



**Federation of Indian Airlines**

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**MOST URGENT**

01 February 2019

To,  
The Chairperson,  
Airports Economic Regulatory Authority of India (AERA),  
AERA Building, Administrative Complex,  
Safdarjung Airport, New Delhi-110003.

**Kind Attention: Shri S. Machendranathan**

**Subject: Comments & Submission of FIA tendered in response to the AERA CP.No.26/18-19 titled "In the matter of determination of Aeronautical Tariffs in respect of Coimbatore Airport for the first Control Period (01.04.2018 - 31.03.2023)"**

Dear Sir,

On 9.01.2019, the Airports Economic Regulatory Authority of India (hereinafter referred to as the "**Authority**") had issued the File. No. AERA/20010/ MYTP/AAI - Coimbatore/ CP-I/2018-19 (Consultation Paper No. 26/2018-19) in respect of determination of aeronautical tariff of Coimbatore Airport (**Coimbatore Airport**), owned and operated by the Airports Authority of India (**AAI**). For the purposes of this present submission, the Consultation Paper No. 26/ 2018-19 as mentioned above shall be hereinafter be referred to as "**Consultation Paper**" or "**CP**".

Post circulation of the said CP, FIA did a preliminary observation and noted that capital expenditure amounting to INR 258 crores has been proposed in the 1<sup>st</sup> control period. We believe since the amount is more than Rs.50 cr therefore it should have been mentioned in any earlier AUCC held for this airport or should have the Project Investment File for the same. FIA therefore requested AERA to kindly share the AUCC minutes/Project Investment File for this project undertaken by Coimbatore airport to refer to and forming our submission accordingly. Till day of submission i.e., 01 Feb 2019, FIA hasn't received either of the two - AUCC minutes or Project Investment File for the project undertaken by Coimbatore Airport amounting to INR258 cr. Therefore by way of this present submission, FIA on behalf of its member airlines submits its preliminary objections to the CP, without any prejudice and craving to submit any additional submission as and when required.

Thanking You & Yours Sincerely,

For and on behalf of the Federation of Indian Airlines,

**UJJWAL DEY**  
Associate Director

**A. BACKGROUND**

1. On 9.01.2019, the Airports Economic Regulatory Authority of India (hereinafter referred to as the "**Authority**") had issued the File. No. AERA/20010/ MYTP/AAI - Coimbatore/ CP-I/2018-19 (Consultation Paper No. 26/2018-19) in respect of determination of aeronautical tariff of Coimbatore Airport (**Coimbatore Airport**), owned and operated by the Airports Authority of India (**AAI**). For the purposes of this present submission, the Consultation Paper No. 26/ 2018-19 as mentioned above shall be hereinafter be referred to as "**Consultation Paper**" or "**CP**".

2. The Authority has sought a detailed written submission from its stakeholder on the Consultation Paper by 01.02.2019.

3. Subsequent to the issuance of the Consultation Paper, the Authority held its stakeholder consultation meeting on 25.01.2019 at Coimbatore Airport.

4. By way of this present submission, FIA on behalf of its member airlines submits its preliminary objections to the Consultation Paper, without any prejudice and craving to submit any additional submission as and when required.

5. At the outset, it is noteworthy that the Authority is under a bounden duty to determine the tariff in terms of:-

(a) Statutory provisions laid under the of the Airports Economic Regulatory Authority of India, Act, 2008 ("**AERA Act**");

(b) AERA (Terms and Conditions for Determination of Tariff for Airport Operators) Guidelines, 2011 ("**AERA Guidelines**");

(c) 'Airports Economic Regulatory Authority of India (Terms and Conditions for Determination of Tariff for Services Provided for Cargo Facility, Ground Handling and Supply of Fuel to the Aircraft) Guidelines 2011' ("**CGF Guidelines**"); and

(d) Regulatory jurisprudence and settled principles of law creating a level playing field to foster competition, plurality and private investments in the civil aviation sector.

## **B. CONTEXT OF THE CONSULTATION**

6. To assist the Authority in appreciating these submissions on the Consultation Paper, FIA would like to state that the present submissions are without prejudice to our right and contentions, reserving FIA's right to submit additional submissions/objections at later stage and subject to the following: -

- (a) In para 3.1, 3.2 & 3.3 of the Consultation Paper, it is stated that Coimbatore Airport filed its original MYTP submission on 8.08.2017 for the first control period from 01.04.2016 to 31.03.2021. It is further stated that due to the elapse of 2 years in the proposed first control period (1.04.2016 to 31.03.2021), which in Authority's view might require a significant change in tariff during the remaining control period, the Authority vide letter to AAI dated 29.06.2018 has proposed that the first control period for Coimbatore Airport should be from 01.04.2018 to 31.03.2023. The Authority also clarified that the shortfall, if any, for the first two years may be taken to consideration for tariff determination. Subsequently, Coimbatore Airport filed its revised MYTP on 9.10.2018 for the control period from 01.04.2018 to 31.03.2023. Further, Coimbatore Airport in its revised MYTP submission has calculated shortfall w.e.f. 01.04.2016 to 31.03.2018 and included it in the present value of ARR for the first control period.

It is not denied that FIA is not the stakeholder for determination of tariff of Coimbatore Airport. FIA submits that as per a catena of judicial pronouncements, it is a well settled principal of doctrine of natural justice - '**audi alteram partem**' (meaning, hear the other side), that before taking any decision/action affecting the rights and liabilities of an individual/entity, an opportunity of showing cause and to submit response thereto has to be afforded to the person whose rights and/or liabilities may be affected. This principal is further enshrined under section 13 (4) of the AERA Act, which provides that the Authority shall ensure transparency while exercising its powers and discharging its functions, inter alia:

- (a) by holding due consultations with all stakeholders with the airport;
- (b) by allowing all stake-holders to make their submissions to the authority;  
and
- (c) by making all decisions of the authority fully documented and explained.

FIA would also like to mention that in the recent Order dated 23<sup>rd</sup> April, 2018 passed by the Hon'ble Telecom Disputes Settlement & Appellate Tribunal, New Delhi in the case of *Federation of Indian Airlines vs. Airport Economic Regulatory Authority of India & Ors.* - AERA Appeal No. 6 of 2012 and Delhi International Airport Ltd. (DIAL) vs. *Airport Economic Regulatory Authority of India & Ors.* - Appeal No. 10 of 2012 (**DIAL Order**), it has been inter alia held that "...request for supply of documents by a stakeholder should ordinarily be accepted" and "...There is no doubt that the principles of fairness and transparency are very valuable and must be scrupulously followed by the Regulator in the exercise of fixation of tariffs.."

FIA submits that it has not been provided with the copies of the submissions made by Coimbatore Airport dated 8.08.2017 & 9.10.2018 and any minutes of Airports Users Consultative Committee (AUCC) meetings, Project Investment File (PIF), as applicable. Accordingly, in the absence of the receipt of such submissions made by Coimbatore Airport, FIA is unable to appreciate, assess and comprehend the facts and figures (and any comparison thereto) of the Consultation Paper in its entirety and actuality. Thus, FIA hereby request that the above mentioned MYTP submissions as submitted by the AAI may be made available to all the stakeholders (including FIA) for perusal and comments so as to ensure complete transparency and to enable FIA to submit requisite and consolidated observations / comments to the present Consultation Paper.

7. Pursuant to the enactment of the AERA Act, the Authority has been established to perform the functions vested under the AERA Act including Section 13 of the Act, which includes determination of tariff for aeronautical services, viz.-

- (a) Section 2(a) of the AERA Act defines "aeronautical services".
- (b) Section 13 (1)(a) of the AERA Act provides that the tariff for such aeronautical services at a major airport is to be determined by the Authority after taking into consideration various factors, being:-
  - (i) The capital expenditure incurred and timely investment in improvement of airport facilities;
  - (ii) The service provided, its quality and other relevant factors;
  - (iii) The cost for improving efficiency;
  - (iv) Economic and viable operation of major airports;
  - (v) Revenue received from services other than the aeronautical services;
  - (vi) The concession offered by the Central Government in any agreement or memorandum of understanding or otherwise;
  - (vii) Any other factor which may be relevant for the purposes of the AERA Act.

**8. 'Determination' by the Authority:**

(a) Section 13(1)(a) of the AERA Act requires the Authority to 'determine' the tariff for aeronautical services. Any 'determination' by a statutory authority must clearly show the application of mind and analysis carried out by the Authority. However, in the present case, the Authority has proposed to allow various expenditures/projections like Operating Expenditure, Traffic projections, Tariff Rate Card, allocation of Assets, non-aeronautical revenue etc. merely on the basis of Coimbatore Airport's submissions and but has failed to provide any justification of its own or analysis for the same. In fact it appears that the Authority has failed to initiate/conduct an independent assessment or obtain an expert opinion in order to determine or conclude in a reasonable determination of such costs/projections. It is to be noted that to ensure transparency while exercising its discharge of functions by the Authority under AERA Act it is implied obligation to produce all relevant document and make decision which are fully documented and explained. In this regard judgment of the Hon'ble Supreme Court in the case of **Ashok Leyland Ltd. vs. State of Tamil Nadu & Anr. reported as (2004) 3 SCC 1 (FB)(at Paragraph No. 94)** is noteworthy. Hon'ble Supreme Court has held that the word 'Determination' must also be given its full effect to, which pre-supposes application of mind and expression of the conclusion. It connotes the

official determination and not a mere opinion or finding. The Hon'ble Telecom Dispute Settlement Appellate Tribunal ("TDSAT") has also held that determination requires application of mind in the Judgment dated 16.12.2010 in Appeal No. 3(C) of 2010 titled as **ZEE Turner Ltd. vs. TRAI & Ors. (at Paragraph No. 150).**

**(b)** Section 13(1)(4)(c) of the AERA Act mandates that any decision by the Authority must be fully documented and explained.

