KANNUR
International Airport

Ref: KIAL/CFO/30/2023-24
Date: 26 December 2023

Airports Economic Regulatory Authority of India,
AERA Building,
Administrative complex,
Safdarjung Airport,
New Delhi- 110003.

Kind Attn: Shri Rajan Gupta, Deputy General Manager (Finance)

Dear Sir,

Sub: Submission of the response to stakeholder comments on Consultation Paper No. 17/2023-24 dated 16 November 2023

Kind reference is invited to the Consultation Paper No. 17/2023-24 dated 16 November 2023 in the matter of determination of aeronautical tariffs for Kannur International Airport for the Second control period beginning from 01-04-2023 to 31-03-2028.

At the outset, we express our sincere gratitude to the Authority for the efforts towards finalizing the Consultation Paper of Kannur International Airport for the Second control period.

As part of the stakeholder consultation process for the referenced consultation paper, please find enclosed the response of Kannur International Airport Limited (KIAL) as per Annexure – 1 to the stakeholder comments for kind consideration of AERA

Soliciting the continued support and co-operation of the Authority,

Thanking you in anticipation,

Yours truly,
For **KANNUR INTERNATIONAL AIRPORT LIMITED**

JAYAKRISHNAN S
Chief Financial Officer

KANNUR INTERNATIONAL AIRPORT LIMITED
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cc: Shri Ram Krishan,
Director (Tariff, Policy & Stat.),
AERA.

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	FIA Comments	
1.	**Revenues from Air Navigation Services (ANS)** Para 2.1.3 *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 mean 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.*	1. The revenue from Air navigation services has been considered under aeronautical revenues in line with the relevant guidelines from the Authority. The same can be seen from table No. 32 of consultation paper No. 17/2023-24. 2. KIAL would like to highlight that the services are basis the agreement for provision of CNS/ATM facilities at greenfield airports. signed between AAI and KIAL on 17th November 2014. As per Clause 7.4 the provisions of CNS ATM services are on cost recovery basis. Revenue from Air Navigation Services include both RNFC and TNLC charges collected by AAI from airlines. As per the agreement with AAI, only TNCL charges are passed on by AAI to KIAL but not RNFC. For providing RNFC services. AAI is claiming both OPEX and CAPEX cost from Kannur Airport. Hence, KIAL has requested the Authority to consider both OPEX cost as revenue expenditure of KIAL and CAPEX costs claimed by AAI under RAB of KIAL. 3. Hence the said revenue from TNLC in point 1 above, is adjusted against the relevant cost incurred by AAI in that period under consideration as detailed out in Clause 7.4 of the agreement. 4. KIAL humbly requests the authority to consider cost of ANS services as aeronautical expenses while taking into account TNLC revenue under aeronautical services.
2.	**Methodology for Tariff Determination – Hybrid Till Vs. Single Till** Para 3.1.2 *It is observed that AERA have determined tariffs using the 30% Hybrid Till model including true ups, as applicable.*	1. KIAL would like to highlight that the methodology for tariff determination is as per AERA approved guidelines on shared till mechanism in its Order no. 14/ 2016-17 dated 23 Jan 2017 based on the National Civil Aviation Policy, 2016.

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	FIA has advocated the application of Single Till model across the airports in India and submits that AERA should adopt Single Till across all control periods, including by way of true up. *In a Shared/Hybrid till model, the airport operator has the incentive to skew the asset base towards aero-assets, thereby having a higher capital base for calculation of return offered by the regulator.*	
3.	**True up for First Control Period** Para 4.7.1 *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 12.21% provided to the KIA is higher in comparison to some of the Airports such as Chennai and Pune. Without prejudice to the above, there appears to be no rationale to provide higher return to KIA and accordingly AERA may reduce the FRoR suitably.* Para 14.2.2	1. COVID-19 pandemic has exposed the vulnerable side of aviation sector and displayed the enormous risk and uncertainty the travel industry faces in case of such events. Its severe impact on the airport financials can be seen not only in the Indian airports but also across the global airports. The impact of the pandemic on Kannur International Airport was even more severe, as the airport had just commenced its operations in December 2018, and had only one year of uninterrupted operations i.e., FY 2020 before pandemic outbreak. 2. KIAL would like to point out that Kannur airport was at its growing phase and several routes were yet to be mature when the unprecedented pandemic outbreak occurred. The pandemic has increased the risk of green field airports and naturally the same must be accounted in the cost of equity especially for those greenfield airports which commenced operations close to pandemic outbreak. 3. KIAL also underlines that along with the challenges faced during pandemic, the airport's traffic recovery was significantly affected with impacts of the following events: a. Suspension of flight operations and further restricted operations due to capacity restrictions and bubble agreements on international sectors

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	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 Under-recovery in first control, or due to deficiency to recover the ARR on account of higher O&M expenses projected for the Second Control Period caused due to under-recovery pertaining to the First Control Period	b. Grounding of anchor airline has impacted passenger traffic growth c. Grounding of aircrafts due to engine supply chain issues d. Lack of PoC status which limits any capacity addition 4. Airports such as Pune and Chennai are established brownfield airports with mature traffic flow and strong catchment potential as they are tier I/Metro Cities. Moreover, there is huge difference in the shareholding patterns of these airports when compared to Kannur. Pune and Chennai are AAI owned airports with sovereign shareholders as opposed to Kannur which has equity participation from Government of Kerala, NRIs, Industrialists, Financial Institutions and Airport Service Providers, with around 9050 shareholders. Similarly, the cost of debt approved by the authority is 9% which is lesser than the actual cost of debt, 9.3% for term loan and 10.3% for funded interest term loan. Airports such as Chennai and Pune can obtain better competitive lending rates due to lower risk profile unlike KIAL. 5. In light of above, KIAL humbly requests the authority to consider the cost of capital as submitted by the Airport Operator which is on actuals basis. 6. It may be noted that the aeronautical charges have been proposed as per the guidelines laid out by the authority and taking into the stakeholder interests. Considering the competitive landscape, inputs from AERA and other stakeholders, the tariff increase in first control period is reasonably increased. KIAL has sincerely considered a phased approach for recovery of ARR accordingly.

