IATA

18 April 2016 **WITHOUT PREJUDICE**

OSD-II to Secretary
Airports Economic Regulatory Authority (AERA) of India
AERA Building, Administrative Complex
Safdarjung Airport
New Delhi 110 003
Email: radhika.r@aera.gov.in

Dear Madam Radhika,

SUBJECT: IATA'S RESPONSE TO CONSULTATION PAPER NO. 10/2015-16 DETERMINATION OF AERONAUTICAL TRARIFFS OF CHHATRAPATI SHIVAJI INTERNATIONAL AIRPORT, MUMBAI, FOR THE SECOND CONTROL PERIOD (1.04.2014 – 31.03.2019)

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 265 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. The submission appended with this letter is based on the views expressed by IATA at the stakeholder consultation meeting held on 6 April and additional comments following the meeting.

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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IATA's SUBMISSION ON CONSULTATION PAPER No.10/2015-16
Determination of Aeronautical Tariffs in respect of Chhatrapati Shivaji International Airport, Mumbai, for the Second Control Period (1.04.2014 – 31.03.2019)

Proposal 1: Regarding Principles for Determination of Aeronautical Tariffs and Control Period in respect of CSI Airport, Mumbai

AERA's proposals	IATA Comments
1.a. To consider the principles (laid out above) for determination of aeronautical tariff in respect of CSI Airport, Mumbai.	- IATA is broadly in agreement with the principles. However, it is disappointing that the SSA prescribes a hybrid till instead of a single till, which is not in line with how AERA wishes to regulate. This type of situations need to be avoided in the future.
1.b. To follow the Normative Approach for determination of Building Blocks, except incentivisation of NAR, to the extent the Authority decides it to be applicable for MIAL.	- IATA submitted comments to AERA on its consultation document for the proposed normative approach of major airports. In this submission IATA raised a number of comments and concerns on each of the proposals. Given that AERA has not published a final order regarding these proposals, and since it is not clear whether IATA's comments have been taken into account, it is too early to comment whether IATA supports the normative approach to be adopted. - On the specific proposal not to apply the incentivisation of NAR, we support AERA's proposal not to apply such incentivisation.
1.c. To consider the second Control Period for the purposes of determination of aeronautical tariffs with respect to CSI Airport, Mumbai, commencing from 01.04.2014 to 31.03.2019.	- We agree with AERA's proposal to consider the regulatory period from 01.04.2014 to 31.03.2019. - However, we would like to point out that we are already more than two years into the regulatory period without a decision on tariffs for the period. Such an approach creates uncertainty for both the airport and the airlines, and would therefore urge AERA that for future regulatory periods, it strive for determining tariffs before the regulatory period commences.

<u>Proposal 2: Proposal 2: Regarding Development Fee and its adjustment to RAB</u>

AERA's proposals	IATA Comments
2.a. To consider DF funding of RAB such that fund available to MIAL on account of DF for investment in a year (including any DF apportioned towards CWIP in the previous year brought-forward to the given year) would be apportioned over expenditure incurred on the aeronautical assets capitalized in the given year and the expenditure incurred on aeronautical CWIP in the given year; as per the scheme indicated in Para 8.63, 8.64 and 8.65 of MIAL Tariff Order No 32/2012-13. Further, while the fund apportioned to the expenditure incurred on the aeronautical assets capitalized in a year would be adjusted from RAB in the given year, that amount which is apportioned to expenditure incurred on aeronautical CWIP is proposed to be carried over to the subsequent years for adjustment from RAB in those years. However the Authority proposes that in the year that the terminal 2 is commissioned the remaining balance of DF allowed by the Authority would be adjusted in the RAB i.e. in FY2013-14.	We agree with AERA's approach.
2.b. Accordingly, to adjust total DF of Rs 3,400 crores allowed, vide Order No. 29/2012-13 dated 21.12.2012 in respect of CSI Airport, Mumbai from the capitalizations made by MIAL by FY 2013-14.	We agree with AERA's approach.
2.c. Based on the above, to consider the adjustments in RAB in respect of CSI Airport, Mumbai on account of DF as per Table 1 above.	We agree with AERA's approach.

