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Ref: MIAL/CO/AERA-MYTP/2022/9 **Date: 12th September 2022**

To,
The Director (P&S, Tariff),
Airports Economic Regulatory Authority of India,
AERA Building, New Administrative Block,
Safdarjung Airport,
New Delhi- 110003.

Sub: Counter Comments on stakeholder comments in respect of Consultation Paper No. 07/2022-23 dated 05th August 2022 in the Matter of Determination of Aeronautical Tariff for Mangaluru (IXE) for the First Control Period (01.04.2021 - 31.03.2026)

Dear Sir,

This is in respect to the Consultation Paper No. 07/2022-23 dated 05th August 2022 in The Matter of Determination of Aeronautical Tariff for Mangaluru (IXE) for the First Control Period (01.04.2021 - 31.03.2026), we hereby submit our counter comments to the stakeholder comments published by AERA on its website via public notice on 6th September 2022.

We shall be pleased to provide any further information that Authority may require in this regard.

Thanking you

Yours truly,
For Mangaluru International Airport Limited,

Manoj Chanduka
Authorized Signatory

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Counter comments on stakeholder comments in respect of Consultation Paper No. 07/2022-23 dated 05th August 2022 in the Matter of Determination of Aeronautical Tariff for Mangaluru (IXE) for the First Control Period (01.04.2021 - 31.03.2026)

Submitted by
Mangaluru International Airport Limited
Dated: 12th September 2022

Disclaimer

This document has been prepared by Mangaluru International Airport Limited (MIAL) as counter comments to the comments provided by various stakeholders in respect to AERA's Consultation Paper (CP) No. 07/2022-23 dated 05th August 2022 in the Matter of Determination of Aeronautical Tariff for Mangaluru (IXE) for the First Control Period (FCP) (01.04.2021 - 31.03.2026)

The purpose of this document is to solely provide a counter comments to the comments provided by stakeholders and should not be referred to and relied upon by any person against MIAL. This document includes statements, which reflect various assumptions and assessments by MIAL and relevant references to various documents. Same do not purport to contain all the information to support our response.

This document may not be appropriate for all persons, and it is not possible for MIAL to consider particular needs of each party who reads or uses this document.

Whilst every effort has been made to ensure the accuracy of the information provided herein, MIAL cannot be held responsible for any errors or omissions. MIAL shall have no liability to any person under any law for any loss, damages, cost, or expense on account of anything contained in this document

The counter comments provided below shall not be construed as an acceptance by MIAL of the various assumptions undertaken by the Authority in the CP.

The response is without prejudice to MIAL's rights, submissions, contentions available to it in accordance with applicable laws.

Contents

1. Counter comments on comments from FIA

Observations on proposed Tariff Card (Proposed by MIA)

Response by MIAL:

Existing rate card of the Airport approved by MoCA is very old. The last UDF revision for the Airport was effected in year 2010. Since then, there has been no major revision of tariff for the Mangaluru Airport. The tariff as approved then by MoCA did not follow the building bock methodology as is done by AERA. Lower tariffs combined with lower traffic due to COVID-19 resulted in substantial under recovery of aeronautical revenues for both AAI and MIAL. Further, AAI had already embarked on an expansion capex plan since 2018 and the modernization plan will significantly improve the service levels for airport users as mandated under the Concession Agreement and also for catering towards upcoming growth volumes. The cumulative impact of these developments has an impact on the tariffs. Assuming new tariff is approved with effect from 1st Oct 2022, one and half years of the first control period has already elapsed and airport operator is left with only 3.5 years to recover the approved ARR (which is over and above the under-recovery amount of Rs. 81 Crs for period prior to COD, as determined by AERA). This has further amplified the impact of increased tariff.

Higher percentages as calculated by FIA for various aeronautical charges are an aberration since same have been calculated on a very low base and pre-development structures

1.1. Observation 1:

It is submitted that as per section 2 of Airport Economic Regulatory Authority of India Act, 2008 (AERA Act), under sub-section (a), "aeronautical services means any services provided -
(i)For navigation, surveillance and supportive communication thereto for air traffic management."
It is submitted that considering the above provisions of the AERA Act, revenue from Air Navigation Services, should form part of aeronautical revenues and accordingly AERA should take into account of the corresponding revenue and revise the tariff card.

Response by MIAL:
MIAL submits that no capital and operational expenditure related to ANS services (except those mandated under Concession Agreement (CA)) have been included in the tariff proposal.

As per CA, Schedule Q CNS/ATM Agreement, similar to other PPP Airports, the services of ANS are retained by AAI and the same are not under the purview of MIAL. Since the services are provided by AAI, the rate of ANS services can not be made part of tariff card of MIAL

1.2. Observation 2

No Fair Rate of Return (FRoR) to airport operators should be provided as such fixed/ assured return favors the service provider/airport operators, which creates an imbalance against the airlines, which are already suffering from huge losses and bear the adverse financial impact through higher tariffs. Due to such fixed/assured returns, Airport Operators have no incentive to look for productivity improvement or ways of increasing efficiencies, take steps to reduce costs, as they are fully covered for all costs plus their hefty returns. Such a scenario breeds inefficiencies and higher costs, which are ultimately borne by airlines.

We observe that Fair Rate of Return of 14% provided to AAI is higher than comparison to the same being given to the present airport operator i.e. MIA/ Mangaluru International Airport Limited i.e. @ 12.21%. Without prejudice to (a) above, there appears no rationale to provide higher return to AAI in comparison to MIA and accordingly AERA may reduce the FROR suitably.

Response by MIAL:

As far as issue of airport charges leading to higher costs for airlines is concerned, we would like to state that the airport charges form 6-8% of the total operational cost of Airlines (based on the study of annual reports/financials available in public domain of listed Indian airlines such as Indigo, SpiceJet etc.). Hence, contribution of Airport Charges to the Airline cost structure is very limited and of lower significance as compared to other higher-impact costs such as fuel, aircraft leases, aircraft maintenance costs, salaries etc.

