



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

Subject: -Submission of Multi Year Tariff Proposal (MYTP) for 3rd control period (01.04.2021 to 31.03.2026) and True-up of 2nd control period (01.04.2016 to 31.03.2021) in respect of Srinagar Airport.-Counter Comments reg.

Reference: -Submission of AAI's Counter Comments in response to Other stakeholder comments in respect of Srinagar Airport issued by Airport Economic Regulatory Authority of India (AERA).

Sir,

This has reference to Other stakeholder comments in the matter of determination of Aeronautical tariff in respect of Srinagar Airport for the 3rd control period (01.04.2021 to 31.03.2026).

AAI's counter comment in response to Other stakeholder comments is enclosed.

This issues with the approval of the Competent Authority.

Thanks and Regards

Yours sincerely,

-Sd-

(V. Vidya)

Executive Director (JVC/Tariff)

Encl: -AAI counter comment in response to Other stakeholder comments.

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A. Comments of Federation of Indian Airlines (FIA):

FIA has submitted comments along with the annexure A & B . The counter Comments of AAI on annexure A & B is as under.

I. Counter Comments of Annexure A

FIA has conveyed at annexure A regarding parking charges & UDF Charges proposed in CP Vs. Existing Parking charges & UDF charges at Srinagar Airport.

Comments of AAI

Parking charges are applicable after two hours free parking available to airlines. Parking of Aircraft is neither encouraged by the Airport Operators nor by the Airlines Operators. Parking of aircraft beyond two hours at any airport reflects inefficiency of Airport Operations as well as Airline Operations. Further, it contributes less than 5% of AAI revenue.

In respect of chargeability of UDF it is to mention that Srinagar Airport is a Civil enclave where landing charges are levied by Defense only and charges left out with AAI are Parking & UDF only in order to recover the ARR.

II. Counter Comments of Annexure B

1. Revenues from Air Navigation Services (ANS):

(Para 3.3) 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 the corresponding revenue and revise the tariff card.

Comments of AAI

MOCA determines tariff for ANS services being a separate segment of AAI's services . Accordingly, AAI does not consider assets, expenses and revenue pertaining to ANS in determination of Aeronautical Tariff for the Airport Operations.

2. True up for 2nd Control Period:

Para 4.5.1:

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) We observe that the Fair Rate of Return of 14% provided to the Airport Authority of India ("AAI") is higher in comparison to some of the Airports such as Chennai and Pune. Without prejudice to (a) above, there appears no rationale to provide higher return to AAI for SIA and accordingly AERA may reduce the FRR suitably.

Para 1.2.4, 4.7.4 (b), 14.2.7:

We appreciate that AERA holds a considered view that stakeholders should not be burdened with significant increase in the Aeronautical tariff arising on account of the NPV of the Under-recovery of FY 2020-21, or due to interest/penalties paid to Government of India at both CHQ and RHQ levels due to various lapses/delays on the part of the Airport Operator, or due to deficiency to recover the ARR on account of higher O&M expenses projected for the Third Control Period caused due to under-recovery pertaining to the First Control Period and the Second Control Period.

Para 4.4.5:

It is noted that the expansion of Terminal Building, which was initially proposed and approved in the Second control period was not undertaken and is now postponed for the Fourth control Period. As observed by AERA in para 4.4.5 of the CP, that about 84% of the approved capital expenditure was not utilized by SIA in the Second Control Period, which was part of the computed ARR at the time. We request AERA to consider implementing a 1% adjustment for the delay in this case as the Airport Operator did not implement/complete the project within the stipulated time.

Para 4.4.5(A1)(vi):

Capitalisation of Terminal Building:

Based on the clarification provided under Annexure III of the CP, we request AERA that:

1. The expansion of the Terminal Building has been shifted to Fourth Control Period, with revised capital expenditure, hence it should be preceded by conducting an Airport User Consultative Committee meeting.
2. AERA may allow only necessary modifications in a phased and modular manner, while taking a 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. 14/201617 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., such that the end users may not bear the pain of the delayed planning of expansion by AAI.