**9.** To the dismay of the Stakeholders (including airlines), the Authority vide the present Consultation Paper has *simplicitor* accepted Coimbatore Airport's claims under the MYTP without conducting its own independent financial study and prudence check or commissioning experts, for eg. matters relating to evaluation of operating expenditure, allocation of aeronautical and non – aeronautical assets, non-aeronautical revenue, traffic projections etc.

**10.** It is regrettable that the Authority in the year 2012 i.e. at the time of issuance of DIAL Tariff Order (No.3/2012-13) had decided to commission its own experts has failed to do so till now.

### **C. ISSUEWISE SUBMISSIONS**

**I. POST INTRODUCTION OF UDF, SHORTFALL IN ARR (81%) HAS REDUCED TO 12%, IMPLYING 69% OF SHORTFALL IS RECOVERED FROM UDF. SHORTFALL STEMS FROM ACCEPTANCE OF AAI'S SUBMISSION IN ALL BUILDING BLOCKS LEADING TO HIGHER ARR. IF SHORTFALL IS MET THROUGH INCREASE IN TARIFFS, VIABILITY AND AFFORDABILITY OF THE AIRPORT FOR AIRLINES AND PASSENGERS WILL BE AFFECTED.**

FIA submits that as per Table 42 of the Consultation Paper, Authority has accepted the shortfall of 81% of ARR before imposing UDF which has reduced to 12% post introduction of UDF for the first time. It implies that approx. 69% of shortfall is recovered from UDF (see table below).

**FIA's submission towards the Authority's Consultation Paper No. 26/2018-19 titled  
"In the matter of determination of Aeronautical Tariffs in respect of Coimbatore Airport for the First Control Period  
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**ARR and shortfall for the first control period as per the Authority**

Tables #38 and #39 on Page 41 of CP no. 26/2018-19

INR lakhs

S. No.	Particulars	FY19	FY20	FY21	FY22	FY23	Total	% of ARR
A	Average Regulatory Asset Base	6,123	7,253	10,262	19,065	23,751		
B	Fair Rate of Return	14%	14%	14%	14%	14%		
C	Return on RAB	857	1,015	1,437	2,669	3,325	9,303	24%
D	Depreciation	797	736	725	1,137	1,481	4,876	13%
E	Operating Expenditure	4,606	4,934	5,275	5,708	6,180	26,703	70%
F	Tax	-	-	-	-	1,058	1,058	3%
G	Subtotal [C+D+E+F]	6,260	6,685	7,437	9,514	12,044	41,940	110%
H	Less: 30% cross subsidization of non-aero revenues	(622)	(681)	(746)	(851)	(973)	(3,872)	(10%)
I	Aggregate Revenue Requirement (ARR) [G+H]	5,638	6,004	6,692	8,663	11,072	38,069	100%
J	Aeronautical Revenues (excluding UDF)	2,869	2,503	2,825	3,192	3,611	14,999	
K	Discount factor at 14% p.a	1.00	0.88	0.77	0.67	0.59		
L	PV ARR [I*K]	5,640	5,267	5,149	5,847	6,556	28,459	
M	PV Aeronautical revenues (excluding UDF) [J*K]	2,872	2,195	2,173	2,154	2,138	11,531	
N	Difference between PVs [M-L]	(2,768)	(3,072)	(2,976)	(3,694)	(4,418)	(16,927)	(59%)
O	Prior period shortfall of FY17 and FY18						(6,261)	(22%)
P	<b>Total shortfall (before considering UDF) [N+O]</b>						<b>(23,188.42)</b>	<b>(81%)</b>
Q	Aeronautical Revenues from UDF	408	5,566	6,327	7,192	8,174	27,667	
R	PV of revenues from UDF [K*Q]	408	4,882	4,868	4,854	4,840	19,853	69%
S	<b>Net total shortfall [P+R]</b>						<b>(3,335.87)</b>	<b>(12%)</b>
T	Passengers (domestic + international)	26.55	29.32	32.38	35.78	39.53	163.55	
U	Yield per passenger (INR) (L/T)	212	180	159	163	166	174	
V	Shortfall per passenger (INR)-Before UDF (P/T)						(142)	
X	Shortfall per passenger (INR)-After UDF (S/T)						(20)	

Note:- Yield per passenger has been computed by dividing the present value of ARR by the total number of passengers

However, the Authority has not discussed or suggested any means to recover such a significant shortfall. If the shortfall of 12%, is met through an increase in the tariffs, the viability and affordability of airport for airlines and passengers will be significantly hampered.

FIA further submits that the one of the key reasons of shortfall is acceptance of AAI's submission in all building blocks like higher RAB, higher FRoR, operating expenditure, and lower non-aero revenue; these all factors have cumulatively led to a higher ARR. FIA has conducted analysis on each of the building blocks as appearing hereinafter.

**Accordingly, FIA submits that the Authority should expressly comment about the measures to contain the above mentioned shortfall by adjusting the current building blocks as it will impact the viability and affordability of the Coimbatore Airport for airlines and passengers.**

**II. TARIFF CARD FOR 1<sup>ST</sup> CONTROL PERIOD – INCREASE IN CHARGES BORNE BY AIRLINES AS PROPOSED BY COIMBATORE AIRPORT HAS BEEN ACCEPTED BY AUTHORITY. 114% IN PARKING CHARGES, 26%-31% IN LANDING CHARGES. AUTHORITY SHOULD CONSIDER 18.26%% & 12.79% YoY GROWTH RATE FOR DOMESTIC PASSENGERS & ATM RESPECTIVELY AND OTHER COMPONENTS OF ARR TO REEVALUATE INCREASE IN CHARGES**

FIA submits that as per "Charges for airport services (major / non major airports) effective from 1 April 2017" as issued by AAI, it was noted that existing tariff rates at Coimbatore airport are based on the following slabs: (i) upto 40 MT, (ii) Above 40MT upto 100MT and (iii) Above 100MT. Since, the weight slabs mentioned for all charges as per AAI tariff card are different from the ones mentioned in Schedule of charges on Page 47 of the Consultation Paper and no bridge has been provided between these slabs, FIA requests Authority to confirm the manner in which the increase of tariffs has been computed for first control period over the existing tariff rates. Refer below table on existing rates as per AAI.

FIA further submits that as per assumptions under Table 44 of the Consultation Paper, "Parking and housing charges are proposed to increase by 114% from existing rates w.e.f. 01.02.2019 and an increase of 4% thereafter on YoY basis from FY 2019-20 onwards". FIA submits that the Authority has accepted these rates for the first control period except for its applicability from 01 March 2019. Year on year growth rate proposed by Authority for domestic air traffic movement ("ATM"), which forms 91% of total ATM, is only 8% as compared to the historical 5-year CAGR of 12.79% mentioned in Table 7 of the Consultation Paper. FIA submits that a conservative approach considered towards estimation of domestic ATM may have resulted in 114% increase in the parking charges. FIA submits that Authority should consider c. 12.79% year-on year growth rate for domestic ATM and re-evaluate the 114% increase in housing and parking charges.



**FIA's submission towards the Authority's Consultation Paper No. 26/2018-19 titled  
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<b>AAI - Charges for Airport Services (Other major airports)</b>		
Category	Unit	Existing rates at Coimbatore airport
<b>Landing charges - International</b>		
Up to 10 MT	INR / MT	122.10
10 MT to 20 MT	INR / MT	1,221 + 179.30 in excess of 10 MT
20 MT to 50 MT	INR / MT	3,014 + 354.20 in excess of 20 MT
50MT to 100 MT	INR / MT	13,640 + 413.60 in excess of 50 MT
Over 100 MT	INR / MT	34,320 + 471.90 in excess of 100 MT
<b>Landing charges - Domestic</b>		
Up to 10 MT	INR / MT	67.10
10 MT to 20 MT	INR / MT	671 + 117.70 in excess of 10 MT
Over 20 MT	INR / MT	1,848 + 231.00 in excess of 20 MT
<b>Parking charges-Domestic</b>		
Up to 40 MT	INR / hour / MT	1.80
Above 40 MT up to 100 MT	INR / hour / MT	72 + 3.40 in excess of 40 MT
Above 100 MT	INR / hour / MT	276 + 5.20 in excess of 100 MT
<b>Fuel Throughput Charges</b>		
FTC rate	INR / Kiloliter	Not available
<b>UDF Charges</b>		
UDF- Domestic Passenger	INR / embarking passenger	150
UDF- International Passenger	INR / embarking passenger	0.00

**Schedule of of increase in proposed tariff versus existing tariff**

Key charges under different weight categories	Existing rates	Proposed rates	% increase
<b>Landing Charges - International flights</b>			
50 MT	13,640	16,250	19%
100 MT	34,320	36,250	6%
<b>Landing Charges - Domestic flights</b>			
50 MT	8,778	11,000	25%
100 MT	20,328	27,000	33%
<b>Parking charges</b>			
40 MT	72	135	88%
100 MT	276	575	108%
<b>USER DEVELOPMENT FEES (UDF)</b>			
Domestic Passenger	Not applicable	350	
International Passenger	Not applicable	450	-
<b>Fuel Throughput Charges</b>			
FTC rate	Not available	164.54	-

FIA submits that on best effort basis, FIA has tried to compute the percentage increase in proposed tariffs vis-à-vis existing tariffs. We have computed the increase for certain weight categories of aircrafts due to non-availability of certain slabs in existing rates and proposed rates in above mentioned table. FIA has observed that key charges have increased in the range of 19% to 108%. However, percentage increase as per FIA's analysis is different in each category as compared to percentage increase highlighted by Authority in the Consultation Paper.

