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To whom it may concern:

IATA RESPONSE TO AERA'S CONSULTATION PAPER FOR THE DETERMINATION OF AERONAUTICAL TARIFF FOR INDIRA GANDHI INTERNATIONAL AIRPORT (DEL) FOR THE THIRD CONTROL PERIOD

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

The aviation industry is facing the biggest challenge of its history; restarting an industry that has essentially ceased to operate across borders while ensuring it does not become a vector for the spread of COVID-19. All while taking an unprecedented economic hit with the Asia Pacific airlines standing to suffer US\$127.5 billion in loss of revenues this year – and facing considerable uncertainty about their future. COVID-19 has devastated the air transport industry in Asia Pacific. For India, demand in terms of passenger volumes is forecast to fall by 93.27 million or 49% in 2020 year-on-year resulting in US\$11.61 billion loss of airline revenues.

How can AERA best incorporate the COVID-19 situation within the economic regulatory framework

AERA has made it clear that it is seeking for user's input as to how to deal with the effects of COVID in the context of the Third Control Period.

One alternative could be for AERA to delay the determination of charges for at least a year. This would allow for some of the uncertainties to dissipate and help to facilitate better forecasts (not just on traffic, but also on costs) and true up differences. In a similar fashion, it could continue with the pre-COVID analysis as per CP and true up later. However, it is precisely because of the "true up" approach favoured in this regulatory environment that we do not believe this to be a viable option. The pandemic should trigger a significant review (read "reduction") of current CAPEX and OPEX levels at airports, and we are concerned this could lead to complacency on the part of the regulated entity and not deliver the required efficiency level. In other words, it is possible that CAPEX or other costs would not be adjusted by the regulated entity on the expectation that these will be trued up anyhow.

This leads to the following **(preferred) alternative**, which involves **AERA making a determination now**, on the basis of the latest available figures. As explained above, we remain concerned that Delhi International Airport Pvt Limited (DIAL) will not have the compulsion (or right incentives) to implement the "adjusted" environment and therefore it is imperative for AERA to ensure that DIAL adopts the right behaviours in response to the current levels of traffic. In particular:

- There needs to be a thorough review of OPEX
- A complete freeze and immediate review of the CAPEX portfolio



Also, there is a unique opportunity for adopting this approach in the determination for DEL because the true ups calculated by AERA in the CP from 1st & 2nd control periods could be used to maintain charges at current levels (despite the utilization of a lower traffic in the building block calculation).

Within this alternative, AERA could consider reopening the determination if deemed in the public interest (as allowed in Article 13 (2) of the AERA act) at a more appropriate time when there is greater certainty. Given the uncertainty that continues to exist regarding detailed traffic forecasts, CAPEX and OPEX this could prove to be a viable option.

In conclusion, as part of the determination now, AERA could still allow for the setting of BAC+10% level for charges however it is also necessary to include the directive to freeze CAPEX items and subject them to a meaningful AUCC process with users to review and re-phase these investments accordingly. Further inputs on this aspect can be found in the CAPEX section in this submission.

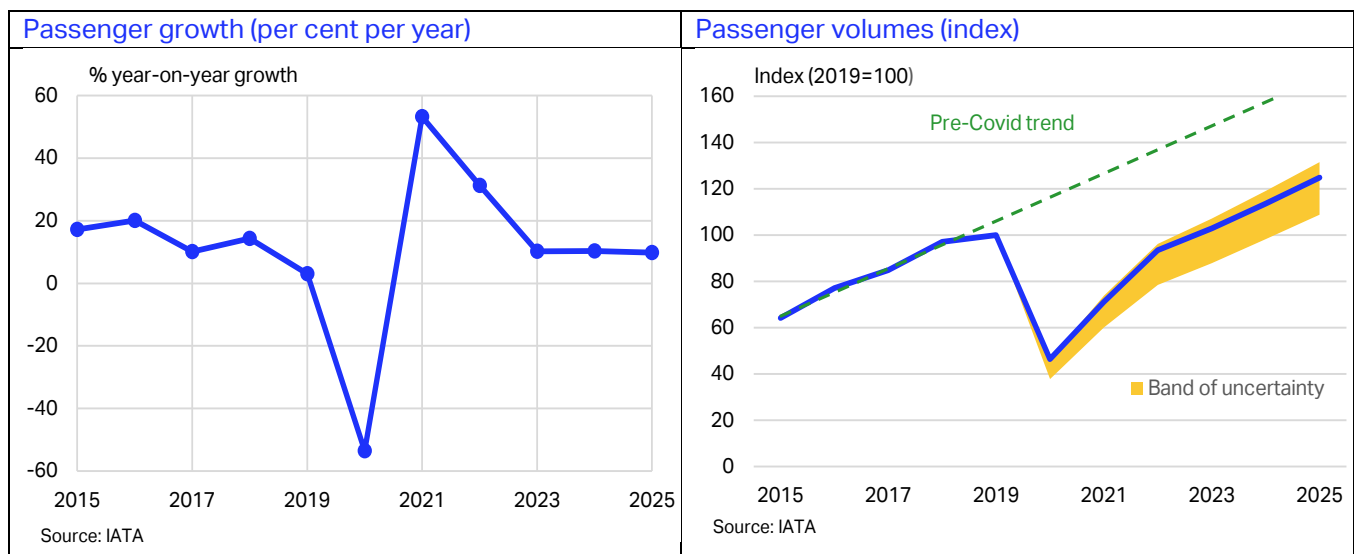
Traffic Forecast (Chapter 9)

As acknowledged by AERA, the traffic included in the CP is a pre-COVID scenario. As previously explained, we are concerned that adopting a pre-COVID scenario (to then true up) will not provide enough incentives for DIAL to cut costs.

The following estimates by IATA suggest that passenger volumes in DEL may increase at an average annual rate of around 4% between 2020 and 2025. This outlook compares with a double-digit annual growth rate over the comparable pre-COVID period. Under this scenario, the 'number of passengers' does not recover its pre-COVID (2019) level until late in 2023 or possibly into 2024 and remains well below the pre-COVID trend trajectory over this time horizon.

The recovery in air transport demand is expected to be phased and uneven. Domestic markets are likely to re-open first as the virus is contained within the particular country and governments begin to lift travel restrictions. International travel is likely to take longer to recover as the opening of borders resumes more gradually. Within the international segment, short-haul international travel is likely to recover more quickly than long-haul and intercontinental travel.

Summary outlook of DEL to 2025





Key issues underpinning the estimates

As usual, there are both upside and downside risks to the forecasts. On this occasion the balance of risks is tilted to the downside, as depicted above (the yellow band of uncertainty being more on the lower end).

The pandemic is ongoing and there remains considerable uncertainty around how it will play out. This is a fundamental uncertainty for the outlook. Effective containment will be a vital first step to restarting economic activity and air transport and the possibility of a so-called 'second wave' or even 'third wave' cannot be disregarded.

Not unrelated, the recovery in economic activity will be an important driver of the recovery in passenger demand. The IMF forecasts the Indian economy to grow by 6.0% in 2021 (below the five-year average rate of almost 7%), following a fall of 4.5% this year. But again, the risks are on the downside. If the economic recovery is more subdued, this will in turn dampen the recovery in air transport and DEL passenger volumes.

Consumer confidence is another important consideration for the timing and nature of the industry recovery. If consumers are reluctant to travel – even when the virus has been contained and travel restrictions lifted – this could result in a slower than anticipated recovery in late 2020 and 2021.