<u>Proposal 3: Regarding truing-up of ARR for the 1st Control Period for MIAL</u>

AERA's proposals	IATA Comments
3.a. To consider aeronautical asset allocation in FY2013-14 at 84.52%	We believe that AERA's proposed asset allocation of 84.52% to aeronautical activities is too high. It should be stressed that so far, the split of costs between aeronautical and

	non-aeronautical services used by the major Indian airports in their non-single till tariff proposals had been based on arguable assumptions on space usage which were skewed towards aeronautical activities to favor the airport financially. A fairer assumption would be to consider all common spaces in the airport terminal building as being used for activities that generate both aeronautical and non-aeronautical revenues alike and therefore to allocate the costs to these activities on a 50:50 basis.
3.b. To consider cost of debt in the first Control Period at 10.51% and WACC at 12.04%	Since the Authority had already decided to true up the cost of debt in its order No 32 /2012-13, there is not much that can be mentioned regarding this matter.
3.c. To consider total working capital loan interest of Rs. 6.59 crores for the entire first Control Period	We see from the table shown in 3.43 that there are positive "cash balances" & "short term loans and advances" that would probably have generated an interest income for MIAL. Has this been considered by AERA in the calculation of the working capital loan interest? If not, we believe that AERA should consider the net between interest income and expenses from working capital accounts (i.e. the net of interest generating current assets and liabilities).
3.d. To consider true-up of negative Rs. 559.10 crore as on 31.03.2014 (over-recovery by MIAL in the 1st Control Period) towards determination of aeronautical tariff for the second Control Period as per Table 13.	We have the following comments that we would request AERA to consider before determining the final true up value for the 1st control period: - Asset allocation: As mentioned in 3a, we believe that the allocation towards aeronautical activities is still too high, and reconsideration is needed regarding the drivers used for allocation common costs. - Bad debt: Good payers should not cover the costs of bad ones. If MIAL has not been good enough in recovering bad debts it cannot be expected that is passes the bill to good payers. In addition, passing on the costs of bad debt to users removes any incentive to the airport to control its bad debt. - Financing charges: As mentioned by AERA we are awaiting for a clarification on the nature of these costs. Upfront fees for raising debt need to be carefully considered. Otherwise, there is a potential gaming of the system (i.e. paying higher upfront fees which are trued up and lowering the cost of debt which is also trued up but subject to a cap). - Working capital: As mentioned in 3c, we would like to understand whether AERA has also considered interest income in its calculations. If it had not, we believe it should.

	- Legal fees: We understand that MIAL has engaged in court cases regarding AERA's previous decisions on tariffs. We believe that the related costs to these type of actions should not be included in any tariff calculation (and therefore funded by non-aero revenues). As we do not know how much these expenses are, we request for AERA to seek for better clarification from MIAL on the matter and then make the appropriate adjustments. - Advertising costs: It is unclear as to why do users have to pay for the airport's advertising expenses. People utilize the airport because they want to fly to or from the city the airport serves. Advertising will not change this behavior.
3.e. To consider the above true-up in the ARR computed for determination of aeronautical tariff for the second Control Period.	- The resultant over-recovery (After the adjustments suggested above) should be included in the true-up calculation.
3.f. To note the inclusion of PSF (SC) O&M expenditure of Rs. 38.72 crores for the year 2009-10 to 2013-14 as part of aeronautical service tariff determination. MIAL to provide evidence for reimbursement of this amount into the PSF (SC) escrow account, otherwise the same is proposed to be disallowed at the time of the Order	- We agree with the proposal
3.g. To consider the land lease revenue as part of revenue from non-transfer asset for the time being. MIAL to provide evidence that the land lease revenue is generated from the earmarked commercial area. 3.h. To treat the revenues from monetization of land based on the mechanism prescribed by AAI/MOCA on land monetization in case of MIAL (refer para 3.57)	- IATA's view is that revenues arising from land monetization should be included for tariff determination to benefit airport users. It has been argued that concessional land given to private players must result in benefits to the end consumers in India. Not including revenues derived from monetization of state land provided free to the private player could be construed as unduly profiting the private player at the expense of the end-consumers. We await the timely guidance of AAI and MoCA to have revenues from monetization of state land by DIAL included in this tariff determination.

