

Subject: **Stakeholders comments on CP (Ahmedabad)**

Date: 06/12/18 01:13 PM

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Respected Madam,

Please find enclosed replies to comments of Stakeholders on CP-03/2018-19 dated 23/04/2018 in the matter of determination of aeronautical tariff of Ahmadabad Airport.

With regards,

(Rajesh Khanna)

AAI CHQ

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Replies to the stakeholder's comments on CP 03/2018-19 dated 23/04/2018 in the matter of Determination of Aeronautical tariff of Ahmedabad Airport for the second control period

BAOA	AAI's Reply
<p>The decision by the 'authority' not to include cost of land in RAB is the right one. In fact, going forward, cost of land should not be included in RAB for any public airport as provision of land for economic growth of the city/area is the primary responsibility of the government/public sector undertaking (AAI).</p>	<p>AAI is incurring cost for Land at some airports. Hence it is very much necessary that AAI gets return on the land for which cost is incurred as AAI operates on commercial principles. AAI acquires land purely for expansion of airports or construction of new airport in case where the land is not transferred free of cost by the State Govt.</p>
HPCL	
<p>AERA has proposed Throughput charges at Ahmedabad Airport as 112.10 Rs/KL upto 31st March 2021. We shall abide by the decision taken by AERA. However any revision in <b>Fuel Throughput charges should be approved on prospective basis only.</b></p>	<p>The revision in rates in respect of all charges including Throughput charges is only prospective. Hence no comment</p>
IATA	
<p>Proposal No. 2: Traffic Forecast</p> <p>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.</p>	<p>Traffic projections submitted by AAI are based on CAGR of past ten years(FY 2007-08 to FY 2017-18)</p>
<p>Proposal No. 3: Allocation of Assets (Aeronautical and Non-Aeronautical)</p> <p>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.</p> <p>We would appreciate for AERA to provide a</p>	<p>Detailed analysis was carried out by AAI in order to determine for the Aero and Non Aero ratio of Terminal Building which has also been examined by AERA during their visit to the airport. The detailed ratios are calculated on the basis of actual area utilised for the activities for the Aero and Non-aero and also area earmarked for Non-aeronautical activities. The actual ratio is 95.6% and 4.4% between Aero and Non-Aero respectively whereas AERA has considered 92.5% and 7.5% respectively. AAI has requested AERA to consider TB ratio on actual basis.</p>

<p>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.</p> <p>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.</p> <p>Proposal No. 4: Opening RAB for the 2nd Control Period</p> <p>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.</p>	<p>Reply as mentioned in proposal No 3.</p>
<p>Proposal No. 5: Capital Expenditure</p> <p>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 prerequisite 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</p>	<p>The major capital expenditure is incurred by AAI for the airport after detailed consultation with stakeholders by conducting AUCC as prescribed by AERA.</p>



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 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 required 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

<p>request a review of the planning assumptions before the project is included in the capital plan. This includes the provision for aircraft night parking.</p> <p>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.</p>	
<p>Proposal No. 6: Depreciation</p> <p>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.</p>	<p>No comments.</p>
<p>Proposal No. 7: RAB for 2nd Control Period</p> <p>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.</p>	<p>Detailed analysis was carried out by AAI in order to determine for the Aero and Non Aero ratio of Terminal Building. The detailed ratios are calculated on the basis of actual and projected non-aeronautical activities. AERA has examined the same during their visit to the airport.</p>
<p>Proposal No. 9: Non-Aeronautical Revenues</p> <p>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.</p> <p>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.</p>	<p>AAICLAS being a subsidiary of AAI would be submitting the tariff for Cargo from 01.04.2017 onwards. The revenue sharing mechanism between AAI &amp; AAICLAS is yet to be finalised, which will be captured while truing up in the 3<sup>rd</sup> Control period.</p>
<p>Proposal No. 12: Tariff Rate Card</p> <p>1.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.</p> <p>2.Concerning the adjustments to the tariffs, IATA recommends AERA to equally spread the resultant excess of the ARR across all</p>	<p>1.The waiver of landing in charges for select Domestic aircraft is approved by GOI to encourage &amp; promote intra regional connectivity.</p> <p>2.The tariff are as far possible fixed in such a way that ARR is equally distributed between airlines &amp; passengers.</p>

charges i.e. Landing, parking as well and not only limiting to reduction in UDF.