Finally, the global health crisis has placed additional pressure on airline finances. With many airlines – including some in India – already facing challenges and bankruptcies in this regard prior to the emergence of the pandemic, a fragile financial position could impact the ability of airlines to respond quickly to improved demand conditions during the recovery period.

This perspective is not a substitute for detailed airport level traffic forecasts to inform the timing and business cases regarding capital investment and related opex. A detailed review of traffic is recommended to inform capital investment triggers and phasing, once more certainty exists i.e. review in 2021.

True ups of the First and Second control periods (Chapters 2 & 3)

We are broadly in agreement with the calculations for the true up for the first and second control periods (and therefore, at least Rs 5,736.88 crores should be given back to users through the Third control period (or further periods if the BAC + 10% prevents the full amount to be given back).

However, there are some items that need AERA's attention, which should increase the true up amount:

- 1) Cost allocation: We consider that the current practice of cost allocation is flawed and underestimates the portion of costs allocated to non-aeronautical activities (this is further discussed later in this submission – please see section "Cost Allocation (assets and OPEX)").
- 2) Efficient level of costs: We do not believe that the work carried out by R Subramaniam and Company LLP adequately examined the level of efficiency incurred by DIAL. Further scrutiny and analysis is necessary. This is further explained in the section "Operating costs".
- 3) Forex losses: We understand AERA's approach to allow a certain level of forex losses up to the point that the overall cost of forex debt equals the level of allowed debt in national currency. However, we find it odd that the calculations are made against current levels of debt that bear no relation to the RAB (and the gearing assumed when allowing a cost of capital for that RAB). This is shown in the following table:



Rs Cr.	2015	2016	2017	2018	2019
Debt (as per Table 43)	5,395.47	5,418.91	5,396.03	5,311.91	5,456.13
RAB (as per Table 65)	6,767.53	6,281.63	5,848.87	5,391.11	5,004.30
Actual debt / RAB	80%	86%	92%	99%	109%

On the basis of the above, AERA may need to review its calculations when allowing forex losses.

IATA would greatly appreciate for AERA to take into account the points made above (and the references to the later sections) before it makes a final decision on the overall level of true up for the First and Second control periods.

Capital Expenditure (CAPEX) – Chapter 4

DIAL's capital investment proposal, referred to as the "Major Development Plan" otherwise known as Phase 3A expansion in Control Period 3 (CP3) takes no account of the severe impact of COVID-19 on traffic demand, that calls into question the immediate need for capacity enhancing projects for at least the next 1-2 years and the remainder of the control period. Similarly, AERA's assessment of DIAL's plan takes little account of acute COVID-19 impacts at this stage in lieu of stakeholder's comments.

IATA strongly recommends an immediate freeze on all Phase 3A capital investments pending a comprehensive review of traffic forecasts to determine a revised phasing plan for Phase 3A (and future phases of the master plan), in order to balance capacity with demand. A delay now is important given the considerable uncertainty and risks that continue to evolve and exist regarding the pace of traffic recovery noted by AERA in 9.2.4. At the time of this submission detailed traffic forecast scenarios are near impossible to provide in order to determine the timing and scale of investments for the control period. Instead, we propose a pause, status update and review in the new year when more certainty may exist, rather than to push ahead now to make investments that may not be necessary.

To be absolutely clear, DIAL's justification for Phase 3A projects based on pre-COVID levels of demand and airport saturation is not a relevant argument to justify CP3 investments, given the substantial impacts on traffic that may well have lasting effects. Notwithstanding a completed lack of consultation with users regarding investments to date, this is exactly why we require a CAPEX freeze and review now. In addition, the ability of airlines to service demand given COVID impacts needs to be carefully considered in close consultation with airlines.

As important is a review of all project business cases for CP3 in consultation with the Airport Users Consultative Committee (AUCC) to assess the need and return on investment for airlines given their dire financial circumstances. Effective consultation to enable well informed investment decisions with clear outcomes working within the scope of AERA's Consultation Protocol is critical, however, it continues to be a major issue resulting from DIAL's unwillingness to cooperate meaningfully. We fundamentally disagree with point 4.1.2 of the CP3 control period document stating "DIAL has conducted consultation with various stakeholders..." This statement is simply untrue and misleading.

In keeping with AERA's protocol, consultation requires a willingness on DIAL's part to work collaboratively with stakeholders, to define their requirements and seek their inputs and feedback regarding passenger and operational needs. Development feasibility is an iterative process requiring regular, structured interaction to identify and select project concepts, options, and ultimately to select the most cost-effective solution to deliver



valued benefits. A 'Business Case' with costs (CAPEX/OPEX), timeframes, risks, benefits and the overall return on investment should be openly discussed with the objective to working towards consensus – none of these steps has been followed by DIAL in creating its capital plans to date, and we fear this behaviour will continue unless AERA intervenes.

The reality is DIAL has formed predetermined plans and shared them at a high level with airlines on a one-off basis. Lip service has been paid to the airline community and efforts to engage with them have been ignored. Airlines cannot share feedback on plans that are not consulted upon, and it is therefore unreasonable to support the capital plan until these issues are resolved. What was a major issue pre-COVID, is now even more significant given the extreme financial position our airline members find themselves in resulting from COVID-19.

DIAL's disregard to consult with users can be demonstrated as only 1 AUCC meeting was held regarding Phase 3A plans on 27th September 2017 that is woefully inadequate:

- AUCC called on very short notice for a non-consultative agenda with no opportunity for international airline or IATA subject matter experts to join – demonstrating a disregard for genuine consultation.
- Large amounts of high-level pre-aligned information shared at the meeting - airlines are unable to prepare or provide informed feedback.
- Pre-determined outcomes rather than options for review have been presented.
- No attempt made to seek airline requirements as an input into the consultation process.
- No attempt made to work towards consensus.
- No attempt made to share project costs, benefits, impact on airport charges, or Business Cases focusing on outcomes.
- No attempt to consult at key project stages during the design and development stages of projects.
- IATA and AOC attempts to address these issues have been completely ignored, for instance a joint IATA-AOC letter to DIAL CCO Aero) on 20th December 2017 requesting more project details regarding runway 4 remains unanswered (see Appendix 1).

We have the greatest respect for AERA's Consultation Protocol and cannot stress strongly enough our frustration about it not being adhered to by DIAL. We respectfully recommend AERA supports a **CAPEX freeze** and mandates DIAL to apply its protocol and the principles set out in this section of IATA's response. We also propose that subject to AUCC review, projects that fail to result in airline-airport consensus are disallowed from the regulated asset base, as a backstop to incentivise DIAL to behave rationally given its market power and abuse of dominant position. In context of the extreme cost sensitivity airlines face, we strongly recommend no investments proceed without the explicit approval of the airline community taking account of the financial impacts on user charges. We passionately believe these steps are in the best interests of users and consumers and are required to make a step-change in airport-airline community relationships and support industry restart activities.

To support effective consultation with users we recommend the following principles are applied to complement AERA's Consultation Protocol given the circumstances:

- All projects in the design and development phases should stop with immediate effect. Projects in the delivery and construction phase should be stopped immediately or as soon as practically possible at the end of the existing project phase. A status update of all projects should be provided to AUCC as a matter of urgency.
- Sufficient time should be taken for a thorough assessment and rephrasing of projects informed by traffic forecast scenario's and investment thresholds based on airlines willingness to fund them. A typical consultation process takes a minimum 6 months to form a 5-year capital investment plan. While we are already well into the control period, a pause provides the opportunity to reprioritize investments.



