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Letter No: GHIAL/2021-22/SPG/1643
Date: August 6, 2021

The Director P&S
Airports Economic Regularity Authority of India
AERA Building, Administrative Office
Safdarjung, Airport
New Delhi 110003

Subject: Comments to Stakeholder's observation to the Consultation Paper No.11/21-22

Reference: Consultation Paper No.11/21-22

Dear Sir,

This is with reference to above subject matter, please find attached our responses to the observations / concerns raised by various stakeholders as per the following Annexures:

Annexure 1: Response to IATA's comments
Annexure 2: Response to FIA's comments
Annexure 3: Response to DACCAI's comment
Annexure 4: Response to Blue Dart Aviation Limited comments
Annexure 5: Response to other comments

We request the Authority to consider the above submission favorably in the final tariff order for the third control period.

Yours Faithfully,
For **GMR Hyderabad International Airport Ltd.**

NARAYAN
A RAO
KADA

Digitally signed by NARAYANA RAO KADA
DN: c=IN, o=Personal,
pseudonym=5d6367824e978519526b578a75ea93b5253177e2d9692a8fd082daadd8dd61f9, postalCode=110070, st=DELHI,
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Date: 2021.08.06 10:28:09 +05'30'

Authorized Signatory

Annexure 1: Response to IATA

We have perused the submissions of IATA to the Authority and would like to say that airport operators are stable providers of infrastructure assets which is a launchpad for airlines to grow. While airport operators and airlines are intrinsically linked and rely on one another to operate efficiently, they are based on different business models. Airlines are nimble footed to quickly respond to changes in traffic flows by leasing or retiring capacity, invariably enjoy greater market power and aren't operating under economic regulation; airport operators, on the other hand, have limited flexibility to maneuver as the business model is investment centric and it needs to operate within the framework of economic regulation. Since airport operators are prudent in setting aside liquidity in anticipation of investment to address the growth opportunity, they are in a relatively better position to address the challenges posed by the pandemic.

Our ad seriatim response to IATA is as under:

Ref:	IATA Submission	GHIAL Response
Chapter 2 Pre-Control Period Entitlement (PCPE)		
Proposal 2.3.1	We do not see that AERA has properly scrutinised the various elements underpinning the building block calculation for the pre control period from an efficiency perspective (in particular, the period that has been added due to the TDSAT ruling).	GHIAL requests IATA to peruse the TDSAT order as cited by the Authority, the relevant extract of the order is reproduced for better comprehension of IATA: *The claim for pre-Control Period losses as determined in various parts of Para 5 of the first tariff order and virtually reiterated in the next tariff order are set aside and the claim is remitted back to AERA for fresh consideration on its own merits and in accordance with law*. We agree with the Authority's proposal to consider the entire PCPE period (23.03.2008 – 31.03.2011) for the purpose of the true up exercise during the Current Control Period
Proposal 2.3.2	AERA should also scrutinize the various elements such as its Capex, Opex, assets allocation, WACC etc. and not only	Without prejudice to our contention on various considerations of principles of tariff followed, we do not agree with IATA's

	consider the returns and expenses at face value in the pre-control period	contention that AERA has not properly scrutinised the various elements underpinning the building block calculation for the pre control period from an efficiency perspective The building block based on which PCPE is computed by the Authority was already ascertained as part of the First Control Period Tariff Order issued in February 2014. Further, the entitlement for the period 01.09.2009- 31.03.2011 was considered by the Authority in its second control period tariff order also. Hence the current exercise was just an extension of the period by the Authority to calculate the eligibility based on 30% Hybrid Till. The Authority has applied WACC based on the rate relevant for each control period hence rightfully no re-determination of WACC was made by the Authority. Further, as per the regulatory philosophy the present value of the eligibility as on the date of implementation of tariff is only allowed as part of the ARR.
Chapter 3 – True up for FCP		
Proposal 3.9.1	The Authority proposes to consider the treatment of various issues raised by HIAL as per table no.5 and 6 in line with AERA Act, AERA Guidelines, TDSAT orders and the Authority's orders issued from time to time.(para 3.2).	It is observed that IATA while agreeing to the treatment of the Authority has failed to take an objective view of the issues. Issues which put GHIAL to disadvantage are appreciated and contested other treatments despite the treatment being in compliance with Civil Aviation Policy (Hybrid Till) and consistent with earlier order of the Authority (cost of Equity).

	Treatment of CGF – IATA fully support the decision to classify these activities as aeronautical in line with global practice. All activities associated with air transport should be classified as aeronautical	As regards to the issue of treatment of revenue from CGF the concession awarded to GHIAL clearly considers such revenues as non-aeronautical. GHIAL in its MYTP and subsequent submission to consultation paper have submitted the relevant provisions of the concession and various expert opinions to support that the CGF revenues are to be considered as non-aeronautical. However, IATA failed to recognize the supremacy of Concession Agreement which got executed prior to AERA Act 2008. We have given our comments on treatment of CGF in our detailed response to consultation paper submitted to the Authority on 30th July 2021 and request the Authority to consider the same as part of final tariff order.
	Treatment of forex losses: We understand that AERA is choosing the lowest between a cost of debt in foreign currency and the cost of debt in local currency. So the approach is acceptable. What is more relevant is whether the assumed cost of debt in local currency is the "efficient" one.	ECB was availed to optimize the overall cost of borrowing; while the Authority recoups the benefits of lower cost, the loss is not considered as pass through fully. GHIAL has always been making endeavor to reduce the cost of borrowing by tapping overseas market and thereby reducing reliance on rupee bank loan which are relatively expensive. Our weighted average cost of borrowing for the second control period has been 8.13% (table 32 of the CP) which is very competitive by any standard.
	Revenue from Real Estate operations: We agree with the approach as it is consistent with the TDSAT ruling for BLR. Income from dividend received from subsidiaries: We agree with the proposed treatment.	We have explained our stand on treatment of revenues from real estate in our detailed response to consultation paper submitted to the Authority on 30th July 2021 and request the Authority to consider the same as part of final tariff order

	Regulatory Till- Hybrid/Shared Till: This has been a long standing issue for IATA, as we consider that charges should be calculated under a Single Till approach (and a Single Till was consistent with AERA's White paper at the time).	The till issue has already been settled position in case of GHIAL. In accordance with section 42 (2), the MoCA vide its letter dtd. 10th June' 2015 has given direction to AERA for adopting 30% shared till in case of GHIAL. IATA by raising the settled principle again is misguiding the stakeholders and users. Accordingly, IATA submission on Single Till deserves no consideration.
	Cost of Equity: Noting that this table covers the FCP as well as the SCP, we consider that a 16% cost of equity compensates well in excess the risks borne by the airport; and hence should be lowered.	While determining the cost of Equity for second control period, the Authority has relied on its past order wherein 16% return was approved despite the study conducted by experts like KPMG, Jacobs and SBI Capital Markets (at the behest of MOCA) recommending rates ranging from 18.5% to 24% considering CAPM and specific risks of the airport. We have given our views on cost of Equity in our detailed response to consultation paper submitted to the Authority on 30th July 2021 and request the Authority to consider the same as part of final tariff order
	-New Office Building: We agree with the approach. However, AERA should make itself satisfied that HYD is not occupying further floors solely for the sake of shifting the allocation from non-aeronautical to common (since each additional floor allocated to common implies a large change to aeronautical costs – due to the percentages used for splitting common assets).	The process of allocation of assets is as per standard operating practice that are put in place and is being scrutinized as part of tariff determination as well. Hence, no ad hoc and arbitrary approach has been deployed by GHIAL for allocation The new office building at RGIA is the corporate and administrative head quarter of GHIAL and the key staffs are deputed here to discharge the functions. With increase in operations of airport, the staffing requirement has gone up and GHIAL presently occupying three floors for its

