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April 19, 2022

To,
The Chairperson,
Airports Economic Regulatory Authority,
AERA Building, Administrative Complex,
Safdarjung Airport,
New Delhi- 110 003.

Kind Attention – Shri. Balwinder Singh Bhullar

Subject: **Response to Consultation Paper No. 34/2021-22 dated March 29, 2022 on determination of tariff for Ground Handling Services in respect of Air India SATS Airport Services Private Limited (AISATS) at Mangaluru International Airport, Mangaluru, for the first control period (FY 2021-22 to FY 2025-26)**

Dear Sir,

We write in response to the Consultation Paper No. 34/2021-22 issued on March 29, 2022 by the Airports Economic Regulatory Authority of India ("AERA") in the matter of determination of tariff for Ground Handling Services in respect of Air India SATS Airport Services Private Limited ("AISATS") at Mangaluru International Airport, Mangaluru for the First Control Period (FY 2021-22 to FY 2025-26) ("Consultation Paper" or "CP").

At the outset, we would like to express our sincere gratitude to AERA for inviting stakeholder comments on the Consultation Paper, and further acknowledging the impact of COVID-19 on the aviation sector.

Sir, you will appreciate that airlines which are the 'catalyst' for the global economy including the aviation sector, have been hit the hardest by COVID-19. Since February/March 2020, due to restrictions on the scheduled international and domestic air travel issued by the Ministry of Civil Aviation and Directorate General of Civil Aviation and other restrictions on inter/intra state travel (collectively 'Government Restrictions'), airlines' cash flows have been severely impacted.

While the airline operations showed an upward trend from December 2020, however the brutal second wave of COVID-19 in March 2021 and subsequent emerging variants (December, 2021 onwards), of COVID-19, have again impacted the operations to a certain extent and resultantly prolonged the process of financial recovery.

As per industry estimates issued by IATA and CAPA, it will take almost two (2) - three (3) years for airline operations to reach pre COVID-19 level, in terms of number of flights and passengers. In the current situation, airlines in India are staring at a loss of approximately USD 8.0 billion for the FY 2020-21 and 2021-22 as per CAPA. With limited financial support from the Government, Airlines are constrained to implement severe cost control measures to sustain their operations.

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You will further appreciate that, while the low passenger demand for air travel coupled with certain Government Restrictions on fare, prevents airlines from generating adequate passenger revenue, airlines continue to incur high operational cost, including on account of high airport charges and taxes.

As desired by AERA, please find below our recommendations/ comments on the Consultation Paper:

1. **Capital Expenditure: -** (Refer 4.1 and Table 3 of the CP)

   As projected by IATA and CAPA it will take around two (2) - three (3) years for the flight operations to reach to its pre COVID-19 peak levels. In this situation, in order to support the airlines to continue and sustain its operations, all non-essential CAPEX proposed by AISATS should be put on hold/deferred to the Second Control Period, unless deemed critical from a safety or security compliance perspective.

   Without prejudice to the above, in case AISATS wants to make capital expenditure, then it should be at no additional expense to the airlines until the project is completed and put to use.

   In addition, we recommend that an adjustment of 1% or higher, as deemed fit, is made by AERA for capital expenditure projects of the First Control Period that are not completed/capitalised as per the approved capitalisation schedule other than those affected solely by the adverse impact of COVID-19. Such adjustments can be made by AERA during the tariff determination for the Second Control Period.

2. **Operating Expenditure: -** (Refer 5.2, and Table 4 and 5 of the CP)

   It may be noted that cost incurred by the service provider impacts the airlines, as almost all such cost is passed through or borne by the airlines. Further, in view of industry reports from IATA and CAPA, which foresee a minimum period of two (2) - three (3) years for air traffic and flight operations to reach pre COVID-19 levels

   With respect to the O&M expenses approved by AERA, we hereby request AERA to kindly clarify on the below points: -

   a) Depreciation and Amortisation (Refer 1.3, 5.3, Table 4)

      As per the Consultation Paper AISATS has got license for providing Ground Handling services at Mangaluru International Airport (MIA) as per the Licence Agreement dated 3rd August 2021.

      However, Table 3 and Form F9 indicates that there were nil Capital for the first tariff year (FY 2021-22) but also at the same time a Depreciation and Amortisation of Rs. 50.36 is noted, which is unusual. May we request AERA to kindly clarify/confirm whether this Rs. 50.36 lakhs is taken against the assets held in individually by M/s Air India Limited and M/s SATS Limited, as per Form F3 attached to the CP. May we request AERA to kindly clarify/confirm on the same, and further that this is in accordance with AERA Order No. 35/2017-18 the 'Useful Life of Airport Assets' for depreciation, as the rates of depreciation have not been mentioned.

