 applicable for Bangalore International Airport Limited (BIAL).
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 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.
In particular, AERA may review the cost of New Integrated Terminal Building (NITB) Part - I proposed to be capitalised at Rs. 92,287 per sq. mtrs. (Refer Table 72 of the CP).

Indigo submits that as per Normative Order No. 07/2016-17 ""In the matter of normative approach to building blocks in economic regulation of major airports - capital costs reg."" dated 13.06.2016 (Normative Order), the ceiling cost per sq. mtrs. for terminal building is stated as INR 65,000.
Indigo would also like to highlight that the cost per sqm. of the terminal building in the case of Vishakhapatnam Airport is INR 58,546.60 per sqm., which can be considered as a benchmark costs. Accordingly, Indigo submits that any cost to be allocated for capital expenditures should be within the normative norms prescribed by the Normative Order.
Further, respect of Residential Colony, AERA may kindly note that 'Residential Quarters' in the case of Patna Airport were approved at a total cost of Rs. 32.45 Crore. Accordingly, AERA is requested to review the proposed cost of Rs. 370.89 Crores for building the new 'Residential Colony' at Chennai Airport.
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. It may be pertinent to note that AERA has itself recommended the need for such study for allowable capital expenditure as mentioned in para 5.2.26 of the CP."

<u>AAI's Submission</u>

Please refer to para 3.9 of this document for responses on 1% readjustment.
Please refer to para 3.8 of this document for responses on Residential colony.
In respect of normative costs for terminal building, AAI submits that the cost per sq mt estimated by AAI for NITB is well within the normative costs plus inflation determined vide Order No. 7/16-17. Hence, AAI submits that it has not deviated from a cost per sq mt which has been already determined by AERA and which is a well settled matter.

4.5 Regarding Depreciation

"Depreciation
While Indigo acknowledges the correct depreciation rate applied by AERA in relation to Computer Software, being in accordance with AERA Order No. 35/2017-18 reg 'Useful Life of Airport Assets', Indigo submits that AERA should consider useful life of Building Terminal Building as sixty (60) years (as envisaged in AERA Order No. 35/2017-18 read with Schedule II of Companies Act, 2013, as applicable), and revise the amount of depreciation accordingly.
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 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."

<u>AAI's Submission</u>

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.

4.6 Regarding Fair Rate of Return

"Fair Rate of Return (FRoR)
While Indigo appreciates that AERA has drawn references to independent studies for FRoR conducted in case of DIAL and MIAL, independent study for FRoR should be done in case of Chennai Airport.
Indigo submits that fixed/assured return favours 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."

AAI's Submission

AAI submits that as per the Second Control Period Order – decision no. 9.b, AERA had decided to carry out an independent study of the FRoR for major AAI airports. However, it was noted that the results of such study was not mentioned in the CP.

It was also noted by AAI that AERA had referred to the workings carried out in the Orders of MIAL and DIAL and had recomputed the Cost of Equity for Chennai airport. However, it is submitted that the comparable airport set used for MIAL and DIAL along with the proximity score computations may not hold good for AAI airports. Proximity scores were computed based on three criteria - Revenue till, Ownership structure and Operations. The scores assigned for each of the airports in the comparable set would be very different if re-applied and re-computed for AAI airports. Extract of the proximity score computation is provided below:

The proximity scores of these airports with CSMIA are as follows:

Airport	Revenue till	Ownership structure	Operations	Proximity scores
Mumbai	0.00	0.00	0.00	0.0000
Sydney	1.00	1.00	0.41	1.4726
Melbourne	1.00	1.00	1.09	1.7851
Gatwick	2.00	1.00	0.99	2.4474
Auckland	1.00	1.00	2.05	2.4935
Amsterdam	1.00	1.00	-2.28	2.6796
Johannesburg	2.00	1.00	1.50	2.6920
Changi	0.00	2.00	-2.14	2.9319
Dublin	2.00	2.00	1.56	3.2295
Heathrow	2.00	1.00	-2.47	3.3295
MAHB	2.00	1.00	-3.40	4.0670
Incheon	2.00	2.00	-2.93	4.0721
AoT	1.00	1.00	-4.15	4.3822

Scoring mechanism for proximity scores:

Revenue till structure:

- *1 – 'single till' or where information is not available*
- *2 – 'dual till'*
- *3 – Hybrid Till*

Ownership structure:

- *1 – if 100% Government Owned/Funded*
- *2 – if Government / private owned/funded, not being Public Private Partnership*
- *3 – if Public Private Partnership Funded*

Operations Scale (OpS):

- *For each comparable airport, k, we computed the ratios of passenger, cargo and aircraft movement of these airports to that of MIAL in each of the years from 2015 to 2017.*

MIAL and DIAL are PPP airports and the level of traffic handled by it and the scale of operation is very different from that of AAI airports. Hence, it is submitted once again that the asset beta worked out for MIAL and DIAL based on its comparative data set cannot be applied straightaway to AAI airports.