In respect to FRoR, we would like to clarify that Authority has allowed FROR of 14% to AAI for true up purpose and also allowed FROR of 14% to AO for true up of 5 months from COD to March-2021, as no debt was raised by AAI or AO during the relevant period. For FCP, Authority has allowed FRoR of 12.21%. However, MIAL is seeking FRoR of 14.9% based on cost of equity of 17.49% as determined by the independent study done for MIAL and cost of debt of 12% as per actuals. If Airport Operators are not given suitable returns on their investment, the development and upgradation of such infrastructure facilities will not be up to the mark as expected by the Governments, Aviation Industry and Users.

As far as efficiency is concerned, Airport operator has done analysis of all expenses, capital or operational, and has projected the expenses after factoring necessary efficiencies like vendor consolidation, bundling of procurement etc.

1.3. Observation 3

We recommend that no adjustment of RAB should be provided in favor of AAI for period after the COD i.e., October 31,2020, post which the operational control of the Mangaluru Airport is transferred to MIA.

Response by MIAL:

There is no adjustment of RAB after the COD. Calculations done by AERA in para 4.3.11.2 to 4.3.11.6 are in order to give effect to provisions of the Concession agreement which mandates the present value of the "Adjusted Deemed Initial RAB" has to be paid by AO to AAI. Relevant clause of the Concession agreement is reproduced below:

"The amount(s) to be paid by the Authority or Concessionaire shall be the present value of Adjusted Deemed Initial RAB calculated using the fair rate of return as determined by the Regulator for the time period from the COD to the date of actual payment of the Adjusted Deemed Initial RAB."

1.4. Observation 4:

We agree with the proposal of AERA of not excluding ATM traffic covered under the RCS scheme. Accordingly, for the said reason, we request AERA that billable ATM/ passengers as proposed by MIA in their tariff card (i.e., reduction over the traffic computed by AERA) should not be accepted

Response by MIAL:

It is submitted as per current and likely future mix of ATMs, only 2% of the domestic ATMs at Mangaluru Airport are in the category of RCS. However, 40% of domestic ATMs are in the category of less than 80-seater which are exempted from landing charges as per GoI/MoCA guidelines. Similarly, there are certain categories of passengers which are exempt from payment of UDF charges. It is to be noted that AO has done adjustment in ATMs/Passengers to calculate only the billable ATMs/Passengers as the same is necessitated to project the correct aeronautical revenues.

In this regard we would like to highlight that this approach of AERA is not in line with expected principle of regulatory framework which ensures timely and complete recovery of approved ARR by matching the expected revenue with ARR. If the exempted revenues are not taken into account by AERA, the same will result in lower recovery from landing charges and UDF and consequently lead to mismatch of ARR and revenue from day one. This will be absolutely incorrect on the face of it. Hence, we request AERA not to be misled in taking to account revenues which are not leviable ab-initio.

1.5. Observation 5 (a):

The entire ecosystem needs to be operationally efficient, which can be brought about, amongst other things by capital expenditure efficiency studies, which AERA is requested to conduct.

Response by MIAL:

Airport Operator conducted its first Airport User Consultation Committee (AUCC) Meeting on May 28, 2021, with all the stakeholders and discussed the Capital Expenditure proposed to be undertaken during the First Control Period of FY 2021-

22 to FY 2025-26 in detail. The meeting was attended by various airport stakeholders such as IATA, FIA, Indigo, SpiceJet, Go Air, Air India, AAI, CISF etc. MIAL had given a detailed presentation and justification for the new capital expenditure planned by the Airport Operator taking into account the existing challenges in MIAL pertaining to its location, topography, weather conditions, limited availability of land, etc.

Further, the Authority as part of its examination of the Aeronautical Capital Expenditure submitted by the Airport Operator had raised queries and sought clarification on the essentiality of the capital expenditure and had been provided the necessary documents such as project cost estimates, technical Consultant's report, design, drawings, plans, inspection report issued by various authorities etc., substantiating the capital expenditure proposed by the Airport Operator in the MYTP.

The Authority convened meetings with the representatives of the Airport Operator along with AERA's consultant to obtain clarification regarding its queries on the ongoing and new projects proposed by the Airport Operator and reviewed all the necessary details and documents.

Airport Operator had submitted a revised CAPEX schedule along with the justification for revision of project costs to the Authority. Costs of various major projects related to Runway, Taxiway and Apron was reduced from Rs 256 Crs to Rs 188 Crs, Terminal Building from Rs 225 Crs to Rs 209 Crs, Roads from Rs 65 Crs to Rs 41 Crs based on Authority's review on the essentiality of certain capital expenditure and the basis for estimation of project costs

Given the above steps taken by the Airport Operator and Authority, we feel there is no need to do another separate study on efficiency of capex.

1.6. Observation 5(b):

Para 7.3.4, A1 (b), A2 (e): We request that AERA applies the normative norms for the capex projects as mentioned under AERA Order No. 7/2016-17 dated 13 June 2016 in order to keep the overall cost control and efficiencies in capex projects.

Response by MIAL:

The Authority has applied the normative guidelines while assessing the costs of the new Capex projects submitted by the Airport Operator. For e.g. while the approving the cost of 4 new taxiways, Authority compared the per Sq.m. estimated cost submitted by the Airport Operator for Main Pavement and Shoulders (after excluding the cost of Earthwork, Airfield Ground lighting and other exclusions) with the Inflation adjusted Normative cost of Rs 5,287 per Sq.m, which has been derived by the Authority for FY21. The cost per sq mtr. claimed by the Airport Operator amounts to Rs. 5,025 and this cost is within above inflation adjusted normative cost derived by the Authority.

Similarly, the costs for all new capex projects have been proposed taking into consideration the normative guidelines wherever applicable.

However, for the projects which were handed over by AAI to AO as fallout of the concession agreement, Authority has not found it appropriate to apply normative approach. The Authority has proposed to consider the inflation-adjusted Contract cost, as the basis for deriving the allowable Aeronautical Capex costs for these projects. We agree with the stand taken by the Authority in this matter.