- IATA and ICAO recommend a comprehensive review of traffic forecasts at least every 5 years – even without the severe impact of COVID this is overdue as the last review we are aware of is in 2014 via DIAL's master plan consultant. Given the considerable uncertainty regarding the timing of traffic recovery, we reiterate the suggestion for a review in 2021 is an appropriate timeframe to work to.
- A review of Phase 3A Business Cases is essential to assess the viability of project costs, benefits and a positive return on investment for airlines funding them. Airline finances are simply unable afford non-essential investments. We recommend DIAL is obliged to demonstrate airline consensus to support projects via the AUCC as a pre-requisite for investment – this precedent is supported by the UK Civil Aviation Authority and applied at London's Heathrow Airport providing assurance for stakeholders and the airport operator. Refer to Appendix 2- IATA Position Paper regarding best practice airport infrastructure consultation reinforcing user's perspectives on airport investments.
- We recommend a review of the master plan and terminals strategy as an input to the investment plan to assess if the current phasing strategy remains fit-for-purpose, considering COVID-19 impacts and potential structural changes in the market. A review of existing terminals to ensure they are sufficiently resilient and flexible to accommodate different airline models is requested, including existing facilities used to their full potential with technology solutions where cost effective
- Essential Investments – Notwithstanding an immediate freeze on investments essential programmes and projects could proceed if they are strictly required to meet safety, security and regulatory compliance requirements. Projects should only proceed with the explicit support of the airline community recorded at AUCC meetings, following a review of the Business Case.
- Exceptions – Similarly, notwithstanding a freeze on capacity projects and essential investments the rationale may exist to support some investments on a case by case basis again subject to AUCC consultation and agreement i.e.:
 - Projects in the final stages of construction delivery i.e. 90%+completed.
 - Where the cost of stopping a project is greater than continuing with it to a natural break point in the program or project.

Reflecting on the details in the consultation document and notwithstanding the comments above that take precedence over the comments which follow, we would appreciate AERA's consideration of the following comments:

- Regarding AERA's conclusions, we again reiterate our strong desire for a project freeze. A high-level sum-up of capital phasing estimates 8000 crores of investment remains unspent in the control period, that is a significant amount of investment that could be reviewed and potentially deferred.
- IATA supports the principle of an independent consultant's review for the purposes of capital efficiency. Indications are that AERA's consultant has access to project details and costs well beyond what is shared with the AUCC – details should be shared with users in the first instance and then validated by AERA's representatives for assurance purposes – otherwise AERA and AERA's independent consultants are in effect bilaterally determining investment plans without users' involvement. While valuable, independent consultant's reports should not be viewed in any way as a replacement for core airport-stakeholders consultation via the AUCC, as only airlines can determine their own needs and willingness to fund investments given the direct cost relatedness with airport charges.



- We welcome AERA's scrutiny of capital costs against industry benchmarks and its conclusions to drive market efficiencies. We are however disappointed in Authority's position to allow additional costs for inflation and GST (table 74). The effects of inflation should be largely offset through DIAL's competitive tendering procurement processes and economies of scale. In a post-COVID environment, cost estimates should reflect market conditions expected to be favourable for clients given the associated economic effects. We suggest a more aggressive position is taken moving forwards particularly regarding inflation.
- We do not agree with DIAL's arguments to increase its original cost plan, for instance:
 - Lump sum contracts make significant allowances for risk and contingency and should not attract any increases in costs.
 - Maintaining service levels and avoiding operational disruption is obvious and should be included as standard in AERA's cost estimates. To retrospectively request increases is inappropriate reinforces a lack of consultation with users.
- Regarding specific project developments, as stated, IATA and the airline community have limited details. Again, no project business cases, costs, benefits or sufficient scope details have been shared, and we reiterate our request for a project freeze, immediate status update and review of all investments. Further, it is unclear from DIAL's submission which projects sit within each work package items, the dependencies and risks between them. In this context we are limited to making high level observations regarding specific projects:
 - Package 1 - Terminal 1 developments – we recognize pre-COVID there was a need to expand T1 operations and apron to accommodate the growth in low cost carriers. Terminal concepts, options, and the preferred solution were not shared with the AUCC and we are therefore unable to comment on the specific details and approach to terminal sizing to date, design, costs etc. Very broadly and at a high level the norms regarding expansion sizing look in line with industry standards, however we request a status update on this project with further details shared including:
 - Retrospective review of design concept, options and costs
 - Passenger experience strategy
 - Capacity including peak hour planning ratio's, design day schedules
 - Layouts and designs
 - Current project status - % complete terminal, apron, surface access
 - Is the existing "old" terminal infrastructure still operable, and able to serve the apron
 - The status and capacity of the apron stands work is requested.
 - Surface access status - road and rail update - road widening
 - Packages 2&4 - Runway 4 –
 - Reference joint IATA-AOC letter to DIAL dated December 2017, requests for information were made and remain unanswered, for instance the NATS study assessing the capacity of the DEL airspace system compared with best in class international airports (see Appendix 2).



- ICAO standards now recommend a runway width of 45m is sufficient (for the reinforced section) not 60m per DIAL's plans including Code F (A380 & equivalent code aircraft), that could result in a significant cost saving.
- In addition, we request confirmation if the project scope and costs include airfield ground lighting and pits and ducts that can be associated with runway works. Project dependencies are also unclear such as taxiway upgrades.
- The trigger for construction of a 4th runway is indicatively above 75 movements around 620,000 movements per annum. IATA's high-level analysis indicates the threshold could be higher, at 650-660,000 movements, however more detailed discussion is required to define the baseline. Further, we have not been involved in DIAL's optioneering regarding the position of the 4th runway and the pros and cons of each one including capacity / efficiency, environmental sustainability and costs. We would usually expect more than 3 options to be presented and little knowledge of those referenced in DIAL's proposal to AERA. Considering COVID impact and 2019-20 traffic at around 450,000 aircraft movements, a key question is when this infrastructure will now be required. We are aware from activity on site works are underway, so this review is urgent.
- Eastern parallel taxiway works – the costs, benefits and programme details have not been consulted upon with users and so we are unable to comment and request a full analysis of the project.
- Package 3 Landside connectivity – we have had no insight into the project analysis, assumptions and options determining T1 widening, or capacity and demand analysis regarding modal share and ratio's between cars and public transport.
- Package 5 - Terminal 3 developments – the scope of plans to expand T3 should be reviewed in consultation with the airline community to ensure facilities are fit for purpose in the medium-term considering airlines requirements and a review of airline occupancy.
- General CAPEX projects should not be excluded from further scrutiny – projects should be assessed to review whether they are essential via the AUCC. There continues to be a lack of transparency regarding these investments.

In summary

- A capital investment freeze is essential now to review the need for capacity enhancing projects given the substantial impacts of COVID-19 on demand.
- A detailed review of Traffic Forecasts (and Master Plan phasing strategy) is required in 2021 before informed investment decisions can be made.
- Pre-COVID demand levels / airport saturation is not a justification for Phase 3A investments now.
- Airlines ability and willingness to fund airport investments through charges needs to be reviewed.
- AUCC Consultation is essential yet has been completely ignored – this is unacceptable.

