Federation of Indian Airlines
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Kalkaji,
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Website: www.fiaindia.in

URGENT & IMPORTANT

13 March 2024

To,
The Chairperson,
Airports Economic Regulatory Authority,
AERA Building, Administrative Complex,
Safdarjung Airport,
New Delhi- 110 003.

Kind Attention – Shri. Balwinder Singh Bhullar Ji

Sub: FIA Response to the AERA CP. No. 25/2023-24 dated 12th February 2024 on determination of Aeronautical Tariff for Thiruvananthapuram International Airport, Thiruvananthapuram for the Third Control Period (01.04.2022 – 31.03.2027)

Ref: *AERA stakeholder consultation (virtual) meeting dated 26th February, 2024.*

Dear Sir,

We, the Federation of Indian Airlines ("**FIA**") (on behalf of our members, IndiGo, SpiceJet, Go First and Air India) write in response to the Consultation Paper No. 16/2022-23 issued by the Airports Economic Regulatory Authority of India ("**AERA**" or "**Authority**") in the matter of determination of Aeronautical Tariff for Thiruvananthapuram International Airport, Thiruvananthapuram ('**TRV' or 'TKIAL'**) for the Third Control Period (01.04.2022 – 31.03.2027) ('**Consultation Paper**' or '**CP**').

At the outset, we would like to express our sincere gratitude to AERA for inviting stakeholder comments on the CP, and conducting the Stakeholder consultation meeting on 26th February 2024.

Sir, FIA submits that, according to the Investment Information and Credit rating Agency of India ('ICRA') the industry is estimated to report a net loss of INR 5,000-6,000 crores in FY24 and FY25. However, it may be noted that, the aviation industry may have reached its stable condition, it is still not recovered from the strong financial headwinds faced due to various factors including but not limited to, hostile financial environment of the economy, instability due to geo-political reasons, fallout of devastating COVD-19 pandemic, significant global supply chain issues, increase in the price of Aviation Turbine Fuel (ATF), limited financial support from the government, limited capacity of customer to pay, and fluctuation in foreign exchange etc.

It may be noted that, despite the gradual improvement in passenger traffic the elevated ATF prices and depreciation of INR will have a major bearing on airlines. As the airlines cost is rendered due to ATF and other operational cost which are majorly denominated in dollar terms.

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In view of the above, it is submitted that this Public Notice No.36/2023-24 dated 20th February 2024 to the CP, proposes a significant increase in the aeronautical tariffs at TKIAL – as mentioned under **Annex – A**, AERA is kindly requested to take note of our observations mentioned therein. In this regard, we further humbly request AERA to not implement any increase in the aeronautical tariff in the Third Control Period and defer any increase in the same to subsequent control period, if any, given the adverse financial impact on airlines as discussed above.

Without prejudice to the above, we request AERA to kindly note our detailed submissions as mentioned under, **Annex – B** hereto and not increase any tariffs.

We hope that your good self will positively consider such recommendations/ comments as it will help in achieving the affordability and sustainability of the airline, which is also outlined as a key objective in the National Civil Aviation Policy, 2016.

We look forward to your continued support in these challenging times.

Yours Truly,

For and on behalf of the Federation of Indian Airlines,

Ujjwal Dey
Associate Director

Copy to:
Director (P&S Tariff), Airports Economic Regulatory Authority of India.

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Annex – A - Observations on proposed Tariff Card (Proposed by TKIAL)

TABLE – A

Landing Charges: (Refer Public Notice no 36/2023-24– Annexure A) (In Rs.)

Particulars	Unit	Tariff Proposed by Airport Operator			
	MT	FY 2023-24 (Tariff w.e.f. 01.04.2023 to 31.03.2024) Existing Rates	FY 2024-25 (Tariff w.e.f. 01.04.2024 to 31.03.2025)	FY 2025-26 (Tariff w.e.f. 01.04.2025 to 31.03.2026)	FY 2026-27 (Tariff w.e.f. 01.04.2026to 31.03.2027)
LANDING CHARGES	**PerHr/MT**	**LANDING CHARGES**			
DOMESTIC (Per INR/MT)		-	-	-	-
	CHARGES HIGHER AS PER THE MATRIX OR THIS	-	16,000	16,800	17,600
Eg: Impact on Q400 Landing charges for 80 & PLUS seater (Rs.)	30 MT	6439	22860	24000	25200
Variance % from existing	Q-400	0%	255%	273%	291%
Variance % from YoY		0%	255%	5%	5%
B737-800 (AUW 79016) (Rs.)	79 MT	24194	60198	63200	66360
Variance % from existing	B737-800	0%	149%	161%	174%
Variance % from YoY		0%	149%	5%	5%
INTERNATIONAL (Per INR/MT)		-	-	-	-
	CHARGES HIGHER AS PER THE MATRIX OR THIS	-	55,300	58,000	60,900
Eg: Impact on Q400 Landing charges for 80 & PLUS seater (Rs.)	30 MT	10582	31290	32850	34470
Variance % from existing	Q-400	0%	196%	210%	226%
Variance % from YoY		0%	196%	5%	5%
B737-800 (AUW 79016) (Rs.)	79 MT	33209	82397	86505	90771
Variance % from existing	B737-800	0%	148%	160%	173%
Variance % from YoY		0%	148%	5%	5%

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TABLE – B

Parking Charges: (Refer Public Notice no 36/2023-24– Annexure A) (In Rs.)

