

AIRPORTS ECONOMIC REGULATORY AUTHORITY OF INDIA

Minutes of Stakeholders' Consultation Meeting held on 21st September 2021 at 11:00 AM on Virtual Platform

CONSULTATION PAPER No. 16/2021-22 TO CONSIDER THE MULTI YEAR TARIFF PROPOSAL FOR DETERMINATION OF AERONAUTICAL TARIFF FOR THE THIRD CONTROL PERIOD (01.04.2021 TO 31.03.2026) IN RESPECT OF CHENNAI INTERNATIONAL AIRPORT, CHENNAI (MAA)

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 21.09.2021 at 11:00 AM through Video Conferencing to elicit the views of the Stakeholders on the Consultation Paper No. 16/2021-22, dated 07.09.2021, issued by the Authority to consider the Multi-Year Tariff Proposal for the Third Control Period (FY 2021-22 to FY 2025-26) in respect of Chennai International Airport, Chennai (MAA). The list of the participants is enclosed in 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 Chennai International Airport, Chennai 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 (Chennai) which includes the key features of Chennai International Airport and that the second part would be presented by ED (JVC), AAI, in which responses to the Consultation Paper regarding Chennai International Airport would be submitted.

Dr. Sharad Kumar, Airport Director (Chennai), AAI made a presentation pertaining to the features of Chennai International Airport

- 3.2. Airport Director (Chennai) started the presentation by highlighting the technical details regarding the Airport. Further, he presented maps of the terminal building, runways, taxiways and other pavement areas to provide a holistic layout of Chennai International Airport. He explained that AAI is making conscious efforts to improve the passenger experience by increasing operational efficiency despite the land constraint faced by the airport.
- 3.3. Subsequently, he presented a detailed list of the total capital additions that Chennai International Airport had completed in the Second Control Period (i.e., Rs. 472 Cr.) and what it envisages to achieve in the Third Control Period (i.e., Rs. 3,882 Cr.). He highlighted a few capitalised works like the bus lounge, works in old carousal areas, pavement works like commissioning of rapid exit taxiways, etc. He touched upon the difficulties caused due to the pandemic and explained that various capital works were commissioned despite the



Covid-19 pandemic. He also explained the physical progress of various other airside works that are planned to be commissioned in the coming months.

- 3.4. Presented the construction plan of the modernization of Chennai International Airport comprising of the new integrated terminal building (NITB). He explained that the new building would have the advanced state of the art machines to enhance passenger experience. Further, he elaborated that various plans are being executed in order to increase the airside capacity in line with the terminal building capacity. He stated that the NITB is expected to be capitalised in December 2023.
- 3.5. It was explained that sufficient precautions are being taken with respect to the Covid-19 pandemic. He added that the airport provided various facilities like rapid RT-PCR testing, regular sanitisation in areas prone to contact, thermal scanning, etc. Further, he added that officials from Chennai International Airport have been co-ordinating with the state government with regard to passengers who test positive for Covid-19 in the best of public interests.
- 3.6. Lastly, he conveyed that Chennai International Airport has been winning various awards even during the pandemic. A brief walkthrough of the airport was subsequently made through a short movie.

Ms. V Vidya, ED (JVC), AAI made a presentation which detailed AAI's submission to Consultation Paper No. 16/2020-21

- 3.7. It was explained that a comparison was made as to what was originally submitted by AAI as part of the MYTP submission and what is proposed by the Authority. She started the presentation by addressing the true-up of the Second Control Period.
- 3.8. AAI had projected an ARR of 3,258.32 Cr. while the Authority has proposed an ARR of 2,855.77 Cr. (a difference of Rs. 402.57 Cr.). AAI had submitted a shortfall of Rs. 172 Cr. while the Authority in its examination has shown an over-recovery of Rs. 472 Cr.
- 3.9. Explained that the main reduction in ARR is due to the financing allowance (for 1st and 2nd Control Periods) that was proposed to be disallowed by the Authority. This, she said, has had an impact on the depreciation as well as the return on RAB.
- 3.10. AAI submitted that AERA had reduced the O&M expenses significantly.
- 3.11. AAI stated that the AERA Order No. 5 did not mention that the financing allowance would pertain only to the greenfield airports and that there is significant outlay of funds while taking up new capitalisation. It was also submitted that financial allowance was allowed to CIAL and BIAL till the Second Control Period. AAI requested that the Authority provides a level playing field to PPP and AAI airports.
- 3.12. Subsequently, it was stated that the Authority had not considered Vanderland XBIS system due to lack of information. ED (JVC), AAI explained that the details may not have been available during the site visit by AERA's consultants and that the machine was transferred to the Tirupati Airport in FY 2019. It was submitted that disallowing such expenses would lead to a double-deduction in the tariff determination process.