	- Site Office Building: We agree with the treatment of the Site Office Building as common. What we do not agree is the allocation keys to be used for splitting those common costs.	own staffing requirement and opportunistically leased out the balance two floors, which would be gradually occupied as the operations expand. We would request the Authority to treat NOB common asset and then allocate based on overall aero: non aero asset ratio We have given our submission on treatment of NOB and SO in our detailed response to consultation paper submitted to the Authority on 30th July 2021 and request the Authority to consider the same as part of final tariff order
	Township: We would like to understand why there is a need for the airport to provide housing at all, even if it is to critical employees, and to then classify that as aeronautical. It is not common at airports elsewhere to have such kind of arrangements. We would appreciate for AERA to reconsider its previous views on the matter and allocate such expenditure as non-aeronautical	It is to be noted that Hyderabad Airport is 30 kms from the city center. Employee township facility near the airport is primarily towards the objective of providing residential accommodation to staff responsible for functions which are critical from 24/7 operation perspective. It is to be noted that the critical staffs are required to remain available at close proximity in order to facilitate airport operations as well as to respond to emergency situations, or to continue to operate the airport in case of a disruption in the city. Such townships have been provided by most of AAI airports near the airport complex and is common practice.
Proposal 3.9.2	The Authority proposes not to true up any building block other than CSR expenses. Subsequently, the Authority proposes no revision in computation of RAB and depreciation. (para 3.3.14 – 3.3.15), Equity and WACC (para 3.4.3), computation of tax, non-aeronautical revenue and aeronautical revenue.	CSR spent was mandated by the statute and hence this mandated spent has affected the regulated and determined fair return on equity Since CSR is allowed by the Authority only on aeronautical profit and as there is no aero profit as per regulatory determination GHIAL is unable to recover the amount spent on CSR despite this being an integral part of operations at the airport. Hence, GHIAL request the Authority to treat CSR and donations as aeronautical

		opex given the overall context of spent which is driven by the objective of taking the society along and make them grow as we grow. Any under-recovery of CSR spent shall negatively affect the fair return on equity. Further, actual amount paid towards CSR should be allocated in the ratio of AERO and Non-Aero PBT. This approach will provide consistency approach towards allocation of taxes as well as CSR. Else the Authority may consider the unabsorbed CSR & Donations be deducted from non-aeronautical revenue and cross subsidization shall be allowed on the balance amount of non-aeronautical revenue. We have made our submission on the issues vide our MYTP submission dated 23rd July 2020 and vide our response to the consultation paper dated 30th July 2021. We would request the Authority to evaluate the same on merit.
Proposal 3.9.3	The Authority proposes to use non-aeronautical revenue for cross subsidisation under 30% shared till (Para 3.7.3 – 3.7.6) We note that unfortunately the 30% hybrid till is being used (as opposed to a single till) due to a direction from MOCA.	The issue of consideration of the till has been settled as per the concession provision and relevant provisions of the applicable law.
Proposal 3.9.4	The Authority proposes to true up the operating expenses on account of CSR expenses (para 3.5.4).	CSR is a mandatory spending on 2% of the average net profit of the Company.

	We note AERA is adopting the decision from the TDSAT with respect to CSR. This should be respected and therefore trued up under certain criteria (as applied by AERA) in order to avoid overspending.	
Proposal 3.9.5	The Authority proposes the true up of Rs. 0.54 Crores (as on 31.03.2022) which shall be provided to the airport operator along with the proposed true up for the Second Control Period as part of the tariff determination for the Third Control Period. (Table no.14). We recognize that going back to the First Control Period to change some of these elements may be going too far back in time (since AERA had already worked out the true up of the FCP on Order 34/2019-20), but at least to be considered during the true up of the Second Control Period.	No comments
Chapter 4 – True up for SCP		
Proposal 4.12.1	The Authority proposes to true up Aeronautical RAB considering the actual additions and as per the asset segregation ratios as suggested by the independent study. The Authority proposes to reclassify an amount of Rs. 0.53 Crores from aeronautical assets to non-aeronautical assets in the Second	It is observed that IATA requested the Authority 'a pro-rata approach is applied to allow a portion of capacity actually utilised to be included in the RAB. In this regard, we would like to submit that in the past, GHIAL operated at more than 100% of its design capacity and hence as per IATA, the Authority would consider pro-rata return on RAB for the period FY2016-2020 which is grossly off-limits under regulatory framework.

	Control Period, as part of additions to RAB for the Second Control Period based on the independent study (Table no. 27). Noting AERA supports the principle to avoid adding capex to the RAB until assets can be beneficially used by users paying for them we request a pro-rata approach is applied to allow a portion of capacity actually utilised to be included in the RAB	We do not agree with IATA's contention General Capex of 293.96 crores should be further scrutinised for efficiency as the total sum of the parts is significant. Here IATA conveniently ignored the allocation study undertaken by the Authority in the second control period and has commented on the transparency required on general capex. We would like to submit that GHIAL submitted to the Authority, a very detailed asset wise breakup and rationale of the general capex undertaken by the company. In the asset allocation study each capex item has been reviewed in element and then considered in the building blocks for ARR computation. Generally, the expansion capex will be taken up by the Airport Operator after conducting traffic study, demand gap assessment, AUCC consultation and other necessary requirements which is not an exception in our current expansion plan Further on IATA's observation that users have received limited details regarding investment files, or detailed consultation on these matters, we would like to submit that we have diligently carried out the consultation process with stakeholders (including representative from AERA) on our expansion plans and complied with the necessary process as specified under the guidelines for conducting the AUCC with regard to any significant capex being undertaken by the airport operators where IATA has also been the party. We request the Authority to consider the capitalization of expansion capex in full than pro-rata approach as propounded by IATA.
Proposal 4.12.2	The revised allocation ratio for FY 2021 has been considered as Aeronautical	The said allocation is being derived based on the asset allocation study carried out by the Authority. We have made submission on

	91.32% : Non- Aeronautical 8.68%. (Table no. 29).	the allocation study and request the Authority to consider the same as part of final tariff order
Proposal 4.12.3	The Authority proposes to revise WACC based on revised debt schedule based on the actual debt raised by HIAL and the projected debt requirement for FY2021. The proposed recalculated WACC for the Second Control Period is 10.84% (Table no. 32). it is important that any true up are not only done on the basis that they were lower than that assumed, but also that the actual cost of debt can be considered efficient…………… ……….. We would appreciate for AERA to give a further look at the cost of debt, in particular the rate proposed for true up for FY2021.	Cost of Debt is function of tenor, credit rating and interest rate outlook. The blended cost of debt of GHIAL is commensurate with its credit rating and the current interest rate regime. While the Authority set up the limit of cost of debt for GHIAL, inherently the efficiency on borrowing gets factored in. Further, GHIAL always makes endeavor to optimize the borrowing cost and explore alternative market options of fund raising to reduce the cost of debt progressively. While determining the cost of Equity for second control period, the Authority has relied on its past order wherein 16% return was approved despite the study conducted by experts like KPMG, Jacobs and SBI Capital Markets (at the behest of MOCA) recommending rates ranging from 18.5% to 24% considering CAPM and specific risks of the airport. Linking cost of Equity to G-ec yield is without basis and goes against the purpose of airport privatization in India.
Proposal 4.12.4	The Authority proposes to consider CSR expenses as pass through and proposes to true up these expenses computed as per provisions of Companies Act, 2013, on the aeronautical P&L of HIAL (para 4.5.17). IATA is generally in agreement with the approach adopted by AERA (Noting that this reflects the implementation of the TDSAT ruling rather than us agreeing to	We have made submission on the basis of computation of CSR and request the Authority to consider the same as part of final tariff order

	the inclusion of CSR as part of the cost base).	
Proposal 4.12.5	The Authority proposes to consider Efficient O&M Costs based on the adjustment as suggested by the independent study tasked with studying the O&M Cost segregation as submitted by HIAL (Table no.42).	With regard to observations on efficiency study, we submit that IATA grossly misunderstood the approach of the Authority. The objective of the efficiency study was two-fold. To allocate the operational expenditure incurred by GHIAL into aeronautical and non-aeronautical components using the Authority's guidelines and to analyse the efficiency of the operational expenditure for the second control period before considering operating expenditure as a building block for the tariff determination process. The Authority carried out reallocation of costs and certain costs were outrightly disallowed. W.r.t. the operating Costs, the Authority observed that the increase in operational expenditure is due to significant growth in traffic which led to increased operations. Due to this momentum in traffic, the airport crossed the 20 million mark in FY19 itself which was the design capacity as per the previous expansion plans. Hence, GHIAL reworked on expansion plans and based on the expected traffic at the end of the third control period commenced expansion for 34 million passengers. However, in the interim, in order to cater to the rising traffic, GHIAL commissioned two interim terminals to ensure seamless passenger experience. This led to increase in manpower and administrative costs. GHIAL also raised finances for the expansion project as well refinanced the existing debt which was previously approved by