1.7. Observation 5(c):

Para 7.3.15 We observe that AERA has remarked on the trend of multiple revisions to the capital projects and projection of factually incorrect capital projects, inconclusive design reports which reflects near and long-term planning of capital projects by MIA. In this regard, AERA should undertake an independent study on Efficient Capex at Mangaluru International Airport.

Response by MIAL:

In the previous paragraphs, we have already detailed the steps taken by the Airport Operator and the Authority, basis which the capital projects and cost estimates have been arrived at.

We would like to re-iterate what was mentioned in the minutes of the AUCC conducted on 28th May 2021, that the Master Plan exercise has gone through rigorous exercise. MIAL is proposing only those projects which are critically required for safety, security, operations, and customer experience. Our proposed approach for projects to be undertaken is in line with sentiments expressed by the FIA representative during the AUCC.

Kindly refer section 3.18 of our detailed response submitted to AERA. Due to unavoidable and uncontrollable circumstances, MIAL felt the need to revise the Capex proposal during the review. It is pertinent to mention as provided on Table 46 of CP, the Capex amount proposed in the MYTP originally was Rs. 813 Crs and final version is Rs. 843 Crs. The overall difference is less than 4%. This reflects that MIAL has re-engineered and rationalized the capex program. Further, we would like to point out that the Authority has not stated that 'capital projects" were factually incorrect rather the comment of Authority was in reference to "capital projections" in the CP.

Hence, we reiterate our views that there is no need to undertake another separate study on Efficient Capex at Mangaluru International Airport.

The comment from the stakeholder reflects that stakeholder is doubting the detailed examination of capex conducted by the independent regulator in fair and transparent manner.

1.8. Observation 5(d):

Para 7.3.29: While FIA acknowledges the depreciation rate applied by AERA in accordance with AERA Order No. 35/2017-18 the 'Useful Life of Airport Assets', FIA requests that it is pertinent to note that useful life of assets at various international airports like London Heathrow, Sydney airport and Amsterdam airport indicated that terminal buildings have useful life of as long as sixty (60) years and aprons have it for *as long as ninety-nine (99) years. FIA submits that the useful life of terminal building for Kannur and Cochin airports have been considered sixty (60) years by AERA and accordingly AERA should prescribe sixty (60) years for the 'Building' including 'Terminal Building as' is practiced by some of the developed aviation ecosystem.*

Response by MIAL:
AERA Order No. 35/2017-18 the 'Useful Life of Airport Assets' carries a note on the useful lives of buildings as follows:

3	Terminal Building (including VIP Terminal, Bus Terminal, Haj Terminal)	30/ 60	3.33/ 1.67	Either 30 years or 60 years as evaluated by the Airport Operator

Further it is to be noted that the Concession Agreement is valid for 50 years. Therefore, the life of any asset cannot be more than the life of the Concession Agreement.

In MIAL's estimation, the useful life should be 25 years as substantiated by the technical study conducted by an independent expert. Given the MIAL estimation, the Authority has considered it to be 30 years in line with other Airports.

1.9. Observation 5(e):

It is mentioned that the through put demand for the Airport during the Pre- COVID period was of around 4,200 KL per month (i.e., approx. 140 KL per day). However, since the IOCL ATF fuel facility already has a storage capacity of approx.500 KL, can it please be clarified the reason to build additional storage capacity of 500 KL within the First Control period, as even if the pre COVID-19 volumes are doubled per day to 280 KL per day during the First Control Period, the current storage facility is more than sufficient to cater to this demand during the First Control Period. It is requested that the same may be kindly reviewed and the need for expansion in the storage capacity, which has been proposed to be capitalized at RS. 17.14 Crores be please put on hold until the next control period. Accordingly, the proposal of the Airport operator in its MYTP for the revised pricing for Fuel Infrastructure Cost, Aircraft Defueling and Re-fuelling of defueled products may kindly not be accepted

Response by MIAL:
Currently requirement of whole airport is around 150 KL, and total storage is a 470 KL. Thus, the total storage is equivalent to just 3 days of throughput. As per industry practice, the open access Fuel Farm should have storage equivalent to 8-10 days of throughput. Furthermore, being table-top Airport and away from the city it becomes more important that the Airport should have sufficient resources available as a business continuity plan.

With anticipated growth at IXE during this control period, 3 day's coverage will further come down. Moreover, during the routine tank cleaning/inspection activity (which is in line with DGCA's requirement), the facility will be left with just one operational storage tank, and it will not be possible to operate a 24x7 Open Access Fuel Farm with just one tank.

The existing IOCL facility is within Airport premises, whereas other facilities are outside and at distance from the Airport. MIAL is proposing to takeover only IOCL facility. This facility is handling only IOCL's volume which is only 15-20% of whole airport's volume. Thus, considering whole airport requirement, the current facility has serious bottlenecks in terms of product receipt capacity, as there is provision of only decanting one Tank Truck at time. This is grossly inadequate.

To remove all these bottlenecks, MIAL is building an additional storage of 500 KL and putting up a 5-bay Tank Truck gantry. This is bare minimum upgradation work, which is required to enable facility to cater the airport's demand for the whole control period in a safe and reliable manner.

1.10. Observation 5(f):

In order to support the airlines to continue and sustain its operations, it is requested that all non-essential capital expenditure proposed by Airport operator be put on hold/ deferred, unless deemed critical from a safety or security compliance perspective. Further, in case Airport operator wants to make capital expenditure, then it should be at no additional expense to the airlines until the project is completed and put to use by the airlines. Similarly, if any proposed Capex projects can be deferred from the First Control Period to the Second Control Period, same is requested to be considered by the AERA.

We recommend that an adjustment of 1% or higher of the project cost from the ARR, as deemed fit, is made by AERA for capital expenditure projects is/are not completed/capitalized as per the approved capitalization schedule other than those affected solely by the adverse impact of COVID-19. Such adjustments can be made by AERA during the tariff determination for the Second Control Period.