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4.	**Traffic for Second Control Period** Para 5.2.8 and Table 41 *While we appreciate that AERA has computed the traffic forecast after considering the forecasted data published by ACI and IATA (refer para 5.2.5 and 5.2.8), 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, as the same are due to unusual factors including but not limited to the geo-political causes etc,* *Hence, we request that the 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*	1. In post Pandemic period, FIA's suggestion is appreciated to consider all the relevant trends, and economic factors for projecting accurate traffic figures. This will help the stakeholders to get a clear view of future scenarios and accordingly act. 2. Accordingly, traffic projections have been revised through a in depth study considering above aspects in 2022. The traffic projections submitted for second control period are as per the study conducted. The study reports have already been shared with the authority for their reference.
5.	**Related party transactions** *It is noted that there is no mention of related Part Transaction in the Consultation Paper.* *FIA submits that in our view AERA should conduct the RPT Compliance check.* *In this regard, we request AERA to kindly ensure that:* *(a)the provisions of Concession Agreement ('CA') have been complied with;* *(b) tendering and awards for services must go through a competitive, transparent and fair process;* *(c) agreement with related parties shall not have any onerous terms, aggressive cost escalation, restrictive covenants, unfair lock in period or*	(a) In so far as concession agreement is concerned it may please be noted that Kannur Airport had been set up as per Government Orders issued by Government of Kerala (GoK) and the terms of reference are governed by various Government Orders issued by GoK from time to time, which are being complied with. (b) Tendering and awards for services are carried out through a competitive, transparent and fair process. (c) KIAL has complied with the disclosure of related party transactions as per the Ind AS 24. Details of the same is included in Note 30 of FY 2022-23 ABS 2023 which was already submitted to the authority.

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	cost escalations or any other terms that may arise from awards to Related Parties, which is not in favour of airport users/other stakeholders *It is not in the interest of the stakeholders that related parties be awarded agreements for services (or otherwise) as there is fear of multi-layered transactions between / among airport operators or their Joint Ventures or their Holding / Subsidiary / Sister Subsidiary companies (or business associates by whatever name called), which is not efficient for the ecosystem, and should be banned*	
6.	**Capital Expenditure, Depreciation and Regulatory Asset Base (RAB) for the Second Control Period** *FIA submits that, the entire ecosystem needs to be operationally efficient, which can be implemented, amongst other things by considering the following:* *Para 6.2.10* *We request that AERA applies the normative norms for the capex projects as mentioned under AERA Order No. 7/2016-17 dated 13th 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.* *We request AERA to ensure that all aeronautical capex is efficient and without any unreasonable excesses, such that stakeholders, including passengers, do not pay for services/ facilities which are not being availed by the stakeholders or passengers.* *Para 6.1.2* *We note that AERA has conducted an in-depth analysis of the submissions made by the Airport operator by an independent consultant, which is appreciated.*	1. The capital expenditure considered in the second control period are solely to ensure compliance with operational, security and safety elements. Majority of capital expenditure planned for second control period are basis guidelines/directives from the respective government authority. KIAL has taken necessary steps, in consultation with relevant stakeholders, to optimize the capital expenditure in the second control period. KIAL after thorough due diligence has included only those expenditures which shall ensure the efficiency, safety and security standards of the airport 2. The AERA Order No.7/2016-17 was issued by the Authority after taking into consideration, the CAPEX cost of KIAL as per the information provided to the Authority prior to issue of the Order. 3. It may be kindly noted that the airport was designed and constructed as per the directive from the Ministry to construct a world class airport with cutting edge infrastructure *(refer Annexure B)*. In depth demand study was conducted by independent consultant, and the same were also reviewed and approved by AERA. However, the external challenges faced

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	Further, as observed by AERA itself in para 14.2.2 of the CP the significant mismatch in the designed capacity of the airport, i.e., the airport is designed for 9.4 MPPA. *However, their actual reported passenger throughput volume is only 1.59 MPPA for FY 2019-20, which is lesser than the threshold limit of 3.5 MPPA defined under the AERA Act 2008 for making KIA a major airport. AERA vide Public Notice 17/2019-20 dated March 16th, 2020 notified KIA as a major airport and determined the tariff for First Control Period. Further, as mentioned in para 5.2.9 and table 40 of the CP, the traffic for FY22-23 is still lower than the traffic for FY19-20.* *In this regard, FIA submits that there is an apparent design flaw in the infrastructure and planning on the part of KIA, due to which the tariff for First Control Period was high, and KIA has proposed a significant increase for the Second Control Period, which should not be allowed.* *In view of the above, it is requested that AERA should:* *(a) consider imposing a penalty of 1% (or higher as deemed fit) towards the cost incurred for Capex. KIA should also be directed to encourage their traffic in the upcoming years to justify the designed capacity.* *(b) to conduct an independent study for determining the efficient and reasonable Capex for Second Control Period before issuing the final tariff order.* *Para 6.2.8* *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 can be made by AERA during the tariff determination process for the Second Control Period.* *Para 6.2.9*	by the airport in subsequent years were not in control of any stakeholder. Hence it is imperative to factor in the same before drawing inferences on the traffic throughputs. 4. As per the demand study Kannur was projected to achieve a traffic of 1.6 million in the first year of operation. In actuals the airport achieved 1.58 million in FY20 despite the challenges faced by airport to attract airlines such as Jet airways and Air India who were facing internal challenges of their own. 5. FY20 was the only year of uninterrupted operation post which the pandemic severely impacted the operations of the airport. After the pandemic the airport had to also face challenges due to lack of PoC and grounding of anchor airline. 6. The airport never obtained the opportunity to grow the traffic due to reasons not in the control of the airport, despite achieving the projected traffic in the first year. 7. It may be noted that the classification of major airport is based on the threshold design capacity. Accordingly, Kannur Airport was declared as a major airport in the Amendment to public notice 17/2019-20 dated 16th March 2020. 8. Due to fluctuations in traffic, several non-aeronautical concessions have vacated in the first control period, and KIAL had to induct new concessionaires with revised terms afresh. This resulted in further drop of non-aeronautical revenue. The total non- aeronautical revenue for first control period is INR 220.9 per passenger. This is due to higher non-aero revenue generated during COVID-19 inflicted years (FY 21 and FY 22) because of COVID-19 tests and medical