Comments of AAI

The capitalization of terminal building is made as per accounting standards followed. Considering that there is outflow of cash up to the date of capitalization, returns need to be given as per tariff policy of AERA. AERA is following the policy of cost plus return which is applicable to all the Airport Operator across India. Further, during COVID 19, all the projects on PAN India was standstill and resulted in Lower capital expenditure during the 2020-21 and 2021-22.

The cost of the Capital project has been worked out on the basis of DSR rates and market rates considering the inflation factor and other market driven forces.

3. Traffic for 3rd Control Period:

Para 5.2.9 and Table 25:

While we appreciate that AERA has considered the traffic forecast data report published by ACI and IATA (refer para 5.2.7 and 5.9.8), we request AERA to kindly conduct an independent study, which may also include demand drivers that may not have been part of report issued by IATA and ACI India.

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 geo-political causes, recent financial meltdown of banks in the USA, etc. however, there have been certain increase in the load factors, post recovery of COVID-19 period.

Hence, we request that Authority may kindly take the same into consideration and appoint independent consultants to evaluate the same while finalising the projected Annual Traffic Movement and passengers.

Comments of AAI

Srinagar Airport is catering majorly domestic traffic and only 5% of the total traffic is International Traffic.

- AAI has projected 18.38 (Million Passenger) in TCP and 135.4 Thousand Aircraft movement whereas AERA has projected 24.2 (million Passenger) and 167.7 Thousand Aircraft movement for the entire TCP. Mainly AERA has projected 5.2 (million) more Domestic passenger.
- Srinagar Airport has achieved approx. 3.15 Million Pax and 24.5 Thousand Aircrafts Movements for the F.Y. 2021-22 which is in line with AERA projections. However, going forward the projections of AERA are on the higher side due to the following reasons:

- i. Srinagar airport will not be able to handle 6.2MPPA as projected by AERA as the present capacity of TB is 2.5 MPPA and secondly there is limited apron and limited movement due to Srinagar Airport being a Civil Enclave and limited watch hours.
- ii. In addition, the ATM movement is restricted by IAF to 04 Arrivals and 04 Departures per hour. Further, it is a hyper-sensitive airport, which restricts passenger throughput.
- iii. The capacity of terminal building is limited and may not be able to cater to the traffic proposed by AERA.
- iv. Govt. has already announced Rail connectivity from Jammu to Srinagar by end of the year, Passenger will have the option to reach Srinagar by train and it will also impact on growth of PAX & ATM.

AERA is requested to review the traffic projection issued in the consultation paper due to reason stated above.

4. Capital Expenditure, Depreciation and Regulatory Asset Base (RAB) for the Third Control Period:

The entire ecosystem needs to be operationally efficient, which can be implemented, amongst other things by conducting an independent efficient study on capital expenditure, which AERA is requested to conduct.

Para 6.3.5, 6.3.9 and 6.3.11:

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.

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.

Refer para 4.4.5 of the CP regarding underutilization of capital expenditure, it is a reasonable submission that this does not instill confidence in the FIA member airlines towards the projected capital expenditure demanded by SIA.

To avoid such situations, we request AERA to make sure, that in case, SIA 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, as it is unreasonable to passengers to pay for services/ facilities which are not being availed by them.

It would be prudent, if AERA undertakes an independent study and for allocation of assets and allowable capital expenditure in the Third Control Period in accordance with AERA Act, 2008.

Para 6.3.9

We agree with AERA's proposal that an adjustment of 1% (or higher of the project cost from the ARR, as deemed fit), made by AERA for capital expenditure projects is/are not completed/capitalised as per the approved capitalisation schedule. Such adjustments should be made by AERA during the tariff determination process for the Third Control Period instead of Fourth Control Period.

Para 6.3.10

AERA has proposed to consider a TBLR of 90:10 for the Third Control Period.