Proposal 4: Regarding Asset Allocation for second Control Period for MIAL

AERA's proposals	IATA Comments
4.a. To consider asset allocation as per above para 4.14 above.	- We note AERA's proposal to use the 2013/14 allocation instead of MIAL's (particularly since the latter have barely allocated any costs to non-aeronautical assets for the new T2). Although this is an improvement, as pointed out in proposal 3, we still believe that the percentage allocated by AERA to aeronautical activities is way too high and urge it to reconsider.

Truing Up No. 1. Correction / Truing up for Allocation between Aeronautical and Non-aeronautical Assets

AERA's proposals	IATA Comments
1.a. The Authority proposes to take corrective action, as may be necessary, based on the independent study being conducted to determine the allocation of assets in respect of the CSI, Mumbai Airport at the commencement of 3rd Control Period.	- We consider that a true up on cost allocation will be necessary.

Proposal 5: Regarding calculation of RAB for the purposes of calculating Return on RAB

AERA's proposals	IATA Comments
5.a. To calculate RAB for each year based on the actual date of capitalisation for the purpose of calculating return on RAB.	- IATA's preference is to capitalize assets at the end of each regulatory year, for the purposes of calculating the return on RAB. This assumes the principle of beneficial use has been applied and met – namely that assets should only be capitalized and added to the RAB when they come into operational use, and not before. Should a project not be delivered on time, or to the required quality or cost, then a rebate system should be introduced in order to compensate airline for the benefits of an asset not being introduced in time, particularly if airlines have pre-funded projects.
5.b. To consider an opening RAB of Rs. 5,282.80 crores and opening HRAB of Rs. 763.99 crores as of 01.04.2014.	- IATA is unable to take a reasonable assessment of the proposed capital investment plan resulting from MIAL's lip service consultation and unwillingness to share meaningful or detailed information regarding major capital project investments. As MIAL has failed to capture users requirements and share Business Cases with the airline community, we are unable to review the costs, benefits and return on investment for capital projects. Any normal commercial business requires a review of these elements before investing, however this information has not been provided. IATA has previously requested further project details are shared, for instance at 2014 consultation meetings, however no information has been forthcoming. IATA strongly urges AERA to implement more effective regulatory controls including enforcement of its consultation protocol that is in the best interests of consumers.
5.c. To consider the Regulatory Asset Base and Return on RAB as per Table 30 for the purpose of determination of aeronautical tariff for second Control Period.	- We support the methodology, but given the comments in 5b, its quite difficult be in a position to support the numbers themselves.
5.d. To consider the estimated cost of capital expenditure for addition towards RAB and for consideration towards determination of aeronautical tariff for second Control Period as per Table 28 and Table 29, and para 5.111.	- We support the methodology, but given the comments in 5b, its quite difficult be in a position to support the numbers themselves.
5.e. To consider the capitalized figure of Rs. 309.97 crores as of 31st March 2015 as per the audited PSF (SC) account and the	- IATA supports AERA's requirement that MIAL provides evidence for reimbursement of the capitalized amounts, otherwise this would result in double counting. Further, AERA's

sum of Rs. 191.90 crores to be capitalized during the remaining part of the second control period in the RAB. MIAL to provide evidence for reimbursement of capitalized amount of Rs. 309.97 crores into the PSF (SC) escrow account, otherwise the same is proposed to be disallowed (refer para 5.97 above)	analysis should include an independent review of the capital efficiency of each project before allowing capitalisation in the RAB.

TruingUp No. 2. Regarding true-up of RAB

AERA's proposals	IATA Comments
2.a. To true-up the cost of capital expenditure based on actual audited values of these additions over the second Control Period towards determination of aeronautical tariff for the 3rd Control Period.	- IATA does not object to trueing-up the cost of capital expenditure on the provision that an independent third party appointed by AERA audits major projects and proves them to be efficient, including as assessment that major projects have been delivered to the defined scope and quality. - IATA also suggests the price profile is smoothed i.e. over a three year period to avoid a one-off significant increase and burden on users. - IATA again highlights the need for a detailed review project Business Cases for future investments, to ensure costs and benefits are assessed.
2.b. To review the Regulatory Asset Base and Return on RAB for second Control Period at the time of determination of aeronautical tariff for 3rd Control Period based on actual additions to RAB (capitalization) and actual depreciation based on date of capitalization during the second Control Period.	IATA does not object to this approach, on the basis: - There are no projects in dispute between the airline community and airport i.e. regarding costs, scope, quality or programme, options or project selection. - Subject to an independent third party review as per the comment above.