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	AERA has considered the Terminal Building Ratio ('TBLR') of 92:8 for the Second Control Period. *However, considering that Kannur is tourist destination and have potential of higher non-aero revenue, the non-aeronautical ratio proposed by KIA appears to be on the lower side, and also as compared to the other similar airports such as Varanasi, Amritsar, Trichy, Calicut and Raipur.* *Further, keeping in view the fact that KIA have underutilized infrastructure and terminal space which can be better utilised towards increasing their non-aeronautical activities. We request AERA to allot the best possible ratio towards NAR as deemed appropriate. In view of that, we request AERA to:* *a) To consider the highest possible non-aeronautical allocation in case of KIA.* *b) To undertake detailed scrutiny examination with the assistance of an independent study for asset allocation, which is a standard practice done by AERA for all other PPP model airports on or before the tariff determination.* *FIA submits that this study will assist to ensure correct assessment of allocation of assets, which is a standard practice followed by AERA.* *Para 6.3.6 Table 49* *In this regard, we request AERA to seek for more justification from KIA on the depreciation of assets and scrutinize the depreciation rates instead of basing it solely on opening RAB.* *We further request to conduct an independent study on depreciation, as it does not provide clarity on the percentage of depreciation applied.* *Fuel Infrastructure Charges at KIA – Order Number 11/2019-20: Charges for Fuel Infrastructure* *It may be noted that before privatization of airports, there were no such*	centers set up at the airport. Such revenue accounted for 56% of the total non-aeronautical revenue for FY22. This is not a consistent revenue stream. The total non-aeronautical revenue for the first control period after removing the same will amount to only INR 46.5 Crore. KIAL is undertaking a slew of measures to enhance the non aero revenue. As a result of ongoing initiatives, the traffic is expected to increase in the upcoming years thereby resulting in higher non aero revenue. Focused efforts are being deployed to attract anchor airline which can support strong and stable traffic growth on long term basis. 9. The depreciation rates used by KIAL are as per the guidelines on useful life provided by the authority vide order no. 35/2017-18 dated January, 2018 read with amendment No. 01 to Order No. 35 on 'Determination of Useful Life on Airport Assets'. 10. It is observed that the terminal building ratio for the first and second control period has been revised to 92:8. KIAL humbly requests the authority to reconsider the same given the fact that the airport is situated in a non-metro city containing a population with limited spending capacity as compared to Metro or Tier I airports. Moreover, due to impact of COVID on the passenger traffic, many non-aeronautical concessionaires had vacated in the first control period. Hence, the actual utilization of the assets for non-aero activities could not be optimized even after lot of efforts. As per the actuals, the terminal building ratio is 94.5:5.5 and details of the same has already been shared with the authority.

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	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 airports 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 Privatized airports.* *At a lot of Privatized 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 investments made in fuel farms are also through multi-layered transactions between / among airport operators or their Joint Ventures or their Holding / Subsidiary / Sister Subsidiary companies (or business associates by whatever name called). 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 the 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.*	KIAL requests the authority to kindly consider the terminal building ratio on actuals. 11. The charges pertaining to FIP and ITP are not relevant to the MYTP review of KIAL. The same may be considered separately in the tariff determination of respective ISP.

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	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:* *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 the 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. Had these charges which are 'Aero' in nature as per AERA Act 2008, been charged directly by the airport operator from the airlines i.e. Rs. 118 including GST, airlines would have got ITC against GST and net cost to airlines would have been ~ Rs. 100 only.* *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*	

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	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 taxiways, runways, fire services and bird scarers etc., for which there is no separate charge as they are part of airport infrastructure however their 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 farms 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 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.*	

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	We 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. *It is submitted that the AERA to please consider the pre-operative expenses for the purpose of RAB which are eligible for capitalization as per Indian Accounting Standards to avoid overstatement of RAB and consequently return and depreciation. Further, we request AERA to clarify that whether the treatment of pre-operative expenses is in accordance with I-GAAP which is not explained or clarified in CP.*	
7.	**Fair Rate of Return (FRoR) for the Second Control Period** **Para 7.2.3, 7.2.8 and Table 53** *It is observed that AERA has considered FRoR of 12.21%, with cost of equity at 15.18%, cost of debt at 9%, 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 AAI airports (Third Control Period), such as Chennai (11.98%), Pune (11.68%), and Cochin (11.63%) (i.e., neighbouring airports to KIA).* *Further, it may be noted that as per Para 7.2.3 of the CP, AERA have proposed to consider the notional debt to equity ratio of 48%:52% in line with the target gearing ratio being considered in case of other PPP airports.* *In view of the above, it is submitted that AERA should re-consider equity return of 15.18% due to it being enormously high rate of return* *In this regard, AERA may consider:* *(a) to conduct an Independent Equity and FROR study;* *(b) consider the fact that airport industry in India has been established,*	1. COVID-19 pandemic has exposed the vulnerable side of aviation sector and displayed the enormous risk and uncertainty the travel industry faces in case of such events. Its severe impact on the airport financials can be seen not only in the Indian airports but also across the global airports. The impact of pandemic on Kannur International Airport was even more severe, as the airport had just commenced its operations in December 2018, and had only one year of uninterrupted operations i.e., FY 2020 before pandemic outbreak. 2. KIAL would like to point out that Kannur airport was at its growing phase and several routes were yet to be mature when the unprecedented pandemic outbreak occurred. The pandemic has increased the risk of green field airports and naturally the same must be accounted in the cost of equity especially for those greenfield airports which commenced operations close to pandemic outbreak.

