

AIRPORTS ECONOMIC REGULATORY AUTHORITY OF INDIA

MINUTES OF THE STAKEHOLDERS' CONSULTATION MEETING (VIRTUAL) HELD ON 01.12.2023 AT 11:00 AM ON THE PROPOSALS MADE IN CONSULTATION PAPER No. 17/2023-24 IN THE MATTER OF DETERMINATION OF AERONAUTICAL TARIFF FOR KANNUR INTERNATIONAL AIRPORT, KANNUR, KERALA FOR THE FIRST CONTROL PERIOD (01.04.2023 TO 31.03.2028)

1. AERA Act, 2008, Sec.13(iv)(a) empowers AERA to ensure transparency in Consultation Process for determination of tariff in the wider interest of the public and the stakeholders. Accordingly, a Stakeholders' Consultation Meeting was convened by the Authority on 01.12.2023 at 11.00 AM through Video Conferencing to elicit the views of the Stakeholders on the Consultation Paper No. 17/2023-24 dated 16.11.2023 issued by the Authority to consider the Multi-year Tariff Proposal for the 2nd Control Period (FY 2023-24 to FY 2027- 28) in respect of Kannur International Airport. The list of participants is enclosed at **Annexure-I**.
2. Chairperson, AERA welcomed all the Stakeholders present in the meeting and extended his greetings. Further, he introduced Mr. Suyash Narain, Secretary, AERA, who had joined AERA recently.

He invited the officials of KIAL to present their submissions in response to the Consultation Paper for Kannur International Airport and assured other stakeholders that they would get an opportunity to express their views after the Airport Operator's (AO) presentation, as the response of the stakeholders is very essential for the tariff determination process of the Major Airports. Following were the comments made by various stakeholders.

3. **Kannur International Airport Limited (KIAL)**

- 3.1 Mr. Dinesh Kumar, Managing Director, KIAL conveyed that the presentation has been made after capturing all the True up figures and further mentioned that the CAPEX projected for the Second Control Period is minimal and only essential CAPEX has been considered relating to the aspect of safety and security requirements for smooth conduct of airport operations. Further, he requested the stakeholders to offer their support in the forthcoming discussion. Subsequently, he requested Mr. Jayakrishnan S, CFO, KIAL to give the presentation on the Consultation Paper No.17/2023-24 of Kannur International Airport.

Mr. Jayakrishnan S, CFO, Kannur International Airport gave a detailed presentation on covered the following details:

- 3.2 Kannur International Airport is the second Greenfield Airport in Kerala set up under PPP mode. The Shareholding Pattern of KIAL consists of Government of Kerala (GoK) holding 39.23%, Bharat Petroleum Corporation Limited (BPCL) holding 16.20%, Airports Authority of India holding 7.47% and Qualified institutional investors, individuals, co-operative banks/ societies/ commercial banks and other legal entities holding 37.10% shares.
- 3.3 Kannur Airport commenced its operations in December 2018. After commencement, the Airport was able to have only one year of uninterrupted operations, as at the end of FY 2020, the airport was impacted by COVID-19 Global pandemic.
- 3.4 Despite uncertainties, the Airport handled 1.59 million passengers in its first full year of operations indicating strong demand potential. The total area of airport is 96,143 Sq. m. with a designated capacity of 9.34 MPPA and peak hour passenger capacity of 2,000. The Airport has 6 boarding bridges, 60 check-in counters (30 Domestic and 30 International), 2 category 9 Fire stations, 32 Immigration counters etc.
- 3.5 COVID-19 pandemic had impacted the Airport severely, resulting in 70% drop in passenger traffic and a


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58% decline in ATM in FY 2021 compared to FY 2020. Further, suspended Flight operations, capacity restrictions, bubble agreements and grounding of a key airline has hindered passenger traffic growth. Despite these challenges, the airport is on the path to recovery.

CFO also added that the recovery path was proceeding fairly in FY 2022-23, but due to grounding of Go Airline's aircraft, it was again halted.

3.6 True-up of the 1st control period

i. Comparison of the capital expenditure (as per AO) w.r.t. approved CAPEX

The AO has requested AERA to consider Free hold land development cost and associated financing allowance as the same had been actually spent on development of air side operations. Further, the AO has requested AERA to consider other aspects such as development costs associated with Cargo Terminal and Air navigation services equipment cost.

ii. Return on Land

- At present, 631.4 acres of land out of the total land of 1,192.18 acres costing INR 316 Crore have been utilized for the aeronautical purposes. The land cost corresponding to the airport project is therefore considered to be INR 167 Crore. Yearly cost of debt is considered ~9.3%-9.4%
- Reference was made to AERA Order No. 42/2018-19, dated 5th March 2019, which lays down the mechanism for calculating return on land to be provided on the cost of land.
- The AO emphasized that land returns have been completely excluded in the calculations whereas AO is eligible for a return on land since the land has been obtained in return for equity.