3. 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.

FIA	
<p>18. FIA therefore submits as under:</p> <p>(a) Single Till Model ought to be applied to ALL the airports regulated and operated by the Authority regardless of whether it is a public or private airport or works under the PPP model and in spite of the concession agreements as the same is mandated by the statute.</p> <p>(b) Single Till is in the public interest and will not hurt the investor's interest and given the economic and aviation growth that is projected for India, Fair Rate of Return (FRoR) alone will be enough to ensure continued investor's interest.</p> <p>(c) MoCA's view(s) with respect to any issue at best can be</p>	<p>AERA has adopted Hybrid Till mechanism to provide level playing field for all the Airport Operators as per new civil aviation policy 2016..</p>



<p>considered as that of a Stakeholder and by no means are binding to Authority's exercise of determination of aeronautical tariff as is admitted by MoCA itself before the AERAAT.</p>	
<p><b>III. Non- Consideration of Cargo Revenues</b> - In para 3.2 &amp; 6.10 of the CP, it is mentioned that AAI has not considered cargo related revenues, expenses and assets in the MYTP for the 2<sup>nd</sup> control period and has also submitted that AAI Cargo Logistics and Allied Services Company Limited (AAICLAS) would file proposal for cargo tariff for 2<sup>nd</sup> control period separately. The Authority has considered the model submitted by AAI on 11.02.2017 and subsequent approach as mentioned in the CP. Further, as per AAI's submission dated 01.02.2018, the Authority notes that the accounts for cargo operations are now booked (for the FY 2017-18) under AAICLAS for SVPIA. Hence, it is stated that the Authority proposes to include cargo assets, revenues and operational expenditure from 01.04.2016 till 31.03.2017 and proposes to exclude them from 01.04.2017 till 31.03.2021 while determination of tariff in the second control period. FIA hereby submits that, without prejudice to the right to review additional submissions of AAI, the methodology of AAI dated 11.01.2017 and other submissions adopted by the Authority, prima facie, needs to be reviewed/ revisited in light of the figures under table 5 (Aeronautical Revenue earned for the 1<sup>st</sup> control period), which provides that the cargo revenue accounted for almost seven percent (refer 6.8% mentioned in year 2015-16) % of the total revenue during the first control period. FIA would like the Authority to kindly note that 'Cargo revenues' comes under the category of Aeronautical Revenues and accordingly used for the purposes of determination of Aeronautical Tariffs. Thus,</p>	<p>AAICLAS is a subsidiary of AAI formed for Cargo services. AAICLAS, being an independent service provider would be filing their tariff proposal from 01.04.2017 onwards.\</p> <p>The assets and Revenue and expenditure of AAICLAS would not be accounted in AAI's books and AAICLAS would be preparing its financials separately from 01.04.2017.</p>

