adani

Ref: LIAL/CO/AERA-MYTP/2023/4 **Date: 4th April 2023**

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. 16/2022-23 dated 20th February 2023 in the Matter of Determination of Aeronautical Tariff for Chaudhary Charan Singh International Airport (CCSIA), Lucknow (LKO) for the Third Control Period (01.04.2021 - 31.03.2026)

Dear Sir,

This is in respect to the Consultation Paper No. 16/2022-23 dated 20th February 2023 in the Matter of Determination of Aeronautical Tariff for Chaudhary Charan Singh International Airport (CCSIA), Lucknow (LKO) for the Third 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 No. 25/2022-23 dated 27th March 2023.

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

Thanking you

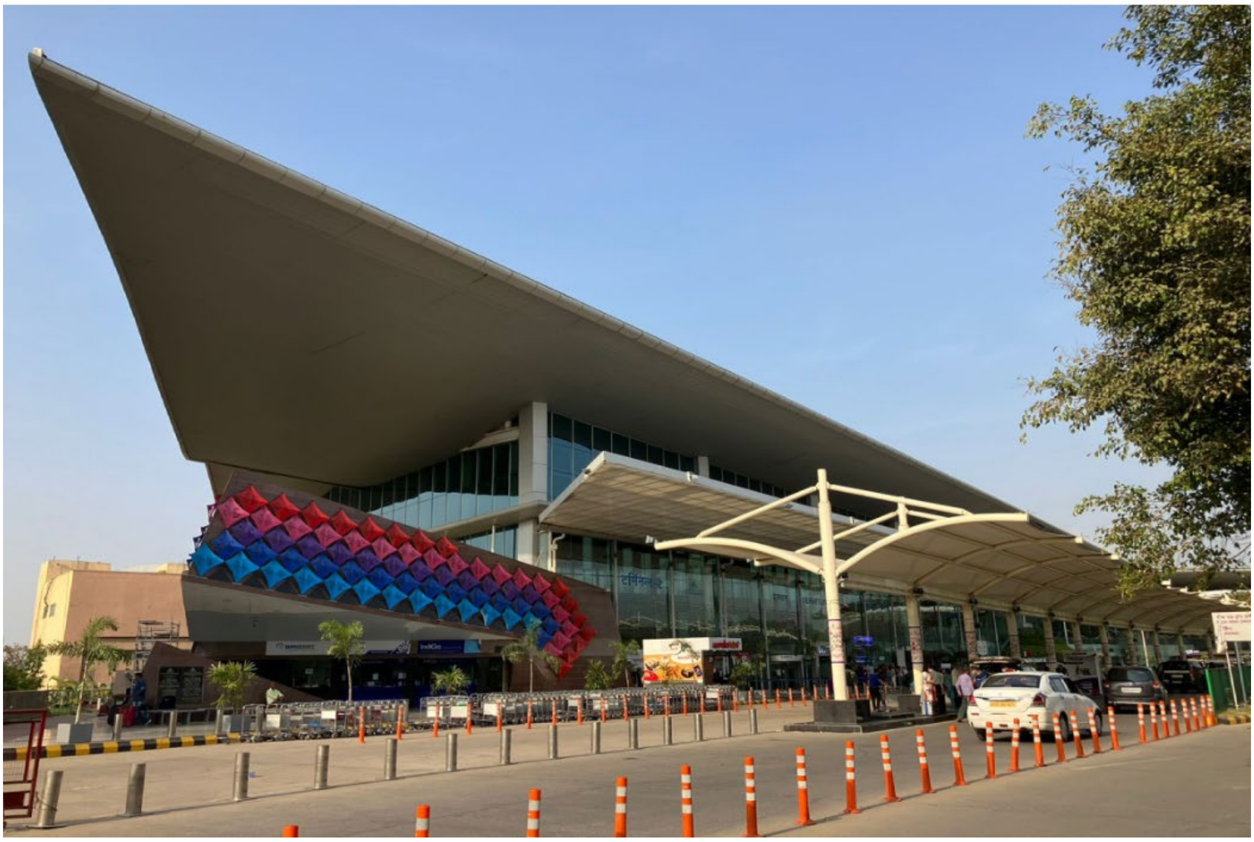
Yours truly,
For Lucknow International Airport Limited,

Manoj Chanduka
Authorized Signatory

Lucknow International Airport Ltd
(Formerly known as Adani Lucknow International Airport Ltd)
First Floor, Terminal 1
CCS International Airport
Lucknow 226 009
Uttar Pradesh, India
CIN: U63030GJ2019PLC109814

Tel +91 522 243 6022
Fax +91 522 243 2883
adaniairports@adani.com
www.adani.com

Registered Office: Adani Corporate House, Shantigram, Nr Vaishno Devi Circle, S G Highway, Khodiyar, Ahmedabad 382 421, Gujarat, India



Counter comments on stakeholders comments in respect of Consultation Paper No. 16/2022-23 dated 20th February 2023 in The Matter of Determination of Aeronautical Tariff for Chaudhary Charan Singh International Airport (CCSIA), Lucknow (LKO) for the Third Control Period (01.04.2021 - 31.03.2026)

Disclaimer

This document has been prepared by Lucknow International Airport Limited (LIAL) as counter comments to the comments provided by various stakeholders in respect to AERA's Consultation Paper (CP) No. 16/2022-23 dated 20th February 2023 in The Matter of Determination of Aeronautical Tariff for Chaudhary Charan Singh International Airport (CCSIA), Lucknow (LKO) for the Third Control Period (01.04.2021 - 31.03.2026).

