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212/2/2012/17/11/12

भारतीय विमानपत्तन प्राधिकरण
AIRPORTS AUTHORITY OF INDIA

AAI/CHQ/REV/AERA/AS/Chennai-MYTP/2012

12th October, 2012

The Secretary,
Airports Economic Regulatory Authority of India,
AERA Building, Administrative Complex,
Safdarjung Airport,
New Delhi-110003

OSD-II
16/10/12
AGM(RKG)

Sub: Comments of AAI on the Stakeholders' Observations on CP no. 16/2012-13 dated 23.08.2012- in the matter of determination of aeronautical Tariff(s) for Chennai airport.

Madam,

Reference is invited to AERA letter no. AERA/20010/MYTP/AAI/Chennai/2011-12/Vol.I/1602 dated 4th October, 2012 on the above mentioned subject.

In this regard, the comments of AAI on the observations made by various stakeholders are enclosed as annexure-A.

Yours faithfully,

R. Shankar
(R. Shankar)

Executive Director(Finance)

Encl.: As above.

| Sl. No | Stakeholders Observation | AAI Comment |
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| 1 | Airline Operators Committee, Chennai | |
| 1.1 | <p><u>Completion of the Project</u></p> <p>The Ministry of Civil Aviation ("MoCA"), vide a letter to the Airports Authority of India ("AAI") dated 19th June, 2012 that has been annexed to the Consultation Paper No. 16/2012-13 ("CP"), had stated that the Director of Expenditure, Ministry of Finance had conveyed its approval for the revised cost of INR 2,015 crores with the completion of the project scheduled for July, 2012. Accordingly, the AAI was expected to complete the modernisation and expansion project ("Project") of the New Terminal Building ("NTB") at the Chennai International Airport ("CIA") by the revised completion schedule of July, 2012 as fixed and decided by the MoCA.</p> | <p>All the works of pertaining to Terminal Buildings - Project has been completed as per schedule.</p> <p>The trial runs for arrival passengers and departure passengers at Domestic Terminal-2 have been successfully completed on 30.04.2012 and 03.07.2012 respectively. The trial run for arrival passengers at International Terminal-2 was also completed successfully on 24.07.2012.</p> |
| 1.2 | <p>As per the submissions made by the AAI in its proposal to the Airports Economic Regulatory Authority ("Authority") for an increase in the aeronautical tariff, AAI stated that the Project would be completed in August, 2012 and the NTB would be made open to the public and fully functional by then. However, the NTB is still incomplete, even after a month from the date of completion announced by the AAI. The present status of the Project and the pace at which the modernisation and expansion work is being carried out leads one to the inevitable conclusion that the NTB would not be completed before the end of 2012.</p> | <p>As per the submissions made by AAI, all the works pertaining to Domestic Terminal-2 and International Terminal-2 has been completed in April, 2012 including the Utility Building.</p> <p>The testing, commissioning of all electrical mechanical equipment was also completed after receipt of the power supply from TNEB on 22.03.2012. The work of aerobridges has also been completed in Domestic Terminal-2 and for International Terminal-2. Work is expected to be completed by Nov.2012 .</p> |
| 1.3 | <p>The Airline Operators Committee ("AOC") in Chennai had also written various letters to the Secretary, MoCA and the AAI dated 16th May, 2012, 15th June, 2012 and 7th September, 2012 regarding the status of the NTB at CIA and the quality/absence of the facilities contained therein. There were also several meetings held on 21st April, 2011, 24th May, 2011, 18th August, 2011, 19th January, 2012, 25th January, 2012 16th February, 2012 and 15th March, 2012, between the stakeholders in the CIA regarding the issues of the NTB. The minutes of the said meetings and the aforesaid letters addressed by the AOC are collectively annexed to this document as <u>Annexure – Acolly</u>. The various points that have been raised in the aforesaid letter to MoCA are evidence to the fact that till date several facilities in the NTB are far from being completed and the ones completed are far from international standards.</p> | <p>The major issues raised in the said letter dt. 17.09.2012 is In-line x-ray machine, ramp at the basement level, permanent concessionaires, approach road, etc.</p> <p>The works is completed as mentioned above in para-1.</p> <p>Regarding letter by AOCC dt. 17.09.2012. The status is below :-</p> <p>In-line Baggage: Is being actioned and expected to be completed before commissioning and the deadline given by second week of December, 2012. However, stand alone X-BIS shall also be available as an alternative.</p> |

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| | | <p>Permanent concessionaires: Action being taken with PDC as 2nd week of December, 2012. However, Action for temporary essential commercial facilities has also been initiated.</p> <p>AOCC:-Substantial part of AOCC work has already been completed and sufficient for smooth functioning of Airport. It includes SOCC (Security Operational Control Centre), Data Centre, Computer Network, BMS, CUTE Systems.</p> <p>Walkalator of the Connector tube between Domestic Terminal 2 & International Terminal 2 was not included in the project estimates of Rs.2015 crores. The work for provision of walkalator will to be taken as IInd phase of the upgradation .</p> <p>Ramp: Demonstration has been undertaken and it is shown that the Tug with 2 containers is functioning in normal way in the ramp portion. Mahindra's have also demonstrated that with 55 HP tractor 3 nos. Containers can be move on the ramp.</p> <p>Approach Road between city highway and main bridge:- The elevated corridor work connecting the city highway has been completed except for the portion of mid ramps of elevated corridor which is to be executed along with Airport Metro Station works.</p> |
| 1.4 | <p>The AOC has also pointed out in the aforesaid correspondence that the In-Line Baggage Screening System ("ILBS System"), the Airport Operations Control Centre ("AOCC"), Walkalators from the domestic terminal to the international terminal, etc. have not been installed or are incomplete, though the AAI claims to have completed the Project of the NTB at the CIA. It is pertinent to note that while the Bengaluru International Airport and Rajiv Gandhi International Airport, Hyderabad have been provided with the ILBS System and the AOCC, the CIA has not been provided with these facilities. The new specifications for the ILBS System have not been approved by the Bureau of Civil Aviation Security and various requests made by the AOC for providing an AOCC have been ignored by the AAI. The Authority</p> | <p>As per para 1.3 above.</p> |

| | shall take note that though there has been a plan for providing walkalators in the tubular passage under the flyover connecting the new terminals at the CIA, the same has not been installed, thereby causing the Minimum Connectivity Time ("MCT") between two flights to be affected. The solution of transfer coaches/shuttles is only a stop-gap arrangement and will also affect the MCT and reduce the efficiency of transfer facilities and services at the MAA as transit hub. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|------------------------------|--|---|-------------|----------|------------|-------|------|------------|-------------|-------------|---------------------------|-----------|------------|------------|------------------------------|-----------------------------------|-----------------------------|-----------|-------------|--------|--------|---------|-------------------|---------|---------|----------|------------------------|--------|--------|--------|
| 1.5 | <p>The Authority ought to also take into consideration that there are 52 new check-in counters each at the domestic terminal and the international terminal. Further, the number of additional baggage carousels are 3 each at the domestic and international terminals in the NTB, thereby bringing the total number of baggage carousels to 8 and 7 at the domestic and international terminals respectively (old terminal and NTB). These figures do not reflect or substantiate the traffic forecast information provided by AAI, which seem to suggest that the traffic at the CIA will grow 3-4 fold in the coming years. If such an increase in the traffic forecast is anticipated, then the provision of 3 extra baggage carousels in the international terminal will not match up to the international standards followed by other major airports.</p> | <p>The existing Domestic Terminal building has an annual handling capacity of 6 million passengers. The new Domestic Passenger Terminal building has a capacity of 10 million passengers. After commissioning of the new facilities modifications would be carried out to the existing terminal building and a combined capacity of 16 million passengers would be available. Chennai Airport handled 8.62 million passengers during the year 2011-12. The existing and proposed facilities is as under:</p> <table><tr><th>Facilities</th><th>Existing</th><th>Additional</th><th>Total</th></tr><tr><td>Area</td><td>19,250sqm.</td><td>72,614 Sqm.</td><td>91,864 Sqm.</td></tr><tr><td>Annual Passenger Capacity</td><td>6 million</td><td>10 million</td><td>16 million</td></tr><tr><td>Peak hour Passenger Capacity</td><td>2060 Pax. (9.35 Sqm. per Pax.)</td><td>3300 Pax (22 Sqm. per Pax.)</td><td>5360 Pax.</td></tr><tr><td>Aerobridges</td><td>3 nos.</td><td>7 nos.</td><td>10 nos.</td></tr><tr><td>Check-in Counters</td><td>53 nos.</td><td>52 nos.</td><td>105 nos.</td></tr><tr><td>Baggage Conveyor Belts</td><td>4 nos.</td><td>4 nos.</td><td>8 nos.</td></tr></table> | Facilities | Existing | Additional | Total | Area | 19,250sqm. | 72,614 Sqm. | 91,864 Sqm. | Annual Passenger Capacity | 6 million | 10 million | 16 million | Peak hour Passenger Capacity | 2060 Pax. (9.35 Sqm. per Pax.) | 3300 Pax (22 Sqm. per Pax.) | 5360 Pax. | Aerobridges | 3 nos. | 7 nos. | 10 nos. | Check-in Counters | 53 nos. | 52 nos. | 105 nos. | Baggage Conveyor Belts | 4 nos. | 4 nos. | 8 nos. |
| Facilities | Existing | Additional | Total | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Area | 19,250sqm. | 72,614 Sqm. | 91,864 Sqm. | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Annual Passenger Capacity | 6 million | 10 million | 16 million | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Peak hour Passenger Capacity | 2060 Pax. (9.35 Sqm. per Pax.) | 3300 Pax (22 Sqm. per Pax.) | 5360 Pax. | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Aerobridges | 3 nos. | 7 nos. | 10 nos. | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Check-in Counters | 53 nos. | 52 nos. | 105 nos. | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Baggage Conveyor Belts | 4 nos. | 4 nos. | 8 nos. | | | | | | | | | | | | | | | | | | | | | | | | | | | |

The existing International Terminal building has an annual handling capacity of 3 million passengers. The new International passenger Terminal building has a capacity of 4 million passengers. After commissioning of the new facilities modifications would be carried out to the existing International terminal building and a combined capacity of 7 million passengers would be available. Chennai Airport handled 4.30 million passengers during the year 2011-12. The existing and proposed facilities is as under

| Facilities | Existing | Additional | Total |
|---|------------------------------|--------------------------------|---------------|
| Area | 42,300 Sqm. | 60,528 Sqm. | 1,02,828 Sqm. |
| Annual Passenger Capacity | 3 million | 4 million | 7 million |
| Peak hour Passenger Capacity | 2150 Pax. (20 sqm. per pax.) | 2300 Pax (26.50 sqm. per pax.) | 4450 Pax. |
| Aerobridges | 5 nos. | 3 nos. | 8 nos. |
| Check-in Counters | 43 nos. | 52 nos. | 95 nos. |
| Baggage Conveyor Belts | 4 nos. | 3 nos. | 7 nos. |
| Immigration/ Customs counters(Arrival) | 20/16 nos. | 18/10 nos. | 38/26 nos. |
| Immigration/ Customs counters (Departure) | 16/3 nos. | 18/4 nos. | 34/7 nos. |

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| 1.6 | <p>It is pertinent to note that the AAI had claimed that the construction of the bridge over the Adyar River was a part of the project for the modernisation and expansion of the CIA, which was approved by the MoCA. However, AAI had, in its proposal to the Authority, submitted that the construction of the bridge was already completed on 30th March, 2011, but the same was not yet operational. The AAI has also not provided any reasons for the non-operation of the bridge over the Adyar River for such a prolonged period. Accordingly, the cost of the bridge ought not to form a part of the Regulatory Asset Base until such time as the same is operational.</p> | <p>Secondary runway has been extended by 1032 Mtrs. By constructing a precast RCC bridge over the river ADYAR with the extended length of runway being 3117 Mtrs. , it can handle 'D' type of aircraft. The runway has not been operationalised due to the requirement for removal of obstacles and availability of land for provision of approach lights. AAI is continuously pursuing with State Government for the same..</p> <p>As soon as land for approach lights, is made available and obstacles are removed by the State Government, runway will be put into operations. However, extended secondary runway is being operationalized by shifting the threshold. Obstruction survey and safety assessment has been completed.</p> |
| 1.7 | <p>Extension of project completion timelines lead to increase in project cost, which the airport operator will ultimately look to claim from all the airlines operating from CIA and all passengers travelling to and from CIA. The delay that has occurred being the sole responsibility and liability of the AAI, the various airlines and passengers ought not to suffer the burden of providing facilities that were already assessed and valued prior to the commencement of the Project.</p> | <p>Chennai Airport is a brown field airport and airport expansion Project is completed in the realistic timeframe without disturbing the on going operations. No unjustified escalation is payable in this contract.</p> |
| 1.8 | <p>The Authority ought to also consider the provisions of Section 13(1)(a)(ii) and 13(1)(d) of the Airports Economic Regulatory Authority of India Act 2008 ("AERA Act"), which state that '<i>the Authority shall determine the tariff for the aeronautical services taking into consideration the service provided, its quality and other relevant factors</i>' and that '<i>the Authority shall monitor the set performance standards relating to quality, continuity and reliability of service as may be specified by the Central Government or any authority authorised by it in this behalf</i>'. As per the said provisions, the Authority has a statutory obligation to review and assess the service being provided by the airport operator and the quality of the same before determining the tariff for such airport. In the present case, the Authority ought to take into consideration the performance (or the lack of it) of AAI in terms of the Project, the services provided by the AAI at the CIA, especially the NTB, and the quality thereof, before determining the tariff at the CIA.</p> | <p>The tariff is being determined by AERA in accordance with the provision of AERA Act and guidelines issued by it and the same will be subject to truing up in the next control period. The effect of standards of service can only be effected in the subsequent period as per guidelines.</p> |

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| | VARIOUS DOCUMENTS REFERRED TO AND RELIED UPON BY AAI IN PARA 1.14 OF THE CONSULTATION PAPER HAVE NOT BEEN SHARED WITH OR PROVIDED TO THE STAKEHOLDERS | |
| 1.09 | The Authority has noted that the AAI had submitted clarifications on its depreciation policy, traffic forecasting methodology and details of the debts raised by AAI for the modernisation project of the NTB. AAI also furnished a component-wise breakup of the revenue and expenditure along with a brief note justifying the growth rates it had assumed and details of the component-wise project cost, which also contained details of the probable date of completion of this project and AAI's means of finance with respect to CIA. | Statement of fact. |
| 1.10 | The Authority, in its CP, has not annexed any of the aforesaid submissions, details and notes made by the AAI to the stakeholders for their perusal. The stakeholders were also not provided with any of these documents and notes during the Meeting of the Stakeholders held on 30th August, 2012 to discuss the MYTP and ATP submitted by AAI for the CIA. The various airlines operating in the CIA had also written to the Authority and requested for a copy of these submissions and documents, but have not received any till date. In the absence of these submissions, documents and notes, the stakeholders will be prevented from giving a thorough response to the tentative decisions arrived at by the Authority. We reserve the right to file further supplementary submissions after having had the opportunity to peruse the aforesaid documents. | The various documents referred to in Para 1.14 of the Consultation paper are available in annexure-I&II of the Consultation paper. |
| | PARA 1.18 – CNS ATM SERVICES HAVE BEEN EXCLUDED FROM THE CALCULATION OF AERONAUTICAL REVENUES, WHEN THEY ARE VERY MUCH PART OF THE AERONAUTICAL SERVICES | |
| 1.11 | According to Section 2(a)(i) of the AERA Act, any service provided for navigation, surveillance and supportive communication thereto for air traffic management would be considered as an aeronautical service. However, the tariff proposal submitted by AAI to the Authority fails to include the revenues and expenditure on account of the CNS Air Traffic Management services being provided by AAI in the category of aeronautical services and revenue. | The present proposal of MYTP submitted by AAI is only for the Airport Services, which is as per AERA guidelines, 2011 dated 28 th Feb., 2011 and not for the CNS Air Traffic Management Services. Therefore, revenues, expenditure and RAB pertaining to CNS Air Traffic Services have not been considered in the current proposal. |
| 1.12 | The Authority should not permit this deviation from the statute that is sought to be made by the AAI. | In view of the above, there is no deviation from the statute by the Authority |