<p>non-consideration of the cargo revenue results into incorrect determination of Aeronautical Revenue which forms one of basis for calculating the Aeronautical Tariffs. Thus, FIA hereby submits that keeping in view section 2 (v) of AERA Act, which provides that 'Aeronautical Service' includes the service for 'the cargo facility at an airport', the Cargo Revenues must be duly taken into account for calculation for Aeronautical Tariffs. Further, the Authority has noted that there is no clarity on the transfer of cargo assets to AAICLAS as of now. Thus, the cargo revenue should be considered till the end of the 2<sup>nd</sup> control period.</p>	
<p><b>IV. Study on Cost of Land to be made public</b> - In para 4.12, it is stated that AAI has taken the cost of land of ₹ 1.15 cr. in RAB. In respect of cost of land, the Authority notes that land is not a depreciable asset and if taken into RAB, the return over it has to be paid perpetually. Further, it is stated that the Authority proposes to conduct a study based on which the treatment to be given to cost of land can be determined, so that appropriate return on land is given for future land acquisition purposes. FIA humbly submits that the Authority has initiated a consultation paper titled "<i>In the matter of Determination of Fair Rate of Return (FRoR) to be provided on Cost of Land incurred by various Airport Operators of India</i>" (<b>Land Consultation Paper</b>). FIA submits from a reading of clause 4.4 (i) and (ii) mentioned in the above-mentioned Land Consultation Paper, it appears that while the Authority may decide to provide certain return on the cost of the land, the Authority in either of the options shall not be include the cost of land while computing the RAB.</p> <p>FIA reserves its right to submit its detailed in response in respect of the Land Consultation Paper in future, and in view of the para 4.4 (i) and (ii) of the Land</p>	<p>AAI will be submitting the comments to the CP issued by AERA on the cost of Land.</p>

<p>Consultation Paper it can be safely concluded that based upon Land Consultation Paper even in respect of SVPIA, the cost of land at SVPIA shall not be included in the RAB. . Further, in para 3.4 of the Consultation Paper, it is stated that the Authority is aware of the ongoing bid process of privatization of O&amp;M of the terminal and it may be possible that an independent study of land is made for such privatization process. FIA submits that report for such study should be made public for consideration of all the stakeholders to ensure transparency and level playing field for all the stakeholders (including FIA). Further, it is to be considered that in the absence of any supporting documents like study reports mentioned, FIA is not in position to study the present CP in its right context and spirit. The same is a violation of the principal of natural justice and fair play which is the paramount principal of any regulatory decision by any regulator.</p>	
<p><b>Capital Expenditure for Second Control Period</b></p> <p>(a) In para 8.4 it has been stated that AAI vide submission dated 01.02.2018 provided the revised aeronautical capital expenditure to be incurred in 2nd control period. AAI further revised the aeronautical capital expenditure to be incurred vide submission dated 16.02.2018. FIA, being one of the stakeholders, should be provided with a copy of such revision in the capital expenditure and AAI should be requested to justify the revisions made in the capital expenditure within 15 days of its earlier submission.. Further, FIA submits that the Authority is well aware of the delay in incorporation of the revised tariffs in the second control period and any further delay to commission the study on critical</p>	<p>AAI conducts stakeholders Consultation of Major works of an airport as per guidelines issued by AERA on Airport User Consultative Committee (AUCC) meetings.</p>

<p>issues may adversely impact the determination of the tariffs for aeronautical services. Further, prior user consultation should be undertaken by AAI before proposing any expenditure proposal to the Authority and the same should be demonstrated and justified with complete documentation before the Authority.</p>	
<p><b>ADDENDUM:</b></p> <p><b>(a) Proposal 1 - Additional capital expenditure of INR 111.62 crore during the 2nd control period</b></p> <p>FIA humbly submits that for the Consultation Paper No. 03/2018-19, AAI had proposed total capital expenditure of INR 304.2 crore and Authority had proposed to consider INR 261.6 crore towards aeronautical capital expenditure towards RAB during the 2nd control period. Further, during the stakeholder consultation meeting held on 11.05.2018, AAI has requested Authority to consider additional capital expenditure of INR 111.62 crore during the 2nd control period over and above INR 261.6 crore proposed by AERA in the consultation paper. The details of additional capital expenditure are mentioned in Table 1 (Additional capital expenditure proposed by AAI).</p> <p>Further, it is also stated that Authority propose to include the additional capital expenditure proposed by AAI in RAB as some of the expenditures has already been incurred and many are required to improve the security and operational efficiency of the airport.</p> <p>In light of the above, FIA humbly submits that, as a matter of abundant precaution, Authority is requested to review the items under Table 1 to verify in case such items/additional capital works, on which</p>	<p>It is confirmed that the details of capital expenditure to the tune of Rs 111.62 cr. have not been included in the proposed capital expenditure of Rs 304.2 crs .</p>



