

APAO/AERA/2023-24

Date: 29th September 2023

Director (P&S, Tariff)

Airports Economic Regulatory Authority of India (AERA),

AERA Administrative Complex,

Safdarjung Airport,

New Delhi – 110 003

Subject: APAO's response to Consultation Paper No. 11/2023-24 dated 31st August 2023 in the matter of determination of Aeronautical Tariff for Manohar International Airport, MOPA, GOA (GOX) for the First Control Period (01st April, 2023 to 31st March, 2028)

Dear Sir,

As the apex industry association of all the major PPP airports operating in India, APAO is pleased to share its response on the Authority's proposals in the above-mentioned Consultation Paper for the kind consideration of the Authority.

We are pleased to note the efforts put in by AERA to take a comprehensive view considering the complexities involved in the Greenfield airports and their Concession Agreement. However, we firmly believe there are certain key issues which have not been adequately addressed that are critical to assess the economic viability of the Airport Operator.

Given the above background, **we would like to highlight our inputs on certain key issues.**

1. **UDF Pass Through:** In para 4.2.3 of above-mentioned consultation paper AERA proposed following: -

“The Authority notes that GGIAL, Mopa, Goa has only considered billable domestic passengers, excluding 2% of domestic passenger traffic. The Authority notes that Government of India has allowed exemption of UDF to certain categories of passengers through Order No. AIC 14/ 2019 read with AIC 20/ 2019. GGIAL, Mopa, Goa cannot claim any pass through regarding UDF on such categories and this is followed by AERA across at all Major Airports. Therefore, there is no reason to consider the billable PAX traffic separately, as the Authority follows a consistent approach across all Major Airports, that naturally accounts for such considerations while projecting aeronautical revenues. The Authority notes that if this has been considered differently in any of the recent tariff orders, the same will be changed at the time of true up”

In this regard, APAO would like to humbly submit that this approach taken by AERA is not in line with the expected principle of regulatory which ensures timely and complete recovery of approved ARR. Though the UDF has been exempted by the appropriate authority, in all fairness it needs to be adequately compensated/ reimbursed from other passengers. We would like to submit that the regulator while determining tariff has to ensure that the entire eligible tariff is recovered through passenger or airline charges. Any deviation in this approach

of AERA will result in the reduction of UDF and consequently the Airport operator is unable to recover its approved ARR.

The Authority has also considered the exempted passengers while calculating the billable passengers in case of Lucknow, Bangalore, Delhi and Hyderabad Airports as well. Hence, we earnestly request the Authority to kindly consider the billable passengers post reduction of exempted passengers as proposed by the Airport Operator.

2. **Debt Service Reserve Account:** The Authority has not considered Debt Service Reserve Account (DSRA) as part of CAPEX. Also, while M/s KITCO has recommended paying a return on the amount at a rate equivalent to the difference between WACC and the interest earned on the deposit, the same has not been accepted by AERA.

In Project Finance, a Debt Service Reserve Account (DSRA), is a reserve account specifically set aside to make debt payments in the event of a disruption of cash flows, to the extent that debt cannot be serviced. DSRA is typically funded in the final period of construction before debt starts to amortise. Such investments are funded out of a mixture of debt and equity and form a part of overall sources of funds for project construction. The amounts accumulated in DSRA are not allowed to be used for any other purpose other than for Debt Service Payments of Rupee Lenders. The monies being funded by a mix of Debt & Equity are part of project means of finance (as upfront creation prior to the commencement of operational revenues) thus forming part of Capital expenditure cash outflow. Hence a **return on the differential amount should be provided by AERA.**

3. **Cost of Equity:** We would like to submit that AERA considered the cost of equity of Ahmedabad Airport as average of cost of equity of other five PPP airports viz., DIAL, MIAL, GHIAL, BIAL and CIAL. We humbly submit that this approach of AERA is contrary to the Tariff computation guidelines which suggests that the Authority shall estimate cost of equity, for a Control Period, by using the Capital Asset Pricing Model (CAPM) for each Airport Operator, subject to the consideration of such factors as the Authority may deem fit. We therefore earnestly request the regulator to kindly conduct a specific study for GGIAL airport, as each Airport has a different risk due to various factors that are specific only to that airport (like the catchment area, competition levels, demography of passenger, connectivity issues, number of passenger etc.)