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| | CARGO TARIFF – NO CHANGE IN RATES | |
| 1.13 | The AAI has submitted a separate proposal for the tariff relating to cargo services and aeronautical services. Though the proposal made for the cargo services does not include any hike in the existing tariff for the control period, the current cargo tariff that is being charged is an unreasonable one. | The current cargo tariff that is being charged by AAI is as per the broad understanding reached between AAI and trade and as such the same is reasonable. |
| 1.14 | <i>Vide</i> Order No. 11/2010-11 that was passed by the Authority on 5 th January, 2011, it was held that the Authority had approved the 5% increase in the existing rates of cargo charges at the CIA purely on ad-hoc basis. As per this Order, the determination of cargo charges at the CIA on an ad-hoc basis was to be reviewed at the stage of tariff determination for the first cycle. Thus, though the AAI has not proposed any increase or hike in the cargo tariff already being charged, the Authority cannot avoid review of the current charges as that would be inconsistent with the Order that was passed by the Authority on 5th January, 2011. | The MYTP for Cargo Services for the 1 st Control Period has been filed by AAI with AERA as per the AERA Guidelines . AERA after review, has treated of this the Cargo Services provided by AAI at Chennai Airport as material but competitive and 5% annual escalation allowed by AERA for FY 2010-11 is as per broad understanding reached between AAI & Trade for increasing Cargo rates by 5%. In view the above, there is no inconsistency in the Order that was passed by the Authority on 5th January, 2011. |
| 1.15 | The discussions that were held prior to the passing of the aforesaid Order on 5th January, 2011 mentioned in the Order illustrate the various points raised by the stakeholders regarding the revision of cargo tariff at the CIA and Netaji Subash Chandra Bose International Airport, Kolkata (“ Kolkata Airport ”). The AAI had proposed an increase of 10% each year for the period 2010-11 and 2011-12, keeping in view the investment in improvement of cargo terminal to the tune of INR 79 crores in the previous 2 years and a further estimated investment of INR 160 crores (approximately) in 2010-11 in cargo facilities at both of the aforesaid airports. Prior to the fixing of the tariff for cargo services, AAI held meetings with the stakeholders that were attended by very few stakeholders. Certain stakeholders, who did not attend the meetings, expressed their concern regarding AAI fixing the tariff for cargo services and stated that these charges had to be decided by the Authority and not by the AAI. | Prior to making submission before AERA for 5% increase in Cargo rates, AAI held two meetings with stakeholders on 19.03.2010 & 16.04.2010 wherein various issues relating Cargo services, including proposal for increase in tariff were discussed with the stakeholders and details of investment made for improving Cargo services etc. were shared with Stakeholders. After the User Consultation process, consensus had emerged between AAI & Stakeholders to increase the existing tariff by 5% for FY 2010-11 & FY 2011-12. Considering the above and AAI’s submission for increase in tariff for cargo services by 5 %, AERA vide their order no. 11/2010-11 dated 5 th January, 2011 approved 5% increase in tariff over the then prevailing rates for Cargo services. |
| 1.16 | The AAI, in its proposal to the Authority for approval of increase in cargo charges, stated that it was decided between the AAI and the various trade bodies for cargo services that there would be a 5% increase in the cargo charges for the years 2010-11 and 2011-12 at the CIA and Kolkata Airport | Statement of fact. |
| 1.17 | The Authority at the time of examination of AAI’s proposal noted that the submissions made by the AAI were bereft of financial details and the stakeholder | The referred comments i.e. “..... proposal put forth by AAI is bereft of a serious effort to justify seeking an increase...” was made by one of |

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| | consultation meetings appeared to be incomplete as one of the important stakeholders Air Cargo Agents Association of India ("ACAAI") was not present at the meeting. The Authority also referred to a letter by ACAAI to the Authority dated 10 th August, 2010 by which it had requested the Authority to ask AAI to enhance its infrastructure as well as the services offered to the trade and other factors, in order to justify the increase in the cargo charges. Another stakeholder also pointed out to the Authority that any revision in the cargo charges without a corresponding improvement in infrastructure and facilities would increase the transaction cost of the industry. | the stakeholders (ACCAI) not by AERA (Authority). Ample opportunity was given to all stakeholders to put forward their observations/views on AAI proposal for increase in tariff for Cargo Services, however ACAAI chose not to participate in two Stakeholders meeting convened by AAI to discuss the tariff increase for Cargo services. AAI have always involved all the stakeholders in the process of revision of cargo tariff and any increase in tariff has always been implemented after arriving at a consensus. Further, in all the meetings relating to the revision, detailed discussions giving the details of assets created, investments made, facilities enhanced/ provided at Cargo Complex etc. were placed before the Stakeholders who were given adequate opportunities to present their views. | | | | | | | | | | | | | | | | |
| 1.18 | Although the AAI, prior to passing of the aforesaid Order dated 5 th January, 2011, stated that INR 165 crores was already invested for the cargo centre at CIA, till date there has been no expansion or enhancement of cargo facilities that has been made by the AAI. The CIA has 3 cargo bays and there has been no increase in the said figure though there has been an increase in the growth of cargo flights at the CIA. In light of the aforesaid circumstances, it is pertinent that the Authority review the current cargo charges at CIA as per its Order dated 5 th January, 2011 and revise them downwards. | Statement is not correct. AAI is undertaking augmentation of Cargo handling facilities at Chennai Airport where an additional area of 37,280 sqmts is being provided. State of the art automatic baggage storage and retrieval facilities are being catered with 8020 bins. The existing and proposed <table><tr><td></td><td>Area</td><td>No. of ETv slots</td><td>Capacity</td></tr><tr><td>Ph I</td><td>12,500 sm</td><td>88</td><td>3.25 Lakh metric tonnes</td></tr><tr><td>Ph II</td><td>7,495</td><td>98</td><td></td></tr><tr><td>Ph III</td><td>37,280</td><td>ASRS with 8020 bins</td><td>7.75 lakh metric tonnes</td></tr></table> facilities is as under. <div>Total11 lakh metric tonnes</div> | | Area | No. of ETv slots | Capacity | Ph I | 12,500 sm | 88 | 3.25 Lakh metric tonnes | Ph II | 7,495 | 98 | | Ph III | 37,280 | ASRS with 8020 bins | 7.75 lakh metric tonnes |
| | Area | No. of ETv slots | Capacity | | | | | | | | | | | | | | | |
| Ph I | 12,500 sm | 88 | 3.25 Lakh metric tonnes | | | | | | | | | | | | | | | |
| Ph II | 7,495 | 98 | | | | | | | | | | | | | | | | |
| Ph III | 37,280 | ASRS with 8020 bins | 7.75 lakh metric tonnes | | | | | | | | | | | | | | | |
| | PARA 4.1 - CONSTRUCTION OF ADYAR BRIDGE | | | | | | | | | | | | | | | | | |
| 1.19 | The AAI has included the construction of a bridge over the Adyar River in its project of modernisation and expansion of the CIA and has submitted that the said proposal received the approval of the Ministry of Civil Aviation (as the Authority was not set up at that time). The total project cost for the modernisation and | The completion cost of bridge is Rs.217.55 crores and is part of the Chennai Project approved cost of Rs. 2015.00 Cr. The work has been completed in March 2011. | | | | | | | | | | | | | | | | |

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| | expansion has been accounted to INR 2,862.71 crores, out of which the AAI has submitted in its proposal that work amounting to INR 216.70 crores has been completed for the Adyar River Bridge. The AAI has also stated that an amount of INR 11 crores alone has been paid for the same. | |
| 1.20 | The AAI had, in its proposal to the Authority, submitted that the construction of the bridge was already completed on 30 th March, 2011, but the same was not yet operational. The AAI has not provided any reasons for the non-operation of the bridge over the Adyar River for such a prolonged period. Accordingly, the cost of the bridge viz. an amount of INR 216.70 crores, ought not to form a part of the Regulatory Asset Base until such time as the same is operational. | Reference reply given in the para 1.6. . |
| | PARA 4.5 – AAI TO UNDERTAKE USER CONSULTATION WITH THE AIRPORT USERS CONSULTATIVE COMMITTEE | |
| 1.21 | As per the Terms and Conditions for Determination of Tariff for Airport Operators - Guidelines, 2011, dated 28th February, 2011 (“ Airport Guidelines ”), AAI ought to undertake User Consultation with the Airports User Consultative Committee (“ AUCC ”) on major capital projects planned at the airport. Major capital projects were defined as capital investment projects that may represent more than 5% of the value of the Regulatory Asset Base (“ RAB ”) at the beginning of the Control Period or INR 50 crores, whichever is lesser. No user consultation with the AUCC had taken place prior to the commencement of the major capital projects for the CIA. Even after the Project was commenced, the AAI did not hold any consultation with the airport users or the AUCC, in order to understand the various issues and challenges being faced by such airport users or the AUCC. | Modernisation Project at Chennai International airport was approved by the Ministry of Civil Aviation and project work commenced well before the AERA Guidelines for Airport Operators came into effect. However, user consultation will be under taken as per AERA Guidelines in respect for future projects. Though user consultation may not have been held as per AERA guidelines, which were not existing at that time, meetings were held with AOC at airport level. |
| 1.22 | Annexure 1 of the Airport Guidelines state that the Authority expects the Airport Operator to provide all the required project information with the users as part of the consultation process. The said information is required to be submitted in the form of a project investment file. The Airport Guidelines also provide that the consultation shall not only encompass the exchange of information, but also discussions between the Airport Operator and the users with the object of achieving agreement, wherever possible, within the timeline specified, before key decisions are taken to enable the successful delivery of the plan. | Statement of fact. |

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| 1.23 | In the present project plan of modernisation and expansion of the CIA, the AAI has failed to provide any information to the users and AUCC and also failed to hold any discussions in order to reach an agreement on various elements of the project plan. The Authority has also failed to direct the AAI to provide such information and hold such discussions with the AUCC. In the absence of such information being provided and discussions being held, the entire procedure being followed by the AAI and the Authority is not one that has been prescribed by law. | As indicated in para 1.21, present modernisation plan for CIA was approved and taken up prior to formulation of AERA's Guidelines on User Consultation. User consultation will be undertaken as per AERA guidelines in respect of future capex. |
| | PARA 5.2 – AERA HAS RELIED ON THE CALCULATIONS ON RAB SUBMITTED BY AAI AND HAS FAILED TO CARRY OUT ITS OWN INDEPENDENT ASSESSMENT | |
| 1.24 | The Authority has accepted and proposes to consider the calculations submitted by the AAI on the initial RAB on the basis of the accounts that have been audited by the Comptroller and Auditor General (C&AG). | Statement of fact. |
| 1.25 | According to Section 14 of the AERA Act, the Authority has the power to call for information and conduct its own investigation into the claims and proposal made by the AAI. However, the Authority has proposed to consider the figures and calculations submitted by the AAI without any verification or confirmation of the same. The Authority has also failed to make available the audited accounts of the AAI prepared by the C&AG for all the stakeholders. In the absence of relevant information being provided to the stakeholders, the comments provided by such stakeholders shall only be limited to the proposal at a macro level, without being given access to the audited reports and accounts of the AAI related to the project of modernisation and expansion of the CIA. | The revenue, expenditure and capital expenditure etc., at every Region and Airports of AAI are subject to audit by the Comptroller and Auditor General (C&AG). The Audited Annual Accounts are tabled in the Parliament annually as per the provisions of the AAI Act. The Accounts of the Chennai Airport is also covered under Audit by C& AG. The fact that the Capex has been approved by the Ministry of Civil Aviation, the R&M and Operational Expenditures are incurred after obtaining necessary approvals by the Competent Authority and that the amounts incurred have been audited by the C&AG and it is these audited figures that have been considered by the AERA in the tariff determinations has been adequately mentioned by AERA in the Consultation Paper itself. |
| | PARA 5.8 – DEPRECIATION POLICY FOLLOWED BY AAI DEVIATES FROM THE AIRPORT GUIDELINES | |
| 1.26 | Para 5.3 of the Airport Guidelines deals with the Depreciation Policy to be followed by Airport Operators and states that depreciation shall be calculated using the straight line method. It also states that the minimum residual value of the asset shall be considered as 10% and depreciation shall be allowed up to a maximum of 90% of the original cost of the asset. | AAI is charging depreciation as per the policy approved by AAI Board, which has been finalised after considering relevant factors such as minimum useful service life of various assets based on technical assessment. Based on the above policy, AAI finalises its annual accounts which is accepted by C&AG. In case the depreciation is to be reworked as per AERA guidelines, then net block of Fixed Assets, |

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| | | which have been 100% depreciated as per AAI books, would need recasting and 10% of asset value would have to be added back to RAB. |
| 1.27 | Deviating from the Airport Guidelines, the AAI in its letter to the Authority dated 8 th August, 2012 has submitted that the annual accounts of the AAI were audited by the C&AG, which followed the depreciation policy approved by the AAI Board. It further stated that in the event the depreciation had to be reworked as per the Airport Guidelines, by which 90% of the value of assets would be considered as depreciable and 10% as residual value, then the value of AAI's assets would not tally with value of assets appearing in AAI's books of accounts. The AAI stated that if the depreciation had to be reworked as per the Airport Guidelines, then the net block of assets which had been 100% depreciated as per the AAI's books of accounts, would need to be recast. | |
| 1.28 | The Authority has tentatively decided to consider the depreciation policy followed by the AAI, which as submitted and admitted by the AAI is not according to the Airport Guidelines that have been passed by the Authority to be followed by every Airport Operator at the time of determining and fixing tariff for airports. Any such deviation by the Authority from Guidelines that have been laid down by it will render such decision to be an arbitrary and illegal one, with no basis and reasoning. | |
| | PARA 6 – TRAFFIC FORECAST | |
| 1.29 | The AAI in its proposal for an increase in the aeronautical and non-aeronautical tariff at the CIA has relied upon and referred to the historical figures of the CIA to arrive at a forecast of the traffic during the first control period. | Yes, AAI has taken traffic forecast for CIA based on the Analysis of historical traffic trend. Besides, the traffic trend AAI has also undertaken regression/ econometric modelling also GDP as predictor variable. The traffic elasticity of GDP has been taken between 2.0 to 2.5. Also the traffic forecast of other international organisations has been considered while finalising AAI forecast. It is pertinent to mention that the present global slowdown will have adverse effect on the projected traffic growth. |
| 1.30 | There has been no study or report submitted by the AAI that has been conducted by an expert body for arriving at the figures for the traffic forecast at the CIA. The Authority ought to direct the AAI to submit a study or report supporting the traffic forecast or by virtue of its statutory powers under Section 14 of the Act, by which the Authority is empowered <i>'to call upon any service provider at any time to furnish in writing such information or explanation relating to its functions as the</i> | AAI has a specialised directorate (CP&MS) to analyse the historical traffic data and make traffic forecast for Indian airports. The directorate of CPMS has been publishing traffic statistics for Indian airports since inception of AAI and is equipped with professionally qualified professionals with long experience in the field and therefore AAI do not feel the necessity of getting traffic forecast prepared from |

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| | <i>Authority may require to access for the performance of the service provider'. In the absence of such report or study being submitted by the AAI, the Authority may direct an independent study or report to be prepared in order to consider the figures for the traffic forecast for determination of aeronautical tariff.</i> | an outside expert. |
| | PARA 7 – NON-AERONAUTICAL REVENUE | |
| 1.31 | The revenue projected by the AAI from non-aeronautical services do not reflect the true potential for an airport of international standards, especially when taking into consideration the other major airports in South India. | It is appropriate to project the revenue from Non-Aeronautical services at Chennai Airport based on the ground realities, commercial facility available, market potential etc., at Chennai Airport rather than considering revenue potential at other places. |
| 1.32 | The Bengaluru International Airport Limited and Hyderabad International Airport Limited have invested in the development and expansion of their non-aeronautical services, which include restaurants, retail stores, duty free, car-parking, ticketing, etc. However, the non-aeronautical revenue projections made by the AAI, as evidenced in Table 8 of the CP, appears to be extremely conservative and inaccurate. There appears to be no justification for the hike in aeronautical tariffs, when there is hardly any expansion of facilities to optimise non-aero revenues. | The Revenue from Non-Aeronautical services at Chennai Airport has been projected based on past experience, traffic trend, facility created and market potential etc. at Chennai Airport and accordingly the MYTP proposal has been formulated and submitted to AERA as per its guidelines. |
| 1.33 | The AAI has also not made any effort to allot the spaces reserved for non-aeronautical services to permanent concessionaires and have commenced operations of the same with temporary/make shift vendors, which has also been pointed out by the AOC to the MoCAvideits letter dated 7th September, 2012, annexed hereto. The absence of permanent concessionaires being allotted the various spaces for non-aeronautical services in the NTB has resulted in significant reduction in non-aero revenues, which could have been avoided with some foresight and planning. | AAI allot the spaces to the concessionaries after taking in to consideration various aspects like availability, operational requirements, allotment policy etc. The revenue from non-aeronautical revenue has been projected keeping in the above aspects in addition to market potential, traffic trend etc.at Chennai Airport. |
| 1.34 | As per the aforesaid provisions, the Authority also has the power to determine the tariff, in public interest, during the five years of the control period. Accordingly, the Authority ought to exercise its statutory powers and direct that the present non-aeronautical tariff projections made by AAI shall apply only during the year 2012-13 of the first control period, after which the non-aeronautical revenue potential shall be determined on actuals based on the actual revenues generated during 2012-13. | AERA has already proposed to true up the Non-Aeronautical Revenue based on the actual non-aeronautical revenue at CIA while determining the tariffs for the next control period [Truing Up: 4. Corrections/Truing up for Tentative Decision No.6 page 21 of CP]. |
| 1.35 | The Ground Handling services at the CIA have been concessioned out to 2 Ground Handling agencies by the AAI. However, as per the Ground Handling Policy a | AAI is not the Ground Handling Service provider at Chennai Airport. |