Proposal 6: Regarding Hypothetical RAB for second Control Period for MIAL

AERA's proposals	IATA Comments
6.a. To consider an opening Hypothetical RAB of Rs. 763.99 crores as on 01.04.2014.	- We are in agreement with the proposal (though AERA may wish to also apply the approach suggested in our response in 6b to the first control period and recalculate the opening HRAB for the second control period)
6.b. To estimate the year-wise average depreciation rate for aeronautical assets for the second Control Period at the rate of depreciation for HRAB in the second Control Period, as per Table 33.	In order to avoid unnecessary true-ups, we suggest that AERA determines a fixed asset life for the HRAB and depreciate the asset accordingly on a straight line basis. This will imply the same fixed depreciated value per year throughout all periods until the net value of the HRAB is nil. Currently, it doesn't really make much logic to have depreciation values that vary each year for the same "asset".

Proposal 7: Regarding Cost of Debt for second Control Period for MIAL

AERA's proposals	IATA Comments
7.a. To consider weighted average cost of debt at 11.64% for FY2014-15 and 11.06% for remaining years of the second Control Period. as per Table 39	- Given that the economic circumstances are improving (lower inflation expectations, recent reduction in RBI's repo rate), it is unclear as to why there is a need to assume a higher cost of debt compared to the weighted average of the previous control period. - As well, AERA mentions that it has reviewed the loan agreements (i.e. whether these are based on fixed or variable rates), but has not explained the outcome of this review (i.e. what percentage of the debt it fixed, etc). We would appreciate more explanation on this in order to be better able to provide further comments. - We also encourage AERA to review the cost of debt of infrastructure companies in India with solid credit ratings in order to determine whether the cost of debt of MIAL is in line with these benchmarks. If it is worse, then we believe that AERA should be doing adjustments in its proposals.
7.b. To consider the outstanding debt levels as per Table 39 above.	- The levels of outstanding debt appear to be acceptable (provided DIAL is able to raise these amounts).

Truing Up No. 3. Correction / Truing up for Cost of Debt:

AERA's proposals	IATA Comments
3.a. The Authority proposes to true up the cost of debt for the second control period subject to a cap of an additional 50 bps on the existing rates i.e., from current level of 11.06% to a ceiling of 11.56% over the second Control Period (FY2015-16 to FY2018-19).	- The problem with truing up factors of the determination is that it eliminates the incentive to the regulated company to outperform during the period. What we would suggest is that AERA determines an efficient level of cost of debt and leave it fixed for the period (without truing it up). - However, If AERA wishes to continue truing up the cost of debt: o We do not see why AERA should provide a headroom 50bp for determining the ceiling the cost of debt. Given the improving economic circumstances, we consider that AERA should define 11.06% as the maximum ceiling.

Proposal 8: Regarding Treatment of the Interest free Refundable Security Deposits (RSD)

AERA's proposals	IATA Comments
8.a. To consider RSD already raised by MIAL (at Rs. 207 crore) as a means of finance at zero cost	- IATA supports the Authority's proposal to consider RSD as a means of finance at zero cost as it had been received by DIAL without any cost i.e. what is received without any cost by DIAL cannot be charged to users.
8.b. To consider balance RSD of Rs. 793 crores as and when land is monetized, and applicable cost thereof, if any.	- The truing up mechanism may need to be accompanied with other measures to ensure MIAL is adequately incentivized to monetize this land as soon as possible. In this regard, a potential solution could be to true up but subject to a minimum RSD amount which is ramped up every year. For instance, starting from 207 in 2015-16 and ending up in 1,000 crore at the end of the period.