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	hence the risk is lower as this is a cost-plus margin business.; *(c) to review the financial closures details, debt to equity ratio based on actual weighted average rather than a notional percentage.* *Further, it is to be noted, that while such fixed/ assured return favours the service provider/airport operators, 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, in excess of six (6) % (including those on past orders) will be onerous for the airlines, i.e., being at par with reasonable returns on other investments after tax based on the current economic situation of worldwide run-away inflation coupled with rising and historic interest rates offered by banks.* *2) 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*	3. KIAL also underlines that along with the challenges faced during pandemic, the airport's traffic recovery was significantly affected with impacts of the following events: a. Suspension of flight operations and further restricted operations due to capacity restrictions and bubble agreements on international sectors b. Grounding of anchor airline has impacted passenger traffic growth c. Grounding of aircrafts due to engine supply chain issues d. Lack of PoC status which limits any capacity addition 4. Airports such as Pune and Chennai are established brownfield airports with mature traffic flow and strong catchment potential as they are tier I/Metro Cities. Moreover, there is huge difference in the shareholding patterns of these airports when compared to Kannur. Pune and Chennai are AAI owned airports with sovereign shareholders as opposed to Kannur which has equity participation from Government of Kerala, NRIs, Industrialists, Financial Institutions and Airport Service Providers, with around 9050 shareholders. Similarly, the cost of debt approved by the authority is 9% which is lesser than the actual cost of debt, 9.3% for term loan and 10.3% for funded interest term loan. Airports such as Chennai and Pune can obtain better competitive lending rates due to lower risk profile unlike KIAL. 5. The cost of capital is individual to the risk profile of a particular airport. The airport industry being established has less impact on the overall cost of capital as can be seen from the actual cost of capital of KIAL.

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		6. In light of above changes in the risk profile and current market conditions, KIAL humbly requests the authority to consider the cost of capital as submitted by the Airport Operator.
8.	**Operation and Maintenance Expenses for the Second Control Period** *Para 9.2.14* *While we are in agreement with AERA that as KIA gradually expands its Non-aeronautical operations, it should also proportionately increase the power recovery charges from Concessionaires. Thus, KIA 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 9.2.13, 9.2.30Table 68, 69* *FIA submits that, in para 9.2.30, AERA for the purposes of estimating manpower expenses have considered a 5% growth rate, which is quite high. Further FIA requests AERA to not provide such huge escalations, for the following:* *(i) Repairs & Maintenance expenses (between approx. 7% to 10 %)* *(ii) Housekeeping Expenses (approx. 10% YoY)* *(iii) Para 9.2.13 Security expenses. (approx. 10% YoY)* *AERA and Airport operator have proposed Rs. 3.43 Cr as security expenses as per Table 68 of the CP. However, as it is understood that expenses of this nature are funded through National Aviation Security Fees Trust (NASFT).* *In this regard, we request the Authority to clarify the burden of such expense on the airline, as the end user/customer is already paying Aviation Security Fee ('ASF').* *Further, it is to be noted that:* *a) The percentage of manpower cost proposed by AERA is high as there*	1. The escalation provided in manpower expenses is 5% which is in line with the prevailing consumer price inflation project by RBI in Results of the Survey of Professional Forecasters on Macroeconomic Indicators – Round 83. 2. Security and housekeeping expenses largely consist of manpower expenses. An industry standard for escalation is 10% and the same has been approved by the authority for other similar airports. 3. The security at the airport has to be ensured in addition to personnel in CISF. This is done considering the Airport asset is quite expansive and over a hilly terrain. Hence the airport has deployed third party security personnel to ensure the safety and security at the airport. Such measures are in line with that followed in other major airports such as DIAL, MIAL, CIAL and BIAL. 4. The amount of manpower for the second control period has already been provided in table no. 60 in consultation paper No. 17/2023-24. As can be seen from the table KIAL has optimized the hiring plan in the second control period. The increase that is considered is primarily for the increase of salaries and wages in line with the consumer price inflation. 5. Regarding FIA's view on the deviation of 34.1% in the total O&M approved for First Control Period versus the actual incurred cost. KIAL would like to highlight the reason for deviation because at the time of estimation of O&M expense