The purpose of this document is to solely provide a counter comment to the comments provided by stakeholders and should not be referred to and relied upon by any person against LIAL. This document includes statements, which reflect various assumptions and assessments by LIAL 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 LIAL to consider particular needs of each party who reads or uses this document.

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

The response is without prejudice to LIAL'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 LIAL)

Response by LIAL:

Since last 10 years, no major capital investment has been undertaken at Lucknow Airport, the last being the New International Terminal Building T2 in Year 2012-13. In addition, the existing airport infrastructure is not commensurate with the growth achieved in traffic throughput, which can be correlated from the fact that the existing Airport terminals capacity is 4.3 mppa whereas the Airport had handled more than 5.4 mppa during FY19-20 (Pre-COVID). Considering the potential demand and operational requirements, AAI planned for the new terminal in FY2015-16 itself and envisioned the construction of New Terminal 3 in 2018. The same is being carried forward by LIAL as per terms of the CA. In addition to T3, LIAL has planned investments in the third control period to rectify the deficiencies, meet compliance , essential safety, and security requirements. The investment planned is essential to meet the requirements of the Concession Agreement signed with Airport Authority of India and is necessary to provide safe & secure Airport operations. LIAL is committed to providing the best-in-class experience to its users.

The tariff card is an outcome of the ARR computed as per the Regulatory Building blocks after rationalization of several capex and opex items by LIAL as well as AERA. Further, the increase in tariff also considers the under recovery of charges of the Second Control Period and almost 2 years of the current control period. The cumulative impact of these factors has affected the tariff.

The percentage increase as projected by FIA is on account of the fact that base was low as already brought out in the preceding paras.

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 LIAL:
LIAL submits that no capital and operational expenditure related to ANS services (except those mandated under Concession Agreement (CA)) has 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 are not under the purview of LIAL. Since the services are provided by AAI, the rate of ANS services cannot be made part of tariff card of LIAL.

1.2. Observation 2

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.*

Response by LIAL:
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 i.e. from COD to March-2021, as no debt was raised by AAI or AO during the relevant period. For TCP, Authority has allowed FRoR of 12.21%. However, LIAL is seeking FRoR of 14.76% based on cost of equity of 17.30% as determined by the independent study done for LIAL as per methodology prescribed in AERA Guidelines 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 of the level as expected by the Governments, Aviation Industry and Users.

Further it is to be noted that proportion of airport charges to total operational cost of Airlines is insignificant i.e. in range of 6-8% (based on the study of annual reports/financials available in public domain of listed Indian airlines such as Indigo, SpiceJet etc.). Thus, its sensitivity towards the profitability of the airlines is minuscule.

As far as efficiency is concerned, Airport Operator has and will continue to sweat the assets and build in efficiency whenever possible.

1.3. Observation 3

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.

Response by LIAL:
There is no adjustment of RAB after the COD. Calculations done by AERA in para 4.14.3 are in order to give effect to provisions of the Concession agreement which mandates the present value of the "Adjusted Deemed Initial RAB" 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 (a):

It is hereby submitted, that FIA is not in agreement with the proposal of AERA to consider the billable ATM traffic after excluding the ATMs that pertain to less than 80-seater capacity for non-RCS flights that are exempted from landing charges as the same is without any basis. It may be noted that it will not be a true indicator of the traffic projections at the Lucknow airport and any deductions from billable traffic will adversely impact the computation of non-aeronautical revenue. FIA request AERA to reconsider the same, in line with the AERA's proposal in the recent consultation paper number 16/2022-23 dated 20th February 2023 (ref 6.2.3 of the consultation paper number 16/2022-23), which is a consistent approach followed by the AERA in this regard in line with all Major Airports.
In view of the above, FIA proposes that the exempted billable ATM/passenger traffic as proposed by AERA in their tariff card) should not be accepted.

Response by LIAL:

It is submitted that as per current and likely future mix of ATMs, out of the total exempted traffic submitted by the Airport Operator (15% of the total domestic ATMs), 3% to 6% constitutes flights operating under the RCS Scheme and the balance pertains to non-RCS flights (i.e. less than 80-seater aircrafts which are exempted from landing charges as per GoI/MoCA guidelines).

Similarly, there are certain categories of passengers who are exempt from payment of UDF charges. It is to be noted that AO has done the adjustment in ATMs/Passengers to calculate only the billable ATMs/Passengers as the same is necessitated to project the correct aeronautical revenues.

AERA has partially removed the exempted ATMs and has not considered the latest data submitted by LIAL about exempted ATMs. AERA has only reduced non-RCS category ATMs. We would like to highlight that this approach of AERA, of not reducing RCS ATMs and exempted Passengers, 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 would lead to questioning of calculation by AERA.

Kindly refer to the detailed response in point 3.1 in the stakeholders' comments submitted by LIAL.

