AIRPORTS AUTHORITY OF INDIA

ANNEXURE - A

AAI'S VIEW ON WHITE PAPER ON VARIOUS ISSUES RELATING TO REGULATED OBJECTIVES AND PHILOSOPHY IN ECONOMIC REGULATION OF AIRPORTS AND AIR NAVIGATION SERVICES

Background

Airports Authority of India (AAI)

Presently, AAI manages 125 airports in the country including civil enclaves and provides CNS/ATM facilities at all airports. AAI also manages Indian airspace covering an area of 2.8 million square nautical miles of land mass (1.05 NM2) and the adjoining oceanic area (1.75 NM2) as accepted by ICAO.

Out of the 125 airports managed by AAI, 98 airports are operational (22 airports used only by Non-scheduled operators), of which only 9 are profit-making and rest are loss-making airports, based on the financial results of 2008-09.

AAI is maintaining all these loss-making airports to serve the social obligations of providing nation-wide connectivity including airports in remote and inaccessible areas especially the North East, hilly, island regions and tourism places.

Keeping in view the Govt. of India Airport Infrastructure Policy for development of airport infrastructure and air traffic services in the country, an amount of Rs.12,434 crores was envisaged in the XI Plan Period, which was planned to be financed mainly through internal resources and a small portion from Budgetary Support and balance from borrowings.

Tariff Fixation in AAI

In AAI, the tariff for airport charges (Landing, Parking, Housing) is being fixed on 'Single Till' basis with the approval of the GoI so far. For the purpose of fixation of tariff, the total revenue and expenditure of AAI as a whole are taken into consideration (ie., revenue and expenditure of all AAI airports are clubbed together and brought under one basket and tariff for the gaps is determined accordingly after taking into considering reasonable Rate of Return. The Tariff so determined, is charged uniformly to different AAI airports. Similarly, the tariff in respect of RNFC and TNLC is also levied uniformly at all airports.

Delhi & Mumbai Airports

The international airports at Delhi and Mumbai have been handed over to the JVCs, namely DIAL and MIAL for modernisation and upgradation through PPP. The Govt. of India and AAI have entered various agreements with these JVCs for modernization, upgradation and operation of these two airports for a period of 30 years with a provision to extend for further period of 30 years.

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Tariff Fixation in DIAL and MIAL

In the State Support Agreement entered by Govt. of India with these two JVCs, the principles of Tariff fixation are set out in Schedule – I of each of the respective State Support Agreements of DIAL and MIAL.

Clause 3 of the Agreement set out the support of Govt. of India undertakes to provide JVC.

In Sub-clause 3.1.1, GOI confirms that it shall make reasonable endeavour to procure that AERA shall regulate and set charges in accordance with the broad principle set out in Schedule – I.

In this context, Schedule – I sets out a number of principles to be observed among other things. **These relate to incentive based regulations, the need to generate sufficient revenues to cover efficient cost and risk related rates of return on investment.**

Schedule – I also sets out the methodology for calculating aeronautical charges in the **'shared till inflation-X price cap model'**. The methodology describes a modified dual till approach that identifies the cost base as :

- The operating and maintenance costs pertaining to Aeronautical Services, and
- Depreciation and returns on a regulatory asset base pertaining to Aeronautical Assets.

Defrayed by:

- 30% of gross revenues generated from Non-Aeronautical Assets
- 30% of the gross revenues generated from assets required for provision of aeronautical related services at the airport and not considered in revenues from Non-Aeronautical Assets (e.g. Public admission fee etc.) (implicitly those that are not covered by the definition of aeronautical charges and that are not otherwise included in revenues from Non-Aeronautical Assets).

Greenfield Airports (Hyderabad & Bangalore)

The new Greenfield airports at Hyderabad and Bangalore have been developed by GHIAL and BIAL respectively and are operational since 2008. The CNS/ATM services are being provided by AAI at these two airports. Govt. of India has entered into Concession Agreement with these two JVCs wherein the principles of tariff have been stipulated.