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	has been no terminal expansion or manpower additions in case of KIA. It is also important to highlight that the manpower expenditure is semi- fixed in nature and does not increase proportionately. Hence, any increase may only be done with scrutiny and proper justification, that may be achieved by way of an independent study. *b) AERA accepts that to assess the accuracy, reasonableness and estimate of expenses in the Second Control Period of a greenfield airport is challenging and O&M expenses is one of the key building blocks.* *c) FIA appreciates AERA for conducting the study on 'efficient Operation and Maintenance expenses' for the First Control Period to analyse the need of O&M incurred, which showcased that there was an overall deviation of 34.10% in the total O&M approved for First Control Period versus the incurred cost (para 17.2.4 of the CP).* *In view of the above, it is submitted that the current estimated O&M expenses requires further scrutiny by way of an Independent Study in this Control Period, so the same deviation is not reported for Second Control Period, which will result in over recovery of ARR in next control period under garb of True up.* *FIA wishes to highlight that the same has been proven in cases of other PPP Airports like DIAL, MIAL, BIAL that while truing up the O&M in subsequent control periods, it always leads to over-estimation which has been observed leading to higher tariff in past control periods.* *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.* *In view of the aforementioned reasons, we request AERA to conduct an*	in the first control period several costs were not considered as follows: a. CNS-ATM Charges (INR 22.1 Cr) b. Customs cost recovery charges (INR 43.5 Cr) c. ORAT (INR 1.52 Crore) d. Airport inauguration charges (INR11.72 Cr) e. Cargo related expenses (INR 0.62 Cr) f. CISF induction fee (INR 9.8 Cr) g. Aviation Meteorological Support Service charges (INR 4.86 Cr) 6. Above expenses are unavoidable and most of the major expenses are as per agreements with respective central government agencies for provision of specialized services at the airport. 7. Projection of operations and maintenance expenses at brownfield airports can be done with fairly good accuracy due availability of historical data. Such is not the case with KIAL since it is a greenfield airport. In the first control period, several O&M expenses were estimated basis the expenses seen in other similar airports such as CIAL. This is also one of the reasons for higher deviation. 8. It may be noted that the ARR for first control period is not recovered completely due to impact of COVID. With the proposed tariffs the ARR for second control period cannot be recovered. So, the concern of over recovery of ARR is also not applicable. 9. Comparison of O&M expense of KIAL with established airports such as DIAL, MIAL and BIAL may not be applicable. They are established brownfield airports whose

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	independent study for determining the true value of the O&M expenses before approving the tariff for the Second Control Period.	expenditures are spread across a mature traffic flow. The expenditure in greenfield airports in the initial years are bound to be high. 10. In light of above argument, it is unfair to compare KIAL to established airports in the country and expect KIAL to achieve in the initial years of severely interrupted operations the benchmark figures of NAR, O&M, etc. which other airports have achieved through decades of uninterrupted operations.
9.	**Non-aeronautical revenue for the Second Control Period** *Para 10.1.2, 10.2, Table 73 & 74.* *It is observed that the Non-Aeronautical Revenues ('NAR') projected by KIA is substantially low and conservatively estimated, with a standard approach without detailed thought to each line item. It is requested that KIA explores all avenues to maximise revenue from the utilisation of terminal building for non-aeronautical purposes.* *There appears to be scope of considerable improvement in increasing the NAR. It may be noted that the entire NAR growth is driven by passenger growth, which has been considered based on estimates and not based on any independent study by AERA.* *FIA would further like to highlight that the WPI inflation has been considered for inflationary increase, however the revenue from NAR is coming from passengers and in the case of F&B, retail, duty free, actual inflation is much higher than WPI. We also would request AERA to provide clarity for not considering CPI/Food Inflation in this regard.* *It may be noted that, in other PPP Airports like DIAL, MIAL, BIAL, while truing up the NAR in subsequent control periods have always been the under-estimation and leads to higher tariff in the control periods.*	1. It may be kindly noted that comments on several aspects are solely based on comparison of KIAL to established brownfield airports such as DIAL, MIAL and BIAL which have mature traffic flows. 2. Non aeronautical revenue for greenfield airports in the initial years are majorly contributed by the departing and arrival traffic at the airport. As mentioned before KIAL did not had a chance to have an uninterrupted control period since its inception in December 2018. After successful operation in FY20, the traffic at the airport was severely impacted due to COVID-19. While this impacted the ability of the airlines to stabilize the traffic in several of the newly started international and domestic routes, the loss of traffic led to many non-aeronautical concessionaires vacating the airport. This situation is unique to KIAL in India wherein an airport is facing such disruptive impacts in the second year of operations. 3. The entire NAR is not projected based solely on traffic growth. The revenue head 'revenue share from concessionaires' is the sole component which is a function of

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	Kerala is widely recognized as one of the most popular tourist destinations globally. With airlines being the preferred mode of travel, the city's air traffic is expected to increase drastically. *Accordingly, we request AERA:* *a) to mandate KIA to enter into suitable agreements with concessionaires to exploit the potential/ growth of NAR at KIA.* *b) to kindly undertake detailed examination with the assistance of an independent study on the NAR before the tariff determination of the FCP.* *c) to further determine and re-assess their estimates in line with other comparable airports. It may also include the impact of the….*	traffic flow. Other components such as lease rental, MAG and CAM charges have been projected based on contracted values, all of which have already been duly submitted to the authority during the MYTP review for detailed analysis. 4. In light of above argument, it is unfair to compare KIAL to established airports in the country. It may be unreasonable to expect KIAL to achieve in the initial years of severely interrupted operations, the benchmark figures of NAR, O&M, etc. which other established airports have achieved through decades of uninterrupted operations. 5. It may be noted that the non-aeronautical revenue are not under-estimated and KIAL expects a healthy revenue stream from non-aeronautical activities once the traffic stabilizes and matures.
10.	**Proposed Annual Tariff Proposal (Tariff Rate Card)** *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 KIA to clarify the following:*	1. It may be noted that KIAL has taken into due consideration the inputs and interests of stakeholders while proposing the tariff rates. 2. KIAL has also duly taken into consideration the authority's comments on spreading the unrecovered ARR over the future years. Same may be observed from the submitted tariff card, as the proposed tariffs are not sufficient to recover the ARR for the second control period. 3. KIAL has proposed to levy the UDF from both embarking and disembarking passengers. Since the airport infrastructure and facilities are availed by both embarking and disembarking passengers, KIAL is of the view that the levying UDF from both ensures fairness. Further, taking into consideration the views of AERA in the consultation paper of KIAL No. 17/2023-24, spreading the UDF between

