14 May 2018 **WITHOUT PREJUDICE**

Secretary
Airports Economic Regulatory Authority (AERA) of India
AERA Building, Administrative Complex
Safdarjung Airport
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Email: puja.jindal@nic.in

Dear Ms. Puja,

IATA'S RESPONSE TO CONSULTATION PAPER NO. 03/2018-19 DETERMINATION OF AERONAUTICAL TRARIFFS OF SVPIA, AHMEDABAD FOR THE SECOND CONTROL PERIOD

As the global trade association representing the world's leading airlines, the International Air Transport Association (IATA) is pleased to provide a submission on AERA's consultation paper mentioned above. IATA's membership includes some 280 passenger and cargo airlines comprising 83% of total air traffic and IATA's mission is to represent, lead and serves the airline industry.

IATA appreciates the opportunity for us to comment on the consultation paper. This submission is based on the views expressed by IATA at the stakeholder consultation meeting held on 11 May and additional comments following the meeting.

We would like to specifically request AERA to consider the following:

- We find important to once again emphasise our disagreement of shifting from Single to a Hybrid till basis for the second control period, as it unnecessarily increases costs for consumers. In this regard, it is a great disappointment that AERA has proceeded to adopt the hybrid till approach which will make aeronautical charges more expensive and goes against the fundamental requirements to boost air connectivity as envisaged by the National Civil Aviation Policy 2016 in a sustainable manner.

  It should be noted that a significant part of the reductions in the second control period is driven by the one-off adjustment related to the true up exercise of the first control period. Users could therefore face steep increases for the third period which could have been avoided (or minimized) if the Single till approach had been maintained.

- Proposal No. 1: True-up for the 1st Control Period
  IATA generally in agreement with the proposals but would appreciate if AERA can take the following into consideration:
  - We see that land cost has been disallowed pending further study on the matter. We also see that such approach has been adopted in other decisions. It would be prudent for AERA to carry out such assessment as soon as possible and subject it to a public consultation in order to bring this matter to a close.

  - AERA has apparently not made an assessment on whether the value of the capitalised assets is efficient. AERA may need to make such an analysis before allowing costs in full. Similar can also be said of the operating costs.

- Proposal No. 2: Traffic Forecast
  No major comments on this proposal however it is advisable that any forecasts are validated by an independent entity with the required capability on a regular basis, especially given the high rates of growth, including capacity assessments to identify the demand triggers, pace and scale of investment as part of a broader master plan and phasing strategy.

- Proposal No. 3: Allocation of Assets (Aeronautical and Non-Aeronautical)
  We note that AERA is proposing to adopt a 92.5% allocation of terminal assets to the aeronautical area (instead of AAI's proposed 95.6%). While we agree that adjustment goes in the right direction, we still believe that the percentage allocated to aviation is too high. As mentioned in previous submissions, there needs to be a review on the methodology for allocating common assets at airports.

  We would appreciate for AERA to provide a calculation of the return that would be achieved in the non-aeronautical activities with the proposed cost allocation, as we believe it would be extraordinarily high, and therefore provide a clear indication that the allocation methodology needs to be reviewed.

  IATA is concern with the lack of clarity on the impact of the transition of cargo management activities at SVPIA to AAAICLAS, which is a 100% subsidiary of AAI. We would appreciate for AERA to provide more information about its view on such an approach and whether there would be a difference in the regulatory treatment of this activity if there was a separate MYTP.

- Proposal No. 4: Opening RAB for the 2nd Control Period
  On the basis of the comments stated on proposal 3, we believe the aeronautical RAB to be overestimated, and request AERA to review its cost allocation methodology.

- Proposal No. 5: Capital Expenditure
  IATA urges AERA in the strongest possible terms to enforce it Consultation Protocol per the 2011 Act at SVPIA (and all other airports that are subject to economic regulation), to ensure meaningful consultation with airline stakeholders who fund and pay for major capital expenditures. AERA's selection of the word "should" (proposal 5.b) in the consultation paper denotes that compliance with the Consultation Protocol is a recommendation and not a perquisite prior to the capital expenditure proposal going to AERA for determination. The use of the word "must" would more appropriately represent the requirement. "AAI must (instead of the word should in the consultation paper) undertake user stakeholder consultation process for major capital expenditure as per the guidelines".

  We would welcome AERA's feedback regarding its reluctance to enforce the protocol that is having a substantial, detrimental impact on airline Users and consumers. Put simply, airlines require a Business Case to ensure investments deliver a return on investment for them, as any businesses do. For clarity, our expectation is AERA supports the implementation of consultation frameworks between airports and the airline community. We do not expect AERA to facilitate meetings or attend every meeting, however unless the mandate to consult with transparency in accordance with the Protocol is enforced, airports will continue with meaningless lip service consultation that ignores Users views at the expense of the consumer. Regulation should encourage airports to behave like any business subject to competitive market forces – however it is not fulfilling this requirement. Put simply, unless monopoly airports are forced to consult with their customers, they will choose not to do so, or

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engage half-heartedly with little intention of listening to their customers views, that we are sure is not AERA's intention.

IATA supports the normative cost benchmark approach as stated in previous airport submissions, however this alone does not demonstrate capital efficiency and value for money for airport Users. Capital efficiency benchmarks also needs to take into account the outturn costs of investment, the design of the facility and how it being used. This can only be reasonably assessed through the involvement of the airline community to determine the optimum functional design solution, and ideally an independent assessment of project cost plans, not just the capital cost inputs. AERA references the need for airports to form Project Investment Files, to review costs and benefits in order to take informed, joint decisions. Another obvious, key element of any capital consultation should be the associated operating costs, both from, the airport and Users perspective. Put simply, if there is no return on investment for Users and consumers ultimately paying for these projects, why invest? In principle, any capital investment should result in a reduction in operating costs.