iii. FRoR

Requested AERA to consider cost of equity of 16% in line with the decision of AERA for AO in the Tariff Order for the First Control Period. Further, the AO pointed out that the cost of debt considered by AERA was also lesser than the actual cost of debt, for determining FRoR.

iv. Aggregate Revenue Requirement (ARR)

The CFO, Kannur Airport stated that the total shortfall in ARR is INR 2,109.91 whereas Approved shortfall is INR 1,189.34 which is lesser by INR 920.6 Cr

3.7 Tariff proposal for the Second Control Period

In the background of the challenges due to Covid 19 pandemic, CFO, Kannur explained the measures undertaken by KIAL for the Second Control Period as illustrated below:

i. Capital expenditure

In light of the impact due to the COVID-19 pandemic, the AO has taken necessary steps, in consultation with relevant stakeholders, to minimize the capital expenditure. KIA does not expect any significant capital expenditure in the second control period other than the essential capital expenditure that are needed to ensure the safety and security of the airport. The AO has requested AERA to kindly consider the CAPEX as submitted.

ii. Regulatory Asset Base

Estimated closing net block for FY 2023 forms the opening RAB for the first year of the second control period i.e., FY 2024. Since there are no assets capitalized during the year the asset value has been adjusted for depreciation charged during the year to arrive at closing value of RAB.

iii. FRoR


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The AO is obligated to start the repayment of loans, borrowed in the first control period for funding its capital expenditure and interest servicing, from January 2023. The AO has considered a cost of equity of 16% in line with the decision of AERA for AO in the First Control Period tariff order. Requested AERA to consider the same cost of equity for the Second Control Period. AO expects an additional equity infusion to the tune of INR 90.6 Crore in the year FY 2024

iv. **Operating expenditure**

The Operation and Maintenance (O&M) cost mainly consists of the employee costs, airport operating costs which further includes repairs and maintenance, utilities costs, other operational expenditure costs, administration and general costs. This cost is bare minimum to run the airport. AERA is requested to consider the O&M cost as near to the cost submitted as part of MYTP.

v. **Aggregate Revenue Requirement**

CFO, KIAL stated that the Airport had proposed shortfall for the Second Control Period as INR 4,029.7 Cr. However, AERA had proposed shortfall as INR 2,247.01 Cr. for the Second Control Period, in the Consultation Paper.

Further, CFO Kannur displayed the proposed Tariff Card for Landing, Parking, Inline X-ray, CUTE/CUSS/BRS, UDF, Domestic, and international cargo for further review.

The CFO stated that the proposed rates have been benchmarked against the existing tariff rates of Cochin, and are much lesser than what the AO had proposed earlier as part of the MYTP.

The CFO, KIAL further requested the Authority to once again reconsider the submissions made by the AO on the Consultation Paper No. 17/ 2023-24. He also mentioned about submitting their response regards to the Consultation Paper within the timelines specified by the Authority.

Member, AERA thanked the KIAL officials for their presentations and invited other stakeholders to present their views/comments on the Consultation Paper No. 17/ 2023-24.

Airport Operators

Adani Airports

- 4.1 Mr. Chirag from Adani Airports informed that they will submit written comments on Consultation Paper No. 17/2023-24 within the timelines given by the Authority.

Federation of Indian Airlines (FIA)

- 4.2 Mr. Ujjawal Dey from FIA thanked AERA for the opportunity to participate in the Stakeholders meeting. He expressed his concern regarding the increase of 30% in the tariff rate card proposed by the AO for FY 2023-24 which has to be avoided, although there had been no significant increase in the traffic. Further, He requested AERA to review the same while finalizing the Tariff Rate Card.
- 4.3 Thereafter, he expressed his concern regarding CUTE/CUSS rates which were proposed by the AO INR 85.1 for domestic and INR 92.5 for international and pointed out that in recently released tariff by AAI for all the airports, CUTE charges have been significantly reduced by AAI Airports to around INR 35.00. Mr. Ujjawal requested KIAL to standardize the rates so as to be at par with AAI rates.
- 4.4 Further, he emphasized the importance of increasing Non-Aeronautical Revenue at the Airport, to alleviate the burden on passenger tariffs by diversifying revenue streams and reduce dependence on tariffs recovered from the passengers. He also added that he will submit their written comments on Consultation Paper No. 17/2023-24 within the stipulated timelines.

SpiceJet Airlines

- 4.5 Mr. Suryavir S. Bisht from SpiceJet Airlines expressed his gratitude and appreciation to AERA for


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rationalizing the CAPEX, OPEX and Non-aeronautical revenue for the Second Control Period.

- 4.6 He also thanked AO for their crisp and short presentation. He appreciated the KIAL's MD's comment that they have proposed only the essential CAPEX in the Second Control Period and for not increasing the manpower.
- 4.7 He also stressed that the increase of 30% in the landing and parking charges proposed by the Airport Operator should not be considered for the harmonious interest of all the Stakeholders. Although the CFO, Kannur Airport replied that this increase is mainly on account of the under-recovery of the First Control Period.
- 4.8 He further added that UDF for the disembarking passengers has also been proposed by AO which is not there in any of the AAI airports.
- 4.9 He also supported the views of Mr. Ujjwal Dey regarding rationalization of CUTE charges to make it at par with AAI airports.