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	1) Ref: Notes: 1 to User Development Fee (UDF) Charges: *We would like to invite AERA's attention to notes 1 of the Annexure A of the Public Notice No.22/2023-24, 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 (example - 5% inflationary / administrative increase each year), 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) Disembarkation: KIA has also proposed UDF charges on disembarkation as well at the Airport. However, as KIA may not be considered as a Greenfield airport as this is its 2nd Control period (and consultation paper) UDF charges on disembarkation may not be allowed. AERA is requested to kindly review this trend as this will be discouraging for passengers to take flights to KIA because of the increase is total cost to fly to KIA.* *2) CUTE, CUPPS, CUSS: As these are aeronautical revenues, (Serial No 7* *of Annexure A)* *We would like to state that:* *(i) The current prices are excessive. Please note that the AAI tariff for the same services at 44 airports is Rs 35.05 per passenger which is*	embarking and disembarking passengers ensures lower burden on other stakeholders. 4. The rates for CUTE, CUPS and CUSS are as per the contractual terms agreed with the service provider. The details of the same has already been shared with the authority. Moreover, the rates for CUTE, CUPS and CUSS are lower compared to the prevailing rates at CIAL. It will be continuous endeavour for KIAL to optimize these further as we are able to increase the traffic further. 5. The parking charges proposed , i.e. for fpr parking beyond 24 hours an additional charge of Rs 25 per hour per MT is chargeable over and above existing rates, is mainly to discourage long term parking and to disincentivize airlines from any long term parking of aircrafts and to operate flights from the airport. 6. Charges for unscheduled flights shall be as per the proposed tariff card. A minimum fee of Rs 5000/- shall be charged fro single landing. 7. For calculating chargeable parking time, any part of an hour shall be rounded off to the next hour – This is as per existing tariff card. 8. With respect to ASF, the following may also be included as per AIC15/2019 dated 19.06.2018, which was partially hidden in the Tariff Card proposed while formatting: f.) *Transit/ transfer passengers (this exemption may be granted to all the passengers transiting up to 24 hrs "'A passenger is treated in transit only if onward travel journey is within 24 hrs from arrival into airport and is part of the*

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	much lesser than private entities. AAI chose a service provider based on a public reverse auction mechanism. As such the proposed rate of Rs 85.1 per passenger at KIA for domestic and Rs 92.5 for international is too high. It should be same and in-line as at other AAI airports since all services provided in this regard are same. *Please note that the high fees set a precedent for other private airports hence it is important to bring down the rate to be in line with tariff at AAI airports.* *It may further be noted that AERA has notified INR 60 for same service of CUTE, CUPPS, CUSS in its latest order no. 27/2023-24 for Manohar International Airport, MoPA, Goa Airport.* *(ii) Whatever bouquet of services is agreed between the KIA and the service provider, this is enforced upon the airlines and the airlines have no say on the prices (or unbundling), even if the airlines do not require all the services; and* *(iv) The rates are in foreign currency at certain airports, making airlines vulnerable due to currency fluctuations. The same may kindly be published and applied in Indian currency only.* *(v) There are differential CUTE charges for international and domestic pax without any substantial rationale, since the ICT/CUTE services used are same for both types of customers. Hence there should be only one uniform CUTE charge for domestic and international both passengers.* *(vi) Cute Charges collection Authority has not been defined in order as currently these charges are not being collected by KIAL. Also, passenger inclusions and exemptions have not been defined for domestic embarking and international embarking passengers. AERA is requested to clarify both these points.*	*same ticket, in case 2 separate tickets are issued it would not be treated as transit passenger").* *g) Passengers departing from the Indian airports due to involuntary re-routing i.e. technical problems or weather conditions.*

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	Thus, 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) Further, FIA recommends AERA to add Note of the Annexure A (2), 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".* *4) Parking Charges (Notes:- 2b)* *Refer:* *i. "4. For calculating chargeable parking time, any 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 the "nearest hour".* *(Notes: - 2g)* *ii. Additional parking charges added in proposed tariff card for parking beyond 24 hours is also excessive since the parking charges after first two hours are already doubled. A higher fees of INR 25 per hour per MT sets a bad and unacceptable precedent for other private airports hence it is important to bring down the rate to be in line with tariff at AAI airports.* *5) Landing Charges (Notes: - 1d)* *We request AERA further clarification on unscheduled flights operated by domestic scheduled operator as the same are currently being charged by KIA. There should be a clarification to this effect since the exemption is provided to domestic scheduled operators and not restricted to only schedule operations by them.* *6) Aviation Security Fee (ASF) (Notes: - 4b)* *It is submitted that the note 4b seems incomplete since the last two*	