<p>certain expenditure has already been incurred by AAI, had not been excluded by Authority in the past.</p>	
<p><b>(b) Useful Life of the Additional Capital Expenditure:</b> FIA humbly submits that the like in the case of other assets evaluated/reviewed at the time of the earlier Consultation Paper, Authority should determine useful life of these assets mentioned under Table 1 for stakeholders comments.</p>	<p>The useful life of assets have been considered as per order no 35/2017-18 Dt. 12/01/2018 issued by AERA on the subject.</p>
<p><b>(c) Provision of Automatic Tag Reader (ATR):</b> FIA submits that one of the additional items of capital expenditure as mentioned under Table 1 (sr. no. 9) deals with provision of Automatic Tag Reader. FIA wishes to understand that if the service is being provided by SITA. If yes, FIA would like to humbly make the request that expenditure on such capital equipment provided by SITA, then in such case SITA would add to its charges similar to CUTE/ CUSS.</p>	<p>AAI shall incur the expenditure on ATR and not by SITA .This services shall be used by Security agencies .</p>
<p><b>(d) Proposal 2 – Revised Traffic Projection</b></p> <p>FIA humbly submits that in terms of clause 6 of the Proposal 2 (Revised Traffic Projections), it is stated that in the Consultation Paper No. 03/2018-19, Authority had proposed to:</p> <p>a. Extrapolate traffic for FY 2017-18 based on actual data available till January 2018 and revise traffic growth rates for FY 2017-18</p> <p>b. Adopt growth rates for international passenger and ATM traffic from FY 2018-19 to FY 2020-21 based on AAI projections submitted as part of MYTP proposal dated 11.01.2017</p> <p>c. Adopt growth rates based on 10 years</p>	<p>AAI has revised projection for Domestic and international PAX and ATM for the year FY 2018-19 to 2020-21 as per CAGR of past 10years from FY 2007-08 to 2017-18. The figures from 2007-08 to 2017-18 are actuals.</p>

<p>CAGR (from FY 2005-06 to FY 2015-16) for domestic passenger and ATM traffic from FY 2018-19 to FY 2020-21</p> <p>Further, it is stated in terms of Clause 7 that during the stakeholder consultation meeting held on 11.05.2018, AAI has requested Authority to consider actual traffic for FY 2017-18 and 10 years CAGR from FY 2007-08 to FY 2017-18 to be considered for traffic projections from FY 2018-19 onwards for domestic as well as international traffic. The details of traffic growth rates are mentioned in Table 2.</p> <p>In regard to the above and in relation to Table 2, FIA would like to humbly state that FIA agrees that for calculating future traffic growth, the same should be based on actual figures as far as possible. However, on a perusal of the revised projection on the basis of 10 years CAGR and ATM, it is observed a downward/negative trend on the CAGR whereas the projections for traffic under Table 3 &amp; 4 are indicating an upward trend in the passenger traffic without any basis or justification. Please note that the downward trend in the passenger traffic in the future as shown in the CAG may lead to higher tariffs which will directly impact the airlines.</p>	
<p><b>(e) Proposal 2ARR and Revised ARR (Table 19 &amp; 20)</b></p> <p>While comparing Aeronautical Corporate Tax between Table 19 (ARR proposed by AERA in the earlier Consultation Paper) &amp; Table 20 (Revised ARR in the Addendum) revised from 2018-19 onwards, there is significant increase in the tax component, indicating higher aeronautical revenues. However, in terms of Table 2, AAI and Authority have shown lower/decline in traffic growth, which imply lowering of aeronautical revenues. Accordingly, FIA humbly submits that table on the computation of ARR should be revisited/reviewed in light of suitable traffic</p>	<p>The increase in the tax component is due to revised ARR which has increased due to capex projected and consequently higher projected revenue.</p>