FIA further submits that Authority has proposed INR 350 & INR 450 as UDF per domestic and international embarking passenger respectively. At present, no UDF is charged by Coimbatore airport. **Authority should consider 18.26% YoY growth rate for domestic passengers while computing UDF.**

**FIA further submits that give due consideration needs to be given by the Authority to other issues highlighted by FIA in the present submission, while proposing a new tariff card in order.**

**III. TRAFFIC PROJECTIONS PROVIDED BY AAI HAS BEEN ACCEPTED BY AUTHORITY EXCEPT IN CASE OF DOMESTIC PASSENGER AND HAS NOT CONDUCTED INDEPENDENT STUDY OF ITS OWN. GROWTH RATE PROJECTIONS FOR DOMESTIC TRAFFIC AND ATM ARE LOWER THAN THE HISTORICAL 5-YEAR CAGR**

FIA submits that for traffic projections at Coimbatore Airport, the Authority has considered historical passenger & ATM traffic from FY08 to FY18 from AAI traffic news and its projections for the first control period. FIA has observed that the Authority has done an upward revision in Coimbatore Airport projections for YoY growth rates for domestic passenger traffic from 9% to 13.5% from FY19 to FY23. Further, the growth rate projections submitted by AAI for international passenger traffic and ATMs (domestic + International) have been accepted by the Authority (refer table below).

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Projected annual traffic as per Authority's examination

Table #6 and Table #7 on Page 11 of CP No. 26/2018-19

Particulars	FY19	FY20	FY21	FY22	FY23	Total FY19-FY23	Common size	YoY					Historical data		
								FY19	FY20	FY21	FY22	FY23	5 year simple average (FY14 to FY18)	5 year CAGR (FY14 to FY18)	
<b>Passenger traffic</b>															
Domestic	2,497,220	2,834,345	3,216,981	3,651,274	4,144,196	16,344,016	91%	13.5%	13.5%	13.5%	13.5%	13.5%	13.67%	18.26%	
International	234,302	269,447	309,865	356,344	409,796	1,579,754	9%	15%	15%	15%	15%	15%	13.62%	14.25%	
<b>Total</b>	<b>2,731,522</b>	<b>3,103,792</b>	<b>3,526,846</b>	<b>4,007,618</b>	<b>4,553,992</b>	<b>17,923,770</b>	<b>100%</b>	<b>14%</b>	<b>14%</b>	<b>14%</b>	<b>14%</b>	<b>14%</b>			
Total as per CP	2,654,516	2,931,682	3,238,323	3,577,648	3,953,230	16,355,399		14%	10%	10%	10%	10%			
Gap	77,006	172,110	288,523	429,970	600,762	1,568,371									
<b>ATM</b>															
Domestic	21,670	23,404	25,276	27,298	29,482	127,130	91%	8%	8%	8%	8%	8%	11.53%	12.79%	
International	1,760	2,023	2,327	2,676	3,077	11,863	9%	15%	15%	15%	15%	15%	14.00%	12.68%	
<b>Total</b>	<b>23,430</b>	<b>25,427</b>	<b>27,603</b>	<b>29,974</b>	<b>32,559</b>	<b>138,993</b>	<b>100%</b>	<b>9%</b>	<b>9%</b>	<b>9%</b>	<b>9%</b>	<b>9%</b>			

FIA submits that the Authority has not conducted its own independent study on traffic projections and broadly relied on the data provided by Coimbatore Airport. Further, as per Proposal 2(b) of the Consultation Paper, Authority has proposed to true up the passenger traffic and ATM for first control period based on actuals.

### Passenger traffic

As per Table 4 of the Consultation Paper, the historical 5-year and 10-year CAGR for domestic passenger traffic is 18.26% and 10.16% respectively and 5-year CAGR and 10-year CAGR for international passenger traffic is 14.25% and 9.57% respectively.

As per Para 5.5 of the Consultation Paper, the Authority has considered a 13.5% growth rate for domestic passenger from FY19 to FY23 instead of 9% growth rate proposed by Coimbatore airport. Authority has considered growth rate of 13.5% for domestic passengers, basis past 5 year simple average. However, FIA submits that the same is lower than historical 5 year CAGR of 18.26% for domestic passengers

**Hence, FIA submits that the Authority consider 5-year CAGR of 18.26% for YoY growth rate projections for domestic passenger traffic for the first control period.**

Also, FIA observed a summation error in total passenger traffic, which is highlighted in the above table. FIA submits that Authority should correct these numbers in final order.

### **Air traffic movement**

As per Table 5 of the Consultation Paper, historical 5-year and 10-year CAGR for for domestic ATM is 12.79% and 3.79% respectively and 5-year CAGR and 10-year CAGR for international ATM is 12.68% and 5.74% respectively.

As per Para 5.6 of the Consultation Paper, Authority has considered an 8% growth rate for domestic ATM from FY19 to FY23 and considered a 15% growth rate for international ATM from FY19 to FY23, thereby accepting estimates proposed by Coimbatore airport. However, this is lower than historical 5-year CAGR of 12.79% for domestic ATM. **Hence, FIA submits that Authority should consider the 5-year CAGR of 12.79% YoY growth rate projections for domestic ATM for the first control period.**

FIA further submits that the basis of 8% growth rate in domestic ATM has not been explained by the Authority and simple average of 5 years growth rate i.e. 11.53% has not been considered while estimating domestic ATM projections. Authority has considered 5 year simple average rate for estimating passenger growth over the control period, however no such assumption is applied while projecting growth in domestic ATM. Hence, Authority is inconsistent in its approach of considering year on year growth percentage in domestic passenger traffic v/s ATM. Also, the Authority has not considered qualitative factors affecting the traffic growth such as the UDAN scheme, double digit growth in passengers across Indian airports in the last 4 years (as per the DGCA domestic traffic reports).

**Without prejudice to the above, FIA submits that the traffic projections are critical in ascertaining the tariffs and CAGR considered by Authority is significantly lower than past CAGR, the Authority must appoint an independent consultant to evaluate traffic forecasts.** Also, the expert study would be scientific as apart from past trends of traffic it will also consider various qualitative factors affecting macro environment of the aviation sector like (a) impact of new civil aviation policy (b) commencement of operations from new airlines (b) future changes in economic environment (c) population growth (d) trends of increase in disposable income.

**IV. AUTHORITY HAS BROADLY RELIED ON COIMBATORE AIRPORT'S SUBMISSION ON ALLOCATION OF ASSETS BETWEEN AERONAUTICAL AND NON-AERONAUTICAL WITHOUT CONSIDERING: A) TECHNICAL STUDY BY INDEPENDENT AGENCY AND B) NORMATIVE APPROACH PARAMETERS**

**Average RAB**

FIA submits that the Authority has broadly relied on AAI's submission on Allocation of assets between Aeronautical and Non-aeronautical without considering: a) Technical Study by Independent agency and B) Normative approach parameters.

Further, FIA submits that the Depreciation for control period has been computed on the basis of order 35/2017-18. However, Authority has taken a conservative approach on useful life for Buildings and Aprons (Refer Issue No. VIII for more details.)

As per table 20 of the Consultation Paper, FIA observed that summation error in total row in year FY21 & FY22. As per FIA's analysis, the sum of total additions in FY21 & FY22 is INR 3,480 lakhs and INR 15,989 lakhs respectively instead of INR 7,479 lakhs & INR 11,990 lakhs in FY21 & FY22 respectively. **FIA submits that Authority should rectify the additions to RAB in order and consequential effect needs to be given in ARR.**

**Asset allocation**

FIA submits that as per para 6.8 of the Consultation Paper, the Authority has allocated the common assets in opening RAB as at 01 April, 2016 into aeronautical and non-aeronautical terminal building based on following ratios:-

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Table #10 on Page 15 of CP No. 26/2018-19

Asset head	Allocation criteria	% of common assets as AERO
Terminal building	Terminal building area	92.2%
Residential building	Actual allocation of quarters to employees	97.4%
Computers	Actual utilisation of asset	92.2%
Plant & machinery	Actual utilisation of asset	92.2%
Tools & equipment	Actual utilisation of asset	92.2%
Electrical installations	Actual utilisation of asset	92.2%
Other office equipment	Actual utilisation of asset	94.6%
Furniture & fixtures other than trolley	Actual utilisation of asset	92.2%

FIA submits that in relation to the opening RAB, the Authority has considered this allocation based on earmarked areas for terminal building and essentially relied on assumptions of Coimbatore airport. Hence, during FY 17 & FY 18 aero addition of INR 1,591 lakhs has been accepted. However, allocation ratio has not been provided. During FY 19 to FY 23, gross addition of INR 258 crores in which aero assets of INR 245 crores has been proposed by AAI, of which, INR 232 crores has been accepted by Authority as aero additions for first control period.

