

# AIRPORTS ECONOMIC REGULATORY AUTHORITY OF INDIA

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## Minutes of the Stakeholders Consultation Meeting held on 10<sup>th</sup> December, 2018 at 11:00 AM

1. CONSULTATION PAPER No. 23/2018-19 TO CONSIDER THE MULTI YEAR TARIFF PROPOSAL FOR DETERMINATION OF TARIFFS FOR 1<sup>ST</sup> CONTROL PERIOD (FY. 01.04.2018 TO 31.03.2023) IN RESPECT OF VISHAKHAPATNAM AIRPORT.
2. CONSULTATION PAPER No. 24/2018-19 TO CONSIDER THE MULTI YEAR TARIFF PROPOSAL FOR DETERMINATION OF TARIFFS FOR 1<sup>ST</sup> CONTROL PERIOD (FY. 01.04.2018 TO 31.03.2023) IN RESPECT OF BHUBANESHWAR INTERNATIONAL AIRPORT

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A Stakeholder Consultation Meeting was convened by the Authority on 10.12.2017 at 11.00 AM in the Conference Room, first floor, AERA Building, Administrative Complex, Safdarjung Airport, New Delhi to elicit the views of the stakeholders on the Consultation Paper nos. 23/2018-18 dated 15.11.2018 and 24/2018-19 dated 16.11.2018 issued by the Authority to consider the Multi-year Tariff Proposal for the 1<sup>st</sup> control period (FY.2018-19 to FY.2022-23) in respect of Vishakhapatnam Airport and Bhubaneswar Airport respectively. The list of participants is enclosed at **Annexure-I**.

2. At the outset, Chairperson, AERA welcomed all the participants to the Meeting and briefly touched upon the subject matter of the two Consultation Papers. The Chairman advised the stakeholders to give their written comments/ views on or before 14<sup>th</sup> December, 2018.

3. The comments of various stakeholders are as follows:

### AAI – VISHAKHAPATNAM AIRPORT,

3.1 Sh. G. Prakash Reddy, Airport Director, Vishakhapatnam Airport gave a brief presentation on the Multi Year Tariff Proposal submitted to AERA for determination of tariffs for the 1<sup>st</sup> Control Period. The presentation covered the areas of proposed investment and its effect on tariff, existing tariff, future tariff, overview of the revenue, costs at Vishakhapatnam Airport during the 1<sup>st</sup> Control Period. They also requested the Authority to reconsider the following issues:

- **Impact of Compound Factor on prior period shortfall-** AERA has considered compound factor for FY17:- 1.24 and FY18:- 1.09 as on 1<sup>st</sup> December 2018 and PV of compounded shortfall for FY17 & FY18 is Rs.16.72 cr. AAI has considered compound factor for FY17:- 1.30 and FY18:- 1.14 as on 1<sup>st</sup> April 2018 and accordingly PV of compounded shortfall for FY17 & FY18 works out to Rs.17.46 cr. This has resulted in reduction of prior period shortfall of Rs.0.62cr.

AAI requested AERA to consider the Compound Factor as proposed by AAI and considered by AERA in the case of Tariff proposal of Bhubaneswar Airport.

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- **Impact of Tax-** AERA has carried forward of losses Rs.11.33 crores for FY 16-17 to FY17-18 and set off against the profit of FY18-19 to FY19-20 and this has resulted in reduction of tax benefit to the tune of Rs.7.68 cr. Since AAI is not filing tax return on standalone basis, AAI requested not to carry forward and set off the losses of previous years.
  - **UDF -** AAI proposed an upward revision in UDF for domestic passenger from the earlier proposed Rs. 355 to Rs. 360 per embarking passenger, and, similarly Rs. 355 to Rs. 375 per embarking passenger for international passenger.
  - **Airport Service Quality-** Ms. V. Vidya, GM (Fin.), AAI stated that decision of the Authority on fixing Service Quality level target of 4.8 may not be reasonable as this MoU target is an average of 20 airports, and, every individual airport need not achieve the target.