Response by MIAL:

It is to be noted that MIAL is only undertaking capital expenditure which is necessary for safety, security and convenience of airport users and same has been proposed by AERA in RAB or actual incurrence basis.

As per AERA regulatory framework, return is given only when assets are capitalized. There is no additional expense to the airlines until the project is completed and put to use. Enough consideration has been given to ensure that projects not required in FCP are deferred to next control period to avoid putting any undue burden on airport users.

Regarding the Authority proposal to disincentivize the AO by reducing 1% of the project cost in case of delay in implementation of the project, it is to be noted that it is in the interest of MIAL to complete the project as per schedule as delay in completion implies denial of return on such asset and depreciation. However, there could be delays due to various un-certainties, especially in present situation. There may be shortage of manpower, funds, force majeure, and unforeseen event, for any reason including but not limited to the scarcity of raw material, finished goods and manpower due to after effect of Covid-19. One of the principles for tariff fixation stipulates, incentive for undertaking investment in timely manner. Instead of providing incentive for timely completion of project the Authority is proposing a disincentive due to delay.

1.11. Observation 6:

Para 8.2.10 & 8.3: AERA has considered a FRoR of 12.21%, which is net of income tax return to the airport operator, for the First Control Period. However, while such fixed/assured return favors the service provider/airport operators, which creates an imbalance against the airlines, which are already suffering from huge losses and bear the adverse financial impact through higher tariffs.

Due to such fixed/assured returns, Airport Operators have no incentive to look for productivity improvement or ways of increasing efficiencies, take steps to reduce costs as they are fully covered for all costs plus their hefty returns. Such a scenario breeds inefficiencies and higher costs, which are ultimately borne by airlines.

In view of above, in the present scenario any assured return on investment to any services providers like MIA, in excess of three (3) % (including those on past orders), i.e., being at par with bank fixed deposits (i.e., return on investment after the income tax), will be onerous for the airlines.

Without prejudice to the above, in case the AERA is unable to accept our recommendation mentioned above, the AERA is requested to conduct an independent study for determination of FRoR to be provided to Airport operator. Such independent study can be exercised by the powers conferred under the AERA Act and in line with studies being conducted by AERA in case of certain major airport operators.

Response by MIAL:

As per AERA methodology, return on RAB is one of important building blocks for tariff determination. As claimed by FIA, this is not fixed or assured return. As per AERA guidelines, AERA must determine the Fair Rate of Return (FRoR) for a Control Period as its estimate of the weighted average cost of capital for an Airport Operator. Any business is viable only if it generates adequate return equivalent to its cost of capital as it helps to repay its obligations and given returns to shareholders commensurate to the risks involved in the project

As far as issue of airport charges leading to higher costs for airlines is concerned, we would like to state that the airport charges form 6-8% of the total operational cost of Airlines (based on the study of annual reports/financials available in public domain of listed Indian airlines such as Indigo, SpiceJet etc.). Hence, contribution of Airport Charges to the Airline cost structure is very limited and of lower significance as compared to other higher-impact costs such as fuel, aircraft leases, aircraft maintenance costs, salaries etc.

As per AERA guidelines, FRoR has to be computed using cost of equity which is to be determined using the CAPM method and cost of debt as per actuals for airport operator. FRoR has no linkage with fixed deposit rates. Linking it to the rate of interest on FD is devoid of any merits.

With respect to issue of independent study, we would like to state that MIAL has already done an independent study for Mangaluru airport which has determined cost of equity of 17.49%. We request Authority to use the same for calculation of FRoR.

1.12. Observation8(a):

Para 10.1.1 read with 10.2.22 (Fuel Operating Expenses): AERA should not permit outsourcing of fuel facility on a 'Cost plus margin Basis' and instead should lowest cost model through competitive bidding.

Response by MIAL:

MIAL follows the process of selection of vendors through an open competitive bidding. The airport operator is going to carry out the functions itself and not through an ISP.

1.13. Observation8(b):

Para 10.2.12 (Utility Expenses): Airport operator is requested to clarify whether any report of the Committee on Power Expenses has been submitted to AERA? If yes, request a copy of the same is provided to stakeholders.

Response by MIAL:

Report of the Committee on Power Expenses has been submitted to AERA as part of stakeholders' comments by MIAL. Same is annexed as Annexure-9 of comments submitted by MIAL.

1.14 Observation8(c):

Para 10.2.25 (Cargo Operating Expenses): It is requested that the Customs Cost Recovery Charges for Customs staff posted at Air Cargo complexes, courier terminals etc. as prescribed by the Central Board of Excise and Customs needs to be levied on custodians, and not on the airlines.

Response by MIAL:

In this particular case, MIAL is the custodian and also the operator of cargo complex. Recovery charges for customs staff is a statutory cost for MIAL for running the cargo facility and same is included as part of O&M expenses for tariff determination purposes. This is a generally accepted practice in all sectors in the Country.

1.15. Observation8(d):

It appears that no cost cutting/reduction in O&M expenses have taken place and on the contrary, as per para 10.1.13 and Table 77 of the CP, a further increase is proposed O&M expenditure for First Control Period.

We submit that while the aviation sector, including airlines have incurred huge losses and are struggling to meet their operational costs, the Airport operator on the other hand seems to have incurred/will incur incremental expenses which may not appear prudent considering the significant losses incurred by the aviation sector.

Response by MIAL:

Mangaluru Airport is undertaking Terminal Expansion from (~37,000 sq mtr to ~47,000 sq mtr) & Parallel Taxi Track work and facilities are likely to be commissioned in FY 23. Same will result in significant increase in airside and terminal capacity. Consequently, incremental manpower, utility expenses and various other expenses for running these new assets are bound to increase overall O&M of the airport. Also, existing assets of airport are very old (last major capex happened in 2010). In our experience, R&M expenses increase significantly once the assets mature due to ageing of infrastructure facilities, equipment and general wear and tear.

