

To,

Director (P&S, Tariff)
Airports Economic Regulatory Authority of India (AERA),
AERA Administrative Complex,
Safdarjung Airports,
New Delhi – 110002

Subject : Response to Mangaluru International Airport consultation paper
Reference : Consultation Paper no 07 /2022-23 dtd. 05th August'2022

Dear Sir,

This is with reference to the above referred consultation paper for Mangaluru Airport for First control period. We have following comments to the consultation paper for your kind consideration:

1. **Cost of Equity:** AERA considered cost of equity of Mangaluru Airport as average of cost of equity of other five PPP airports viz., DIAL, MIAL, GHIAL, BIAL and CIAL. This approach of AERA is contrary to the Tariff computation guidelines which suggests that the Authority shall estimate cost of equity, for a Control Period, by using the Capital Asset Pricing Model (CAPM) for each Airport Operator, subject to the consideration of such factors as the Authority may deem fit. We suggest the regulator to conduct a specific study for Airport as each Airport has specific risk due to competition, catchment area and demography of passenger, connectivity, quantum of passenger etc.
2. **Cost of Debt:** AERA considered cost of debt of Mangaluru Airport as average of cost of debt of other five PPP airports viz., DIAL, MIAL, GHIAL, BIAL and CIAL. This approach of AERA is contrary to the Tariff computation guidelines which suggests that the Authority shall consider the forecast for future cost of: (i) debt proposed to be raised during the Control Period; or (ii) such debt which may be subject to a floating rate of interest subject to the Authority being assured of the reasonableness of such costs, based on a review including of its source, procedure and methods to be used for raising such debt. We are in agreement with Mangaluru Airport that each Airport has specific risk and based on respective risk cost of debt vary.
3. **Inflation Rate for the First Control Period:** AERA considered WPI inflation at 4.9% for the First Control Period based on average of the median WPI inflation forecasts of the 4th quarter of FY 2020-21 and of FY 2021-22 given in the 69th round of survey of professional forecasters on macroeconomic indicators of RBI. In this context, it is important to note that, cost related to many of the works have escalated during the last two years due to high inflation on account of Covid-19 outbreak. Therefore, AERA is request to consider latest inflation which in range of 9.5% to 16% for FY 22-23 basis 77th round of survey of professional forecasters on macroeconomic indicators of RBI dated August 05, 2022.

4. **UDF Pass Through:** In para 6.2.3. of abovementioned consultation paper AERA proposed following:

"The Authority notes that the Airport Operator has considered only billable ATM, after excluding ATM traffic covered under the RCS scheme. However, the Authority is of the view that RCS scheme is promoted by the GoI with the objective of making regional air connectivity affordable by supporting airline operators through concessions offered by Central Government, State Government and the Airport Operators. As this scheme is promoted to encourage small aircrafts, the flights operating under this scheme are not eligible to be claimed as a pass through / exemption. Hence, the Authority has considered the total traffic projections (passenger and ATM) of Mangaluru International Airport, which is a consistent approach being followed in this regard in line with all Major Airports"

In this regard would like to highlight that this approach of AERA is not in line with expected principal of regulatory which ensures timely and complete recovery of approved ARR. This approach of AERA will result into reduction in UDF and consequently not allowing Airport operator to timely recover its approved ARR. Further, shortfall in ARR recovery will also carry opportunity cost which also is not in public interest.

Thanking you

For Delhi International Airport Ltd.

K Narayana Rao

Director

Date: Sep 5th, 2022