8.c. To treat the revenue from monetization and RSD based on mechanism for land monetization, prepared by AAI / MOCA (refer para no. 3.60).	- IATA's view is that revenues arising from land monetization should be included for tariff determination to benefit airport users. It has been argued that concessional land given to private players must result in benefits to the end consumers in India. Not including revenues derived from monetization of state land provided free to the private player could be construed as unduly profiting the private player at the expense of the end-consumers. We await the timely guidance of AAI and MoCA to have revenues from monetization of state land by MIAL included in this tariff determination.

Proposal 9: Regarding Cost of Equity for the second Control Period:

AERA's proposals	IATA Comments
9.a. To adopt return on equity (post tax cost of equity) as 16% for the purpose of calculation of WACC.	- The authority had in the past requested several studies in order to determine a value for the cost of equity, which gave ranges of between 11% and 14.06%. We believe that the value used should fall within the range provided by the studies and 16% is therefore too high
9.b. Not to consider Upfront Fee paid by MIAL to AAI as part of equity share capital of MIAL.	- AERA's analysis of this issue in the previous tariff determination is very clear in that there are no grounds to consider the upfront fee as equity.

Proposal 10: Proposal 10: Regarding Weighted Average Cost of Capital for the second Control Period

AERA's proposals	IATA Comments
10.a. To calculate WACC for the purposes of calculating Target Revenue based on the audited balance sheet items like debt, equity, reserve & surplus as well any other means of finance like RSD, etc.	We agree with the approach.

10.b. To consider WACC at 11.75% (based on 16% cost of equity) for the purpose of determination of aeronautical tariffs during the second Control Period.	- We believe that the proposed WACC of 11.75% should be adjusted downwards on the basis of the comments in proposals 8, 9 and 10. - Separately, it is still unclear as to why negative reserves are not taken into account when defining the equity portion.

TruingUp No. 4. Correction / Truing up for Weighted Average Cost of Capital (WACC)

AERA's proposals	IATA Comments
4.a. The Authority further proposes to true up WACC on account of: i. Changes in equity and Reserves & Surpluses (accumulated profits or retained earnings) ii. Adjustments to cost of debt, if any, subject to the ceiling proposed and iii. Additional means of finance: for example, Cost of RSD, if any, and upon review by the Authority	- Given that land is still not monetized in full, there may be a need to true up for the second control period. As well, there is also a further need for truing up since AERA has not considered negative reserves/accumulated profits in its forecasts. - However, we believe that AERA may need to consider no further true ups starting from the third control period (i.e. assume a fixed capital structure).

Proposal 11: Regarding depreciation for the second Control Period

AERA's proposals	IATA Comments
11.a. To consider depreciation rates as per the useful life of assets specified in the Companies Act 2013 for the second Control Period except for assets pertaining to runway, taxiway and apron, which are to be considered at useful life of 30 years.	- Given that the Authority has still not yet made a final decision on the work carried out on the setting of depreciation rates to be adopted for the regulatory purpose, we are in agreement with the Proposal 11a for the time being.
11.b. To consider the allocation of depreciation into aeronautical and non-aeronautical components as per Proposal 4.a above.	- As previously mentioned we believe that the allocation of assets is highly skewed towards aeronautical activities (such allocation has an immediate effect on all building blocks).
11.c. To consider the depreciation for second Control Period as presented in Table 42.	- We request that our comments made in 11b are taken into account before AERA deciding the allowed for depreciation in its final determination.

TruingUp No. 5. Regarding depreciation on aeronautical assets, the Authority proposes

AERA's proposals	IATA Comments
5.a. To true up depreciation at the time of determining aeronautical tariffs in the 3rd Control Period based on actual date of capitalization of assets.	- It may be prudent to true up depreciation on the basis of the actual date of capitalization of the asset. It should be noted, however, that the value of the asset being capitalized (and then depreciated) is "efficient" (this will would avoid users paying for underperformance).