Another specific issue is AERA's approach to automatically adjust inflation for normative cost that we suggest is reassessed. Airport procurement teams should be able to reasonably offset at least part of the associated inflation costs through commercial tendering, negotiation, and economies of scale.

Notwithstanding these comments we welcome AERA's assessment to reduce the cost of terminal developments from 71.6 crores to 37.8 crores based on normative cost benchmarks. In IATA's experience terminal developments in particular often attract unjustifiable and unnecessary cost premiums resulting from over-specified facilities. Users require functional, efficient facilities that balance costs and service quality. Users do not require nor wish to fund museums, artwork or very high end finishes – the level of finishes should be consulted upon with Users at all times. We advise AERA to recognise the IATA Airport Development Reference Manual's Levels of Service (LoS) framework as a starting point for the terminal design and consultation process (recognising this does not address the level of specification and finishes).

Regarding specific airport project comments and AERA's replies we again urge AERA to require a Business Case (Project Investment file) to be formed for each project. The level of detail provided for each major element or change is insufficient to enable Users to comment on an informed basis that is extremely frustrating given our members are paying for these investments.

Taxiways

The case for investing in parallel taxi tracks could very well be compelling to help improve the efficiency of the runway and movement of aircraft given the growth being experienced at the airport. The business case for investment should be shared so Users can understand the benefits associated with the project, and review the various options that have been considered leading to a full length parallel taxiway.

Aprons

We request the basis for investment is provided in more detail, specifically how growth relates to apron capacity, and the number of parking bays requires during peak hours during the second control period and beyond for at least a 5-year period. The total number of parking bays required by aircraft type is required, including the split between contact gates, remote stands and parking only stands. In summary, we request a review of the planning

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assumptions before the project is included in the capital plan. This includes the provision for aircraft night parking.

Costs relating to the infrastructure regarding nominating the airport as a diversion airport during adverse climate conditions needs to be consulted upon with the airline community funding the development.

- Proposal No. 6: Depreciation
  IATA commends AERA for enforcing a more reasonable approach to depreciation than what has been proposed by AAI and for correctly recognizing the revenues from cargo, ground handling series and supply of fuel to aircraft including land lease rentals and building rental as aeronautical revenue.

- Proposal No. 7: RAB for 2nd Control Period
  The allocation of asset to aeronautical at 92.5% can still be considered high. We would recommend AERA to consider conducting on-site assessment or evaluation to get a more accurate indication of assets and resources allocation between aeronautical and non-aeronautical activities.

- Proposal No. 8: FRoR
  We welcome the plan by AERA to undertake a study to determine the FRoR for major AAI airports, recognizing the low debt structure of AAI as a whole. In particular, we understand that the cost of debt of AAI is 8.6%, so we fail to see how allowing an overall return of 14% to be appropriate.

- Proposal No. 9: Non-Aeronautical Revenues
  We see positively the proposal 9.c. as that will provide an incentive to airport to meet the non-aeronautical forecasts, rather than having the airport relying on true-ups should it fail to achieve them.

  IATA is concern that it is seemingly difficult to obtain clarity on the revenue sharing mechanism between AAI and AAICLAS, and for this reason, the potential revenue from cargo operations has been excluded from the determination from 01.04.2017 to 31.03.2021. AAI need to demonstrate and assure that such an approach in setting up a subsidiary will not result in higher charges for the same level targeted efficiency.

- Proposal No. 10: Operation and Maintenance Expenditure
  While we see that AERA is adopting lower rates than those proposed by AAI (5% instead of 9%), we believe that AERA should be carrying out a study to determine the efficiency levels of the operating costs at the airport, as that would determine the scope for efficiency targets. This is of particular importance since AERA mentions that operating costs are on the high side. In this regard, we believe that AERA proposal 10.c. should be modified so that the true up should be subject a scrutiny of costs, rather than solely truing up on the basis of actual costs.

- Proposal No. 11: Taxation
  It would be important to note that the low geared (suboptimal) capital structure of AAI will end up in unnecessarily high tax calculations. Interest expenses are normally a tax-deductible expense.

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- Proposal No. 12: Tariff Rate Card
  As communicated in previous submissions, IATA is against discriminatory practices such as differential pricing or waiver of landing charges for select domestic operations. If the approach is driven by government policy, it should be funded accordingly by the state.

  Concerning the adjustments to the tariffs, IATA recommends AERA to equally spread the resultant excess of the ARR across all charges i.e. Landing, parking as well and not only limiting to reduction in UDF.

  For Fuel Throughput Charge, IATA welcomes the proposal to deny the 5% increase sought by the airport which is a step in the right direction. However, IATA would stress again that Fuel Throughput Charge has no cost basis and should be eliminated especially given that the airport is already collecting lease rental for the land where the fuel facilities stand on.

  AERA has also noted that airport is expected to achieve ASQ rating of 3.75 and above as required under Section 6.14.3 of Airport Guidelines. The quarterly ASQ rating is based on passengers' perception and hence is subjective in nature. We would implore AERA and the airports to look at data driven service performance metrics which would provide a more objective indication of actual service level being captured in a consistent manner The IATA Level of Service (LoS) is a concept we would recommend AERA to consider adopting for airport passenger terminals design and service level monitoring. In addition, IATA provides best practice industry guidance regarding Airport Service Level Agreements (SLA) broadly used across best practice airports, and we strongly encourage adoption of our policy in Users and consumers interests by AERA.

We request that our views expressed above be taken into consideration by your respected agency leading to an objective and rational decision.

Yours sincerely,

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