growth projections. Further, if there is an increase in Aeronautical revenue there should also be an increase in non-aeronautical revenue, which is not reflected.	
<p><b>(f) RAB for second control period</b></p> <p>Under Table 31 (Summary of RAB and Depreciation for SVPIA (Airport Services) as per AAI for second control period) of the earlier Consultation Paper, which is now revised as Table 16 and in the Addendum, and the Table 32 (Summary of forecast and Roll forward RAB and Depreciation for SVPIA (Airport Services) considered by Authority for 2nd control period) of the earlier Consultation Paper, there is a substantial difference in the amount/value of Aeronautical Assets capitalized (in year 2020-21 i.e. Rs. 193.6 crores) proposed respectively by AAI and Authority. Such quantum increases in the valuation of the Aeronautical Assets capitalized for the year 2020- 21 needs to be explained/ justified by the Authority/AAI with cogent reasons.</p>	<p>AAI had submitted the revised capex of Rs.233.6 crores vide dt. 01.02.2016 and 16.02.2016 as per Table no.25 however, AERA had wrongly shown as Rs 24 crs only which was initially submitted to AERA, while revised projection of AAI at Table No.25 should have been considered.</p> <p>AERA has reduced the capex to Rs 193.6 crs as per normative approach.</p>
<b>BAOA</b>	
ii) While changing over to 'hybrid till' mechanism is as per NCAP 2016, this should result in nil 'royalty' to be charged on other aeronautical services, which were 'hitherto' treated wrongly as non-aeronautical like 'fuel services, cargo and ground handling'.	Pertains to AERA
iii) At para 12.8, the annual increase in lease rentals for fuel, cargo & ground handling providers should be rationalized and aligned with RBI forecast inflation rate of 4.2 as mentioned at para 16.13 of CP 03/2018-19	The lease rentals for fuel, cargo & ground handling providers are governed by commercial agreements between AAI & the companies. Any increase or decrease in these charges would result in increase or decrease in other Aeronautical charges as the Aeronautical revenue would be equal to or less than the ARR.
iv) Fuel Throughput (FTP) charges mean levying royalty at public airports for providing aeronautical services and, as such, this is to be completely abolished.	Pertains to AERA
v) FROR of 14% should be standardized as a policy for all public airport operators and should also include GHAs to align with the compensation / consideration or fee paid for providing ground handling services at	Pertains to AERA

<p>an airport payable to airport operator in addition to applicable land or space rentals. This becomes important after new GH policy issued by MoCA on 15 Dec 2017.</p>	
<p>IATA</p>	
<p><b>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.</b></p> <p><b>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.</b></p>	<p>Pertains to AERA</p>
<p>Proposal No. 1: True-up for the 1st Control Period</p> <p>IATA generally in agreement with the proposals but would appreciate if AERA can take the following into consideration:</p> <ul style="list-style-type: none"> <li>➤ 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.</li> <li>➤ 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.</li> </ul>	<p>Pertains to AERA</p>

<p>Proposal No. 8: FRoR</p> <p>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.</p>	Pertains to AERA
<p>Proposal No. 10: Operation and Maintenance Expenditure</p> <p>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.</p>	Pertains to AERA
<p>Proposal No. 11: Taxation</p> <p>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.</p>	Pertains to AERA
<b>FIA</b>	
<p><b>Re. Authority ought to follow Single Till Model for determination of Aeronautical Tariff</b></p> <p>11. In para 2.1 it is stated that the Authority vide its Order No. 13/2010-11 dated 12.01.2011 (Airport Order) and Direction No. 5/2010/11 dated 28.02.2011 (Airport Guidelines) had issued guidelines to determine tariffs at major airports based on Single Till mechanism. Subsequently, after the issuance of NCAP, the Authority has amended guidelines vide its Order No. 14, 2016-17 dated 12.01.2017 to determine future tariffs using Hybrid Till. It is to be noted that issuance of the policy that is NCAP cannot be used to override the statutory provision i.e. Section 13 (1) (v) of</p>	Pertains to AERA

