EICI/MEMO/111
Date 29 October 2021

Director (P&S)
Airport Economic Regulatory Authority of India (AERA)
AERA Administrative Complex,
Safdarjung Airports, New Delhi 110002

Sir,

Ref: AERA Consultation Paper No. 20/2021-22 dated 8 October 2021
Sub: EICI Comments on AERA Consultation Paper in the matter of Determination of Tariff for Cargo Handling Charges for EICI at IGI Airport, Delhi

At the outset we would like to thank the Authority for issuing CP on determining tariff rates for the third control period. The rate revision has been overdue for Express handling charges at the IGI Airport, Delhi. We had proposed tariff rates considering reduced volume and prevailing cost, which has not be considered by your goodself.

Our clause wise comments on the CP are given below:

1. **Clause 1.2.1**

It has been rightly mentioned by the Authority, that prevailing rates have been in effect from first control period which started from 1.4.2011 and have not undergone any change.
We had in our filing submitted that during the period volumes have undergone substantial change wherein volumes have reduced due to various reasons whereas costs have increased which includes Airport rentals, Salaries, Loading and unloading charges, Security charges and other administrative charges. This reverse variation needs to be rightly captured in the rate revision, which is not done by the Authority.

2. **Clause 2.1.1**

Authority has changed mechanism for determining rates from “Light Touch Approach” in earlier period to “Price Cap Approach”. As mentioned in CP, there are three criteria’s to decide adopting “Light Touch Approach” which are given in CP and are mentioned below:

Stage 1: The Authority first access “Materiality” which authority has rightly categorised Regulated service at IGI, Delhi as “Material”.

Stage 2: The Authority then assess “Competition” wherein Authority has concluded that express terminal regulated service as non-competitive as other service providers like UPS, DHL, FedEx are self-handling in their own dedicated services. However we have to submit that this view is not correct as user has option to avail services of either cargo operator or any express operator operating in the same premises. In case user wants to avail services of an express service provider, he can approach any of the service provider at the IGI Airport, Delhi. So we submit that EICI express terminal Regulated Services should be considered as “Material & Competitive”

Stage 3: The Authority shall assess the existing User Agreements, according to provisions of Clause 6. In this regard we have to submit that EICI has entered into agreement with most of the non-members. Copy of two such agreements with non-members were submitted to the Authority. Further EICI has also held User Consultation meeting on 6 August 2021, wherein users had raised concerns and same were addressed during the meeting. Further minutes of the meeting were submitted to the Authority on 24 September 2021.

In view of this, the criteria of user consultation and agreements was fulfilled and the regulated services for express terminal at Delhi should be considered under “Light Touch Approach”

3. Clause 2.1.3

Authority has mentioned that user agreements are between EICI and its members who are the majority of the users of the service, and in the absence of the structured agreement for the same, Authority proposes to determine tariff under “Price Cap” method.

We submit that this conclusion by the Authority is incorrect as volumes handled by EICI for non-members is higher than volume handled for members which is evident from below volume summary of past two years, summary of which is given below:

Particulars	**FY 2019-20**	**FY 2020-21**
% Volume handled for members	27.53	18.10
% Volume handled for non-members	72.47	81.90
Total	**100.00**	**100.00**

It is evident that members volume is 20% of the total volume. Currently it is even lesser and is about 15% of the total volume handled by EICI. In view of above, Authority is requested to continue to adopt “Light Touch Approach” as in past and not to change to “Price Cap Approach”.

4. Clause 3.1.8

EICI had given working for deriving sliding scale volume base tariff rate for all five tariff years in the third control period, which is not considered by AERA by stating “beyond the first tariff year, there is not much clarity as the rates proposed in each of the subsequent tariff years bear no correlation to the first year rates of the projected volumes”.

We submit that this is not correct as detailed working for all five years was given vide letter reference EICI/MEMO/52 dated 27 July 2021 and basis which the Authority should have analysed the EICI proposed rates. In case the Authority need more clarity, we shall be happy to give clarity to the satisfaction of the Authority. Do let us know in case any further details are required.

5. Clause 3.1.11

Authority has mentioned that EICI submitted only one valid user agreement which is not correct. EICI has submitted two valid user agreements vide email dated 18 June 2021, in response email query dated 30 May 2021 of the Authority.

6. Clause 4.3.2

Authority has not considered proposed CAPEX for FY 2024-25 & 2025-26 Rs 50 lakhs and Rs 14.20 lakhs each, as agreement with CELEBI is expiring at the end of third control period, i.e. on 31 March 2026 and authority feels that there is uncertainty on renewal of agreement, which may place undue burden on the users.

We appreciate that the Authority has been considerate in protecting interest the users. However we submit that the proposed capital nature investments would be required for providing uninterrupted and seamless services to the users. Further we submit that in the normal course agreement with Celebi should get renewed as has been in the past trend. EICI has been compliant to fulfil all necessary requirements with them. In view of this, in order to not disrupt terminal operations due to requirement for CAPEX, **we request the Authority to consider CAPEX of Rs 50 lakhs and Rs 14.20 lakhs each in FY 2024-25 & 2025-26 and approve depreciation on the same.**

7. Clause 4.8.5

Authority has proposed to provide 5% return of revenue as against 15% proposed by EICI. As authority is aware, EICI incurs CAPEX for continued efficiencies of operations. EICI has to fund this through surplus it makes in operating the terminal.