We thank AERA for its consideration of these points in order to provide a balanced determination taking into account the needs of users and ultimately consumers.

Depreciation – Chapter 4

We are generally in agreement with the depreciation rates utilized by AERA. The only point that we would like to make with respect to depreciation is that AERA may need to take into account when assessing the cost base on a "COVID scenario". For, instance it is our understanding that while the traffic levels have remained so low that a number of facilities have remained closed. In this respect, and since some of these facilities are not in use, then it may be prudent to assume a depreciation of "zero" for the time the asset remains closed.



Such an approach would be logical (Since users should only pay for the costs and facilities that are in use, and not those that are not), as well as helping alleviate the pressure from unit cost increases due to the lower level of traffic.

Operational Expenditure (OPEX) – Chapter 5

There are three major comments we would like to bring to AERA's attention in relation to opex:

1) Determination of efficient costs

When determining operating costs, there are two major decisions that a regulator needs to make. The first is whether the starting (aka baseline) operating costs are efficient (if not, a catch-up target would need to be incorporated in the next period). The second is what drivers would make such efficient costs vary over time.

On the first point, AERA has relied on the Study on "efficient operation and maintenance costs" commissioned to R. Subramanian LLP. We see that the efficiency analysis is based on trend, as well as domestic and international benchmarks, In this regard, we have the following remarks:

- Trend analysis: While trend analysis is useful to see whether costs are increasing or decreasing (and therefore raise alarm bells where needed), it doesn't provide much indication on whether the level of cost incurred is efficient or not,
- Domestic Benchmarks: Unlike trend analysis, benchmarking costs could be more helpful for determining efficiency levels. However, for this approach to work, it is essential that there are like for like comparisons. As noted on page 115 of the study, by the same consultant: *"Since all these costs at the airport are driven by various factors like physical size of the airport, passenger mix, capacity constraints, weather conditions, etc., comparison of operating and maintenance costs between airports may be misleading, considering the complex mix of elements between airports."*

And unfortunately, the study does not attempt to make adjustments for the potential disparities. This needs to be corrected. While no two airports are the same, there are ways to make adjustments in order to appropriately compare companies, especially when all the comparator companies are regulated by the same entity and therefore could retrieve all the necessary information as well (AERA may wish to review how the UK water regulator has implemented models to make water companies of different sizes more comparable).

The other point to be surpassed is that the underlying assumption behind benchmark is that there is an efficient company in the comparator mix, which may or may not be the case, specially there are not many different airport operators to make appropriate comparisons (moreover, since these operators do not operate in a competitive environment, it is difficult to see how

- International benchmarks: The international benchmark is short and does not bring much insight in relation to DIAL's efficiency against other airports. While it mentions that DIAL is ranked relatively cheaper (from a cost perspective), it does not provide much insight as to what this is. As a starter, there isn't any analysis on how the cost of living at this different airports could affect the ranking and whether this is the driver for lower costs at DIAL rather than improved productivity.

In our view, and on the basis of the shorfalls indentified above, AERA cannot determine that the costs of the second control period (which become the baseline for the Third control period) are efficient.



Firstly, further efforts are needed in order to improve the benchmarking and obtain meaningful results. Secondly, and as pointed out in the past to AERA, we urge the regulator to consider carrying out a "bottom up" analysis of the airport with a focus on productivity (i.e. thoroughly analyse how each activity can be carried out in a more efficient manner), as well as using information from other industries (salary costs, etc). Only then, it can be determined whether DIAL costs are efficient or not.

2) OPEX variations through the Third control period

The abovementioned point tackled the issue of the baseline (i.e. assuming the base operating costs as being "efficient". This point tackled assumptions on how opex develops over the control period.

IATA would expect DIAL to rationalize its expenses (including staffing level) to correspond to its operation in degraded capacity mode during the pandemic and the subsequent recovery period. There is a need for airport to optimize its operation and reduce costs (without compromising safety) in light of the crisis. A year-to-year projected increase is simply not acceptable and unjustifiable under current environment. IATA is keen to learn more about any cost optimization measures by DIAL in response to the pandemic as practiced by other major airport operators in the region and the reduction in OPEX compared to DIAL's initial submission to AERA. AERA should then determine a level of efficient OPEX that is aligned with the current level of traffic. A number of airports around the world have been taking measures to minimize costs and DIAL should be no exception.

Separately, we noted that AERA has heavily relied on the usage of historic CAGR for determining the percentage growth of many of the OPEX subcomponents. Leaving aside the COVID-19 effect, there are a number of OPEX lines that deserve a much higher level of scrutiny. Just as an illustration, some comments that can be made from the assumptions taken in General Expenses:

- Corporate cost overheads double from Rs. 79 Cr in 2019 to Rs 207 Cr. without any major explanation on what is driving those increases
- There is little rationale as to why advertising and sales promotion of the airport is needed. People use the airport because they want to fly to Delhi not because they want to use the airport itself
-
- There is no major explanation with regards to consultancy services

The above is just an illustration. We see similar issues with many of OPEX subcomponents highlighted in table 94 of the CP, which have almost doubled over the period. In addition, any necessary delays in CAPEX (as highlighted in the section above) should also be accompanied by delays in any related OPEX increase.

We would like to raise the issue again of the existence of the Airport Operator Fee, as there is no real service for such cost.

In summary, we urge AERA to take the following steps:

- Recalculate opex for 2020 assuming all cost efficiencies possible in the light of the pandemic
- Review the growth rates assumed post 2020. In particular, scrutinise the real need for cost increases, rather than just relying on past growth (which could have been inefficient in the first place)
- Review any allowed opex in relation on the bases of a review capital expenditure program



3) Allocation of costs

As highlighted on a number of occasions, we do not believe that the way in which AERA is approaching the allocation of costs between aeronautical and non-aeronautical activities. This is further detailed in this submission in the standalone section "Cost allocation (assets & operating costs)" below.

Cost allocation (assets & operating costs) – Chapters 3, 4 & 5

We see that again the approach is to split assets mainly on the basis of surface area. While the usage of surface area can be considered as a relatively simple and common approach, it raises important concerns in the context of allocation costs at airports. Intuitively, the use of surface areas would not make sense in a competitive environment. If a company has two identical warehouses, one providing storage of luxury goods and the other of low value goods, it would make sense in an accounting approach to allocate the real estate costs across both equally. However, it would not make sense to allocate all other costs according to the same rule. This becomes even more obvious when considering that in airports most commercial activities are inextricably linked to air transport. When various lockdowns were lifted worldwide, airside revenues did not pick up in the same way that off-airport retail has.

Taking the simplistic surface area approach will lead to serious underestimations of the costs that should be allocated to non-regulated activities:

- The cost of building infrastructure to surface area. Volumetric considerations critically impact both CAPEX and OPEX.
- The cost of providing large open spaces with big spans and high ceilings will have a large impact on both substructure and superstructure that is not proportional to square meters. These types of spaces are usually designed to accommodate wide open spaces for commercial areas to increase commercial revenues.
- In some instances, the need to provide additional square meters for commercial spaces (shops, restaurants, offices...) will result in additional "floors" or reinforced structures resulting in a marked increase in costs.
- In some airports, decisions on affecting some areas to 100% regulated activity (i.e. check-in hall, security...) are not driven by sound, rational and customer-supported decisions after consultation and agreement with the airlines operating and paying for those areas. Neither the passengers nor the airlines need an architectural masterpiece, wooden roofs or 15 meters high ceilings with art displays to efficiently do their required processes. All those decisions are usually made unilaterally by airports with the objective of creating a good impression on the passenger that will improve the likelihood of increasing commercial revenues by changing the passengers' frame of mind.
- The use of surface areas as the allocation driver also leads to situations where certain activities could generate revenues at "zero" cost (e.g. advertising on walls, boarding bridges, baggage belts, trolleys, information screens, among others that don't occupy "floor space").