With respect to additions to RAB in first control period, FIA submits that Authority has not mentioned the basis for allocation of assets into aeronautical and non-aeronautical including the terminal area allocation for new terminal building. Further, the Authority has failed to clarify as to whether the additions to RAB have been bifurcated into aeronautical and non-aeronautical assets or not. In view of the same, FIA submits that it is unable to comment on basis of allocation of assets into aeronautical and non-aeronautical assets.

Given the criticality of allocation of the airport assets between aeronautical and non-aeronautical in a shared/hybrid till approach, **FIA submits that the Authority should mention the allocation ratio of additions to RAB. However, such ratio should be supported by an independent study.**

**Without prejudice to the above, FIA submits that if an independent study cannot be conducted due to paucity of time, it is submitted that Authority consider aero allocation of 80% as per Proposal 6.(a) of CP 5/2014-15 "In the matter of Normative**

**Approach to Building Blocks in Economic Regulation of Major Airports” for the first control period and true up the allocation ratio based on independent study in the second control period.**

**V. REDUCTION IN GROSS ADDITIONS TO RAB AMOUNTING TO INR 1, 556 LAKHS HAS BEEN PROPOSED BY AUTHORITY. INR 1,248 LAKHS HAS BEEN FACTORED IN THE RAB ADDITIONS WHILE COMPUTING ARR. LINKAGE OR REASON FOR THE GAP HAS NOT BEEN EXPLAINED BY AUTHORITY.**

FIA submits that as per Para 6.17 of the Consultation Paper, AAI has proposed an addition to terminal building amounting to INR 12,506 lakhs with a post date of completion in FY 21. However, on examining the current status of the project, it appears that the Authority has deferred a capitalisation to FY 22 instead of FY 21.

FIA further submits that as per Para 6.21 of the Consultation Paper, the Authority has examined that normative capital cost of terminal building proposed by AAI for Coimbatore airport is INR 1,14,210 per sqm., which is higher than prescribed benchmark of INR 1,00,000 per sqm. Thereby, Authority has proposed to capitalise the cost of terminal building as INR 10,950 lakhs (as per normative order) in FY22, implying a reduction of INR 1,556 lakhs as highlighted in above table. However, in the absence of an allocation ratio, the reduction in aeronautical additions cannot be ascertained. On comparison of an overall aeronautical additions proposed by Coimbatore airport of INR 24,510 lakhs and accepted by Authority for INR 23,261 lakhs, there is a gap of INR 1,248 lakhs which primarily pertains to the terminal building and plant & machinery – the remaining costs being accepted by Authority on an ‘as is’ basis. Hence, FIA submits that there is no linkage or explanation of how reduction of INR 1,556 lakhs on account of normalisation has transformed into an amount of INR 1,248 lakhs. FIA submits that it appears that the gap of INR 308 lakhs is either due to allocation ratio or due to some other reason, which has not been explained by the Authority.

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**Allocation of terminal building into aero & non-aero**

INR lakhs

Particulars	Aero additions	Non aero additions	Total additions
Allocation ratio considered by FIA	92.71%	7.29%	
Additions proposed by Coimbatore airport	11,594	912	12,506
Additions proposed by Authority	10,152	798	10,950
<b>Gap</b>	<b>1,443</b>	<b>113</b>	<b>1,556</b>
Considered by Authority in table 20	1,248		
<b>Unexplained difference</b>	<b>195</b>		

**Additions to RAB**

Table #16 & #20 on Page 20 & 23 of CP no. 26/2018-19

INR lakhs

Particulars	Additions proposed by Coimbatore airport	Additions as per Authority	Reduction by Authority
Total additions	24,510	23,261	1,248
		Subtotal (A)	1,248
<b>Components</b>			
Terminal building	5,449	4,863	586
Plant & machinery	5,322	4,660	662
<b>Reduction done in RAB</b>			<b>1,248</b>
<b>Unreconciled difference</b>			<b>-</b>

On a best effort basis, FIA has computed aero allocation pertaining to this reduction of INR 1,556 lakh, considering 7.29% as a non-aeronautical area (as per para 3.4.6, allocation ratio of FY 18), accordingly INR 113 lakhs is due to non-aero allocation and for balance INR 195 lakhs is not explained. Hence, **FIA submits that INR 195 lakh should be reduced from RAB additions and the ARR needs to be recomputed accordingly.**



**VI. NORMATIVE COST PER SQM FOR TERMINAL BUILDING AND APRON IS HIGHER THAN RATE DECIDED IN NORMATIVE ORDER. WORK ORDER FOR NEW TERMINAL BUILDING IS YET TO BE AWARDED. THEREFORE, HIGH PROBABILITY OF DEFERMENT OF COMMENCEMENT OF TERMINAL BUILDING TO FY23. AIRPORT IS IN LOSSES, IN CASE FINANCIAL CLOSURE IS NOT ACHIEVED, IT MIGHT LEAD TO DEFERMENT OF CAPITALISATION TO NEXT CONTROL PERIOD.**

**New terminal Building of INR 10,950 lakhs-Deferment of capitalisation to FY23**

FIA submits that as highlighted by AAI in Para 6.17, a new terminal building (T3) spanning across 10.950 square metres has been proposed with an estimated expenditure of INR 12,506 lakhs. New terminal building is proposed to be capitalised during FY21 by AAI.

FIA submits that the Authority has tried to estimate the cost of terminal building by considering normative cost of INR 1,00,000 per sq. mt. at FY18 prices. However, as per Normative Order No. 07/2016-17 *"In the matter of normative approach to building blocks in economic regulation of major airports –capital costs reg."* dated 13.06.2016, ceiling cost per sq. metre for terminal building is INR 65,000. FIA submits that no basis has been provided by Authority to calculate the normative cost of INR 1,00,000 per sq. mt. Further, based on Authority's calculation, projected cost of terminal building is INR 10,950 lakhs, which is considered by Authority while proposing capital additions in FY22.

FIA understands that the Consultation Paper was issued on 09 January 2019, wherein as per Para 6.24 of the Consultation Paper, the Authority is cognizant of fact that work contracts for new terminal building will be awarded in a few months. At the same time, Authority acknowledged the fact that new terminal building is expected to take 36 months from the date of award of work. **FIA submits that considering the past trends in delay of commissioning of infrastructure projects and award of work is yet to be done, it will be prudent to assume that terminal building will not be able to operationalise in FY22. Hence, FIA submits that Authority should defer the capitalisation of new**

**terminal building to FY23 and the ARR should be recomputed accordingly. FIA submits that considering the Coimbatore Airport to be in losses in past years and if financial closure have not been achieved yet, the timelines for capitalization of terminal building might be impacted. Hence, FIA submits that Authority should reconsider year of capitalization considering the financial aspect of additions.**

Further, FIA reiterates that, despite repeated requests, it has not been provided with any minutes of AUCC consultation meeting, Project Investment File (PIF), as applicable for relevant capital expenditures. Also, the details for basic planning, regulatory approvals, financial closure etc. has not been provided for FIA's review. Hence, in the absence of such details by AAI, FIA is unable to appreciate, assess and comprehend the facts and figures (and any comparison thereto) of the CP in its entirety and actuality. Hence, FIA submits that Authority should provide such details for FIA's review.

#### **Construction of new aprons and extension of existing aprons –INR 3,480 lakhs**

FIA submits that, AAI proposed to capitalise apron (excluding cost of excavation) for INR 2,604 lakhs spanning across 41,374 square metres at Coimbatore Airport. The Authority has tried to estimate the cost of aprons by considering benchmark of normative cost of INR 7,200 per sq. mt. at FY18 prices. However, as per Normative Order No. 07/2016-17 *"In the matter of normative approach to building blocks in economic regulation of major airports –capital costs reg."* dated 13.06.2016, ceiling cost per sq. metre for apron is INR 4700 per sqm. FIA submits that no basis has been provided by Authority to calculate the normative cost of INR 7,200 per sq. mt.

**FIA submits that the Authority should clarify the rationale for considering INR 1,00,000 & INR 7,200 as normative cost to terminal building and apron respectively instead of INR 65,000 & INR 4,700 as mentioned in Authority's order 07/2016-17.**

**VII. INCORRECT ADDITIONS IN COMPUTING AVERAGE RAB IN FY21 & FY22 CONSIDERED BY AUTHORITY HAS RESULTED IN OVERSTATEMENT OF ARR BY INR 560 LAKHS.**

FIA submits that the Authority has considered additions of INR 7479 lakhs & INR 11,990 lakhs in FY21 & FY22 respectively for ARR computation. However, FIA has observed that addition proposed by the Authority amounts to INR 3,480 lakhs & INR 15,989 lakhs in FY21 & FY22 respectively. FIA submits that it appears that postponement of capitalisation of terminal building to FY22 has not been considered. Hence, on an overall basis there are no gaps. However, FIA submits that the same has led to higher average RAB in FY21 and higher return on RAB during first control period.