1.5. Observation 4 (b):

Para 6.2.18 and Table 57

While FIA appreciates that AERA has considered the traffic report issues by CAPA India (consultant appointed by the airport operator) (refer para 6.2.1). FIA requests AERA to kindly conduct their own independent study, which may also include demand drivers that may not have been part of report issued by CAPA India, as deemed fit, including factors such as the traffic that would be generated due to India's Presidency of the G20 as well as the forthcoming general elections.

We would also like to draw the attention of the Authority, that the trends in the recent post pandemic times may not be a reasonable benchmark, whether be it of passengers or traffic, as economic factors such as inflation or market demand / prices may not continue in the same rate or trend in the future, since the recent post pandemic trends are due to unusual factors such as the COVID-19, revenge tourism, Geo-political causes, recent financial meltdown of banks in the USA, etc. Authority may kindly take the same into consideration (and appoint independent consultants to eluate the same if deemed fit) while finalising the projected ATM and passengers.

Response by LIAL:

Events like G20 are one-off situations. The one-off events are not relevant while making long term traffic planning. The independent consultant has used various variables, permutations. combinations and generally accepted principles while performing regression analysis for deriving long term traffic scenarios. Further it is to clarify that LIAL has used highest traffic scenario which was confirmed by Chairperson AERA during the stakeholder's meeting held on 7th March 2023.

1.6. Observation 5 (a):

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

Response by LIAL:

Airport Operator conducted the Airport User Consultation Committee (AUCC) Meeting on 19th July 2021, with all the stakeholders and discussed the Capital Expenditure proposed to be undertaken during the Third 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, Vistara, Fly Dubai, Oman Air, AAI, CISF, BCAS, ASSOCHAM, TAAI, UPCAD, and Customs etc. LIAL had given a detailed presentation and justification for the capital expenditure planned by the Airport Operator taking into account the existing challenges in LIAL pertaining to constraint capacity vis-à-vis passenger growth, 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 along with AERA's technical consultant had conducted site visit between December 6, 2022 and December 7, 2022 for an independent assessment of the physical progress and to review the CAPEX.

Further, the Authority by themselves and through their consultant (including technical expert) have analyzed each project from the perspective of requirement and cost efficiency very minutely which is reflected in the Authority's comments in the Consultation Paper as well.

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.

1.7. Observation 5 (b):

Para 7.3.4 (A2)

Capitalisation of Terminal Building:

It is humbly requested that AERA may allow only necessary modifications in a phased manner, while taking normative approach which matches the capacity to projected traffic as determined by AERA and which will avoid undue stress on the Airport end users.

This view is also supported by National Civil Aviation Policy (NCAP) 2016, which intends to provide affordable and sustainable air travel for passengers/masses. Further, this view is also supported by AERA vide its Order No. 14/2016-17 dated 12th January 2017.

Considering the above points, it is stressed that the expansion of the terminal building and its capitalisation should be split into at least two (or more) control periods, as per the expected traffic trends estimated at the end of each control period.

Response by LIAL:

LIAL has provided detailed response on the capitalization of Terminal Building as part of its response to CP (refer 4.1 of LIAL's comments on CP vide letter dated 24th March 2023). In order to avoid repetition, request to refer the same.

It is to be noted that AERA has considered the Terminal 3 works in two phases and had only considered Phase 1 capitalisation in this control period.

1.8. Observation 5(c):

Para 7.3.4 A2(v)

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 LIAL:

We request the stakeholder to kindly refer the relevant points in the Consultation Paper, like A2 (v), A7(b), B1(a) to refer to a few.

The Authority has applied the normative guidelines while assessing the costs of the new Capex projects submitted by the Airport Operator.

1.9. Observation 5(d):

<u>Para 7.3.17</u>

We observe that AERA has remarked on the trend of revisions to the capital projects does not instill confidence in the AERA about the near and long-term planning of capital projects by LIAL. In this regard, we urge AERA to undertake an independent study on efficient Capex at LIAL.

Response by LIAL:

In the previous paragraphs (point 1.4), we have already detailed the steps taken by the Airport Operator and the Authority on the basis of 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 19th July 2021, that the Master Plan had gone through a rigorous exercise. LIAL is proposing only those projects which are critically required for safe and secure operations and customer experience.

We have provided all the information to AERA and its consultant as and when requested by them. Accordingly, AERA has taken considered view on the Capex proposal as provided in the Consultation Paper. In respect to both short term planning and long-term planning, the Master Plan is submitted to relevant authorities who have appreciated the meticulous planning done by LIAL.

We reiterate our views that there is no need to undertake a separate study on Efficient Capex at Chaudhary Charan Singh International Airport, Lucknow.

1.10. Observation 5(e):

<u>Fuel Infrastructure Charges Public Notice 21/2022-23:</u>

Charges for Fuel Infrastructure

It may be noted that before privatization of airports, there were no such charges related to fuel infrastructure and into plane which were levied on the airlines. The Fuel Farm at the airport was developed by the Oil Marketing Companies (OMCs) and they were also refuelling aircrafts as per the respective airlines' requirements. Airlines are/were only paying for ATF uplifted at each of the airport at an agreed product price to OMCs.