Generally, the discretion of the airport operator to structure its business makes it difficult to divide one infrastructure such as a terminal into two or more mere segments; additionally, the cost allocation keys leave room for a lot of discretion. Similar issues arise on operating costs.

Fundamentally, allocation systems will be flawed if they are built on the wrong assumptions. If a system starts by directly allocating revenues or costs purely based on the name of the activity but without considering externalities or links between activities, the result will be flawed.

This accounting approach ignores the economic reality of different activities and the dependencies between activities. For instance, AERA does not apportion any runway costs to non-regulated activities under the premise that "landing" is a purely aeronautical activity. The fact that if a runway is closed, no passengers can arrive or leave and therefore certain activities will have no customers, is completely ignored. The significant investment made in bringing travellers through a specific building making them captive customers is reduced to zero in many systems. A number of airports are located outside of city centres with long journeys to the city and it is doubtful that a passenger would drive to that distant location and pay significant car parking fees to then shop and dine at the commercial facilities an airport proposes. In fact – shopping centres of that nature frequently provide complementary shuttles or shoulder the cost of public transport facilities or roads to bring foot traffic to the location. While sceptics would argue that this does not hold for city centre airports, any airport operator will confirm that post-security commercial offers are a substantial portion of commercial activity due to passenger dwell time and that simply does not hold for an equivalent non-airport facility in the same location.

Along the same lines – the costs of some services such as security provide benefits to both aeronautical and non-aeronautical activities, as do services that serve both passengers and staff. This complexity is rarely reflected in allocation rules and passenger security costs are deemed to be 100% aeronautical while restaurants and dining facilities are 100% non-aeronautical.

In a nutshell, a pure accounting-based approach that ignores economic externalities and links between activities will result in rules that are unfair. For the same reasons that competition authorities carefully scrutinize companies that attempt to vertically integrate or practices linked to tied selling, applying overly simplistic rules on the basis of surface areas will result in a bad outcome for consumers. It is of extreme importance that this fundamental issue is understood and acknowledged by AERA and that measures are taken to implement a fair cost allocation system for both assets and operating costs.

IATA would welcome the opportunity to bring alternative examples for AERA's consideration.

WACC - Return on Equity – Chapter 6

We see that AERA is proposing a WACC of 12.81% based on cost of debt of 9.99% and cost of equity of 15.41%, notional debt equity ratio of 48%:52% (based on the CoE study carried out by IIMB). While the proposed value is indeed lower than that proposed by DIAL, we believe that the WACC should be even lower. This is explained below:

Beta

Firstly, we note a series of methodological errors in the study, starting with the criteria used for choosing the "proximity" airports. In order to determine an appropriate Beta (which is a reflection of the risk the airport faces vis a vis the market), it should have first started by understanding what are the risks faced by DIAL (regulatory, demand, supply risks) and then how these risks relate to those faced by airports where financial/regulatory information is available. And it is in the "understanding for DIAL risks" where the study fails the most.



The regulatory regime of DIAL is close to a "rate of return" regulation. At the end of the regulatory period, AERA "true ups" most of the components that underpin the calculation of charges. There are true ups on traffic, non-aeronautical revenues, OPEX, CAPEX (with certain disallowances), taxes and the WACC (with the exception of cost of debt ceiling). So, in practical terms, DIAL is shielded from a series of risks that many of the other regulated airports face.

One of the biggest business risks upfronted by an airport is demand risk and this has been made evident by the pandemic. If the demand risk is eliminated via the implementation of true ups, then risks borne by this airport would tend to be closer to that of water or electricity companies rather than other airports. As far as we understand, none of the comparator airports is under a regulatory regime in which there is a 100% true up of demand.

With this in mind, we strongly request AERA to reconsider the calculation of the Beta for DIAL, by making a significant downwards adjustment of the Beta calculated in the report since the risks faced by the comparator group are much higher than those faced by DIAL (at least to somewhere around or below 0.4). This downwards adjustment should be informed by Betas applied by regulators for utilities companies.

On a separate note:

- Table 2.17 is out of date in relation to the determination of the Beta for Dublin airport. The table makes reference to the 2014-19 determination, when 2020-24 determination has already been made and can be downloaded from [here](#) (And the supporting study from [here](#)). The allowed asset beta for Dublin airport is 0.50 (noting that traffic risk is faced by the airport, and therefore DIALs beta should arguable be lower than that). We also do not see what the study references as "complicated"
- Only Beta decisions or studies commissioned by the UK CAA should be included in table 2.15. This table makes a reference to a study that has not been commissioned by the regulator.
- We note that the study calculates equity betas from Bloomberg. We would appreciate for AERA to confirm whether the consultants have used the "raw" or "adjusted" Beta from Bloomberg. The problem is that the adjusted based (aka Blume adjustment) assumes that Beta tends to the value of 1 over time, which is fundamentally wrong in the context of determining a Beta of a regulated company.

Gearing

We support the usage of a notional gearing, as the regulated companies should be encouraged to implement the most efficient capital structure. While the study presents some comparisons of gearing at certain airports and Indian infrastructure companies, there is no assessment of whether the calculated average is the "efficient" level of capital structure.

Further insights are necessary as to what would be the adequate level of gearing for a company with an acceptable credit rating. For instance, we are not convinced on why the notional level of gearing cannot be higher at DIAL (e.g. 60%) or if the cost of debt would be affected by such level of gearing.

Equity Risk premium

From what we have seen for regulatory decisions, the most accepted and used method for calculating the ERP is based on historic information (and the longer in time the dataset, the better).



Models based on predicted future ERP (e.g. dividend growth model) are much less reliable as they are constructed on the basis of a number of assumptions and introduce certain optimism bias, and therefore we would request AERA not to consider it.

There is also an inconsistency issue in the ERP comparators and the other Return on Equity assumptions. While the study introduces the Damodaran approximations for an Indian ERP by adding a sovereign risk estimate (based on CDS and sovereign bond ratings) on top of the ERP of a mature market, it then double counts the same risk by using Indian government bond yields as the basis for the Risk Free Rate (which by definition, as it is not a AAA rated bond, its yield already includes a sovereign risk). In fact, as highlighted by Damodaran in its paper *"Country Risk: Determinants, Measures and Implications – The 2020 Edition"*, (Table 30: Risk free rates in Currencies with non-AAA Rated government issuers), calculates the risk free for India as of 1 July 2020 (Government bond rate: 5.82%, Rating Moody's Baa2, Default spread 2.23% with the consequent "risk free rate" of 3.59% (5.82%-2.23%).

So, while the approximation done by Damodaran for an Indian ERP is perfectly valid, and to be taken into account when assessing the ERP for DIAL, the study should then make the necessary adjustments in the Risk Free rate to avoid any "double counting" of risk.