EICI has to maintain the terminal with required CAPEX so that services to users is seamless and without any interruption. A return of 5% on revenue is very low keeping in view volatile volume fluctuations which have at a number of occasions ended up in losses. Under such low margins and consequent losses due to low volumes, it will not be possible for EICI to operate the terminal for a long period of time with unsustainable losses.

8. Clause 6.1 OPEX

Clause 6.2.1 & 6.2.5

EICI has proposed and projected salary increase of 17% for FY 2021-22, 12% for FY 2022-23 to FY 2024-25 and 10% for FY 2025-26. The Authority has capped salary increase to 7% per year.

We further submit that projected salary increase has been made keeping in view past salary trend, no increments given during FY 2020-21 and salary of senior staff was reduced for four months during FY 2020-21. The projections were done keeping in view salary increases given by competition. We submit that the Authority approved salary increase of 7% is small percentage as compared to the competing environment in which we operate for talent and EICI would find it difficult to retain good resources, which may have impact on the operational efficiencies of the Company. **In view of this, we request the Authority to allow difference between estimated salaries by EICI and approved by AERA Rs.274.93 lakhs, totaling for five years**.

Clause 6.2.3

Authority has not considered godown rent Rs.69.72 lakhs (Annual Rs.11.42 lakhs + 10% increase) as godown is outside airport premises.

IN this regard we have to state that, EICI had taken godown outside the airport premises godown in order to cut the costs. We had vide our email dated 25 August 2021, has explained reason for hiring godown and reason hiring godown outside airport premises, which is reproduced below.

"As per statutory requirement, the customs records have to be stored for five years and accounting records have to be stored for eight years. The available terminal space is not adequate to store records for 5/8 years and new hire of space at Airport for storing would be ***very costly*** *due to high airport rates."*

In view of explanation given above, rental payment is necessary operational expenditure to be incurred to comply with statutory provisions and is cost effective as compared to rental paid for the Airport premises, we request the Authority to allow godown rent rent especially given the fact that this is a mandatory regulatory requirement and if the godown will be shifted to airport facility costs would go up substantially. **In view of this, we request the Authority to allow godown rent of Rs. 69.72 lakhs (Annual Rs.11.42 lakhs + 10% increase).**

Clause 6.2.6

OPEX – Travelling and conveyance, Telephone expenses, Courier exps, Office Exps, Printing and stationery exps, water charges, Mics exps – capped at 4.5% instead of EICI proposed 10%. We submit that these expenses should be allowed to yearly increase of 10% in order to allow operational flexibility and allow differential cost between **EICI proposed cost and the Authority approved cost Rs.197.94 lakhs (excluding godown rent Rs. 69.72 referred above) totalling for five tariff years.**

Clause 6.2.7

Other costs like Loading and Unloading charges, Security charges, Electricity charges, Rates and Taxes expenses, have been capped at 7% instead of 10% proposed by EICI. We submit EICI has no control on the

yearly increase and are driven by Government / Statutory directions. In last eighteen months, Delhi Government has increase wages under Minimum Wages Act 1948 thrice and this has direct impact on Loading and unloading charges, Security charges etc. In view of this we request not to cap these expenses at 7 %/ 4.5% and approve proposed percentages increase as sought by us.

9. Clause 7.2.3 Detention charges

AERA has considered FY 2019-20 as base year for projecting Detention income and have accordingly projected below Detention charges revenue:

(Rs in Lakhs)

Particulars	2019-20 (Base Year)	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
Detention charges (Projected by AERA)	511.91	460.72	557.06	625.86	703.15	789.99	3136.78
Detention projected by EICI		322.03	322.03	322.03	322.03	322.03	1610.15
Excess worked out by AERA as compared to EICI projections		**138.69**	**235.03**	**303.83**	**381.12**	**467.96**	**1526.63**
% of Regulated income (as per AERA)		26.01	25.85	25.85	25.85	25.85	25.40
% of Regulated income (as per EICI)		12.01	10.98	10.64	9.64	8.77	10.81

Trend for earlier years shows, barring exceptional periods of gift shipment volume & COVID-19, detention income has been in range of 11%- 13% of regulated income. Detention income comparison with regulated revenue comprising five years of second control period along with remarks for higher percentage in few years is given below for your ready reference.