Since privatization of airports, two new charges related to fuel have been levied; first 'Fuel Infrastructure Charges' (FIC) and second 'Into Plane Charges' (ITP) at all the Privatised airports. At a lot of Privatised airports, fuel infrastructure has been bought over by the airport operator or its Joint Venture (JVs) / Holding / Subsidiary / Sister Subsidiary companies from the OMCs at a very low price. The investment made in fuel farms are also through multi-layered transactions between / among airport operators or their JVs or their Holding / Subsidiary / Sister Subsidiary companies. A lot of legal entities have been formed by the airport operator as Joint Venture (JVs) or Holding / Subsidiary / Sister Subsidiary companies with multiplicity of agreements. As a result of multiple layers of companies and transactions, there is no transparency and on top of it, multiple layers of overheads *are loaded into the costs. In addition, royalty / revenue share to the airport operator or its JV / Holding / Subsidiary / Sister Subsidiary companies is also added in proposed FIC and ITP charges.*

FIC and ITP including royalty and / or revenue share, along with GST thereon, is charged by the airport operator from OMCs. OMCs include these charges in the cost of fuel. Once these charges become cost of fuel, they attract 'non-creditable' Excise Duty @ 11% and 'non-creditable' VAT which may vary from 1% to 29%. Average VAT rate is ~ 17% in India. As ATF is outside GST, there is no 'Input Tax Credit' (ITC) on GST paid on FIC and ITP. Due to this circuitous billing cost of FIC and ITP become 1.53 times i.e. airlines end up paying 53% higher cost and there is no tax credit available to the airlines. It is a burden on the beleaguered airlines which are suffering from huge losses to the tune of > Rs. 23,500 cr in FY 2022.

Example:

	Amount Rs.
FIC / ITP (including royalty / revenue share of airport operator)	100.00
GST	18.00
Total	118.00
Excise Duty @ 11%	12.98
Total with Excise Duty	130.98
VAT @ average rate of 17%	22.27

Total cost with excise duty and VAT 153.25

It is clear from the above example that against original assumed cost of Rs.100 towards FIC and ITP, airlines end up paying Rs. 153.25 i.e. 53.25% additional cost and there is no tax credit against the same.

The current method of circuitous billing of FIC and ITP suffers from the following:

1. *Makes the whole process non-transparent*
2. *Against the concept of 'Ease of Doing Business'*
3. *Increases cost for the airlines and is against the principle of 'Making Aviation Affordable and Sustainable'*
4. *Against the vision of Hon'ble Prime Minister of India, Shri Narendra Modi that he would like to see 'Hawai Chappal Wale, Hawai Jahaj Mein' as the high cost will be passed on the common man by the airlines.*
5. *There is application of tax on tax, which is fundamentally wrong and adds to Airlines cost.*

In addition to the above, it is pertinent to note that there are number of other infrastructure services / facilities like aircraft taxi ways, runways, fire services and bird scarers etc., for which there is no separate charge as they are part of airport infrastructure however the Consultation Paper proposes separate charges for ATF in the shape of for FIC and ITP charges, which is a contradiction.

In this context, reference may be drawn from the abolishment of Fuel Throughput Charges (FTC), which were being earlier charged as separate charges for provisioning of ATF but were subsequently abolished. The FTC were being charged by the Airport Operators from the airlines through OMCs with the *above circuitous billing mechanism with ultimate non creditable cost of Rs. 153.25 to the airlines. Both the Ministry of Civil Aviation (MOCA) and AERA have abolished FTC vide their order dated 08 January 2020 and 15 January 2020 respectively. Subsequently their revenues have been recalibrated by AERA and there has been no loss to the airport operators.*

In view of all the above facts, it is recommended that FIC and ITP be abolished, and necessary calibration may be done in the revenue for airport operators for fuel farm and into plane operations. This will in turn help the airlines to address the long pending issue of circuitous billing.

Thus, it is requested that the proposal of the LIAL in public Notice No. 21/2022-23 for the revised pricing for Fuel Farm Tariff (Fuel Infrastructure Cost, Aircraft Defueling and Re-fuelling of defueled products) may kindly not be accepted and recalibrated in line with FTC into other airport charges and help and support airlines with to address long pending circuitous tax billing.

Response by LIAL:

It is to clarify that as per CA, Fuel Storage infrastructure is to be built and operated by LIAL as open access facility. Under the Concession Agreement, LIAL is not allowed to form any JV or Subsidiary.

Secondly in respect to taxation, we believe relevant Authority has been mindful of the undue burdens on various players in the aviation ecosystem. This is substantiated by the fact, as highlighted by stakeholder also, 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.

1.11. Observation 5(f):

Para 7.6.4 We agree with AERA's proposal 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/capitalised as per the approved capitalisation 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 Fourth Control Period.

Response by LIAL:

It is to be noted that LIAL 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 considered only when assets are capitalized. There is no additional expense to the airlines until the project is completed and put to use.

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 LIAL 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 uncertainties. 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.

1.12. Observation 5(g):

Para 7.5.11 Table 79 While acknowledging the depreciation rate applied by AERA in accordance with AERA Order No. 35/2017-18 the 'Useful Life of Airport Assets', 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 LIAL:

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

1.13. Observation 5(h):

In addition to above, 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. And lastly, we appreciate AERA's consideration of deferring few proposed Capex projects from the Third Control Period to the Fourth Control Period.

Response by LIAL:

In order to avoid repetitions on this matter, please refer our remarks in point 1.4 above.