Risk free rate:

We believe that the risk-free rate is significantly overestimated. We have two major concerns in relation to the calculation of the risk-free rate:

- As highlighted in the previous section the study includes sovereign risk in the calculation of the ERP (for the Damodaran approaches) and but then double counts the same risk when using the Indian sovereign government bond yield as the basis for the risk-free rate. We do not contend the use of the Indian 10-year Government bond yield in itself, but its value should be properly adjusted.
- There is no justification as to why an 18-year average has been used for the calculation of the government bond. On one side, since this average is on nominal yields, it picks up inflation expectation from more than a decade which may not be the same as nowadays. More generally the worldwide situation is completely different from more than decade ago. We recommend AERA to consider a much shorter period (somewhere between 1 and 5 years).

In summary, below are the recommendations with respect to the Return on Equity:

- Acknowledge that DIAL is shielded from demand risk and therefore use a lower asset beta relative to any other comparator airport (or even consider using betas of utilities), as well as take into account comments regarding the data used for the calculations.
- Consider carrying out further analysis on the optimal level of gearing on the basis of credit rating analysis.
- Ensure that there is consistency between the ERP assumption and the Risk free rate to avoid "double counting" of risks.
- Consider dropping the forward-looking analysis on ERP.
- In addition to adjusting the Risk free rate to avoid double counting, consider a much shorter time frame for calculating the average of the 10-year government bond yield.



We are convinced that, once the recommendations above are taken into account, the Return on Equity would be significantly lower than that proposed by AERA.

WACC - Refundable Security Deposit (RSD) Treatment

IATA is alarmed with the deviation by AERA from previously established notion of treating RSD as a means of finance at zero cost as it had been received by DIAL without any cost i.e. what is received without any cost by DIAL cannot be charged to users. In addition, given that RSD is in essence a security deposit, the fund should not be used by DIAL to earn a return for its own benefit. Any such benefits of the 'temporary' utilization of the fund should be to the benefit of the aviation community rather than to prop up DIAL's profit.

However, we understand that this issue comes out from a recommendation from the TDSAT. In this regard, given the two alternatives consulted by AERA on the matter, we suggest AERA to use the alternative that remunerates these funds with a rate equivalent to the cost of debt.

Revenue from Revenue Share assets – Chapter 7

In order to be consistent with our line of argumentation on other sections, AERA would need to make assumptions on Revenue from Revenue Share assets linked to a COVID-19 scenario.

We are also in agreement with AERA's proposal not to exclude revenue from existing assets, disallowed area and also not to consider deduction towards the Annual Fee payable to AAI on the revenue from Revenue Share Assets.

Tax – Chapter 8

We remain unconvinced that the tax calculation should include the S factor. Given that AERA is aiming at calculating actual tax, including the S factor in the calculation creates an artificial tax that the company will not actually incur.

Moreover, if the S factor is included in the taxes calculations this implies that the 30% contribution to reduce charges will not be met (since charges would be reduced by a level lower than the 30% due to the artificial tax calculation).

It is due to the abovementioned arguments, that we strongly believe that AERA should not consider the S factor as part of the revenue base (in other words, apply scenario 2).

Inflation – Chapter 10

We have no objections to the proposals made by AERA on this subject.



Service Level – Chapter 11

It is worthwhile to note that ACI's ASQ standard is qualitative and perception based while completely overlooking quantitative, objective measurement of DIAL's actual performance and the customer (airline Users) – supplier (DIAL) relationship.

As airports are only built to serve as aviation infrastructure enabling Airlines to operate, Airlines are the primary Users of airports and a major source of revenue for Airport Authorities and Operators, ancillary industries and services. The purpose of any service quality or Airport Service Level Agreement is to provide the Airport (in this case DIAL) with a clear understanding of the levels of service and outcomes required in order to meet Users (typically the Airline Community) expectations, in return for the airport charges they pay. Despite this critical requirement there is no accountability, cost relatedness or recognition of airline customer's requirements in an ASQ based approach resulting in a major failure of the Concession Agreement and current approach.

Further, performance can only be truly measured and continuous improvement be supported with regular, structured reviews of airport performance conducted between the airline community and DIAL. These are non-existent, and a major failing of the current structure. In addition to what is covered under the OMDA referencing the ASQ program, we look to AERA as the Authority to introduce a service level performance framework that is more appropriate, effective and objective in nature.

IATA provides best practice industry guidance regarding Airport Service Level Agreements broadly used across best practice airports, and we strongly encourage adoption of our policy in Users and consumers interests <https://www.iata.org/policy/infrastructure/Documents/airport-service-level-agreement.pdf>

IATA looks forward to AERA's favourable consideration of our concerns and recommendations highlighted above.

IATA is also available for any further clarifications that AERA may require during the review process of the stakeholder submissions, to the AERA Consultation paper for DEL airport for the third control period.

Yours Sincerely,

A handwritten signature in blue ink, appearing to read "Allan Young".

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Airline Operators Committee



Mr. Panicker
Chief Commercial Officer (Aero),
Delhi International Airport Ltd.,
20th December, 2017

Dear Mr. Panicker,

**IATA and AOC DEL comments in response to DIAL Meetings/Consultation Protocol – Phase 3A
Developments of Delhi Airport**

We are writing on behalf of IATA and the DEL AOC to feedback on information shared with the airline community regarding DIAL's Phase 3A investment plans for Delhi International Airport (DEL).

Ineffective DIAL–Users Consultation

We thank you for the details shared with the airline community regarding DIAL's Phase 3A investment plans, however 1 to 2 presentations a year updating the airline community on DIAL proposed capital plans does not constitute consultation with Users or meet the obligations mandated in AERA's Consultation Protocol.

It is simply impossible for airline Users to provide informed and prepared feedback when investment plans are unilaterally pre-determined by DIAL without giving ample time for airline User to share their inputs. Meaningful consultation requires details being shared at a project level from an early stage in the development process and subsequently at key stages as projects progress, so airline Users have the opportunity to provide inputs regarding functionality, and critically assess the costs-benefits analysis of investments they will end up funding and paying for through airport charges. The overall impact on airport charges, as well as the impact of individual projects is required so Users are able to understand and feedback on the overall levels of affordability and willing to fund investment. Ultimately projects should only proceed with the support and endorsement of the airline community. AERA's Consultation Protocol (with the 2011 AERA ACT) requires projects to be consulted upon in detail and summarized in individual "Project Investment Files", however this information has not being made available to Users.

Our numerous requests for sufficient notice (i.e. at least 4 weeks) in advance of meetings continues to be ignored and brings into doubt DIAL's sincerity to consult with the airline community and capture the views of its customers, that is a significant concern. Consultation regarding major capital investments requires a regular, structured dialogue with subject matter experts that may not be based at DEL, to supplement AOC representatives. It is therefore no surprise that the minutes of DIAL's updates/presentations (not consultation) meetings does not reflect many comments from the airline community, as until we are able to review project level details, costs and their impact on User charges and provide informed feedback, we are not able to reasonably consider the viability of Phase 3A investments despite the growth that continues at DIAL.

Until DIAL is willing to provide details as set-out in AERA's Consultation Protocol we are not in a position to comment or support DIAL's capital investment plans. We therefore request a DIAL follows the mandated protocols and meets with IATA and the AOC to agree a Governance structure to facilitate meaningful consultation and the buy-in of customers.

Comments on DIAL's "Major Development Plan" presentation - 27th-28th September 2017

We will take the opportunity to comment on slides information provide to the airline community that does not replace or supersede the need for meaningful consultation as described.