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| | minimum of 3 operators are to be appointed for the Ground Handling services at the CIA. The failure to provide a competitive environment has not helped the airlines in negotiating favourable rates with ground handling companies, but has only helped the AAI in collecting huge amounts of money as royalty. | The Royalty receivable from the Ground Handling Agency as per the agreement entered with them has been considered as Non-Aeronautical Revenue in the MYTP proposal submitted by AAI with AERA, which is in accordance with the AERA guidelines. |
| | PARA 7.8 – FUEL THROUGHPUT FEE | |
| 1.36 | As per the Order No. 07/2010-11 passed by the Authority on 4th November, 2010, it was stated that in the event access fees such as throughput fees are kept at a higher level, the airlines would bear the higher fuel throughput charges but the impact of the same is likely to be neutralised/mitigated through lower airport charges since the accruals from the higher fees would be considered towards the passenger yield cap calculation. In this background, the Authority tentatively agreed to respect the contractual agreements between the airport operators and the oil companies as it felt that there was no definite formula through which such charges could be determined and at the same time it was conscious that such revenues are taken as a part of the passenger yield cap. The propensity of the airport operators to charge throughput charges at exploitative rates was expected to be curbed in as much as the same would lead to lowering of airport charges and the impact on the airlines/passengers is likely to be neutralised/mitigated. | Statement of fact. |
| 1.37 | Although the Order passed by the Authority states that a high fuel throughput charge would be offset by keeping the airport charges at a nominal rate that does not appear to be the case. AAI has proceeded to propose a significant increase in aeronautical tariff for the CIA, thereby negating the calculations of the Authority as discussed above. | AAI formulated the proposal of MYTP after taking in to consideration various aspects, including capital investment made , revenue from non-aeronautical services, traffic growth both Aircrafts, passenger, cargo etc. and is as per the Guidelines issued by AERA on the subject. It is further clarified that the tariff increase sought by AAI in the present proposal is after taking in to consideration the likely revenue generated from the fuel throughput charges. |
| 1.38 | Various airlines and their representative bodies had opposed this proposal of fuel throughput charges on the following grounds: i) The throughput charges are not related to any cost; ii) The fuel suppliers pay a rental for the use of the land at the airport, which forms part of their overall costs. The throughput charge is, therefore, a duplicate charge; iii) The oil companies treat the throughput charges as a pass through rather than it forming a part of the commercially negotiated fuel prices. Therefore, the oil companies have little incentive to negotiate the level of this charge. | The throughput charges at Chennai Airport, is based on the outcome of an open bidding process and as per the rates quoted by the Oil Companies. |

| 1.39 | <p>The Authority had approved the proposal of the AAI for the fuel throughput charges on an ad-hoc basis, <i>vide</i> the aforesaid Order dated 4th November, 2010, despite agreeing with the contention raised by the airlines regarding the applicability of the contractual agreement between the airport operator and the oil companies. The airlines pointed out that the agreements were entered into between two parties who did not even bear the financial burden thereof. The oil companies, who were paying the charges, pass the same on to the airlines and the airport operator is the net gainer. However, the Authority while on one hand agreed with the issue raised by the airlines, on the other proceeded to approve the proposal on an ad-hoc basis.</p> | <p>In case the ad-hoc increase in fuel throughput charges was not considered by the AERA in the year 2010, the impact of tariff increase would have been higher now.</p> | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|-------|--|--|---|---------------------|---|---------------------|---|----|---------|-----|---------|---|---------|----|---------|-----|---------|---|---------|----|------------|-----|--------|---|--------|----|-----------|-----|--------|---|--------|----|---------|-----|--------|---|--------|----|----------|-----|--------|---|--------|----|--------|-----|--------|---|--------|----|--------------|------|-----|---|--------|---|
| 1.40 | <p>The table below indicates the fuel throughput charges at various airports, which were approved by the Authority with effect from 1st April, 2010, <i>vide</i> Order No. 07/2010-11 passed by the Authority on 4th November, 2010. From a perusal of the fuel throughput charges at various airports, it is evident that the charges at the CIA are the highest in the country. The charges at the CIA are in fact over 10 times the rates being charged at other airports in the country, though the price of fuel is more or less the same across the country.</p> <table><tr><th>SL NO</th><th>AIRPORT</th><th>APT. OPTR.</th><th>PRE-REVISED FUEL THROUGHPUT CHARGES (Rs/KL)</th><th>% INCREASE APPROVED</th><th>APPROVED FUEL THROUGHPUT CHARGES (Rs./KL)</th></tr><tr><td>1.</td><td>Chennai</td><td>AAI</td><td>1390.31</td><td>5</td><td>1459.83</td></tr><tr><td>2.</td><td>Kolkata</td><td>AAI</td><td>1158.78</td><td>5</td><td>1216.72</td></tr><tr><td>3.</td><td>Trivandrum</td><td>AAI</td><td>133.15</td><td>5</td><td>139.80</td></tr><tr><td>4.</td><td>Ahmedabad</td><td>AAI</td><td>106.75</td><td>5</td><td>112.10</td></tr><tr><td>5.</td><td>Calicut</td><td>AAI</td><td>106.75</td><td>5</td><td>112.10</td></tr><tr><td>6.</td><td>Guwahati</td><td>AAI</td><td>106.75</td><td>5</td><td>112.10</td></tr><tr><td>7.</td><td>Jaipur</td><td>AAI</td><td>106.75</td><td>5</td><td>112.10</td></tr><tr><td>8.</td><td>CSIA, Mumbai</td><td>MIAL</td><td>535</td><td>5</td><td>561.75</td></tr></table> | SL NO | AIRPORT | APT. OPTR. | PRE-REVISED FUEL THROUGHPUT CHARGES (Rs/KL) | % INCREASE APPROVED | APPROVED FUEL THROUGHPUT CHARGES (Rs./KL) | 1. | Chennai | AAI | 1390.31 | 5 | 1459.83 | 2. | Kolkata | AAI | 1158.78 | 5 | 1216.72 | 3. | Trivandrum | AAI | 133.15 | 5 | 139.80 | 4. | Ahmedabad | AAI | 106.75 | 5 | 112.10 | 5. | Calicut | AAI | 106.75 | 5 | 112.10 | 6. | Guwahati | AAI | 106.75 | 5 | 112.10 | 7. | Jaipur | AAI | 106.75 | 5 | 112.10 | 8. | CSIA, Mumbai | MIAL | 535 | 5 | 561.75 | <p>The fuel throughput charges for Chennai airport are based on the outcome of open bidding process as per the rates quoted by the Oil companies.</p> |
| SL NO | AIRPORT | APT. OPTR. | PRE-REVISED FUEL THROUGHPUT CHARGES (Rs/KL) | % INCREASE APPROVED | APPROVED FUEL THROUGHPUT CHARGES (Rs./KL) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1. | Chennai | AAI | 1390.31 | 5 | 1459.83 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2. | Kolkata | AAI | 1158.78 | 5 | 1216.72 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 3. | Trivandrum | AAI | 133.15 | 5 | 139.80 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 4. | Ahmedabad | AAI | 106.75 | 5 | 112.10 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 5. | Calicut | AAI | 106.75 | 5 | 112.10 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 6. | Guwahati | AAI | 106.75 | 5 | 112.10 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 7. | Jaipur | AAI | 106.75 | 5 | 112.10 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 8. | CSIA, Mumbai | MIAL | 535 | 5 | 561.75 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

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| | 9. | IGIA, Delhi | DIAL | 535 | 5 | 561.75 | |
| | 10. | Cochin | CIAL | 70 | 20 | 84 | |
| 1.41 | An annual increase of 5% in the fuel throughput charges would be an arbitrary one, as such increase has to be ultimately paid out of the accounts of the airlines who are not even parties to such agreements between the Airport Operators and oil companies. Therefore, the Authority ought not to approve the proposal made by the AAI for a hike in the rates of the fuel throughput charges at the CIA. | | | | | | As per para 1.40. |
| | PARA 8.2.1 – STAFF COST | | | | | | |
| 1.42 | The AAI has assumed an annual increase of 7% in pay and allowances of its staff at the CIA during the first Control Period. The staff cost includes dearness allowance, house rental allowance and other perks and staff welfare funds. The AAI has also stated that there would be no increase in the strength and number of the staff though there would be an annual increase of 7% in their pay and allowance, which the Authority proposes to consider for the purposes of aeronautical revenue. | | | | | | The nominal increase in staff cost by 7% is reasonable considering that it includes increase on account of annual increments, increase in dearness allowance, and increase in HRA & other perks due to increments. At present, no increase in staff strength is considered in workings for MYTP. |
| 1.43 | There has been an increase proposed in the pay and allowances of the staff at CIA but there has been no justification or reasoning given for the necessity and requirement of such a large number of staff strength at the CIA. The Authority should have carried out an appropriate benchmarking exercise through experts to determine whether the staff strength of AAI at CIA is in excess of requirements, and consequently, whether the redundant staff cost should be borne by the airlines and the general public. | | | | | | The staff strength at CIA has been as per the level of operations and commensurate with the size of airport. |
| | PARA 8.2.2 – REPAIRS AND MAINTENANCE | | | | | | |
| 1.44 | The AAI has also proposed an increase of 51% in repairs and maintenance at the CIA for the financial year 2011-12 due to the shifting of operation to the NTB. The AAI also submits that the repair and maintenance expenses will be expected to increase by 110% due to the commissioning of the NTB and that an annual increase of 10% is expected from the financial year 2013-14 for the same. There has been no basis or reasoning neither provided by the AAI for the increase of 110% for repairs and maintenance during the financial year 2012-13 nor has there been any explanation given for the annual increase of 10% to be paid by passengers and airlines. | | | | | | The Repairs & Maintenance expenditure has been projected after taking into consideration of various aspects in the new terminal building like area to be maintained, equipment installed etc. However, the projection of AAI will be subject to true up in the next control period as already mentioned by AERA in the present consultation paper. |

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| 2 | SriLankan Airlines. | |
| | <p>We have observed that the said Proposal proposes a significant increase in the rates charged for, inter alia, aircraft parking, aircraft landing and fuel throughput for aircraft. The proposed rates are in addition to the proposed service tax of 12.36% and those charges will be subject to an annual increase of 6% of the current rate. Accordingly, we understand that the proposed rate will in effect amount to an increase of the current rates by approximately 133%.</p> <p>Sri Lankan Airlines, as the foreign carrier having the highest frequency of aircraft operations at the Airport, currently operates 28 flights per week from Colombo to Chennai and plans are afoot to deploy aircraft with higher capacity in the near future to facilitate travelling between Chennai and Colombo. As you are well aware, our operations between Chennai and Colombo have remarkably contributed to the growth of trade relationships between South India and Sri Lanka since our services between Colombo and Chennai are mostly patronized by businessman.</p> <p>The proposed increase in rates will in turn increase our direct operational costs of operation between Colombo and Chennai by approximately 80% within a very short span of time which appears to be disproportionate and unreasonable. Owing to this implication, we are concerned that in the event of implementation of the proposed rates, SriLankan Airlines will definitely be required to reconsider its frequency of current operations between Colombo and Chennai seriously with a view to adjusting it in order to ensure our business viability in the current market conditions. We are also concerned of the impact of proposed rates on our short term and mid-term growth plans to increase passenger travelling between Colombo and Chennai as the proposed increase in rates appear to be extremely exorbitant and unreasonable.</p> <p>As an international airline which has been patronizing the Airport for more than three decades, we are of the view that the proposed increase will not benefit the Airport in the long term as the proposed increase could diminish its competitiveness because the rates charged at other regional airports for similar services are lesser and more reasonable than the proposed rates.</p> <p>We firmly believe that our continued operations between Chennai and Colombo have immensely contributed to the impressive growth of trade and commerce</p> | <p>The MYTP and ATP for Chennai airport has been finalised as per AERA Guidelines for Tariff determination for aeronautical services taking into account investment made at Chennai airport, Projected traffic growth, revenue & expenses etc. The tariff proposed is reasonable. Proposed Tariff will enable AAI to invest further at Chennai airport for creation of better facilities for airlines and passengers.</p> |

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| | <p>between the two countries in the recent years. We also believe that we have contributed to the development of the Airport to achieve its status which it enjoys today. Against this background, we are disturbed to understand the proposed escalation in rates which could impede our efforts to improve bilateral relationship between India and Sri Lanka through by providing extensive connectivity between the countries.</p> <p>In these circumstances, we earnestly request you to maintain the same rates during the next three years or propose a reasonable increase in rates such as 20 % of the current rate which will help airlines to maintain its viability in the business.</p> | |
| 3 | Cathay Pacific Airways | |
| 3.1 | <p>COMMENTS ON THE PROPOSAL IN GENERAL</p> <p>It is our view that the time allowed for parties who are interested in the subject to provide inputs to the Consultation Paper is inadequate. The Consultation Paper was published on 23 August 2012 allowing responses to be submitted latest by 13 September 2012. At the request of airlines, the deadline was later extended to 28 September 2012, thereby giving slightly more than four weeks for interested parties to provide a response. Given the complexity of the issue; the amount of documents that need to be perused; the need to meet with the Authority concerned to understand the issue; and the need to seek opinions from advisors on the subject, the allowed time is grossly insufficient. In other countries where similar consultation process is conducted, a period of at least three months would be given and the process would start six to eight months in advance. In this respect, it would appear that the whole consultation exercise is not meaningful at all since in-depth analysis of the proposals cannot be conducted within the short time-frame. In any case, we are providing our comments to the Consultation Paper to meet the deadline in good faith and it is probable that supplements may be provided when we have the time to more thoroughly review the issues within our organisation.</p> <p>It is noted that the aeronautical charges, be it User Development Fee and Landing Charge, are vastly different for domestic carriers and international carriers. We understand these charges are the same for the same group of users. However, in</p> | <p>While appreciating the concern of stakeholder, it is pertinent to mention that one & half year of current control period has already elapsed, any further delay in finalisation of tariff determination will ultimately impact the tariff rates.</p> |

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| | <p>accordance with the principle of non-discriminatory application of charges, these charges and in particular the Landing Charge should be the same for both domestic and international carriers. Charges for using such services and facilities should be worked out on basis of the efforts related to their usage, not on basis of domestic or international operation, or stage length of the flights as it bears no correlation at all.</p> | <p>The facilities extended to domestic and international passengers are not the same. Further, charging different rates for domestic and international carriers is prevalent at many foreign airports also.</p> |
| 3.2 | <p>COMMENTS ON IMPACT OF THE PROPOSED TARIFF ADJUSTMENT</p> <p>The proposed increase in Aeronautical Tariff put forward by CIA is astoundingly exorbitant. It is a very drastic increase of 118% in international landing charges and 83% in parking & housing charges. This will inevitably cause a very huge financial impact to the airlines. It is apparent that charge increase at such a drastic level will only serve to further dampen demand, compel airlines to review the commercial viability of the route, or choose other airports as transit stops. Airports play a very critical role in the economy of India. If there were further reduction of services and traffic, the consequence would be a move backward in the public good role of the airport thus affecting the economic development of India, lowering regional prosperity to the benefit of competing airports and cities.</p> | <p>The increase of 118% in international landing charges and 83% increase in parking & housing charges have been proposed considering the fresh investments made in up-gradation/modernisation of Passenger terminals and other airport infrastructure etc., which will help AAI in providing better facilities to passengers and airlines.</p> |
| 3.3 | <p>COMMENTS ON SPECIFIC POINTS ABOUT THE CARGO FACILITY SERVICES AT CIA</p> <p>The tentative decision to approve AAI's proposal to continue levying the existing rates for the various cargo facility services during the remaining period of first control period is inappropriate. Cargo Facility is part of the airport operations and therefore the tariff should be determined altogether as a whole. The broad understanding between AAI and Trade Bodies on the tariff for cargo services that were fixed in consultation with the Trade over annual escalation of 5% in cargo rates should be revisited in conjunction with this MYTP, rather than taking the "light touch approach" as suggested for the first control period. Otherwise, there will be an issue that the proposed tariff for airport services is subsidizing the cargo services. The original value of fixed assets, accumulated depreciation, accumulated capital grants, subsidies or user contribution which are the components for computing the Regulatory asset base, those depreciation cost and other</p> | <p>AAI had submitted a separate proposal for Cargo services as per AERA's Cargo Facility, Ground handling and supply of Fuel to Aircraft Guidelines dated 10th January, 2011 (CGF Guidelines).</p> <p>As per CGF Guidelines, Cargo services provided by AAI at Chennai airport for the first control period meets the criteria for services to be assessed as "Material but competitive", hence tariff for cargo services is considered under "Light Touch Approach" by AERA.</p> <p>It is not correct to infer that entire burden of tariff increase is apportioned to passenger airlines. The increase in landing and parking</p> |