1.14. Observation 6:

Para 8.2.10 & 8.3

FIA submits that, only reasonable Fair Rate of Return (FRoR) to airport operators should be provided.
It is observed that AERA has considered FRoR of 12.21%, which is the net of income tax return to the airport operator, for the Third Control Period. However, while such fixed/ assured return favours the service provider/airport operators, but it creates an imbalance against the airlines, which are already suffering from huge losses and are bearing 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.
Without prejudice to the above:
1) In the present scenario any assured return on investment to any services providers like LIAL, in excess of five (5) % (including those on past orders) will be onerous for the airlines, i.e., being at par with bank fixed deposits (i.e., return on investment after the income tax), based on the current economic situation of worldwide runaway inflation coupled with rising and historic interest rates offered by banks.
2) And, in case AERA is unable to accept our recommendation mentioned above, 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 LIAL:
As per AERA methodology, return on RAB is one of the important building blocks for tariff determination. As claimed by FIA, this is not fixed or an 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 give returns to shareholders commensurate to the risks involved in the project.

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 LIAL has already done an independent study for Lucknow airport which has determined cost of equity of 17.30%. We request Authority to use the same for calculation of FRoR.

1.15. Observation 7:
(Para 9.2.2)
FIA submits that as per report published by Ministry of Finance dated 31st January 2023, the WPI inflation rate for December FY2022 is 5%.

Accordingly, we request AERA to revise the inflation rate at 5% for FY22-23.

Response by LIAL:
AERA has rightfully used the latest WPI inflation as per Results of the Survey of Professional Forecasters on Macroeconomic Indicators – Round 79" released on 7th December 2022 published by the Reserve Bank of India (RBI).

1.16. Observation 8(a):
Para 10.2.24(iii) (Fuel Operating Expenses)
FIA requests, that AERA should not permit outsourcing of fuel facility on a "Volume linked fee basis" and instead it should be on "lowest cost model" through competitive bidding.

Response by LIAL:
LIAL has outsourced the operations and management of the facility and not the Fuel Facility. LIAL followed the process of selection of vendors through an open competitive bidding as per approved procurement policy and in compliance with Concession Agreement.

Traditionally, there are two commercial models for O&M tendering for Jet Aviation Fuel Station :-

1. Cost plus – In this model, O&M agency is reimbursed whole Opex as per actuals and topped with some fixed (% or amount) service fee. However, this model is not efficient, as it does not encourage the agency to optimize Opex.
2. Per KL fee – This model encourages the agency to optimize the Opex. However there are some concerns in this model too:-
   a. Normally with high (additional) volume, due to economy of scale the incremental opex comes down. However this model does not capture this opportunity as per KL opex remains uniform.
   b. It does not ensure a minimum billing to the agency. It discourages bidders as successful bidder (O&M Agency) needs to maintain its manpower and minimum operating standards / service levels irrespective of the volume. Thus operating agency looks for a minimum guaranteed billing irrespective of the volume. This has been a learning out of crisis like COVID during the past two years.

Therefore, LIAL has used an innovative model i.e. minimum payment till a given volume, and over and above a per KL fee for additional volume. It balances the risk taken by the vendor, with the opportunity to optimize the overall cost as with incremental volume per KL costs comes down substantially.

1.17. Observation8(b):
Para 10.2.4 (Utility Expenses)
LIAL is requested to constitute a Committee to verify the bills relating to Power expenses or submit a report on the same to AERA, if the same has already been conducted as part of Stakeholder comments / feedback.

Response by LIAL:
Report of the Committee on Power Expenses had been submitted to the Authority as part of stakeholders' comments by LIAL. Please refer Annexure-22 of comments submitted by LIAL in response to the CP.

1.18. Observation8(c):

Para 10.2.26 (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 LIAL:
In this particular case, LIAL is the custodian and also the operator of cargo complex. Recovery charges for customs staff is a statutory cost for LIAL for running the cargo facility and same is included as part of O&M expenses for tariff determination purposes.

1.19. Observation 8(d):

Para 10.1.5 & 10.2.29 and Table 99 & 120
FIA appreciates the study conducted on Operations and maintenance expenses (O&M expenses) conducted for the Third Control Period, and AERA's revision based on rationalisation of each line item on the submitted O&M expenses by LIAL.

However, FIA requests AERA to not provide such huge escalations for (i) Repairs & Maintenance expenses, (ii) Utilities and (iii) Operating expenses.

We further 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 LIAL:
Chaudhary Charan Singh International Airport (CCSIA), Lucknow is constructing a new Terminal 3 & part Parallel Taxi Track, New Aprons. These facilities are likely to be commissioned in FY 24 and FY 25. Same will result in significant increase in airside and terminal capacity. Consequently, manpower, utility expenses and various other expenses for running these new assets are bound to increase the overall O&M of the airport. Also, existing assets of airport are very old (last major capex happened in FY 2012-13). In our experience, R&M expenses increase as the assets matures due to ageing of infrastructure facilities, equipment and general wear and tear.
LIAL being a new AO needs to develop its workforce for safe and secure functioning of the Airport. Aviation is a highly skill and specialized sector and therefore there is an additional cost to bring in qualified people.

Further private Airport Operator is given various additional responsibilities under the Concession Agreement including the service level obligations and same will result in commensurate increase in expenses.