**Additions to RAB during the first Control Period**

Table #20 on Page 23 of CP no. 26/2018-19

INR lakhs

Particulars	FY19	FY20	FY21	FY22	FY23	Total
Additions as per table	3,792	-	3,480	15,989	-	23,261
Additions as per CP26	3,792	-	7,479	11,990	-	23,261
Gap	-	-	(3,999)	3999	-	0

**FIA has computed the impact of these summation issues leading to overstatement of ARR by 560 lakhs. Hence, FIA submits that Authority should recalculate the additions to RAB and subsequently change the ARR, which will have an impact of reduction in tariff for first control period.**

While computing impact on ARR of aforementioned issue, FIA has not revised depreciation as FIA assumes that the depreciation would have been computed by Authority on a component level. However, if the Authority has taken any other basis for calculating depreciation, then FIA would request Authority to give effect of this error on depreciation also and ARR needs to be recomputed accordingly.

**VIII. USEFUL LIFE OF 30 YEARS CONSIDERED FOR TERMINAL BUILDING AND APRONS WHICH IS CONSERVATIVE VIEW. CONSIDERING AIRPORT ASSETS HAVE USEFUL LIFE UP TO 99 YEARS IN INTERNATIONAL AIRPORTS, 60 YEARS USEFUL LIFE FOR TERMINAL BUILDINGS AND APRONS OUGHT TO BE CONSIDERED BY AUTHORITY**

FIA submits that, on an overall basis, average useful life of assets including opening RAB ranging between 6-17 years during control period, is lower considering the international airports & new additions. FIA's review of RAB additions & its allocation indicated that shorter useful lives have been broadly considered by Authority.

**Depreciation on assets forming part of RAB as per the Authority**

Reference from Table #24 on Page 27 of CP no. 26/2018-19

INR lakhs

Particulars	Note	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Average RAB	A	4,238	4,325	6,123	7,253	10,262	19,065	23,751
Depreciation	B	716	700	797	736	725	1,137	1,481
Average deprecia	C=B/A	17%	16%	13%	10%	7%	6%	6%
Average useful life D=1/C		6	6	8	10	14	17	16

FIA's submit that as per Para 6.28 of the Consultation Paper, depreciation from FY 19 onwards has been computed as per rates prescribed under AERA Order No. 35/ 2017-18 "In the matter of Determination of Useful life of Airport Assets" dated 12 January 2018 (Order 35). Further, half yearly rates of depreciation have been considered for additions to RAB in the first year of capitalization. For terminal building and other buildings, while Order 35 states useful life as 30 or 60, the useful life consider by AAI for Coimbatore airport and accepted by Authority has been 30 years in the Consultation Paper. For reference FIA would like to highlight, life of buildings as 30 years, considered by Authority, is not in accordance with Part C of Schedule II of Companies Act, 2013, which provides useful life of buildings having Reinforced Concrete Cement (RCC) frame structure to be 60 years. FIA submits that that there is no mention with respect to the structure of buildings, although it is highly unlikely that terminal buildings are not built with RCC technology.

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Hence, FIA submits that authority has taken adopted conservative view with respect to useful life of terminal and other buildings. **FIA submits that accordingly, in the interest of consumers, Authority could consider useful life of buildings as 60 years instead of taking a conservative view.**

**Depreciation on RAB during First Control period as per Authority's Examination**

Table #22 on Page 26 of CP no. 26/2018-19

Asset head	Depreciation Rate	Useful life (in years)	INR lakhs					Total	Useful life as per order 35/2017-18
			FY 19	FY20	FY21	FY22	FY23		
Runways	3.33%	30	72	3	3	3	2	83	30
Terminal building	3.33%	30	178	200	200	281	362	1,221	30 or 60
Electrical installation	10.00%	10	380	332	201	259	378	1,550	10
Plant and Machinery	6.67%	15	60	80	79	235	390	844	15
Aprons	3.33%	30	21	21	79	137	137	395	30
Roads bridges & culverts	10.00%	10	5	7	7	6	6	31	10
Residential Building	3.33%	30	5	6	72	139	139	361	30 or 60
Boundary Wall-Operational	10.00%	10	22	23	23	18	12	98	10
Boundary Wall-Residential	10.00%	10	1	1	1	1	1	5	10
Other buildings- unclassified	3.33%	30	4	9	9	9	9	40	30 or 60
Computers: End User Devices	33.33%	3	3	2	2	2	2	11	3
Computer software: Intangible Assets	20.00%	5	1	1	1	1	-	4	5
Tools and Equipment	6.67%	15	15	23	23	23	22	106	15
Office Furniture	14.29%	7	7	7	7	7	7	35	7
Other Vehicles	12.50%	8	2	2	2	2	1	9	8
Vehicle- Cars and Jeeps	12.50%	8	8	10	10	9	8	45	8
Other office equipment	20.00%	5	2	1	1	-	-	4	5
Furniture & fixtures: other than trolley	14.29%	7	5	3	1	1	-	10	7
Furniture & fixtures: Trolley	33.33%	3	4	2	2	2	2	12	3
X-ray Baggage Sys.	6.67%	15	1	1	1	1	1	5	15
<b>Total Depreciation</b>			<b>797</b>	<b>736</b>	<b>725</b>	<b>1,137</b>	<b>1,481</b>	<b>4,877</b>	

**Depreciation on correct allocation ratio**

Allocation of assets:- FIA submits that the Authority has not mentioned allocation of RAB additions for first control period. As submitted under RAB allocation section, "to consider the asset allocation ratio of 80% : 20% in the 1<sup>st</sup> control period", **FIA submits that Authority should recompute the depreciation basis the allocation of RAB assets in the ratio of 80:20 for this control period.**

Further, FIA's review of useful life of assets at various international airports like London Heathrow, Sydney airport and Amsterdam airport indicated that terminal building have useful life of as long as 60 years and aprons have it as long as 99 years. Also, the useful life of terminal building for Kannur & Cochin airports have been considered 60 years by

Authority. However as per the Consultation Paper, average life of airport assets additions between FY19 to FY23 is ranging between 6-17 years during the control period which primarily comprises of Terminal & other buildings and Aprons.

FIA reiterates that the Authority has taken adopted conservative view with respect to useful life of terminal and other buildings. Accordingly, FIA **submits that accordingly, in the interest of consumers, Authority could consider useful life of buildings and aprons as 60 years instead of taking a conservative view.**

**IX. COMPANIES ACT 2013 AND AERA ORDER 35/2017-18 HAS NOT BEEN CONSIDERED WHILE CALCULATING DEPRECIATION ON OPENING RAB RESULTING IN ACCELERATED DEPRECIATION LEADING TO HIGHER ARR. FIA CANNOT COMMENT ON DEPRECIATION CALCULATION IN ABSENCE OF DETAILED COMPONENT LEVEL BREAKUP OF OPENING RAB AND ADDITIONS.**

FIA submits that in terms of per Para 3.4.7 of the Consultation Paper, FIA understands that prior to FY17, the depreciation computed is as per AAI depreciation rates and during FY17& FY18 depreciation has been computed as per Companies Act, 2013. However, depreciation from FY19 has been computed as per rates prescribed under AERA order No. 35/2017-18. Rates of depreciation for FY18 & prior to that has not been mentioned in the Consultation Paper. However, FIA observed that the same depreciation policy is adopted in other AAI airports like Bhubaneswar airport. Hence, FIA has assumed depreciation rates upto FY16 and for FY17 & FY18 as mentioned in Bhubaneswar airport to be applicable for Coimbatore airport.

FIA further submits that as per note 7 of schedule II of Companies Act, 2013, in case of first time adoption of Companies Act, 2013 , depreciation on opening RAB is calculated as follows:-

*"From the date this Schedule comes into effect, the carrying amount of the asset as on that date—*

*(a) shall be depreciated over the remaining useful life of the asset as per this Schedule;"*

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As per Decision 1d of Authority's order no. 35/2017-18, "to propose the carrying amount of the asset as on the date of effect shall be depreciated over the remaining useful life of asset."

Hence, considering the provisions of schedule II of Companies Act, 2013 and order 35/2017-18, opening RAB as on 01.04.2016 will be depreciated over remaining useful life (as per Companies Act,2013) till 31.03.2018. Accordingly, opening RAB as on 01.04.2018 will be depreciated over remaining useful life (as per order 35/2017-18).