Particulars	Unit	Tariff Proposed by Airport Operator			
	MT	FY 2023-24 (Tariff w.e.f. 01.04.2023 to 31.03.2024) Existing rate	FY 2024-25 (Tariff w.e.f. 01.04.2024 to 31.03.2025)	FY 2025-26 (Tariff w.e.f. 01.04.2025 to 31.03.2026)	FY 2026-27 (Tariff w.e.f. 01.04.2026to 31.03.2027)
PARKING Charge	**INR/Hr/MT**	**PARKING CHARGES – Per Hr. per MT**			
DOMESTIC and INTERNATIONAL **(INR Per HOUR /MT) (for 1st 2 chargeable hrs)**		-	-	-	-
Eg: Impact on Q400 Parking charges for 80 & PLUS seater (Rs.)	30 MT	95	304.5	319.5	336
Variance % from existing	Q-400	0%	221%	236%	254%
Variance % from YoY		0%	221%	5%	5%
B737-800 (AUW 79016) (Rs.)	79 MT	407	801.85	841.35	884.8
Variance % from existing	B737-800	0%	97%	107%	117%
Variance % from YoY		0%	97%	5%	5%

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TABLE C

UDF Charges: (Refer Public Notice no 36/2023-24– Annexure A) (In Rs.)

Particulars	Unit MT	Tariff Proposed by Airport Operator			
		FY 2023-24 (Tariff w.e.f. 01.04.2023 to 31.03.2024) Existing Rates	FY 2024-25 (Tariff w.e.f. 01.04.2024 to 31.03.2025)	FY 2025-26 (Tariff w.e.f. 01.04.2025 to 31.03.2026)	FY 2026-27 (Tariff w.e.f. 01.04.2026to 31.03.2027)
UDF	**Per Embarking**	**UDF**			
DOMESTIC	Per Embarking	**506**	**875**	**919**	**965**
Variance % from existing		0%	73%	82%	91%
Variance from YOY		0%	73%	5%	5%
DOMESTIC	Per Disembarking	**0**	**375**	**394**	**413**
Variance % from existing		#DIV/0!	375%	394%	413%
Variance from YOY		#DIV/0!	375%	5%	5%
International	Per Embarking	**1069**	**1,848**	**1,941**	**2,038**
Variance % from existing		0%	73%	82%	91%
Variance from YOY		0%	73%	5%	5%
International	Per Disembarking	**0**	**792**	**832**	**873**
Variance % from existing		#DIV/0!	792%	832%	873%
Variance from YOY		#DIV/0!	792%	5%	5%

Refer the above displayed Tables A, B and C, kindly note the following from the above tables:

1. Tables A: TKIAL has proposed increase in the Landing Charges (Domestic) on Q-400 (80 & above seater) approximately increase between 255 % to 291 % from existing charges; and on B-737-800 approximately increase between 149 % to 174 % from existing charges. Similarly, for Landing Charges (International) on Q-400 (80 & above seater) approximately increase between 196 % to 266 % from existing charges; and on B-737-800 approximately increase between 148 % to 173 % from existing charges.

2. Tables B: TKIAL has proposed to increase in the Parking Charges (Domestic & International) on Q-400 (80 & above seater) approximately increase between 221%% to 254% from existing charges; and on B-737-800 approximately increase between 97% to 117% from existing charges.

3. Table C: TKIAL has proposed an increase in the UDF of between 73% to 91% for Domestic and International Embarking Passengers.

4. Table C: TKIAL has proposed UDF for Disembarking passengers for both Domestic and International Passengers.

It is in the interest of all the stakeholders that the proposed tariffs as noted above may not be implemented as the proposals are excessive.

AERA is requested to reconsider the proposed tariff structure in view of the points mentioned above, as also in consideration of points as mentioned in Annex - B of this letter.