1.20. Observation 9 (a):

Para 11.2.10

It is observed, that the non-aeronautical revenues projected by LIAL is substantially low / conservative. It is requested that LIAL explores all avenues to maximise revenue from the utilisation from the expansion of terminal building for non-aeronautical purposes. As correctly observed by AERA in para 11.2.10, the non-aeronautical revenue projected by LIAL for Third Control Period is substantially lower as compared to other PPP airports. Accordingly, we request AERA to mandate LIAL to enter into suitable agreements with concessionaires to exploit the potential/ growth of non-aeronautical revenue at Lucknow airport.

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 Third Control Period.

*Without prejudice to the above, we submit that increase in non-aeronautical revenue ("**NAR**") is a 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 Third control period by AERA, it was noted that a conservative approach has been taken by 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 11.2.10, AERA has remarked that NAR projected by LIAL 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 projected O&M expenses for LIAL, as approved by AERA.

Response by LIAL:

In the interests of its users and in its own commercial interests, Airport Operator will always endeavor to increase the non-aeronautical revenues to the maximum possible extent. As suggested by FIA, LIAL 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 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 CCSIA 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 are derived from agreements with concessionaires and hence revenues projected based on Master Concession should be adhered. Further any comparison of non-aeronautical revenues with O&M costs is not rational and unwarranted

Further, refer our comments in point 7.1 of LIAL's comments on CP.

1.21. 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 LIAL:

In case of CCSIA , 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.

1.22. 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.

FIA would also like to urge AERA 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 LIAL:
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.

1.23. Observation 11:
Para 14.2.6

It is submitted that, AERA has noted that "AO has on-going capital expenditure projects and other planned works, which have resulted in a higher ARR for the Third Control Period. Whereas, the existing traffic base is not sufficient for the complete recovery of ARR in the current Control Period and this would require a significant increase in tariff, which in the present times is likely to adversely impact the recovery of air traffic."

Further, AERA has also observed and considered the "guiding principles issued by the International Civil Aviation Organization (ICAO) on charges for Airports and Air Navigation Services (ICAO DoC 9082), which lays down the main purpose of economic oversight which is to achieve a balance between the interest of Airports and the Airport Users."

This policy document categorically specifies "that caution be exercised when attempting to compensate for shortfalls in revenue considering its effects of increased charges on aircraft operators and end users". This should be applied particularly during periods of economic difficulty (i.e., airlines incurring adverse financial impact post Covid-19).

FIA appreciates that AERA in para 14.2.6 has considered to carry forward some portion of ARR to the next control period. However, FIA requests AERA that, keeping in view the adverse financial health of the airlines as mentioned in this letter, no tariff shall be increased for this control period.

Response by LIAL:
In order to avoid repetitions on this matter, please refer our comments in point 9.1 of LIAL's comments on CP.

1.24. Observation 12 (a):

Para 14.2.7

The tariffs on the AFS cargo should be significantly lesser than the tariff levied on General cargo.

FIA submits that:

1. AFS should have 50% or lesser rates from the Terminal.

2. Processing of such Cargo may be considered for direct access to the Aircraft, thereby avoiding the charges levied by Custodian.

3. Subsidize and incentivize a certain % of cargo tonnage processed out of AFS for better sustainability to Airlines, this may boost further AFS stations in terms of revenue as well.

Response by LIAL:

The rates proposed by FIA are without any scientific study. AERA has already done a detailed examination of the matter in tariff determination of other ISPs.

1.25. Observation 12 (a):

In accordance with the preamble of the National Civil Aviation Policy, which envisages to make air travel affordable and sustainable, 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 LIAL:

LIAL appreciates the vision of the Government to introduce UDAN scheme. We will continue to abide by all the orders of the Authority to boost regional connectivity whereby no landing charges are charged to Airlines and no UDF is charged to the departing passenger.

1.26. Observation 12 (b):

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 LIAL:

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 LIAL order as well.

1.27. Observation 12 (c):

Collection Charges: We would like to invite AERA's attention to notes 2 of UDF charges in the Public notice 21/2022-23, wherein the rate of collection of UDF charges has been proposed to be reduced by LIAL from the current Rs. 5.00 per embarking passenger to Rs. 2.50 per embarking passenger. As airlines have not agreed to this reduction, we request AERA to consider the collection charges to be reverted to Rs. 5.00 embarking passenger, in line with other Airports.

Response by LIAL:

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

1.28. Observation 12 (d):

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

Response by LIAL:

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

1.29. Observation 12 (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 LIAL:

When LIAL took over the operation in Nov-2020, there was only UDF in the tariff card and no PSF (facilitation) was mentioned in the then prevailing rate card. The same tariff card is carried forward by LIAL with the necessary approval of AERA.

1.30. Observation 12 (f):

CUTE, CUPPS, CUSS: As these are aeronautical revenues, we could neither find a proposal for the same in the MYTP submitted by the LIAL for the Third Control Period, nor any comment by AERA on regulating these charges in the CP for the Third Control Period. We would like to state that (i) the current prices are excessive; (ii) whatever bouquet of services is agreed between the LIAL 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 intervene and kindly regulate the CUTE, CUPPS, CUSS prices per the AERA Act.

Response by LIAL:

At LIAL, the CUTE/CUPPS/CUSS (CUTE) charges are charged by third party concessionaire who in turn shares certain portion of these charges with LIAL.