However, in absence of detailed component level breakup of depreciation, FIA cannot comment whether depreciation calculated in table 15 & 22 of the Consultation Paper has been in compliance with above mentioned provision. However, taking certain assumptions and on best effort basis, FIA has calculated the depreciation for runways for pre control period and for first control period which is detailed below:-

**Depreciation analysis on runways**

Table #11, #15, #22 of CP no. 26/2018-19

INR lakhs

Particulars	Note	Amount	
		CP26	FIA analysis
RAB-runways as on 01.04.2016	A	6,858	6,858
Less: accumulated depreciation as on 31.03.2016	B	6,577	6,577
Opening RAB as on 01.04.2016	C= A+B	282	282
Additions in FY17, FY18	D	-	-
Depreciation during FY17, FY18	E	201	(20.8)
Opening RAB as on 01.04.2018	F= C+D-E	80	303
Additions in FY19	G	30	30
Depreciation in FY19	H	72	10.9
Closing RAB-runways as on 31.03.2019	I= F+G-H	38	322

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**Depreciation rates proposed by the Authority**

Table #18 on Page 26 of CP No. 24/2018-19

Asset Category	Between		Beyond FY18	Life (in
	Up to FY 16	FY 16 and FY 18	Rate	
Freehold Land	0%	0%	0%	-
Runways, Aprons and Taxiways	13.00%	3.33%	3.33%	30
Road, Bridges & Culverts	13.00%	3.33%	10.00%	10
Building - Terminal	8.00%	3.33%	3.33%	30
Building - Residential	5.00%	3.33%	3.33%	30
Boundary Wall - Operational	8.00%	3.33%	10.00%	10
Boundary Wall - Residential	5.00%	3.33%	10.00%	10
Other Buildings	8.00%	3.33%	3.33%	30
Computer - End user	20.00%	16.67%	33.33%	3
Computer - Servers and networks	20.00%	16.67%	16.67%	6
Intangible Assets - Software	20.00%	20.00%	20.00%	5
Plant & Machinery	11.00%	6.67%	6.67%	15
Tools & Equipment	20.00%	6.67%	6.67%	15
Office Furniture	20.00%	10.00%	14.29%	7
Furniture & Fixtures: other than trolley	20.00%	10.00%	14.29%	7
Furniture & Fixtures: Trolley	20.00%	10.00%	33.33%	3
Vehicles	14.00%	12.50%	12.50%	8
Electrical Installations	11.00%	10.00%	10.00%	10
Other Office Equipment	18.00%	20.00%	20.00%	5
X Ray Baggage System	11.00%	6.67%	6.67%	15
CFT/Fire Fighting Equipment	13.00%	6.67%	6.67%	15

Further, FIA submits that as per AAI rates life of runway is approx. 7.7 years and life as per Companies Act, 2013 & as per order 35/2017-18 is 30 years. As highlighted above, opening RAB for 01.04.2016 needs to be depreciated in remaining life of runways. FIA has assumed that runways has already completed life of 3 years upto FY16 and hence opening RAB needs to be depreciated in another 27 years. Therefore, the opening RAB as on 01.04.2016 of INR 282 lakhs for runway needs to be depreciated in 27 years. Hence, the resultant depreciation would be INR 10.4 lakhs per annum and cumulative depreciation for FY17 & FY18 will be INR 20.8 lakhs. However, FIA observed that depreciation charged by AAI for these two years is INR 201 lakhs instead of INR 20.8 lakhs, leading to an accelerated depreciation of INR 180.2 lakhs.

Further, FIA has computed depreciation for FY19 wherein depreciation on opening RAB will be INR 10.4 lakhs (as computed in above paragraph) and depreciation on additions of INR 30 lakhs will be charged for half year i.e. INR 0.5 lakhs. Hence total depreciation for FY19 is INR 10.9 lakhs instead of INR 72 lakhs proposed by AAI and same has been



accepted by Authority as is. Prima facie, it seems that the detailed evaluation of depreciation computation provided by AAI has not been conducted specifically with respect to opening RAB as on 01.04.2016 & 01.04.2018 which has led to accelerated depreciation, resulting in a higher ARR. In absence of component level breakup, FIA cannot comment on the accuracy of depreciation figures in table 22 of Consultation Paper.

**Hence, FIA submits that Authority should clarify whether the depreciation order no. 35/2017-18 & schedule II of Companies Act, 2013 (with respect to opening RAB as on 01.04.2016) has been followed or not. Further, FIA would request Authority to review the depreciation calculation in detail and explain the basis of computation of depreciation at the time of passing of order. FIA submits to Authority to adjust the accelerated depreciation before issuing the final Order for Coimbatore Airport.**

**X. WITHOUT CONSIDERING PAST TRENDS, PRODUCTIVITY IMPROVEMENTS AND COST DRIVERS, THE AUTHORITY HAS ACCEPTED THE OPERATING EXPENDITURE SUBMITTED BY AAI AS IS, WHICH WAS FORECASTED ON VERY BROAD BASIS BY COIMBATORE AIRPORT. ALLOCATION RATIO AND BASIS OF ALLOCATION OF GROSS OPERATING EXPENDITURE HAS NOT BEEN MENTIONED BY THE AUTHORITY**

FIA submits that the Operating expenditure is one of the major component for determining ARR (**70% of ARR**), hence, the Authority should have evaluated these expenses in detail rather than accepting projections and basis provided by AAI on an "as is". Authority should have scrutinized the expenses in detail instead of leaving it for true up in the next control period.

As per clause 5.4.2 of AERA Guidelines, while reviewing forecast of operating expenditure the Authority has to assess (a) baseline operation and maintenance expenditure based on review of actual expenditure indicated in last audited accounts

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and check for underlying factors impacting variance over the preceding year; and (b) efficiency improvement with respect to such costs based on review of factors such as trends in operating costs, productivity improvements, cost drivers as may be identified, and other factors as may be considered appropriate.

Projected O&M expenditure for the first control period as per Authority's Examination

Table #27 on Page 32 of CP no. 26/2018-19

Particulars	FY19	FY20	FY21	FY22	FY23	Total	Opex per passenger (INR)	% of total	Basis of projection for first control period	INR lakhs				CAGR
										YoY				
										FY20	FY21	FY22	FY23	
Payroll costs	2,467	2,652	2,838	3,037	3,249	14,243	87	53%	7% increase YoY	7%	7%	7%	7%	7%
Repair and maintenance	769	846	931	1,072	1,231	4,849	30	18%	10% YoY throughout control period, except for FY22, when an additional 10% is assumed due to expansion of domestic departure area.	10%	10%	15%	15%	12%
Utilities & outsourcing expenses	425	425	425	441	458	2,174	13	8%	The expenses pertaining to these utilities are assumed constant from FY18, except in the case of power charges which has been increased by 10% in FY22 on account of expansion of domestic departure.	0%	0%	4%	4%	2%
Total Admin and other expenses	909	970	1,036	1,107	1,183	5,205	32	19%	7% increase YoY	7%	7%	7%	7%	7%
Other Outflows (Collection charges on PSF(F)/ UDF)	35	40	46	52	59	232	1	1%	It is assumed that this expenditure will grow YoY at the combined traffic growth rate of domestic and international passengers.	14%	15%	13%	13%	14%
<b>Total</b>	<b>4,605</b>	<b>4,933</b>	<b>5,276</b>	<b>5,709</b>	<b>6,180</b>	<b>26,703</b>	<b>163</b>	<b>100%</b>		<b>7%</b>	<b>7%</b>	<b>8%</b>	<b>8%</b>	<b>8%</b>

FIA submits that considering the approach of the Authority for reviewing the operating expenditure is not in line with provision of AERA Guidelines. **AAI has proposed 10% increase in repair and maintenance charges due to increase in terminal building area in FY 22 at Coimbatore Airport. However, these expenditures will not increase for new terminal building in initial years. Hence, FIA submits that in order to assess efficient operating expenditure the Authority should have conducted independent analysis.**

Per proposal 5 (b) the Authority has proposed to true up the operating expenditure based on the actual costs. FIA submits that Coimbatore Airport has already completed a significant period of operations, hence benchmarking the costs would not be difficult for the Authority. Therefore, rather than truing up, price cap should be mandated by the Authority for each of the operating expenditures depending on the evaluation of past trends, cost drivers, productivity movements, future expansions otherwise the Coimbatore airport would not make palpable efforts to contain the costs. This would lead to additional burden on the passengers for the next control period

**FIA submits that the gross operating expenditure, allocation ratio and basis of allocation has not been mentioned by Authority in the Consultation Paper, which suggests very casual approach by Authority. Hence, FIA cannot comment on the trend**

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of the increase of gross operating expenditure and allocation methodology.

FIA submits that allocation of the operating expenditure between Aeronautical or Non-Aeronautical categories is critical under a Shared/Hybrid Till approach, Authority ought to confirm the allocation ratio and gross operating expenditure being projected prior to the release of Order for stakeholder review.

**XI. GROWTH IN NON-AERONAUTICAL REVENUE HAS BEEN PROJECTED ON A CONSERVATIVE BASIS DESPITE 24% INCREASE IN NON-AERO REVENUE IN FY19 & INCREASE IN PASSENGER TRAFFIC. NON-AERO REVENUE IS IN A RANGE OF INR 77-82 PER PASSENGER OVER THE CONTROL PERIOD.**

FIA submits that as per proposal 6(b), the Authority has proposed to consider Non Aeronautical Revenues as per table below and to true up the non-aero revenue in second control period based on actual revenue of first control period.