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Annex - B

We humbly request AERA to not implement any increase in the aeronautical tariff in the Third Control Period. In addition, without prejudice to above, we request AERA to kindly note FIA's submissions to the AERA C.P. No. 25/2023-24 on determination of Aeronautical Tariff for Thiruvananthapuram International Airport, Thiruvananthapuram ('**TRV**' or '**TKIAL**') for the Third Control Period (01.04.2022 – 31.03.2027):

S. No.	AERA's Proposal under each Chapter	Comments
1.	Background, Framework of tariff determination	**<u>Para 3.2</u>** It is submitted that as per section 2 of Airport Economic Regulatory Authority of India Act, 2008 ("AERA Act"), under sub-section (a), *"aeronautical services means any services provided -* *(i)For navigation, surveillance and supportive communication thereto for air traffic management..."* It is submitted that considering the above provisions of the AERA Act, revenue from Air Navigation Services, should form part of aeronautical revenues and accordingly AERA should take into account of the corresponding revenue and revise the tariff card.
2.	Methodology for Tariff Determination – Hybrid Till Vs. Single Till	**<u>Para 3.1.2</u>** It is observed that AERA have determined tariffs using the 30% Hybrid Till model including true ups, as applicable. 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 of AAI for the period from FY 2017 TO COD	**<u>Para 4.8.7</u>** 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) FIA observes that Fair Rate of Return of 14% provided to Airport Authority of India ("AAI") is higher than comparison to the same being given to the present Airport Operator i.e. TKIAL@ 13.97% (Refer 4.8.7 of the CP). Without prejudice to (a) above, there appears no rationale to provide higher return to AAI in comparison to TKIAL and accordingly AERA may reduce the FRoR suitably. **<u>Para 4.15.1 and Para 4.15.3</u>** Without prejudice to the above: 1. FIA recommends that no adjustment of RAB should be provided in favour of AAI for period after the COD i.e. 14th October, 2021, post which the operational control of the Thiruvananthapuram Airport is transferred to TKIAL. 2. Further, FIA wish to draw AERA's attention to para 2.4.4 of the CP, that any delay in submitting the Multi Year Tariff Plan by the airport operator should be taken into account, as delay in tariff determination process will lead to increase in adjusted deemed initial RAB. 3. With regard to application of compounding factor (FRoR) to determine the future value of under recovery. We request AERA to note our comments as mentioned in S.No. 02 and para (a) and (b) above. **<u>Para 14.2.2</u>** 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 the second 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
4.	True up of Airport Operator for the period from COD till March 31, 2022	**<u>Para 5.6</u>** Same as Comment for Para 4.8 (S. No. 2) above
5.	Traffic for the Third Control Period	<u>Para 6.2.5 – 6.2.9</u> It is hereby submitted, that FIA is not in agreement with the proposal of AERA to consider the billable ATM traffic after excluding the ATMs that pertain to less than 80-seater capacity for non-RCS flights that are exempted from landing charges as the same is without any basis.

		It may be noted that it will not be a true indicator of the traffic projections at the Thiruvananthapuram airport and any deductions from billable traffic will adversely impact the computation of non-aeronautical revenue. FIA request AERA to reconsider the same, in line with the AERA's consistent approach with all Major Airports. In view of the above, FIA proposes that the exempted billable ATM/passenger traffic as proposed by AERA in their tariff card should not be accepted. **Para 6.2.18 and Table 90** While FIA appreciates that AERA has considered the traffic report issued, ACI and IATA *(refer para 6.2.18)*. FIA requests AERA to kindly conduct their own independent study, which may also include demand drivers that may not have been part of report issued by ACI and IATA, as deemed fit, including factors such as the traffic that would be generated due to the forthcoming general elections. We would also like to draw the attention of the Authority, that the trends in the recent post pandemic times may not be a reasonable benchmark, whether be it of passengers or traffic, as economic factors such as inflation or market demand / prices may not continue in the same rate or trend in the future, since the recent post pandemic trends are due to unusual factors such as the COVID-19, revenge tourism, Geo-political causes, recent financial meltdown of banks in the USA, etc. Authority may kindly take the same into consideration (and appoint independent consultants to evaluate the same if deemed fit) while finalising the projected ATM and passengers.
6.	Related Party Transactions	**Para 2.4.13 and 2.4.14** With regard to award for provision of services by TKIAL at Thiruvananthapuram, four Related Party transactions have been disclosed in para 2.4.13 of the CP. While we appreciate AERA conducting an independent analysis of the transactions, however it is to be noted that, AERA has: (a) only sought confirmation from TKIAL on the RPT instead of a review of the same; (b) sought compliance on the same which will be trued up during the next control period. FIA submits that in our view the above may not be a prudent approach and AERA should conduct the RPT Compliance Check including the following in this control period.