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| | investments are to a certain extent also of being used by the freight operations, hence the calculation of the tariff should include the cargo facilities and operations into the whole picture. All those costs towards the modernization of CIA are on the high side during the first control period, and with the high Aggregated Revenue Requirement proposed by AAI, it is unfair to have this burden to be solely borne out by the airport users only. It is in our view that these costs should also be shared among all the facilities' users, including freight operations. With the significant traffic growth of 10.48% and 13.65% for domestic and international respectively in freight, the cargo volumes would have a great impact to the overall computation of the annual tariff aeronautical charges. | charges is also applicable to Cargo Freight Operators. Considering the existing trend and projected growth for cargo, It has been decided not to increase tariff for Terminal, Storage & Processing Charges (TSP) & Demurrage Charges for Export & Import Cargo. |
| 3.4 | COMMENTS ON THE EXAMINATION OF THE PROJECT COST The details of the project costs were not included in the consultation paper, though the costs were categorized as Civil works, Electrical...etc, the level of details is insufficient. This makes the justification difficult as no detail background to consider if those costs involved are entitled to be included in the airport project. The project cost is approved by the Ministry of Civil Aviation of India, however, there is no prior detailed and public discussion or consultation among the airport users, who eventually are the stakeholders that need to bear the costs. | The details of project cost was given in annexure-III of consultation paper and asset-wise & year-wise breakup of project cost was available in form F10(a) of MYTP available as annexure-II. |
| 3.5 | COMMENTS ON THE PERIOD TO TRUE UP/CORRECTION OF VARIOUS COSTS AND REVENUE The Authority proposed to true up the actual costs or revenue while determining tariffs for the next control period, however, in other international airports in USA, these should be done at the end of each year. In order to have a clearer picture of the cost and revenue involved in the project and to be fair to the facilities users, yearly reconciliation of all costs and revenues should be considered. | It may be noted that present MYTP pertain to 1 st Control Period (20011-12 to 2015-16) and one & half years of present control period has already elapsed. AERA has taken a tentative decision regarding Error Correction and Annual Compliance Statement (Tentative Decision no. 12), wherein AERA has proposed that CIA should submit the Annual Compliance Statements for the individual tariff years of the first control period along with the MYTP for the next control period. |
| 3.6 | COMMENTS ON THE OPERATION AND MAINTENANCE EXPENDITURE The basis to determine the annual increase in Staff Cost, Repairs and Maintenance, Utility and Outsourcing Expenditure, Administrative and General Expenditure is not mentioned and disclosed in the consultation paper, this makes the justification difficult. With the lack of transparency of these operation and maintenance expenditures, it is hard for the airlines to comment whether the proposed % is justified or not. | Key assumptions for Revenue, Expenses and traffic growth etc. were given in the annexure-II of Consultation paper. |

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| 3.7 | <p>COMMENTS ON SPECIFIC POINTS ABOUT THE FAIR RATE OF RETURN ON CAPITAL (FROR)</p> <p>The calculation and justification of one of the factors in determining the FROR, the asset beta, is determined by using the sample airports suggested in the paper of KPMG. There are no specifications of the selection criteria of these “comparable airports” to be chosen. The median value (0.92) of asset beta for these selected airports to be used as the estimation of the asset beta for AAI airports is questionable. Furthermore, given the fact that it was mentioned in the paper the average asset beta for Chennai airport can be taken at 0.61 (on the basis of the comparator set used by National Institute of Public Finance and Policy (NIPFP)), without taking into account any risk mitigating factors, we do not understand the reason and rationale behind on the calculation why 0.92 was proposed to be used instead. For the calculation of the Cost of Equity (Re), one of the components being used is the expected rate of return on the market portfolio (Rm). The market rate of return (Rm) has been calculated using the BSE Sensex, which is a free-float market capitalization-weighted stock market index of 30 well established and financially sound companies listed on Bombay Stock Exchange (BSE). The 30 component companies which are some of the largest and most actively traded stocks, are representative of various industrial sectors of the Indian economy. However, given AAI as the government solely owned company, the expected return should not be the same as the private sector. Hence, by using market return indicator of BSE Sensex for the benchmark of the expected rate of return is inappropriate and obviously on the high side. In addition, it is mentioned in the consultation paper that there are still uncertainties in estimation of the different parameters which are used to determine the FROR and as a result suggest accepting FROR of 15% for this control period as suggested by AAI to provide for sufficiently generous allowance for such uncertainty in estimation. However, our view is that it is inappropriate to give allowance for the uncertainties of FROR as this will greatly affect the end result of the annual tariff proposal. It is also noted that the debt to equity ratio of AAI is at the level of 9.6% which is comparatively very low to a healthy company. It is mentioned in the Delhi Tariff Order that the proportion of debt of around 60% in the capital structure could be regarded as an efficient means of finance. The high FROR is basically due to the fact that the</p> | <p>Beta is a measure of systematic risk. Systematic risks capture the business risks of the company vis-a-vis other securities listed on the stock exchange.</p> <p>Since there is no listed airport operator in India, M/s KPMG had considered Betas of listed airport operators in the emerging markets as a proxy for the systematic risk of AAI.</p> <p>In view of above, the methodology adopted by the KPMG for estimating asset beta for AAI is appropriate.</p> <p>Airport Operations is highly capital-intensive and high risk sector, which is also exposed to financial and systematic risks. Considering the above, it is appropriate the estimate market rate of return (Rm) based on the market return indicator of BSE Sensex.</p> <p>Higher proportion of debt in the capital structure may be appropriate in case of new companies formed for the purpose of undertaking the new projects. This is not the case in case of AAI, which is already in existence and managing the airports and generating the internal resources from the airport operations. As such AAI opted to finance the project mainly from internal resources. Further, in case of higher debt also, there would be outflow on account of servicing the debt.</p> |
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| | majority of the financing comes from equity instead of debt, whereas the cost of equity is 7.61 percentage points higher than the cost of debt. It is very obvious that there should be a need to re-adjust a reasonable balance on the proportion of debt vs equity in the Response of Cathay Pacific airways Limited to the Consultation paper No. 6/2012-13 published by the Airports Economic Regulatory Authority of India on Multi Year Tariff Proposal and Annual Tariff Proposals in respect of Chennai International Airport, Chennai for the first Control Period (2011-12 to 2015-16) financing structure of AAI, especially given the current low interest-rate environment. The airport users should not be penalized or paid for the inefficient financing structure of AAI. We strongly object to the proposed FROR in the consultation paper. | |
| 3.8 | COMMENTS ON EFFECTIVE DATE OF NEW TARIFF The new tariff of this MYTP should only be effective from the date when the new facilities and terminals are available to be used by the airport users. It is inappropriate and unfair to the airport users in advance paying for the high tariff while they are still using the old facilities. | The work of up-gradation/ modernisation of passenger terminals & other facilities are complete and new facilities are likely to be commissioned shortly. |
| 4 | Lufthansa Cargo | |
| 4.1 | 1) On Cargo side, we had a regular increase on cargo handling rates including unitisation, import destuffing, demurrage and others every year except one in last more than 15 years. Fyi, average increase in last 10 years has been 66%. | AAI has fixed the Cargo rates in the past, before formation of AERA, by following proper consultation and negotiation with Trade. |
| 4.2 | 2) On office rental side also we always had an increase b/n 7.5 - 10% every year. Average rental increase in last 9 years has been to the tune of 78%. | The annual escalation in office rental space is as per the policy of AAI. |
| 4.3 | 3) As far as infrastructure is concerned, we have seen three cargo bay in last 15 years without any change in number. In spite of very good growth of cargo flights ex MAA. In terms of tonnage growth, we have seen the record increase from 82028 tons in 2001-02 to 295497 tons in 2010-11 as per the data provided by AAI. It means increase in tons and revenue of more than 360% in 10 years on a/c of growth itself. | AAI is undertaking augmentation of Cargo handling facilities at Chennai Airport where an additional area of 37,280 sqmts is being provided. State of the art automatic baggage storage and retrieval facilities are being provided with 8020 bins. To cater for additional Aircraft parking bays, AAI has already constructed 10 wide bodied Aircraft parking bays across the runway which are being used for parking of cargo aircraft also. |
| 4.4 | 4) Most of the cargo carriers are operating "Transit Flights" to serve our customers and to have faster movement of cargo. As reduction in dwell time is the main focus of all the stakeholders including Govt. of India and such an increase of 118% | The facilities utilised by freighter aircrafts and passenger aircrafts are the same, therefore same landing charges are applied to both category of aircrafts. |

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| | + S.T. = 133% will have adverse affect on growth of cargo development at MAA. On one hand we are trying to develop a cargo HUB in India and such an increase can be seen as road blocker for HUB concept. We therefore feel that looking at regular increase in cargo handling rate, rental and on top increase in tonnage at MAA which gives additional revenue to create infrastructure, increase of landing fee should be exempted for cargo flights. | |
| 5 | AIR PASSENGERS ASSOCIATION OF INDIA | |
| 5.1 | (1) AAI is a Govt. owned entity and funded by tax payers money in addition to profits generated by various Airports. Its sole objective must be to improve facilities at all the Airports in line with the economic growth of the nation and the passenger traffic. | AAI is funding its infrastructure projects from its own resources without any Govt. grants, except for Govt. sponsored schemes. |
| 5.2 | (2) The original CAPEX of the modernization of Chennai International Airport (CIA) was Rs.1,850 crores. Escalation in cost is entirely due to the delay in completion of the Project and also frequent changes in designs made by them. This goes to show improper planning and lack of perfection by the officials of AAI and no-one should pay for such issues. | Change of cost of estimate was required to be updated based on the actual detailed estimate and awarded costs. This cost includes the In-line x-ray baggage, second feeder connection from TNEB, works essentially required to upgrade and complete the project. Escalation payable is as per the contract agreement clause in line with provisions of the Government contract and is directly linked to all india wholesale price index published by Economic Advisor to the Government of India. Escalation payable is only for the justified time period only. |
| 5.3 | (3) For all tariff fixation purposes, only the original capital cost of Rs.1,850 crores is to be taken and certainly not the CAPEX of Rs.2,862.71 crores indicated by AAI including of re-carpeting of main runway and cargo facilities up-gradation. While re-carpeting is a routine maintenance expenditure, for creating additional cargo facilities, CIA can earn from the growth in cargo handled by them. | The capex of Rs 2862.71 crores for the control period comprises of cost of mega project works, including terminal building, extension of runway, bridge over Adyar river etc. amounting to Rs 2015 crores approved by Ministry of Civil Aviation and balance amount Rs 847.71 crs is towards other capital works, including cargo works, parallel taxi track for main runway etc. Since the capex has been approved by the competent authorities, the same has been included in RAB for the control period. Moreover, Capex considered for the control period is subject to error correction mechanism. As per AERA guidelines all the investments during the control period are to be considered. |
| 5.4 | (4) The total capacity of CIA will be 23 million passengers per annum on completion of the new terminal buildings. This is almost 100% more than the throughput in the year 2011 – 12. | Annual handling capacities are determined keeping in view service time and dwell time as per actuals and trends in traffic growth over a particular period. This is as per the standard laid down formula. |

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| | | Since, the existing terminals have already saturated in 2007-08 and in order to bridge the gap between the available and demand capacity and to cater to the rising traffic growth, expansion of both International and Domestic Terminals. been planned and completed to cater the projected traffic growth up to the year 2017 and year 2021 respectively. |
| 5.5 | (5) It is sad to state that the CIA has not held even one meeting of the Airport Advisory Committee/ Airport Users Consultative Committee over the last 6 years except for one meeting in April 2012. It is most crucial that the CIA should have held periodical meetings when a major renovation is going on in the airport with all the stakeholders. | <p>It is intimated that the Airport Advisory Committee meetings could not be organized for some time due to the following genuine reasons:</p> <p>a) In 2008, AAI had requested Chairman of the Airport Advisory Committee(AAC) for a convenient date to convene the meeting, vide office D.O. letter No. AAM/APD/ REC/007/2008 dated 25.08.2008. Subsequent persuasions could also not yield any result due to his prior engagements, commitments and State & General Elections. In fact, the same was explained to Chairman AAC while getting his nod for chairing the AAC meeting on 23.04.2012, vide this office letter No. AAM/GM(O)/AAC /12/ 328dated 29.02.2012.</p> <p>b) The same was also explained to the President & Founder of M/s. Air Passengers Association of India while seeking his confirmation for a meeting on 24th or 25th March, 2011, vide this office D.O. letter No. AAM/GM(O)/OPS/11/748 dated 14.03.2011, but the meeting could not take place as there was no response from Chairman AOC.</p> <p>c) May kindly note frequent meetings were conducted periodically with all concerned stake holders such as Airlines, Customs & Immigration and the issues were sorted out locally during period of project execution.</p> <p>It is assured that Airport Advisory Committee meeting would be conducted regularly with the permission of the Chairman, AAC. It was never the intention of AAI to avoid or bypass important bodies like</p> |

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| | | AAC, PAI who are our esteemed customers. |
| 5.6 | (6) Traffic growth patterns can change dramatically once Regional Airlines start operating in the Southern Region. These Airlines are likely to start their operations before 1st April 2013. In addition to this, if the rates are competitive, there are several international Airlines & Cargo Airlines likely to operate through CIA. The growth projections @ 9% are conservative as ICOA's projections for Indian Civil Aviation is over 12% for domestic and 15% for International. The CIA's projection of non-aeronautical revenue is very conservative, considering what is being achieved by other major Airports in the country. This is one area where CIA can concentrate and earn much more by offering high quality facilities with perfect air conditioning and modern technology. We are convinced that when compared to tariff year 2011 – 12 revenue from non-aeronautical sources at CIA can more than double in the tariff year 2013 – 14 and it will be because of the expanded area and the facilities. This will further increase, after the entire available space which is 3 times more than the existing terminal buildings, the revenue will increase from the tariff year 2014 – 15. | <p>In order to have balance view regarding projections for traffic growth, AERA has considered the traffic growth for determination of tariff for aeronautical services based average rate of past CAGR for 10 years and Growth rates projected by AAI.</p> <p>The projections for non-aeronautical revenue have been worked out considering the various aspects like past trend, expected revenue generation from the new facilities created etc. Moreover, non-aeronautical revenue projected for the current control period is subject to truing up in the subsequent control period based on actuals.</p> |
| 5.7 | (7) The car parking revenue is not commensurate with the projected growth in passenger traffic. Similarly the advertisement space that can be sold at various places inside and outside of the Airport including aero bridges, etc. will be substantially more than what is indicated. | As per para 5.6. |
| 5.8 | (8) There is a tremendous scope to increase revenue from ground handling services, if services are of international standard and are transparent and comfortable. | All relevant factors have been taken into consideration while projecting non-aeronautical revenue in the MYTP. |
| 5.9 | (9) AAI should put an end to further recruiting of staff at CIA for handling the expanded facilities. They must outsource the same at competitive rates through various Agencies involved in such activities / services. | At present, AAI has not projected any additional staff for the expanded facilities. |
| 5.10 | (10) AAI must make an all out effort to utilize the vacant space available within the land area allotted to them by the Govt. of Tamilnadu at a very low or NIL cost for commercial purposes – for example, having a KalyanaMandapam (Wedding Hall) is an absolute luxury when there are so many them available within a close distance and this space can be rebuilt and offered to various Agencies like Airlines, Service Providers, Cargo handlers, etc. at a commercial rent and increase their revenue | Provision of Kalyana Mandapam has been provided at Staff colony as part of Staff Welfare measures. |

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| | from non-aeronautical area. | |
| 5.11 | (11) The fair rate of return of 15% is very much on the higher side, as the equity is provided by Govt. of India and only a very small portion of the capital; cost is borrowed. The Govt of India gets an average return of not more than 10% in any of the undertakings. The recommendation of SBI Capital Markets Ltd. is not based on transparency and fundamentals but is based on the influence exerted on them by the Private Operators and hence cannot be considered at all. | <p>The Fair Rate of Return(FRoR) has been worked out as per AERA's formula for computation of FRoR.</p> <p>The airport sector is regulated by independent economic regulator, all major airport operators, including AAI are governed by same regulatory framework. It is important that irrespective of ownership of airport operators, there should be level playing field.</p> <p>SBI Capital Markets Ltd. Has conducted study on Fair rate of return for Indian airport operators at the behest of Ministry of Civil Aviation.</p> |
| 5.22 | (12) We strongly believe that the entire exercise requires to be revisited to arrive at the revision in tariffs for the first control period. Even it is going to be delayed by another 6 months, it is absolutely necessary to do so based on all the inputs received from organizations like ours and others. Whether President or Prime Minister is coming down to inaugurate the Airport is completely immaterial. It does not bear any relevance to fixation of tariff and the fixation of tariff should be based on full utilization of the newly built space which is expected to be modern and as per time tested methods of approach for increasing revenue from non-aeronautical business. | <p>The tariff determination process for Chennai airport was initiated in August'2011 with the filing of MYTP. Since then no of meetings, discussions have taken place with the AERA. Based on the discussions & review by AERA, the revised MYTP for Chennai airport was submitted in March, 2012, followed by submission of ATPs for FY 2012-13 up to 2015-16. AERA has given ample opportunity to all the stakeholders to air their views on Consultation Paper on Chennai MYTP. The outcome of Tariff determination process is not linked to likely inauguration of new terminal by Hon'ble Prime Minister.</p> |
| 5.13 | (13) The UDF must be the same for both domestic and international passengers as the facilities offered are similar in nature. There is no justification in any differentiation in UDF for domestic and international passengers. | <p>Considering the facilities provided to domestic and international passengers, it has been decided to levy different rates for domestic and international passengers.</p> |
| 5.14 | (14) The substantial increase sought by CIA for landing charges is extremely unreasonable and does not justify in any way and must be in line with international practices based on the capacity of what a passenger can pay as we are a developing economy. | <p>MYT proposal has been formulated based on the guidelines issued by AERA for determination of tariff for aeronautical services.</p> |
| 5.15 | <p>(15) We strongly object to the proposal to levy a User Development Fee w.e.f.01/01/2013. It must be postponed to 01/01/2014 for the following reasons :</p> <p>(a) The passengers have suffered over the last 4 years with the total Airport in a mess and creating complete discomfort to all the passengers.</p> <p>(b) The UDF if at all introduced should be not more than Rs.120/- for both domestic and international passengers and that too only departing passengers.</p> | <p>In any project, where there is a major modernisation work there is bound to be some disruption. Stakeholders are aware that, modernisation/up-gradation work at Chennai airport has been completed even though the construction site was very close to operational area, little discomfort in such situation is unavoidable.</p> |