Member, AERA replied that AERA has considered the ASQ of 4.8 since AAI has committed to the same under the MoU signed with the Ministry of Civil Aviation

#### **Andhra Pradesh Airports Development Corporation Ltd. (APADC)**

Ms. Neena Sharma, Senior GM (Airports) APADC stated the following:

- i. AERA, in its consultation paper considered the reduction in 10 percent growth for the FY 2022-23 due to opening of new Airport i.e. Bhogapuram Airport. APADC stated that as per MoCA letter dated 02.09.2016 Vishakhapatnam Airport is slated to shut down operations on opening of Bhogapuram Airport. Hence, the statement given in AERA Consultation Paper is incorrect.

In reply, Ms. V. Vidya, GM (Fin.), AAI, stated that the Ministry of Civil Aviation has agreed that Vishakhapatnam Airport will not be closed after the commencement of Bhogapuram Airport.

Chairperson AERA, stated that the construction of Bhogapuram Airport is yet to commence, hence it is uncertain as to when the new greenfield airport will commence operations. Vizag airport is highly congested at present, and, therefore capacity expansion is a necessity to cater to present level of air passengers and growth in the coming years.

- ii. The FRoR considered in Consultation Paper appears to be unjustified as the comparison is either with a metro or state capital Airport with higher passenger density. The FRoR may be reduced to a lower number.

Chairperson, AERA replied that FRoR is not discriminatory since returns on AAI's investments are supposed to be at par in each city where investment is made. Hence the FRoR considered as 14% is justified.

- iii. Ms. Neena Sharma, APADC stated that the cost shown against the runway maintenance expenditure was never supposed to be reimbursed by State Govt. therefore it is incorrect to consider the same in O&M expense as reflected in

the Consultation Paper. She further stated that, since the runway belongs to Indian Navy the matter needs to be resolved between AAI and Indian Navy.

APD, Vizag Airport stated that as per the MoU the cost of runway expansion work was to be shared between AAI, AP State Govt., & MoD (Indian Navy) in the ratio 25:25:50.

On this matter, Chairperson, AERA advised AAI to submit a detailed clarification.

- iv. Ms. Neena Sharma, APADC stated that the A.P. State Government has reduced VAT on ATF to 1% since 2014. Hence night parking charges should be waived off.

Chairperson, AERA replied that in the Consultation Paper, the waiver clause relating to night parking charges states that "night parking charges shall be exempt if VAT on ATF is <5%". Hence, anything below 5% is already covered.

### **Inter Globe Aviation (Indigo)**

Mr. Dushyant Deep, Senior Legal Consultant stated that the 5-year CAGR should be considered as a basis for estimating traffic since it is higher than the 10 year CAGR and has a corresponding impact on non aero revenue.

Chairperson, AERA mentioned that the 10-year CAGR that is about 16%, has been used to estimate traffic since the 5 year CAGR is very high and might lead to an upward bias. He also clarified that the 10-year CAGR is reliable and safe estimate and in any case the traffic estimates shall be trued up in next control period.

Shri Dushyant, also raised question over the implementation date for the new tariff and whether the charges are to be considered in USD or INR?

Chairperson, AERA clarified that the new tariff will be effective from prospective date and charges will be considered in INR only.

### **Federation of Indian Airlines (FIA)**

Shri Ujjwal Dey, Associate Director, FIA commented that the depreciation on Terminal Building has been charged at 30 years of useful life, as compared to 60 years for Kannur Airport.

The Chairman, AERA replied that AERA generally considers 30 years of useful life for charging depreciation on terminal building and it is in line with the AERA Order issued on useful life of assets.

### **AAI – BHUBANESHWAR AIRPORT,**

S C Hota, Airport Director, Bhubaneswar Airport gave a brief presentation on the Multi Year Tariff Proposal submitted to AERA, Traffic Forecast, Major Capex projected and Annual Tariff Proposal (ATP) for the First Control period.