GGIAL being a greenfield airport does not have established traffic numbers and also operates in a highly competitive environment and that too against an incumbent airport operator. In such a scenario, the cost of equity should reflect these inherent risks and hence a **higher cost of equity** compared to other Indian airports should be considered for GGIAL.

4. **Cost of Debt:** AERA considered cost of debt of Ahmedabad Airport as average of cost of debt of other five PPP airports viz., DIAL, MIAL, GHIAL, BIAL and CIAL. We would like to humbly submit that this approach of AERA is contrary to the Tariff computation guidelines which suggests that the Authority shall consider the forecast for future cost of: (i) debt proposed to be raised during the Control Period; or (ii) such debt which may be subject to a floating rate of interest subject to the Authority being assured of the reasonableness of

such costs, based on a review including of its source, procedure and methods to be used for raising such debt. Hence, we submit that the **cost of debt should be approved as per actuals.**

5. **Repair and Maintenance Expenses:** We notice that AERA has only partly allowed the Repair and Maintenance expenses for GGIAL. It is pertinent to mention that since GGIAL has followed a competitive bidding process to arrive at such costs, hence, the price discovery has already been undertaken in the process. Given that the expenses are a market discovered rate, no further disallowance of such expenses should be resorted to by AERA and the expenses contracted should be considered in calculation of the ARR.
6. **Airport Operator fee:** During the stage of competitive bidding, for satisfying the technical qualification criteria, the bidding entity either uses the experience of having ownership of similar sized Airports or it ties up with specialized Airport Operators providing O&M services e.g., during the bidding for the MOPA project, GMR Airports Ltd qualified on the basis of its ownership in Delhi & Hyderabad Airports. Post winning, the bidding entity incorporates the SPV that takes up the role of developing & operating the Airport asset. While SPV employs the requisite skilled and experienced staff to undertake the work of development & operation of the Airport, there are various aspects associated with the same that require specialized knowledge and expertise in the field.

The parent company or the holding company owing to its experience of developing and operating several airports has developed the skill set and knowhow of various streams like technical, commercial, regulatory, financing, quality, passenger experience etc. over a period of several years.

This Airport operator fee is primarily to compensate for the efforts of providing the services and technical knowhow and also incentivizes the O&M Operator to work together with the SPV staff in bringing the best practices at the airport and enhance the passenger experience and revenues. Hence, we earnestly request the Authority to kindly consider the Airport operator fees as proposed by GGIAL.

7. **Land and space for CGF and Airlines classified as Aeronautical:** We humbly submit that Lease of land does not in any way constitute any kind of aeronautical service. As per Article 2, Chapter 1 of the AERA Act, it lists down the aeronautical services which includes services provided for:
 - a. Navigation, surveillance and supportive communication
 - b. Landing, housing and parking
 - c. Ground safety services
 - d. Ground handling services
 - e. Cargo facility
 - f. Supplying fuel
 - g. For a stakeholder at the airport, for which the charges, in opinion of the Central Government, may be determined by Authority.

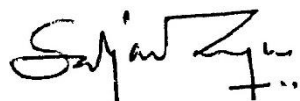
As evident from the above list, the lease of land does not constitute any of the above-mentioned services. Hence, the land and space provided for CGF and Airlines should be considered as non-aeronautical in nature.

We earnestly request the Authority to give a serious consideration to the points raised by us in the above response, before issue of the final order determining the aeronautical tariff for Manohar International Airport, MOPA, GOA (GOX) for the First Control Period.

In case any other information/ clarification is required in this connection, kindly inform the undersigned.

Thanking you.

Yours faithfully,
For Association of Private Airport Operators (APAO)

A handwritten signature in black ink, appearing to read 'Satyan Nayar', with a small flourish at the end.

Satyan Nayar
Secretary General
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