Non-aeronautical revenues as per Authority's Examination  
Table #30 on Page 35 of CP no. 26/2018-19

INR lakhs

Particulars	Pre control regulatory period		Control period					Total FY19-FY23	Revenue per passenger (INR)	% total	Basis of AERA's projections for 1st control period	YoY					
	FY17	FY18	FY19	FY20	FY21	FY22	FY23					FY18	FY19	FY20	FY21	FY22	FY23
Restaurant/ Snack Bars	142	186	210	231	254	292	336	1,323	8	10%	10% escalation YOY, with proportionate increase in FY22 & FY23 due to commencement of terminal 3 operations.	31%	13%	10%	10%	15%	15%
T.R Stall	247	244	268	295	324	373	429	1,689	10	13%		(1%)	10%	10%	10%	15%	15%
Hoarding & Display	249	373	570	627	690	793	912	3,592	22	28%		50%	53%	10%	10%	15%	15%
Land Leases	23	33	33	33	33	33	33	165	1	1%	No increase during control	43%	0%	0%	0%	0%	0%
Building (Residential)	2	3	3	4	4	4	5	20	0	0%	5% YOY increase	50%	0%	33%	0%	0%	25%
Building (Non-Residential)	127	176	193	212	234	269	309	1,217	7	9%	10% escalation YOY, with proportionate increase in FY22 & FY23 due to commencement of terminal 3 operations.	39%	10%	10%	10%	15%	15%
Duty Free Shops	152	175	192	211	232	267	307	1,209	7	9%		15%	10%	10%	10%	15%	15%
Car Rentals	87	87	86	95	105	120	138	544	3	4%		0%	(1%)	10%	10%	15%	15%
Car Parking	180	191	303	334	367	422	486	1,912	12	15%	6%	59%	10%	10%	15%	15%	
Admission Tickets	49	67	74	82	90	103	119	468	3	4%	10% increase YoY	37%	10%	10%	10%	14%	16%
Other Miscellaneous Income, sale of scrap	120	132	139	146	153	161	169	768	5	6%	5% increase YoY	10%	5%	5%	5%	5%	5%
<b>Total</b>	<b>1,378</b>	<b>1,667</b>	<b>2,073</b>	<b>2,269</b>	<b>2,486</b>	<b>2,838</b>	<b>3,243</b>	<b>12,907</b>	<b>79</b>	<b>100%</b>		<b>21%</b>	<b>24%</b>	<b>9%</b>	<b>10%</b>	<b>14%</b>	<b>14%</b>
30% of non aero revenue	413	500	622	681	746	851	973	3,872									
Passengers (domestic + international)	21	24	27	29	32	36	40	164				14%	10%	10%	10%	10%	10%
Non-aero revenue per passenger (INR)	65	69	78	77	77	79	82	79				6%	13%	(1%)	(1%)	3%	3%

**Conservative approach while projecting growth in non-aeronautical revenue**

FIA submits that with regard to projected non-aero revenue from FY19 to FY23 the Authority had accepted all the key non aero revenues (Hoarding& Display, Car parking, T.R stall, Non-residential building lease, Restaurants & admission tickets) as projected by

Coimbatore Airport. Hence, the Authority has accepted most of the non-aeronautical revenues submitted by AAI and has not evaluated the basis/assumptions for growth rates considered by the Coimbatore airport.

FIA further submits that increase in non-aeronautical revenue is 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 first control period by Authority, it was noted that a conservative approach has been taken by the Authority.

Further, as per agreement entered by AAI with various vendors, eight non-aeronautical revenue streams (namely restaurant/snack bar, T.R. stall, hoarding & display, car rentals, car parking, building-nonresidential, duty free shops and admission tickets) which contributes 93% of total non-aeronautical revenue for first control period, year on year 10% increase has been proposed by Authority between FY19 to FY21. As per table 28, we understand that Authority has verified the agreement in respect of escalation terms for key vendors. However, further details & breakup pertaining to agreement has not been mentioned in Consultation Paper. No details has been mentioned with respect to key terms, duration, tenure of these agreements.

FIA further submits that Coimbatore airport being the 2nd busiest airport in Tamil Nadu and per table 4 of the Consultation Paper, had registered domestic passenger growth over 5 year CAGR is 18.26%. However, as per table 6 of Consultation Paper, on a conservative basis, passenger growth over the control period has been projected to be 13.5% p.a. On comparing the passenger growth rate with the escalation clauses in agreement, we analysed that escalation clauses as per agreements is 10% during FY19 to FY21, which is lower than year on year projected passenger growth over the control period. Therefore, non-aeronautical revenue per passenger was analyzed for each year of the first control period and is in a range of INR 77 to INR 82 per passenger, which clearly indicated that the Authority has taken lower growth rate projections for non-aero revenue.

FIA further submits that as per clause 5.6.1 of the AERA Guidelines, the Authority's review of forecast of revenues from services other than aeronautical services may

include scrutiny of bottom-up projections of such revenues prepared by the Airport Operator, benchmarking of revenue levels, commissioning experts to consider where opportunities for such revenues are under-exploited, together with the review of other forecasts for operation and maintenance expenditure, traffic and capital investment plans that have implications for such activities.

However, FIA's review of the Consultation Paper indicated that for the purpose of determining Non-Aeronautical Revenue, Authority, rather than evaluating non-aeronautical revenue in detail as per AERA Guidelines to consider the impact of inflationary increase and real increase while projecting these Non-Aero revenue has relied on adhoc growth rate and basis provided by Coimbatore Airport.

FIA submits that Authority should re-consider growth rates for non-aero revenues so as to keep them in line with the growth in passengers. Further, Authority has not commented on the real increase, inflationary increase and passenger traffic based increase for the growth rates proposed for the first control period. Since, each of them affect the non-aeronautical revenues, FIA submits that the Authority should re-evaluate the growth rates for non-aeronautical revenue basis a consultant study. However, for the purpose of the order, FIA submits that the Authority should consider 18.26% YoY growth (being 5-year passenger growth CAGR) in non-aero revenue during the control period except in case of long term contracts where YoY escalation is agreed.

FIA submits that Authority should direct AAI to enter into contracts where an escalation clause is linked with passenger growth and propose true up in second control period based on actuals.

FIA submits to Authority, if the capitalisation for new terminal building is done in FY22, then the Authority should reconsider the growth rates projected in FY 22 & FY 23 as new contracts will be entered with various vendors which will lead to higher non-aeronautical income.

**XII. YIELD PER PASSENGER NOT COMPUTED FOR COIMBATORE AIRPORT BY THE AUTHORITY IS IN CONTRAVENTION OF CHAPTER III OF AERA GUIDELINES, 2011**

**FIA's submission towards the Authority's Consultation Paper No. 26/2018-19 titled  
"In the matter of determination of Aeronautical Tariffs in respect of Coimbatore Airport for the First Control Period  
(01.04.2018 - 31.03.2023)"**

FIA submits that as per Para 6.1 of Chapter III of the Airport Guidelines, "The Authority shall determine Aggregate Revenue Requirement as specified in Clause 4.3 and the yield per passenger (Y), to be specified in the Multi Year Tariff Order for the Control Period as specified". Accordingly, Authority has to determine not only ARR but also the yield per passenger for the control period.

FIA observed that in the Consultation Paper, YPP has not been computed and submitted by AAI for Coimbatore airport and further not computed and evaluated by the Authority. Hence, FIA requests the Authority to compute YPP and comment on the same as part of the Order for first control period of Coimbatore Airport.

**XIII. ASQ RATINGS HAVE NOT BEEN MAINTAINED BY COIMBATORE AIRPORT AT THE REQUISITE LEVELS IN 2017 AND 2018. NO PENALTY HAS BEEN IMPOSED ON AIRPORT FOR THE FIRST CONTROL PERIOD.**

FIA submits that as per Chapter III of the AERA Guidelines 2011, "Overall satisfaction with the airport" on the ACI ASQ survey to be conducted every quarter".

FIA submits that the Airport Service Quality (ASQ) ratings are carried out by Airports Council International (ACI) on 34 parameters on quarterly basis. The ASQ ratings are summarized in the table below for Coimbatore airport for the years 2017 and 2018:

Revised ARR - considering the actual capital expenditure in correct accounting period

Tables #38 and #39 on Page 41 of CP no. 26/2018-19 INR lakhs

S. No.	Particulars	FY19	FY20	FY21	FY22	FY23	Total
A	Average Regulatory Asset Base	6,123	7,253	8,263	17,065	23,751	
B	Fair Rate of Return	14%	14%	14%	14%	14%	
C	Return on RAB at %	857	1,015	1,157	2,389	3,325	
D	Depreciation	797	736	725	1,137	1,481	
E	Operating Expenditure	4,606	4,934	5,275	5,708	6,180	
F	Tax	-	-	-	-	1,058	
G	Subtotal [C+D+E+F]	6,260	6,685	7,157	9,234	12,044	
H	Less: 30% cross subsidization of non-aero revenues	(622)	(681)	(746)	(851)	(973)	
I	Revised Aggregate Revenue Requirement (ARR) [G+H]	5,638	6,004	6,412	8,383	11,072	37,509
J	Aggregate Revenue Requirement (ARR) as per CP	5,638	6,004	6,692	8,663	11,072	38,069
K	Over recovery of ARR (I-J)	-	-	(280)	(280)	-	(560)

FIA submits that as per MoU signed between the Ministry of Civil Aviation and AAI, the target ASQ rating of 4.80 was agreed upon. Accordingly Authority has advised AAI to make all out efforts to improve the Service Quality at Coimbatore Airport.

