



प्राप्त  
डायरी नं० 17444  
तारीख 05/04/2023

F.A. AAI/JVC/Lucknow-Tariff/2022-23/859

Dated 05.04.2023

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

**Subject:- Submission of AAI's Counter Comments on Stakeholders' Comments in response to Consultation Paper (CP NO 16/2022-23 Dated 20/02/2023) issued in the matter of determination of Aeronautical Tariff of Lucknow International Airport .**

Dear Sir,

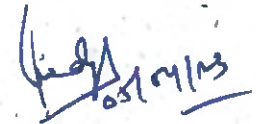
This has reference to AERA's Consultation Paper No. 16/2022-23 dated 20th Feb., 2023 in the matter of determination of Aeronautical tariff for the 3rd Control period (01.04.2021 to 31.03.2026) along with true up of 2nd Control Period in respect of Lucknow International Airport.

AAI's response to Consultation Paper No. 16/2022-23 is enclosed.

This issues with the approval of Competent Authority.

Thanking you,

Your Sincerely,

  
(V.Vidya)

Executive Director (JVC & PPP)-I

Enclosed: As Above



# Airport Authority of India

## LUCKNOW INTERNATIONAL AIRPORT

Response to Stakeholder comments to Airports Economic Regulatory Authority of India's (AERA) Consultation Paper No. 16/2022-23 dated February 20, 2023, Determination of Aeronautical Tariff for Chaudhary Charan Singh International Airport (CCSIA), Lucknow (LKO) For the Third Control Period (01.04.2022 - 31.03.2027)

**Contents**

- 1 Comments from Various Stakeholders .....3
  - 1.1 Regarding restricting R&M expenses.....3
  - 1.2 Regarding Fair Rate of Return .....5
  - 1.3 Regarding CHQ/RHQ Expenses under Operating Expenditure .....7
  - 1.4 Regarding Return on Land .....7
  - 1.5 Regarding Adjusted Deemed Initial RAB.....8

# 1 Comments from Various Stakeholders

## 1.1 Regarding restricting R&M expenses

### 1.1.1 APAO's Submission

*"AERA has restricted the R&M expenses to lower of 6% of opening RAB or submission of airport operator. This approach is against the spirit of the AERA Act. As per section 13 of the AERA Act, Authority has to ensure economic and viable operations of the airports. Further, cost for improving the efficiency has also to be considered for determination of tariff of aeronautical services.*

Relevant extract from AERA Act is as follows: -

13. Functions of Authority – (1) The Authority shall perform the following functions in respect of major airports, namely: -

(a) to determine the tariff for the aeronautical services taking into consideration-

(i) the capital expenditure incurred and timely investment in improvement of airport facilities;

(ii) the service provided, its quality and other relevant factors;

(iii) the cost for improving efficiency;

(iv) economic and viable operations of major airports

By restricting these expenses, Authority is acting in contravention to the mandate of the AERA Act.

It is further submitted that AERA guidelines which provide for the detailed framework of how the Authority will determine the tariff also does not provide any capping of R&M expenses to 6%. Restricting the expenses will compromise the operations as the Airport operator will not be able to incur more than what has been allowed by Authority.

R&M needs of each airport operator depends on various factors which are unique and specific to them. By using the same standard template of projecting these expenses for different airports is not an appropriate approach.

### 1.1.2 BIAL's Submission

*"AERA has restricted the R&M expenses to lower of 6% of opening RAB or the submissions of airport operator for the period FY2022-2024. This approach is against the provisions of AERA Act. As per section 13 of the AERA Act, Authority has to ensure economic and viable operation of the airports. By restricting these expenses, Authority is acting in contravention to the mandate of the AERA Act. Restricting the expenses will compromise the operations of the Airport, as the operator will not be able to incur more than what has been allowed by Authority.*

*The AERA guidelines published so far in regard to Airport operators, does not provide for any capping of R&M expenses to any value. Therefore, we do not understand the logic for the proposed capping principle. Such fundamental changes to economic regulation of airports need to have some compelling reason and the Consultation paper does not have any such analysis."*

1.1.3 AAI's Submission

AAI agrees to views of APAO and BIAL, and AAI is also of the view that there should not be capping on actual expenditure. *Refer para 4.8.6 of the CP.*

1.1.3.1 AAI submits that

Every station of AAI is subject to C&AG audit on a yearly basis. Hence, the costs captured by the airports in their respective trial balances are based on the actual spend. To determine the costs, there are detailed tendering mechanisms for every contract. Hence, no costs in addition to what is incurred is accounted for in stations.