Proposal 12: Regarding Operating Expenses to be considered for determination of ARR for second Control Period

AERA's proposals	IATA Comments
12.a. To consider the cost allocation for the second Control Period as per Table 43.	- We continue to believe that the percentage apportioned to aeronautical activities is too high.
12.b. To consider the allocation of VRS payment to AAI at the rate of employee allocation while projecting aeronautical expenses for the second Control Period.	- We support this approach.
12.c. To project the operating expenses for the second Control Period based on actual audited expenses in FY 2014-15.	- This would be fine in principle. However, AERA needs to make an assessment of the efficiency of these costs.
12.d. To consider O&M Expenses for the purpose of determining ARR for the second Control Period as per Table 45 above.	We request AERA to take into account the following before making its final determination: - Personnel expenses: It is unclear as to why AERA has assumed a 15% in 2015-16 and 10% thereafter. Since the level of assumed inflation is around 5.1%, this implies that the allowances from AERA are almost 5% above the level of inflation. AERA itself concedes that employee costs are on the high side, and therefore we request AERA to reconsider such excess allowance. - Repairs and maintenance: Since a large proportion of the fixed assets will made of a new asset (T2) which, by definition, would have a low need for repairs; and that old assets being decommissioned, AERA may need to reconsider whether the increases in Repairs and maintenance forecast are necessary. - Financing costs: As mentioned in proposal 3d, there needs to be a more careful evaluation of these costs. - Advertising expenses: it is unclear as why advertising expenses are necessary, and why should users be paying for them.

	- Operating expenditure: Increases at a rate way higher than the assumed level of inflation. It is unclear what other drivers are being considered for such increases (as many of these cannot be directly linked to passenger growth). We request AERA to review these assumptions. - Administrative costs: As mentioned in proposal 3d, we request AERA to take a closer look into any proposed legal costs and what do they entail. - Working capital loan: As mentioned in 3d, we would appreciate to understand whether AERA is considering interest on forecast cash balances.
12.e. To note the inclusion of PSF (SC) O&M expenditure of Rs. 59.42 crores for expenses in second control period and Rs. 15.82 crores towards earlier period disallowed amount, totaling Rs. 75.32 crores in the second control period. MIAL to provide evidence of reimbursement of amount into PSF (SC) escrow account reconciled with MoCA. MIAL to inform MoCA about the consideration of the earlier period and second control period PSF (SC) expenditure for tariff determination.	- No major comments on this proposal.

Truing Up No. 6. Regarding truing up for Operating Expenses the Authority proposes

AERA's proposals	IATA Comments
6.a. To true-up operating expenses for the second Control Period at the time of determination of tariff for the 3rd Control Period subject to results of the independent study on determining efficient operating	- Scrutiny of the airport's opex proposal should not be relaxed in any way just because there is a truing-up process. One of the fundamental objectives of economic regulation is to ensure that the airport is managed and operated in a cost efficient manner and it is imperative that every proposed cost item is carefully scrutinized and justified. Truing

expenses in respect of the CSI Airport, Mumbai.	up of a lax and inefficient opex forecast does not incentivize the airport to drive for cost efficiency but in fact encourages excess spending in order not to be penalized in the truing-up process.

<u>Proposal 13: Regarding taxation on aeronautical service based on the material before it and its analysis, the Authority proposes</u>

AERA's proposals	IATA Comments
13.a. To forecast the corporate tax payable on aeronautical services as indicated in the Table 46 and consider the same for ARR determination.	- IATA agrees with the proposal.

<u>TruingUp No. 7. Regarding truing up of taxation the Authority proposes</u>

AERA's proposals	IATA Comments
7.a. To true up the forecast figures of tax on earnings pertaining to aeronautical services of the second Control Period as per the actuals at the time of determination of aeronautical tariff for the 3rd control period	- IATA agrees with AERA's proposal.

<u>Proposal 14: Regarding Revenue from Non-Aeronautical services</u>

AERA's proposals	IATA Comments

14.a. Based on the material before it and its analysis, the Authority proposes i. To consider the projected revenue from non-aeronautical services as per Table 48.	- Yes, we support AERA projections (provided these are subject to truing up)
ii. To consider revenues from fuel concessions and ITP services as aeronautical revenues.	- Yes, we support AERA's proposal.
iii. To continue to consider to treat revenues from CUTE as non-aeronautical.	- It is unclear as to why CUTE is being treated as non-aeronautical revenue, whereas at DEL, such revenue is treated as aeronautical.