LIAL is not directly charging the users. The arrangement was existing before COD when AAI was operating the Airport and it is novated to LIAL from COD onwards as per terms of the CA.

It is clarified that CUTE revenue has been considered Aeronautical and it has been suitably accounted while determining the tariff card. 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.

1.31. Observation 12 (h)

"*3.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 LIAL:

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.

1.32. Observation 12 (i)

"*6.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 LIAL:

"governing tariff order" does not find any mention in the tariff order.

1.33. Observation 12 (j)

"4. For calculating chargeable parking time, part of an hour shall be rounded off to the next hour"

It is submitted that for calculating chargeable parking time, part of an hour shall be rounded off to nearest hour"

Response by LIAL:
We have found "Next hour" is a standard in tariff card for all Airports like BIAL, HIAL and AAI Airports. The statement was existing in the previous tariff card for the CCSIA Airport which was approved by AERA when the Airport operations were managed by AAI.

1.34. Observation 12 (k):
UDF effective from 1st April 2023 to 31st March 2026

(I) Query: Will the above UDF effective date shall be considered as Travel date or Sale date or Both-travel and sale date?

Response by LIAL:
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 LIAL as well.

1.35. Observation 12 (l):
UDF effective from 1st April 2023 to 31st March 2026

(III) Comment to No. 2 of 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 LIAL:
Once LIAL receives the UDF amount within the due date as mentioned in the invoice; and there are no overdue on any account with LIAL, the collection charges due to the Airlines will be paid as per due dates mentioned on the invoice. However, no collection charge shall be payable by LIAL 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.

1.36. Observation 12 (m):
Variable Tariff Plan for Scheduled Passenger Airlines

*1. **"New Route**: A flight to a new destination that is currently unserved from Lucknow by any airline already operating at Lucknow. (Destination must be unserved for the previous 36 months)"*

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

Response by LIAL:
Same is confirmed

1.37. Observation 12 (n):
9. Variable Tariff Plan for Scheduled Passenger Airlines

2. *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 LIAL:
We are not able to find such anomaly in the VTP rate card. For quick reference the table is re-produced below:
VTP Applicable Rates for Scheduled Passenger Airlines

Type	Rack Rate (RR) per MT in IN₹	Existing flight	New Route	New Route	New Route
Landing Charges			Year 1	Year 2	Year 3
International Flights					
Rate per MTOW (MTOW<=100 MT)	RR	0	0.50*RR	0.75*RR	0.90*RR
Rate per MTOW (MTOW >100 MT)	RR	0	0.50*RR	0.75*RR	0.90*RR

1.38. Observation 12 (o):
Shrinkage in Control Period
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 LIAL - Third Control Period, will now be issued after the commencement of the Control Period i.e., 1 April, 2021.

Response by LIAL:
It is to be noted that LIAL started commercial operations from 2nd November 2020. As per the clause 28.11.1 of the CA, LIAL shall have not less than 365 days from the COD to seek revision of the Aeronautical Charges from AERA. The existing tariffs were extended till 30th September 2023 or till the determination of tariff for Third Control Period. LIAL had submitted its MYTP to AERA on 31st July 2021 and complied with provisions of CA.

2. Counter comments on comments from IATA

2.1. *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.*

Response by LIAL:
In order to avoid repetitions on this matter, please refer our remarks in point 1.2 above as counter comments on FIA's comments.

2.2. *Regarding point 4.5.8 (Reclassification of assets transferred by AAI to the Airport Operator), we appreciate AERA for enforcing the separation of costs associated with non-airport services such as ANS and adjusting the allocation of the assets accordingly.*

Response by LIAL:
In order to avoid repetitions on this matter, please refer detailed response in point 4.11 of LIAL's response to the CP.

2.3. *We agree with AERA's assessment of traffic projections based on the available facts and analysis, expecting recovery to pre-covid levels of domestic traffic by FY2022-2023 and international traffic by FY2023-2024.*

Response by LIAL:
In order to avoid repetitions on this matter, please refer detailed response in point 3.1 of LIAL's response to the CP.

2.4. *IATA supports the proposed reduction of 1% of uncapitalized project costs from the ARR, by AERA.*

Response by LIAL:
In order to avoid repetitions on this matter, please refer to our remarks in point 1.11 above as counter comments on FIA's comments.

2.5. *With regard to procurement and award of capital projects at LKO, IATA would like to recommend that the AO must also include disclosures on related-party transactions. The independent studies too should focus on related party transactions within the group; ensuring that the award of projects has been through competitive bidding, and does not suffer from restrictive terms or cost escalations that may arise from awards to related parties.*

Response by LIAL:

In respect to award of contract, all the contracts are awarded as per competitive bidding process as defined in the approved procurement policy and as per requirements under the Concession Agreement and provisions of Companies Act. Moreover, as sought by AERA's consultants, contracts and tendering details have also been provided for their examination.

In respect to the disclosures regarding related party transactions, it is to be noted that necessary disclosures are made in the audited financial statements as required under the Companies Act.

2.6. *AERA has also proposed that the Phase II of the integrated T3 project should be commissioned during the next Control period; as well as its proposal to derive the cost of T3 project based on the Normative Approach to ensure that the overall cost is reasonable. This is in line with IATA's views during the AUCC meeting that was held in Jul-2021; and IATA fully supports this.*

Response by LIAL:

In order to avoid repetitions on this matter, please refer detailed response in point 4.2 of LIAL's response to the CP.