		the Authority as one time expenditure leading to an increase of Rs. 126 crores from the expenses approved by the Authority. GHIAL has reduced the costs on various heads such as utility cost, stores & spares, housekeeping costs vis-à-vis what was approved by the Authority. The very question of IATA on the starting point of cost as efficient lacks the understanding of Regulatory philosophy and GHIAL urges IATA to bring global benchmark to prove that Indian Airports are not as efficient as its global peers, if not more efficient. Although we have some differences in the cost allocation methodology adopted by the Authority, broadly the study vindicated GHIAL stand on operating the airport efficiently. However, the efficiency study is an independent study conducted by AERA through the consultants and hence, the Authority would be in the best position to respond to the consideration of principles of allocations and other factors pointed out by IATA.
Proposal 4.12.6	The Authority proposes to consider the concession fees paid by HIAL as per the recommendation of independent study and consider amount equal to 4% of gross aeronautical revenue for the Second Control Period (Table no.45). It is our understanding that there is an obligation to include such concession	The treatment of pass through of aeronautical concession fee is enshrined in the Concession Agreement and we appreciate the Authority for adhering to the terms of the concession.

	fee as a cost (the aero portion) that need to be recovered through charges It should still be mentioned, that users are already paying for the land lease costs and a cost of capital for all the aero investments been made at this Greenfield airport, so there is no justification for including a concession fee in the cost base (and even less, having it linked to revenues).	
Proposal 4.12.7	The Authority proposes to true up Rs. 498.47 Crores as on 31.03.2022 (adjusted amount for PCPE, First Control Period and Second Control Period) which is proposed to be recovered from the airport operator in the Third Control Period (Table no. 63). We would appreciate for AERA to reconsider some of the SCP costs for true up taking into account the comments we have made throughout this chapter	We have made our submission to the Authority on revisit of various building blocks and request the Authority to consider the same as part of final order.
Chapter 5 – Traffic Projections for 3rd Control Period		
Proposal 5.3.1	The Authority proposes to consider the traffic as shown in the (Table 69) for the Third Control Period which shall be trued up based on actuals at the time of	No response required on the comment of IATA. However, we have requested the Authority to consider traffic estimates for FY22 based on most likely performance as we have very low throughput in Q1FY22 and hence achieving the estimated traffic of 14.34 mn in FY22 seems very unlikely.

	tariff determination of the Fourth Control Period. Given the high level of uncertainty due to COVID-19 at this point, IATA broadly support the proposal by AERA in in relation to the traffic estimates for the 3rd Control Period.	For the four-month ended July 2021, GHIAL achieved traffic of 2.24 mn which translates to ~ 18361 pax per day. Hence, in order to achieve traffic of 14.34 mn for the FY22, GHIAL needs to handle an average traffic of 49794 pax per day for the balance 8 months which is ~80% pre covid traffic. In the current scenario when we are staring at the possibility of 3^{rd} wave and achieving the said traffic may not be possible. We have made our submission to the Authority to consider most likely traffic of 10.22 mn in FY22 and keep traffic projection for rest of the years of control period unchanged.
Chapter 6 – Regulatory Asset Base		
A – Capacity Expansion to 34 MPPA		IATA should appreciate the fact GHIAL undertook capacity expansion works in Oct 2018 when the y-o-y growth in domestic traffic was in excess of 20% and GHAIL was asked by airlines to increase capacity. IATA needs to be mindful of the fact that GHIAL undertook several debottlenecking measures to decongest the terminal during peak hours either by expanding ramp, creating interim international departure terminal, interim domestic arrival terminal, reorientation of security lanes, addition of ATRs and express check-in for passengers who are travelling light. GHIAL embarked on capex when it was imperative to cater to the growth as GHIAL was operating at 1.52x of its design capacity in FY18 and 1.78x in FY19. Hence IATA should look in retrospect and provide comments which are relevant and should not just be critical of the capex plan for want of traffic which is inflicted by Covid -19 pandemic.

		Further, as per Authority, the exit traffic of third control period is ensuring that the utilization level of additional capacity is at ~78% of the design capacity which essentially demonstrates that GHIAL is not building overcapacity and being an infrastructure company capacity needs to be created little ahead of time to cater to future demand. Considering this, the airport concession mandates capacity expansion, the moment airport operates at 80% of its design capacity. It may also be appreciated that the capacities are built over time and the airport operator across the globe tend to plan for expansion much ahead of the demand as the delta expansion in an operating airport not only expensive but also put lot of inconvenience to passengers. GHIAL made significant progress in the expansion works and overall progress stand at ~68% and hence freezing of capex at this juncture would increase the carrying cost of the expansion works significantly. W.r.t. IATA comments on common approach to airport planning is to introduce additional capacity in phases in a more gradual manner to ensure optimal utilization of the infrastructure is not in sync with the reality as all the major airports increase their capacity at "one go" to derive economies of scale as well as challenges relating to brownfield expansion. GHIAL would like to cite IATA report dated October 24, 2018 **https://www.iata.org/en/pressroom/pr/2018-10-24-02/** wherein IATA stated that the Eastward shift in aviation's center of gravity continues, and the Asia-Pacific region will drive the biggest

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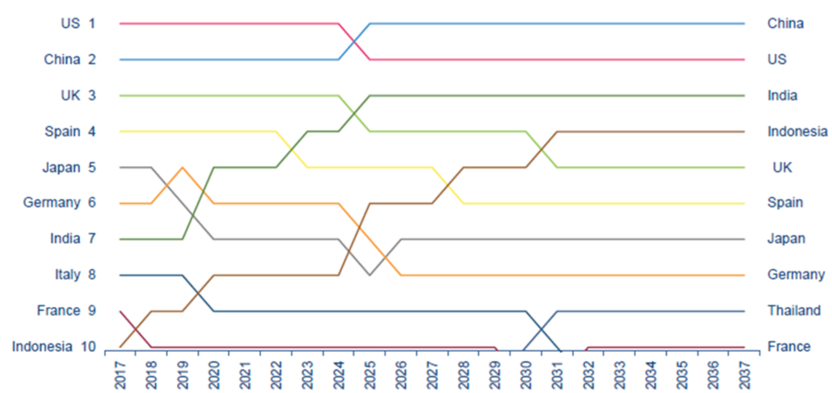
<td>growth with more than half the total number of new passengers over the next 20 years coming from these markets. Growth in this market is being driven by a combination of continued robust economic growth, improvements in household incomes and favorable population and demographic profiles and India will take 3rd place after the US, surpassing the UK around 2024.

The 10 largest air passenger markets over time (ranked by passenger numbers, to, from and within each country)


Hence IATA's state that 'Identifying investment "demand triggers" taking into account traffic forecasts, Level of Service and construction lead times is applied to almost all major capital programs, however, has been overlooked at HYD' is unfounded and without substance. Accordingly, the conclusion of IATA on allowable capex in the RAB to 26 MAP is without merit.</td>
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<td>B – Metro Connectivity</td>
<td>Multi modal connectivity to the airport is critical for passengers to have affordable reach to the airport. The passenger flows to and from the airport form an integral part of the airport experience</td>
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		and hence is to be considered as an aeronautical activity. Hence we will approach the Authority when the actual work will be taken up.
	C – General Maintenance Capital Expenditure	The Automatic Tray Retrieval System (ATRS) which is meant for passenger terminal use was inadvertently mentioned as use of cargo terminal. The drain gratings are provided for covering the open storm water drains for ensuring the safety of Aircraft during the runway excursion. Hence we request the Authority to consider the same as part of the final order.
	D – CISF Quarters IATA supports the exclusion of the costs associated with the development of CISF Quarters in the TCP. In fact, all security related costs should be excluded from the determination of the ARR given that the funding should now come from the Aviation Security Fee (ASF) which has replaced the PSF (SC).	As part of MYTP of GHIAL for 3rd control period GHIAL had requested for allowance of capex incurred towards residential quarters [currently being accounted under the PSF (SC) Fund] and other associated cost as part of RAB and Expenses of GHIAL is primarily in compliance with MoCA issued order no. AV 13024/03/2011-AS (Pt. 1) dated 18th February 2014 which required airport operators to reverse from inception, all the expenditure incurred towards procurement and maintenance of security systems/equipment and on creation of fixed assets out of the PSF (SC) escrow account. As per the ASF operating mechanism utilization has been specified by MoCA which are followed by GHIAL and accordingly we have proposed in our MYTP.
	Depreciation	IATA has not objectively mentioned any asset which where the useful life is not aligned to the actual utilization and hence the suggestion of reducing depreciation rates looks arbitrary. In the financials of GHIAL the depreciation rates are aligned with the rates as prescribed under Order No 35/2017-18 of the Authority

