

F.No. AERA/20010/AAI/Kolkata/2011-12
Airports Economic Regulatory Authority of India
Minutes of the Stakeholder Consultation Meeting held on 17.09.2012
(Consultation paper No. 17/2012-13)

A Stakeholder Consultation meeting was convened by the Authority on 17.09.2012 at 1400 hrs. in the Conference Room, 1st Floor, AERA Building, Administrative Complex, Safdarjung Airport, New Delhi to elicit the views of the stakeholders on the Consultation Paper No. 17/2012-13 issued by the Authority setting out its tentative position in respect of the determination of tariff for aeronautical services at Netaji Subash Chandra Bose International Airport, Kolkata for the 1st Control Period (from 01.04.2011 to 31.03.2016). The list of the participants is enclosed at **Annexure – I**.

2. Chairperson, AERA welcomed the participants and requested Shri.V.P.Agrawal, Chairman, Airports Authority of India (AAI) to present the proposal. Shri V.P. Aggarwal, thanked the Authority for the efforts taken in bringing out a comprehensive Consultation Paper on the Kolkata tariff determination and also conveyed thanks to all the Stakeholder; for their cooperation in attending the rescheduled meeting which was postpone due to unavoidable circumstances from 14.09.2012 to 17.09.2012. He stated that AAI had made a large investment at the Airport at Kolkata, to expand the Terminal Building Capacity, which had already reached their capacity in the year 2006-07. However, he stated that only a reasonable recovery is being proposed so as to ensure that AAI gets returns on the investment made, which would be ploughed back into Kolkata Airport. He requested Shri Sudhir Raheja, Member (Planning), AAI and Shri S. Suresh Member (Finance) to make a presentation on the technical and financials of the proposal.

3. Shri Raheja, Member (Planning), AAI made a detailed presentation indicating the physical features of the airport, the additional features added to the airport and the components of project cost. He also stated that in terms of total cost per million passenger per annum (mppa) and per Sq. mts of Gross Floor Area, the Kolkata project Cost is amongst the lowest across the world and at par with the Chennai. While stating that the terminal building has been completed and is ready for commissioning, he mentioned of the impediments during various phases of the construction of the domestic and international terminal building. He informed that the new integrated terminal building has implemented the concept of Value Engineering, concept of Skylight and it is GRIHA -3 certified (Green Rating for Integrated Habitat Assessment) as per Bureau of Energy Efficiency. He stated that Kolkata Airport is a Gateway to North East and to hub for South East Asian countries. He further informed that the capacity of the existing terminal building had reached saturation in the year 2007 itself and stated that the project of the new terminal building was taken up in October 2008 and same has been planned in such a way that the capacity saturation point for domestic terminal will be around in the year 2019 and for International Terminal it will be in the year 2021.

4.1 Shri S. Suresh, Member (Finance), AAI presented the financials of the tariff proposal made by AAI indicating the key points in the Consultation Paper. He justified the proposed increase in tariff stating that the last revision was done the year 2001 and after a gap of 8 years the rates of Landing, Parking and Housing Charges were increased by 10% in March, 2009 and that the rate of Passenger Service Fees (Facilitation) was last increased marginally by 10% in April, 2009. The modernization of the terminal buildings has resulted in huge capex being incurred by the AAI. In view of the same, AAI had no option but to revise the tariff in accordance with the current economic scenario. He further emphasized that the cargo services at NSCBI Airport has experienced an uneven growth rate during the last ten years which has become negative (-3%) in 2011-12, AAI has assumed a growth rate of 10% for the control period. He informed that the proposed revision in tariff sought is reasonable as compared to the growth of inflation over the period 2000 to 2011 and also explained that despite even with the proposed increase AAI will be left with a shortfall in Aggregate Revenue Requirement (ARR). AAI has consciously taken a decision not to pass on the entire load of increase in the tariff to the passengers during the current control period which shall be recovered in the next control period starting 01.04.2016.

4.2 He further explained the present scenario there would be an increase of 8% in the Cargo tariff during the first control period as AAI intends to encourage the trade and is inclined to make Kolkata Airport as a hub for cargo.

5.1 **Federation of Indian Airlines (FIA):** The representative from FIA sought clarifications on the project cost (of Rs.2325 crore) approved by the Ministry of Civil Aviation (MoCA) and the cost considered by the Authority (Rs.2938 crore) for the current tariff determination process. FIA also sought clarification the reasons for considering a WACC @15% for AAI against 14.03% as per calculation shown by AERA. Further, FIA stated that for throughput charges, matter is pending before the Hon'BLE AERA Tribunal, by way of an appeal files by MIAL and may be not for Kolkata and such unable to comment on the proposed increase and sought clarification from AERA. He also stated that UDF is not provided anywhere in AERA guidelines nor in the AAI Act and sought clarifications on the provisions under which the UDF has been proposed by the Authority. Further, FIA was of the view that the time granted by Authority for submission of the comments on Consultation Paper is too short and it should be at least 4 weeks.

