

F. No. T-14012/1/2012 – Tariff
Airports Economic Regulatory Authority of India

AERA Building,
Administrative Complex,
Safdarjung Airport,
New Delhi – 110 003

Dated the 6th January, 2015

Public Notice No. 15/2014-15

Subject: - Comments / Submission received on Consultation Paper No. 05/2014-15 dated 12.06.2014 in the matter of Normative Approach to Building Blocks in Economic Regulation of Major Airports – Reg

Attention of all concerned is invited to Consultation Paper No. 05/2014-15 dated 12.06.2014, issued by the Authority in the matter of Normative Approach to Building Blocks in Economic Regulation of Major Airports vide which the Authority had sought comments from the stakeholders. In response thereof, the Authority has further received comments / submissions from the following Stakeholders:


S.No. Airport Operators & Associations

1. [Airport Authority of India \(AAI\)](#)

Apex Chambers of Commerce & Industry

2. [Associated Chambers of Commerce and Industry of India \(ASSOCHAM\)](#)

2. The comments received earlier in response to the Consultation Paper No. 05/2014-15 dated 12.06.2014 have been uploaded vide Public Notice No. 13/2014-15 dated 15.12.2014. The comments / submissions received, as above, are attached for information of all concerned.


(C.V. Deepak)
OSD-II
Tel.: 24695043



भारतीय विमानपत्तन प्राधिकरण
AIRPORTS AUTHORITY OF INDIA

AAI/CHQ/REV/Normative Approach/AERA/14

23.12.2014

The Secretary,
AERA,
AERA Building, Admn. Complex,
Safdarjung Airport
New Delhi-110003

Sub: Consultation Paper No. 5/2014-15 dated 12.06.2014 in the matter of Normative Approach to Building Blocks in Economic Regulation of Major Airports-reg.

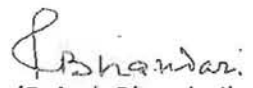
Sir,

Reference is invited to AERA Public Notice No. 05/2014-15 dated 07th Nov, 2014 on the above mentioned subject.

This is in continuation to AAI letter no AAI/Rev/Tariff/2014-15 dated 24.09.2014, wherein comments on the Consultation Paper in the matter of Normative Approach to building Blocks in the Economic Regulation of Major Airports were furnished. It was informed in the above said letter that the reply to the query at S.No 3 on the Useful life of assets and Depreciation will be furnished after due examination.

The Useful life of Aviation specific assets which are not available in Companies Act, 2013 have been examined and compiled, as per Annexure A for Airport Services & Annexure B for Air Navigation Services (ANS) separately, for your kind reference and further necessary action.

Yours faithfully,


(Rajesh Bhandari)
Executive Director (F&A)

Encl: As above.

Copy to: OSD to Member (Fin.) for Information.

Useful Lives of Fixed Assets (Airport Services)

Annexure A

Sl.No	Type of Capital Item	Minimum Service Life
1	Aerobridges	20 years
2	Pavements(Runways,Taxiways,Aprons, Roads, Bridges & Culverts	20 years
3	Constant Current Regulator (CCRs)	12 years
4	Distance Measuring Equipment (DME)	12 years
5	R.M Sweeper (Heavy Duty)	10 years
6	Crash Fire Tenders(CFTs)	10 years
7	Road Rollers-8/10 Tons and above	10 years
8	Friction Measuring Equipments	10 years
9	Door frame Metal Detectors	10 years
10	Non Linear Junction Detector	10 years
11	Non directional beacon	10 years
12	Baggage Conveyor System(Imported)	10 years
13	Runway light	08 years
14	Air Handling Units	07 years
15	R S P tool kit	06 years
16	Blast Inhibitor	06 years
17	Electronic Stethoscope	06 years
18	Explosive Vapor detector	06 years
19	Runway Sweepers	06 years
20	Runway Marking Machine	06 years
21	Hand held metal Detectors	06 years
22	Inline X-Ray Baggage inspection system	06 years
23	Liquid Explosive Detector	06 years
24	Perimeter Intrusion Detection system	06 years
25	Power Saws	05 years
26	Cargo Trolleys	05 years
27	Bay Cleaning Equipments	05 years
28	Baggage Conveyor System(indigenous)	05 years
29	Passenger Baggage Trolleys	04 years

Useful Lives of Fixed Assets (Air Navigation Services)