- The Repairs and Maintenance expenses incurred by AAI was based on the specific needs of the airport and the level of service provided to the customers. The maintenance and upkeep of the airport's infrastructure is critical to ensure the safety and efficiency of airport operations, and thus the expenses related to repairs and maintenance should be viewed as necessary investments in the long-term viability of the airport.
- Furthermore, the 6% threshold set by the Authority may not be appropriate in all cases, and that it should be evaluated in the context of the specific airport and its operational needs. Factors such as the age and condition of infrastructure and equipment, the size and complexity of the airport, and other operational considerations may all impact the appropriate level of Repairs and Maintenance expenses.
- The expenditure towards Repairs and Maintenance has been incurred and that AAI follows rigorous process of awarding contracts on competitive tender basis. The bids received are evaluated carefully and the most suitable vendor technically and financially is ultimately chosen. The entire process is also approved at various levels depending on the delegation of the Authority.
- Further AAI submits that since the Authority has considered net block which even if the expenditure is fixed would appear to be higher, the tabulation is self-explanatory:

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
Gross Block	100	88.9	77.8	66.7	55.6	44.4	33.3	22.2	11.1
Dep Rate	11%	11%	11%	11%	11%	11%	11%	11%	11%
Dep	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1	11.1
Net Block	88.9	77.8	66.7	55.6	44.4	33.3	22.2	11.1	0
Fixed R&M	4	4	4	4	4	4	4	4	4
% of R&M Exp on Net RAB	5%	5%	6%	7%	9%	12%	18%	36%	

1.1.3.2 AAI requests the Authority to consider the actual costs incurred for the second control period without restricting it to 6% on opening RAB. Terminal Buildings were built more than 20 years back and AAI submits that with ageing of the building and associated equipment, the R&M will only increase over the years. Moreover, applying a ratio on the depreciated WDV will further reduce the cost whereas the reality is that the costs will only increase over the years to make good the wear and tear over the years.

## 1.2 Regarding Fair Rate of Return

### 1.2.1 FIA's Submission

Para 4.7 of the CP, It is submitted that:

- (a) Fair Rate of Return (FRoR) to airport operators should be provided only at reasonable rates as any high value of fixed/ assured return favours the service provider/airport operators, 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.
- (b) FIA observes that Fair Rate of Return of 14% provided to Airport Authority of India ("AAI") is higher than comparison to the same being given to the present Airport Operator i.e. LIAL@ 12.21% (Refer 8.2.10 of the CP). Without prejudice to (a) above, there appears no rationale to provide higher return to AAI in comparison to LIAL and accordingly AERA may reduce the FRoR suitably.

**1.2.2 AAI's Submission**

1.2.2.1 FIA has compared the future FRoR of the Airport Operator (AO) with FRoR of AAI, however FRoR may not be comparable due to the change in the composition of funding of the new operator. It has already been well established in the second control period order that the FRoR of AAI would be 14%. Hence, revisiting this stand due to a change in operator, in AAI's opinion, is not in order. To reiterate, had AAI continued operations in SVPIA, 14% return would have been continued for the subsequent control periods also.

1.2.2.2 Further, AAI noted that discount factored considered by the Authority post 31st Mar 2021 up to 31st Mar 2022 (as per table 47 of the CP) is at rate of 12.21% i.e. FRoR of the new operator. However, AAI submits that as per the concession agreement, the return of RAB until settled will be paid by the operator. Considering that AAI's asset is yet to be settled, during the COD to Settlement period, FRoR of AAI should be adopted by AERA.

**1.2.3 IATA's Submission**

1.2.3.1 IATA maintains our view that the FRoR of 14% is on the higher side and does not reflect the business risk assumed by AAI, given the true-up approach adopted by AERA. This is even more so as the industry was impacted by the COVID19 pandemic, whereby it would be expected that the allowable returns be lowered, especially in FY20/21.

**1.2.4 AAI's Submission**

1.2.4.1 While it is true that the aviation industry was severely impacted by the COVID-19 pandemic, so was AAI impacted across the Airports, it is important to note that the FRoR of 14% is not only determined by the risks assumed by AAI but also takes into account the need for Economical growth, Cost of funds, Sustainable growth and Development of the aviation sector.

1.2.4.2 The FRoR is a crucial element of economic regulation that determines the financial viability of the airports and their ability to attract investments which can has le d to better services and infrastructure for passengers and airlines.

1.2.4.3 Therefore, while it is understandable that the pandemic has had a significant impact on the aviation industry, it is crucial to strike a balance between providing a reasonable return on investment for airport operators and ensuring the long-term sustainability of the aviation sector. The FRoR of 14% is a result of a precise and thorough analysis by the AERA, taking into account various factors, and should be upheld.