- 3.13. Explained that CHQ/RHQ expenses that were approved in the Second Control Period Order were taken instead of the actual figures. It was submitted that AAI requests the Authority to consider the actual expenses submitted in the MYTP submission.
- 3.14. Furthermore, she explained that the Authority had considered a cost of equity of 14% while AAI had submitted a cost of equity of 16%. She stated that for other private airports, the cost of equity taken were upwards of 15%.
- 3.14.1. Chairperson, AERA explained that for private airports, a notional debt-equity of 48%:52% was taken while calculating the FRoR. AAI to examine this in further detail and resubmit to the Authority as to whether they would want to consider equity cost at 15%-16% with a notional debt-equity ratio of 48%:52% or the equity cost of 14% and actual gearing ratio.
- 3.15. ED (JVC), AAI explained that the Authority did not allow a return on land since it was attained free of cost. However, AAI submitted that the amount claimed was only against the compensation paid for land. It was acknowledged that the details regarding this could not be produced earlier and that they would be submitted soon.
- 3.16. Further, she explained that the Interest on Bonds was proposed to be disallowed by the Authority. It was explained that interest on bonds is an outflow of funds and that AAI requests the Authority to consider the same.
- 3.17. The later part of the presentation discussed points regarding the Third Control Period as follows:
- 3.18. AAI explained that there seemed to be a drastic reduction in the ARR that was submitted by AAI and what was considered by the Authority. AAI had submitted an ARR of Rs. 6,635.5 Cr. whereas the Authority has proposed to approve Rs. 4,036.92 Cr. Moreover, she added, the Authority has proposed to consider a carry-forward of Rs. 372.37 Cr. to the Fourth Control Period.
- 3.19. It was explained that the main effect was due to the shift of major capital works, namely: Part 2 of the NITB to the Fourth Control Period and Phase 2 and 3 of the Storm Water Drainage. She explained that these would have an effect on return on RAB as well as depreciation in the ARR workings.
- 3.20. ED (JVC) also said that the operating expenses were reduced substantially due to a reduction in CHQ/RHQ apportionment of administrative and general expenses, as also due to a reduction of R&M expenses growth rate to 4.9% p.a. (as per inflation) against a rate of 10% p.a., as submitted by AAI. Further, the presentation stated that the power cost increase in years of capitalisation of the NITB was reduced to 33% instead of 40% as submitted by AAI.
- 3.20.1. Chairman, AERA explained that the Authority had not disallowed any major capital expenditure (barring some rationalisation in cost). He stated that the capitalisation for a few works were postponed to the Fourth Control. Thus, explaining that the returns would be reaped by AAI in the Fourth Control Period. He further stated that the Authority would take into consideration all the submissions by the airport operator and stakeholders while preparing the Third Control Period tariff order.

- 3.21. ED (JVC), on behalf of AAI, requested AERA to remove the 1% readjustment clause due to the hardships faced by airport operators and the uncertainty on account of the Covid-19 situation.
- 3.21.1. Chairman, 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.
- 3.22. Regarding the postponement of capitalisation of part 2 of the NITB, ED (JVC), AAI stated that postponing a major capex work like this would lead to monetary escalations.
- 3.22.1. Chairperson, AERA stated that the completion plan projected in the Consultation Paper is based on thorough examination of MYTP and past trends of capex utilization. In case AAI is able to complete the work before the Fourth Control Period commences, it may capitalise the same and the benefit could be reaped in the true-up of the Third Control Period.
- 3.23. ED (JVC), AAI stated that the Authority had taken the resurfacing of the main runway as an operating expense as opposed to capital addition. It was further explained that since this would lead to an increase in PCN (Pavement Classification Number) value, it should be considered as capital additions.
- 3.23.1. Chairperson, AERA suggested AAI to provide details regarding the same and this would be considered as capex if found reasonable.
- 3.24. It was further stated by ED (JVC), AAI that there was a reduction of Rs. 2.23 Cr. based on the normative cost approach in the work pertaining to construction of rapid exit taxiway. It was explained that improvised pavement designs were used for this work to minimise closing of taxiway. Further, the pavement sections were also improved to enhance the soil condition. AAI requested the Authority to consider the cost submitted by AAI.
- 3.25. ED (JVC), AAI further stated that the Authority has proposed to consider a terminal building ratio (between aeronautical and non-aeronautical) of 90:10. It was elaborated that the total non-aero utilisation across the Chennai International Airport is envisaged to be less than 7.5%. AAI requested the Authority to consider a terminal building ratio of 7.5% in accordance with the Second Control Period Order.
- 3.26. ED (JVC), AAI raised concerns about the paragraph on power recovery charges in the Consultation Paper. It was stated that details regarding this would be provided in the written submission.
- 3.26.1. Chairperson, AERA stated the Authority's concern about this and reiterated that the power recoveries at Chennai International Airport were quite low compared to other major airports. He added that the Authority would examine the details provided by AAI and take a decision accordingly during the preparation of the Third Control Period tariff order.