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| | | UDF levy has been proposed based on the MYTP proposal formulated as per AERA Guidelines. |
| 5.16 | 16) In the case of AAI, the entire revenue that is 100% goes to them from CIA PPP Projects. The fact that they got the land at either '0' cost or very low cost from the State Govt. must be kept in mind. | The Chennai airport is operated and developed by AAI only. The land available with AAI at Chennai airport has been utilised for creation of infrastructure facility. |
| 5.17 | 17) Rapid Exit Taxiway is urgently required in the Chennai Airport, as there is a 135° turning radius after landing which results in extra time for the aircraft to turn around and also extra burning of fuel. | Rapid exit Taxiway is under construction at Chennai Airport with 60% work completed. Work is expected to be completed by Dec. 2012. |
| 6. | Bharat Petroleum Corporation Ltd. | |
| 6.1 | <p>Prospective Date of Order effecting Increase: As per Clause 7.8 of the Consultation Paper, the Authority proposes to approve 5% increase in throughput fee as per the contractual agreements with the Oil Marketing companies' w.e.f. 01.11 .2012, with further increase of 5% per annum w.e.f 01 .04.2013 and Authority proposes to approve the above proposal. However, should there be any unforeseen delay in coming out of Order beyond 18th November, 2012, we request you to make the effective date of charging Throughput Fee on prospective basis as Oil companies are recovering from airlines at adhoc rate as approved by Authority.</p> <p>The reason we have been reiterating the above in all our replies, is that, it is very difficult to recover throughput fee from Airlines from any back date. It is very difficult to recover past differential charges, not only from some Scheduled Airlines, but also from any Non-Scheduled Airlines/aircraft as the transaction is consummate after fuelling and realization of invoice value recovering adhoc approved Throughput Fee.</p> | AAI intends to implement tariff increase for fuel throughput charges as per ATP submitted to AERA. |
| 6.2 | <p>Overwhelming Market Power of AAI as Airport Operator and role of AERA: It is pertinent to note that in February 2007 when AAI came out with tender for Chennai airport. AERA Act had not been enacted and there was no regulation of Fuel Throughput Fee as Aeronautical charges. It meant that any eligible Oil Company participating in tender process for the piece of land has no compunction in quoting any throughput fee as it would be a pass-through item. BPCL had represented to AAI that such steep rise in Fuel Throughput is grossly unjustified. However, despite our protests, we were asked to match and pay the fee quoted by</p> | The Fuel Throughput Charges has been finalised based on transparent competitive bidding process and the expected revenue from FTC has been taken into consideration for determination of tariff. |

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| | <p>highest bidder.</p> <p>As per AERA Act, 2008, the authority has to now perform functions, in respect of major airports, which include determining tariff for the aeronautical services taking into consideration the parameters and factors provided in Section 13 of Act. We feel that Fuel Throughput Fee should not be increased even by 5% for the following key reasons:</p> <ul style="list-style-type: none"> • There is no rationale for charging Fuel Throughput Fees as it does not have cost basis; • Fuel Throughput Fees significantly increases the cost of fuel; and • Airport Operators had used overwhelming market power for fixation of charges. | |
| 7 | IATA | |
| 7.1 | IATA strongly objects to the use of a Consultant paid for by a vested party (AAI) to assist with AERA's deliberations pertaining to tariff determination for an AAI airport. It throws into doubt the true independence of the entire tariff determination process. | The Consultant is appointed at the instance of AERA for examining the proposal submitted by the AAI. Hence there is no conflict of interest. |
| 7.2 | AAI is the dominant provider of cargo facility services at CIA and is also the landlord of Air India's cargo services unit. Effectively, AAI has monopolistic power in this domain and has the potential to impose rate increases at will irrespective of the presence of an alternative player. IATA welcomes the proposal not to increase cargo services rates for the remainder of the first control period but would request that the 'light touch approach' be reviewed if there is evidence of AAI exerting its strong market position by increasing rates unreasonably and without proper consultation. | Air India is operating Cargo services independent of cargo services provided by AAI. In any competitive environment, it is very difficult to raise the rates without any justification keeping in view the market conditions. |
| 7.3 | The proposed solution is not ideal as it results in costs being wrongly allocated among two different groups of users (passenger airlines and freighter airlines) and is therefore in contravention of ICAO's cost-based charging policy. AAI must take immediate steps to separate costs between airport operation and cargo services to facilitate a more appropriate and equitable tariff determination process. | AAI had prepared MYTP both for Airport and Cargo services at Chennai airport as per the Guidelines issued by AERA wherein the cost and investments pertaining to airport and cargo identified and apportioned separately. |
| 7.4 | AAI's depreciation periods for the main capital spend fall well below the ranges shown in ICAO Doc 9562 – Airport Economics Manual (an extract of the relevant table is as follows): | AAI is charging depreciation as per the policy approved by AAI Board, after considering factors such as minimum useful service life of various assets based on technical assessment, which is also accepted |

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| | Examples of range of depreciation periods | | by C&AG. |
| | Building(freehold) | 20-40 years | |
| | Buildings(leasehold) | Over a period of lease | |
| | Runways & Taxiways | 15-30 years | |
| | Aircraft parking areas | 15-30 years | |
| | Furniture and fittings | 10-15 years | |
| | Motor Vehicles | 4-10 years | |
| | Electronic equipment(including telecommunications equipment) | 7-15 years | |
| | General equipment | 7-10 years | |
| | Computer equipment | 5-10 years | |
| | Computer software | 3-8 years | |
| | <p>AAI's depreciation policy is clearly a gross mismatch with the global norm for the useful life of airport assets such as terminal buildings and runways. AAI has to review its depreciation rates to be more in line with global best practices in order to avoid front-loading costs that can lead to unsustainably high airport charges. In its final order for CIA, AERA must adjust the depreciation costs for major asset items based on the depreciation periods that are in line with global norms (as in the table above).</p> | | |
| 7.5 | <p>IATA is of the view that use of CAGR in itself for forecasting traffic growth is an acceptable methodology and averaging is not necessary and unjustified. Furthermore, given that the airport's capacity will be significantly enhanced, the potential for stronger traffic growth is greater provided that airport charges are kept moderate. A lower traffic projection used for tariff determination can be self-fulfilling if the resultant higher charges puts a drag on growth. AERA should work on a realistic scenario that can stimulate traffic growth particularly since a shortfall if it happens will be trued up in the next control period.</p> | | <p>Since, there is a gap between CAGR and AAI projected traffic growth rates, in order to take balanced view, AAI had decided to consider traffic growth based on average of CAGR and AAI projected growth rates. These rates are more than the actual growth during the latest completed year (2011-12).</p> |
| 7.6 | <p>The increase in commercial areas at the new airport provides a huge upside potential for AAI to boost its non-aeronautical revenue. IATA agrees with AERA's proposal to true up the actual receipts from non-aeronautical revenue while</p> | | <p>Suggestion noted. All effort will be made to increase the share of non-aeronautical revenue.</p> |

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| | determining tariffs for the next control period. Additionally, IATA believes that AAI should be encouraged to increase the contribution of nonaeronautical revenue at Chennai. IATA supports the idea of setting the forecast of non-aeronautical revenue provided by AAI as a floor in the truing up process as this can provide the necessary impetus to AAI to strive for higher non-aeronautical revenue. | |
| 7.7 | Chennai has the highest fuel throughput fee in the whole of India by virtue of a flawed tender process in 2007 which caused the fee to increase by 21 times. There is no justification for allowing this already high concession fee which has no cost basis to automatically escalate at 5% per year because of a contractual agreement with a monopoly which the oil marketing companies had little choice but to sign. Notwithstanding the fact that revenue from fuel throughput fees would be treated as aeronautical in nature for determination tariffs, AERA should set the fundamentals right by not permitting a fee that has no cost basis to escalate automatically every year. | The Fuel Throughput Charges has been finalised based on transparent competitive bidding process and the expected revenue from Fuel Throughput Charges has been taken into consideration for determination of tariff. |
| 7.8 | In the AERA Act, ground handling services, fuel supply services and cargo services are classified as aeronautical services. On that basis and as a matter of consistency, licence fee from ground handling should be treated as aeronautical revenue in the same way that fuel throughput fee is treated. Royalty fee from cargo services, if it is present, should also be regarded as aeronautical revenue. | AAI has formulated MYTP based on Single Till Basis and by considering royalty as non-aeronautical revenue. It will not have any impact on the over-all tariff determination. |
| 7.9 | IATA disagrees with this assumption. CIA has a stable and predictable revenue stream which is appropriately financed by debt. For CIA, in the absence of proper debt/equity data, AERA must use the notional debt-equity ratio of 1.5 to protect users against unfair cost pass-through arising from the airport's own inefficiency. | AAI disagree with the IATA's contention. Normally higher debt proportion in the capital structure is desirable in case where new companies formed for the purpose of undertaking the new projects. This is not the case in case of AAI, which is already in existence and managing the airports and generating the internal resources from the airport operations. As such AAI opted to finance the project mainly from internal resources. Further, in case of higher debt also, there would be outflow on account of servicing the debt. |
| 7.10 | The current debt-equity proportion for AAI is clearly very inefficient. It is unacceptable that AAI is allowed to extend this same inefficient financing structure to future capital funding, leaving the users to bear the brunt of this inefficiency. In a competitive market which economic regulation is supposed to emulate, AAI would have been driven to attain a more efficient financing structure in a short span of time. AAI must be compelled to move quickly towards attaining such an | As per para 7.9. |

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| | efficient capital structure. AERA, as its mandate requires, must protect the users by ensuring that the higher financing cost does not get passed through. | |
| 7.11 | <p>It is unacceptable that AERA proposes to accept AAI's WACC figure for CIA of 15% in spite of some skewed assumptions made by KPMG in deriving the figure such as:</p> <ul style="list-style-type: none"> (i) using a comparator set that is limited to countries like China, Mexico and Malaysia which is at odds with AERA's position that the comparator set should not be restricted to developing/emerging countries; (ii) deriving an asset beta by using a median value of an inappropriate comparator set (iii) taking CIA's gearing ratio to be the same as that for AAI as a whole (iv) using a grossly inefficient financing structure for future funding requirements. <p>• IATA has prepared its computation of the appropriate WACC for CIA taking into consideration the use of an optimal gearing ratio (60%) and the relatively low risk of the regulated airport business given that many of the significant risks have been eliminated through the truing up mechanism. The computation is provided as an attachment to this submission. The computation shows that WACC of 9.3% would be appropriate for CIA.</p> | Since there is no listed airport operator in India, M/s KPMG had considered Betas of listed airport operators in the emerging markets as a proxy for the systematic risk of AAI. Consultant had taken a filtered approach while identifying comparable airports, like – country of operations - Emerging markets, Business model, Regulatory environment and Liquidity of the stock. |
| 7.12 | IATA views that it is inequitable for airlines to pay higher charges from the third tariff year and not have the recourse for a rebate in the event of obvious service quality shortfalls. AAI must be required to put in place its processes/procedures within the next six months (by end of second quarter 2013) instead of a year so that there is sufficient time buffer to ensure that these processes/procedures are indeed installed before the start of the fourth tariff year. | AAI will put in place systems/procedures at the earliest within the time frame fixed the AERA. |
| 7.13 | The notion that airport charges need to go up significantly because it has not been raised for a number of years is clearly flawed. Annual increases in airport charges is not a given and is not common practice globally. Airport charges could in fact go down as a result of economies of scale and the airport increasing its proportion of non-aeronautical revenue. At many airports around the world, airport charges have remained stable for many years. This has facilitated air traffic growth and brought benefits to all stakeholders in the industry. The absence of significant capital investment at many airports in India including CIA coupled with additional aeronautical revenues derived from strong traffic growth justifies the absence of any increases in the past. | The MYT proposal of AAI has been formulated based on the Guidelines issued by AERA for determination of Tariff for aeronautical services on Single Till Basis. The tariff increase is necessitated in view of the fact that AAI has made substantial investment at Chennai airport for modernisation and up-gradation of the airport so as to provide better facilities to the airlines and passengers. |

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| 7.14 | AAI's mission is : ' <i>To achieve highest standards of safety and quality in air traffic services and airport management by providing state of the art infrastructure for total customer satisfaction contributing to the economic growth and prosperity of the nation</i> '. Its mission is clearly different from that of the private sector whose sole focus is on maximizing shareholders' returns. AAI's mission should be a primary consideration when determining airport charges. The steep increases proposed in the Consultation Paper would dampen traffic growth at CIA and consequently adversely impact economic growth and prosperity of India. AAI should be concerned as the outcome would run contrary to its mission. | Keeping in view the AAI's mission, AAI has up-gradated the Chennai airport to provide better facilities to the Users and formulated the MYTP as per the AERA guidelines. |
| 7.15 | <p>The differential in landing charges between international and domestic flights contravenes ICAO's policy on cost-based charging. There is no justification for an aircraft using the same landing facilities to be charged differently by virtue of where it came from. Contrary to what some may suggest, this is not common practice around the world. IATA has been urging AAI to correct this for many years already and now looks towards AERA to ensure that ICAO policies are adhered to.</p> <ul style="list-style-type: none"> • The differential between international and domestic UDF (at over 4 times) does not justify the difference in usage of airport facilities between these two groups of passengers. AERA would be aware that the Competition Commission of India has issued an advisory to the Ministry of Civil Aviation mentioning the discriminatory development fees between international and domestic passengers that are charged at DEL which ideally should be the same. IATA agrees that international and domestic UDFs should be brought to parity. • As mentioned previously, there is no justification for an annual increase in fuel throughput fee which is a concession fee without any cost basis. | <p>The differential landing charges for domestic and international carriers have been worked out considering market conditions. Such practise of charging different rates for domestic and international carriers is prevalent at many foreign airports also.</p> <p>Considering the facilities provided to the passengers, The different UDF rates have been proposed for domestic & international passengers.</p> <p>The Fuel Throughput Charges has been finalised based on transparent competitive bidding process and the expected revenue from FTC has been taken into consideration for determination of tariff.</p> <p>Annual escalation in fuel throughput charges is proposed nominally by 5% as per the agreement/negotiation with Oil companies.</p> |
| 8 | Federation of Indian Airlines | |
| 8.1 | (a) The Consultation Paper does not at present prudently examine or explain the reasons for accepting escalation of project cost from Rs. 2,015 crores to Rs. 2,862.71 crores. There is almost 42% increase in the project cost from the figures | The capex of Rs 2862.71 crores for the control period comprises of cost of mega project works, including terminal building, extension of runway, bridge over Adyar river etc. amounting to Rs 2015 crores |

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| | <p>approved by Ministry of Civil Aviation ("MoCA").</p> <p>(b) By leaving the project cost to be trued up, Authority is indirectly allowing AAI to further escalate the project cost without realizing that existing 42% escalation in project cost is way extra than what MoCA had approved.</p> <p>(c) It is settled position of law that future consumers cannot be burdened with additional costs as there is no reason as why they should bear the brunt. Such quick fix attitude is not acceptable. As such, the approach in the Consultation Paper does not appear to deal with the present economic realities and interests of consumers while proposing the tariff in its present form. Authority being a creature of statute is under a duty to balance the interest of all the stakeholders and consumers, which it is mandated to do under the AERA Act.</p> <p>(d) Authority has proposed the determination of tariff for 5 years commencing from 2011-12. Therefore, Authority's proposal for tariff determination is retrospective, which is impermissible. In this regard, reliance is placed on Hon'ble Supreme Court's judgment in Binani Zinc Ltd. Vs. Kerala State Electricity Board & Others reported as (2009) 11 sec 2442, wherein the Hon'ble Supreme Court has held that it is only after the Regulatory commission is constituted that it will be the sole authority to determine the tariff'. Thus, there tariff cannot be determined retrospectively.</p> <p>(e) In respect of the future projections, the Authority is cognizant of the fact that expenditure partly includes inflation e.g. in case of Salary and Wages (Dearness Allowance). It is submitted that considering, WPI of 6% has been separately considered, all the expenditure should be delinked from inflation and accordingly Annual Revenue Requirement ("ARR") needs to be adjusted.</p> | <p>approved by Ministry of Civil Aviation and balance amount Rs 847.71 crs is towards other capital works, including cargo works, parallel taxi track for main runway etc. and same could not construed as escalation in cost.</p> <p>AERA has processed the proposal of AAI in accordance with the provisions of AERA Act.</p> <p>The ARR calculation has been worked out considering the Control period of 5 years period commencing from FY 2011-12, however Tariff revision is proposed to be implemented prospectively as per ATP submitted to AERA.</p> <p>The increase in salary and wages projected by 7% is on account of annual increment in basic salary, increase in perks including HRA, Provident Fund contribution, promotions etc., which are directly related to basic salary. Whereas, WPI of 6% considered in the proposal caters to the increase in costs due to inflationary factors.</p> |
| | Process Issues | |
| 8.2 | <p>4. A perusal of the CP No. 16/2012-13 points out that Authority has:</p> <p>(a) Not appointed its own Auditor/Consultant as per Section 14 of the AERA Act.</p> | |