As per Proposal 8, "Authority is of the view that it will examine ASQ ratings while truing up in the next control period and if by then Coimbatore Airport is unable to achieve the said target, the Authority will consider imposing penalty on Coimbatore Airport as appropriate.". FIA observed that Authority has not given details on how such penalty will be calculated.

**However, since ASQ ratings for 2017 and 2018 have not been met, FIA submits that penalty should be computed for the first control period in order to minimize UDF (being used to bridge the gap between ARR and aeronautical revenues) and accordingly not put passengers under unnecessary burden in the first control period.**

#### **XIV. ADEQUATE INFORMATION NOT PROVIDED**

Following are certain instances wherein no adequate information has been provided by the Authority:

##### **Operating expenditure:**

The Authority has not provided Gross operating expenditure, allocation ratio and basis of allocation in Consultation Paper.

FIA submits that under repair and maintenance expenditure, expenditure of INR 434 lakhs has been charged off in FY17 & FY18. Prima facie, these expenditures seems to be in capital nature and no comment/justification has been provided in Consultation PaPER for charging off this expense in income statement.

Under table 25, FIA observed that expenses for first control period has been projected taking actual FY18 figures as a base. However, CHQ/RHQ expenses under payroll cost and administration cost has been computed on the basis of actual in FY16 rather than projecting growth on FY18 actual numbers. No justification has been provided for such change in estimation criteria.

##### **Mismatch in gross additions in FY17 & FY18:-**

FIA observed that summation error in additions to RAB in table 12 & 20 of Consultation Paper mentioned on page 17 & 23 respectively. FIA noted that total additions in FY17 &

FY18 is INR 1,435 lakhs. However, while calculating opening RAB as at 01.04.2018 in Table 15 of Consultation Paper, Authority has proposed an addition of INR 1,591 lakhs in FY17 & FY18. Hence, it is submitted to Authority to consider additions of INR 1,435 lakhs in FY17 & FY18 as proposed by Coimbatore airport instead of INR 1,591 lakhs.

#### **Carry forward losses**

As per Section 72 of Income Tax Act, 1961 business losses can be carried forward for 8 years and will be set off with profits in future years. It is submitted that carry forward losses for periods prior to FY17 (if any) should be considered in the first control period rather than leaving it for true up in the second control period.

#### **XV. Authority ought to follow Single Till Model for determination of Aeronautical Tariff**

FIA submits that as per para 4.2 & 4.3 of the Consultation Paper, it is stated that the Authority shall determine tariffs for Coimbatore Airport using the Hybrid Till model. It is to be noted that FIA has from time to time, advocated the application of a Single Till model across the airports in India. FIA submits that Single Till is premised on the following legal framework being:

- (a)** Section 13(1)(a)(v) of AERA Act envisages that while determining tariff for aeronautical services, the Authority shall take into consideration revenue received from services other than the aeronautical services.
- (b)** Clause 4.2 of AERA Guidelines recognizes Single Till approach which sets out the following components on the basis of which ARR will be calculated:-
  - (i) Fair Rate of Return applied to the Regulatory Asset Base
  - (ii) Operation & Maintenance Expenditure
  - (iii) Depreciation
  - (iv) Taxation
  - (v) Revenues from services other than aeronautical services
- (c)** It is submitted that determination of aeronautical tariff warrants a comprehensive evaluation of the economic model and realities of the airport – both capital and



revenue elements. AERA's approach of Hybrid Till for Coimbatore Airport deserves to be discarded.

- (d)** In the Single Till Order, Authority has strongly made a case in favor of the determination of tariff on the basis of 'Single Till'. It is noteworthy that the Authority in its inter alia Single Till Order has:
- (i) Comprehensively evaluated the economic model and realities of the airport – both capital and revenue elements.
  - (ii) Taken into account the legislative intent behind Section 13(1)(a)(v) of the AERA Act.
  - (iii) Concluded that the Single Till is the most appropriate for the economic regulation of major airports in India.
  - (iv) The criteria for determining tariff after taking into account standards followed by several international airports (United Kingdom, Australia, Ireland and South Africa) and prescribed by ICAO.
  - (v) The Authority in its AERA Guidelines (Clause 4.3) has followed the Single Till approach while laying down the procedure for determination of ARR for Regulated Services. In this respect, the matter must be dealt with by the Authority considering the ratio pronounced by the Constitutional Bench in the Hon'ble Supreme Court Judgment in PTC vs. CERC reported as (2010) 4 SCC 603 (please ref: Paragraph Nos. 58 to 64 at Page Nos. 639 to 641) wherein it is specifically stated that regulation under an enactment/statute, as a part of regulatory framework, intervenes and even overrides the existing contracts between the regulated entities inasmuch as it casts a statutory obligation on the regulated entities to align their existing and future contracts with the said regulations.
  - (vi) The fundamental reasoning behind 'Single Till' approach is that if the consumers/passengers are offered cheaper air-fares on account of lower airport charges, the volume of passengers is bound to increase leading to more foot-fall and probability of higher non-aeronautical revenue. The benefit of such non-aeronautical revenue should be passed on to consumers/passengers and that can be assured only by way of lower aeronautical charges. It is a productive chain reaction which needs to be taken into account by the Authority.

- (e) FIA therefore submits as under:
- (i) Single Till Model ought to be applied to ALL the airports regulated and operated by the Authority regardless of whether it is a public or private airport or works under the PPP model and in spite of the concession agreements as the same is mandated by the statute.
  - (ii) Single Till is in the public interest and will not hurt the investor's interest and given the economic and aviation growth that is projected for India, Fair Rate of Return (FRoR) alone will be enough to ensure continued investor's interest.
  - (iii) MoCA's view(s) with respect to any issue at best can be considered as that of a Stakeholder and by no means are binding to Authority's exercise of determination of aeronautical tariff as is admitted by MoCA itself before the AERAAT.

In view of the above, it is submitted without prejudice that determination of aeronautical tariff on Hybrid Till basis for the First control period would set the tone and precedent for determination of aeronautical tariff in subsequent control periods contrary to the applicable legal framework. Thus, it is submitted that Authority should discard the option of determination of aeronautical tariff on Hybrid Till and follow Single Till scrupulously.

#### **D ADDITIONAL SUBMISSION**

- (a) In addition to the above submissions, it is respectfully submitted that airlines and consequently, passengers will have to bear the burden of higher Aeronautical Tariffs as proposed by AAI and the Authority. It is noteworthy that Airlines and passengers must not be burdened with any tariff to be collected to fund the capital investments of a private concessionaire.
- (b) The Authority is aware that airlines have been going through difficult times with high prices of crude oil. Increase in aeronautical tariff as proposed by the Authority will erode airlines capabilities to increase fares to sustain its operational capabilities.

- (c) FIA reiterates its submission that there is a critical relationship between passenger traffic and growth of the civil aviation sector. What would benefit both the airport operator as well as the airlines is a reasonable and transparent passenger tariff, both direct and indirect – since then the airlines will be able to attract more passengers and the airports would benefit both through higher collection of aeronautical charges as also enhanced non-aeronautical revenue at the airports. In FIA's view, the airport should be regarded as a single business as its aeronautical and non-aeronautical revenues are intertwined.
- (d) It is submitted that order passed by an administrative authority, affecting the rights of parties, must be a speaking order supported with reasons. It is well settled position of law that:
- (i) Reasons ought to be recorded even by a quasi-judicial authority.
  - (ii) Insistence on recording of reasons is meant to serve the wider principle of justice that justice must not only be done it must also appear to be done as well.
  - (iii) Recording of reasons also operates as a valid restraint on any possible arbitrary exercise of judicial and quasi-judicial or even administrative power.
  - (iv) Insistence on reason is a requirement for both accountability and transparency.
  - (v) Reasons in support of decisions must be cogent, clear and succinct.
  - (vi) A pretence of reasons or 'rubber-stamp reasons' is not to be equated with a valid decision making process.
  - (vii) Requirement of giving reasons is virtually a part of 'Due Process'.
- (e) In view of the foregoing submissions, FIA submits that the Authority ought to pass reasoned order on issues mentioned above, after the stakeholders are provided with all the relevant copies of the submissions made by AAI for Coimbatore Airport and any study report conducted by technical experts etc. for making any additional/final submissions on this Consultation Paper.
- (f) In view of the above, it is respectfully prayed that the Authority keeps in mind the interests of the airlines and civil aviation sector before finalizing any decisions

regarding increase in Aeronautical Tariffs and other charges. AAI's proposal, if accepted, will have cascading impact on the airlines and consequently, on the civil aviation industry.

- (g) FIA humbly submits that any reliance by FIA in the present submission, on the DIAL Order dated 23<sup>rd</sup> April, 2018 passed by the Hon'ble Telecom Disputes Settlement & Appellate Tribunal, New Delhi in the case of *Federation of Indian Airlines vs. Airport Economic Regulatory Authority of India & Ors.* - AERA Appeal No. 6 of 2012 and Delhi International Airport Ltd. (DIAL) vs. *Airport Economic Regulatory Authority of India & Ors.* - Appeal No. 10 of 2012, is without prejudice to its rights and contentions before the Hon'ble Supreme Court and any reliance on the said DIAL Order may not be treated as an admission.