5.2 **International Air Transport Association (IATA):** The IATA representative also supported the view of FIA in regard to extension of time, He further commented that since AAI is a Government entity and its mandate is totally different from Pvt Companies so cost of equity which may be applicable to Private sector i.e. DIAL may not be applicable to PSU's like AAI. He further stated that there should be efficient means of finance for Airports. He referred to the Authority's Consultation Paper No.03/2009-10 stating that the Authority had noted that it understood that the AAI has a relatively low level of gearing and in the normal circumstances, the evidence from capital structuring decisions in the commercial sector for infrastructure businesses indicates that a low level of gearing would be considered inefficient. He further sought clarification on the issue of increase in cargo rates projected by AAI in the presentation IATA

pointed out that AAI is seeking an increase of 8% as against the annual escalation of 5% whereas the present WPI is 6.90%. IATA also sought clarification on the treatment of revenue from Cargo and Ground Handling Service and whether the Authority has considered the same as Aeronautical Revenue in the tariff proposal. Further, IATA expressed its disagreement on the issue of implementation of the scheme for quality of service measurement and determination of rebate applicable from the 4th year onward as the same was not in line with Authority guidelines. IATA feels that the rebate mechanism should kick off from the next tariff year itself as users will be paying a higher tariff rate from the 1st year itself. He however supported with the proposal of spill over for the deficit amount of ARR to the second control period and enquired as to why a similar treatment was not followed in case of determination of tariff for aeronautical services in respect of IGI Airport, New Delhi. IATA also commented on the disparity in the landing rates for International and domestic flights when the Runway, and other facilities are being used by both are same. As regards the 5% annual escalation in Fuel Throughput Charges(FTC) proposed in the Consultation Paper, IATA stated that FTC is not cost related and hence they are not in agreement with the proposal. The representative stated that written submission to the Authority will be made in due course.

5.3 Air India: Air India's representative said that the annual rate of growth in passengers is 12% as per Planning Commission, GOI while the projection is made @10%. If the same is reworked it will reduce the charges accordingly. He also expressed that the rate of return of 15% is on the higher side. He stated that written submission will follow in due course.

5.4 Lufthansa Cargo : The representative from Lufthansa Cargo conveyed thanks for bringing out the Consultation Paper for determination of tariff in respect of Kolkata Airport. He stated the 118% increase in International landing rates is unreasonable as growth in Cargo sector at Kolkata Airport is very less and increase in tariff will further affect the market. Further, it was stated that most of these flights which are transit flights will have to reconsider their operations and schedules. The representative further stated that refueling of freighter aircraft takes a longer duration due to less space in the cargo parking area resulting increase in hours of stay in the Airport which in turn increase the cost by way of Parking and Housing charges.

5.5 Emirates Airlines: The representative endorsed the views of Lufthansa Cargo.

5.6 Qatar Airways: The representative endorsed the views of Lufthansa Cargo.

5.7 Indigo and Kingfisher Airlines : The representatives endorsed the views of FIA and IATA.

5.8 IOCL, BPCL and HPCL : The representatives of the three Oil Marketing Companies Bharat Petroleum Corporation Limited (BPCL), Hindustan Petroleum Corporation Limited (HPCL) and Indian Oil Corporation Limited (IOCL), stated that fuel throughput charges at Kolkata is very high side and that it requires a relook. Further, the revision of charges should be from prospective date

6.1 Chairperson, AERA clarified FIA on the issue of Kolkata project cost stating that while the Authority has considered the project cost of Rs. 2,325 crore approved by the Ministry of Civil Aviation (MoCA) which predate the AERA. In addition there were additional capital expenditures approved by the respective competent Authority in AAI and also stated that the audits of the AAI Accounts are carried out by C&AG.

6.2 As regards WACC of 15% considered for NSCBI Airport Kolkata, Chairperson stated that the Authority has determined the same, the methodology of which has been explained in detail in the Consultation paper. In response to the queries raised by the stakeholders on why AAI, a PSU should get a higher return the Chairperson clarified that in the case of AAI there is preponderance of equity in its capital structure unlike in the case of Delhi International Airport Limited (DIAL) which high portion of loan in its capital structure.

6.3 Chairperson further clarified that normally a business has a business risk and financial risk. A business risk may be higher or lower based on the specific business environment and is independent of the amount of debt a business owes. However, the level of financial risk, relates to the amount of debt a business incurs to finance its business/operations and is adequately reflected in the cost of debt.