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| | <p>(b) Not undertaken the exercise of 'Determination' or given reason for its consideration towards various airport charges.</p> <p>(c) Not directed AAI to conduct User Consultation in respect of major capital projects.</p> <p>(d) Left almost all the components of aeronautical tariff for 'Truing Up'.</p> | AERA has processed the AAI proposal as per the provisions of AERA Act. |
| | A. Re: Appointment of Auditor by the Authority | |
| 8.3 | 5. It is submitted that the Authority ought to carry out its own assessment for determination of aeronautical tariff. The purpose of appointing an independent and external consultant is to enhance the credibility of data being relied upon by obtaining written reasonable assurance from an independent source. It is submitted that in addition to technical competence, independence is the most important factor in establishing the credibility of the opinion. In current scenario, all the external consultants have been directly engaged by AAI which compromises the independence of opinions expressed by them. | The Consultant is appointed at the instance of AERA for examining the proposal submitted by the AAI. Hence there is no conflict of interest. |
| 8.4 | 6. It is submitted that under Section 14(b) and Section 14(c) of the AERA Act, Authority is empowered to engage its own consultants or direct any of its officers or employees to make an inquiry in relation to the affairs of any service provider. There is nothing on record which shows that AAI has engaged any such Consultant of its own. | |
| | B. Re: 'Determination' by the Authority | |
| 8.5 | 7. Section 13(l)(a) of the AERA Act requires the Authority to 'determine' the tariff for aeronautical services. Any 'determination' by a statutory authority must clearly show the application of mind and analysis carried out by the authority. However, in the present case, the Authority has proposed increase in various charges (for instance FTC, Landing Charges, Parking Charges, etc.) but has failed to provide any justification or analysis for the same. | AERA has processed the MYTP submitted by AAI as per the provisions of AERA Act. |

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| 8.6 | 8. It is submitted that Section 13(1)(4)(c) of the AERA Act mandates that any decision by the Authority must be fully documented and explained. In this regard judgment of the Hon'ble Supreme Court in the case of Ashok Leyland Ltd. Vs. State of Tamil Nadu and Anr. reported as (2004) 3 SCC 1 (FB)(at Para 94)3 is noteworthy. Hon'ble Supreme Court has held that the word 'Determination' must also be given its full effect to, which pre-supposes application of mind and expression of the conclusion. | AERA has processed the MYTP submitted by AAI as per the provisions of AERA Act. |
| 8.7 | 9. It is submitted that Authority has proposed to: a) Levy User Development Fee ("UDF") (b) Increase Fuel Throughput Charges ("FTC") However, Authority has not provided any reason for considering either introducing levy of UDF, the purpose of UDF, justification of UDF at the rate of Rs. 165 per domestic embarking passenger and Rs. 667 per international embarking passenger or 5% increase in FTC. | |
| 8.8 | 10. It is submitted that order passed by an administrative authority, affecting the rights of parties, must be a speaking order supported with reasons. Attention is invited to the judgment of the Hon'ble Supreme Court in the case of <i>Kranti Associates Private Limited & Other due process</i> ". | The aggregate revenue requirement has been split in to various components like Landing, parking, UDF, thorough put charges etc. Any reduction in one component will automatically lead to increase in the other. Present proposal is only a Consultation paper where stakeholder Comments have been invited. Refer para 15.4 of C.P. |
| 8.8.a | 11. In view of foregoing submission, is submitted that the Authority ought to undertake the exercise of 'Determination' by application of mind and pass reasoned order on any issue and the increase in aeronautical tariff as proposed by AERA in the present consultation process should not be given effect to. | |
| | C. User Consultation should be undertaken by the Airport Operators | |
| 8.9 | 12. The Authority had in its AERA Guidelines stated that the Airport Operator shall undertake user consultation with Airport Users Consultative Committee (AUCC) on major capital projects planned at the airport. The major capital projects shall be defined as capital investment projects that may represent more than 5% of the value of the Regulatory Assets Base ("RAB") at the beginning of the control period or Rs.50 crores, whichever is the lower amount. | The present project for modernisation/ up-gradation of Chennai airport has been planned and taken up prior to issue of AERA guidelines on User Consultations. However, subsequent major capital investment projects will be undertaken as per AERA Guidelines. |

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| 8.10 | 13. AAI has not undertaken the User Consultation and has stated that the work on the Project (Modernisation and Expansion of the CIA) commenced well before the Authority's AERA Guidelines on the User Consultation came into force and the project at the CIA, Chennai already had the approval of the Competent Authority. However, AAI has conveyed that capital projects in future will be undertaken as per the Authority's user consultation protocol. Further, AAI has clarified that the work on the Project (Modernisation and Expansion of the CIA) commenced with the approval of the Competent Authority much before the Authority's Airport Guidelines on the user consultations came into force. Thus, AAI has not conducted the User Consultation. | Reply as per para 8.9. |
| 8.11 | 14. First of all, in the CP No. 16/2012-13, Authority has not specified the 'Competent Authority', which has approved the Project (Modernisation and Expansion of the CIA). This aspect is relevant since, AAI has not conducted the User Consultation on the strength of its approval from the 'Competent Authority'. | The cost of mega project for modernisation/Up-gradation of Chennai airport has been approved by Ministry of Civil Aviation and other capital works have been planned with approval of competent authority as per the delegation of powers of AAI. |
| 8.12 | 15. It is submitted that the project is yet to be completed and AERA Guidelines are in place since 28.02.2011. Therefore, AAI ought to have undertaken a User Consultation process instead of only relying upon prior approval of the 'Competent Authority'. | The present project for modernisation/ up-gradation of Chennai airport has been planned and taken up prior to issue of AERA guidelines on User Consultations. However, subsequent major capital investment projects will be undertaken as per AERA Guidelines. |
| | <i>D. True-up exercise should be conducted sparingly by the Authority</i> | |
| 8.13 | 16. In the present CP No. 16/2012-13, the tariff plan is subject to truing up in next control period with respect to following variables: (a) Project Cost (b) RAB, Roll Forward RAB and depreciation (c) Traffic Forecast | Statement of fact. |

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| | <p>(d) Non Aero Revenue</p> <p>(e) Operation and Maintenance expenditure</p> <p>(f) Taxation</p> | |
| 8.14 | 17. It is submitted that in the present case not only Authority has not applied its mind but indiscriminately left aforementioned components for future in the garb of truing up exercise during next control period. | AERA has processed the AAI proposal as per the provisions of AERA Act. |
| 8.15 | 18. It is submitted that Authority should not leave everything to true up and attempt to make all the projections and assessments as accurately possible on the basis of available data. | |
| 8.16 | <p>II. Material issues for tariff determination</p> <p>19. It is submitted that the present consultation paper raises <i>inter alia</i> the following important and critical questions for consideration of the Authority:</p> <p>(a) Whether the claim of AAI for increase in Aeronautical Tariff is justifiable on financial/economic basis?</p> <p>(b) Under what circumstances, when and to what extent can such diversion in project cost be permitted to be revised without complying with the requirements of prudence?</p> <p>(c) Is levy of UDF permissible under the relevant law? If so, for what purposes can levy of UDF be termed justifiable?</p> <p>(d) Is Authority's reliance only on AAI's data for determining following is justifiable:</p> <p>(i) Operating Expenditure is one of the major components for determining ARR?</p> <p>(ii) Non-aeronautical revenue i.e. revenue generated from services other than aeronautical services?</p> | <p>AERA has considered the AAI proposal as per the Guidelines issued by them.</p> <p>There is no deviation in project cost.</p> <p>The rule 89 of the Aircraft Rules, 1937 permit the licensee to levy and collect at a major airport the User Development Fee at such rate as may be determined under clause (b) of sub-section (1) of section 13 of the Airports Economic Regulatory Authority of India Act, 2008.</p> |

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|--|--|--|--|-------------------|--|--|------|------------------|--------|-------------------------|---------|-------------------------------|--|---|-------------------|------------|------------------------|------------|--------------------------|------------|-------|------------|-----------------------|----------------|------|--|-----------------------|------------|---------------------------------|-------|------------------------|--------|---------------------------------|-------|-------|---------------|--|--|
| | (e) Can the proposed Aeronautical tariff be considered as a fair, just or reasonable claim of AAI in a prudent, regulated, price cap mechanism as envisaged under the Act read with the AERA Guidelines of the Authority? | The proposal of AAI is as per the Guidelines issued by AERA for airport operators and AERA has processed the proposal as per the provision of AERA Act. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 8.17 | ISSUE-WISE SUBMISSIONS IN RESPONSE A. Escalation in Project Cost should not be allowed 20. Project cost of Rs.2,862.71crores (Rs.2,015 crores for Modernization and Expansion of CIA and associated works and additional capex of Rs.847.71 crores) is under consideration in the present consultation for the purpose of the current tariff determination. | Statement of fact. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 8.18 | 21. As per the CP No. 16/2012-13, project cost aggregating to Rs 847.71 crores include Rs, 311.71 crores towards reconstruction of taxiways and parallel taxi tracks for main runway etc and Rs. 536 crores toward cargo facilities up gradation. However, the CP No. 16/2012-13 does not mention about any approval from MoCA for such additional capex of Rs.613 crores. However, the CP No. 16/2012-13 does not mention about any approval from MoCA for such additional capex of Rs 847.71 crores. | The competent authority for approving the other capital projects planned at a cost of Rs 847.71 crores& considered in the MYTP is AAI as per the delegation of powers. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 8.19 | 22. FIA has done a comparison between the increase in capex from the original sanctioned amounts between IGI Airport, Delhi and CIA, Chennai. It is noteworthy that on the basis of cost per square meter of built up area, it seems that check on project cost at CIA, Chennai is suffering from the same infirmities which was noticed in the case of escalated project cost at IGI Airport, Delhi. In fact, in case of CIA, the project cost per square metres is 29% more than that of IGI Airport, Delhi. Following table demonstrates the said comparison:- <table><tr><td>Particulars</td><td></td></tr><tr><td>IGIAirport, Delhi</td><td></td></tr><tr><td>Terminal-3 and Associated Building (Rs. in crores)</td><td>6693</td></tr><tr><td>Area (sq metres)</td><td>543321</td></tr><tr><td>Cost per sq metres (Rs)</td><td>123,187</td></tr><tr><td>Chennai International Airport</td><td></td></tr></table> | Particulars | | IGIAirport, Delhi | | Terminal-3 and Associated Building (Rs. in crores) | 6693 | Area (sq metres) | 543321 | Cost per sq metres (Rs) | 123,187 | Chennai International Airport | | <p>The Total area of the new Terminal building is as follows:</p> <table><tr><td>Domestic Terminal</td><td>67700 sq m</td></tr><tr><td>International Terminal</td><td>59300 sq m</td></tr><tr><td>Air Side corridor bay 35</td><td>14590 sq m</td></tr><tr><td>Total</td><td>141590 sqm</td></tr></table> <table><tr><td>Total cost of Project</td><td>Rs 2015 Crores</td></tr><tr><td>Less</td><td></td></tr><tr><td>a) Face lifting works</td><td>141.60 cr.</td></tr><tr><td>a) Payment to Electricity board</td><td>50 cr</td></tr><tr><td>b) Cost of Runway Extn</td><td>465 cr</td></tr><tr><td>c) Interest during construction</td><td>70 cr</td></tr><tr><td>Total</td><td>(-) 726.60 cr</td></tr><tr><td colspan="2">Cost of project Rs 2015-726.60 cr = 1288.40 cr</td></tr></table> | Domestic Terminal | 67700 sq m | International Terminal | 59300 sq m | Air Side corridor bay 35 | 14590 sq m | Total | 141590 sqm | Total cost of Project | Rs 2015 Crores | Less | | a) Face lifting works | 141.60 cr. | a) Payment to Electricity board | 50 cr | b) Cost of Runway Extn | 465 cr | c) Interest during construction | 70 cr | Total | (-) 726.60 cr | Cost of project Rs 2015-726.60 cr = 1288.40 cr | |
| Particulars | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| IGIAirport, Delhi | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Terminal-3 and Associated Building (Rs. in crores) | 6693 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Area (sq metres) | 543321 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cost per sq metres (Rs) | 123,187 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Chennai International Airport | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Domestic Terminal | 67700 sq m | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| International Terminal | 59300 sq m | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Air Side corridor bay 35 | 14590 sq m | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | 141590 sqm | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total cost of Project | Rs 2015 Crores | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Less | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| a) Face lifting works | 141.60 cr. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| a) Payment to Electricity board | 50 cr | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| b) Cost of Runway Extn | 465 cr | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| c) Interest during construction | 70 cr | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | (-) 726.60 cr | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Cost of project Rs 2015-726.60 cr = 1288.40 cr | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

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| | Project cost for Modernisation and Expansion of CIA comprising domestic and international terminal building, elevated corridor and allied works including consultancy, extension of runway and construction of a bridge on the Adyar river (Rs in crores) | 2015 | | Cost per sqmts 91,000 per sq metre |
| | Area (sq metres) | 127000 | | Therefore the cost per Sqm. of expanded terminal is less than IGI Airport due to cost prudence and value engineering was exercised in firming of the project proposals at the appraisal stage. |
| | Cost per sq metres (Rs) | 158,661 | | |
| | Variation From IGI Airport, Delhi | -29% | | |

| 8.20 | <p>23. Further a comparison of capex per square meter NSCBI , Kolkata International airport and Chennai International airport has reveals 36% difference in capex per square meter.</p> <table><tr><th>Particulars</th><th>NSCBIA, Kolkata</th><th>Chennai International Airport</th><th>Variance%</th></tr><tr><td>Area (New)</td><td>198,692</td><td>127,000</td><td>64%</td></tr><tr><td>Domestic</td><td>119,741</td><td>67,700</td><td></td></tr><tr><td>International</td><td>78,951</td><td>59,300</td><td></td></tr><tr><td>CAPEX for New Terminal Building (INR Million)</td><td>23,250</td><td>20,150</td><td></td></tr><tr><td>Cost per Sq. mts.</td><td>117015</td><td>158,661</td><td>36%</td></tr></table> | Particulars | NSCBIA, Kolkata | Chennai International Airport | Variance% | Area (New) | 198,692 | 127,000 | 64% | Domestic | 119,741 | 67,700 | | International | 78,951 | 59,300 | | CAPEX for New Terminal Building (INR Million) | 23,250 | 20,150 | | Cost per Sq. mts. | 117015 | 158,661 | 36% | <p>The Total area of the new Integrated Terminal building at NSCBI Airport Kolkata is as follows:</p> <p>Passenger areas 67700 sq m E&M services in basement 29000 sq m Relocated sub station 3000 sq m Service yard 11000 sqm Total 233000 sqm</p> <p>Total cost of Project Rs 2325 Crores Less</p> <p>a) Payment to Electricity board 15 cr b) Cost of Runway Extn 100 cr c) Interest during construction 70 cr Total (-) 185 cr</p> <p>Cost of project Rs 2325-185 cr = 2140 cr Cost per sqmts 91,845 per sq metre</p> <p>Therefore the cost per Sqm. at NSCBI , Kolkata International airport and Chennai International airport is nearly the same.</p> |
|---|--|---|-----------------|-------------------------------|-----------|------------|---------|---------|-----|----------|---------|--------|--|---------------|--------|--------|--|---|--------|--------|--|-------------------|--------|---------|-----|--|
| Particulars | NSCBIA, Kolkata | Chennai International Airport | Variance% | | | | | | | | | | | | | | | | | | | | | | | |
| Area (New) | 198,692 | 127,000 | 64% | | | | | | | | | | | | | | | | | | | | | | | |
| Domestic | 119,741 | 67,700 | | | | | | | | | | | | | | | | | | | | | | | | |
| International | 78,951 | 59,300 | | | | | | | | | | | | | | | | | | | | | | | | |
| CAPEX for New Terminal Building (INR Million) | 23,250 | 20,150 | | | | | | | | | | | | | | | | | | | | | | | | |
| Cost per Sq. mts. | 117015 | 158,661 | 36% | | | | | | | | | | | | | | | | | | | | | | | |
| 8.21 | <p>24. It is submitted that capex is the most critical factor in determination of aeronautical tariff. Hence, it is critical that a good industry benchmark with respect to optimal capex per square meter is established by the Authority. Any spend over and above should be absorbed by the airport operator as part of its business risk.</p> | <p>Suggestion noted.</p> | | | | | | | | | | | | | | | | | | | | | | | | |
| 8.22 | <p>25. Without prejudice to the above, it is respectfully submitted that even if the claim be treated as valid and admissible, the Authority must consider and decide as to:</p> <p>(a) Whether any capital investment so made must not go into the Regulatory Asset</p> | <p>(a) AAI's MYT proposal has been formulated as per AERA guidelines.</p> | | | | | | | | | | | | | | | | | | | | | | | | |