		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 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 eco-system, and should be banned.
7.	Capital Expenditure, Regulatory Asset Base (RAB) and Depreciation for the Third Control Period	FIA submits that, the entire ecosystem needs to be operationally efficient, which can be implemented, amongst other things by capital expenditure efficiency studies, which AERA is requested to conduct. **<u>Para 7.3. 29 & 7.3.41(i) (d)</u>** We request that AERA applies the normative norms for the capex projects as mentioned under AERA Order No. 7/2016-17 dated 13 June, 2016 in order to keep the overall cost control and efficiencies in capex projects. Further in para 7.3.41 (i) (d), AERA has considered INR 1.40 lakhs per sqm for the expansion of 'New Structure' of 13,000 sqm. In this regard, it is submitted that in the recent orders for FY22, AERA has considered INR 1,00,000 per sqm, and with this increase there appears to be incremental normative rate trend for capex projects. However, it does not appear to be backed by any study conducted by AERA for this control period or a justifiable rationale. 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 7.3.15 & 7.3.17 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. However, it is requested that, in order to support the airlines to continue and sustain its operations, it is requested that all non-essential capital expenditure proposed by Airport operator be put on hold/ deferred, unless deemed critical from a safety or security compliance perspective. Further, in case Airport operator wants to make capital expenditure, then it should be at no additional expense to the airlines until the project is completed and put to use by the airlines. And lastly, we appreciate AERA's consideration of deferring few proposed Capex projects from the Third Control Period to the Fourth Control Period. We observe that AERA has remarked on the trend of revisions to the capital projects, which does not instil confidence in the stakeholders or in the AERA about the near and long-term planning of capital projects by TKIAL. In this regard, we urge and request AERA to conduct an independent study on efficient and reasonableness of Capex at TKIAL. **Fuel Infrastructure Charges Public Notice 36/2023-24:** **Charges for Fuel Infrastructure** It may be noted that before privatization of airports, there were no such charges related to fuel infrastructure and into plane which were levied on the airlines. The Fuel Farm at the airport was developed by the Oil Marketing Companies (OMCs) and they were also refuelling aircrafts as per the respective airlines' requirements. Airlines are/were only paying for ATF uplifted at each of the airport at an agreed product price to OMCs. Since privatization of airports, two new charges related to fuel have been levied; first 'Fuel Infrastructure Charges' (FIC) and second 'Into Plane Charges' (ITP) at all the Privatised airports. At a lot of Privatised airports, fuel infrastructure has been bought over by the airport operator or its Joint Venture (JVs) / Holding / Subsidiary / Sister Subsidiary companies from the OMCs at a very low price. The investment made in fuel farms are also through multi-layered transactions between / among airport operators or their JVs or their Holding / Subsidiary / Sister Subsidiary companies. A lot of legal entities have been formed by the airport operator as Joint Venture (JVs) or Holding / Subsidiary / Sister Subsidiary companies with multiplicity of agreements.

As a result of multiple layers of companies and transactions, there is no transparency and on top of it, multiple layers of overheads are loaded into the costs. In addition, royalty / revenue share to the airport operator or its JV / Holding / Subsidiary / Sister Subsidiary companies is also added in proposed FIC and ITP charges.

FIC and ITP including royalty and / or revenue share, along with GST thereon, is charged by the airport operator from OMCs. OMCs include these charges in the cost of fuel. Once these charges become cost of fuel, they attract 'non-creditable' Excise Duty @ 11% and 'non-creditable' VAT which may vary from 1% to 29%. Average VAT rate is ~ 17% in India.

As ATF is outside GST, there is no 'Input Tax Credit' (ITC) on GST paid on FIC and ITP. Due to this circuitous billing cost of FIC and ITP become 1.53 times i.e. airlines end up paying 53% higher cost and there is no tax credit available to the airlines. It is a burden on the beleaguered airlines which are suffering from huge losses to the tune of > Rs. 23,500 cr in FY 2022.

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

Total cost with excise duty and VAT 153.25

It is clear from the above example that against original assumed cost of Rs.100 towards FIC and ITP, airlines end up paying Rs. 153.25 i.e. 53.25% additional cost and there is no tax credit against the same. 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 Narendra Modi that he would like to see 'Hawai Chappal Wale, Hawai Jahaj Mein' as the high cost will be passed on the common man by the airlines.
5. There is application of tax on tax, which is fundamentally wrong and adds to Airlines cost.

		In addition to the above, it is pertinent to note that there are number of other infrastructure services / facilities like aircraft taxi ways, runways, fire services and bird scarers etc., for which there is no separate charge as they are part of airport infrastructure however, the CP proposes separate charges for ATF in the shape of for FIC and ITP charges, which is a contradiction. In this context, reference may be drawn from the abolishment of Fuel Throughput Charges (FTC), which were being earlier charged as separate charges for provisioning of ATF but were subsequently abolished. The FTC were being charged by the Airport Operators from the airlines through OMCs with the above circuitous billing mechanism with ultimate non creditable cost of Rs. 153.25 to the airlines. Both the Ministry of Civil Aviation (MOCA) and AERA have abolished FTC vide their order dated 08 January 2020 and 15 January 2020 respectively. Subsequently their revenues have been recalibrated by AERA and there has been no loss to the airport operators. In view of all the above facts, it is recommended that FIC and ITP be abolished, and necessary calibration may be done in the revenue for airport operators for fuel farm and into plane operations. This will in turn help the airlines to address the long pending issue of circuitous billing. Thus, it is requested that the proposal of the TKIAL in public Notice No. 36/2023-24 for the revised pricing for Fuel Farm Tariff (Fuel Infrastructure Cost, Aircraft Defueling and Re-fuelling of defueled products) may kindly not be accepted and recalibrated in line with FTC into other airport charges and help and support airlines with to address long pending circuitous tax billing. **Para 7.3.144** We agree with AERA's proposal that an adjustment of 1% (or higher of the project cost from the ARR, as deemed fit), is made by AERA for capital expenditure projects is/are not completed/capitalised as per the approved capitalisation schedule other than those affected solely by the adverse impact of COVID-19. Such adjustments can be made by AERA during the tariff determination for the Fourth Control Period. **Para 7.4.4** FIA submits that, AERA has considered the Terminal Building Ratio ('TBLR') of 90:10 for Third Control Period. However, considering that Trivandrum is tourist destination, while being the most populous city in Kerala, have potential of higher non-aero revenue, the non-aeronautical ratio proposed by AERA appears to be on the lower side.