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b) Payroll, Administrative & General Expenditure, Concession Fees and Repair & Maintenance Cost (Refer 1.3, 5.7, 5.8 and 5.10 and Table 5)

Please refer to the Table 5 of the Consultation Paper, reproduced below:

Table 5: Year on Year Percentage increase in the Operation & Maintenance Expenditure submitted by AISATS for the First Control Period

Particulars	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26	CAGR of 5 years
Payroll cost	11%	1%	-9%	14%	4%
Administrative and General Expenditure	3%	3%	3%	3%	3%
Concession Fees	14%	5%	13%	8%	10%
Repairs and Maintenance cost	3%	3%	-48%	-48%	27%

However, upon review of Form F3 attached to the Consultation paper, the figures displayed below show a different growth rate, which are in variance to the figures displayed in Table 5 above:

Year on Year Percentage increase in the Operation & Maintenance Expenditure as per Form 3

Figs. in Rupees

Particulars	FY 2019-20 Actuals	FY 2020-21 Actuals	FY 2021-22 Tariff Year 1	FY 2022-23 Tariff Year 2	FY 2023-24 Tariff Year 3	FY 2024-25 Tariff Year 4	FY 2025-26 Tariff Year 5
Payroll Cost	74,639,534	52,149,446	51,729,678	57,264,676	57,754,440	58,980,732	60,185,268
YOY Change		-30%	-1%	11%	1%	2%	2%
Change Compared to 2019-20		-30%	-31%	-23%	-23%	-21%	-19%
Administrative and General Expenditure	15,828,551	30,015,435	6,675,119	6,875,372	7,081,633	7,294,082	7,512,905
YOY Change		90%	-78%	3%	3%	3%	3%
Change Compared to 2019-20		90%	-58%	-57%	-55%	-54%	-53%
Concession Fees	7,582,053	3,021,326	5,820,100	6,612,390	6,943,010	7,290,160	7,654,668
YOY Change		-60%	93%	14%	5%	5%	5%
Change Compared to 2019-20		-60%	-23%	-13%	-8%	-4%	1%
Repair and Maintenance Cost	2,166,399	5,751,119	5,923,653	6,101,362	6,284,403	6,472,935	6,667,123
YOY Change		165%	3%	3%	3%	3%	3%
Change Compared to 2019-20		165%	173%	182%	190%	199%	208%

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Thus, AERA is requested to kindly review the figures mentioned in Table 5 of the Consultation Paper, and to please clarify on the methodology of the comparison of the figures in Table 5.

Furthermore, as it is projected as per Table 2 of the Consultation paper that the Traffic is likely to recover to the pre-pandemic level of 2019-20 only by sometime beyond 2025-26, may we request AERA's clarification on the 90% jump on the Administrative & General Expenditure, as well as the jump of 165% on the Repair and maintenance Cost (and ending up more than 3 times that of 2019-202 by 2025-26), in 2020-21. It is requested that AERA may kindly look into the reasonableness of this.

It is unclear as to whether AISATS has taken cost cutting measures including re-negotiations of all the cost items on its profit and loss account. We submit that AERA may kindly freeze any increase in operational expenditure after the Tariff Year 1, and there should not be any increase in any expense or manpower.

3. **Abolishment of Royalty Charges:** (Refer 5.9 of the CP)

Any attempt to award the contracts by the airport operator on highest revenue share basis should be discouraged as it breeds inefficiencies and tends to disproportionately increase the cost.

It is general perception service providers has no incentive to reduce its expenses as any such increase will be passed on to the airlines through tariff determination mechanism process and indirectly airlines will be forced to bear these additional costs. There needs to be a mechanism for incentivizing the parties for increasing efficiencies and cost savings and not for increasing the royalty for the Airport Operator.

As you are aware, royalty is in the nature of market access fee, charged (by any name or description) by the Airport Operator under various headings without any underlying services. These charges are mostly passed on to the airlines by the airport operator or other services providers.

It may be pertinent to note that market access fee by any name or description is not practiced in most of the global economies, including European Union, Australia etc. Sometimes it is argued by the airport operators that 'Royalty' on 'Aero Revenues' helps in subsidizing the aero charges for the airlines, however royalty in 'Non-Aero Revenues' hits the airlines directly without any benefit.

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

Notwithstanding the above, it is unclear what is the percentage of the Gross Revenue that AISATS has to share with the Airport Operator, as per their Concession Agreement. AERA is requested to please clarify on the same, especially with the background that the revenue share of AAI at major airports of Group A & B is 3% on turn over on domestic scheduled airlines and that at minor airports Group C is 5% on turnover.

4. **Tariff Proposal: - (**Refer 6.1, 6.2 ,6.3, 6.9, 6.10 and 6.11and Table 6 and 7 of the CP:

The tariff and rate of increase in tariff are very high, especially in the backdrop of COVID-19. It is in the interest of all the stakeholders that the tariff be kept at a minimum level in order to encourage middle class people to travel by air, which will help in sharp post-COVID-19 recovery of aviation sector. Considering our submissions & recommendation mentioned above, we request that an appropriate reduction may kindly be applied to the proposed charges.

We hope that your good self will positively consider the above recommendations/ comments as it will help in achieving the affordability and sustainability of the aviation sector including airlines, which is also outlined as key objective in the National Civil Aviation Policy, 2016.

We look forward to your continued support in these challenging times.

Thanking you in advance,

Yours Truly,

For SpiceJet Limited

Suryavir Singh Bisht
Sr. General Manager – Regulatory Affairs

Copy to:

Director (P&S Tariff), Airports Economic Regulatory Authority of India (AERA)