TruingUp No. 8. Correction / Truing up for Non-Aeronautical services

AERA's proposals	IATA Comments
8.a. True-up the actual non-aeronautical revenue at the time of tariff determination for the next control period subject to the projections considered above in respect of non-aeronautical revenue being treated as minimum / floor for the current control period.	- Normally, we would not have been keen on truing up non-aeronautical revenues (due to the perverse incentives it may bring). However, given the uncertainties regarding the impact of the new terminal on non-aeronautical revenues, there is merit in truing up non-aeronautical revenues. - For future periods, AERA should consider not to true up.
8.b. Other income for future years in the second control period to be trued-up under the next review	- Since AERA has not forecast other income, it will be prudent to true up this amount at the end of the period.

Proposal 15: Regarding traffic forecast to be considered for the second Control Period

AERA's proposals	IATA Comments

15.a. To consider the passenger, ATM and cargo traffic as per Table 52 for the second Control Period.	- We would appreciate for AERA to distribute the model specification MIAL has used for forecasting traffic. - We also believe that the traffic forecast proposed by AERA may be on the low side. IATA forecasts for India for the period 2014-2019 suggests a +9.9% p.a. traffic growth (international and domestic).
15.b. To true-up the passenger, ATM and cargo traffic based on actual numbers realized during the second Control Period at the time of tariff determination for the 3rd Control Period.	- We believe that AERA needs to consider to stop truing up some many variables in its determination as otherwise its regulatory framework will end up being in a "cost plus" approach. - The airport should hold some level of risk (which is why it is being compensated through a cost of capital allowance) and therefore bear the traffic risk. - Subject to the comments made on 15a, we believe that traffic should not be trued up.

Proposal 16: Regarding the matter of Inflation

AERA's proposals	IATA Comments
16.a. To adopt CPI inflation forecast of 5.1% and WPI forecast of 3.3% in accordance with the latest RBI forecasts (38th round) for the next five years of the second Control Period for determination of various building blocks, wherever required.	We agree with AERA's proposals with regards to using the latest RBI forecast for defining CPI & WPI.

Proposal 17: Regarding the matter of Quality of Service

AERA's proposals	IATA Comments
17.a. As specified by the government, to monitor the performance standards as laid	An Airport service level agreement should only exist to deliver the levels of service and airport performance airline users need in return for the airport charges they pay. There is

down in the OMDA for the second Control Period 17.b. To not impose rebate mechanism in addition to the provision of liquidated damages in the OMDA.	a cost-relatedness between the services airlines use and their costs, however this is not recognised at BOM. It is a completely bizarre notion that MIAL would compensate the government for non-performance of OMDA standards, when it is the Users of the airport paying for these services who in the case of airport non-performance should receive any compensation owed. IATA recommends that in the consumers interest, AERA consults with the airline community and MIAL to introduce a best practice level of service framework (i.e. see the IATA Airport Service Level Agreement), in order to define the airport performance that User's need across the airport. IATA's approach is to promote joint airport-airline agreement, including scope, levels of service metrics, measurement and monitoring mechanism. IATA's focus is to deliver targets and continuous improvements, rather than financial penalties, however a rebate mechanism is an option to incentivize performance.

Proposal 18: Regarding Target Revenue (ARR) and X-Factor

AERA's proposals	IATA Comments
18.a. The Authority proposes to follow the formulation specified in the SSA and calculate the "X" factor by solving the system of equations mentioned therein. The Authority proposes an increase of CPI-X of (-7.20%).	- A number of points have been raised in this submission which suggest that the CPI – X factor should lowered.
18.b. To waive landing charges for (a) aircraft with a maximum certified capacity of less than 80 seats, being operated by domestic scheduled operators, and (b) Helicopters of all types as per the Govt. of India vide Order no. G.17018/7/2001-AAI dated 9th February 2004 in order to	- Although we understand the efforts to encourage and promote intra-regional connectivity at CSIA, we do not agree with the fact that airlines not benefiting from the exemption to cross-subsidize aircraft benefiting from it. If the government wishes to establish these kinds of promotions, it should fund it itself.

encourage and promote Intra regional connectivity at CSIA, Mumbai.	