While we agree with AERA that the non-aeronautical ratio proposed by AAI for SIA is on the lower side, we request AERA to kindly undertake detailed scrutiny examination with the assistance of an independent study to be conducted on or before the tariff determination of the Third Control Period. Para 6.4.5 Table 35

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. We submit 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.

Comments of AAI

The non-aeronautical ratio proposed by AAI is based on the actual space occupied by the concessionaire at the Airport. There are several aspects to be looked into at Srinagar Airport including security issue due to which there are some areas even though demarcated as non-aero are unutilized.

The life of the Terminal Building of 30 years has been considered based on the AERA Depreciation Order No.35/2017.

5. Fair Rate of Return (FRoR) for the Third Control Period

Para 7.2.5

It is observed that AERA has considered FRoR of 12.88%, which is the net of income tax return, calculated on the basis of cost of equity and debt, however, it may be noted, that AERA in the recent times, have approved lower FRoR for other AAI airports (Third Control Period), such as Chennai (11.98%) and Pune (11.68%) on the same cost of equity and cost of debt i.e., 14% and 6.21%.

Further, it is to be noted, that 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:

In the present scenario any assured return on investment to any services providers like AAI, in excess of six (6) % (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 run-away inflation coupled with rising and historic interest rates offered by banks.

1) 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 the 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. This is particularly highlighted since other AAI airports like Chennai, Kolkata and Pune have a much lower FRoR.

Comments of AAI

FRoR has been calculated by AERA considering cost of debt @ 6.21% whereas the cost of debt is presently available in market @ 8% and more. The FROR is bound to vary based on the cost of Debt.

6. Operation and Maintenance Expenses for the Third Control Period

Para 9.2.11 (Utility Expenses)

While we are in agreement with AERA that AAI should increase the Power recovery charges from Concessionaires, SIA is requested to constitute a committee to verify the bills relating to Power expenses and submit a report on the same to AERA, for greater transparency.

Para 9.2.15 and Table 45 & 49

While we appreciate the rationalisation by AERA of each line item on the submitted O&M expenses by SIA, however at the same time, we request AERA to not provide such huge jump in (i) Upkeep Expenses; ii) Administration & General Expenses — Excluding CHQ/RHQ and upkeep expenses, and (iii) Admin. & Other Expenses — CHQ/RHQ.

Further, it is submitted that, AERA in its order no.14/201718 dated 30th October 2017 for determining aeronautical tariff for Second Control Period ('Second Control Period Order') under para 14. 14, had expected

AAI to reduce the O&M expenses in the upcoming control periods for SIA. However, as per para 9.2.1 of the CP, it is observed that the O&M expenses for the Third Control Period are 104% higher than the O&M expenses of Second Control Period.

Further, in para 14.13 of the Second Control Period Order, AERA had proposed to undertake an independent study to assess the reasonableness of the O&M expenses, which will further be applicable for the true up process for the Third Control Period. However, no such study has been conducted to understand the incremental growth of O&M expenses.

In view of the aforementioned reasons, we request AERA to conduct an independent study for determining the true value of the O&M expenses before approving the tariff for the Third Control Period.

FIA further submits 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 be prudent considering the significant losses incurred by the aviation sector.

Comment of AAI

O&M Expenses are incurred based on the operation requirement / needs at the Airport. Compromising of O&M expenses can affect the performance standards and quality of running the airport. AERA is restricting the same to just 6% of the Net RAB which AAI is contesting as it is not possible to maintain such high-end equipment's and terminal building etc. at maintenance cost of just 6% of opening RAB.

7. Non-aeronautical revenue for the Third Control Period

Para 10.2 and 10.2.3

It is observed that the Non-Aeronautical Revenues ('NAR') projected by AAI is substantially low / conservative. It is requested that AAI explores all avenues to maximise revenue from the utilisation from the expansion of terminal building for non-aeronautical purposes.

As noted by AERA itself, in para 10.2.1 of the CP, AAI's projection of NAR for the Third Control Period for SIA 56.33 Crores) is lesser than the actual revenue reported by SIA for true up of the Second Control Period (which is at 68.71 Crores).

