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Dear Sir,

IATA RESPONSE TO AERA'S CONSULTATION PAPER FOR THE DETERMINATION OF AERONAUTICAL TARIFF FOR CHENNAI INTERNATIONAL AIRPORT (MAA) FOR THE THIRD CONTROL PERIOD (TCP) (04/2021-03/2026)

The International Air Transport Association (IATA) is the trade association for the world's airlines, representing some 290 airlines or 82% of total air traffic. We support many areas of aviation activity and help formulate industry policy on critical aviation issues.

The aviation industry is facing the biggest challenge of its history; restarting an industry that has essentially ceased to operate across borders while ensuring it does not become a vector for the spread of COVID-19. All while taking an unprecedented economic hit that has crippled the industry and threatening its survival.

Contrary to the misconception by some; airlines have not been bailed out by governments but in reality, they have accumulated more debts in addition to capital injection from shareholders to help them tide through this period of great uncertainty. However, airport operators are generally demanding/expecting to recover their losses from their users which further substantiate the notion that they possess market power as there is no such 'loss recovery' in normal/competitive markets. Hence, the role of AERA as the economic regulator is even more critical to bring the necessary balance and protection for airport users during these challenging times.

The consultation paper for the determination of Aeronautical Tariff for Chennai International Airport (MAA) for the Third Control Period critically examines each of the building blocks for tariff determination. IATA is generally in agreement with many of AERA's proposals highlighted below.

Chapter 3: True Up for the SCP

- 3.3.6: *"The Authority notes that the opening RAB reported by AAI is higher than the approved RAB as computed in the Second Control Period Order. Upon examination, the Authority noted a discrepancy amounting to Rs. 87.17 Cr. between the approved and submitted RAB. Pertaining to this, the Authority has noted that AAI has included financing allowance amounting to Rs. 87.17 Cr. attributed to the First Control Period (FCP) in the opening RAB of FY 2016-17, thereby leading to a higher opening RAB. The Authority proposes that this be deducted from AAI's Opening RAB for the Second Control Period since the provision for financing allowance was not proposed by AAI in the First Control Period and, as a result, not approved by the Authority."*
- 3.3.7: *"The Authority has also noted that a separate provision for financing allowance for the First Control Period amounting to Rs. 89.54 Cr. is included in the true up calculation for the Second Control Period as submitted by AAI. The Authority believes that this expense is misattributed in*



the MYTP submission of the Third Control Period. Thus, the Authority proposes to exclude the same. "

- IATA supports AERA's proposal to exclude the financing allowance attributed by AAI to RAB of First Control Period amounting to Rs. 87.17 crores and Second Control Period amount to Rs. 89.54 crores.
- Table 15: "*Capital additions proposed to be disallowed for true up of the Second Control Period by the Authority*"
 - IATA compliments AERA for its scrutiny. The assessment has been very methodical, and IATA supports the decision on shifting the capitalization of new integrated terminal building Part 2, to the next control period.
- 3.6.6: *The Authority notes that AAI has submitted Rs. 3.68 Cr. for return on land for the First Control Period and Rs. 6.72 Cr. for return on land for the Second Control Period. The Authority sought additional information from AAI regarding this land. AAI has not provided the required information and responded that land had been acquired free of cost. Moreover, since return on land should be sought prospectively and not retrospectively, the Authority is of the opinion that return on land will not be included in the true up calculation.*
 - IATA supports AERA's view to not include the aforementioned amount for Return of Land in the true up calculation, since the land was handed over to AAI by the Tamil Nadu State Government free of cost & free of encumbrances.

Chapter 4: Traffic for the TCA

- Table 61: "*Traffic projections proposed to be considered for Third Control Period by the Authority*"
 - AERA's proposal is realistic and in line with IATA's own expectations for recovery. The traffic forecast submitted by AAI was much more conservative.