MIAL is a new AO and needs to build its manpower to run the Airport operations. Airport Operators face difficulties while hiring a new workforce. This is because suitable personnel available for the aviation sector is very limited. To obtain and retain competent employees, it is imperative to compensate them well. MIAL needs to hire all people from industry who come at 25%-30% higher salaries. Building of such a talent pool is an essential requirement to ensure delivery of optimized efficiencies to the airport users and more importantly to the airline community.

Further private Airport Operator is charged with various additional responsibilities under the Concession Agreement and same will result in commensurate increase in expenses

1.16. Observation9a:

Para 11.2.3 – 11.2.9: We observe that the non-aeronautical revenues projected by Airport operator is substantially low/conservative. It is requested that Airport operator explores all avenues to maximize revenue from the utilization from the expansion of terminal building for non-aeronautical purposes. As mentioned in para 11.2.3, the non- aeronautical revenue projected by the Airport operator for First Control Period is substantially lower than the actual NAR revenue earned by AAI for Pre-COVID-19 period from 2016-17 to COD. Accordingly, we request AERA to encourage Airport operator to enter into suitable agreements with concessionaires to exploit the potential/ growth of non- aeronautical revenue.

In this regard we also request AERA to kindly undertake detailed examination with the assistance of an independent study to be conducted on the non- aeronautical revenue before the tariff determination of the First Control Period.

Without prejudice to the above, we submit that increase in non-aeronautical revenue (NAR) is function of increase in terminal building area, passenger traffic growth, inflationary increase and real increase in contract rates. Despite all these factors increasing during the control period, on examination of the non-aeronautical revenue projected for the first control period by AERA, it was noted by that a conservative approach has been taken by the AERA.

AERA is requested to ensure no adjustments are proposed to non- aeronautical revenue which is not dependent on traffic but are derived from agreements with concessionaires. Further in para 11.2.11, AERA has remarked that NAR projected by MIA is significantly less than PPP airports – which are generally not less than 50% of the total O&M Expenses of the respective airports.

In view of the above, we request AERA to allow higher non-aeronautical revenues being not less than 50% of the projects O&M Expenses for MIA, as approved by AERA. In this regard, AERA may undertake suitable independent study.

Response by MIAL:
In the interests of its users and in its own commercial interests, Airport Operator will always endeavor to increase the non-aeronautical revenues to maximum possible extent. As suggested by FIA, MIAL as Airport Operator has already entered into Master Concessionaire Agreement to exploit the potential/ growth of non-aeronautical revenue whereby a minimum amount of Non-Aeronautical revenues are guaranteed to the AO. This has insulated the Airport Operator from any future unforeseen event which may negatively impact the Non-Aeronautical revenues.

The AO invited bids through a global competitive bidding process for selection of a Master Service Provider for Non-Aeronautical services at Mangaluru Airport. A third-party consultant was appointed to oversee the process adopted by the AO. Entire process was undertaken in a fair and transparent manner. Any further study on this would vitiate the very purpose of the open competitive bidding

Last 2 years of pandemic clearly point to the fact that airport operators are highly vulnerable to passenger volumes and spending power of the customer as far as non-aeronautical revenues are concerned. In order to mitigate the impact of this volatility, AO has entered into contract which ensures minimum annual guaranteed amount is also available to airport operator.

We are in consonance on the view of FIA that AERA should not make any adjustments on non-aeronautical revenue which is not dependent on traffic but are derived from agreements with concessionaires. Further any comparison of non-aeronautical revenues with O&M costs is not rational and unwarranted as non-aeronautical revenues are dependent on traffic volume, passenger profile, spending propensity, whereas O&M costs are largely fixed.

1.17. Observation 9(b):

Any attempt to award the contracts by the airport operator on highest revenue share basis should be discouraged as it breeds inefficiencies and tends to disproportionately increase the cost.

It is general perception service providers has no incentive to reduce its expenses as any such increase will be passed on to the airlines through tariff determination mechanism process and indirectly airlines will be forced to bear these additional costs. There needs to be a mechanism for incentivizing the parties for increasing efficiencies and cost savings and not for increasing the royalty for the airport operator.

As you are aware, royalty is in the nature of market access fee, charged (by any name or description) by the Airport operator under various headings without any underlying services. These charges are passed on to the airlines by the airport operator or other services providers.

The rates of royalty at the airport are as high as up to 45.5% for some services. It may be pertinent to note that market access fee by any name or description is not practiced in most of the global economies, including European Union, Australia etc. Sometimes it is argued by the airport operators that 'Royalty' on 'Aero Revenues' helps in subsidizing the aero charges for the airlines, however royalty in 'Non-Aero Revenues' hits the airlines directly without any benefit.

In view of the above, we humbly urge AERA to abolish such royalty which may be included in any of the cost items.

Response by MIAL:

In case of Mangaluru airport, there is no royalty or concession fee which will be recovered in case of cargo and fuel activities as these facilities will be managed and operated by Airport Operator only. As far as royalty of 45.5% on Ground Handling (GH) activity is concerned, we would like to state GH is aeronautical service. Abolition or reduction in royalty will result in increase in other aeronautical charges like Landing, Parking and UDF as ARR of AO as determined by the Authority is fixed. Further, we would like to state that selection of concessionaire through competitive bidding based on highest revenue share is common industry practice being followed by various airports in India and World.

1.18. Observation 10:

Tax Efficiencies: Airlines are now paying separately for FIC and ITP which was earlier part of ATF pricing. Such FIC and ITP along with GST thereon becomes part of ATF pricing and suffers from Excise Duty and Sales Tax. The additional burden of non-creditable taxes becomes sixty-four (64) % - seventy (70) % on the airlines. We would also like to urge Authority to devise methods or pass an order stating that FIC and ITP should be directly invoiced by fuel farm operator or the services providers to the airlines to avoid circuitous billing and for the sake of 'Ease of doing businesses and

'Transparency'. This will also help in avoiding unnecessary tax on tax to the tune of sixty-four (64) %- seventy (70) % sixty-seven (67) % to Airlines.