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	categories are not visible completely in the tariff card. We request AERA to include all the categories included in exemption list as has been defined under AIC15/2019 dated 19.06.2019. *7) General Conditions* *It is requested to define the applicability or exemption of any of the tariff charges pertaining to RCS Flights which have been excluded.*	
11.	*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...'* *FIA appreciates, AERA's efforts of spending considerable time in consultation process and assessment of the information provided by Airport Operator. However, despite relying on information provided by the Airport Operator in many instances there is an inordinate delay in tariff fixation, which has diminished the effective Control period of 60 months by 9-10 months and will lead to burdening of passengers travelling during balance period of 52 months. This further leads to a mismatch between the recoveries of target revenue with the actual/projected revenue.* *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 KIA - Second Control Period, will now be issued after the commencement of the Control Period i.e., 1 April, 2023.* *Royalty*	1. It may be noted that the apparent shrinkage in the control period has not led to over recovery or higher tariffs for the stakeholders and users. KIAL has taken due consideration to keep the tariffs competitive and ensure that the burden of economic difficulties is spread evenly across all the stakeholders and users of the airport. KIAL has also considered AERA's suggestion to take a phased approach towards recovery of the ARR. 2. Regarding FIA's comment on royalty, KIAL would highlight that the revenue share to KIAL from ISPs is considered as aeronautical revenues by AERA and thus cross-subsidizes the other aeronautical charges at the airport. It is thus part of the airport charges to recover the ARR. In case some charges are reduced, the loss of revenue will have to be recovered through an increase in other charges. For e.g., when the fuel throughput charges were abolished, the landing charges were increased to compensate the loss of revenues.

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	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 have 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 41% 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.*	
	Comments from IATA	
12.	We support the Authority's treatment of the true-up of CAPEX, as well as its scrutiny in validating the allocation of assets.	Adequate responses to the consultation paper has been submitted to Authority and same can be referred.
13.	Appreciate the exclusion of Return on Land, as well as expenses on CSR given that there have been losses	1. Land acquisition cost is one of the largest capital expenditures incurred by KIAL in the first control period 2. Kannur airport started its operations in December 2018 due to operational delays. This makes the actual duration of first control period, 4 years and 4 months instead of a full 5 year. In the consultation paper No. 11/2023-24 for Manohar International Airport for the first control period, the duration of the first control period is mentioned as 5 years while the 4

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		months from airport operation start date of Dec 2022 till March 2023 (4 months) is considered as pre-control period. If in case KIAL had considered the duration of first control period as 5 years and the 4 months as pre-control period, the return on land would have been applicable in the first control period itself. Therefore, KIAL humbly requests to not exclude the entire claim on return on land due to a difference of 3 months in the date of capitalization and the Order no. 42/ 2018-19. KIAL requests the authority to accordingly pro rate the return on land for four years in the first control period
14.	We welcome the revision of the Terminal Building Ratio from 95:5 to 92:8 based on the independent study. We expect that the percentage of non-aeronautical should increase over time in line with the projected traffic growth	KIAL humbly requests the authority to reconsider the same given the fact that the airport is situated in a non-metro city containing a population with limited spending capacity as compared to Metro or Tier I airports. Moreover, due to impact of COVID on the passenger traffic, many non-aeronautical concessionaires had vacated in the first control period. Hence, the actual utilization of the assets for non-aero activities could not be optimized even after lot of efforts. As per the actuals, the terminal building ratio is 94.5:5.5 and details of the same has already been shared with the authority. KIAL requests the authority to kindly consider the terminal building ratio on actuals.
15.	We would like to seek clarity on the obligation of the Airport Operator for security expenses following the introduction of the ASF	The security at the airport has to be ensured in addition to personnel in CISF. Hence the airport has deployed third party security personnel to ensure the safety and security at the airport. Such measures are in line with that followed in other major airports such as DIAL, MIAL, CIAL and BIAL.
16.	We agree with the proposed rationalization of aeronautical O&M expenses by AERA, particularly the employee-related expenses that did not reflect the required optimization of operations and costs during the pandemic	KIAL observes that the Authority has rationalized actual O&M expenses pertaining to power & fuel expenses and repairs &

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		maintenance expenses on basis of benchmarking figures with Mangalore international Airport. We request authority to reconsider the same because of strikingly different nature when compared to the benchmark airport. The airport that has been chosen for comparison with KIAL is a well-established brownfield airport whose variable costs are already spread across a matured traffic flow, while Kannur Airport is greenfield airport whose cost of operations would be high in the initial years of operations. Furthermore, the challenges faced by the airport such as global pandemic, lack of PoC status and grounding of anchor airline as mentioned earlier has led to a unique situation of low traffic.
17.	We commend AERA for correctly re-classifying some of the costs as expenses, such as the ORAT expenses, and not adding to the RAB. It is important as returns are already provided for RAB	KIAL had conducted in depth analysis and classified the assets which has been updated to Authority and its consultants during clarification and Airport visits. We request AERA to consider KIAL submissions.
18.	It should be noted that OPEX by Airport Operator remained constant even during the pandemic, which is not ideal	KIAL has the following operations and maintenance expense heads: 1. Employee expenses 2. Repairs and maintenance 3. Security 4. Power and Fuel 5. Operations and maintenance 6. Vehicle Running & Maintenance expenses 7. Housekeeping 8. Customs Cost Recovery Charges 9. Aviation Meteorological Support Services

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<tr><th>S no.</th><th>Stakeholder comments</th><th>KIAL's response</th></tr>
<tr><td></td><td></td><td>10. Communication, Navigation and Surveillance and Air Traffic Management Services
11. CISF Induction Fee
12. Land lease expenses
13. Trolley Retrieval Services
14. Insurance

It may be noted that majority of expenses are fixed and not directly related to traffic movement. Such expenses such as housekeeping, employee expense, repairs and maintenance, etc. should be borne irrespective of traffic movement to prevent deterioration of the assets. Moreover, charges such as custom cost recovery charges, CISF induction fee, etc. are solely based on agreements entered by KIAL with the respective central government agencies. Such expenses are also not a function of traffic movement. In addition to this IATA may kindly note that the airport handled flights as per bubble agreement and Vande Bharat schemes. Hence, the fixed costs had to be incurred irrespective of the traffic movements.