Chapter 5: RAB & Depreciation for TCA

- 5.2.12: "*The Authority acknowledges that the planned capitalization of modernization of Chennai International Airport, Phase II (NITB Part – 1) was to be done in FY 2020-21. However, AAI has submitted vide its email correspondence on 25.05.2021("Information required from AAI-Regarding Chennai") that Part 1 of the plan is 71% complete and the projected date of completion of the same would be 31.03.2022. It also added that all efforts were being made by AAI to complete as per timeline, provided that the working conditions would be conducive given the pandemic situation. A site visit was conducted by AERA's consultant to assess the progress. Post site visit by AERA's consultant, the Authority is of the opinion that capitalisation of modernization of Chennai International Airport, Phase II (NITB Part – 1) would be due in FY 2022-23. Despite the physical progress of construction being 71%, the Authority believes that operationalising the building will take at least 6 months thereby making the commissioning possible only in FY 2022-23. Thus, the Authority proposes to postpone the commissioning to FY 2022-23.*"
 - In lieu of any project details provided by AAI with the Authority's logic that operationalization of New Integrated Terminal Building (NITB) phase 2 Part 1 is not likely to be feasible before FY2022-23 given delays resulting from COVID impacts, IATA confirms in principle that major development such as NITB ORAT takes at least 6 month per best practices.



- 5.2.13: *"The Authority notes that the non-aeronautical component of TBLR is in the range of 5-8%. This is in contrast to the 8-12% that the IATA and IMG norms recommend. Since, Chennai International Airport is one of the largest AAI airports and attracts a substantial amount of traffic, the Authority encourages AAI to incorporate larger non-aeronautical component at the airport (especially so since a new integrated terminal is being capitalised). Thus, the Authority proposes to consider a TBLR of 90:10 for the Third Control Period."*
 - IATA supports AERA's proposal to consider the Terminal Building Ratio of 90:10 for the Third Control Period.

- 5.2.25: *"AAI submitted that the construction of modernization of Chennai International Airport, Phase II (NITB Part – 2) will be started after commissioning modernization of Chennai International Airport, Phase II (NITB Part – 1). Given that commissioning of modernization of Chennai International Airport, Phase II (NITB Part – 1) is to be postponed to FY 2022-23, the Authority envisages the construction of modernization of Chennai International Airport, Phase II (NITB Part – 2) of the project to commence towards the middle of FY 2022-23. AAI also submitted that a part of the existing terminal T3 is still operational and is therefore not demolished completely. This was verified during the site visit by AERA's consultant as well. Considering that the demolition of the existing T3 is yet to be done, the Authority estimates that the construction of modernization of Chennai International Airport, Phase II (NITB Part – 2) would be completed towards the end of FY 2025-26. Further, the Authority is of the opinion that modernization of Chennai International Airport, Phase II (NITB Part – 2) would take at least 6 more months to be made operational. Thus, the Authority proposes to shift the capitalisation of modernization of Chennai International Airport, Phase II (NITB Part – 2) to the first year of the Fourth Control Period (i.e., FY 2026-27)."*
 - Based on AAI's information that NITB phase 2, Part 2 cannot progress until Part 1 is completed, we agree in lieu of details provided by the airport with Authority's logic the design, development, construction, and operationalization including ORAT is likely to push the programme beyond into the Fourth Control Period, with a cost estimate of 1202.59cr.
 - As context for the development of NITB Phase 2, Part 2, IATA would add:
 - All non-essential capital investment costs recovered through aeronautical charges should be avoided to the greatest extent possible given the crippling impact of Covid on airline users.
 - Consultation and transparency regarding AAI's capital investment plans is very limited with 1 or 2 short stakeholder update meetings. An effective AUCC consultation process would benefit both stakeholders and MAA to identify users' needs and ensure functionality meet required levels of service, capacity, and operational efficiency. IATA would be pleased to support such a process in coordination with AOC and users moving forwards.
 - Traffic Forecasts indicated there could be capacity challenges developing towards the end of CP3 assuming the passenger terminal capacity is 28MAP. Every effort should be made by AAI to apply technology and design solutions to avoid constraints and level of service passenger impacts in this respect for existing and planned future facilities. COVID trends have accelerated the application and use of technology that can help to mitigate capacity impacts for DOM and INT traffic.