		on useful life of assets which were adopted in full consultation with all the stakeholders including IATA.
Chapter 7 – Operating Costs for the TCP		
Proposal 7.3.2	The Authority proposes to not allow the net off of incidental income from operating expenses We would appreciate for AERA to further explain the reasoning behind its proposals in order to be able to provide an informed opinion on the proposal.	In the view of GHIAL NOB and SO should be treated as common any incidental revenues pending occupancy by GHIAL should be netted off from the operating expenses. We have made our detailed submission to the Authority vide our response dated 30th July 2021 and request the Authority to consider the same as part of final order
Proposal 7.3.3	The Authority proposes to consider allocation ratio as set out in Para 7.2.2 for the Third Control Period We see that again with concern the approach to split common assets mainly on the basis of surface area……………. This implies that there is a direct externality from aeronautical activities towards non-aeronautical ones that needs to be reflect in the cost allocation (this applies to both capital expenditure and operating costs)……. There is an urgent need for AERA to reconsider its approach towards cost allocation at Indian airports to incorporate this very important	IATA has misread the relevant portion of the consultation paper set out in 7.2.2. Allocation of common operating expenses have not been done on the basis of surface area. Authority has used the average of aero opex ratio and aero asset ratio derived for the Second Control Period as per the independent study for allocating the common costs heads for third control period. We believe that the methodology being adopted by the Authority is scientific and acceptable barring allocation of few of the cost heads for which we have submitted our views in our response to the consultation paper. We request the Authority to kindly consider the same in the final tariff order.

	principle and are open to have further discussions on the subject.	
Proposal 7.3.4	The Authority proposes to consider the operating expenditure as set out in Table 112 for the Third Control Period IATA would expect HIAL to rationalize its expenses (including staffing level) to correspond to its operation in degraded capacity mode during the pandemic and the subsequent recovery period. As highlighted in the SCP section, this has not been done to the extent needed. There is a need for airport to optimize its operation and reduce costs (without compromising safety) in light of the crisis. A year-to-year projected increase is simply not acceptable and unjustifiable under current environment.	GHIAL would like to inform that the company has undertaken various cost saving measures in FY21 to curtail the spending in view of the ongoing pandemic and sustain the operations. Though 80-85% of airport opex is fixed in nature, we are being frugal to not only contain the variable cost but also rationalized the part of fixed cost wherever possible. Over the period it has introduced various measures to reduce the cost. We have been working on various sustainable cost reduction measures such as construction of 10 MW Solar Plant cater to daytime power requirement at the terminal, construction of reservoir to supply water to the terminal equivalent to its 60 days requirements. Further, we also have renegotiated all outsourcing contracts related to manpower, security, housekeeping etc. and deferred opex wherever possible to drive down the cost. In aggregate, the various initiatives collectively brought down cost by ~Rs.100 crores in FY21 over FY20. Manpower Cost: With respect to IATA's contention on projected manpower cost, we would like to state that we have always been prudent in terms of manpower hiring and incremental headcount is projected only to cater to the expansion requirements. Primarily more deployment shall be required in terminal operations, airside operations, AOCC, security & control and fire-fighting (required to meet regulatory norms), environment and

		safety, business development etc due to expansion in the capacity and the servicing areas. The expansion of Terminal from 12 MPPA to 34 MPPA increase the terminal footprint by 3x and hence it requires an increase in manpower more particularly the operational manpower to manage the enhanced operations and area. As per our estimates operational manpower nos shall double from the existing levels by the end of the control period to meet the requirements at the expanded terminal and airside operations. Owing to the increase in capacity and facilities, one-time increases of 16.5% and 29.0% has been proposed by GHIAL for manpower numbers in FY22 and FY23 respectively. However, Authority has reduced it to 15% & 17.5% plus the deferment by one year. The Authority's approach itself will put operational burden on GHIAL and accordingly we request authority to consider our submission for manpower addition. Further, only inflationary increase in manpower cost has been allowed by Authority. GHIAL request the Authority to consider real increase over inflation which is a standard industry practice to retain manpower. Administrative Expenses: GHIAL has submitted our response on the projection of administrative expenses and request the Authority to consider the same as part of final tariff order Security Cost: With respect to IATA's contention whether the increase in terminal area is the right baseline for security costs we would like

		to inform that there would be a need for increased security manpower deployment with increase in terminal area which is 3x (from 121281 sqm to 379370 sqm) and increase of passenger flow at the airport by 1.45x by FY26. Additional area pertaining to IIDT-9000 sqm and IDAT- 4000 sqm area shall also be under security cover even post completion of expansion. Hence, security cost is required to be increased in proportion to the terminal area and we agree with Authority's position on the same. <u>Bank Charges:</u> We have submitted our response on bank charges and working capital projections vide our submission dated 30th July 2021. Request Authority to kindly consider the same. <u>Utility Costs:</u> GHIAL has been working towards meeting 50% of the utility requirement through sustainable sources viz solar plant, recycling plants, reservoirs etc and helps in achieving cost savings The operating cost study of the Authority vindicated GHIAL stand on operating the airport efficiently. Further, as there are no objective comments made by IATA on the subject matter, hence we are refraining from any response. <u>Housekeeping costs:</u> We agree to Authority's approach for increasing the housekeeping cost in proportion to the increase in terminal area in line with expansion. 80% of the housekeeping is fixed in nature

		and maintenance and upkeep of the infrastructure has to be ensured irrespective of the traffic levels. Hyderabad Airport has an integrated terminal and doesn't have flexibility to shut down a section of the terminal. Hence, minimum upkeep has to be ensured regardless of traffic flow. Hence any linkage cannot be made to apportioning of cost in terms of the traffic. With respect to other operating costs, the Authority has proposed only inflationary increase in expenses (except manpower) and it would be very challenging for us to operate with a meagre inflationary increase given the fact that airport is undergoing major expansion. We have submitted our views w.r.t other operating costs in our submission dated 30th July 2021 and request the Authority to consider them favorably.
Chapter 8 – Non Aeronautical Revenue for 3rd Control Period		
	IATA would like to reiterate our position that Single Till is the fairest and optimal approach in regulating airports.	The till issue has already been settled in case of GHIAL. In accordance with section 42 (2), the MoCA vide its letter dtd. 10th June 2015 has directed AERA for adopting 30% shared till in case of GHIAL
Proposal 8.3.1	To treat revenues from Cargo, Ground Handling, Fuel farm, Ground Power Unit, ICT services (CUTE, CUSS, BRS & IT) as aeronautical in nature.	We made a detailed submission on treatment of CGT based on contextual reading of AERA Act, Concession Agreement, AG opinion, SG Opinion and the opinion of ex-CJI. We request the Authority to reconsider its stand on the issues by taking cognizance of the said submission.
Proposal 8.3.2	To treat other income comprising of interest income and dividend income under the regulatory purview on the basis of the nature of service.	Interest income and dividend income is earned by GHIAL due to its investment out of the cashflow generated by the Company. The investment was made by retaining the cash in the business rather than dividend out. Hence the Authority should exclude the