the AERA Act. Hybrid till is followed, which is in contravention to AERA tariff guidelines. In this context, the following facts are noteworthy:	
12. It is noteworthy that in a matter pending adjudication before the Hon'ble Airports Economic Regulatory Authority Appellate Tribunal (" <b>AERAAT</b> "), MoCA had submitted by way of its Counter-Affidavit that the Authority is an independent regulator and suggestions of Government of India/ MoCA are not legally binding on it. Further, it has submitted that MoCA has no role to play with respect to determination of aeronautical tariff. The Authority being a party to the said matter is aware of the contents of MoCA's Counter Affidavit in the said matter.	Pertains to AERA
13. It is submitted that Single Till is premised on the following legal framework being: <b>(a)</b> Section 13(1)(a)(v) of AERA Act envisages that while determining tariff for aeronautical services, the Authority shall take into consideration revenue received from services other than the aeronautical services. <b>(b)</b> Clause 4.2 of AERA Guidelines recognizes Single Till approach which sets out the following components on the basis of which ARR will be calculated:- <b>(i)</b> Fair Rate of Return applied to the Regulatory Asset Base <b>(ii)</b> Operation & Maintenance Expenditure <b>(iii)</b> Depreciation <b>(iv)</b> Taxation <b>(v) Revenues from services other than aeronautical services</b> <b>(c)</b> AERA in its Single Till Order has held that " <i>Single Till is most appropriate for the economic regulation of major airports in India</i> ".	Pertains to AERA
14. It is submitted that determination of aeronautical tariff warrants a	Pertains to AERA



<p>comprehensive evaluation of the economic model and realities of the airport – both capital and revenue elements. AERA's approach of Hybrid Till for SVPIA deserves to be discarded.</p>	
<p>15. In the Single Till Order, Authority has strongly made a case in favor of the determination of tariff on the basis of 'Single Till'. It is noteworthy that the Authority in its <i>inter alia</i> Single Till Order has:</p> <ul style="list-style-type: none"> <li>(a) Comprehensively evaluated the economic model and realities of the airport – both capital and revenue elements.</li> <li>(b) Taken into account the legislative intent behind Section 13(1)(a)(v) of the AERA Act.</li> <li>(c) Concluded that the Single Till is the most appropriate for the economic regulation of major airports in India.</li> <li>(d) The criteria for determining tariff after taking into account standards followed by several international airports (United Kingdom, Australia, Ireland and South Africa) and prescribed by ICAO.</li> </ul>	<p>Pertains to AERA</p>
<p>16. The Authority in its AERA Guidelines (Clause 4.3) has followed the Single Till approach while laying down the procedure for determination of ARR for Regulated Services. In this respect, the matter must be dealt with by the Authority considering the ratio pronounced by the Constitutional Bench in the Hon'ble Supreme Court Judgment in PTC vs. CERC reported as (2010) 4 SCC 603 (<i>please ref: Paragraph Nos. 58 to 64 at Page Nos. 639 to 641</i>). wherein it is specifically stated that regulation under an enactment/statute, as a part of regulatory framework, intervenes and even overrides the existing contracts between the regulated entities inasmuch as it casts a statutory obligation on the regulated entities to align their existing and future contracts with the said regulations.</p>	<p>Pertains to AERA</p>