- 5.2.27: *“AAI has proposed to build a new residential colony which is due to be completed in FY 2023-24. The Authority has examined the award letter of the residential building in construction. It was noted that the total amount of the award letter was Rs. 370.89 Cr. (excl. GST). The cost levied on the tariff determination at Chennai International Airport pertains only to the aeronautical portion of the airport. As per AAI’s submission, the remaining part of the new colony would be used by non-aeronautical employees, including AAI officials posted in the Southern region. The Authority is of the opinion that the construction of the residential colony can be completed by FY 2023-24 and does not propose any change to the cost allocated to Chennai International Airport.”*
 - We would respectfully comment that the rationale for a Residential colony funded by users for staff with Aeronautical duties is rather unclear and an unusual practice to IATA’s knowledge outside India, as employees are typically expected to commute to and from their place of work or find accommodations independently. We request the rationale is shared and if accepted, the cost of accommodation is reflected as a reasonable reduction in the relevant staff overhead costs.

 - 5.2.3: *“Thus, the Authority proposes to reduce 1% of the total project cost from ARR/Target Revenue as readjustment in case any particular capital project is not completed as per the approved capitalization schedule. This will be examined during the true up of the Third Control Period, at the time of determination of tariff for the Fourth Control Period.”*
 - IATA welcomes the proposal of 1% readjustment to RAB if projects are not completed/capitalised as per the approved capitalization schedule. We would also like to reiterate the need for a more effective AUCC process to ensure that users are consulted in a meaningful manner to obtain agreement for capital projects, including any subsequent changes over their development.

 - 5.2.44: *“Total aeronautical capital additions proposed by the Authority in the Third Control Period”*
 - IATA broadly agree with the position reflected in Table 81 regarding Third Control Period additions.
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While IATA largely agrees with AERA’s proposals, we would like to highlight a few areas of concern:

Non-Aeronautical Revenue

- The non-aeronautical revenue which is used to cross-subsidize the aero charges, is clearly under-developed in the case of MAA. As also observed by AERA, the non-aeronautical revenue in Second Control Period as well as projections for the Third Control Period does not even cover for cost of inflation and is therefore far from a rational projection.
- The AAI has shown an increase of 4.6% in the non-aeronautical revenue between the Second and Third Control Period. However, it must be noted that during the same period, we can see Mumbai International Airport (BOM) has provisioned an increase of 47% in the non-aeronautical revenue between the Second and the Third Control Period. There is clear case for the Airports Authority of India to further rationalise its non-aeronautical projections for MAA.



Clarity on CHQ & RHQ expenses as part of AAI's projections

- The CHQ takes up 16.43% of the payroll expenses in the Third Control Period, in comparison to 14.69% in SCP. However, for the administrative & general expenses, CHQ's share has reduced from 78.47% in the Second control period to 72% in the Third Control Period.
- There is opaqueness around the corporate and regional expenses that are being passed on to be borne by airlines and passengers flying from MAA and it is not clear what is their relationship with services delivered at the airport. This is not in line with ICAO's principles of transparency and cost-relatedness. And we would urge AERA to delve deeper into the allocation of CHQ & RHQ costs to individual airports.

Energy efficiency with airport modernization

- We would like to see a greater efficiency being realized from the airport modernization that is currently underway. AERA has allowed a 33% increase in power charges given the 33% increase in terminal building area after capitalization of NITB Part 1 in 2022-23. This is sub-optimal.
- On a related point, we do agree with AERA insisting on a 25% minimum recovery of power charges by the airports – which helps in urging the airport operator for achieving greater operational efficiency.

Carry forward of shortfall

- We note the carry forward of the shortfall of Rs. 372.55 crores. (as per Table 112) to the Fourth Control Period, which is being considered with a view to not burden the airlines further.
- We would like to request AERA to consider a larger carry-forward amount to the Fourth Control Period. It has been noted that a greater percentage of the ARR has been carried forward to the next control period in the case of other recent tariff orders like for BLR & HYD.