Indigo Airlines

- 4.10 Mr. Dushyant Deep from Indigo Airlines expressed his gratitude towards a well-maintained discussion. He emphasized the need of having an independent study done on the efficiency of capital expenditure due to mismatch in design capacity versus the actual throughput which has been correctly pointed out by AERA. He further added that in the absence of an independent study in the First control period as pointed out by FIA, the terminal building which was designed for a capacity of over 9 MPPA has not even reached the threshold limit to be qualified as a Major Airport under the AERA Act, 2008.
- 4.11 He also suggested that some sort of efficiency on capital expenditure should be undertaken by the Airport Operator.
- 4.12 He also expressed his concern over the stagnant nature of the international passenger traffic and the decline of domestic passenger traffic, which was proposed by the Authority for the years FY 2025-26 to 2027-28.

International Air Transport Association (IATA)

- 4.13 Mr. Ujjwal Bakshi from IATA expressed his gratitude to AERA for inviting them for the Stakeholder's meeting and also appreciated AO for their comprehensive presentation. He supported the views raised by representatives from Spicejet and Indigo Airlines.
- 4.14 He pointed out to the AO that FRoR should be adjusted lower taking into account of the pandemic situation and further suggested that when the costs are trued up, the return should also be trued up. He expressed his concerns towards OPEX which has remained constant even during the pandemic and don't seem to be ideal.
- 4.15 He appreciated AERA's treatment of truing up of CAPEX, particularly those which were not approved previously and also the exclusion of return on land and CSR expenditure given the airport has incurred losses. He also appreciated AERA for their meticulous scrutiny of the allocation of assets.
- 4.16 He requested to bring more clarity on the security expenditures and obligations of the Airport Operator therein, given the fact that ASF is being collected and also highlighted that the custom cost recoveries should ideally be funded by state government. He also requested to bring clarity on collection of Airport Security Fee at the airport.

Air India Express

- 4.17 Mr. Shashikumar Chetia from Air India Express recommended to commission an independent study

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that includes a comparative analysis of Calicut and Mangalore Airports, with a specific focus on the target market, given the substantial passenger traffic in the region.

4.17.1 Sh. D.K. Kamra, Member made the point that the suggestion would be evaluated appropriately, although the Airports aren't exactly comparable due to various factors which also needs to be considered.

4.18 Chairperson clarified that the comments raised by SpiceJet Airlines regarding the proposal of Airport Operator to levy UDF on disembarking passengers, stating that only in greenfield airports, AERA has considered levy of UDF on disembarking passengers. In Mangalore Airport (although not a greenfield airport), AERA had considered levying UDF on disembarking passengers due to exceptional circumstances/due to the nature of airport etc. as elaborated in the tariff order of Mangalore Airport.

Further, he assured stakeholders that AERA shall consider all the comments given by stakeholders on merits and take decisions in the interest of all the stakeholders involved in this process. Thereafter, meeting was concluded.

4.19 Sh. D K Kamra, Member, AERA gave a vote of thanks to all the stakeholders and also to AO for making an informative presentation which helped in a smooth stakeholders' discussion. In addition, he requested all the stakeholders to provide their written comments within the stipulated timeline.


(Rajan Gupta)
DGM (Tariff)

Annexure -I

List of Participants:

Airports Economic Regulatory Authority of India

1. Mr. B S Bhullar, Chairperson
2. Mr. D K Kamra, Member
3. Mr. Suyash Narain, Secretary
4. Mr. Ram Krishan, Director (P&S)
5. Mr. Rajan Gupta, DGM (Fin) -Tariff
6. Mr. Satish Kumar, DGM (Fin) - Tariff
7. S. Inderpal Singh, US(P&S)

Kannur International Airport Limited

1. Mr. Dinesh Kumar C, Managing Director
2. Mr. Jayakrishnan S, Chief Financial Officer
3. Mr. Martin Jose Emmanuel

Representative from Adani Airports Holding Limited

1. Mr. Ashu Madan, GM (Regulatory)
2. Mr. Chirag

Representative from Federation of Indian Airlines (FIA)

1. Mr. Ujjwal Dey

Representative from International Air Transport Association (IATA)

1. Mr. Ujjawal Bakshi

Representative from Indigo Airlines

1. Mr. Dushyant Deep

Representative from SpiceJet Airlines

1. Mr. Suryavir S. Bisht

Representative from Air India Express

1. Mr. Shashi Kumar Chetia

Representative from R. Subramanian & CO, LLP

1. Mr. Gokul Dixit, Business Leader
2. Ms. Krithika Gopal, Partner
3. Mr. Sreekumar, Aviation Expert
4. Ms. Komal Singh, Manager
5. Mr. Sujal Dhall, Executive


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