6.4 He further clarified that different elements are involved in the calculation of the Return on Equity. While certain parameters like to Risk Free Rate may not change and remain the same other parameters used in the calculation may change.

6.5 Chairperson also stated that the Authority has noted in its Consultation paper that in order to moderate aeronautical charges, effort should be made to move towards efficient debt-equity ratio with higher proportion of debt and that AAI would be in a position to obtain higher levels of debt and thereby lower its overall cost of capital i.e., WACC, resulting in lower aeronautical tariffs. He stated that the Authority had indicated in its DIAL Tariff Determination Order that the proportion of debt of around 60% in the capital structure could be regarded as an efficient means of finance and this appears to strike a reasonable balance between moderating WACC and not, at the same time, exacerbating the financial risk on account of higher proportion of debt. He further stated that in the Consultation Paper the Authority has noted that moving towards the efficient debt equity structure would take time and that the Authority would thus revisit this issue at the time of tariff determination for the next control period and make appropriate decisions.

6.6 Chairperson further clarified that the determination in respect of NSCBI Airport has been made on the basis of the Regulatory Building Block methodology as envisaged in the Airport Guidelines issued on 28.02.2011. and that the Authority has considered the revenues from Cargo and Ground handling and Fuel Throughput for the purpose of determining the Aeronautical Tariff on Single Till basis.

6.7 Replying to FIA on the provisions under which the Authority is levying UDF, Chairperson clarified that the Authority's power to charge Development Fee

(DF) is derived under AERA Act, 2008. The Development fee can be either in the nature of capital receipts (which is colloquially termed as Airport Development Fee (ADF)) or in the form of User Development Fee (UDF) as a revenue enhancing measure, provision for which is contained in Rule 89 of the Aircraft Rules 1937.

6.8 On the issue of the proposal contained in the consultation paper specifying a transition period for implementation of the scheme of quality of service measurement and determination of any rebates for NSCBI Airport, Chairperson clarified that Authority has adopted a mechanism to consider reduced tariffs for underperformance vis-a-vis specified benchmarks on quality of service to adequately protect the interest of users. In order to progressively ensure better service quality performance within the control period, the Authority felt that it would be appropriate to prescribe a higher overall benchmark for the fourth and fifth tariff year of the first control period and decided that the overall benchmark for subjective quality requirements for the fourth and fifth tariff year of the first control period shall be 3.75 on the ACI ASQ survey. Considering that the monitoring mechanism should refer to some integrity and to ensure a mechanism by which the monitoring reports would flow from the grass root level, Automation of the monitoring mechanism would be required. The one year transition period from the date of tariff determination proposed in the Consultation Paper for implementation of the scheme was with the intention that that it would be a reasonable time for AAI to appropriately align their processes/ procedures and make any other required interventions in this regard.

6.9 In response to IATA's query as to why the staggering proposed in the NSCBI tariff determination was not followed in the case of DIAL tariff determination, the Chairperson clarified that in the case Delhi, there was a high portion of loan in its capital structure. Staggering was considered but it was found not to be practical. While legally, such staggering could have been done i.e., could have been carried over to the next regulatory period and recommended for the next Regulator to consider the same, however financially it was found not to be a sound option. In Delhi's case the Authority noted that if it were to stagger such increase to the next control period, DIAL's Debt Service Coverage ratio (DSCR) would have fallen below the limits prescribed by the Bankers and this would not have been appropriate. In case of NSCBI airport, the proportion of debt is very small (8-10%). Hence the issue of DSCR is not important and staggering was thus feasible. Low debt (or high equity) gave AAI strength to stagger the UDF but had also the effect of increasing overall WACC as already mentioned.

6.10 Further, Chairperson also clarified that extension of time for consultation which has been sought by IATA, FIA and other stakeholder may delay the implementation of the charges which would also mean that the hike required at NSCBI Airport would increase further due to the reduced recovery period.

7 Chairman AAI has admitted that Cargo Parking Bay is insufficient at present but actions are being initiated to facilitate smooth cargo operation. Regarding Fuel Throughput charges he expressed hydrant system will be made applicable in due course; however he is concerned with the present agreement with the oil marketing companies and discuss the issues with AAI Board. Inline

Baggage system will be commissioned in both Domestic and International keeping in view the BCAS norms. Regarding Old Terminal Building he categorically mentioned that there is no question of demolishing the old building structure and the operation will be temporarily suspended and will be refurbished and re commissioned and assure the best service at least cost. He further explained that AAI being the largest Airport operator and has to sustain the viability of operations at various small airports across the India hence the surplus generated from major airport may be ploughed back among the other airports.

8. In his concluding remarks, Chairperson, AERA thanked all stakeholders for their active participation and requested them to furnish their comments/ views on the Consultation Paper.