		Further, as observed by AERA itself, in comparison to the other similar PPP airports such as DIAL, MIAL, BIAL etc., the TBLR was considered above 10%. Hence, keeping in view the above-mentioned facts, TKIAL shall better utilize such aspects and space 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 consider the highest possible non-aeronautical allocation in the case of TKIAL (preferably higher than 10%). **<u>Para 7.5.8 Table 143</u>** While acknowledging the depreciation rate applied by AERA in accordance with AERA Order No. 35/2017-18 the 'Useful Life of Airport Assets', it is pertinent to note that useful life of assets at various international airports like London Heathrow, Sydney airport and Amsterdam airport indicated that terminal buildings have useful life of as long as sixty (60) years and aprons have it for as long as ninety-nine (99) years. FIA submits that the useful life of terminal building for Kannur and Cochin airports have been considered sixty (60) years by AERA and accordingly AERA should prescribe sixty (60) years for the 'Building' including 'Terminal Building as' is practiced by some of the developed aviation ecosystem. Further, as observed AERA itself feels that TKIAL was not able to sufficiently explain the technical evaluation and is devoid of merits (*refer para 7.5.5*). Hence, in view of that AERA should conduct an independent study on depreciation, as the current depreciation rationale does not provide clarity on the depreciation applied.
8.	Fair Rate of Return (FRoR) for the Third Control Period	**<u>Para 8.2.10 & 8.3</u>** FIA submits that, only reasonable Fair Rate of Return (FRoR) to airport operators should be provided. It is observed that AERA has considered FRoR of 12.21%, which is based on cost of equity and cost of debt to the airport operator, for the Third Control Period. However, while such fixed/ assured return favours the service provider/airport operators, but it creates an imbalance against the airlines, which are already suffering from huge losses and are bearing the adverse financial impact through higher tariffs. Due to such fixed/assured returns, Airport Operators have no incentive to look for productivity improvement or ways of increasing efficiencies, take steps to reduce costs as they are fully covered for all costs plus their hefty returns. Such a scenario breeds inefficiencies and higher costs, which are ultimately borne by airlines.

		Without prejudice to the above, we request AERA to consider: 1) In the present scenario any assured return on investment to any service providers like TKIAL, in excess of five (5) % (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) consider the fact that airport industry in India has been established, hence the risk is lower as this is a cost-plus margin business; and 3) to review the financial closures details, debt to equity ratio based on actual weighted average rather than a notional percentage. 4) And, in case AERA is unable to accept our recommendation mentioned above, AERA is requested to conduct an independent study for determination of FRoR to be provided to Airport operator. Such independent study can be exercised by the powers conferred under the AERA Act and in line with studies being conducted by AERA in case of certain major airport operators.
9.	Inflation for the Third Control Period	**(Para 9.2.2)** FIA submits that as per report published by Ministry of Finance dated 8th December 2023, the WPI inflation rate is 5.39%. Accordingly, we request AERA to revise the inflation rate.
10.	Operation and Maintenance Expenditure for the Third Control Period	**Para 10.2.66(iii) (Fuel Operating Expenses)** FIA requests, that AERA should not permit outsourcing of fuel facility on a “Volume linked fee basis” and instead it should be on “lowest cost model” through competitive bidding. **Para 10.2.19 (Utility Expenses)** TKIAL is requested to constitute a committee to verify the bills relating to Power expenses or submit a report on the same to AERA, if the same has already been conducted as part of Stakeholder comments / feedback. **Para 10.2.79 (Cargo Operating Expenses)** It is requested that the Customs Cost Recovery Charges for Customs staff posted at Air Cargo complexes, courier terminals etc. as prescribed by the Central Board of Excise and Customs needs to be levied on custodians, and not on the airlines.