		second order derivative of the cashflow which is earned by GHIAL due to its prudent liquidity policy. We have given a detailed response to the Authority to consider as part of final order
Proposal 8.3.3	To treat revenue from real estate development as non-aeronautical in nature.	Revenue from real estate is non-airport as per Part 2 of Schedule 3 of GHIAL Concession Agreement and request the Authority to treat the same as outside Till.
Proposal 8.3.5	To consider Non-Aeronautical Revenues as set out in Table 117 above	With respect to IATA's view of treating revenues from flight kitchen as aeronautical, we would like to state that the flight kitchen services are currently being concessioned out to third party operators and GHIAL receives revenue share and lease rents for the area leased out to them. Moreover, the same treatment has been accorded to the activity across airports, which is in line with the provision of the AERA Act and relevant concessions. The Authority has already considered the linkage to the traffic in projecting revenues for the F&B service, which may have been overlooked by IATA in its response on such revenue projections
Chapter 9 – WACC for the TCP		
Proposal 9.3.1	The Authority proposes to consider cost of equity as 15.17% as per the outcome of the independent study. In summary, below are the recommendations with respect to the Return on Equity: • Acknowledge that HIAL (as well as the other Indian regulated airports)	We would like to draw the attention of IATA that CAPM is a globally accepted and adopted approach for determination of cost of equity and each component of CAPM has its scientific way of determination to make it more relevant and relatable for the reward of inherent risk that the shareholder of the assets carry. We would like to submit our response on IATA observations on the following: **Beta –**

	demand risks are significantly mitigated (due to the true up mechanism) and therefore use a lower asset beta relative to any other comparator airport (or even consider using betas of utilities). • Ensure that there is consistency between the ERP assumption and the Risk free rate to avoid "double counting" of risks. • Consider updating data for the bond based and CDS based approaches for calculating the Return on Equity • Consider dropping the forward-looking analysis on ERP	Derivation of Beta is function of various external risks which are beyond the control of the assets. The estimate for Beta incorporates non-diversifiable risks related to assets like investment risk, political risk, regulatory risk, economic risk, risks due to current pandemic like situation, counterparty risk, force majeure risk, default risk, execution risk, cashflow mismatch risk etc. The true up process would not help GHIAL to absorb the risks in full. Accordingly, GHIAL still carries significant non-diversifiable risks which are required to be considered while considering Beta. IATA ascribing beta of 0.4 or below without giving any basis lacks credence. IIMB study factors assets beta based on proximity score while CRISIL study factors asset beta of developing countries as best proxy for assuming the asset beta of GHIAL. We request the Authority to consider assets beta of 0.76 as determined by CRISIL as it is more relevant to GHIAL. **<u>ERP & Risk Free Rate</u>** IATA in its submission for risk free rate completely ignored the CAPM methodology used for determining return on equity. It is a fundamental concept that the risk-free rate and ERP are two different concept altogether. ERP is a premium which factors in the market risk the company carries over and above the risk-free rate for undertaking the business and this needs to be rewarded by way of incremental return. The Authority in its study has broad-based the ERP by considering average of four approaches and there is no double counting of equity risk premium and risk-free rates. W.r.t. Damodaran model (emerging market equity risk premium based on country risk premium), it has been observed that he has derived the Indian ERP by adding an adjustment factor that reflects the sovereign risk estimate of the Indian equity

		markets. To derive this adjustment factor, Damodaran employs two proxies, a. based on rating of sovereign bonds and b. based on CDS spreads in both cases, Damodaran modifies adjustment factor by the average ratio of equity volatility and bond volatility across emerging markets (= 1.23). Accordingly, IATA's apprehension of double counting of risk is without basis and merits no attention. Further, we agree with IATA that the Authority should not consider 18 year horizon in case of risk free rate rather many airport regulatory authorities across the globe as well as domestic regulatory authorities across other infrastructure sector use long-term securities with residual term of 10 years. Hence, we would like to submit that Authority should consider 10 year horizon for GOI bonds for calculating the risk free rate of return.
Proposal 9.3.2	The Authority proposes to consider cost of debt as 8.82% based on its assessment of the cost of Rupee Term Loan and the effective cost of the bonds already raised by HIAL.	GHIAL has achieved the financial closure for expansion by raising the final tranche of USD Bond at 9.65% (landed cost including hedging) against the estimated 10.50%. It has always been endeavor of GHIAL to raise money at a rate commensurate with its rating. The actual consideration has been communicated to AERA.
Proposal 9.3.4	The Authority proposes to consider the Fair Rate of Return/Weighted Average Cost of Capital as 12.12% for the Third Control.	WACC being a derivative of cost of equity, cost of debt and gearing, for which GHIAL has already provided its response in the preceding paras.

Proposal 9.3.5	The Authority proposes to true up actual value of cost of debt subject to a cap of 10.50%. we consider that the cost of debt should be lower and therefore, the corresponding cap should be lower as well. Moreover, we see that AERA is proposing to cap the entire cost of debt at 10.50% when there is already hedged debt at fixed lower rates than 10.50%. We would appreciate for AERA to review its proposals on the basis of these points	GHIAL as a responsible corporate always look for opportunity to raise money at a competitive rate. GHIAL contracted the balance debt required for funding of expansion project at 9.65% as against the consultation paper approved rate of 10.5%. Further cost of debt at one particular time is based on multiple factors such as inflation, treasury yields (dom and international), RBI's monetary policy etc. Given the fact that cost of debt is a function of market forces which at times beyond the scope of the borrower, we appreciate the Authority's approach of setting up a target band within which GHIAL shall operate. GHIAL may need to raise additional debt sometime in FY2025 to refinance the offshore bonds hence would request the Authority to allow an upper cap of 10.75% (as filed in the MYTP submission) as allowable cost of debt for the third control period. Further, we request the Authority to allow true up of cost of Debt based on actual in the fourth control period.
Chapter 10 Taxation		
Proposal 10.3.1	We agree with the methodology used to derive the tax allowances. In particular with the decision on not including the 30% contribution, for the reasons clearly stated in paragraphs 10.2.2 to 10.2.4, as well as being consistent with our previous submissions on the subject.	Computing aeronautical P&L without considering 30% cross subsidization of non-aero revenues defeats the very purpose of Regulation wherein the economic and viable operations of the airport is enshrined. Since Aeronautical P&L of the Authority doesn't consider cross subsidization, the aeronautical P&L is artificially kept supressed. Further it goes against the spirit of fair rate of return on equity.

Proposal 10.3.2	We also note that in its proposal, AERA is not mentioned that it proposes to true up tax. We don't know if this is on purpose or unintentionally. In this regard, it would be important for AERA to clarify its intention in its Final order.	Although aeronautical revenue is 69% of the total revenue of GHIAL in second control period, aero tax is just 44.78% of total tax outgo of GHIAL. This shows the fundamental flaw of tax computation wherein aeronautical P&L is suppressed by 30%, i.e. equivalent of cross subsidization. We have made our submission on the allocation of taxes and would request the Authority to consider the same at the time of final order
Chapter 12 – Quality of Service		
Proposal 12.3.1	The Authority proposes not to consider any adjustment in the aeronautical tariff during the Third Control Period with regards to Quality of Service.	IATA's belief that ACI's ASQ's standard is qualitative, and perception based while completely ignoring quantitative is unfounded as almost all the major airports globally are participating in the ranking process. We are adhering to the quality-of-service standards as defined in the concession agreement and has over exceeded the minimum standards prescribed in the concession agreement since inception. GHIAL has been a leading airport globally as per ACI ASQ Survey.
Chapter 13 – ARR for the TCP		
Proposal 13.3.2	In addition to the horrendous substantial increases, we also note that there is still different treatment to airlines (since equivalent aircraft would be paying differential charges on whether they are domestic or international). This appears to be contrary to the TDSAAT	The rate card proposed by GHIAL is non-discriminatory and the differential rates for domestic and international landing are based on rates charged by AAI airport prior to Airport opening. In the proposed rate card, there is no significant differentiation in domestic and international landing charges. These difference in charges are broadly comparable with other International Airports too. Also worthwhile is to mention that there has not been any major increase in landing and parking charges in almost last 12

	decision for BLR (as summarised by the Authority in paragraph 1.4.3 v). Separately we would also like to comment on the Variable Tariff Plan. This falls under the marketing cost and as highlighted earlier it should not be considered as a cost for the determination of the ARR. HIAL is most welcomed to offer the scheme in a non-discriminatory and transparent manner but it shouldn't be cross subsidized by other users as per ICAO policies on charges	years (except for a 10% increase in year 2009). Based on the WPI inflation index of 4.6% compared for the year 2009 over the year 2021, the company is entitled to increase the Landing and Parking charges by 172%. We would like to highlight that the variable tariff plan proposed is non-discriminatory and shall be available to all the airlines in a transparent manner. The non-discriminatory classification of customers based on intelligible non-arbitrary criteria where such criteria with a rational link to the purpose of business is valid and there are precedence of the Authority approving such VTP. The intent of the proposed tariff plan is to support new route development and growth of air travel. This shall help in faster bounce back of air traffic which is critical for the survival of aviation industry in the current situation. The benefit of better utilization of asset will not only support the increase in traffic but also improve satisfaction of the passengers. The major beneficiary of this will be airlines only as from airport operator perspective traffic increase is subject to true up