Principles of Tariff Fixation in GHIAL and BIAL

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- The principles of tariff fixation are set out in Clause 10.2.4, 10.2.1, Schedule 6 of the Concession Agreements. The Schedules and relevant clauses are substantially the same in each agreement.
- These specify that the airports shall be entitled to levy Landing, Housing and Parking charges, Passenger Service Fee and User Development Fee at rates consistent with ICAO Policies. Clause 10.3 further establishes that the airports are free to set charges in respect of facilities and services provided at the airport other than those facilities and services in respect of which Regulated Charges are levied.

- Schedule 6 also identifies the charges that are to be adopted by BIAL and GHIAL at the time of Airport Opening. The Landing, Housing and Parking Charge and Passenger Service Fee (Domestic and International) to be adopted at the time of airport opening was to be higher of :

  a) The AAI tariff effective 2001 duly increased with inflation index, as set out hereunder, upto the airport opening date; Or

  b) the then prevailing tariff at the other AAI airports.

- In addition to the above, there exists a provision to levy UDF on embarking domestic and international passengers, for provision of passenger amenities and facilities and the UDF will be used for the development, management, maintenance, operation and expansion of the facilities at the airport.

AAI's View On White Paper On Various Issues Relating To Regulated Approach And Philosophy For Tariff Fixation

S.NO.	ISSUES	COMMENTS
1	Form of regulation – whether Price Cap, Rate of Return or Light Touch	In view of the Govt. of India Policy for creation of world-class airport infrastructure in the country and to encourage timely creation of infrastructure by the airport operator based on the traffic growth and also to attract more private sector participation in the aviation sector, it is desirable to allow the airport operator to take reasonable Rate of Return on their investment. In view of the above, it is appropriate to adopt **Rate of Return** Approach rather than Price Cap or Light Touch Approach.
2	Till – Treatment of Non-aeronautical revenue and	In AAI, historically for the purpose of fixation of tariff, the total revenue and

	adoption of Single, Dual or Hybrid (Shared) Till.	expenditure of all the airports are taken together and fixed single tariff which is uniformly levied at all AAI airports. However, in case of DIAL and MIAL, there is a provision to adopt 'Hybrid (Shared) Till' as per the State Support Agreement entered between JVCs and GOI for the purpose of fixation of tariff. Further, in case of GHIAL and BIAL, the Concession Agreement entered into between GOI and JVCs provides the option to charge airport charges at the time of airport opening higher of the following : a) The AAI tariff effective 2001 duly increased with inflation index, as set out hereunder, upto the airport opening date; or b) the then prevailing tariff at other AAI airports. In addition to the above, there exists a provision to levy UDF on embarking domestic and international passengers, for provision of passenger amenities and facilities and the UDF will be used for the development, management, maintenance, operation and expansion of the facilities at the airport. **<u>Proposed</u>** It is a fact that AAI is required to maintain a large no. of loss-making airports across the country, in order to provide connectivity services in the remote areas as a social obligation. However, with the arrival of private players in the airport sector in the recent past fixation of airport-wise tariff has become a necessity. Considering the above, it is suggested that henceforth, **AAI be allowed to adopt 'Dual Till'** Approach for fixation of airport-wise tariff for major airports,

		which will facilitate AAI to **utilize the non-traffic revenue generated at these major airports not only for further development of the airport but also to maintain large number of loss-making airports in the country to serve the social obligations** of providing nation-wide connectivity including airports in remote and inaccessible areas especially the North East, hilly, island regions and tourism places.
3	Fair Rate of Return (on investment and on equity)	a) In order to encourage the existing airport operators for timely creation of requisite infrastructure based on the traffic forecast and also to attract more private sector participation in the airport sector, it is suggested that a **Fair Rate of Return on the investment** is allowed to the investors. Further, the airport industry is highly capital intensive having long gestation period, the Fair Rate of Return so determined should be higher than the cost of capital prevailing in the market. b) Further, Airport Operator should be given flexibility to choose appropriate gearing i.e., debt and equity.
4	Capital Investment – specifically the need for user consultation and degree of regulatory oversight to ensure efficient investment.	Policy on Airport Infrastructure on modernsation and upgradation of airport infrastructure stipulates that in keeping with the ICAO standards and recommended practices and the requirements of upgrading airports to the level of international and regional hubs, detailed master plans for the development of all selected airports will be prepared or revised by the operating agency. Such master plans should be conceived of and executed by the best expert advice available and taking futuristic requirements into account. All future upgradation and modernisation will have to be normally done in accordance with the master plans. Keeping in view the above Policy, it is suggested that the **airport operator may consult the user at the time of Investment Planning as well as**