		<u>Para 10.1.5 , 10.2.87 & 10.2.88 and Table 157 & 188</u> FIA appreciates the study conducted on Operations and maintenance expenses (O&M expenses) conducted for the Third Control Period, and AERA's revision based on rationalisation of each line item on the submitted O&M expenses by TKIAL. However, FIA respectfully urges AERA to further explore avenues to minimizing escalations across the expense categories. This action would significantly enhance our ability to manage overall costs more effectively. It is further submitted that the current estimated O&M expenses necessitate additional scrutiny through an Independent Study in this Control Period. This measure is vital to prevent deviations from being carried forward to the Fourth Control Period, doing so would help avoid over recovery of ARR in control period under the guise 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 independent study for determining the true value of the O&M expenses before approving the tariff for the Third Control Period.
11.	Non-aeronautical revenue for the Third Control Period	**A: Non-Aeronautical Revenue** **<u>Para 11.2.12</u>** It is observed that the non-aeronautical revenues projected by TKIAL is substantially low / conservative. It is requested that TKIAL explores all avenues to maximise revenue from the utilisation from the expansion of terminal building for non-aeronautical purposes. As correctly observed by AERA in para 11.2.12, the non-aeronautical revenue projected by TKIAL for Third Control Period is substantially lower as compared to other PPP airports. Accordingly, we request AERA to mandate TKIAL to enter into suitable agreements with concessionaires to

		exploit the potential/ growth of non-aeronautical revenue at Thiruvananthapuram airport. In this regard we also request AERA to kindly undertake detailed examination with the assistance of an independent study to be conducted on the non-aeronautical revenue before the tariff determination of the Third Control Period. Without prejudice to the above, we submit that increase in non-aeronautical revenue ("**NAR**") is a function of increase in terminal building area, passenger traffic growth, inflationary increase and real increase in contract rates. Despite all these factors increasing during the control period, on examination of the non-aeronautical revenue projected for the Third control period by AERA, it was noted that a conservative approach has been taken by AERA. 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. FIA submits that, Thiruvananthapuram 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 TKIAL to enter into suitable agreements with concessionaires to exploit the potential/ growth of NAR at TKIAL. b) To kindly undertake detailed examination with the assistance of an independent study on the NAR before the tariff determination of the Third Control Period. c) To further determine and re-assess their estimates in line with other comparable airports. It may also include the impact of the tourism lineage that Thiruvananthapuram has to increase their NAR in accordance with the submissions above. AERA is requested to ensure no adjustments are proposed to non-aeronautical revenue which is not dependent on traffic but are derived from agreements with concessionaires. Further in para 11.2.12, AERA has remarked that NAR projected by TKIAL is significantly less than PPP airports - which are generally not less than 50% of the total O&M expenses of the respective airports. In view of the above, we request AERA to allow higher non-aeronautical revenues being not less than 50% of the projected O&M expenses for TKIAL, as approved by AERA.

12.	Taxation for the Third Control Period	**Tax Efficiencies:** Airlines are now paying separately for FIC and ITP which was earlier part of ATF pricing. Such FIC and ITP along with GST thereon becomes part of ATF pricing and suffers from Excise Duty and Sales Tax. The additional burden of non-creditable taxes becomes sixty-four (64) % - seventy (70) % on the airlines. FIA would also like to urge AERA to devise methods or pass an order stating that FIC and ITP should be directly invoiced by fuel farm operator or the services providers to the airlines to avoid circuitous billing and for the sake of 'Ease of doing businesses and 'Transparency'. This will also help in avoiding unnecessary tax on tax to the tune of sixty-four (64) % - seventy (70) % sixty-seven (67) % to Airlines.
13.	Aggregate Revenue Requirement (ARR) for the Third Control Period	**<u>Para 14.2.2</u>** It is submitted that, AERA has noted that "*AO has on-going capital expenditure projects and other planned works, which have resulted in a higher ARR for the Third Control Period. Whereas, the existing traffic base is not sufficient for the complete recovery of ARR in the current Control Period and this would require a significant increase in tariff, which in the present times is likely to adversely impact the recovery of air traffic.*" Further, AERA has also observed and considered the "*guiding principles issued by the International Civil Aviation Organization (ICAO) on charges for Airports and Air Navigation Services (ICAO DoC 9082), which lays down the main purpose of economic oversight which is to achieve a balance between the interest of Airports and the Airport Users.*" This policy document categorically specifies *"that caution be exercised when attempting to compensate for shortfalls in revenue considering its effects of increased charges on aircraft operators and end users".* This should be applied particularly during periods of economic difficulty (i.e., airlines incurring adverse financial impact post Covid-19). FIA requests AERA that, keeping in view the adverse financial health of the airlines as mentioned in this letter, no tariff shall be increased for this control period.