- 3.27. It was further stated by ED (JVC), AAI that the non-aeronautical revenues considered in the Consultation Paper were based on traffic rates and this may not be the correct treatment in order to project the same.
- 3.27.1. Chairperson, AERA expressed his concern regarding the low non-aeronautical revenue at Chennai International Airport and added that the YoY increase did not even cover inflation. It was pointed that in AAI's MYTP submission, growth in non-aeronautical revenue was low while growth in O&M expenses was high. He noted that this was a major departure from what was seen at other comparable airports.
- 3.28. ED (JVC), AAI explained that ratio pertaining to non-aeronautical was applied to certain aeronautical assets in the Consultation Paper. She added, more details would be provided by AAI regarding this and that the same could be addressed accordingly.
- 3.29. ED (JVC), AAI further explained that the Authority has considered a carry-forward of Rs. 372 Cr. She stated that AAI requests the Authority to consider all the submissions made to the Consultation Paper and fully recover the ARR in the Third Control Period.
- 3.30. It was requested to implement tariffs as of 1 January 2022 rather than 1 April, 2022 – considering the financial stress imposed on the aviation sector due to the Covid-19 pandemic.

Chairman, AERA thanked AAI officials for their presentations and invited other stakeholders to present their views on the Consultation Paper.

Airlines and Airlines Associations

4. SpiceJet Ltd.

- 4.1. Mr. G P Gupta, Chief Strategy Officer, SpiceJet extended his gratitude to the Authority and AAI for providing stakeholders the opportunity to present their views. The points that he raised are as follows:
- 4.2. He stated that as per the latest report by CAPA, airlines are projected to lose USD 8 billion in FY 2021 and FY 2022 together. The cash flows for most airlines have been negative due to a complete shutdown in FY 2021. Post that also, the operations started in a calibrated manner and thus, the airlines were hit the hardest. He explained the need to keep the tariffs low in order to engage more passengers to travel.
- 4.3. He further elaborated his views on the FRoR by stating that the risk-free return regimes in India have changed course over the last few years. He added that pre-income tax fixed deposit returns were only 5%, which imply that a post income tax return would only be ~3.5%. In this view, the FRoR provided to airport operators needs to be reconsidered.
- 4.4. Subsequently, he stated concerns about the charges applied to small aircrafts with less than 80-seater capacity operated by a domestic scheduled operator at Chennai International Airport, against the order released by the Ministry of Civil Aviation. He stated that these charges were applied to such smaller aircrafts across the First and Second Control, Periods, perhaps on account of oversights, due to which SpiceJet incurred a substantial loss, adding that details regarding the same have been provided to the Authority

and AAI. He requested the Authority to take note of the same during the tariff determination process for the Third Control Period. He further added that the final agreed upon amount may be refunded to SpiceJet along with the interest.

- 4.4.1. Chairman, AERA stated that neither SpiceJet, nor other stakeholders raise this concern during the tariff determination exercise of First and Second Control Periods. He encouraged AAI and SpiceJet to discuss this at a commercial level and submit the reconciled facts and figures to the Authority to take any further decision.
- 4.5. Since the Covid-19 pandemic was a force majeure event, Spicejet requested that space rental and parking charges must not be charged by AAI. He explained that even after the complete lockdown, travel restrictions were reduced only in a calibrated manner. As a result, majority of the airplanes had to remain parked at their base locations as per instructions from the Government of India. Taking this into consideration, it was submitted that AAI should levy parking charges and space rental only on the operational aircrafts (as per the Government Order).
- 4.6. He also stated his opinion on the return on land claimed by AAI. He explained that since the value of land has appreciated in the recent years, the return on land sought by AAI must also be based on the current value of the land.
- 4.7. Lastly, he stated concern about an increase in tariff rates at Chennai International Airport and explained that the tariff increase would be against the interest of all stakeholders and will be an impediment to the revival of the aviation sector.
 - 4.7.1. Chairperson, AERA explained to all the stakeholders that the tariff at Chennai International Airport is very low (as detailed in the Second Control Period Order) compared to other airports. He added that, although the percentage increase in tariff may seem on the higher side (due to a low base), the absolute amount of the rates proposed may be very much comparable to other airports. Despite this, Chairman, AERA reassured all the stakeholders that all the submissions would be taken into consideration and a conscious decision would be taken accordingly while preparing the Third Control Period tariff order.