AAI had appointed M/s KPMG to carry out a study during 2011 the results of which is 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.

Please refer to **Annexure 2** for full report as annexed in the FCP CP - Consultation Paper No. 16/2012-13.

Applying the above beta for arriving at the current cost of equity, following are the results:

Airport	MAA as per AAI based on KPMG
Third Control Period	
Gearing Type	Actual
Rf	7.56%
Asset Beta	0.9200
D/D+E	26%
D/E	0.3561
Equity Beta	1.1493
Rm-Rf	8.06%
Cost of Equity	16.82%
Cost of Debt	6.21%
FRoR	14.04%
Debt Equity ratio	34.54%:65.46%
Weighted Avg Gearing%	26.26%

It is further submitted that the debt rate of AAI would also increase in the third control period as the cost of debt would be reset based on the financial health and other factors of AAI.

AAI's Request

AAI thus requests AERA to consider CoE of 16.82%, CoD of 6.21%, actual gearing and FRoR of 14.04% for TCP.

4.7 Regarding Operating and Maintenance Expenses

"Operating & Maintenance Expenses
While Indigo appreciates that AERA has undertaken an independent study for operating expenditure/operations and maintenance expenses for the Second Control Period, AERA may undertake similar independent study for the Third Control Period.
Without prejudice to the above:
1. 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.
2. Expenses on account of CSR may be excluded. This will be in line with the similar treatment to CSR expenditure, given to CIAL at Cochin International Airport."

AAI's Submission

1. AAI submits that there is a continuous internal process to rationalize costs and more specifically during the pandemic. This has only helped the airports sustain even while operating to near zero revenues.
2. CSR expense has been approved in the BIAL's recent TDSAT order and hence AAI does not see a reason why CSR expenses ought not to be allowed as a projection based on expected PAT.

4.8 Regarding Non-Aeronautical Revenue

"Non-Aeronautical Revenue
In reference to para 9.2.3 of the CP, Indigo wishes to submit that a minimal increase of non-aeronautical revenue (i.e. 4.6%) being less than inflation rate requires a detailed scrutiny by way of

an independent study by AERA. In our view, such an independent study should be done in the Third Control Period itself and not kept pending till Fourth Control period of Chennai Airport.
Without prejudice to the above, Indigo submits that:
1. Increase in 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. AERA should also review;
2. 'Royalty' is in the nature of market access fee, charged by the service 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."

<u>AAI's Submission</u>
For response on inflationary increases in NAR, please refer para 3.10 of this document for responses
For response on royalty, please refer para 5.4 of this document for responses

4.9 Regarding Tariff Determination – Single vs Hybrid Till

"Methodology for Tariff Determination - Hybrid Till Vs. Single Till
Indigo submits that in the Consultation paper, 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 favour 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 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 foot-fall and probability of higher non-aeronautical revenue. The benefit of such non-aeronautical 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."

<u>AAI's Submission</u>
Hybrid Till has been adopted by AERA, pursuant to NCAP 2016. This being a well settled matter, AAI is in agreement with the methodology followed by AERA.

4.10 Regarding Aggregate Revenue Requirement/Aeronautical Revenue

"Aggregate Revenue Requirement/Aeronautical Revenue
(i) Overall Tariff/ARR
AERA is requested to review the suggestions/comments on the regulatory building blocks as mentioned under Annexure 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
With regards to the entitlement of the collection charge of Rs. 5 per departing passenger, Indigo submits that instead of the same being conditional upon all dues, interest of dues, and other charges being paid within the due date, the entitlement should be against AAI having received the undisputed invoiced UDF amount with the applicable due date.
Indigo further submits that AAI, Chennai should clear any pending payment of Collection Charges, as due to the airlines.
(iii) Shrinkage in Control Period
Indigo submits that the Hon'ble TDSAT Order sated 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, Chennai 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. Spice Jet relating to an apparent excess billing of landing charges by AAI (amounting to Rs. 29.50 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. Spice Jet 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 suh adjustment to ARR leading to an increase in tariffs, will unfairly burden the airlines and passengers at Chennai Airport during the Third Control Period."