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| | <p>Base and be secured through return on equity/return on capital employed?</p> <p>(b) Prudence check on each claim of capex must be done along the lines of the established accounting standards and practices which would disallow unreasonable, unfair or extravagant expenditure.</p> <p>(c) There has been about 42% escalation in project cost, which raises question on the issue of cap on project cost .Such revision of the project cost should be strictly scrutinized by the Authority instead of merely placing its reliance on submissions of AAI.</p> | <p>(b) AERA has processed AAI's MYT proposal as per AERA Act.</p> <p>© The project costs of Rs 847. crs is towards additional capital works, over and above the Rs 2015 crores towards mega project at Chennai airport, not the escalation.</p> |
| 8.23 | <p>26. Being a creature of statute, the Authority is mandated to analyze the documents and conduct prudence check to ensure balance between reasonable recovery of efficient and prudent costs while preventing usurious windfalls, viz.</p> <p>(a) Section 13 (l)(a)(i) of the AERA Act envisages that the Authority shall consider the actual expenditure incurred and timely investment in improvement of airport facilities.</p> <p>(b) It is submitted that prudence check is an intrinsic and essential part of the process of tariff determination as is also evident from Section 13 of the AERA Act. Any expenditure incurred by AAI cannot be accepted by the Authority on the face of it and passed on to the consumers directly or indirectly. The Authority is required to evaluate the claims made by AAI and only after satisfying itself through a rigorous prudence check which involves:</p> <p>(i) Scrutiny of the expenditure made by AAI and assessment of whether the same has been reasonably and properly incurred.</p> <p>(ii) Examining the resultant benefit from the said expenditure in terms of enhanced efficiency.</p> <p>(iii) Appraising the working parameters of the utility with the prevalent norms, benchmarks and standards.</p> | <p>The proposal submitted by AAI is in accordance with the Guidelines issued by AERA for Airport Operators and AERA will determine the tariff as per AERA Act.</p> |

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| 8.24 | 27. In view of the foregoing, it is submitted that for any increase in cost, the Authority is mandated to conduct prudence check and it is vital to scrutinize each and every claim made by AAI. | The proposal submitted by AAI is in accordance with the Guidelines issued by AERA for Airport Operators and AERA will determine the tariff as per AERA Act. |
| 8.25 | 28. In this context, it is noteworthy that the Appellate Tribunal for Electricity in its judgment dated 29.08.2006 in the matter of KPTCL Vs. KERC &Ors. reported as 2007 APTEL 223 ¹⁰ has clearly held that utilities are free to decide their plans of investment for improvement of system or expansion to meet the demand including upgradation and maintenance for a better and quality supply. It is the commercial decision of the utility and its source to raise funds which falls within the domain of the utility. It is at a later stage that the Commission/Regulator shall undertake a prudent check and if deem fit allow the claim. In appropriate cases, the Regulator may disallow such cases of utility and it is for the utility to bear the brunt of such investment and it cannot pass it on to consumers. | The proposal submitted by AAI is in accordance with the Guidelines issued by AERA for Airport Operators and AERA will determine the tariff as per AERA Act. |
| B. Re: Levy of User Development Fee(UDF") | | |
| 8.26 | 29. Authority has proposed to levy UDF on the basis of AAI's Annual Tariff Proposal ("ATP"). It is noteworthy that UDF is being introduced on the embarking passengers w.e.f.01.01.2013 in the following manner!': (a) Per Domestic Departing Passenger-Rs. 165.00 (b) Per International Departing Passenger-Rs.667.00. | Statement of fact. |
| 8.27 | 30. Authority has introduced absolutely new stream of revenue in favour of AAI, which is not envisaged under the Airport Authority of India Act, 1994 ("AAI Act") or AERA Act. | The rule 89 of the Aircraft Rules, 1937 permit the licensee to levy and collect at a major airport the User Development Fee at such rate as may be determined under clause (b) of sub-section (1) of section 13 of the Airports Economic Regulatory Authority of India Act, 2008 |
| 8.28 | 31. It is a settled position of law that any levy or compulsory exaction which is in the nature of tax/cess cannot be levied without a statutory foundation/charging section, as laid down in a catena of judgements by the Hon'bleSupreme Court. It is well settled principle of law that no tax, fee or any compulsory charge can be imposed by any bye-law, rule or regulation unless the statute under which the subordinate legislation is made specifically authorises the imposition. There is no room for intendment. | The User Development Fee is part of Airport Tariff structure charged by the airport operators and levied as determined by the regulator. |
| 8.29 | 32. In view of the foregoing, it is submitted that: | The rule 89 of the Aircraft Rules, 1937 permit the licensee to levy and |

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| | <p>(a) AERA Act nowhere provides for provision of determination or levy of UDF on passengers.</p> <p>(b) Authority in the present CP No. 16/ 2012-13 has not deliberated upon the rationale for levying UDF. It is submitted that Authority is bound under Section 13(4)(c) of the AERA Act to fully document and explain its decision.</p> <p>(c) Further, there is also no evidence that Authority has undertaken the exercise of determining the amount of UDF as there is no basis for levy Rs. 165 and Rs. 667 towards UDF on embarking domestic and international passengers respectively.</p> | <p>collect at a major airport the User Development Fee at such rate as may be determined under clause (b) of sub-section (1) of section 13 of the Airports Economic Regulatory.</p> <p>The annual tariff proposal for Chennai Airport including UDF is based on the Aggregate Revenue Requirement (ARR) worked out as per AERA Guidelines.</p> |
| 8.3 | 33. It is also noteworthy that UDF is recovered from each traveling passenger through the air ticket as a component of the price of such air ticket and the same is payable by the airlines to the Airport Operator. It is reiterated that any increase on fees payable directly by passengers ultimately affects the interests of airlines. It is submitted that any passenger is concerned with the total cost of his travelling and not with the specific break-up of charges. Such enhancement in the cost of the air ticket not only works as a deterrent for the prospective traveller but also reduces the ability of the airlines to recover its costs and thus affecting the business interests <i>inter alia</i> of airlines and aviation industry. | AAI submitted its MYTP proposal in accordance with the AERA Guidelines and ARR worked out based on the above to be recovered through available revenue stream, including UDF. In case the UDF is not levied, the entire amount ARR to be recovered by way of airlines related charges in addition to fuel throughput charges. |
| | C. Re: Fuel Throughput Charges ("FTC") | |
| 8.31 | 34. The Authority had vide Order No. 07/2010-11 dated 04.11.2010, in the matter of suo moto revision of FTC by the Airport Operators had approved the FTC at CIA, Chennai (from Rs.1,390.31 to Rs.1,459.83 @ 5% increase as per contractual terms) with effect from 01.04.2010, on an ad hoc basis." | Statement of fact. |
| 8.32 | 35. In relation to the 5% increase in FTC by the Authority, it is submitted that there is no cost basis analysis for allowing 5% increase in FTC. | The fuel throughput charges at Chennai Airport are based on the outcome of open bidding process as per the rate quoted by the oil companies. |
| 8.33 | <p>36. It is submitted that the Authority ought to examine:</p> <p>(a) The impact of FTC enhancement since the cost of the fuel constitutes around 40% of operating cost of an airline.</p> <p>(b) The impact of failure of the AAI to provide any justification for the revision in FTC. Since at the Airports the Fuel suppliers are already paying and loading</p> | <p>As already stated above, the fuel throughput charges at Chennai Airport are based on the outcome of open bidding process as per the rate quoted by the oil companies.</p> <p>In case 5% increase in fuel throughput charges is not effected the</p> |

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| | <p>exorbitant land rentals for locating fuel facility on to airlines. In addition to such land rentals, the AAI are allowed to charge FTC with no cost basis.</p> <p>(c) AAI has only provided the land and access to the Oil Companies. The cost of land is recovered separately through the rentals. Therefore, it is the value of concessions which would have to be considered while fixing the FTC.</p> <p>(d) FTC is an impost not on the Oil Companies but on the airlines. Thus, in the form of FTC the airlines face a cost impost as the airlines cannot avoid purchasing fuel at locations with FTC, which is being charged by the AAI over and above the normal lease rental.</p> | revenue shortfall on this account will have an impact on other tariff structure. |
| 8.34 | 37. It is further submitted that considering that Authority's Order No.07/2010-11 dated 04.11.2010 is pending adjudication before the Airports Economic Regulatory Authority Appellate Tribunal ("AERAAT") in Appeal No. 5/2012 (MIAL Vs. AERA & Others), it would be better if any decision regarding FTC should be taken pursuant to the outcome of the said Appeal. | AERA will determine the tariff in accordance with provision of AERA Act. |
| | <i>D. Re: Non-Aeronautical Revenue</i> | |
| 8.35 | 38. AAI has submitted revenue generated through Non-Aeronautical Services or services other than aeronautical services by applying the growth rate to historical revenues and establishing the relationship with available commercial area. In the CP No. 16/2012-13, Authority has noted that the past growth of non-aeronautical revenue may not serve either as a benchmark or guide in making the forecast. This is because the new terminal at CIA, Chennai is about more than 3 times the existing terminal. | Based on the past trend and considering the increase in commercial area following commissioning of new terminals, adequate increase in non-aeronautical revenue has been projected in the MYTP. |
| 8.36 | 39. The Authority has proposed that for the first control period it may consider the forecast of non-aeronautical revenue provided by AAI for determination of tariffs and true up the actual receipts from non aeronautical revenue while determining tariffs for the next control period. Hence, the Authority considered that for the first control period it may consider the forecast of non-aeronautical revenue provided by AAI as indicated above for determination of tariffs and true up the actual receipts from non aeronautical revenue while determining tariffs for the next control period . | Statement of fact. |
| 8.37 | 40. It is submitted that in the present consultation process, AAI has projected non- | The non-aeronautical revenue, including cargo at Chennai airport |

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| | aeronautical revenue at merely 23% of total revenue during control period, whereas a quick glance at airports like Changi Airport, Singapore; Hong Kong International Airport, etc. reveals that said airports are earning approximately 60% of their total revenues arising out of services other than non-aeronautical services. | contributes to around 32 % of the total revenue of the airport. Further, AAI projected the non-aeronautical revenue after taking into consideration various aspects including market potential at Chennai Airports, which AAI feels more appropriate rather than comparing with the Airports like Changi. However, AAI will make efforts to maximise the revenue earning from Non-Aeronautical activities. |
| 8.38 | 41. It is submitted that Authority should reasonably estimate or appoint a Consultant to determine revenue from new premises as it may not be appropriate to burden the airlines and passengers with higher tariff in this control period and provide relief for the same in subsequent period. | Suggestion noted. AERA will determine the tariff as per provision of the AERA Act after taking into various aspects. |
| | E. Re: Depreciation | |
| 8.39 | 42. It has been stated that AAI is following the straight line method for depreciation and the depreciation rate applied to various assets is as per AAI's approved accounting policy considering the useful life of the assets. The salient aspects of AAI's depreciation policy areas under: (a) Method of Depreciation -Straight Line Method. (b) Additions to Fixed Assets:-Depreciation to be provided for full year irrespective of month of installation/completion. (c) No depreciation to be provided in the year the asset is disposed off/retired from active use. (d) Residual value for each asset to be taken as Re. 1 balance to be provided by way of depreciation as per prescribed rates. | Statement of fact. |
| 8.4 | 43. In this regard it is observed that the AAI's accounts are maintained as per the provisions of the Section 28 (1) of the AAI Act. | Statement of fact. |
| 8.41 | 44. As per Clause 5.3.3 of the AERA Guidelines, the minimum residual value of the asset shall be considered as 10% and depreciation shall be allowed up to maximum of 90% of the original cost of the asset on straight line method. | AAI is charging depreciation as per the policy approved by AAI Board, which has been finalised after considering relevant factors such as minimum useful service life of various assets based on technical assessment. Based on the above policy, AAI finalises its annual accounts and accepted by C&AG. |

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| 8.42 | <p>45. Authority has noted that AAI's Depreciation Policy is not in accordance with its Order 1\10. 13/2010-11 dated 10.01.2011 ("Airport Order") and AERA Guidelines. However, Authority has ignored its own AERA Guidelines and proposed to follow AAI's Depreciation Policy and the depreciation calculated in accordance thereof for the purpose of determination of tariffs for aeronautical services at CIA, Chennai since:</p> <p>(a) AAI is a statutory body established under the AAI Act. The Board of AAI has approved the Depreciation policy that has been adopted by AAI.</p> <p>(b) AAI's format of accounts have been formulated in consultation with the C&AG, who also conduct audit of the books of accounts of AAI as mandated under the AAI Act.</p> <p>(c) The C&AG has not commented adversely on the depreciation methodology adopted by AAI. Further, accounts of the AAI, certified by the C&AG, together with the audit report are laid before the Parliament.</p> | <p>As per para 8.41</p> <p>Statement of fact</p> <p>Statement of fact</p> |
| 8.43 | <p>46. Authority should determine the depreciation as per Airport Order and Airport Guidelines for the purpose of computing ARR as it is settled position of law that the statutory authority is bound by its own Regulations /Guidelines".</p> | <p>AERA will determine the tariff as per provision of AERA Act after taking into consideration of various aspects.</p> |
| 8.44 | <p>47. It is noteworthy that by employing AAI's proposed rate of depreciation (10-12%) on its assets translates into accounting life of assets to only 8-10 years. It is submitted that assets of an airport have long useful life and usually last for 30 years. Hence, the Authority should spread out the useful life of the assets over a period of 30 years, which would reduce the target revenues by approximately Rs.201.88 crores in FY 2012-13 and over a period of 5 years the target revenues would be reduced by Rs.734.71 crores. It is noteworthy that though CP No. 16/2012-13 mentions that AAI has proposed a depreciation rate as 10-12% but a simple division of depreciation by RAB gives us a higher number. It may be noted that AAI at CIA, Chennai mentions depreciation of Runways over a period of 7 years only, whereas FIA understands that Changi Airport, Singapore" is depreciating it over 30 years and Beijing Capital International Airport over 40 years.</p> | <p>The minimum useful service life of various assets is reviewed from time to time for the purpose of scrapping and replacement considering the technical factors prevailing at the airports and also due to fast changes in technology and the obsolescence factor aviation sector etc. Accordingly, the depreciation rates for various asset were reviewed and revised depreciation rates were made effective from FY 2006-07. This has been accepted by C&AG .</p> <p>Further, the depreciation rates adopted by Beijing Capital Intl. airport are comparable (except runway) to the rates adopted by AAI. However, it is pertinent to note that assets value is subjected to annual review by the Beijing airport "The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down</p> |

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| | | immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount" (Beijing Airport Annual report 2011 – Notes to financial statement 2(e)] |
| 8.45 | 48. In this regard it is submitted that depreciation-methodology (of using accounting life of assets) being presently considered by Authority is erroneous and ignores the reality that such an approach will have an unjust inflationary impact on passengers/airlines by front loading of tariff. Presently, the Authority is considering only the accounting life of assets (810 years) instead of considering the useful life of assets (at least 30 years). Such reduced accounting life of assets compared to useful life would result in artificial increase in the depreciation charge and would have an adverse impact of increasing the tariff in the initial years. | The depreciation policy adopted by AAI, based on which MYTP was prepared, had considered all the relevant factors, including useful life of Assets and depreciation rates have been fixed accordingly which is also accepted and audited by C & AG. |
| | <i>F. Re: Weighted Average Cost of Capital ("WACC") -Fair Rate of Return ("FRoR")</i> | |
| 8.46 | 49. AAI had engaged KPMG to determine the FRoR for its airport operation business. KPMG has worked with the assumption that the gearing ratio and cost of debt for the airport operation business at each airport of AAI is the same as that for AAI as a whole. In this regard, following is noteworthy: (a) Gearing Ratio: The Gearing is the level of an entity's debt compared with its equity component and is calculated as $\text{Gearing} = \text{Debt} / (\text{Debt} + \text{Equity})$. AAI has assumed that future capital funding requirement will be met in similar Debt-Equity proportion for AAI as a whole at the current levels and projected the expected gearing to be 8.84%. (b) Cost of Equity: Using the Capital Asset Price Model (CAPM), KPMG in its report determined cost of equity as 15.64%. (c) Cost of Debt: Weighted average cost of existing debt of AAI is 8.03% and KPMG in its report has assumed that AAI will be able to raise the incremental debt requirement in the first control period on similar terms. | Statement of fact. |

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| 8.49 | 53. It is noteworthy that the Authority is also mindful of the fact that current Debt Equity ratio of the CIA, Chennai is not efficient and in order to moderate aeronautical charges, effort needs to be made to move towards efficient debt-equity ratio with higher proportion of debt. However, Authority is of the view that moving towards the efficient debt equity structure would take time and hence, this issue would be revisited at the time of tariff determination for the next control period and make appropriate decisions. It is submitted that in case airport is not efficiently managing their Debt Equity ratio to reduce cost of capital, airlines and passengers should not be penalized for the same | Higher proportion of debt in the capital structure may be appropriate in case of new companies formed for the purpose of undertaking the new projects. This is not the case in case of AAI, which is already in existence and managing the airports and generating the internal resources from the airport operations. As such AAI opted to finance the project mainly from internal resources. Further, in case of higher debt also, there would be outflow on account of servicing the debt. |
| 8.50 | 54. Further, it is to be noted that the Authority had indicated in its Order No. 03/2012-13 dated 20.04.2012 ("MYT Tariff Order of DIAL") that the proportion of debt of around 60% in the capital structure could be regarded as an efficient means of finance. FIA notes that WACC/FRoR for IGI Airport was determined as 10.33% per annum, hence, 50% higher WACC in case of CIA, Chennai airport is not justifiable. Return on RAB, computed from WACC, has significant weightage in computing ARR of the Airport. Reducing WACC from 15% to 10.33% in CIA, Chennai will reduce ARR by 14%. It is pertinent to note that higher RAB with higher WACC has a significant compounding impact on the aeronautical tariff. | The proportion of debt of around 60% in the capital structure may be appropriate in case of new company formed for the purpose establishment of new Airport projects and not the existing airport operators like AAI. The MYTP proposal of AAI is as per the Guidelines of AERA. The capital structure of an organisation cannot be changed overnight. |
| 8.51 | 55. It is pertinent to note that that for calculating WACC/FRoR, though the Authority has arrived at the figure of 14% but has allowed 15%. Thus, Authority has accepted KPMG's proposal in spite of finding loopholes in Asset Beta as determined by KPMG. It is submitted that for the difference of 1% in WACC/FRoR on this scale would unnecessarily increase the Aeronautical Tariff. In view of the | WACC /FRoR worked out by M/s KPMG for AAI is 14.96 % or 15% . AAI Formulated the MYTP proposal is as per AERA Guidelines and reasonable. |