		finalization of Master Plan. However, airport operator may take appropriate investment decision as deemed fit at an appropriate time with proper justification.
5	Operating Expenditure – Incentives for efficiency improvement and cost pass through	Airport Operator may be provided sufficient incentives to bring about cost reduction without affecting the standards of performance and tariff.
6	Form of Price Control and Tariff Structure – Should the regulator set individual tariffs or should the operator have flexibility within the 'aggregate' determined by the regulator?	**Individual Tariff Structure is suggested for landing, parking, housing and PSF** for smooth administration. However, **UDF/ADF** to be allowed for bridging the viability/funding gap for each airport.
7	Passenger Charges Vs Airline Charges – Interplay between the two to enable agreed upon fair rate of return to the investor/operator.	All direct costs relating to passengers should be recovered from the passengers directly like PSF, UDF etc. and indirect costs relating to passengers should be recovered from the airline operators.
8	Service Quality Monitoring – Setting and monitoring of standards; and ensuring compliance through predefined 'bonus'/ 'rebate' or airport charges.	The **Service Quality Norms/Standards should be airport specific** and made applicable as mandatory. In case of **failure to meet the requisite norms / standards appropriate penalty may be levied** on the airport operator. (for eg. as per provision stipulated OMDA (Chapter IX) in respect of Delhi and Mumbai airports). Further, giving 'bonus' to the airport operator for achieving the higher standards/norms than the fixed is not recommended, instead the airport operator should be insisted to meet the minimum set norms/standards otherwise penalty as mentioned above.
9	Regulatory Asset Base	Since it is suggested that **airport operator should be allowed to adopt 'Dual Till' for major airports, all aeronautical assets should be treated as regulatory assets** for the purpose of determining the tariff.
10	Depreciation	The depreciation may be allowed to be charged based on life of the Asset or as per provision of the Companies Act.
11	Revenue Share	Revenue share payable by the airport operator to AAI/Govt. of India (as the case may be) be treated as expenditure for the airport operator.

AAI's comments on the White Paper

Additional Points :

1. Route Navigation & Facilitation Charges (RNFC) and Terminal Navigational Landing Charges (TNLC) :-

RNFC is being levied at all airports and TNLC is being levied only at international airports and civil enclaves.

As per AAI Act, 1994, the responsibility of providing Air Traffic and Air Navigation Services in the country is assigned to AAI. As such, the cost incurred for providing TNLC and RNFC are not necessarily attributable to a particular airport/unit.

In view of the above, **single rate is to be fixed and levied uniformly at all the airports** considering the total investment, revenue generated and recurring expenditure incurred for providing the services etc.

2. **AAI is maintaining large number of loss-making airports in the country to serve the social obligations** of providing nation-wide connectivity including airports in remote and inaccessible areas especially the North East, hilly, island regions and tourism places. **This aspect may also be taken into consideration while fixing the tariff for AAI.**

3. AAI is receiving **Budgetary Support** in the form of Equity and Loan from Govt. of India for development of airports in North East Regions and other crucial areas in order to provide connectivity in remote places. Since Budgetary Support received in a means of finance, **the asset created out of this budgetary support and interest on loan and cost on equity for the balance component of budgetary support may be considered as an investment for the purpose of tariff fixation.**

4. AAI is also receiving grant from NER/Govt. for development of certain airports in NER and other places. However, the asset created/ incurred out of grant from Govt. or other agencies may be reduced from the total investment.

5. **In civil enclaves**, AAI is incurring expenditure for expansion of runway, parking bay, etc. to accommodate wider body aircraft as well as for the other operational reasons for which **AAI may be allowed to recover such cost through UDF.**