



AAI/CHQ/REV/AERA/UDF/2010/183

13th May, 2010

The Secretary,
Airports Economic Regulatory Authority of India,
Room No. 58, B Block,
Rajiv Gandhi Bhawan,
New Delhi-110 003

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457/1385
OSD-II

[Kind Attn.: Shri C.V. Deepak, OSD-II]

**Sub: Proposal of AAI to levy User Development Fee at Ahmedabad Airport
(Consultation Paper No. 03/2010-11 dated 27.04.2010).**

Sir,

Kindly refer to AERA letter no. AERA/20010/AAI-UDF-AMD/2009-10 dated 13th May, 2010 forwarding copies of submission received from various organizations on the above subject.

The comments/clarifications of AAI on the observations of FIA, Voluntary Organisation in Interest of Consumer Education (VIOCE), IATA & NACIL are given below:-

On observations of NACIL

RNFC and TNLC form part of separate nationwide nation wide service (Air Navigation Service), the charges for which would be regulated separately by AERA. Hence the RNFC & TNLC have not been considered in the calculations for UDF and corresponding expenses towards these services have also been excluded. This has also been disclosed in the proposal.

The proposal has been worked out on going concern basis taking Airport as a whole. It is imperative that Capital cost recovery for an airport as a going concern to take into account book value of existing capital assets and incremental investments for new assets being created for users over a period of time. Both old and new assets will be concurrently used at the airport, hence Revenue and expenses of both old & new assets have been considered assuming the entire airport as one entity.

The traffic projections adopted in the proposal are as per study conducted by the Corporate Planning Department of AAI, which is based on econometric analysis, regression analysis and trend analysis etc. The reasons for not considering revenue from

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city side development have already been disclosed.

It has been brought out in the assumptions that though the area of terminal building has increased by 111%, the increase in R&M expenditure assumed is only 75% which is considered reasonable.

The UDF has been so arrived at as to make up for the target deficit over a period of 10 years considering the NPV of both target deficit as well as revenue from UDF.

The present collection charges @ Rs. 5/- per passenger is considered adequate since, the airlines are not going to invest in any additional manpower and new system for UDF collection. Further, they also get to utilize the amount collected till payment is made (within the credit period).

Though the terminal buildings are separate, the available space stands enhanced from 36806 Sqm to 77806 Sqm which is adequate to give sufficient comfort to both international and domestic passengers.

AAI has no objection to service quality audit & performance audit.

As regard to slowdown in Indian Aviation, AAI has also suffered revenue losses due to recent slow down in Civil Aviation Sector. AAI is experiencing finances constraints because of slow down, however AAI has undertaken major investments in various projects for better passenger facilitation. It is pertinent to mention that AAI has for the first time borrowed money from the market for part financing of major projects, including the terminal building project at Ahmedabad.

On IATA's observation

The instant proposal for levy of UDF is in conformity with IATA's policy of 'User pays'. UDF is proposed to recover the short fall within the reasonable period. Further, there is a review mechanism. Part of the funding of Project has been done through borrowing which has to be repaid as soon as possible to reduce the interest liability. Hence, the levy for a period of 10 years is reasonable.

The Traffic Projections adopted are as per study conducted by Corporate Planning Department of AAI which was done employing statistical tools & econometric modeling.

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It is considered to be very realistic.

As regard to spreading of UDF equally between Domestic & International passengers, the levy of UDF is to take into account the local economic conditions, sentiments and the paying capacity of the public. The proposal has included all assets (including existing terminal building) in the RAB for UDF determination as the airport functions as single business entity. Hence, the proposal envisages levy of UDF on both domestic & international passengers.

On observations of FIA

AAI submitted its proposal for levy of UDF at Ahmedabad Airport duly disclosing relevant facts regarding Revenue & Expenditure done, Capital Cost justifications for the growth rates adopted in respect of Income & expenditure in the subsequent years. After careful examination and convincing, AERA conducted Stakeholder's meeting at Ahmedabad and gave opportunity for all the stakeholders to put forth their views. The details of the entire proposal were also uploaded to the net in a very transparent manner. Since due process has been followed by giving sufficient time and in a transparent manner the proposal may be implemented as decided.

On observations of Voluntary Organisation

The levy is being proposed on the principles of user pays. Further any organization need to generate adequate surplus to meet all its commitments on running & maintaining the facility, apart from further capital investments for the comfort of travelling public. Hence levy of UDF is justified.

It is requested that above clarifications may be considered and proposal for levy of UDF at Ahmedabad airport may be approved at the earliest.

Yours faithfully,



(M. Ravi Varma)
General Manager(F&A)