Annexure B

Sl.No	Type of Capital Item	Minimum Service Life
1	Very High Frequency/High Frequency Receiver	12 years
2	Very High Frequency/High Frequency transmitter	12 years
3	V.O.r/Doppler Very High Frequency Omni Range	10 years
4	Airport Surveillance Radar	10 years
5	Monopulse Secondary Surveillance Radar(MSSR)	10 years
6	Air Route Surveillance Radar(ARSR)	10 years
7	Instrument Landing System	08 years
8	GSM Jammers	07 years.
9	Frequency Jammers	07 years.
10	Fiber Optic Surveillance Device	07 years
11	Remote Wire cutter	06 years
12	Thermal cutter	06 years
13	Car Remote Opening Tool Kit	06 years
14	Binocular	06 years
15	Non Metallic Prodder	06 years
16	Telescopic Manipulator	06 years
17	Radio Transmission Sets(Walkie-Talkie,Base/Mobile Station)	05 years
18	Flight Information Display Systems (FIDS)LCD Boards,TV monitors,Computer based Control Equipment,	05 years



THE ASSOCIATED CHAMBERS OF COMMERCE AND INDUSTRY OF INDIA

D S RAWAT
Secretary General

8th December, 2014

Dear Sir,

**Subject: Paper on Normative Approach to Building Blocks in
Economic Regulation of Major Airports**

This is in reference to the Paper on Normative Approach to Building Blocks in Economic Regulation of Major Airports in India issued by Airports Economic Regulatory of India, Government of India.

On behalf of ASSOCHAM, we would like to thank the Airports Economic Regulatory of India for inviting our response. Please find enclosed copy of the same for your kind reference and kind consideration.

We look forward to your guidance and support as always.

Thanking you with warm regards.

Yours sincerely,

(D. S. Rawat)

Shri Alok Shekhar, IAS
Secretary,
Airports Economic Regulatory of India,
Government of India,
AERA Building, Administrative Complex,
Safdarjung Airport, New Delhi-11003
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Encl: as above.



ASSOCHAM Response on Normative Approach

Indian Infrastructure sector required USD 1 trillion of investments in the 12th Five-Year Plan. Planning commission expects USD 500 billion (or 50% of total) capital from private players in next 5-year plan period (12th plan). In sectors such as aviation, the contribution is expected to be even higher at approximately 75%. Hence preserving the interest of equity investors becomes the prime importance, to achieve future growth in Infrastructure which is key enabler for all other industries and the economy as a whole.

The Authority has recently published a Consultation paper on Normative Approach for determining Tariff at Major Airports in India. In response to the same, we would like to humbly submit the following:

General Methodology for Framing Norms:

Authority should be creating Norms or Benchmarks only for testing purposes and not for penalizing the Industry. After finalization of norms Authority in its review process, should take a judicious call whether the upside deviation from the norm is justified or not and if some saving is done then Authority should at least be rewarding the same by allowing the benchmark cost.

Secondly, Authority while determining any such norms should take into account the factual experiences of recent past and these norms should be based on some industry expert/consultant's observations or findings. However, in the current consultation paper barring few proposals framed from Inter-Ministerial Group's (IMG) recommendations, none of the proposal appears to be clearly based on factual experiences of the industry. Instead, Authority has relied on experiences from other sectors, which may not be depicting the true picture of the regulated industry or has arbitrarily considered a figure which does not represent a benchmark. We appreciate the Authority's motive of providing the best to all stakeholders, but this should not be done at the stake of the equity investors. Authority should appreciate the fact that Private Equity investors shares the burden from Government for developing the desired infrastructure well in time for development of the Economy as a whole and should be duly rewarded for the risk taken and for their precious time and money invested in developing the infrastructure.

The Authority should also appraise the point that these norms should be dictated through the concession agreements awarded to private parties. The Inter-Ministerial Group (IMG) has stated that norms should be put across prior to privatization and through the bidding process. Therefore it is humbly submitted to the Authority that existing privatized airports to be kept out of these norms. And for future privatization

Authority can take necessary steps, so that these norms can be framed as part of the bidding process.

However, following is the detailed contention in response the various proposals issued by AERA:

Proposal No. 1. Regarding Debt-Equity Ratio and WACC

The Authority's proposal of Debt Equity Ratio of 70:30 is based on the regulation laid by Central Electricity Regulatory Commission (CERC) for Electricity generation and transmission. Notably, the norms of 70:30 Debt equity laid by CERC is only applicable at start of project and thereafter the actuals are followed for tariff determination.

However, Authority in its current proposal has not clearly mentioned and clarified that whether the proposed norms is to be adhered at the COD or throughout the Concession life. Life of infrastructure project in airport is around 60 years. Authority should appraise that maintaining a Debt Equity ratio throughout the project life or concession life would be tedious task, as lenders may or may not agree to lend for that long time horizon.

Further, Authority in its proposal has stated to treat 'Net Worth' as Equity contribution for calculation of Debt Equity ratio. It appears to be a welcome approach for the industry, however Authority needs to take a cautious call for entities which are not able to generate profits and have a negative 'Net worth'. Otherwise this proposal can be a double whammy for entities which are facing a hard time.

