

AIRPORTS ECONOMIC REGULATORY AUTHORITY OF INDIA

Minutes of the Stakeholders' Consultation Meeting held on 25.10.2021 at 11:00 AM on Virtual Platform.

CONSULTATION PAPER No. 17/2021-22 TO CONSIDER THE MULTI YEAR TARIFF PROPOSAL FOR DETERMINATION OF AERONAUTICAL TARIFF FOR THE THIRD CONTROL PERIOD (F.Y. 01.04.2021 TO F.Y. 31.03.2026) IN RESPECT OF AAI CALICUT INTERNATIONAL AIRPORT.

1. AERA Act, 2008, Sec.13(iv)(a) empowers AERA to ensure transparency in Consultation Process for determination of tariff in the wider interest of the public and the stakeholders. Accordingly, a Stakeholder Consultation Meeting was convened by the Authority on 25.10.2021 at 11.00 AM through Video Conferencing to elicit the views of the Stakeholders on the Consultation Paper No. 17/2021-22 dated 07.10.2021 issued by the Authority to consider the Multi-year Tariff Proposal for the 3rd Control Period (FY 2021-22 to FY 2025-26) in respect of Calicut International Airport. The list of participants is enclosed at **Annexure-I.**
2. Chairperson, AERA welcomed all the Stakeholders present in the meeting and extended his greetings. Further, he invited Airports Authority of India (AAI) officials to present their submissions in response to the Consultation Paper for Calicut International Airport and assured other stakeholders that they would get an opportunity to express their views after AAI's presentation.
3. **Airports Authority of India**
- 3.1 It was conveyed that the presentation would be made in two parts. The first part would be presented by Airport Director (Calicut) which includes the key features of Calicut International Airport and that the second part would be presented by GM - Finance, AAI, in which responses to the Consultation Paper regarding Calicut International Airport would be submitted

Mr. R. Mahalingam, Airport Director, Calicut International Airport gave a detailed presentation on the Calicut Airport. The presentation covered the following details:

- 3.2 Airport Director- Calicut, started the presentation by highlighting the technical details regarding the Airport. Further, he presented pictures of the terminal building, runways, taxiways, NIAB, city side flooring, Inline Baggage Handling system, CCTV server etc to provide a holistic layout of Calicut International Airport. He explained that Calicut Airport has taken robust measures for prevention of Covid 19 in compliance with the directives of Ministry of Civil Aviation and Ministry of Health. Some of the key features of the Airport include:
 - Calicut is the Gateway to Malabar and the Airport started its domestic operations on 13th April 1988 and international operations on 15th February 1992. The Airport

became operational for 24 hours from 26th October 2003. It is a DGCA licenced airport with certifications on ISO 9001 and ISO 14001.

- The total area of the Airport is 378.45 acres, with Runway orientation of 10/28 and length of 2,860 meters. The Airport has terminal capacity to handle 1,500 international pax and 500 domestic pax during peak hours.
 - The passenger traffic showed an increasing trend till FY 2018-19. There was a slight dip in FY 2019-20 and drastic decline in FY 2020-21 in passenger traffic due to the adverse impact of Covid-19 pandemic. However, the passenger traffic is showing an increasing trend for FY 2021-22 from April 21 to Sept. 21, with total pax ranging up to 0.55 MPPA (for April 21 to Sept. 21).
 - ATM traffic is showing signs of recovery in the FY 2021-22, after a significant decline in FY 2020-21 due to Covid-19 pandemic.
 - The Scheduled domestic airlines during Pre-Covid period were Air India Express, Air India, Alliance Air, Spice Jet and Indigo. The scheduled international airlines during Pre-Covid period were Air India Express, Air India, Fly Dubai, Spice Jet, Air Arabia, Etihad, Oman, Qatar, Indigo, Saudi Arabian Airlines, FLYNAS and Gulf Air.
 - Average ASQ rating given by ACI for Calicut Airport for the year 2020 was 4.81, for 2019 was 4.78 and for 2018 was for 4.74.
- 3.3 The Airport Director then gave an overview of the major capital works executed at Calicut Airport, which comprises of Strengthening and Recarpeting of Runway, civil works at NIAB, SITC of Inline Baggage Screening system, purchase of body scanner etc.
- 3.4 Total Aeronautical additions during the Second Control Period was Rs 226.60 crores and for the Third Control Period was Rs 86.74 crores.

Mr. CV Deepak GM (Finance), AAI made a presentation which detailed AAI's submission to the Consultation Paper No. 17/2021-22

- 3.5 Mr. C.V. Deepak GM (Finance) started the presentation by addressing the true up of the Second Control Period, followed by submissions for the Third Control Period and requested AERA to consider the same.

Submissions - Second Control Period

- 3.6 **Deduction of Financing Allowance of Rs 7.47 crores from RAB** - AAI made a submission that Direction 5 does not state that Financing Allowance is only for Greenfield airports. Irrespective of whether it is greenfield/ brownfield airport, there is outlay of funds for significant time when developing new terminals/ runways/ large project works.
- 3.6.1 Chairperson, AERA pointed out that AAI had not claimed Financial Allowance for the Second Control Period for any of its Airports at the time of submission of MYTP for determination of tariff for the Second (Previous) Control Period.