GHIAL urges IATA to be more objective in its assessment and should not be driven by the sole intent of reduction in charges which emanates from the building block approach of economic regulation. GHIAL made significant investment to increase the capacity which was the need of the hour and was enthused by the then airlines community and passenger bodies. The expansion undertaken by GHIAL in turn would help the airline and passenger community to have better flying experience as we believe the growth is expected to come back once the vaccination program of the Government achieves the critical mass.

Annexure -2

Aviation is a true Global industry. It connects people, culture and businesses across continents. It has weathered crisis and demonstrated resilience and emerged stronger out of every challenging situation. GHIAL firmly believes that with the pace of vaccination the pandemic would be under control, the aviation industry will rebound fast and will propel the economy's growth engine. Accordingly, the airports are to be ready for such future growth and vision of our country to become the third largest aviation market by 2024. Worldwide Airports are using this time as an opportunity to build capacity, upkeep and up-gradation of existing assets. As per CAPA Indian Airport has incurred Rs 7000 Cr of losses in FY'21 and in FY'22 they would require $1.6 billion of additional funding to meet working capital, capex and debt service obligations in FY'22. Accordingly, FIA proposal of no increase in tariff is not practical and lacks foresight as the survival of both airlines and airports are mutual. Airports also need funds to sustain airport operations. In current pandemic Airports are rebuilding confidence among flyers in Air Travel. Airport are playing pivotal role in promoting safe air travel and comfort. Following are our point wise response to FIA comments:

Ref.	FIA's response	GHIAL's Comments
Annx. A	The Consultation Paper read with Tariff Card, inter alia, proposes an increase/hike in the aeronautical tariff at HYD as mentioned under Annex – A. In this regard, FIA humbly requests AERA to not implement any increase in the aeronautical tariff in the Third Control Period and defer any increase in the same to the subsequent control period, given the adverse financial impact of COVID-19 on airlines.	FIA in Annexure-A demonstrated the YoY % increase in tariff. In this regard we would like to submit that Airports are operating in a regulatory environment and the regulated returns for Airports are spread over the period. Further, the airport operator is obligated to maintain the airport in all respects irrespective of traffic volume. As airport operator, GHIAL has obligation to pay its employees, vendors and service its debt on time along with meeting the ongoing expansion project commitments. Hence, the proposed enhancement of aeronautical tariff is well justified.
Annex B - 1	FIA submits that AERA was established by the Central Government through its Notification dated 12.05.2009. Further, Chapter 3 of the Airports Economic Regulatory Authority of India Act, 2008, as amended (AERA Act) which stipulates the powers and functions vested in the	We request FIA to peruse the TDSAT Order as cited by the Authority, the relevant extract of the order is reproduced for better comprehension of FIA: Following is the relevant extract of the order:

Ref.	FIA's response	GHIAL's Comments
	AERA inter alia including determination of Aeronautical Tariff, was notified on 01.09.2009. Accordingly, AERA cannot retrospectively determine the HIAL's Aeronautical Tariff when the aeronautical tariff for the period prior to its formation was being determined by the Ministry of Civil Aviation (MoCA) on an ad hoc basis. Without prejudice to the above, it is submitted that passengers/airlines travelling cannot be burdened unnecessarily on account of the losses suffered by the HIAL prior to the First Control Period. It is a settled position of law that: (a) future consumers cannot be burdened with additional costs as there is no reason why they should bear the brunt; and (b) the regulatory authority is required to take into consideration the efficient working of a utility as also the interests of the consumers while deciding the claims of the utilities. AERA being a creation of the statute is duty bound to balance the interest of all the stakeholders and consumers in terms of the AERA Act. In view of the above, FIA requested AERA to kindly disregard/exclude claims of pre-control period losses claimed by HIAL. Without prejudice to the above, it may be noted that true up of pre-control, if considered by AERA, should be done on a 'Single Till'.	*The claim for pre-Control Period losses as determined in various parts of Para 5 of the first tariff order and virtually reiterated in the next tariff order are set aside and the claim is remitted back to AERA for fresh consideration on its own merits and in accordance with law.* The tariff determination process is based on the provisions of respective concession agreement, principles of regulatory guidelines, and in compliance with the judicial pronouncements. The true up mechanism is in accordance with tariff guidelines. The till issue has already been settled position in case of GHIAL. In accordance with section 42 (2), the MoCA vide its letter dtd. 10th June'2015 has directed AERA to adopt 30% shared till in case of GHIAL.
B.4	<u>**Analysis of RAB and capex**</u> FIA appreciates that considering the reduced traffic owing to COVID-19, AERA has rationalised the capital expenditure and excluded certain proposed additions by	This is with respect to the Authority's proposal of 1% penalty we would like to submit that it is always in the interest of an Airport Operator to complete the project on time and capitalize the assets at the earliest instance. However,

Ref.	FIA's response	GHIAL's Comments
	HIAL to RAB. FIA acknowledges AERA's decision to reduce 1% of the project cost from ARR/Target Revenue, as re-adjustment, in case any capex project is not capitalized by HIAL as per capitalization schedule approved in the tariff order. This approach is in line with the decision of Hon'ble TDSAT judgement dated 16 December, 2020 applicable for Bangalore International Airport Limited (BIAL). FIA submits that in the current scenario post COVID-19, all non-essential capital expenditure should be put on hold or deferred, and only such capital expenditure deemed critical from a safety or security compliance perspective may be undertaken by HIAL. Further, as mentioned in para 6.2.17 of the Consultation Paper, FIA will await HIAL to complete the process of stakeholder consultation (by way of AUCC meetings) for capital expenditure projects for the Third Control Period. In case HIAL wants to undertake any capital expenditure, then it needs to be ensured that no additional expense is borne by the airlines until the project is completed and put for use to the airlines/passengers. Further, FIA requests AERA to conduct an independent study for allocation of assets in the Third Control Period.	sometimes due to the reason beyond control of the airport operator the project may get delayed. The Airport Operator should not be penalized for the circumstances/reasons beyond its control. Further, in current scenario GHIAL requests Authority to waive 1% penalty in case of delayed execution as GHIAL is passing through extraordinary time due to COVID pandemic and already the project team has to face two bouts of pandemic waves during the execution. Hyderabad Airport initiated the expansion program when it was managing 20 mn pax with a capacity of 12 mn. Expansion work is substantially completed and is more beneficial for all stakeholders operationally and economically to complete this project of modularly expanding the terminal before traffic grows back significantly. Further based on peak hour traffic demand the project is not ahead of time. GHIAL undertook AUCC for the present expansion phase and post detailed deliberation and considering the market demand the expansion work had been conceptualized and kick started.. During AUCC all the stakeholders including FIA were present in the meeting and endorsed GHIAL's plan of capacity expansion as the airport was experiencing congestion during peak hours and capacity expansion was the solution to address the growth. FIA should be mindful that the project awarded in October 2018 (during peak aviation growth) on LSTK basis and GHIAL has achieved overall progress of ~68%. Slowdown in the pace of execution of the project at this juncture shall lead to incremental carrying cost on account of liquidated damages and IDC resulting into incremental aeronautical charges.