5 years comparison chart (Rs in Lakhs)						
Year	**Regulated Income**	**Unregulated Income**	**Total Income**	**Detention Income**	**Ratio of DTN to Regulated Income**	**Remarks**
2016-17	3,379.13	298.03	3,677.16	385.72	11%	
2017-18	3,713.30	412.25	4,125.56	501.10	13%	
2018-19	3,878.20	8.84	3,887.05	1,536.15	40%	High volumes of gifts
2019-20	3,013.47	8.26	3,021.73	511.92	17%	Includes high volumes of gift shipments for part of the year
2020-21	1,346.20	6358.17	1409.79	418.84	31%	COVID19 disrupted shipment clearance

It can be seen that in normal operational volume year, detention income has been in range of 11% - 13%. Against this we had estimated 10.81% as detention income of the regulated income as compared to 25.40% projected by the Authority. **We submit that 25.40% of detention income as percentage of regulated income is very high and excess detention income Rs.1,526.63 lakhs projected by the Authority should be reduced from ARR working.**

10. Clause 7.2.7, 7.2.1

Detailed comparison of X-ray charges proposed by EICI, Approved by AERA and loss that will be suffered by EICI is given below:

a. AERA has erroneously calculated higher income from x-ray charges totalling to Rs.822 lakhs, as per table below:

Express Industry Council of India

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
X-ray charges (Projected by AERA) per KG	1.75	1.98	2.08	2.18	2.29
Export volume projected by AERA (Kgs)	54,02,160	59,42,376	63,58,342	68,03,426	72,79,666
Revenue: X-ray charges Recovery worked out by Authority for ARR working	216.85	262.19	294.57	330.95	371.82
Expenses: Less: Access charges Payment (Projected by AERA)	32.41	34.68	37.11	39.71	42.49
Net Revenue considered by the Authority in CP (A)	**184.44**	**227.51**	**257.46**	**291.24**	**329.33**

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
X-ray charges (Projected by AERA) per KG	1.75	1.98	2.08	2.18	2.29
Export volume projected by AERA (in Kgs)	54,02,160	59,42,376	63,58,342	68,03,426	72,79,666
Projected Xray charges should be, basis above volume	94.53	117.65	132.25	141.51	166.70
Expenses: Less: Access charges Payment (Projected by AERA)	32.41	34.68	37.11	39.71	42.49
Net Revenue should be in CP (without considering x-ray charges payable to Celebi)	62.12	82.97	95.14	101.8	124.21
Excess Revenue considered by AERA	**122.32**	**144.54**	**162.32**	**189.44**	**205.12**

Further AERA has not approved Infrastructure charges proposed by EICI. Net difference between revenue and expenses relating to x-ray machine charges, Infrastructure charges & access charges proposed by EICI and charges approved by AERA, totalling to Rs.333.35 lakhs is as under:

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26
Revenue X-ray machine charges projected by EICI	57.39	111.12	130.34	153.07	176.16
Infrastructure usage charges	47.10	90.28	107.78	124.58	145.17
Revenue	104.50	201.40	238.13	277.66	321.35
Expenses Less Access charges	32.41	34.68	37.11	39.71	42.49
Revenue proposed by EICI in MYTP filed (B)	72.09	166.72	201.01	237.95	278.86

Excess Revenue considered by AERA, as compared to EICI filing (A) – (B)	**112.35**	**60.79**	**56.45**	**53.29**	**50.47**
Total excess revenue considered by AERA		**Rs.333.35 lakhs**			

We submit and request the Authority to reduce Rs 333.35 lakhs excess revenue, as worked out above from ARR.

11. Clause 7.2.7 - Table 18
User Access charges

Particulars	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	Total
User Access Charges by AERA	37.07	40.72	44.79	49.27	54.20	226.05
User Access charges filed by EICI	26.60	29.26	32.19	35.41	38.95	162.41
Excess User charges calculated by AERA	**10.47**	**11.46**	**12.60**	**13.86**	**15.25**	**63.64**

EICI had projected user access charges by considering recent monthly billing and subsequently 10% YOY increase was considered, whereas AERA has considered FY 2019-20 as base year where user access charges were Rs.61.69 lakhs (as compared to FY 2020-21 Rs.26.44 lakhs) and linked it with volume. This is incorrect as user access charges are based on space provided to courier companies basis their space requirement and not connected to volume. As space requirement has reduced as is evident from latest monthly billing done by EICI. Further UPS has started its own terminal and stopped availing space from EICI. This has impact on user access charges Rs Rs.41.20 lakhs reducing EICI revenue. We suggest and submit that user access charges should not be linked to the volume and should be considered as the current billing with nominal increase year on year and **excess user access charges in ARR working Rs.63.64 lakhs should not be considered.**

12. Table 26- Return on revenue computed by the Authority for the third control period

Authority has projected loss of (-) Rs.177.16 lakhs for FY 2021-22 (-10% margin), Profit of Rs.25.77 lakhs (1% margin) for FY 2022-23. As Authority is aware, EICI has incurred loss of (-) Rs 589 lakhs in FY 2020-21 and so far in current year, it is incurring substantial losses every month. In view of this, authority proposal to keep same tariff rate and direct EICI to incur loss in its operations is unfair. As Users, EICI also has been hit by the pandemic and asking EICI to bear the loss in the current year and an extremely low margin of 1% in 2022-23 is not in public good and will lead to closure of operations as well as viability of running the terminal. **We humbly request the Authority to review and reconsider the tariff proposal.**

May we request the Authority to humbly consider our comments in the interest of fairness as well as continued viability of operations.

We shall be happy to provide any details required in this regard.

With regards
For **Express Industry Council of India**

Nitin D. Dave
Director Finance

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