Response by MIAL:
We believe relevant Authority has been mindful of the undue tax burdens on various players in the aviation ecosystem. This is substantiated by the fact that fuel throughput charges were abolished by AERA/MoCA in Jan 2020 and airport operators were compensated by way of increase in landing charges and airlines were benefitted by way of lower tax burden. Having said the above, we will welcome any new steps that are taken by MoCA/GoI/AERA in this direction.

However, as far as billing of FIC and ITP charges is concerned, OMCs (not airlines) are the users of the open access facility and fuel farm operator is appropriately charging FIC and ITP charges to the users of the facility

1.19. Observation 13a:
AERA is requested to review the suggestions/comments on the regulatory building blocks as mentioned above which is likely to reduce the ARR. This will further ensure the lowering of tariff including UDF, which will be beneficial to passengers and airlines.

It is in the interest of all the stakeholders that the proposed excessive hikes in the tariffs be reduced and also in order to encourage middle class people to travel by air, which will help in sharp post- COVID-19 recovery of aviation sector. It is the stated vison of the government to make UDAN ("Ude Desh ka Aam Naagrik") a reality and this can only happen if we have the lowest possible cost structure, such that we can bring more and more people to airports to travel by air.

Response by MIAL:
MIAL appreciates the vision of the Government to make UDAN a reality that will ensure long term sustainability of entire aviation ecosystem. We will continue to abide by all the orders of the Authority to boost regional connectivity (RCS scheme) whereby no landing charges are charged to Airlines and no UDF is charged to the departing passenger.

1.20. Observation 13b:
It may kindly be noted that the Airport operator has proposed a UDF on not only embarking passengers, but on disembarking passengers as well. This is a something new and would request AERA to review the same. Please clarify the rationale for applying UDF on disembarking passengers?

Response by MIAL:
In order to cushion the impact of this increase and in the interest of users, Airport Operator has introduced UDF on arriving passengers in its tariff card. This is not a new practice. Authority in the past had approved UDF on arriving pax for Delhi Airport (DIAL). Authority while tariff determination of first control period of DIAL had observed the following:

"As far as splitting of UDF between departing and arriving passengers is concerned, both departing and arriving passengers use the airport facilities. The Authority is also informed that such a charge on the arriving passengers is prevalent in some of the airports like Brussels, Darwin, Sydney, Canberra, Brisbane, Auckland. The Authority decided to accept this proposal of DIAL"

1.21. Observation 13c:

We request AERA to clarify in the Tariff Order, the date and method of applicability of change in UDF charges, if any (as done through addendums for MAA & CCJ airport vide addendum to order no. 38/2021-22 dated 4th March 2022 and addendum to order no. 39/2021-22 dated 8th March 222, respectively)

Response by MIAL:

We understand that by virtue of the above-mentioned addendum orders, AERA has stated that revised UDF charges are applicable for tickets issued on or after the effective date of the tariff order. This was done based on the request made by AAI in order to bring clarity regarding the applicability of revised UDF charges. We request Authority to put similar clause in MIAL order as well.

1.22. Observation 13(d):

Collection Charges: We would like to invite AERA's attention to notes 2 of UDF charges in the Public notice 10/2022-23, wherein the rate of collection of UDF charges has been proposed to be reduced by MIA from the current Rs. 5.00 per embarking/disembarking passenger to Rs. 2.50. As airlines have not agreed to this reduction, we request AERA to consider the collection charges to be reverted to Rs. 5.00 embarking/disembarking passenger, in line with other Airports.

Response by MIAL:

Collection charges paid to airlines is pass though expense for airport operator. Reduction in collection charges is in interest of all airport users.

1.23. Observation 13(e):

There is no mention of Collection charges for PSF in the MYTP submitted by the Airport operator. In the event the PSF is subsumed in the UDF, then airlines may kindly be eligible to claim collection charges at 2.5% of PSF per passenger, is being done currently. If PSF is not subsumed in the UDF, then current practices may kindly be continued.

Response by MIAL:

For simplicity and in the interest of users, we have requested Authority to subsume PSF charges in to UDF and propose Rs 2.5 per passenger as collection charges for UDF.

1.24. Observation 13(f):

We further request that in the Collection Charges, the entitlement by airlines for the same may kindly be against Airport operator having received the 'undisputed' invoiced UDF amount within the applicable due date.

Response by MIAL:

As approved by AERA for other airports, airlines entitlement to collection charges should only be against full and timely payment of all outstanding dues.

1.25. Observation 13(g):

CUTE, CUPPS, CUSS: As these are aeronautical revenues, we could neither find a proposal for the same in the MYTP submitted by the Airport operator for the First Control Period, nor any comment by AERA on regulating these charges in the CP for the First Control Period. We would like to state that (i) the current prices are excessive; (ii) whatever bouquet of services is agreed between the Airport operator and the service provider, this is enforced upon the airlines; (iii) the airlines have no say on the prices (unbundling), even if the airlines do not require all the services; and (iv) are in foreign currency at certain airports, making airlines vulnerable due to currency fluctuations. AERA is kindly requested to inform us the guidelines for price regulation on the same.

Response by MIAL:

At MIAL, the CUTE/CUPPS/CUSS (CUTE) charges are charged by third party concessionaire who in turn shares certain portion of these charges with MIAL. MIAL is not directly charging the users. The arrangement was existing before COD when AAI was operating the Airport and it is novated to MIAL from COD onwards as per terms of the CA.

In this respect, revenue portion received by MIAL is considered as aeronautical (refer table 35 of CP). Therefore, other aeronautical charges like landing, UDF etc, calculated to provide the recovery of ARR, as provided in the tariff card are arrived after reducing contribution of revenues from CUTE services from eligible ARR.

In simple terms, Present value of eligible ARR = Present value of Aeronautical Revenues other than revenues from CUTE services + Present value of revenues from CUTE services.

Any reduction in revenues from CUTE services will increase landing/parking charges by that amount as the ARR to be recovered is a fixed number.

1.26. Observation 13(h):

Query: Whether landing charges will be charged in INR or US$ for international flight?