- 3.7 **Terminal Building ratio of 92:8** considered by AERA, as against 95:5 submitted by AAI, which were based on actual floor space usage. AAI submitted that increasing the ratio to 92:8 by comparing with other airports/generally accepted ratios may not reflect the true ground scenario in Calicut Airport. AAI also expressed its view that new ratio may be applied for future when there is a new terminal space being added.
- 3.8 **Opex – Allocation of CHQ/ RHQ expense allocation:**
- The entire process of allocation is based on a metric like revenues/assuming certain allocation percentages. AAI submitted that one time/extra ordinary costs such as CAD pension are still costs incurred by AAI and requires reimbursement. AERA guidelines do not preclude reimbursement of any one-time costs. AERA has stated that Revenues earned from JVCs like DIAL and MIAL are not netted off against the above expenses. Akin to ANS services, this is a separate stream of revenues along with its own costs.
 - AAI expressed concern over re-allocation of some expenses between ANS and Airport, which were apportioned by AAI in the ratio of 50:50. AAI submitted that seminars and other travel expenses will benefit ANS more than the Airport may not reflect the true trend in these expense heads.
 - AAI expressed concern on the ratio applied for proportionate deduction in the CHQ/ RHQ expense allocation for the FY 2016-17 and FY 2017-18 based on FY 2018-19 and FY 2019-20 amounts.
 - While AAI was in full agreement that there ought to be ‘cost relatedness’, however, they submitted that not considering costs on account of being ‘extraordinary’ or ‘one-time’ or considering part of the costs due to non-availability of details may not be reasonable.
- 3.9 **Opex – Upkeep expenses:** AAI requested AERA to consider the actual costs incurred for the second control period without restricting it based on a 10% increase after FY 2017-18, as these were based on new method of QCBS MESS/ ESS covering costly machines which were implemented for the betterment in Airport cleaning. Further, there was also increase in minimum wage rate and this has contributed to the hike in upkeep expenses.
- 3.10 **Opex – Repairs and Maintenance (R&M) expenses:** AAI requested AERA to consider the actual costs incurred for the second control period without restricting it to 6% on opening RAB, as Terminal Buildings were built more than 20 years back and AAI submitted that with ageing of the building and associated equipment, the R&M will only increase over the years.
- 3.11 **Opex – CSR expenses:** AAI submitted that CSR expenses shown in MYTP are actual costs spent. AAI further submitted that CSR costs are allocated to a station from the CHQ and hence CSR computation based on Aero profit ought to be done for a company as a whole basis and not station wise.
- 3.12 **Return on Land:** AAI requests AERA to kindly consider the return on land at least from second control period.

Submissions - Third Control Period

- 3.13 **Terminal Building ratio of 92:8** - AAI submitted that the ratio has been computed based on the actual space in the terminals and that AERA may consider the existing ratio of 95:5 submitted by AAI.
- 3.14 **Disallowance of Financing allowance** - AAI raised similar concerns that are mentioned under the Second Control Period.
- 3.15 **1% readjustment to the RAB if project not completed** – AAI requested AERA to take it on a case-to-case basis, as due to pandemic/other genuine reasons, the delay in completion of project is unpredictable.
- 3.15.1 Chairperson, AERA stated that the Authority has largely accepted the capex plan submitted by the airport operator for future capex works. Given that there is no change proposed in plan for the capex work, the airport operator should not be worried about the 1% readjustment clause. He also explained that in case of unusual circumstances, the Authority would consider into account all facts and make a reasonable decision during true up of the Third Control Period.
- 3.16 **Non Aeronautical Revenue (NAR)** - AAI submitted that generally, increase in traffic is not proportionate with increase in NAR.
- 3.17 **Opex:** AAI submitted the following:
- **Payroll:** AAI requested the Authority to consider the comments in SCP where the base of FY 20-21 has been drastically reduced without considering the actual spend. AAI requested AERA to reconsider the Second Control Period numbers and accordingly re-estimate Third Control Period numbers.
 - **All costs:** AAI submitted that expenses of FY 2020-21 have been reduced by AERA for various reasons and that the same may be reinstated by AERA while making projections for the Third Control Period.
 - **Repairs and Maintenance:** AAI stated similar concerns as mentioned for Second Control Period. AAI expressed its view that terminal Buildings were built more than 20 years back and that with ageing of the building and associated equipment, the R&M will only increase over the years.
 - **Upkeep expenses:** AAI requested AERA to reconsider the SCP numbers and accordingly re-estimate TCP numbers
 - **CHQ/ RHQ expenses allocation:** AAI requested AERA to reconsider the SCP numbers and accordingly re-estimate TCP numbers.

Shortfall of Rs 176.32 crores to be carried forward to the next control period: AAI requested AERA that after considering the above changes suggested by AAI, AERA may consider full recovery of ARR.