4th Runway

We remain unconvinced regarding the need for a 4th runway in the 2018-21 period based on the existing underutilization of the existing airfield. DIAL's information indicates the optimum/peak capacity of the existing 3 runway system is 75 movements per hour, yet there are numerous examples of airports with 2 runways, including dependent runways with up to 90 declared movements per hour. We accept there will be a natural limit to intersecting runways 09/27 and 10/28 given the orientation of 09/27, however we would reasonably expect 100 movements per hour, or at least the equivalent of an efficient 2 runway system. Examples as a basis for comparison include London Heathrow with 2 dependent & segregated runways with 90 movements per hour, Vienna with 2 intersecting runways and Stockholm airport with 84 movements per hour, that is planning for up to 99 movements with 3 runways. DEL may in fact find that a 2 runway system based on 2 parallel runways is a more efficient than the existing configuration. Despite being one of the very few triple runway options available airport in the world, diversions effected due to Air/Ground ATM congestions at certain peak hours is very normal occurrence impacting the financial/operational dynamics of an airline's commercial viability.

We understand DIAL has commissioned NATS to advise on DEL's airfield capacity, and we request a copy of the report to understand its conclusions and the rationale behind proposing the 4th runway in the 2018-21 period.

We also request a detailed review of the 4th runway's costs that have not been shared as required as per AERA's Consultation Protocol.

We will take the opportunity to remind DIAL that revised ICAO standards for reduced runway width are likely to change in the near future, and we therefore encourage DIAL to design its infrastructure and master plan to accommodate this option as it materializes, to take advantage of the resulting cost savings.

Terminals

Our ability to comment in detail is limited to the slides provided, and as a result we are not able to provide material comments until project level details are provided in accordance with AERA's Consultation Protocol (i.e. options, costs, benefits)

Terminal 3 (T3)

Existing terminal infrastructure should be efficiently utilized prior to constructing new infrastructure. We request a review of T3's utilization dynamics to gain confidence that this is indeed the case based a capacity and demand assessment for each of the major terminal elements through the departures and arrival journey to understand where any excess capacity may be.

We understand terminal transfers are a major constraint, and request a much more thorough review of capacity and demand for intra and inter-terminal transfers to understand where the bottlenecks lie and how these can be addressed, as well as implementing efficient passenger processes.

Terminal 1 (T1)

We thank DIAL for the information it has shared regarding the Terminal 1 investment plan and are pleased the IATA Levels of Service (LoS) "Optimum" is being used as a basis for terminal planning with a passenger focus. The benefits of using the IATA LoS are proven as a high level input does not replace the need for detailed modelling and simulation at a sub-system level to accommodate peak or busy hour traffic.

IATA's LoS focuses on functionality, however not the quality of finishes or specifications that has a major bearing on construction costs, and are additional elements to be consulted upon. We are concerned that investment in very high quality finishes may be unaffordable for Users eventually and therefore request a review of options and costs in these areas i.e. the cost of granite will be much higher than floor tiles. Building height and design also has a bearing on cost, and are elements we understand very little about.

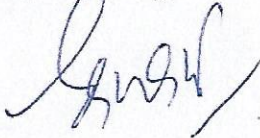
There are numerous other elements such as signage and wayfinding, the application of technology and impact on airline operating procedures and investment costs that should be discussed rather than assumptions made by DIAL.

Project construction phasing and airline occupancy

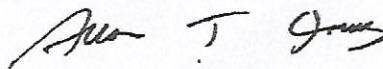
We appreciate the slides DIAL has provided as a guide for T1 construction phasing, and request that an airline's relocation plan is developed and consulted upon in parallel so we are able to review the impact on operations and provide feedback to minimize disruption, while also taking airline preferences into account, objectively. IATA previously suggested this, however received little feedback.

Despite continuing traffic growth at DIAL, investment to accommodate demand is not at any cost and must be justified, approved by and affordable for customers. We request a response to our queries and look forward to a further dialogue regarding the points raised this letter, in advance of DIAL committing to significant capital investments that Users fund.

Yours sincerely,



Chairman
Airline Operators Committee (AOC)



Head of Airport Infrastructure
International Air Transport Association (IATA)



Airport Infrastructure Investment - Best Practice Consultation

1. Introduction

As airports are only built to serve as aviation infrastructure enabling airlines to operate, airlines are the primary customers of airports and a major source of revenue for airport authorities and operators, ancillary industries and services.

A direct cost relatedness exists between airport charges and infrastructure investments that airlines fund, whether capital or operating expenditures. Airport infrastructure investments therefore need to be affordable, fit for purpose and deliver a return on investment for airlines.

Investments should only proceed where a clear Business Case exists, supported by a positive cost benefit analysis and the explicit agreement of airlines.

Meaningful and effective airline community consultation is essential to align airport – airline infrastructure objectives, secure airlines buy-in and maximize the benefits of infrastructure investments.

The alternative will result in disparate, uncoordinated strategies and investments that are incorrectly prioritized, mistimed, and neither functional nor cost effective. Inefficient or poorly planned airport development adversely affects traffic growth and the broader economic benefits the airport delivers.

Ultimately an airport's goal should be to enable the success of airlines to ensure the economic benefits for all parties are maximized.

2. Objectives & Benefits

Best practice airport-airline community consultation should achieve the following objectives:

- ✈ A phased, prioritised and flexible capital investment plan agreed and endorsed by airlines, resulting in clearly defined airline benefits and affordable airport charges.
- ✈ Cost efficient infrastructure investment that is demand led, fit for purpose and delivers best value for airlines.
- ✈ Investment plans that are compatible with the airport's Master Plan taking account of longer term developments.
- ✈ A transparent consultation process that values airline inputs, works towards consensus and results in informed decision making.
- ✈ Equitable treatment, non-discrimination and open access resulting from airline community consultation and adoption of ICAO mandated principles.

The benefits of best practice airline community consultation are clear:

- ✈ Business Cases that clearly demonstrate a return on investment for airlines. Project investments should only proceed that result in operating cost reductions and efficiencies with the airline community's agreement i.e. a reduction in operating cost per passenger.
- ✈ Airport development plans phased to balance capacity with demand to avoid over or under investment and supply.
- ✈ Infrastructure that meets the airlines' functional airport passenger and operational requirements.
- ✈ Improvements in passenger experience and airport service quality taking account of alternative innovative solutions and technology.
- ✈ The support and buy-in of airline customers.
- ✈ Airport investments that are independently benchmarked and demonstrate assurance and value for money to airlines.
- ✈ Resilient investment plans phased to minimize operational disruption during construction.
- ✈ Open access to facilities and services at an agreed minimum service standard and lowest possible cost.
- ✈ Infrastructure designed to be flexible and adaptable, safeguarded for modular expansion and able to accommodate changes in functionality over time.
- ✈ A quality check with airline subject experts that investments deliver the intended outcomes taking account of industry best practices.

3. Scope of Investments

The scope of infrastructure consultation is broad ranging and should include the following elements:

- ✈ Airport Master planning.
- ✈ Airside infrastructure i.e. runways, taxiways, aprons, stands and gates.
- ✈ Passenger terminal i.e. departure forecourt, check-in or baggage drop hall, passenger security, emigration and immigration, airside departures lounge, retail concessions, piers, stands, gates, jet bridges, arrivals hall, baggage handling systems, wayfinding.
- ✈ Surface access within the airport boundary i.e. roads, car parks, rail, sea.
- ✈ Cargo terminal developments.
- ✈ Airport support elements.
- ✈ Asset replacement.