<u>AAI's Submission</u>

Practice of Collection charges has been in force for many years now and AAI submits that the same may be continued for consistency.

AAI submits that it has made the submissions for the third control period before the commencement of the period. Further, AAI submits that the airports are also burdened due to the delay as the next increased is deferred by a year in this case as proposed by AERA. AAI requests AERA to provide the rate increase from 1st January 2022 itself instead of 1st April 2022.
For response on Exemption of Landing charges for aircraft less than 80 seats please refer to para 5.1 of this document.

5 Comments from Spicejet

5.1 Regarding Refund of Landing Charges

"Refund of Landing Charges
The Authority has sought to take into consideration stakeholder's view before taking final decision on amtter of refund of landing charges to SpiceJet for Q-400 landing charges at Chennai by AAI - Chennai during the First Control Period.
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-AAI 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 11, 2004. All the airports (except Civil Enclaves at Defence Airports) stopped charging landing charges on small aircrafts 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 of 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 privatisation of airports and constitution of Airports Economic regulatory Authority (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. 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-AAI 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 without any limitation of domestic or international flights.
In view of the above, it is submitted that all the landing charges charged by AAI - Chennai Airport for operations of the aircraft with less than 80 seats be refunded to the airlines along with interest to be calculated as per interest to be calculated as per interest charged by AAI - Chennai from the airlines from time to time. The Principal amount charged from Spicejet by AAI - Chennai are as under:-

Financial Year	*Amount invoiced by AAI Chennai (in INR)*
2012-13	*2,374,201*
2013-14	*58,523,804*
2014-15	*64,037,529*
2015-16	*61,097,674*
2016-17	*68,631,451*
2017-18	*68,255,785*
2018-19	*10,221,529*
Grand Total	*333,141,972*

Airports Authority of India Chennai has confirmed an amount of Rs. 33,10,45,277 vide its letter no. AAI/CH/REV/SJ dated 24.09.2021, which has been submitted by SpiceJet to AERA vide SpiceJet letter no. AERA/250921 dated September 24, 2021."

AAI's Submission and Request

AAI's comments on the above are as under:

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 public hearings. 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 Spice Jet. 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) It is because that amount so refunded will be treated as revenue gap for the particular period. Any revenue gap of preceding period is compensated/covered in future tariff period with carrying cost. Hence carrying cost on this amount which would be required to be refunded or adjusted to Spice Jet is required to be given, It is even more so as M/s Spice Jet would be asking for interest on this amount.
d) It is not known to AAI whether any other airlines have also sought or will seek similar benefits, AAI would request AERA to give time to all airlines that may like to seek similar relief so that AAI does not suffer any loss on account of similar payment it will have to make.
e) The amount to be paid back, if any, should be without taxes only.

5.2 Regarding Compensation to AAI

"Compensation to AAI
We are thankful to AAI for considering the claim of SpiceJet for the refund of the amounts as mentioned in Point 1(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-AAI dated February 9, 2004 and AAI's letter no. Av.11014/22/2002-Rev/ dated February 11, 2004. We are also thankful that aforementioned exemption has been stated in the proposal of AAI - Chennai 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 - Chennai may be suitable compensated for the deficit that may be created due to such refund to Spicejet."

AAI's Submission

Please refer to para 5.1 of this document for responses

5.3 Regarding Tendering Mechanism

"Tendering Mechanism

Authority should ensure that instead of the Concession agreements being for a period of 7 to 10 years, the same should not exceed five (5) years such that there is no monopolistic situation, and in a fair and transparent manner, with the agreement awarded to only those parties which provide best-in-class services at the most competitive (at the least) price, from at least three to four parties.
Length of Concession agreements at Chennai:

Retail	*Duty Free*	*Parking*	*Advertising*	*F&B*
7 Years	*7 Years*	*1 Years (Extendable)*	*10 years*	*10 years*

Any attempt to award the contracts on highest revenue share basis should be discouraged as it breeds inefficiencies and tends to disproportionately increase the cost. It is general perception Airport operator 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 operator."

AAI's Submission

Commercial Department in Chennai Airport has initiated tender as per the terms and conditions, period of license etc., mentioned in line with the AAI commercial manual.