<p>17. The fundamental reasoning behind 'Single Till' approach is that if the consumers/passengers are offered cheaper air-fares on account of lower airport charges, the volume of passengers is bound to increase leading to more foot-fall and probability of higher non-aeronautical revenue. The benefit of such non-aeronautical revenue should be passed on to consumers/passengers and that can be assured only by way of lower aeronautical charges. It is a productive chain reaction which needs to be taken into account by the Authority.</p>	<p>Pertains to AERA</p>
<p>19. In view of the above, it is submitted without prejudice that determination of aeronautical tariff on Hybrid Till basis for the 2<sup>nd</sup> second control period would set the tone and precedent for determination of aeronautical tariff in subsequent control periods contrary to the applicable legal framework. Thus, it is submitted that Authority should discard the option of determination of aeronautical tariff on Hybrid Till and follow Single Till scrupulously.</p>	<p>Pertains to AERA</p>
<p><b>II. Delay In Order to incorporate "Hybrid Till"</b> – As submitted by FIA in para 5(a) above, it can be seen that due to the multiplicity of submissions made by AAI at different time intervals (which have also not been shared with the relevant stakeholders), there is an apparent delay in the incorporation of the Hybrid Till mechanism of determination of tariff, which are now being proposed to be made applicable from 1.06.2018 instead of 1.04.2016. This is without prejudice to the fact that FIA has been opposing the incorporation of Hybrid Till mechanism in place/substitution of Single Till mechanism for determination of tariff, as mentioned above. The delay has adversely affected the just and fair charge of aeronautical tariffs being charged to the passengers. Further, as</p>	<p>Pertains to AERA</p>



<p>per para 3.34 of the SVPIA is, FIA understands that process of privatization of O&amp;M of terminal at SVPIA is presently ongoing and in case of any major changes following such privatization, AERA will consider the revised proposal, if required. FIA humbly submits that as the UDF (for domestic and international passengers) have been reduced (i.e. INR 99) in the present Order, the Authority must endeavor to not permit any increase of UDF following the privatization of the terminal at SVPIA.</p>	
<p><b>VI Reconsider the Fair Rate of Return @ 14%</b> - In para 11.5, it is stated that the Authority proposes to consider 'Fair Rate of Return Estimation' (FRoR) at the rate of 14% for SVPIA for the 1st and 2nd control period as submitted by AAI. The Authority has based this decision for the FRoR considered for airports at Chennai and Kolkata airport in 1<sup>st</sup> control period considering the recommendations made under the study done by NIPFP. FIA submits that SVPIA is operated and managed by AAI which admittedly falls under the definition of State under Article 12 of Constitution of India. Further, SVPIA is not being operated by an entity which is a private entity or as a public-private partnership (PPP) project which involves a substantial private investment. Therefore, the cost of equity at 14% p.a. for State is unreasonable and without any justification. AAI being a State, is under the constitutional obligation to cater the public interest and not commercial interest. Therefore, the cost of equity of 14% pa is very high and is arbitrary.</p> <p>FIA would like to state that any particular study is based upon the peculiar facts and data of the particular airport and thus the study at one airport cannot be universally applied to any other airport. In the absence of any scientific study in respect of SVPIA in relation to FRoR, the Authority is not</p>	<p>Pertains to AERA</p>

<p>correct in universally applying the recommendations made under a study done by NIPFP on FRoR for Chennai and Kolkata airport. This view is also concurred in the recent DIAL Order i.e. Order dated 23<sup>rd</sup> April, 2018 passed by the Hon'ble Telecom Disputes Settlement &amp; Appellate Tribunal, New Delhi in the case of <i>Federation of Indian Airlines vs. Airport Economic Regulatory Authority of India &amp; Ors.</i> - AERA Appeal No. 6 of 2012 and <i>Delhi International Airport Ltd. (DIAL) vs. Airport Economic Regulatory Authority of India &amp; Ors.</i> - Appeal No. 10 of 2012, dealing with the issue of fair rate of return on equity for Delhi Airport, it has been inter alia held that “<i>...It is the duty of the regulator to scientifically and objectively ascertain how much is enough..</i>” and “<i>..In view of this position, it appears to us that fixation of 16% is based on hunch and not on scientific and objective calculation or analysis. We, therefore, direct the Authority to improve upon their estimation through scientific and objective approach in a transparent manner.</i>”</p>	
<p><b>VII Delayed application of Tariffs</b> - In para 14.6, it is stated that the Authority proposes to consider existing tariffs while calculating aeronautical revenues for FY 2016-17 as the revised tariffs as submitted by AAI are proposed to be applicable from 01.06.2018 onwards. FIA submits that as already seen above, due to multiplicity of submission made by AAI, the issuance of the order for the 2<sup>nd</sup> control period has been inordinately delayed. FIA submits that had the Authority initiated consultation paper with the initial submission of AAI dated 16.03.2016, revised tariff could have been applicable from 01.04.2016 instead of a delay of 2 years (i.e. now proposed to be applicable from 01.06.2018).</p>	<p>Pertains to AERA</p>