4. Best Practice Consultation & Governance

User consultation is essential from an early stage in the infrastructure development process before irreversible decisions are made:

- Identify the common airlines-airport business drivers that form the basis of the investment plan.
- Agree an affordable capex threshold for investments considering airport user charges.
- Establish an airport-airlines consultation Governance structure that ensures timely and well informed decisions with airline inputs.
- Capture airline functional requirements and agree planning inputs and assumptions.
- Analyse the positive and negative effects on Airports operating expenses.

A jointly agreed airport-airline community Governance structure is required that ensures a structured and planned approach to consultation. This should also include:

- Meaningful discussions between subject matter experts experienced in airport infrastructure planning, airport charges and commercial areas, who are empowered to take decisions.
- Clear objectives, decision making and alignment between steering groups and working groups.
- Terms of Reference (ToR) for each working group including objectives, scope, accountabilities, frequency, attendees, and dependencies with other work streams.
- Sufficient time for consultation dialogue typically between 6-12 months before business plans approvals.
- Meeting schedules agreed in advance to ensure airline subject experts are able to attend and a structured approach is implemented.

A Consultation “protocol” or “charter” setting out the behaviours required for effective consultation:

- Work towards airport-airline community consensus decision making.
- Transparency is a critical aspect of any commercial agreement between airport providers and airline customers.
- Commitment from airport and airlines to provide the necessary resources to participate in a regular, structured dialogue.
- A “Constructive Engagement” based on mutual respect, collaboration, openness and trust between business partners.

5. Infrastructure Planning Process

Airport infrastructure development is iterative and requires a regular, ongoing dialogue with the airline community. “One-off” or irregular meetings updating the airline community on pre-determined outcomes does not constitute consultation.

IATA recommends capital investment programs should cover the short (0 – 5 years) to medium (5 – 10 years) terms and be reviewed annually.

Consultation with the airline community is required at key decision points by engaging the airline community in a timely manner at the relevant stages of the planning process.

Consideration should be given to identify break points in programmes and projects should demand not materialise as anticipated.

5.1 Program Level Consultation

Programme management is recommended to provide an overview of project investment activities and to align airport and airline objectives in order to:

- Prioritize projects depending on airlines willingness to fund investments considering airport charges.
- Provide an overview of constructability and project phasing to minimise operational disruption.
- Identify key milestones supporting informed airport-airline community decisions.
- Ensure projects align to business plan objectives.
- Address major changes or resolve any escalated issues.
- Monitor and track the performance of multiple projects to support successful delivery.
- Manage project risks across multiple projects.

Programme and project assurance is important to assess the reasonableness of all key decisions made on selected projects. Independent third party checks to assess at key stages in the development process is recommended.

Project Business Cases should be developed in parallel with the key design and development stages to analyse costs, benefits and ensure the intended project outcomes are on track.

Setting criteria to determine which projects are targeted for airline community consultation is recommended:

- Capital threshold above a certain monetary value threshold.
- Project scope and/or complexity.
- Project timeframes.
- Airlines impact.
- Strategic impact.

5.2 Project Level Consultation

Best practice requires airports to consult with the airline community at key stages common to most projects. Noting different project processes and terminologies exist this typically includes:



- *Initiate/Concept stage* – agree investment objectives and identify project options.
- *Options Selection stage*– identifies design solutions and how project benefits will be delivered.
- Estimated 50% cost and design certainty.
- *Scheme Design stage* – development: of the preferred option:
- Estimated 85% cost and design certainty.
- Fixing project costs and programme is recommended.
- *Implementation and Delivery phase* – construction and engineering works focusing on implementation and delivering the agreed benefits and outcomes:
- Operational Readiness and Airport Transfer (ORAT) is a critical project element to involve Users in.

“Gateway” events for each of the key project stages consulted upon with airlines are required as a prerequisite to progressing to the next stage of feasibility:

- A review of technical solutions and the Business Case.
- Airline queries or issues should be fully resolved before moving to the next stage.
- A formal sign-off based on airline community consensus.

5.3 Business Case Consultation

The purpose of a project Business Case is to clearly set-out all relevant information as to why the project is required, what benefits will be achieved for airlines typically funding the investments, and alternatives available to airlines. A detailed cost-benefit analysis is required to clearly demonstrate the monetary return on investment for airline stakeholders.

Typical elements of the Business Case are:

- Project justification or need i.e. capacity development projects should be clearly linked to passenger growth or defined Levels of Service outcomes agreed with the airline community.
- Link to strategic objectives and the master plan.
- Expected benefits and outcomes.
- Capital costs associated with constructing the infrastructure.
- Operating costs for airlines and airports. Capital investments should result in efficiencies and lower operating costs.
- Depreciation – the rate at which assets reduce in value and its cost is re-allocated over its useful life in-line with industry norms.
- Project dependencies.
- The impact on aeronautical and non-aeronautical charges.
- Assurance that existing assets are being used as efficiently as possible.

5.4 Efficient Airport Investments

Capital investments should aim to deliver cost efficient outcomes by optimizing a project’s scope, specifications, time, costs and risks supported by a well-managed, structured development process.

Investments should take into account *what* is being constructed, *how* it is being constructed, and *when* facilities are required, in addition to capital cost benchmarks.

The airline community should be closely involved in agreeing the optimum balance between elements that have a material impact on costs and the efficiency of the solution:

- Scope – ensure the functional requirements of airlines are captured and Business Case benefits are delivered.
- Specifications – airlines require functional airport facilities that deliver their required levels of service at the lowest possible cost. Over-specifying terminal finishes is to be avoided.
- Timeframes – efficient project delivery focused on the beneficial use of assets for airlines, taking account of construction phasing to minimise airline and operational disruption.
- Procurement and contracting strategy – selecting the appropriate tendering and contracting strategy to maximise the efficiency of projects and purchasing power of airports.
- Capital costs – benchmarking and independent checks by a third party to ensure estimates are in-line with the market.
- A rebate mechanism should be introduced if assets are not delivered to the defined timeframes, at lower than the estimated costs, or when projects are delayed.

6. Common Issues

Airline and airport subject expert feedback highlights some issues to be aware of:

- Avoid done deals and “lip-service” consultation.
- Recognize airlines affordability and airport charges as a fundamental criteria.
- Avoid over specifying and “gold-plating” investments – consult with Users.
- Operational disruption – plan to minimise disruption during the construction phase.
- Project priorities – balance operational requirements with airport commercial revenues.
- Alternate options to optimise the use of existing infrastructure and “do-nothing” scenarios.



7. Supporting Documents

This paper provides a framework for other papers and related to airport infrastructure development:

- ✈ IATA Airport Consultative Committee (ACC) - Terms of Reference.
- ✈ IATA Airport Service Level Agreements (SLA) – Best Practice.
- ✈ IATA Levels of Service (LoS) – Best Practice.

Additional relevant papers and guidance materials:

- ✈ ICAO Doc. 9082 – 9th Edition, paragraph 21.
- ✈ EC Airport Charges Directive 2009/12/EC.
- ✈ IATA Airport Charges - Transparency paper.
- ✈ IATA Airline Engagement in Consultations paper
- ✈ IATA Airport Development Reference Manual (ADRM).