Ref.	FIA's response	GHIAL's Comments
		Further, as per various industry experts the traffic is expected to rebound by 2023-24 and by then there will be a dire need of expanded Terminal. Accordingly, there is no economic proposition of slowing down or holding any capex. All the works undertaken are essential and necessary to cater to the next phase of growth. With regard to AUCC referred at Para 6.2.17, we would like to draw attention of the Authority that AUCC for the project (runway re-carpeting) is already concluded in September 2015 wherein it was proposed that the execution would be carried out in 2 phases between FY 18 to 21 and the balance in FY 22 to 24. This had been clarified to AERA subsequently vide our letter no. 1484 dtd. 12th Nov'2020. Further, we would like to clarify FIA that as per the building block approach the asset is considered in RAB only when it is capitalised as per accounting standards.
B.5	**<u>Depreciation</u>** FIA submits that AERA should consider the useful life of Building including Terminal Building as sixty (60) years as envisaged in AERA Order No. 35/2017-18 read with Schedule II of Companies Act 2013, as applicable, and revise the amount of depreciation accordingly. It is pertinent to note that useful life of assets at various international airports like London Heathrow, Sydney airport and Amsterdam airport indicated that terminal buildings have useful life of as long as sixty (60) years and aprons have it for as long as ninety-nine (99) years. FIA submits that the useful life of terminal building for	In the order no 35/2017-18, Authority has clearly stated the useful life will be the available lease period or the useful life prescriber whichever is less. Following is the relevant extract: *Where assets are developed/ constructed/ put to use, they should be depreciated over the available lease period or the useful life prescribed, whichever is less. Value to be depreciated should be determined after reducing any asset realisation value that the Operator may get, when the lease is surrendered. For the purpose of identifying the balance useful life, balance period remaining out of the initial lease period plus the first extension at the option of the Operator should be*

Ref.	FIA's response	GHIAL's Comments
	Kannur and Cochin airports have been considered sixty (60) years by AERA. AERA should prescribe sixty (60) years for the 'Building' including 'Terminal Building as' is practiced by some of the developed aviation ecosystem. In view of the above, we request the above recommendations are taken into account for all Control Periods at HIAL.	*considered, unless confirmed decision for non-renewal of lease is taken and recorded by the Airport Operator.* GHIAL has considered the life of terminal building as 30 years which is in line with the Companies Act and also aligned to order no 35/2017-18 of AERA. Hence, the contentions of FIA in this regard will not hold any water.
B.6	While FIA appreciates that AERA has undertaken an independent study for Operating Expenditure/ Operations & Maintenance expenses for the Second Control Period, AERA may undertake a similar independent study for the Third Control Period. Without prejudice to the above: 1. AERA may advise HIAL to rationalize/re-negotiate all the cost/expenditure items or heads, as deemed fit. Further, no escalations should be permitted under these items or heads. In particular, increase in manpower requirements of HIAL allowed by AERA from FY 23 (refer para 7.2.5) appears to be not in line with the increase in outsourced manpower allowed only from FY 24 (para 7.2.37). Accordingly, it is requested that AERA review the HIAL's overall manpower requirements (including outsourced) and costs keeping in view projected usage of terminal building and passenger traffic.	<u>**Following is our point wise response:**</u> 1. The expansion of Terminal from 12 MPPA to 34 MPPA will require increased manpower to manage the enhanced operations. As per our estimates operational manpower nos. shall double from the existing levels by the end of the control period to meet the requirements at the expanded terminal and airside operations. Owing to the increase in capacity and facilities, one-time increases of 16.5% and 29.0% has been considered for manpower numbers in FY22 and FY23 respectively as per GHIAL submission. However, Authority has reduced it to 15% & 17.5% with one year deferment. The approach of additional manpower requirement linked to traffic is not optimal as GHIAL was managing the passengers processing through its existing constrained terminal and hence optimized the manpower deployment which shall be achieved in expanded terminal over the period in line with

Ref.	FIA's response	GHIAL's Comments
	2. Expenses on account of CSR may be excluded in line with previous decisions by AERA, w.e.f. First Control Period. 3. AERA to clarify whether any detailed assessment on working capital facility interest has been conducted. FIA submits that an allowance of working capital interest would result in an artificial increase in the total operating expenditure and thereby have an adverse impact of increasing the tariff. Accordingly, AERA is requested to undertake a detailed assessment for allowing such interest.	passenger growth. Since the impact of pandemic is felt in traffic, GHIAL is not proposing any linear growth in manpower headcount in line with traffic. The Authority's approach will put operational burden on GHIAL and accordingly we request authority to consider our submission. Further, the outsourced manpower requirement comes immediately after the commissioning of the project, since the project is commissioned phase wise, the requirement is considered accordingly. 2. The CSR expense is a statutory levy and in a regulatory environment the regulated entity is entitled for the allowable return accordingly any statutory levy diminishing the regulatory return needs to be considered as pass through in tariff. 3. We believe that the working capital interest has been calculated basis the projection of the Authority, It is not an artificial expense as surmised by FIA. Working capital is a day to day business requirement which is paramount in the given business circumstances.
B.7	**<u>Non-Aero Revenue:</u>** FIA submits AERA to conduct an independent study on the Non-Aeronautical Revenues, in accordance with AERA Act. Without prejudice to the above, FIA submits that: 1. 'Royalty' is in the nature of market access fee, charged (by any name or description) by the services providers under various headings.	Following is our point wise response: 1. Royalty- We would like to bring to the notice of FIA that currently there is no royalty charged at GHIAL. 2. As per the terms of the concession agreement, Cargo is a non-aeronautical service and accordingly any revenue from non-aero services should be treated as non-

Ref.	FIA's response	GHIAL's Comments
	These charges are passed on to the airlines by the service providers, without any underlying services. The rate of royalty at HIAL is up to approx. 24%. It may be pertinent to note that market access fee by any name or description is not practiced in most of the global economies, including European Union, Australia etc. In view of the above, we urge AERA to abolish such royalty which may be included in any of the cost items - aeronautical and non -aeronautical; and 2. Para 8.2.19 and Para 8.1.20/21 – FIA welcomes AERA's decision to treat revenue from Cargo services as 'aeronautical'. Further, FIA also welcomes engagement of new and additional cargo/independent service providers (ISP) at HYD, which will ensure competition and provide options to users/airlines for cargo. In this regard, AERA is requested to kindly: (a) undertake relevant independent studies for determination of maximum rate/tariff for cargo to be charged by ISP of cargo at HYD and (b) ensure that maximum rates/tariff for cargo as determined by AERA, are kept competitive keeping in view the traffic volume of cargo.	aeronautical. A detailed response in this respect has already been provided as part of our response to consultation paper. The tariff of Cargo is not a subject matter of this consultation paper. Hence, we have not commented at this juncture and reserve our rights to deal with the same at an appropriate time
B.8	**Weighted Average Cost of Capital (WACC)/Fair Rate of Return (FRoR):** FIA appreciates that the AERA has conducted an independent study on Cost of Equity. However, it is observed that WACC/FRoR has increased from 10.84% in	Airport business is a unique business with set of challenges which other regulated sectors do not have. Running PPP project and managing multiple set of stakeholders is highly challenging and carries huge risk in terms of meeting the requirements of concession agreement, state and central

Ref.	FIA's response	GHIAL's Comments
	the Second Control Period to 12.12% in the Third Control Period. FIA submits that fixed/ assured return favours the airport operators, and creates an imbalance against the airline, which are already suffering from huge losses and bear the adverse financial impact through higher tariffs. Further, due to such fixed / assured returns, service providers like HIAL have no incentive to look for the productivity improvement or ways of increasing efficiencies or take steps to drastically reduce costs as they are fully covered for all the costs plus their returns. Such a scenario may result in inefficiencies and higher costs, which are ultimately borne by the airlines. In the present scenario any assured return on investment (i.e., return on investment after the income tax), in excess of three (3) %, i.e., being at par with bank fixed deposits, will be onerous for the airlines. In view of the above, AERA is requested to immediately review WACC/FRoR by capping the returns to a maximum of three (3) % w.e.f. First Control Period.	government requirements and other stakeholder requirements. In this regard we would like to draw FIA's attention towards 2008 wherein the Shamshabad Airport was a barren land and it was GMR who took the challenges with all risk involved and delivered the project in time and consistently ranked as one of the world's best airport in its category. The investment toward the project is a long term and accordingly the investor look for the stable return on equity over the project life cycle. The FRoR is a derivative of the WACC calculations as provided in the tariff guidelines. Further, the tariff guidelines also provides the methodology to be used to determine the cost of equity. The CAPM is the model which has to be used to determine the cost of equity for Airports. FIA submission has no merit and is purely arbitrary in nature.
B.9	**Methodology for Tariff Determination – Hybrid Till Vs. Single Till:**	The till issue has already been settled in case of GHIAL. In accordance with section 42 (2), the MoCA vide its letter dtd. 10th June'2015 has given direction to AERA for adopting 30% shared till in case of GHIAL. FIA by raising the settled principle again is misguiding the stakeholders and users.