Response by MIAL:

All the charges to Indian Carriers will be raised in INR and to international carriers USD denominated

1.27. Observation 13(i)

As per ATP proposed by MIAL "Parking time will be calculated based on On-Blocks and Off-Blocks time as recorded at the Airport Operations Control Centre. (AOCC)."

Comment: As per standard practice, 15mins time each after touchdown and before takeoff of aircraft is provided as an exemption. We would want to propose the same industry practice to be implemented here.

Response by MIAL:

On Block and Off Block time are much cleaner to monitor and is more relevant from a true parking time perspective unlike touch-down / take-off which is highly variable in nature.

1.28. Observation 13(j)

As per ATP proposed by MIAL "In case of an aircraft being parked beyond 24 hours due to technical or any other reasons, the parking charges shall be levied on a weekly basis in-line with the governing tariff order.

Query: Please clarify which governing tariff order is being mentioned above. Please provide the corresponding rate card.

Response by MIAL:

Governing Tariff Order is the proposed tariff order itself as the rates are applicable irrespective of the time period of parking. Also, the weekly payment is in line with our invoicing policy for other aero charges like Landing, UDF etc.

1.29. Observation 13(k)

In the table dealing appended to point no. 5 of Exemption in Landing Charges and Parking Charges, there are no charges appearing for applicability of UDF on disembarking passenger. Please clarify.

Response by MIAL:

Refer section **"Exemptions in Payment of User Development Fee (UDF)"** for the same (page 18 of the ATP document submitted by MIAL)

1.30. Observation 13(l):

With respect to effectiveness of UDF from 1st October " Will the above UDF effective date shall be considered as Travel date or Sale date or Both-travel and sale date?"

Response by MIAL:

As per recent orders approved by the Authority, revised UDF charges are applicable on tickets issued on or after effective date of tariff order. We request similar practice may be followed for MIAL as well.

1.31. Observation 13(m):
Please clarify the rationale for applying UDF on disembarking passengers?

Response by MIAL:
Already addressed

1.32. Observation 13(n):
With respect to Collection Charges "Please note that the same is paid by airport operator to airlines separately after airlines raises an invoice against the same as a standard industry practice. We request the same practice is applied."

Response by MIAL:
Once MIAL receives the UDF amount within the due date as mentioned in the invoice; and there are no overdue on any account with MIAL, the collection charges payable to the Airlines will be paid as per due dates mentioned on the invoice. However, no collection charge shall be payable by MIAL to the airline if the airline fails to make UDF invoice payment within aforesaid applicable time limit/credit period. This is as per the existing provisions made in the AERA order for other airports.

1.33. Observation 13(o):
With respect to X Ray Charges, it is mentioned that Invoices for international passengers / international carriers will be done in USD.

Query: Does that mean all international passengers flown by Domestic scheduled operators also will be invoiced in USD? And if so, INR rates are applicable on which passenger/operator?

Response by MIAL:
All the charges to Indian Carriers (including international operations) will be done in INR terms and to international carriers in USD terms.

1.34. Observation 13(p):
With respect to Variable Tariff Plan for Scheduled Passenger Airlines "New Route: A flight to a new destination that is currently unserved from Mangalore by any airline already operating at Mangalore. (Destination must be unserved for the previous 12 months)"

Query: We understand "Unserved" means no scheduled operations. Please confirm.

Response by MIAL:
Same is confirmed

1.35. Observation 13(q):

In the table of VTP Applicable Rates for Scheduled Passenger Airlines Rate per MTOW (MTOW >100 MT) appears to be repeated, with no additional conditions. Please clarify the same.

Response by MIAL:

For more clarity VTP rate card is reproduced below:

Type	Rack Rate (RR) per MT	Existing flight	New Route
Landing Charges			Year 1
Domestic Flights			
Rate per MTOW (MTOW<=100 MT)	RR	-	0.75*RR
Rate per MTOW (MTOW >100 MT)	RR	-	0.75*RR
International Flights			
Rate per MTOW (MTOW<=100 MT)	RR	-	0.50*RR
Rate per MTOW (MTOW >100 MT)	RR	-	0.50*RR
Up gauging of Aircraft from Less than 80-Seater to above 80 Seaters (applicable for Existing Passenger Routes)			
Rate per MTOW (MTOW<=100 MT)	RR		0.70*RR
Rate per MTOW (MTOW >100 MT)	RR		0.70*RR-

1.36. Observation 13(r):

FIA submits that the Hon'ble TDSAT Order dated 16 December 2020 for BIAL stated as follows: '100...However, there is substance in this grievance and AERA will do well to ensure that if delay is caused by the Airport operator, its consequences should not fall upon the users. Tariff orders should be prepared well in time so that the burden of recovery is spread over the entire period for which the order is passed...'

In view of the above, AERA is requested to ensure that airlines/passengers are not burdened in view of the apparent shrinkage in the period of recovery of the aeronautical tariff from passengers/airlines, as the AERA Tariff Order for MIA - First Control Period, will now be issued after the commencement of the Control Period i.e., 1 April 2021.

Response by MIAL:

It is to be noted that MIAL started commercial operations from 31st October 2020. As per the clause 28.11.1 of the CA, MIAL shall have not less than 365 days from the

COD to seek revision of the Aeronautical Charges from AERA. MIAL submitted its MYTP to AERA on 31st May 2021 and complied with provisions of CA.

2. Counter comments on comments from IATA

2.1. Observation 1:

There seems to be room to pursue greater rationalization of O&M expenses with the transition from AAI to the new airport operator.

Response by MIAL:

Airport Operator has taken measures to rationalize its O&M expenses wherever possible. For e.g., Considering the current ongoing expansion along with additional responsibilities which are given to Airport Operator as per CA, total strength of Mangaluru Airport should be 249. However, MIAL has projected manpower requirement of 188 taking into account possible efficiencies. Kindly refer the MIAL comments to the consultation paper for details relating to the matter.