There appears to be scope of considerable improvement in increasing the NAR, especially since the airport has already surpassed its capacity of 2.5 MPPA and is currently doing approx. 4.5 MPPA. The projections for the NAR should be a function of the increase in O&M expenses for the Third Control Period.

Despite SIA being a hard station, we should consider the upcoming developments in the state that are attracting tourists to visit the city freely. The successful completion of the current G20 summit is also expected to provide a significant boost to air traffic to the city, which is projected to rise by 8% year on year (YOY), refer 5.2.12 of the CP.

With airlines being the preferred mode of travel, the city's air traffic is expected to increase drastically. Now, it is up to SIA to explore ways to increase the NAR at the airport. Hence, it is requested that AAI explores all avenues to maximise revenue from the utilisation from the expansion of terminal building for non-aeronautical purposes.

Accordingly, we request AERA to mandate AAI to enter into suitable agreements with concessionaires to exploit the potential/ growth of NAR at SIA.

We further request AERA to kindly undertake detailed examination with the assistance of an independent study on the NAR before the tariff determination of the Third Control Period.

Without prejudice to the above, we submit that increase in NAR is the function of increase in terminal building area (whenever applicable) 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 AAI, it is noted by the airport operator with a conservative approach.

AERA is requested to ensure no adjustments are proposed to NAR which are not dependent on traffic but are derived from agreements with concessionaires.

In view of the above, we request AERA to allow higher NAR being not less than 50% of the projected O&M expenses for AAI, or higher, as approved by AERA in other similar airports such as Chennai, Pune and Kolkata with more than 50% of the non-aeronautical revenue.

Comments of AAI

It is to mention that the existing contracts are awarded at SIA Airports are on fixed Licence fee and not based on passenger throughput. Hence any increase in passenger throughput will not increased the non-aeronautical revenue

AAI has projected growth of 10% y-o-y basis whereas AERA has as considered growth of 15% y-o-y considering growth in passenger.

AAI is making efforts to identify more areas for Non-aero revenue without compromising on the free movement of passengers at the airport.

8. Quality of Service for Third Control Period

Para 12.2.4

It is noted that the actual ASQ rating achieved by SIA for CY 2019 was 4.36 as compared to target of 4.68 as per the MoU with MoCA for the FY 2019-20. It is also noted that the ASQ rating achieved for CY 2023

(Q1) was 4.52, which is also below the target of 4.68 as per the MoU with MoCA. We request AERA to kindly take note of the same, and implement corrective measures, if any, as per the MOU for the same.

Comment of AAI

AAI has been consistently trying to improve the quality of service at the airport.

9. Aggregate Revenue Requirement (ARR) for the Third Control Period

Para 14.2.5

Any attempt to award the contracts by the airport operator on the 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 15% 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.

Para 14.2.6 and 14.2.7

It is submitted that, AERA has noted that "Srinagar International Airport is a Civil Enclave airport, which has limitations on the timing of operations. Further, AAI has projected minimal International traffic for the current Control Period. The existing low traffic base is not sufficient to recover the ARR,

which has resulted on account of higher O&M expenses projected for the current control period, the under-recovery pertaining to the First Control Period and the Second Control Period"

Thus, we appreciate that AERA in para 14.2.7 has considered to carry forward some portion of ARR to the next control period. However, we request AERA that, keeping in view the adverse impact on demand of air travel and concern for the financial health of the airlines as mentioned in this letter, tariffs may kindly not be increased for this control period.

Comment of AAI

The contract for non-aero facility at Srinagar International Airport are awarded on fixed Licence fees. There is no concept of royalty. Even if higher royalty would be paid to the operator it would add to amount of non-aeronautical revenue and cross subsidize the ARR, which is beneficial to the airlines/passengers.

AAI has requested AERA for full recovery of ARR in 3rd control period. Carryforward of shortfall to next control period will burden passengers in next control period as Terminal building has been projected in the next control period and a carry forward of ARR to next Control period will result in steep increase in tariff during fourth control period.