5. IndiGo

- 5.1. Mr. Dushyant Deep from IndiGo explained the concerns on an increase in tariffs and that it may be detrimental to the aviation sector as a whole. Apart from some major points stated by Mr. G P Gupta from SpiceJet (which Mr. Dushyant Deep concurred with); other specific points are as follows:
- 5.2. He explained that there has been a trend of deferring capitalisation of new assets. Considering this trend as well as the impact of the Covid-19 pandemic wherever relevant, he requested the Authority to impose a 1% readjustment in the Third Control Period rather than provisioning for it in the Fourth Control Period.
- 5.3. Further, he added that it is appreciated that the Authority has taken up an independent study to assess the operating expenses at Chennai International Airport. He requested the Authority to take up similar studies for other regulatory blocks such as FRoR and non-aeronautical revenue, if required – especially so because Chennai International Airport had an over-recovery to the tune of Rs. 472 Cr. in the Second Control Period.

- 5.4. He submitted that IndiGo agrees with the Authority's views on power recovery and would look forward to seeing AAI's submission regarding the same. Additionally, he concurred with the Authority's opinion that the non-aeronautical revenue should incorporate the inflation factor as well as the traffic increase in the Third Control Period.
- 5.5. He also expressed concern about the collection charges due on the airlines. He requested the airport operator to submit all the requisite charges to the airlines on time. On the overall tariff determination framework, he appreciated that an AUCC was done by AAI for Chennai International Airport. However, he stated that a detailed project investment file was not circulated amongst the stakeholders. He also stated that the AUCC process was done very smoothly in case of the Kolkata Airport and would expect a similar process to happen at Chennai International Airport as well.
- 5.5.1. Chairperson, AERA encouraged AAI to have a AUCC meeting with all the stakeholders as per Direction 5 of the AERA Guidelines to provide the stakeholders a clear view regarding the new capex works.

6. Federation of Indian Airlines (FIA)

- 6.1. Mr. Ujjwal Dey from FIA stated that they have taken into consideration the points given by other stakeholders. He further added that FIA will delve into details and will make its submission within the stipulated written time frame.

7. International Air Transport Association (IATA)

- 7.1. Mr. Amitabh Khosla, Country Head, IATA congratulated the Authority on completing a thorough review of the MYTP in a timely manner. He also extended his gratitude to AAI from giving the stakeholders a glance at the new capex works at Chennai International Airport. The points raised by IATA are as follows:
- 7.2. He appreciated the fact that the Authority has incorporated the effect of the Covid-19 pandemic while critically analysing the regulatory blocks in the Consultation Paper. He added that in general, IATA is in agreement with the proposals by the Authority in the Consultation Paper. A few points that he particularly highlighted are as follows:
- 7.3. He explained that IATA is in agreement with the exclusion of the financing allowance that AAI had submitted for the Second and Third Control Periods. Similarly, he added, IATA supports the terminal building ratio of 90:10 to be taken for the Third Control Period.
- 7.4. He added that IATA agreed with the calculation of the FRoR by the Authority. Additionally, the disallowance of the return on land seemed justified since the land that was handed over to AAI was free of cost and free of encumbrances.
- 7.5. He explained that the analysis of the capital additions for the Third Control Period also have been done in a methodical manner – including the postponement of part 2 of the NITB to the Fourth Control Period.
- 7.6. He stated that IATA is of the opinion that the traffic projections for the Third Control Period made by AAI seemed to be very conservative. Further, he stated that the traffic growth



rates considered by the Authority seemed to be more realistic and also in line with IATA's own expectations.