Ref.	FIA's response	GHIAL's Comments
B.10	**<u>Aggregate Revenue Requirement/Aeronautical Tariff and Shrinkage in Control Period:</u>** (i) AERA is requested to review the suggestions/comments on the regulatory building blocks as mentioned under Annex – B, which is likely to reduce the ARR of HIAL. This will further ensure the lowering of tariff including UDF, which will be beneficial to passengers and airlines. (ii) With regards to the entitlement of the collection charge of Rs. 5 per departing passenger, FIA submits that instead of the same being conditional upon all dues, interest of dues, and other charges being paid within the due date, the entitlement should be against HIAL having received the undisputed invoiced UDF amount with the applicable due date. (iii) FIA submits that the Hon'ble TDSAT Order dated 16 December, 2020 for BIAL stated as follows: '100…However, there is substance in this grievance and AERA will do well to ensure that if delay is caused by the Airport operator, its consequences should not fall upon the users. Tariff orders should be prepared well in time so that the burden of	**<u>Following is our point wise response:</u>** (i) GHIAL has made the point wise response to FIA comments in the above paras. We request Authority to consider our submission towards FIA response. (ii) The condition of payment within due date is kept to maintain credit discipline. Airlines collects the Airport Charges on behalf of Airport in the fiduciary capacity and hence it is obligatory on the part of airlines to pay the money within timelines. GHIAL approach on payment of collection fee is based on prudent commercial practice. (iii) GHIAL has extended and provided all the required support to Authority in determining the tariff well within time.

Ref.	FIA's response	GHIAL's Comments
	recovery is spread over the entire period for which the order is passed...' In view of the above, AERA is requested to ensure that airlines/passengers are not burdened in view of the apparent shrinkage in the period of recovery of the aeronautical tariff from passengers/airlines, as the AERA Tariff Order for HIAL's Third Control Period will now be issued after the commencement of the Control Period i.e. 1 April, 2021.	

Annexure 3: Response to email from DACAAI

We have perused the submissions of DACAAI to the Authority and would like to submit that the present consultation is for determination of aeronautical charges of airport operator. Below is our point-wise response to the issues raised by DACAAI

1. **Freeze all kind of charges including aeronautical or cargo handling terminal charge increase for next 2021-22, 2022-23 & 2023** – We have not proposed any increase in cargo tariff in current consultation

2. **Clubbing of multiple heads of terminal charges into One Single Per Kg "Terminal Handling Charge"**– This relates to cargo tariff and doesn’t fall within the ambit of current consultation

3. **Uniformity of Charges for same service** – This relates to cargo tariff and doesn’t fall within the ambit of current consultation

4. **CTOs to offer 50% flat discount in Terminal Charge to boost movement of agri-horti produce** – This relates to cargo tariff and doesn’t fall within the ambit of current consultation

However, we would like to remind that the cargo operator at Hyderabad Airport has not increased the terminal charges since its commencement of operations in FY08 and cargo charges at Hyderabad Airport are one of the lowest in PPP Airports.

DACAAI also failed to appreciate the fact that as part of rate card for third control period we have introduced VTP to incentivize the growth of cargo business through introduction of new route/s which have remained unserved from Hyderabad Airport by any cargo airline and also introduced Key Partnership Program for Freighter Airlines. This will significantly reduce the flying cost of qualified freighter airlines Ex-Hyd and opens up significant opportunity for the shippers to expand their market footprints in new geographies.

Annexure 4- Response to Blue Dart Aviation Ltd.

We have perused the submissions of Blue Dart Aviation Limited (hereinafter called “Blue Dart”) to the Authority and would make a general submission that the magnitude of financial challenges inflicted by Covid-19 is enormous and each stakeholder needs to find out ways of overcoming the challenges. The basic framework of economic regulation of airport infrastructure is to ensure that airport operator gets it entitlement based on the regulatory building build unlike airlines who don’t operate under “price cap” and are free to determine price for their services.

Given the above context, we would like to submit the following:

1. With respect to Blue Dart’s observation on proposed landing and parking charges we would like to inform that the increase in LPH proposed in the rate card is emanating from the entitlement as determined by the Authority which GHIAL is required to recover the same in the third control period;

2. With respect to Blue Dart’s request for no increase in aeronautical charges for the next 2 years we would like to inform that GHIAL, as airport operator, has its own obligation to pay its employees, vendors and service its debt on time and hence the proposed freeze in aeronautical charges for a period of next 2 years is not practical as the rate card filed by GHIAL is in line with the entitlement as ascertained by the Authority.

3. In the stakeholders meeting GHIAL presented the various cost reduction and cost deferral measures it undertook to reduce the operating cost. Despite the airport operator cost structure being largely fixed, GHIAL reduced the overall cost by ~22% in FY21 over FY20.

4. As explained in the preamble, airport infrastructure being regulated business, it operates under “price cap regulation” wherein the Authority arrives at entitlement based on efficient capex and opex as well as fair return on equity (which is based on expert study). Hence any statutory levy, akin to tax, shall reduce the fair return on equity of the airport operator and hence the Authority has rightly considered CSR spent as part of allowable opex.

5. GHIAL carried out AUCC for capacity expansion to 34 MAP wherein all the stakeholders unanimously agreed for expansion of Rs.5,516 crores proposed by GHIAL given the robust passenger growth that the airport experienced and accordingly the cost was committed through competitive bidding. Since GHIAL made significant overall physical progress in expansion works, the carrying cost of postponement would be significantly high leading to higher aeronautical charges.

6. Cost of Debt is function of tenor, credit rating and interest rate outlook. The blended cost of debt of GHIAL is commensurate with its credit rating and the current interest rate

regime. The cost of debt proposed by GHIAL are one of the most competitive given the environment and challenges in which the GHIAL airport functions.

GHIAL always makes endeavor to optimize the borrowing cost and explore alternative market options of fund raising to reduce the cost of debt progressively.

7. GHIAL would like to inform that the company has undertaken various cost saving measures in FY21 to curtail the spending in view of the ongoing pandemic and sustain the operations. Although 80-85% of airport opex is fixed in nature, but we are being frugal to not only contain the variable cost but also rationalized the part of fixed cost wherever possible. GHIAL is a cost sensitive organization and will always ensure efficient operations.

   It may be noted that the real increase proposed by GHIAL in its MYTP filing was not considered by the Authority and only inflationary increase of 4.6% is allowed. It would be very challenging for GHIAL to operate with a meagre inflationary increase given the fact that airport is undergoing major expansion.

8. The Authority allowed one time increase in manpower number in FY23 and FY24 for 15% and 17.5% respectively against GHIAL submission of 16.5% and 29% in FY22 and FY23 respectively. The expansion of Terminal from 12 MPPA to 34 MPPA increase the terminal footprint by 3x and hence it requires an increase in manpower more particularly the operational manpower to manage the enhanced operations and area. The Authority's approach itself will put operational burden on GHIAL and accordingly we request authority to consider our submission for manpower addition.

We would like to bring to the notice of the stakeholder the fact that as part of rate card for third control period GHIAL has introduced VTP to incentivize the growth of cargo business through introduction of new route/s which have remained unserved from Hyderabad Airport by any cargo airline and also introduced Key Partnership Program for Freighter Airlines. This will significantly reduce the flying cost of qualified freighter airlines ex-Hyd and opens up significant opportunity to expand into new geographies.

Annexure – 5

We support the views of APAO, ADP and ACI in response to the consultation paper no 11/21-22 for third control period of Hyderabad Airport