2.2. Observation 2:

Improvement in CAPEX program governance is needed to ensure that only critical and demand driven infrastructure are accepted with support from the airline community. Ongoing monitoring of CAPEX items against the agreed business case following capitalization is needed, as well as confirmation of the airport operator delivering on the agreed benefits/objectives.

Response by MIAL:

MIAL conducted Airport User Consultation Committee (AUCC) Meeting on May 28, 2021, with all the stakeholders including airline community. Detailed presentation with justification and benefits for the new capital expenditure projects taking into account the existing challenges in MIA pertaining to its location, topography, weather conditions, limited availability of land, etc. was given.

Airport Operator has submitted only the efficient costs that are necessary and critical for the safety, security and convenience of the passengers. Same has been duly reviewed and rationalized, by the Authority and Independent consultant appointed by the Authority, in various heads of operational and capital expenditure.

2.3. Observation 3:

The new operator is taking over the airport and renumerating AAI for past costs and future share of the profits made by the new airport operator. In this case, should the true-up costs claimed by AAI be already covered or inclusive within the per passenger fee?

Response by MIAL:

It is to be noted that payments of (i) true-up is related to period before the take over and (ii) the per passenger fees is for the period from COD onwards. These payments are governed by the Concession Agreement signed between AAI and MIAL. As per AERA Act section 13 (a) (vi) the Authority needs to take into

consideration the Concession Agreement while determining the tariffs. For quick reference the relevant extract from AERA Act is as :
Section 13 (a) (vi) the concession offered by the Central Government in any agreement or memorandum of understanding or otherwise;

Also, it is to be noted that AAI is not a shareholder in MIAL. Hence, they are not entitled for any share of profits.

MIAL is obligated to follow the Concession Agreement and it expect the same is to be honored by the Authority.

2.4. Observation 4:
It is important to clarify how the new airport operator will account for the monthly passenger fee payments from its profits/allowable returns, as this is not allowed to be passed through. Although this would naturally not appear in the regulated costs for the determination of the ARR, we encourage AERA to maintain visibility of this aspect to ensure that the passenger fees are not picked up by airport users, either fully or partially, intentionally or not.

Response by MIAL:
Article 27 of the CA provides for necessary provisions relating to Concession Fees. For quick reference some of the relevant extracts provided as : -

27.1.2 The Monthly Concession Fee paid/ payable by the Concessionaire to the Authority under and pursuant to the terms of this Agreement shall not be included as a part of costs for provision of Aeronautical Services and no pass-through would be available in relation to the same.

27.2 Verification of Passenger Throughput
The Authority may, in order to verify the International Passenger Throughput and/ or Domestic Passenger Throughput and/ or to ascertain the actual International Passenger Throughput and Domestic Passenger Throughput at the Airport, depute its representatives to the Airport and the offices of the Concessionaire, and undertake such other measures and actions as it may deem necessary. The Authority may call upon the Concessionaire to furnish any and all data, information, log, sheet, document or statement, as the Authority may deem fit and necessary for these purposes.

As provided above, the Concession Agreement does not allow pass-through of the per passenger fees. Further CA provides for necessary governance mechanism about the verification and reconciliation of the monthly passenger fees.
Lastly, the audited financial statements separately disclose the monthly passenger fees.

MIAL is of the opinion that there is sufficient mechanism provided to safeguard the interest of the users such that passenger fee is not picked up by airport users fully or partially. Further, AERA has ensured not to add monthly fees payable to AAI as an expenditure while calculating ARR.

2.5. Observation 5:

AAI has indicated that during the COVID-19 crisis, some areas previously occupied for non-aero activities are now empty and hence should be allocated as aeronautical area. We request that AERA rejects this suggestion as not all areas can be repurposed for aero activities and might not be needed by aeronautical services.

Response by MIAL:

MIAL doesn't agree with the above views of IATA. Design and size of the terminal building has nothing to do with non-aeronautical area occupied by the concessionaires. In our view, terminal building is 100% aeronautical asset as provided under the AERA Guidelines. It is to be noted that terminal building is built with certain length, breadth and height considering the passenger throughput and service level requirements.

MIAL has provided its detailed comments on the similar matters in its response submission to the Authority. To avoid repetition of the same, the same may be referred from point 3.19 of the detailed response submitted by MIAL.

3. Counter comments on comments from Airport Operators (BIAL, DIAL, AAI) and Industry Bodies (APAO, KCCI)

Airport Operators such as BIAL, DIAL and AAI and industry bodies APAO and KCCI have echoed MIAL's submissions and comments on certain key matters relating to estimation of Tariff and various Regulatory Principles etc.

Comments from Stakeholders including but not limited to

1. Cost of debt allowed at 9% and not at 12% at which actual debt is taken by AO
2. Cost of equity allowed at 15.18% instead of 17.49% requested by AO
3. Outdated Inflation of 4.9% is considered instead of recent available information
4. Billable traffic not adjusted for calculating aeronautical revenues
5. Capping of R&M expense to 6% of opening RAB as against the AERA Guidelines
6. Deferment of ARR to next control period
7. Intangible assets (Pre-COD expenses) not allowed
8. Rationalization in Employee numbers and salary increase not allowed as per projections of AO.
9. Cost claimed towards technical services, PMC, Preliminaries and Pre-operatives, Contingencies, Statutory approvals, Labor cess, Site-preparation, Insurance etc. reduced to 8%.
10. Not allowing projects like Vehicle Access Roads and sustainability projects like Rainwater Harvesting and Water Storage as part of RAB
11. Financing allowance to be allowed on equity portion as well

MIAL has also submitted its detailed explanations and justifications on all the above matters as part of its response to the Consultation Paper. MIAL requests the Authority to consider the well-reasoned comments provided by MIAL and the aforementioned stakeholders.

4. Counter comments on comments from HPCL

4.1. Observation:

Since FIC tariff is one of the component in the pricing mechanism, kindly make the new tariff applicable on prospective basis.

Response by MIAL:

Once the tariff is approved by the Authority, FIC will be levied by MIAL on prospective basis only i.e. from the date of operation of the facility.