5.4 Regarding Royalty

"Royalty
As you are aware, royalty is in the nature of market access fee, charged (by any name or description) by the Airport operator under various headings without any underlying services. These charges are passed on to the airlines by the airport operator other service providers. The rates of royalty at some of the airports are as high as forty six (46)%. 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.
The rates of royalty/concession fee for various services at Chennai Airport are mentioned below:

GHA (Dom)	*GHA (Intl)*	*Catering*	*Freight*	*Security*	*MRO*
13%	*13%*	*13%*	*13%*	*32.50%*	*13%*

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

AAI's Submission
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 all the AAI managed Airports.

5.5 Regarding Over Recovery (Second Control Period)

"Over Recovery (Second Control Period)

The Authority has noted an over recovery of Rs. 472.90 Cr. In the Second Control and proposed to readjust the same (claw back) in the ARR computation of the Third Control Period. The Authority and AAI - Chennai should undertake a detailed scrutiny (including independent studies/audits) and other appropriate measures to ensure that there are no cases of over recovery, which will assist in lowering the burden of tariff on airlines/passengers. It appears that the costs are exaggerated/inflated, and revenues suppressed in the projections, which leads to over recoveries.

In case of excess recoveries, not only the original amount of excess recovery but also the interest calculated thereon should be taken into account, at the rates at which airport operators charges interest on dues from airlines, from the date of recovery of such excess from time and time."

AAI's Submission

Please refer to para 4.2 of this document for responses

5.6 Regarding Deferment of Part 2 Phase 2 of NITB

"Deferment of Capital Expenditure - Regulatory Asset Base:-
We appreciate that considering the reduced traffic owing to COVID-19, AERA has rationalised the capital expenditure and excluded certain proposed additions by AAI - Chennai to RAB.

Stoppage of non-safety related capital expenditure:
As noted by the Authority, AAI - Chennai has had a trend of proposing capex in the respective control period and postponing it to the next control period. While AAI - Chennai proposed capitalisation worth Rs. 2,862.71 Cr. in the First Control Period, it executed only Rs. 2,235.90 Cr. Similarly, in the Second Control Period, AAI - Chennai had proposed capital additions worth Rs. 1,434.2 Cr., it capitalised only Rs. 243.73 Cr.
Further, Authority acknowledged the effect of the pandemic in the Second Control Period, also opined that the passenger must not bear the burden in case of a delay in capitalisation due to the airport operator.
As mentioned above it will take around two (2) - three (3) years for the flight operations to reach 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 - Chennai should be put on hold/deferred, unless deemed critical from a safety compliance perspective. Further, in case AAI - Chennai 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."

AAI's Submission

Please refer to para 3.2 of this document for responses

5.7 Regarding Fair Rate of Return

"Fair Rate of Return (FRoR)
We appreciate that AERA has considered a lower FRoR of 11.95%, which is net of income tax return to the airport operator, for 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 - Chennai 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 service providers like AAI - Chennai, 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, incase 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 - Chennai. 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."

AAI's Submission

Please refer to para 4.6 of this document for responses

5.8 Regarding Operating Expenses

"Operating Expenses
We appreciate that an independent study was commissioned through E&Y LLP on ""Study of Operations and Maintenance Expenses of Chennai International Airport"".
We are unaware as to whether AAI - Chennai has taken cost cutting measures including re-negotiations of all the cost items on its profit and loss account. It may be noted that cost incurred by AAI - Chennai impacts the airlines, as such 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 - Chennai
(b) Advise AAI - Chennai to review its spending on operational expenditure and re-negotiate all the operational expenditure costs in a significant manner and address any increase in fees sought by AAI - Chennai. It may be noted that across various industries, instead of cost escalations, all the costs have been re-negotiated downwards substantially. Accordingly, AAI - Chennai needs to significantly reduce all such costs in a very aggressive manner. AAI - Chennai may be advised to reduce its cost be at least 35% and no escalation should be permitted; and
(c) In view of the above, AAI - Chennai should be directed to pass on cost benefits to the airlines.
(d) In particular, we submit that:
(i) YOY increase in the O&M expenses proposed by AAI - Chennai is between 2.73%-9.30%. Instead of a significant reduction in cost items of operating expenses, Authority has considered a percentage increase in OPEX of around 42% between 2022 and 2026. Such an increase in the name of

escalation, in a highly uncertain environment, where airlines are operating under curtailed operations (60-65%), appears without any rationale and should be avoided.
(ii) Payroll Cost:
Although the activity level has gone down drastically, rather than significant reduction in the cost, the employee expenses are proposed to increase YOY between 6.91% to 12.38% 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 - Chennai 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 - Chennai 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 utilized as it will take another two (2) - three (3) years to recover, existing manpower can be reviewed and any additional costs due to contract manpower or other wise should be reduced.
Without prejudice to the above, AAI - Chennai needs to considerably restructure its employee benefit expenses and other expenses and hold any revisions at least for the next two (2) years."