10. Proposed Annual Tariff Proposal (Tariff Rate Card) (Refer Annexure II of CP):

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 tariffs 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 the sharp post-COVID-19 recovery of aviation sector. It is the stated vision 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. In addition, we request AERA and AAI to clarify the following:

1) Ref: Para 17.2.4 Notes to User Development Fee (UDF) Charges: We would like to invite AERA's attention to notes 1 of para 17.2.4 of the Annexure II of the CP, UDF charges, wherein no rate of collection charges of UDF charges has been proposed by AERA. We further request AERA to consider, in this regard that:

- a) The collection charges to be published as Rs. 5.00 per departing passenger, in line with other airports.
- b) These charges are paid by airport operators to airlines separately after airlines raise an invoice against the same as a standard industry practice. We request the same practice be applied.

Further, AERA is kindly requested to consider that in light of the increasing administrative expenses due to inflation and other reasons, the collection charges may kindly be increased to keep pace with the proposed increase in UDF, as airlines only get a fixed rate, which results in disincentivizing the airlines.

c) AERA is kindly requested to clarify the applicability of UDF, whether it will be charged on per passenger or per flight basis, as UDF is applied on a per passenger basis i.e, for embarking passengers. As we have observed, there are corresponding references of domestic and international flights. Hence, the manner in which UDF is to be collected in case of a connecting flight appears unclear, especially in cases, where one leg of the flight is domestic and the other is international or vice versa.

To illustrate: For a passenger with connecting flight from one domestic station to another domestic station with final destination to international station (i.e., SXR-DEL-DXB), clarity is required whether the UDF will be charged as per domestic flight or international flight;

a) Will it be considered as a domestic passenger for the route of SXR-DEL-DXB (which means domestic UDF rate applicable on this passenger) ; or

b) The passenger will be charged international rates of UDF as per the PNR/Ticket, as the final destination is international.

2) CUTE, CUPPS, CUSS: As these are aeronautical revenues, we could neither find a proposal for the same in the MYTP submitted by the AAI 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 AAI 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 as per the AERA Act, with transparency to all stakeholders.

3) We observed that there is no mention of Aviation Security Fee ("ASF") in the Annual Tariff proposal by AAI. In this regard, we request AERA to take note of the AIC 09/2021 dated 19th March 2021 and to state the levy, exemption and collection charges on ASF to AAI.

4) Para 17.2.3 (Note 8) - It is requested that AERA should propose the definition of 'Unauthorised Overstay', which will provide clarity to all stakeholders regarding charges to be applied for such overstay by the airport operator.

5) Further, FIA recommends to add Note no.09 in para 17.2.3 of the Annexure II, as follows: "No additional parking charges other than normal parking charges be payable by the airlines for any force majeure reasons or for any technical or meteorological situation, which is beyond the control of any airlines".

6) Ref: para 17.2.7 of the CP- It is requested to provide definition of watch hours and the requirements of the extension of watch hours.

Comment of AAI

Payment of collection charges is a decision taken by management of airport operator as per credit policy and not under the AERA's jurisdiction. In this regard MoCA letter AV.16011/002/2008-AAI dated 30.11.2011 may please be referred.

The Extract of MoCA order is reproduced below:

“Transit/transfer passengers (This exemption may be granted to all the passengers transiting up to 24 hours. “A passenger is treated in transit only if onward travel journey is within 24 hours from arrival into airport and is part of the same ticket, in case 2 separate tickets are issued it would not be treated as transit passenger”). Hence, UDF will be charged at domestic rates if not a transit passenger and at International rates if transit passenger (transit passenger defined in MoCA order).

The CUTE, CUPPS, CUSS services are common user services provided by AAI through outsource parties by appointment through call of tender. The cost of services has been charged to passengers and loaded in the ticket. It is to mention that the cost of the services has been reduced drastically and benefiting the passenger.

The revenue from CUTE, CUPPS, CUSS has been considered at aeronautical revenue while computing the ARR. The independent service providers providing the CUTE, CUPPS, CUSS services and submit proposal to AERA for determination of tariff.