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| | foregoing, it is submitted that considering assumptions taken by KPMG w.r.t Asset Beta and gearing ratio are not appropriate, Authority should recompute the WACC after appropriate adjustments. | |
| | G. Re: Operation and Maintenance Expenditure | |
| 8.52 | <p>56. Authority has considered all the expenses forecasted by AAI subject to following adjustments in other miscellaneous expenditure:</p> <p>(a) The expenditure -to the extent it relates to the payment of interest on long term debt -factored in the expenditures has been deducted there from.</p> <p>(b) In case of electricity and water charges -no increase in ,number of units has been allowed</p> | Statement of fact. |
| 8.53 | 57. Authority is of the view that for determining tariff only efficient operating and maintenance costs should be considered. In this regard, Authority has noted that the C&AG is the auditor of all the accounts of AAI -including the expenditures incurred and Audit Report of the C&AG is not only on the mathematical accuracy of accounts or their incurrence in accordance with the set procedure, but also on the propriety of such expenditure. Considering this, Authority has proposed to accept the historical figures as provided by AAI for present and even for future projections, Authority has accepted most of the projections as submitted by AAI. | AAI supports the views of the Authority. |
| 8.54 | 58. It is submitted that operating expenditure is one of the major component for determining ARR. Hence, the Authority should evaluate these expenses in detail rather than primarily relying on projections provided by AAI. | AAI has prepared the MYTP, including expenditure projection for the control period in accordance with the Guidelines issued by the AERA for the airport operators. The MYTP submitted by AAI has been reviewed by AERA accordingly. |
| 8.55 | 59. Further, it is submitted that Authority should establish some optimal operating benchmarks be laid down for the airports to keep operations efficient e.g. opex per passenger or per landing. The same can be based on some model efficient airports. In absence of such a benchmark, there is no check and balance mechanism to ensure that passengers are not bearing extra cost on account of non-efficient operations | AAI agree to the suggestion for establishment of operating benchmarks. |
| 8.56 | 60. It is noteworthy that in respect of the future projections, the Authority is cognizant of the fact that expenditure partly includes inflation e.g. in case of Salary | The increase in salary and wages projected by 7% is on account of annual increment in basic salary, increase in perks, including HRA, |

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| | and Wages (Dearness Allowance). It is submitted that considering, WPI of 6% has been separately considered, all the expenditure should be delinked from inflation and accordingly ARR needs to be adjusted. | Provident Fund contribution etc., which are directly related to basic salary. Whereas, WPI of 6% considered in the proposal caters to the increase in costs due to inflationary factors. |
| | H. Re: Quality of Service | |
| 8.57 | 61. Authority has considered the issue of specifying a transition period for implementation of the scheme of quality of service measurement and determination of any rebates as relevant for CIA, Chennai. In this regard, Authority has proposed a period of one year from the date of tariff determination for AAI to appropriately align their processes/ procedures and make any other required interventions. | AAI agree with the AERA views. |
| 8.58 | 62. Further, the Authority has proposed that in the current determination of aeronautical tariff(s) for CIA, Chennai, a period of about two years of the first control period have already elapsed and given the transition period of one year, for implementation of the above scheme would be applicable only from the fourth tariff year of the Control period Le., 2014-15. Accordingly, the Authority has noted that it will be possible to calculate the rebate for the year 2014-15 only in the tariff year t+2, viz., in 2016-17, which is the first tariff year of the next control period. | AAI supports AERA view. |
| 8.59 | 63. In this regard, it is submitted that Authority has noted that the Project (Modernisation and Expansion of the CIA) will be completed and commissioned in forth coming months. Thus, it is submitted that for such transition, Authority should not grant one year to AAI and limit it to not more than 2 months as benefit of any rebates arising out of implementation of the scheme of quality of service measurement to the consumers of CIA, Chennai would not be available for almost a year. It is submitted that denial of such benefit for one year would not be in the interest of airlines. | Considering the fact that one & half year of current control period has already elapsed. A transition period of one year for implementation of quality service measurement and determination of any rebate is reasonable for making appropriate systemic and procedural changes in line with Service quality requirement of AERA guidelines. |
| | I. Re: Landing Fee | |
| 8.60 | 64. It is submitted that Authority has proposed minimum Landing Fee of Rs. 5000/-per landing. It is submitted that though the Minimum rate has been prescribed, but for proper regulation, maximum bracket should also be prescribed by the Authority. | The landing charges vary for different categories of aircraft depending on the weight of the aircraft. Accordingly, no maximum rate of landing charges has been fixed. |
| | J. Re: {Doctrine of Infrastructural Essential Facilities | |
| 8.61 | 65. It is submitted that under the competition law, an enterprise is under an | Airport sector is highly capital intensive and viability of airport depends on large number of factors, including local economic |

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| | <p>obligation to extend its essential infrastructural facility at a reasonable cost. AAI's control over CIA, Chennai renders it a monopolist having control over 'essential infrastructural facility' of the airport in the city of Chennai and the southern region of the country. The requirement of access to essential facility was first articulated by the Supreme Court of United States of America in United States Vs. Terminal Railroad Assn, reported as 224 U.S. 383 (1912) . Under the principles of access to essential facility, the following four factors must be proven:</p> <ul style="list-style-type: none"> (a) Control of the essential facility by a monopolist; (b) A competitor's inability practically or reasonably to duplicate the essential facility; (c) The denial of the use of the essential facility to a competitor; and (d) The feasibility of providing the essential facility to competitors. | <p>conditions and the aircraft and passenger traffic etc., In Indian context, there is no example of two airports operating commercially in the same city. However, airports do compete with each other on regional basis. It is not correct to infer that Chennai airport is operating in a monopolistic manner in Southern India; Private airports at Hyderabad and Bangalore are competing with Chennai airport for aircraft and passenger traffic.</p> |
| 8.62 | 66. Further, it is submitted that to seek access to essential facility, the asset in question also must not be available from other sources or capable of duplication by the firm seeking access. | No such investment has been considered in the MYTP proposal. |
| 8.63 | 67. In view of the foregoing judicial precedents, it is submitted that AAI assumes the position of a monopolist since it exercises control over CIA, Chennai which is a crucial infrastructural facility for a city like Chennai and southern region of country due to its political and economic significance at both national and international levels. Airport is an essential facility, and thus, per this doctrine, the monopolist should not be allowed to charge an exorbitant price for accessinghis facility. | There are very few international instances, where two airports operate commercially in the same city. Considering the Indian and International airports scenario, It would totally incorrect to infer that Chennai airport is operating in monopolistic manner. As already indicated above, Chennai airport is competing with two private international airports in southern region, namely Hyderabad and Bangalore airports. |
| 8.64 | 68. It is submitted that such enormous hike in tariff by a monopolist AAI may be viewed as 'abuse of its dominance' and accordingly liable under Section 4 of the Competition Act, 2002 ("Competition Act"). Further, the Competition Act promulgates the "economic development of the country" amongst other things, protect the interests of the consumers. | The tariff increase proposed for aeronautical services is worked out on the basis of Aggregate Revenue Requirement (ARR) computed for the control period following the AERA Guidelines. |
| 8.65 | 69. In view of the foregoing, it is submitted that the Authority is mandated to | Reply as per para 8.64 |

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| | prevent any opportunity which lead to the abuse of monopolistic power by the airports and that stand in the way of effective economic regulation. | |
| | <i>K. Increase in Aeronautical Tariff should be kept in check</i> | |
| 8.66 | <p>70. Following revision in the tariff(s)(excluding taxes/any levies) proposed by AAI is pending consideration by the Authority and are subject matter of discussion in CP 16/2012-13:</p> <p>(a) Increase of 118% in International landing charges and 48% in Domestic landing charges w.e.f 01.11.2012.</p> <p>(b) Minimum Landing Fee of Rs. 5,000/-per landing for all flights except training flights operated by Flying Clubs.</p> <p>(c) Uniform increase of 83% in parking and housing charges.</p> <p>(d) PSF (Security) proposed to be continued at the existing rates i.e. Rs 130/-per departing pax.</p> <p>(e) Passenger Service Fees (PSF): No increase is proposed in current PSF (Facilitation) rate i.e. Rs 77/ per embarking passenger. From 01.01.2013 this PSF (Facilitation) is proposed to be merged with proposed UDF levy.</p> <p>(f) Introduction of User Development Fees w.e.f 01.01.2013</p> <p>(i) Per Domestic Departing Passenger-Rs. 165.00 and</p> <p>(ii) Per International Departing Passenger-Rs.667.00</p> <p>(g) As per the understanding with the Oil Companies the FTC have been proposed by AAI to be increased by 5% per annum. For FY 2012-13, revision in rates is proposed to be effective from 01.11.2012 from existing Rate Rs. 1459.83 per Kilolitre to proposed rate Rs 1532.82 per Kilolitre.</p> | Statement of fact. |

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| | (h) For the ensuing tariff years 2013-14 onwards in the current control period, annual escalation @ 6 % p.a. w.e.f. 1st April of each tariff year proposed on Landing, Housing, Parking and UDF. | |
| 8.67 | 71. 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 Tariff as proposed in the CP No. 16/2012-13. | Substantial capital investments have been made at Chennai for providing better facilities to passenger and airlines. The additional capacity created will be able to meet traffic growth up to 2017 and ARR for the control period has been computed as per the AERA Guidelines, the increase in tariff proposed at Chennai airport is unavoidable. |
| 8.68 | 72. The Authority is aware that airlines have been going through difficult times. Increase in various components of Aeronautical Tariff as proposed by the Authority will erode airlines capabilities to increase fares to sustain its operational capabilities. It is pertinent to note that the Authority must also take into account the difficulties being faced by the airlines and passengers before granting levies to the airport operators. As Airlines have suffered losses significantly in the last two years due to high ATF and recent depreciation of the rupee, there is a need for Airlines to raise fares to recoup the past losses, rather than fund the Airport development program which is the responsibility of the Airport operator. | AAI is also affected by the slowdown of Indian & world economy. AERA has laid down the detailed Guidelines for filing of MYTP by the airports and AAI has prepared MYTP for Chennai as per the Guidelines and AERA after considering the all relevant aspects relating to Chennai MYTP has issued the CP no. 16/2012-13. As indicated above, tariff increase proposed at Chennai airport is unavoidable. |
| | CONCLUSION | |
| 8.69 | 73. It is submitted that since the determination of aeronautical tariff of various major airports is evolving, it would be relevant if a standard benchmarking with respect to optimal capex per square meter and opex per passenger/landing is established by the Authority. This would be useful for all the Stakeholders while examining the various tariff proposals. | AERA may setting up of standards for benchmarking. |
| 8.70 | 74. There is a need for guidance to the industry by the Regulator so that norms for operation are determined for the industry based on the technology, industry performance and in order to ensure optimum utilisation of assets with efficient and economic operation. Normative level can be determined by the Regulator on the basis of Benchmarking. | There is a system of conducting passenger survey at the Airports. |
| 8.71 | 75. The purpose behind using a benchmarking approach is that to the extent that a utility is more efficient than the industry or is able to achieve higher rates of productivity changes, it will retain these benefits forever. Thus, the advantage of using a benchmark is that it creates an incentive for an enterprise to be more | AERA will determine the tariff as per the Guidelines issued for Airport Operators. |

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| | efficient. The purpose behind using a benchmarking approach is that to the extent that a utility is more efficient than the industry or is able to achieve higher rates of productivity changes, it will retain these benefits forever. Thus the advantage of using a benchmark is that it creates an incentive for an enterprise to be more efficient. Further, it is emphasised that the Authority is bound by its AERA Guidelines and various Orders. | |
| 8.72 | 76. 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 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. It is submitted that the Authority must balance the interest of airlines and the passengers which is of paramount importance for the aviation industry. | The MYTP proposal of AAI has been made as per the Guidelines of AERA and has been considered all the relevant facts. |
| 8.73 | 77. In view of the above, it is respectfully prayed that FIA is opposed to the increase in Aeronautical Tariff without conducting prudence check and appointing its own independent auditor. The Authority must keep in mind the interests/implications of/on the airlines before finalizing any decisions regarding increase in Aeronautical Tariff and other charges. | The MYTP proposal of AAI for Chennai Airport is as per the Guidelines of AERA and the tariff increase proposed is reasonable considering investment made at Chennai Airport. |
| 9. | British Airways | |
| 9.1 | Landing Charges increase 118% - not just are these unjustifiable, the differential between fees for international and domestic flights is not acceptable, contravening ICAO's policy on cost-based charging and will undoubtedly have adverse implications on BA's network plans for Chennai. | AAI's MYTP is in accordance with the AERA Guidelines. The aggregate revenue requirement (ARR) computed as per AERA Guidelines has been split in to various components like Landing, parking, UDF, thorough put charges etc. The differential landing charges for domestic and international carriers have been worked out considering market conditions. Such practise of charging different rates for domestic and international carriers is prevalent at many foreign airports also. |
| 9.2 | Parking Charges increase of 83% - again these are unjustifiable and as mentioned above will have significant implications when evaluating BA longhaul network plans. | |
| 9.3 | Introduction of a User Development Fee of Rs. 667 for international passengers. This would have an adverse financial impact, if implemented, on British Airways (BA) and our passengers, of almost 1m p.a There is no justification for the large differential between domestic and international fees. | |

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| 9.4 | Proposal of an annual escalation of 6% effective 1st April 2013 thereafter – annual changer to tariff should consider and reflect the financial climate and Capex spend at the time of consultation so should not reflect a fixed 6% increase. | AAI formulated MYTP proposal in terms of the AERA Guidelines and worked out the ARR for the for the first control period. Accordingly , the tariff structure including escalation of 6% has been finalized in the ATP so as to recover the said computed ARR as per MYTP during the control period. |
| 9.5 | AERA is proposing pricing to recover the costs of recent investments over an unusually short period. Airports usually recover the costs of their capital investments over an extended timeframe. BA strongly encourages AERA to adopt such an approach at Chennai international Airport by setting a recovery period of at lest 10 years. | AAI is not recovering the entire cost of investments during the first control period. The recovery of cost is proposed as per AERA Guidelines. |
| 9.6 | 15.46% cost of equity for a government agency is too high, particularly as the government would not have the some expectation an returns as the private sector. | AAI made substantial investment for modernization and up-gradation of Chennai Airport so as to provide better passenger facilities to the users and formulated the MYTP as per the AERA Guidelines. |
| 10 | INDIAN OIL CORPORATION LIMITED | |
| 10.1 | The Fuel Throughput Fees or Airport Operator Fees of Rs.1459.83 per KL was approved by the Authority, w.e.f 10.04.2010 for Chennai Airport on ad hoc basis. | Statement of fact. |
| 10.2 | We have on earlier occasions requested the Authority that while approving tariff/rates for various services related to supply of fuel, revisions if any, may please be made from prospective date. | AAI intends to implement tariff increase for fuel throughput charges as per ATP submitted to AERA. |
| 10.3 | It is noted that the Authority has proposed revision of Fuel Throughput Fees at Chennai International Airport from Rs. 1459.83 per KL to Rs. 1532.82 per KL for Financial Year 2012-13, effective 1 st November, 2012. It is observed that the revised Fee is 5% escalated over the earlier approved Fees. It is further noted that the escalations in future are proposed @ 5% p.a.w.e.f 1.04.2014 and 0.04.2015. | Statement of fact. |
| 10.4 | We welcome the proposed decision of the Authority with regard to revision of the fees on prospective basis, as was being requested by us. However, in case INL escalation of the Fuel Throughput Fees is proposed by Airport Authority of India, as indicated by Chairman, AAI, during the stakeholder meeting of 30 th Augt, 2012, it would be welcome by all stakeholders. | As per para 10.2 |
| 10.5 | It is requested that final approval for Fuel Throughput Charges be kindly issued before 1 st November, 2012. However, in case, final approval of the Authority so expected to be issued later than 1 st November, 2012, the effective date for applicability of the revised Fuel Throughput Fees may please be deferred | As per para 10.2 |

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| | accordingly. | |
| 11 | Hindustan Petroleum Corporation Limited | |
| 11.1 | FTC as mentioned for the 2012-13, may be approved effective 1 st Nov. 2012 and order may please be issued before the 31 st October, 2012. | As per para 10.2 |
| 11.2 | In case of delay in issuing order for any reason, the revision may please made effective prospective basis, applicable from first day of the subsequent month, in which AERA issues the order. | As per para 10.2 |