- 7.7. He, on behalf of IATA, welcomed the readjustment of RAB in the Fourth Control Period if the capital works were not completed within the approved timelines. The issues that IATA further raised are as follows:
- 7.8. He explained that the non-aeronautical revenues in the case of Chennai International Airport seemed to be underdeveloped. Especially so, when these are compared to other airports like the Mumbai Airport (which had provisioned for a 32% increase in non-aeronautical revenue from the Second to Third Control Period) and Delhi Airport (which provisioned an even higher increase in non-aeronautical revenue than the Mumbai Airport). This indicates that AAI has a far greater scope for increase in non-aeronautical revenue.
- 7.9. He further explained that there is a sense of opaqueness in the calculation of CHQ/RHQ expenses in AAI's MYTP submission. He added that the CHQ/RHQ apportionment for payroll expenses in the Third Control Period was 16% as against 14.69% in the Second Control Period. Similarly, the CHQ/RHQ share in total administrative and general expenses for the Second Control Period was 72% and increased to 78% in the Third Control Period. He emphasised that there is a great level of opaqueness and more details regarding CHQ/RHQ expenses needs to be provided by AAI.
- 7.10. Further, he emphasised that IATA would like to see a greater efficiency from the modernization plan underway at Chennai International Airport. He explained that the Authority has proposed to allow a 33% increase in the power charges given that there is an equi-proportionate increase in the terminal building area. He added that IATA believes that this increase could be lowered further with an increase in energy and operational efficiency. This, he added, is also in line with the notional 25% power recovery that the Authority proposes in the Third Control Period (subject to analysing the details that would be submitted by AAI).
- 7.11. Mr. Khosla also said that IATA is of the opinion that a carry forward of a Rs. 372 Cr. to the Fourth Control Period should be increased because a greater percentage of the ARR was carried forward to the next control period in case of other tariff orders such as HIAL and BIAL.
- 7.12. He added, the landing and UDF charges for the control period in case of HIAL and BIAL tariff orders have been built up in a staggered manner wherein the rates have fallen in the last year of the concerned control period. He explained that using a similar approach for Chennai International Airport would avoid an ever-increasing user charges in the future.

Airports & Airports Associations

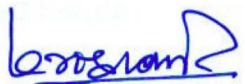
8. Delhi International Airport Limited (DIAL)

- 8.1. Mr. Harsh Gulati, VP Regulatory, DIAL stated that they have considered the presentation made by AAI and would evaluate the same in greater detail based on which a submission would be made to the Authority.

Oil Companies

9. Indian Oil Corporation

- 9.1. Mr. GK Mukherjee, GM stated that he would submit IOCL's points in written format within the timeline as prescribed in the Consultation Paper.
10. 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)

Annexure - I

List of Participants

Airports Economic Regulatory Authority

1. Mr. B S Bhullar, Chairperson
2. Col. Manu Soodan, Secretary
3. Mr. Ram Krishan, Director (Tariff, P&S)
4. Ms. Geeta Sahu, AGM (Tariff)
5. Mr. Rajan Gupta, AGM (Fin.)

Airport Operator, Airports Authority of India (AAI)

1. Dr. Sharad Kumar, Airport Director (Chennai Airport)
2. Mr. S.S Balan, GM (Ops) (Chennai Airport)
AAI Headquarter
3. Ms. V Vidya, Executive Director (JVC)
4. Mr. C V Deepak, General Manager (Fin.)
5. Mr. A S. Mahesha, General Manager (Engg)
6. Mr. Rajesh Khanna, DGM (Fin.)
7. Mr. Ranjit Kumar Das, AGM (Fin.)

Representatives from Other Private Airport Operators and Associations

1. Mr. Harsh Gulati, VP Regulatory, Delhi International Airport Limited
2. Mr. Shobhit Agarwal, Delhi International Airport Limited
3. Mr. Satyan Nair, President, Association of Private Airport Operators

Airlines and Associations

1. Mr. Ujjwal Dey, Federation of Indian Airlines
2. Mr. Dushyant Deep, IndiGo
3. Mr. GP Gupta, Chief Strategy Officer, SpiceJet
4. Mr. Suryavir S. Bisht, Sr. General Manager, Regulatory Affairs, SpiceJet
5. Mr. Amitabh Khosla, Country Head, IATA
6. Mr. Ujjwal Bakshi, IATA

Oil Companies

1. Mr. G K Mukherjee, GM, IOCL
2. Mr. Krishna Prakash, IOCL

AERA Consultants

1. Mr. Navin Vohra, EY
2. Ms. Sangeeta Singh, EY
3. Mr. Vineet N Karlapalem, EY
4. Mr. Pratik Sanghvi, EY