		Para 14.2.6 The tariffs on the AFS cargo should be significantly lesser than the tariff levied on General cargo. FIA submits that: 1. AFS should have 50% or lesser rates from the Terminal. 2. Processing of such Cargo may be considered for direct access to the Aircraft, thereby avoiding the charges levied by Custodian. 3. Subsidize and incentivize a certain % of cargo tonnage processed out of AFS for better sustainability to Airlines, this may boost further AFS stations in terms of revenue as well.
14.	Proposed Annual Tariff Proposal (Tariff Rate Card) (Refer Public Notice 36/2023-24):	In accordance with the preamble of the National Civil Aviation Policy, which envisages to make air travel affordable and sustainable, AERA is requested to review the suggestions/comments on the regulatory building blocks as mentioned above which is likely to reduce the ARR. This will further ensure the lowering of tariff including UDF, which will be beneficial to passengers and airlines. It is in the interest of all the stakeholders that the proposed excessive hikes in the tariffs be reduced and also in order to encourage middle class people to travel by air, which will help in sharp post-COVID-19 recovery of aviation sector. It is the stated 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 TKIAL to clarify the following: **1. Ref: Notes to User Development Fee (UDF) Charges:** **Collection Charges:** We would like to invite AERA's attention to notes 1 of UDF charges in the Public notice 36/2023-24, wherein the rate of collection of UDF charges has been proposed to be reduced by TKIAL from the current Rs. 5.00 per embarking passenger to Rs. 2.50 per embarking passenger. As airlines have not agreed to this reduction, we request AERA to consider the collection charges to be reverted to Rs. 5.00 embarking passenger, in line with other Airports. Collection charges also need to be published for arrival Passengers as well.

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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.

a) <u>Ref: Notes to User Development Fee (UDF) Charges</u>:

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

i. <u>Disembarkation</u>:- TKIAL has also proposed UDF charges on disembarkation as well at the Airport. AERA is requested to kindly review this trend as this will be discouraging for passengers to take flights to Thiruvananthapuram because of the increase is total cost to fly to Thiruvananthapuram.

Hence, it is submitted that the Authority keeping in view the principles of efficiency and reasonableness should not allow the UDF collection charges on disembarking pax as proposed in the CP.

ii. <u>UDF effective from 1st April 2024 to 31st March 2027.</u>

Query: Will the above UDF effective date shall be considered as Travel date or sale date or both-travel and sale date?

Comment to No. 1. of Collection Charges: Please note that the same is paid by airport operator to airlines separately after airlines raises an invoice against the same as a standard industry practice. We request the same practice is applied.

iii. AERA is kindly requested to clarify the applicability of UDF: It may be noted that due to addition of word "Domestic Flight" and "International Flight" in the UDF Rate chart, it seems that AERA has proposed rates for "per embarking passenger on a domestic flight/International flight" and "per disembarking from a domestic flight/international flight". Hence, it appears unclear as to whether it will be charged on per passenger or per flight basis, as UDF is applied on a per passenger basis i.e, for embarking passengers. However, there are corresponding references of domestic and international flights. Further, this clarity is imperative for connecting flights i.e., in cases, where one leg of the flight is domestic, and the other is international or vice versa.

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

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

II. Will the passenger be charged international rates of UDF as per the PNR/Ticket, as the final destination is international?

III. There is no mention of Collection charges for PSF in the MYTP submitted by the Airport operator. In the event the PSF is subsumed in the UDF, then airlines may kindly be eligible to claim collection charges at 2.5% of PSF per passenger, is being done currently. If PSF is not subsumed in the UDF, then current practices may kindly be continued.

IV. It is requested to define the applicability or exemption of any of the tariff charges pertaining to RCS Flights which have been excluded.

V. AERA is kindly requests to add the following exemption to maintain uniformity, as also mentioned under Directorate General Civil Aviation ('DGCA') AIC No.14/2019 dated 16.05.2019, DGCA AIC No.06/2023 dated 29th April 2023 and other tariff orders such as for Ahmedabad Airport Order no.40/22-23 for Third Control Period:

"(g) Passenger departing due to involuntary re-routing i.e. technical problems or weather conditions."

In view of the above, we request AERA to include the above-mentioned exemption in the final order, as airlines do not collect these charges from passengers, however are being liable to pay the same to airport operator.

2. CUTE, CUPPS, CUSS:
As these are aeronautical revenues, we could neither find a proposal for the same in the MYTP submitted by the TKIAL for the Third Control Period, nor any comment by AERA on regulating these charges in the CP for the Third Control Period. We would like to state that:

i. **The current prices are excessive.** Please note that the AAI tariff for the same services at 44 airports is Rs 35.05 per passenger which is much lesser than private entities. AAI chose a service provider based on a public reverse auction mechanism. As such the tariff of USD 0.90 per passenger at TKIAL 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; ii. whatever bouquet of services is agreed between the TKIAL and the service provider, this is enforced upon the airlines. iii. the airlines have no say on the prices (unbundling), even if the airlines do not require all the services; and iv. 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. AERA is kindly requested to intervene and kindly regulate the CUTE, CUPPS, CUSS prices per the AERA Act, with transparency to all stakeholders. **3. Parking Charges effective from 1st April 2024 to 31st March 2027** i. *"5.Parking time will be calculated based on On-Blocks and Off-Blocks time as recorded at the Airport Operations Control Centre. (AOCC)."* Query: As per standard practice, 15mins time each after touchdown and before takeoff of aircraft is provided as an exemption. We would want to propose the same industry practice to be implemented here. ii. *"7.In case of an aircraft being parked beyond 24 hours due to technical or any other reasons, the parking charges shall be levied on a weekly basis in-line with the governing tariff order.* Query: Please clarify which governing tariff order is being mentioned above. Please provide the corresponding rate card. iii. *"6. For calculating chargeable parking time, part of an hour shall be rounded off to the next hour"* It is submitted that for calculating chargeable parking time, part of an hour shall be rounded off to nearest hour"

		4. Variable Tariff Plan for Scheduled Passenger Airlines i. ***"New Route****: A flight to a new destination that is currently unserved from Thiruvananthapuram by any airline already operating at Thiruvananthapuram. (Destination must be unserved for the previous 36 months)"* Query: We understand "Unserved" means no scheduled operations. Please confirm. **5.** AERA to review our comment at Sr. No. 4 (Traffic) above. **6.** FIA observed that, there is no mention of Aviation Security Fee ("ASF") in the Annual Tariff proposal by TKIAL. In this regard, we request AERA to take note of the AIC 09/2021 dated 19th March 2021 and to state the levy, exemption and collection charges on ASF to TKIAL. **7.** Landing charges: a) AERA has proposed to increase the Landing Charges for all flights by 150% approx., from the second control period from the existing charges. We request AERA to kindly consider rationalising the same. b) Note 6 (a) to Landing Charges: We request AERA further clarification on unscheduled flights operated by domestic scheduled operator as the same are currently being charged by PIA. 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.
15.	Any Other Comment	**A. <u>Shrinkage in Control Period</u>** FIA submits that the Hon'ble TDSAT Order dated 16 December, 2020 for BIAL stated as follows: *'100…However, there is substance in this grievance and AERA will do well to ensure that if delay is caused by the Airport operator, its consequences should not fall upon the users. Tariff orders should be prepared well in time so that the burden of recovery is spread over the entire period for which the order is passed...'* In view of the above, AERA is requested to ensure that airlines/passengers are not burdened in view of the apparent shrinkage in the period of recovery of the aeronautical tariff from passengers/airlines, as the AERA Tariff Order for TKIAL - Third Control Period, will now be issued after the commencement of the Control Period i.e., 1 April, 2022.

We submit that cost of operations for the airlines are increasing continuously every year and airlines are incurring losses in the current challenging scenario, even while airport operators have an assured rate of return on their investment. At the same time, it is projected by most agencies that over 1,200 new civil aviation aircraft will be inducted by airlines in India over the next 5 years. While economies of scale are a big factor for the airlines to keep the cost of operations low, this applies to airport operators as well. With the huge increase in aircraft, there is bound to be huge benefits for the airport operators as well due to economies of scale.

Hence, we request AERA to conduct a study of the passengers and air traffic at selected airports taking data over the past 20 years wherein it may please be made transparent as to what is the cost of one take off separately to the airport operator and an airline, for various class of aircraft, at a periodicity of every 5 years (excluding the pandemic times period).

It is felt that cost of business is simply passed on to the airlines by some airport operators, as it appears that there are multi layered companies undertaking various activities at the same airport, which not only add to the cost of doing business, but also force airlines to pay tax on tax for availing services though multi-layered companies. This study will then make it evident who is actually bearing the cost of doing business at the airport, and whether the same is justified.

B: Royalty

Any attempt to award the contracts by the airport operator on highest revenue share basis should be discouraged as it breeds inefficiencies and tends to disproportionately increase the cost. It is general perception service providers has no incentive to reduce its expenses as any such increase will be passed on to the airlines through tariff determination mechanism process and indirectly airlines will be forced to bear these additional costs. There needs to be a mechanism for incentivizing the parties for increasing efficiencies and cost savings and not for increasing the royalty for the airport operator.

As you are aware, royalty is in the nature of market access fee, charged (by any name or description) by the Airport operator under various headings without any underlying services. These charges are passed on to the airlines by the airport operator or other services providers. The rates of royalty at the airport are as high as up to 45% for some services. It may be pertinent to note that market access fee by any name or description is not practiced in most of the global economies, including European Union, Australia etc. Sometimes it is argued by the airport operators that ‘Royalty’ on ‘Aero Revenues’ helps in subsidizing the aero charges for the airlines, however royalty in ‘Non-Aero Revenues’ hits the airlines directly without any benefit.

In view of the above, we humbly urge AERA to abolish such royalty which may be included in any of the cost items.