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He also requested the Authority to reconsider the following:

- **Traffic Forecast-** AERA in its consultation paper proposed Passenger Traffic forecast growth rate of 10% and 20% for domestic and international, respectively and ATM growth rate of 16% for domestic and 35% for international for the FY 2023. However, AAI requested to re-consider passenger growth rate of PAX 10% for domestic and 20% for international and ATM growth rate of 9% for domestic and 18% for international for the Financial Year 2022-23.
- **Payroll /Staff Benefit Expenses** - AAI has inadvertently proposed 5% increase in payroll expenses for FY2018-19 to FY2022-23 in the MYTP, instead of 7%. Hence, requested to consider 7% as has been considered in other airports.
- **Impact of Tax:** - AERA, in its calculations, has carried forward losses of Rs.97.4 crores pertaining to FY 16-17 to FY18-19, and, set them off against the profits of FY19-20 to FY21-22. This has resulted in reduction of tax benefit to the tune of Rs.2.45 cr. AAI files its tax return centrally, consolidated for all its airports. AAI is earning profits for the last many years, even though, individually Bhubaneswar Airport has incurred losses from FY 16-17 to FY 18-19. AAI requested not to carry forward and set off the said losses.
- **Short fall:-** Revised ARR as per the calculation of AAI is Rs.694.51 crores vis-a-vis ARR of Rs. 611.40 cr as per Consultation Paper issued by AERA, and there shall be a short recovery of Rs.35.73 crores even after revising the landing, Parking ,Throughput as proposed earlier and UDF – 550 (Dom) & 600 (Intl).
- **UDF:-** Considering the above proposed amendments AAI submitted the revised UDF as Rs. 550 per embarking domestic passenger and Rs. 600 per embarking international passenger. Earlier AAI proposed Rs. 350 per embarking domestic passenger and Rs. 400/- for international passenger.

Chairperson, AERA replied that the UDF, for both domestic and international, is on the higher side, and it may be reviewed by AAI.

#### **Andhra Pradesh Airports Development Corporation Ltd.**

Ms. Neena Sharma, Senior GM (Airports) stated that APADC has no comments to offer.

#### **Inter Globe Aviation (Indigo)**

Mr. Dushyant Deep, Senior Legal Consultant stated that Indigo has no Comments to offer.

#### **Federation of Indian Airlines (FIA)**

Shri Ujjwal Dey, Associate Director, FIA stated that FIA shall submit the written comments within the stipulated time.

The Meeting ended with a vote of thanks to the Chair.

  
(Geetha Sahu)  
Asst. General Manager (Fin)

**Annexure-I****List of Participants:-****Airports Economic Regulatory Authority Of India**

1. Shri. S. Machendranathan, Chairperson- in Chair
2. Shri S. Samanta, Member
3. Shri Sudhir Raheja
4. Smt. Geetha Sahu, AGM (Fin.)
5. Shri. Jaimon Sakaria, Manager (F)
6. Shri Trilok Chand, Asst. Manager (F)

**AAI**

7. Shri G. Prakash Reddy, Airport Director, Vishakhapatnam
8. Shri S C Hota, Airport Director, Bhubaneswar
9. Ms. V. Vidya, GM (Fin.)
10. Shri K. Bhattacharjee, ED (Engg.), ER
11. Shri Rajesh Khanna, AGM (Fin)
12. Shri Bhuyyan, AGM (Fin)
13. Shri Amlesh Karmakar, AGM (Fin)
14. Ms. Vartika Gupta, Manager (Fin.)
15. Shri Ravi Kanojia, AM (Fin.)
16. Shri Parvesh Manager (F&A)

**Deloitte**

17. Shri Anurag Poddar, Consultant
18. Shri Puskar Thakur, Consultant
19. Shri Robey Lal, Consultant

**FIA**

20. Shri Ujjwal Dey, Associate Director

**Andhra Pradesh Airports Development Corporation Ltd.**

21. Ms. Neena Sharma, Senior Manager (Airports)

**Inter Globe Aviation (Indigo)**

22. Shri Neeraj Bhatia, Senior Manager (Fin.)
23. Shri Dushyant Deep, Senior Legal Consultant