AAI requested AERA to consider implementation of increase in aeronautical tariffs with effect from 1st January 2022.

4. Chairperson, AERA thanked AAI officials for their presentations and invited stakeholder to present their views/comments on the consultation paper:

Airlines and Airlines Associations

Spice Jet Airlines

- 4.1 Mr. GP Gupta from Spice Jet Airlines expressed the following concerns on the Consultation Paper No. 17/ 2021-22 of Calicut Airport:

- **FRoR:** Mr. Gupta said that FRoR of 14% (post Corporate tax) is very high as compared to the return on Fixed Deposit with banks, wherein the return is only 3% to 3.5%. He requested that the above FRoR be reconsidered by the Authority.
- **Royalty:** Mr. Gupta said that currently the royalty rates for minor and major airports are about 5% and 3%. However, the royalty mentioned in the Consultation Paper for Calicut Airport for the Third Control Period is about 13%. Further, he said that considering the category of Calicut Airport, the royalty rate should be only 3%. Mr. Gupta expressed his view that royalty has been banned in some countries and the same is an unnecessary cost, as there is no underlying service.
- **Aeronautical Tariff rates:** Mr. Gupta expressed his concern over increase in Aeronautical charges, considering the slow recovery of this sector post Covid-19 pandemic.

Indigo Airlines

- 4.2 Mr. Dushyant Deep from Indigo Airlines said that Non-aeronautical revenue for the Second Control Period has been lesser and the Authority may consider higher revenue projection for the Third Control Period.
- 4.3 Further, Mr. Dushyant said that there has been a hike of 89% in the Operational and Maintenance (O&M) expenses submitted by AAI for the Third Control Period as compared to O&M expenses approved by the Authority for true up of the Second Control Period. He complimented the Authority for rationalising the above O&M costs.

Federation of Indian Airlines (FIA)

- 4.4 Mr. Ujjawal Dey from FIA did not express any comment in the meeting and said that FIA will provide written comments to the Authority on this Consultation Paper for Calicut Airport for the Third Control Period.

International Air Transport Association (IATA):

5. Mr. Amitabh Khosla from IATA, made the following comments:
- 5.1 He expressed that IATA is largely in agreement with the proposals of AERA documented in the Consultation Paper for Calicut Airport for the Third Control Period such as:
- Exclusion of Financing Allowance.

- Rationalisation of CHQ/ RHQ expenses allocation
 - Rationalisation of CSR spend
 - Decision of AERA to carry forward the shortfall to the next Control Period, instead of recovering fully the ARR in the current Control Period.
- 5.2 Mr. Amitabh said that operational and maintenance expenses should be further optimised by AAI and also he supported the comments raised by Mr. GP Gupta from Spice Jet airlines.
- 5.3 He also commented that AERA may address issue on differential tariff on international and domestic airlines.


Qatar Airways:

6. Mr. Farook Batha from Qatar Airways said that he is looking for reduction in aeronautical tariff (lower landing charges). Further he said that Qatar Airways will revert to AERA with written comments.

Oil Companies

Indian Oil Corporation Limited (IOCL):

7. Mr. Gautam Kumar Mukherjee, representative from IOCL said that IOCL will revert to AERA with written comments on this Consultation Paper for Calicut Airport for the Third Control Period.
8. Chairperson, AERA concluded the meeting with thanks to all the stakeholders and also to AAI for making an informative presentation which helped in a smooth stakeholder discussion. In addition, he requested all the stakeholders to provide their written comments within the stipulated timeline.


(Ram Krishan)
Director (P&S)

List of Participants:

Airports Economic Regulatory Authority of India

1. Mr. B S Bhullar, Chairperson
2. Mr. Ram Krishan, Director (P&S)
3. Mr. Rajan Gupta, AGM (Fin) -Tariff
4. Ms. Geetha Sahu, AGM (Fin) -Tariff

Airports Authority of India, CHQ

1. Mr. CV Deepak, GM Finance
2. Mr. Ranjit Kumar Das, AGM (Finance)

Airports Authority of India, Calicut Airport

1. Mr. R. Mahalingam, Airport Director
2. Mr. Sasikumar K M, DGM (Finance)

Representative from Spice Jet

1. Mr. GP Gupta, Chief Strategy Officer
2. Mr. Suryavir S.Bisht, Sr. General Manager, Regulatory Affairs

Representative from Indigo Airlines

1. Mr. Dushyant Deep

Representative from Qatar Airways

1. Mr. Farook Batha

Representative from International Air Transport Association (IATA)

1. Mr. Amitabh Khosla
2. Mr. Ujjwal Bakshi

Representative from Federation of Indian Airlines (FIA)

1. Mr. Ujjwal Dey

Representative from Indian Oil Corporation Limited (IOCL)

1. Mr. Gautam Kumar Mukherjee

Representative from R. Subramanian & CO, LLP

1. Ms. Krithika Gopal, Partner
2. Ms. K. Hemalatha, Aviation Expert
3. Ms. J. Lakshmi, Manager