2.7. *The CP brings focus on many pertinent issues such as the higher cost of debt associated with the AO's borrowings and inter-corporate deposits from related parties within the same shareholder group.*

- We agree with AERA treating the cost of debt in line with average cost of debt of other PPP airports. We also agree with the cost of equity being pegged at 15.18% for the 3rd control period based on independent studies for other PPP airports.

- We believe that the AO has to work on delivering value on lowering all of the components that make up the FROR i.e. the cost of equity; cost of debt; and the debt to equity gearing.

Response by LIAL:

In order to avoid repetitions on this matter, please refer detailed response in point 5.1, 5.2 and 5.3 of LIAL's response to the CP.

2.8. *O&M:*

- We commend AERA for leveraging on the independent studies such as for O&M expenses, which demonstrates that very close scrutiny is needed to ensure that all allocations are done accurately; and reflect the required efficiency level as expected from a private airport operator.

- IATA supports AERA's decision on the expectation to optimize O&M expenditure over a period of time. We believe that there is room for greater rationalization of not just O&M expenses with the transition from AAI to the new private airport operator. This will be in line with the objective of the privatization delivering greater efficiency in the management of the airport.

Response by LIAL:

Airport Operator has taken measures to rationalize its O&M expenses wherever possible. Kindly refer point 2.4 of LIAL's comments to the Consultation Paper for details relating to the matter.

2.9. *O&M:*

- There were high annual increases proposed by the AO, with employee cost projected increases of 15% YoY, & significant increase in head count in the 3rd Control period. These have been rightfully adjusted in its proposal by AERA.

Response by LIAL:

In order to avoid repetitions on this matter, kindly refer point 6.1 of LIAL's comments to the Consultation Paper for details relating to the matter.

2.10. ***Non-Aeronautical Revenue (NAR)***

As in the case of Ahmedabad airport tariff proposals, we are concerned that the NAR which is meant to cross-subsidize the Aeronautical charges, are clearly under-developed and under-projected in the case of LKO airport as well. AERA has correctly highlighted that the NAR projected is lower than when the airport was under AAI; and that the increase in non-aero activities with the terminal expansion has not been factored in; especially given that the traffic growth of over 20% is expected, as mentioned in the presentation by AO at the time of stakeholder consultation. We appreciate AERA for closely overseeing this aspect.

• Additionally, as mentioned in AERA's current Consultation Paper for the Lucknow airport, the AO has entered into a Master Services Agreement (MSA) with Adani Airport Holdings, which is supposed to pay the AO a minimum guarantee amount of Rs. 22 Cr or 10% of the 'Gross Revenue', whichever is higher.

- The 'Gross Revenue' referred to in the MSA is in fact the NAR of the airport – and under the hybrid till mechanism, 30% (and not 10%, or even an absolute amount of Rs 22 Cr) of the NAR is to be used to offset aeronautical costs.

While the AO's submission makes a mention of 'Revenue from Master Service Agreement', the component necessary for tariff determination purposes has to be 30% of total NAR; and not 30% of the 10% MSA Revenue Share (30% of 10% of total NAR is in fact only 3% of the total NAR earned).

- The current arrangement of including a Master Concessionaire between the NAR flowing to the AO, significantly reduces the level of effective NAR for the tariff determination by AERA and cannot be justified.

• IATA urges the Authority to correct the AO's understanding by explicitly stating/confirming in the final Order that: i). 30% (in adherence to the hybrid till policy, and not any lower) of the total NAR of the Airport is to be recognized in offsetting aeronautical costs; and ii). the level of 'Revenue from Master Service Agreement' earned by the AO is not material to tariff determination. This will help bring back the NAR from its current artificially low levels in the airport's current understanding.

• IATA would expect that any shortfall in the NAR will NOT be trued up in the next control period.

Response by LIAL:
In order to avoid repetitions on this matter, please refer to our remarks in point 1.20 above as counter comments on FIA's comments and also refer to comments in point 7.1 of LIAL's response to the CP.

2.11. ***Tariff Card***

- We notice the significant increase that has been proposed by the AO in its Tariff card, both on landing & parking charges, as well as significant hike in User Development Fees.

- We request that AERA adopts the same approach as in the determination for other airports by moderating the increases to facilitate a recovery in traffic and consider a significant reduction in the Airport's current proposal for landing & parking and UDF charges.

- In the case of Lucknow airport, given that the Phase II of T3 goes to the next Control period, IATA recommends that part of the ARR recovery should be carried forward to the 4th Control period.

Response by LIAL:
In order to avoid repetition on this matter, please refer to our remarks in point 1 (Observations on proposed Tariff Card) above as counter comments on FIA's comments and point 9.1 of LIAL's comments to the Consultation Paper for details relating to the matter.

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

Airport Operators such as BIAL, AAI and industry bodies APAO have supported LIAL'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 17.30% requested by AO.
3. Capping of R&M expense to 6% of opening RAB as against the AERA Guidelines.
4. Proposal to defer ARR to next control period.
5. Cost claimed towards technical services, PMC, Preliminaries and Pre-operatives, Contingencies, Statutory approvals, Labor cess, Site-preparation, Insurance etc. reduced to 8%.

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