AAI's Submission

Please refer to para 4.7 of this document for responses

5.9 Regarding Non-Aeronautical Revenue

"Non-Aeronautical Revenue
The Authority has sought to take into consideration stakeholder's view on the proposed non-aeronautical revenue increase. While we appreciate Authority's view of conducting a detailed independent study on the non-aeronautical revenue before the tariff determination of the Fourth Control Period, we are of the view that considering the low base increase of only 4.6%, the Authority may kindly set a target of at least 50% increase YOY. Considering that nearest comparable airport like Bangalore and Hyderabad have a non-aero revenue projected percentage increase between Second Control Period and Third Control Period in the region of 30% each, the low figures of Chennai are disappointing, especially since the projected passenger throughput increase of Chennai is comparable with the passenger throughput increase of Bangalore and Hyderabad, being in the region of 22% to 27% between Second Control Period and Third Control Period.
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 to ensure no adjustments are proposed to non-aeronautical revenue which is not dependent on traffic but are derived from agreements with concessionaires."

AAI's Submission

Please refer to para 4.8 of this document for responses

5.10 Regarding Aggregate Revenue Requirement/Shrinkage

"Aggregate Revenue Requirement/Shrinkage in Control period:-
1. AERA is requested to review the suggestions/comments on the regulatory building blocks as mentioned under Annex-B, which is likely to reduce the ARR (including shortfall) of MAA. This will further ensure the lowering of tariff including UDF, which will be beneficial to passengers and airlines.
2. We submit that the Hon'ble TDSAT Order dated 16 December, 2020 stated as follows: '100... However, there is substance in this grievance and AERA will do well to ensure that if delay is caused by the Airport Operator, its consequences should not fall upon the users. Tariff Orders should be prepared well in time so that the burden of recovery is spread over the entire period for which the order is passed....""
In view of the above, AERA is requested to ensure that airlines/passengers are not burdened in view of the apparent shrinkage in the period of recovery of the aeronautical tariff from passengers/airlines, as the AERA Tariff Order for MAA's Third Control Period will now be issued after the commencement of the Control Period i.e. 1 April, 2021."

AAI's Submission

Please refer to para 4.10 of this document for responses

5.11 Regarding Tariff/Government Restrictions/Collection Charges

"Tariff/Government Restrictions/Collection Charges
1. Tariff:
While AAI - Chennai as proposed to increase the aeronautical tariffs as applicable from 1 April 2021 between 920% to 975% for Domestic and International Landing Charges respectively from existing rates and thereafter an increase of 4% on 1st April every FY upto FY 2025-26, AERA has considered increases up to around 470% as compared to existing charges. Similarly, while AAI - Chennai has proposed increase of Parking charges (Domestic/International) at 1220% from existing rates w.e.f. 01.04.2021 and thereafter an increase of 4% on 1st April every FY up to FY 2025-26, AERA has considered increases up to around 470% as compared to existing charges. Further, for UDF, AAI - Chennai has proposed an increase of 813% for Domestic and 1857% for International passengers as compared to existing rates with effect from 01.04.2021 and thereafter an increase of 4% on 1st April of every FY up to FY 2025-26, while AERA has considered increases up to around 480% for domestic and around 770% for international passengers are compared to existing charges.
These rates of increase in tariff are shockingly high especially in the backdrop of COVID-19. It is in the interest of all the stakeholder's not to increase the tariffs in order to encourage middle class people to travel by air, which will help in sharp post COVID-19 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 required 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 aforementioned 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 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.
3. Collection Charges:
With regard to the entitlement of the collection charges as per departing passenger, as it is mentioned that the same would be subject to the policy pertaining to such charges between the airport operator and the airline, and since it is not specifically mentioned what such policy might be, we submit that the same should not be confidential upon all dues, interest of dues, and other charges being paid within the due date, and the entitlement should be against AAI - Chennai having received the undisputed invoiced UDF amount with the applicable due date."

<u>AAI's Submission</u>

Please refer to para 4.10 of this document for responses