AAI is working on behalf of NASFT (a trust created by MoCA) and doing all the necessary compliance on behalf of NASFT. Since the accounts are maintained separately by NASFT, AAI has not reflected ASF in the Tariff Proposal.

11. Any Other Comment

Shrinkage in Control Period We submit 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 AAI - Third Control Period, will now be issued after the commencement of the Control Period i.e., 1 April 2021.

Cost of airport operations:

We submit that cost of operations for the airlines is increasing continuously every year and airlines are incurring losses in the current challenging scenario, even while airport operators have an assured rate of return on their investment. At the same time, it is projected by most agencies that over 1,200 new civil aviation aircraft will be inducted by airlines in India over the next 5 years. While economies of scale are a big factor for the airlines to keep the cost of operations low, this applies to airport operators as well. With the huge increase in aircraft, there is bound to be huge benefits for the airport operators as well due to economies of scale. Hence, we request AERA to conduct a study of the passengers and air traffic at selected airports taking data over the past 20 years wherein it may please be made transparent as to what is the cost of one take off separately to the airport operator and an airline, for various class of aircraft, at a periodicity of every 5 years (excluding the pandemic times period). It is felt that cost of business is simply passed on to the airlines by some airport operators, as it appears that there are multi layered companies undertaking various activities at the same airport, which not only add to the cost of doing business, but also force airlines to pay tax on tax for availing services through multi-layered companies. This study will

then make it evident who is actually bearing the cost of doing business at the airport, and whether the same is justified.

Comments of AAI

Increase in Aircraft Operation at Airports will benefit the Airlines more. The cost of operations at airport consist of operation and maintenance cost incurred for operational requirement at the airport and the administration cost for running the airport. There are no other cost which are passed on to the airlines which are unrelated to the airport operations.

B . BAOA Comments

BAOA has suggested that proposal to develop a greenfield airport around Srinagar should be looked into soon. It is through the development of greenfield airport only that future requirements of exponentially growing passenger tariffs would be met.

Comments of AAI

AAI has planned to construct an additional Terminal Building to cater the passengers demand at Srinagar Airport. The project is in planning / approval stage. After necessary approval, the action for the implementation will be taken soon.

C. IATA Comments

1. O&M and CAPEX

IATA commends AERA for the level of scrutiny of the proposal by AAI for Srinagar Airport in key areas such as O&M expenses and capital expenses with the common aim to ensure that they are at optimal levels without unduly burdening the airport users.

Comments of AAI

Capping of R&M expenses to 6% of opening RAB has no basis nor reasonable justification. Restricting the expenses may lead to compromise in the safe operations / performance standards as the airport operator would be constrained not to incur expenses beyond what is allowed.

2. Proposed increase in UDF

The fact that the airport is a Civil Enclave airport, which has limitations on its operations; and has had no capex enhancement; and no resultant increase in passenger facilities; we believe it would be unfair for passengers to bear the burden arising from a significant increase in UDF. Additionally, the under-recovery of the First & Second Control Period should not be exclusively funded by passengers in the current control period. Thus, whether by carryforward of the shortfall to a subsequent Control Period; or by way of

restraining the increase that has been sought, we would support AERA's efforts to prevent burdening of airport users with excessive tariffs.

Comments of AAI

Tariff is determined by AERA based on AERA philosophy of cost plus return therefore whatever UDF is proposed has been arrived at based on AERA methodology. Hence restraining the increase without any basis will only demonstrate that action is not in consonance with AERA guidelines.

3. True-up recovery

We have noted that significant true-up of the under-recoveries from the First control period amounting to Rs. 177.1cr and subsequently from the Second control period amounting to Rs. 383.76 resulted in a significant cost impact in the Third control period.