<p><b>D      ADDITIONAL SUBMISSION</b></p> <p>20. In addition to the above submissions, it is respectfully submitted that airlines and consequently, passengers will have to bear the burden of increase in Aeronautical Tariffs as proposed by AAI and the Authority. It is noteworthy that Airlines and passengers must not be burdened with any tariff to be collected to fund the capital investments of a private concessionaire.</p>	Pertains to AERA
<p>21. The Authority is aware that airlines have been going through difficult times with high prices of crude oil. Increase in aeronautical tariff as proposed by the Authority will erode airlines capabilities to increase fares to sustain its operational capabilities.</p>	Pertains to AERA
<p>22. FIA reiterates its submission that there is a critical relationship between passenger traffic and growth of the civil aviation sector. What would benefit both the airport operator as well as the airlines is a reasonable and transparent passenger tariff, both direct and indirect – since then the airlines will be able to attract more passengers and the airports would benefit both through higher collection of aeronautical charges as also enhanced non-aeronautical revenue at the airports. In FIA's view, the airport should be regarded as a single business as its aeronautical and non-aeronautical revenues are intertwined.</p>	Pertains to AERA
<p>23. It is submitted that order passed by an administrative authority, affecting the rights of parties, must be a speaking order supported with reasons. It is well settled position of law that:</p> <p>(a) Reasons ought to be recorded even by a quasi-judicial authority.</p> <p>(b) Insistence on recording of reasons is meant to serve the wider principle of justice that justice must not only be done it must also appear to be done as well.</p> <p>(c) Recording of reasons also operates as a valid restraint on any possible arbitrary exercise of judicial and quasi-judicial or even administrative power.</p>	Pertains to AERA

<p>(d) Insistence on reason is a requirement for both accountability and transparency.</p> <p>(e) Reasons in support of decisions must be cogent, clear and succinct.</p> <p>(f) A pretence of reasons or 'rubber-stamp reasons' is not to be equated with a valid decision-making process.</p> <p>(g) Requirement of giving reasons is virtually a part of 'Due Process'.</p>	
<p>24. In view of the foregoing submissions, it is submitted that the Authority ought to pass reasoned order on issues mentioned above, after the stakeholders are provided with all the relevant copies of the submissions made by AAI and any study report conducted by technical experts etc. for making any additional/final submissions on this CP.</p>	Pertains to AERA
<p>25. In view of the above, it is respectfully prayed that the Authority keeps in mind the interests of the airlines and civil aviation sector before finalizing any decisions regarding increase in Aeronautical Tariffs and other charges. AAI's proposal, if accepted, will have cascading impact on the airlines and consequently, on the civil aviation industry.</p>	Pertains to AERA
<p>26. FIA humbly submits that any reliance by FIA in the present submission, on the DIAL Order dated 23<sup>rd</sup> April 2018 passed by the Hon'ble Telecom Disputes Settlement &amp; Appellate Tribunal, New Delhi in the case of <i>Federation of Indian Airlines vs. Airport Economic Regulatory Authority of India &amp; Ors.</i> - AERA Appeal No. 6 of 2012 and Delhi International Airport Ltd. (DIAL) vs. <i>Airport Economic Regulatory Authority of India &amp; Ors.</i> - Appeal No. 10 of 2012, is without prejudice to its rights and contentions before the Hon'ble Supreme Court and any reliance on the said DIAL order may not be treated as an admission.</p>	Pertains to AERA