Secondly, Lender while lending to any project lays down several restriction for distribution of surplus to Equity shareholders to secure timely and due payments to the lending institution. Such restrictions at times results into accumulation of retained earnings, with the current proposal equity holders would lose on their desired return from the investment if the said retained earnings is treated as normative debt. Therefore it is earnestly requested that Authority should reconsider the current proposal and provide the due return to the investors on the equity invested.

Proposal No. 2. Regarding fair rate of return on Equity

The Authority in current consultation while determining the fair rate of return has relied on estimates of National Institute of Public Finance (NIPFP). As stated by Authority it is based on comparative sets from both developing and developed regions. Authority should appraise the point that Indian Economy is more in line with developing economies of the world, Investors across the globe look at India as a developing economy. Developed Economies have a much stable regulatory structure, whereas developing economies like India the regulatory framework is still in a very nascent stage. Authority themselves have noticed the same while benchmarking the proposals for Operating expenses and Non Aeronautical revenues (i.e., Proposal 4 and Proposal 8 of the Current Consultation paper). Therefore it would be more prudent to use only the comparative set of developing economies as done by the other private consultation, as these would represent a much true picture of India Economy and the risks associated with any investment in a developing economy.

Secondly, Authority should also keep a note and provide an appropriate trade-off for the risk formalised in the form of Proposal No. 1 (i.e., A Higher Debt Equity ratio) in the current proposal of fair rate of return. Authority should revisit the working of fair return allowed and ensure that appropriate adjustments are done to make it a level playing ground.

Proposal No. 3. Rate of Depreciation (Useful life of assets)

We are in consensus with the Authority in respect of this proposal. Authority should evaluate and determine the useful life of typical airport specific asset which are not clearly stated by the New Companies Act. However, a more detailed consultation may be required for the same. As a best practice, the Authority should look for domestic and international illustrations to set up these depreciation rates.

Proposal 4: Regarding Operation and Maintenance Expenditure

We welcome the Authority's thought process of trueing the O&M expenditure. This is the right step to support the airport operators and entice the private investors for the future privatization of the airports. At the same it provides a level of comfort for the investor to manage any unanticipated expenditure. This holds good as industry as of now is in developing stage.

Proposal 5: Regarding norms for Capital Costs

Authority has already slated the procedure for Assessing the Capital expenditure, as well as stakeholder consultation in its Airport Guidelines, which is a very robust process of evaluating and minimizing the cost passed on the various stakeholders. The Authority has already laid detailed protocol for stakeholder's consultation which takes into account views of all the relevant stakeholders. Thereafter putting a Normative capping on the Capital cost is over burdening for the industry. Therefore it is earnestly, requested to the Authority that they should follow the process which is already laid down and accepted by all the stakeholders. If Authority still feels that there is scope for pilferage then they may further strengthen the process which is already laid.

Further, creating a benchmark or a general norm for airport terminal cost is not possible, as this is dependent on various factors such as location, time of construction, expected level of service standard and quality parameters. Even IMG while framing guidelines for Airport terminal designing has noted the same and therefore refrained from creating any such norm. Hence it is earnestly, submitted to the Authority that they should follow the existing process and should abstain from creating any benchmarks for capital cost.

Even after taking into account the aforesaid prepositions, if Authority proposes to go ahead and determine a benchmark, then it should take into account the factual experiences of recent past and these norms should be based on some industry expert/consultant's observations or findings.

Proposal 6 and 7 : Regarding Aeronautical and Non –Aeronautical Allocation

The proposal floated by the Authority for dividing Assets and Operating Cost in Aeronautical and Non-Aeronautical is based on figures derived by the IMG Norms. Notably, Authority's own analysis of allocation has indicated that this ratio is around 85:15. However, Authority in its proposal has arbitrarily considered the maximum percentage indicated by the IMG. This approach would lead to penalize the airports especially, the Greenfield operations which needs time to mature and are operating at a low passenger throughput.

Even the IMG norms states that normally, the commercial area is range of 8% to 12% of terminal area, only in case of big terminal facilities it can go up to 20% of overall area. Therefore it is earnestly requested to the Authority that instead of relying on the maximum possible area, Authority should take inference from their factual experience and determine a ratio accordingly.

Proposal No. 8. Regarding incentivizing airport operator to increase NAR and Truing up

The Authority's proposal does not appear to yield any significant benefit to the equity investors. To the extent, the proposal penalizes the operator for not achieving very high growth rates in non-aeronautical revenues. According to the proposed norm, efficiency will be penalized because the more the airports perform, the more would they have to achieve.

However in our view no major airport privatization in world has been done on single till and as such Authority should review its proposal of Single Till for Hyderabad and Bangalore airports. The soft touch approach is the right step as done in case of cochin and that's the way world is going. In UK Hethrow is the only airport under regulation with rest of them being deregulated or shifted to soft touch regulation. In Australia only Sydney is regulated and that also under soft touch. Similarly in New Zealand also all airports are under soft touch regulation.