- Whilst we understand the current regulatory approach of "guaranteeing" a return and the true-up mechanism, it is important to note that AAI as the airport operator should assume some of the deficits/under-recoveries. The present arrangement leads to airport operators recouping their losses.
- Given the strategic national role of the Srinagar airport, we suggest that there should be a joint funding model i.e. Government/AAI + airport users. We have also noted the details in the CP on how Srinagar airport was declared a major airport in June 2015; thereafter becoming a non-major airport in 2019 through the change in the definition of major airport (which was amended to 3.5 Mn Pax per Annum); and then based on MoCA Order of Nov 2021, once again being notified as a major airport. We agree with the decision to exclude the Under recovery of 2020-21, as Srinagar Airport was a non-Major airport during 2020-21; thus, protecting the passenger interest arising on account of the NPV of the Under-recovery of FY 2020-21.

Comments of AAI

- The basic philosophy of any tariff is that the airport operator should be able to recover the cost plus reasonable return on capex. Carry forward of losses will affect the cash flow of airport operator and may affect operations of airport.
- Srinagar Airport was the major airport in the 1st control period. Also upto 2019, till the amendment of AERA act Srinagar has been a major airport. Change in law by the way of amendment of the act should not affect the airport operator. That is the reason MoCA vide letter No.AV 20036/9/2017-AD dt. 14th January 2020 has clarified that tariff would continue to be applicable for the 2nd Control Period i.e. Upto 31st March 2021 and the tariff for the next control period would be determined based on the passenger throughput criteria as defined in the AERA Act. Considering one year that is FY 2020-21 in a control period as non-major has no logic and unnecessary AAI is suffering loss on account of this.

4. AUCC protocol

We also commend AERA for highlighting that AUCC is yet to be conducted by AAI. It is essential that major capex such as the expansion of the Passenger Terminal Building and its design must be reviewed and consulted with stakeholders, and this shouldn't be a one-off consultation. Rather, the consultation should take into consideration the level of service, the concept of operations and adoption of technology etc. and the overall business case for the investments. We request that the AUCC protocol is adhered to fully by AAI and that consultations with stakeholders are held to review the shortlisted options (and not only a single option) and their business cases. This should also include the review of the airport master plan, phasing of various investments etc.

Comments of AAI

As and when the major capex of terminal building is approved, AUCC protocol will be adhered to by AAI.

5. Service Quality Levels

We also call for AAI to adhere to AERA's guidelines in relation to the quality-of-service parameters and benchmarks. The guideline has very clear requirements on both subjective and objective parameters. While most regulated airports have complied with the subjective measurement requirement by conducting the ASQ surveys, we don't have visibility if and how the objective measurement requirement per AERA's guideline is being complied with. The guideline clearly defined the measures and benchmarks/targets with details of the rebate mechanism if the expected service levels are not met. We call on AERA to ensure adherence to these requirements.

Comments of AAI

AAI has been following AERA's guidelines on service quality levels.

6. Capitalization of Non-operational assets

We support AERA in deferring the capitalization of non-operational assets in 3rd control period such as the expansion of the Terminal Building and CISF barracks. Affordability must be considered with a greater focus on optimizing existing infrastructure and processes. This can be better achieved/delivered with participation from all stakeholders in an inclusive manner.

Comments of AAI

In this regard, it is to be submitted that Earlier it was proposed to construct the CISF barrack on the land proposed to be taken over from BSF. Considering the operational requirement, it is proposed to construct the CISF barracks on available AAI land only and hence will be constructed by 2025-26. AERA is requested to consider the same in the third control period.

7. Use of ASF

We remain concerned about the lack of transparency since the introduction of the Aviation Security Fee in 2018/19. Security-related expenses previously funded by the airport operators from (a portion) of the PSF-Security should be funded accordingly by the ASF e.g. CISF barracks. In the case of Srinagar, if this facility is constructed on AAI's land rather than BSF's land, this will likely add additional cost to airport users (inclusion in RAB, depreciation cost, returns etc.). We request clarity and that AERA considers this aspect in its determination.

Comments of AAI

In this regard, it is to submit that construction of CISF barracks at AAI land will reduce the cost as no cost to pay to BSF for acquisition of land. Rest of the cost will remain the same in both the scenario.