Hence it is submitted that the O&M is efficient to the extent possible.</td></tr>
<tr><td>19.</td><td>We appreciate the rate of inflation being adjusted to 4% by the Authority</td><td>The inflationary increase considered for Kannur airport for similar years is different to the increase approved for Mangalore international airport as shown below:
<table>
<tr><td>Description</td><td>FY24</td><td>FY25</td><td>FY26</td></tr>
<tr><td>KIAL</td><td>0.1%</td><td>4%</td><td>4%</td></tr>
<tr><td>MIA</td><td>5%</td><td>5%</td><td>5%</td></tr>
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		The inflation is calculated at a national level and the same cannot be different for the same years in adjacent airports. Hence KIAL requests non-discriminatory treatment as far inflation to O&M expenses are considered.
20.	We also support the proposal by AERA to carry forward a portion of the ARR to the next control period, in alignment with considerations stated in the CP	No comments
21.	The MYTP proposed by the Airport Operator is exceptionally steep at the start of 2nd Control Period. We suggest that the increases be moderated across the entire control period	1. The increase in airport charges proposed is the function of ARR for second control period and the under recovery in first control period. It may be seen that the proposed tariffs in the second control period is still not sufficient to recover the ARR and shortfall which was approved by the authority. 2. Further, the tariffs proposed by Kannur airport are competitive and have been optimized to ensure best rates for the stakeholders. The tariffs have also ensured to spread the under recovery of ARR in future years and subsequently reduce the burden on stakeholders. 3. The stakeholders are requested to kindly consider the financial challenges faced by KIAL at present. While the airport has time and again ensured to meet the interests of the stakeholders, KIAL has to also ensure that the tariffs levied by the airport are sufficient to service the debt obligations and bare minimum expenses. 4. Therefore, it is KIAL's humble request to the authority to approve the proposed rates.

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Annexure - B

F.No. AV-20035/05-97-VB Vol. II
Government of India
Ministry of Civil Aviation

'B' Block, Rajiv Gandhi Bhavan
Safdarjung Airport, New Delhi - 110 003
Dated February 19, 2008

Subject: **Construction of a Greendfield International Airport at Kannur, Kerala.**

1. The undersigned is directed to state that the proposal of Government of Kerala (GOK) to set up a greenfield airport at Kannur has been considered and "in principle" approval is hereby granted by the Government of India (GOI) subject to the following conditions.

   (a) **Reserved Acitivities :** Certain activities at the airport like Security, Air Traffic Control, Customs, Immigration, MET etc. would be reserved for GOI. These would be performed by the relevant Central Government agencies, Provision of these services would be on cost recovery basis and the airport operator would enter into agreement with the respective agencies. Costs relating to reserved activities would be realised through a cost recovery mechanism and it would be part of revenue expenditure and as such would not be capitalised.

   (b) Concession Agreement : GOI/GOK would not be signing any concession agreement with the Joint Venture Company (JVC) that would be entrusted with the task of developing and maintaining the airport. The JVC would develop and operate the airport under the license issued by DGCA. GOK could give certain benefits and concessions to the JVC in respect of the land this would be leased/licensed to the airport company indicating its terms and conditions as well as such other conditions which the State Government may wish to impose on the JVC. GOK may also consider grant of any other financial concessions tot he JVC.

(c) Environment Clearance : Towards seeking environmental clearance. GoK would submit a detailed proposal along with requisite information as per Environment impact Assessment Notification, 2006 to the Expert Committee after the project has been firmed up.

(d) Selection of Private entity : GOK should follow a transparent competitive bidding process to select the strategic private partner. GOI has issued a Model RFQ and RFP for PPP projects and GoK may consider adopting these documents for undertaking the bidding.

(e) Defence land: At least 10 acres of land shall be leased/transferred to the Indian Navy at a mutually agreed location for development of a future naval air enclave.

(f) Exemption for military aircrafts: All military aircrafts using the proposed airport are to be exempted from landing and parking charges.

(g) Infrastructure requirement of IAF : The JVC shall provide a suitable room to IAF for setting up the AFMLU, AFMLC etc. within the ATC premises of the proposed airport.

(h) Security requirements : The JVC would need to comply with certain conditions form part of the licensing conditions. The conditions are as follows:

(a) There should be adequate provision for temporary use/taking over of the airport by the Government during exigency / emergency such as war, natural disaster/calamities, mities, internal disturbances etc.

(b) The JVC would need prior clearance from the Ministry of Home Affairs

regarding acquisition and installation of security equipment and verification of credentials of developers including their foreign collaborators.

(c) The JVC will procure from the Home Ministry for provision of immigration services as per the guidelines issued by the Home Ministry from time to time.

(d) There should be prior verification of the antecedents of foreigners before their appointment for higher decision making positions in the management of the airport.

(e) There should be prior verification of the credentials of the foreign firms to be engaged for construction, ground handling or other important activities at the airport.

(f) FDI Limits, if any, in the construction/development of airport should be cleared by the appropriate authority and after taking views of the concerned security agencies and Ministries / Departments.

(g) Security agencies should be nominted for anti-hijacking, anti-sabotage checks of the pilos, passengers and their baggage for each private airport.

(h) It should be obligatory for the aiport authority to adhere to the security measures laid down by the BCAS and DGCA.

(i) Requisite infrastructure for handling international flights/passengers should be in place and all international passengers must pass through Immigration, including the crew members of the international flights.

(j) The above conditions would be indicated by GOK in the bid documents.

2. The compliance of the above mentioned licensing conditions would be ensured by the DGCA while issuing the license. In addition to these the DGCA would ensure that the remaining conditions stipulated above have been fulfilled while considering the application for the grant of license to the JVC.

3. A policy for greenfield airport is on the anvil. The proposed project at Kannur would comply with the said policy as and when it is announced.

(ANNA ROY)
Director