Reduction of Landing & UDF charges

- IATA supports AERA's recent tariff orders for BLR & HYD where the charges both landing & UDF will reduce in the last quarter of the control period in order to moderate a constant increase of user charges. We hope the same will be followed in the case of MAA as well.

Quality of Services for the Third Control Period

- IATA notes that AAI has not made any submissions related to Quality of Service as part of its MYTP submission made in March 2021, which, as per the AERA Act, 2008, should be taken into consideration to determine the tariff for aeronautical services. The airport would benefit greatly from the introduction of a regulated service level agreement based on a blend of passenger and operational quantitative and qualitative metrics agreed with the airline community.
- In this regard, we have received following feedback from the airline community operating out of MAA:



- MAA has only one single Ground Handling Agency since January 2021, i.e. AIATSL which caters to both International and Domestic flights.
 - The handling and manpower coverage is sub-optimal. Airlines also have to deal with GHA equipment shortage and lack of professionalism.
 - The matter has been highlighted to AAI Regional office as well as headquarters, but no resolution has been achieved thus far.
- This is not in line with India's Ground-handling policy which requires that an "airport having annual passenger throughput of ten million passengers per annum or above, the airport operator shall ensure that there will be three ground-handling agencies". The requirement for a minimum of 3 ground-handling agencies (GHA) as per the policy, has not been adhered to by AAI.
 - This is also not in line with the recommendation made by ICAO in its Doc 9587- Policy and Guidance Material on the Economic Regulation of International Air Transport. ICAO states that competition may have the beneficial effect of reducing ground-handling charges without compromising the quality of the service provided.

Additional feedback from local airline community

- Terminal 4 Arrival area is still unused by AAI for any passenger activity. It was converted to departure but due to shortage of manpower from CISF/ Immigration, the cost spent towards the upgradation has been put to waste.
- Referring Table 14: 'Capital additions incurred in the Second Control Period but not approved in the Second Control Period Order'
 - Expense shown by AAI towards BHS expenses incurred for Terminal 4 conversion, which in reference to the first point, is still not utilised for any passenger activity.
 - Shows modifications to BHS, but there have been no significant changes done from 2013 ever since its commissioning, except an upgrade of the XBIS machines which is covered as a capital expenditure.
 - An expense shown on engineering office which one understands as line maintenance building. But there is no justification for the cost incurred as no significant changes seen.
 - Cost incurred on CUTE equipment- there is no change in the hardware except service and repair of hardware. No significant additions or new equipment, except partial replacement when required.
 - Electrical installations- no explanation on areas covered and value addition to operations.
- Referring 17.3: Annexure III- 'Capital additions in the Second Control Period'
 - Mentions augmentation of BHS and provision of tag readers. Currently domestic and international BHS are non-tag readable and no facility for Baggage Source Message (BSM).
 - Highlights reconstruction of TWY H Phase I & 2, however we did not see any complete reconstruction only minor modifications
- Referring Table 124 'Capital additions approved by the AERA in Second Control Period but deferred to Third Control Period', the TWY B straightening work is not 100% complete yet.



- Referring Table 128: 'Capital additions approved by the AERA in Second Control Period but dropped', and w.r.t point 17.4, the resurfacing of secondary runway 12/30, construction of cargo bays, PBB and VDGS systems and level of activity for the Ph-2 of NITB Part-1 need close scrutiny. Also secondary runway 12/30 still has obstruction which has defied use of Code-E for many years now, since the expansion of the runway.
- AAI has increased the space Rents for Non-Air-Conditioned space by 45% and Air condition office space by 45% at T3 and 25% in T4 from 01 Apr 2022 which is not justified with no service value addition.

We thank AERA for its consideration of all the points raised in this submission in order to provide a balanced determination taking into account the needs of users and ultimately consumers.

IATA is also available for any further clarifications that AERA may require during the review process of the stakeholder submissions, to the AERA consultation paper for MAA airport for the Third Control Period.

Yours Sincerely,

A handwritten signature in blue ink, appearing to read 'Amitabh Khosla', is written over a light blue horizontal line.

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