### 1.3 Regarding CHQ/RHQ Expenses under Operating Expenditure

#### 1.3.1 IATA's Submission

- 1.3.1.1 IATA agrees with removing the burden of interest & penalties, due to lapses on the part of the Operator.
- 1.3.1.2 *We also agree with AERA's proposal to rationalise the CHQ/RHQ expenses. However, we would like to highlight that the expenses that were allowed under this head in the 2nd control period was Rs. 71.2 Cr. Therefore, the same should be allowed, and not Rs. 198 Cr, as done in the current CP.*

#### 1.3.2 AAI's Submission

- 1.3.2.1 While it is important to rationalize costs and operate efficiently, the Authority should ensure that the allocation of expenses is fair, transparent, and reflects the actual costs incurred by each airport. Therefore, we request the Authority to revisit the methodology used to derive the revised CHQ and RHQ expenses for the Pre-COD period and consider a fair and transparent allocation of expenses to each airport.
- 1.3.2.2 In this regard, AAI wish to highlight that AAI is an entity that has been established by an Act of Parliament, and after the audit by the Comptroller and Auditor General (C&AG), its accounts are presented before the Parliament. This indicates that AAI is a government-owned organization that is accountable to the Parliament of India.
- 1.3.2.3 AAI has been consistently following a particular methodology/formula for the allocation of CHQ and RHQ expenses to all profit centers. This methodology has also been adopted while finalizing and submitting the tariff proposals for AERA in the past. As per this approach, CHQ expenses (net off of revenue) are allocated to all profit centers of AAI based on revenue earned. Similarly, RHQ expenses (net off of revenue) are allocated to all profit centers under the respective region on the basis of revenue earned. Finally, CHQ and RHQ expenses are allocated to profit centers based on this methodology.
- 1.3.2.4 AERA has considered the above approach in the past while determining tariffs for Amritsar, Raipur, Trichy, Pune, Chennai and Varanasi airports. However, for determining tariffs for Lucknow Airport, a change in approach has been proposed. The proposal suggests that AERA may consider the lower of actual/approved apportionment expenses as per the Second Control Period Order.
- 1.3.2.5 As the policy is uniform for AAI as a whole, a change in approach or methodology between airports during the control period would result in under-recovery of CHQ/RHQ apportioned expenses at Lucknow Airport. This means that if AERA adopts a different approach for determining tariffs for Lucknow Airport, the CHQ/RHQ apportioned expenses at Lucknow Airport would remain under-recovered. Therefore, it is being suggested that AERA should maintain consistency in its approach and methodology while determining tariffs for different airports.

### 1.4 Regarding Return on Land

#### 1.4.1 IATA's Submission

We note AERA's proposal about not including land in the true-up calculation, and disallowing the same being claimed by AAI as part of true up of the pre-COD period.



**1.4.2 AAI's Submission**

1.4.2.1 In Order No. 42/2018-19 dated March 5, 2019 specifies that

*"4.1.4 In case land is purchased by the airport operating company either from private parties or from government, the compensation shall be in the form of equated annual instalments computed at actual cost of debt or SBI, base rate plus 2% whichever is lower over a period of thirty years."*

1.4.2.2 AAI is the Airport Owner and Asset has been given to the Airport operator (AO), Order no. 42 of the regulator is silent on the amortization of the balance cost of land, in case of land is used by the AO. Furthermore, it is important to note that the land has not been transferred by AAI to the Airport Operator, and therefore, it is reasonable for AAI to expect compensation for the cost of land incurred during the pre-COD period.

1.4.2.3 In conclusion, AAI has invested a significant amount in the land of CCSIA, Lucknow, and it is reasonable for AAI to expect compensation for the cost of land incurred during the pre-COD period. Therefore, the Authority should consider the amortization of the balance cost of land claimed by AAI as part of its true up submission for the pre-COD period.

**1.5 Regarding Adjusted Deemed Initial RAB**

**1.5.1 FIA's Submission**

1.5.1.1 Para 4.14.6 and Para 4.14.7 without prejudice to the para 4.14.6 and 4.14.7:

- FIA recommends that no adjustment of RAB should be provided in favour of AAI for period after the COD i.e. 2th November, 2020, post which the operational control of the Lucknow Airport is transferred to LIAL.
- Further, FIA wish to draw AERA's attention to para 2.4.4 of the CP, that any delay in submitting the Multi Year Tariff Plan by the airport operator should be taken into account, as delay in tariff determination process will lead to increase in adjusted deemed initial RAB.
- With regard to application of compounding factor (FRoR) to determine the future value of under recovery. We request AERA to note our comments as mentioned in S.No. 02 and para (a) and (b) above.

**1.5.2 AAI's Submission**

1.5.2.1 It is true that the operational control of the Lucknow Airport has been transferred to LIAL, it should not deny the fact that AAI had incurred certain costs and investments in the airport prior to the transfer. AERA should take into account the costs incurred by AAI in determining the Adjusted Deemed Initial RAB, regardless of the transfer of operational control to LIAL.

1.5.2.2 The delay in submitting the Multi Year Tariff Plan by the airport operator should not be used as a reason to increase the Adjusted Deemed Initial RAB. The responsibility to submit the plan lies with the airport operator, and any delay in submission should not result in an unfair burden on AAI.

1.5.2.3 FIA's comments regarding the application of compounding factor (FRoR) do not provide any substantive ground on why AERA's methodology should be changed. AERA's methodology is based on industry standards and takes into account various factors such as the prevailing interest rates and the Third Control Period for CCSIA, Lucknow.

\*\*\*\*\*