NATIONAL APEX CHAMBER

Dr. Ranjeet Mehta
Principal Director

July 31,2020

Suggestions for - AERA Stakeholders' Consultation Meeting i.r.o. of the Consultation Paper on Multi Year Tariff Proposal for the 3rd Control period for DIAL-IGI Airport, Delhi held on the 17th July, 2020

Dear Mr. Bhullar,

At the outset on behalf of PHD Chamber, we express our gratitude and thanks to you for the initiative to convene a video conference with Industry Associations and Stakeholders regarding discussion on the determination of Aeronautical Tariff for Indira Gandhi International Airport, Delhi (del) for the third control period (01.04.2019 – 31.03.2024).

Due to the impact of Covid-19 on the aviation industry and the expected substantial changes in the prevailing business scenario, PHDCCI would like to submit the following recommendations and suggestions for your kind consideration:

I. Consistency of Regulatory Principles:

The Authority as per the AERA Act has to determine tariff under the multi-year framework for each control period. Also, as per the terms of the concession the Authority needs to follow the consistency principle. Accordingly, the principle once settled should not be changed by the Authority in every control period. Authority in first control period had not considered the other income as part of revenue from revenue share assets. However, in third control period Authority has changed its stand while truing up of second control period and considered other income as part of revenue from revenue share assets. Authority should follow the consistent approach which will enable the airport operator to strategize their business accordingly and it will also bring regulatory certainty in airport business.

II. Allowance of Forex Loss:

DIAL as part of the financing of the airport project has resort to offshore financing. The offshore funding comes at a lower cost however carries exchange risk. The exchange risk depend on various factors which are not predictable. As part of regulatory principle Authority should consider the actual cost of debt including associated cost as this is the actual outflow the airport operator has incurred in term of funding arrangement.

III. COVID Impact:

The travel industry is the worst affected industry due to COVID. The non-essential travels are completely on hold and essential travel also being undertaken with lot of restriction. This has resulted into significant reduction in air traffic. The expert has envisaged more than 50% reduction in air traffic for FY'21. Authority in its consultation paper also sought views of the airport operator on air traffic due to COVID. In this regard we would like to submit that the COVID will have significant impact on the air traffic as well as customer behaviour which will have long lasting impact on airport revenue. Accordingly, we request Authority to take into account the COVID impact submitted by DIAL while issuing order for the third control period.

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IV. Project Cost and delay penalty:

Authority in case of DIAL has proposed to allow project cost of Rs 9126 Cr instead of Rs. 9794 Cr. Authority has considered the base cost recommended by KITCO and applied inflation and GST over it. In this regard we would like to submit that the allowance of project cost should not merely depend on the estimates. For all practical purpose it may not be possible for the airport developers to achieve the same cost level as estimated. The cost arrived through price discovery process should be given due weightage and this is the cost which the tenderers envisaged for a particular project. It involve various factor like construction risk, investment risk, logistic challenges etc. which differs from person to person and cannot benchmarked at particular yardstick. Further, Authority has introduced 1% penalty in case the project is not completed within given timelines. The concession agreement of DIAL does not envisage such provision accordingly such penalty will unnecessary put burden on the Airport Operator. It is all the more in the interest of the Airport Operator to complete the project within timeline hence there is no need of putting penalty on non-completion. We request authority to not introduce any such penalty.

V. Revenue from Revenue Share Asset for cross subsidy purpose:

Concession Agreement of DIAL has laid down the tariff principles under schedule 1 of the State Support Agreement (SSA). SSA along with the tariff principles provides following formula to determine target revenue for DIAL for a given control period:

$$TR_i = RB_i \times WACC_i + OM_i + D_i + T_i - S_i$$

S = 30% of the gross revenue generated by the JVC from Revenue Share Assets. **The costs in relation to such revenue shall not be included** while calculating Aeronautical Charges. (Emphasis added)
“Revenue Share Assets” shall mean (a) Non-Aeronautical Assets; and (b) assets required for provision of aeronautical related services arising at the Airport and not considered in revenues from Non-Aeronautical Assets (eg: Public Admission Fee).
The above definition of S-Factor provides that while considering the revenue for cross subsidy one should not consider the cost in relation to generate such revenue. The annual fee paid by DIAL is not in relation to generate such revenue. Rather this is the cost which is paid post generation of revenue. Accordingly, the revenue from revenue share asset considered for cross subsidy should be bereft of annual fee payable to AAI. Further, the revenue net off annual fee is the only revenue which is available with DIAL to set off aeronautical charges as well as to meet the cost incurred in relation to generate such revenue.

The sector is already under severe stress due to the prevailing financial conditions; these measures would help in mitigating the effects of this pandemic. We look forward to your favourable consideration.

With best regards,

Yours sincerely,

(Dr. Ranjeet Mehta)

Mr. Balwinder Singh Bhullar, IAS
Chairperson-AERA

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