



चंडीगढ़ इंटरनेशनल एयरपोर्ट लिमिटेड
Chandigarh International Airport Limited

CHIAL/MYTP/2021-26/

Date: 26/07/2021

To,
Chairman,
Airports Economic Regulatory Authority of India,
AERA Building
Administrative Complex,
Safdarjung Airport,
New Delhi - 110003

Subject: - Counter Comments on comments raised by stakeholders on Consultation Papers No. 09/2021-22.

Dear Sir,

This office is in receipt of communication from AERA vide email dated 16.07.2021 wherein it was mentioned that following stakeholders has offered their comments on the consultation paper issued by authority and authority has requested to reply to the observations raised by stakeholders within the prescribed time. In this regard find enclosed the counter comments of CHIAL attached at Annexure – I summarized as follows.

Sr. No.	Stakeholders	Counter Comments of CHIAL
1	Airport Authority of India(AAI)	No comments on the observation.
2	Govt. of Punjab (Department of Civil Aviation)	No comments on the observation.
3	Federation of Indian Airlines (FIA)	Refer Annexure - I

In view of the above it is requested to kindly issue the final Multi Year Tariff Order of CHIAL for 2nd Control Period at the earliest.

Thanking You,

Yours Sincerely,

For CHANDIGARH INTERNATIONAL AIRPORT LIMITED

Ajay Kumar
Chief Executive Officer

Encl: As below

Annexure I – Replies on Stakeholders comments (11 Pages)

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Annexure - I

S. No.	Para	Particulars	Comments/Submission	CHIAL Response
COMMENTS BY FEDERATION OF INDIAN AIRLINES				
1.	2.4.13 2.4.21	True Up of RAB - Capital Expenditure/Assets Allocation	<p>While FIA appreciates that AERA has sought justification from CHIAL in cases where the incurred amount on capital expenditure is greater than that approved in 'First Control Period', AERA is requested to undertake an independent study for efficient capital expenditure, more particularly, in view of the following remark by AERA:</p> <p><i>'In certain cases, the Authority notes that CHIAL needs to make more realistic estimates in case of projections since the variance between projections and actuals are significant. The Authority expects CHIAL to ensure that this is appropriately considered in the future control periods.'</i></p> <p>Similarly, an independent study for determination for asset allocation should be also undertaken by expert body/agencies.</p> <p>Such independent studies to be conducted by AERA will be in accordance with the Airports Economic Regulatory Authority of India Act, 2008 (AERA Act), and will ensure that realistic estimates for projections are applied, which may result in lower Aggregate Revenue Requirement (ARR) and tariff. Further, AERA should ensure that no deviations of capex/costs are approved than the rates prescribed under the AERA Normative Order No. 07/2016-17 <i>"In the matter of normative approach to building blocks in economic regulation of major airports – capital costs reg."</i> dated 13.06.2016.</p>	<p>CHIAL has started its operations only in September 2015, and considering the new infrastructure CHIAL had considered a minimal capital expenditure requirement during first control period. However, the actual expenditure is based on the actual requirement at ground realities and request from airlines. Variation in projects cost is due to the change in technology and change of estimates. The detailed justification has already been submitted to authority.</p> <p>We would like to also clarify that CHIAL has not undertaken any changes in terminal layout since its inception in Sept 2015, therefore the Terminal area ratio is in the line of the terminal ratio approved by the Authority in 1st MYTP. Hence, the same has been considered by CHIAL in the 2nd control period also.</p> <p>The decision on the subject for conducting independent study is falling under the purview of authority.</p>

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2.	2.5	True Up of Depreciation	<p>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.</p> <p>FIA submits that the useful life of terminal building for Kannur and Cochin airports have been considered sixty (60) years by AERA. Thus, AERA should prescribe sixty (60) years for the building including Terminal Building as is practiced by some of the developed aviation ecosystem.</p>	<p>We would like to submit that the Authority's order and Companies Act 2013 provides useful life for Terminal Buildings as "30 years or 60 years, as evaluated by the Airport Operator". In this regard, CHIAL's management has considered a life of 30 years, which is in line with Companies Act 2013 as well as the Authority's Order No. 35/2017-18.</p> <p>Further it is worthwhile to mention that the per sq mtr cost at the airport mentioned by FIA may be very high and it is understood that authority has consider and rationalised the fact of difference of per sq mtr cost while considering the life of the assets. If the capital cost is consider on the lines of the airport mention by FIA, than the per sq mtr cost may be 4times higher. The comparison on the both side may be consider.</p>
3.	2.9.5	True Up of Operating Expenditure	<p>AERA is requested to exclude costs pertaining to Corporate Social Responsibility (CSR) from 'Aeronautical Expenditure'. This will be in line with the similar treatment to CSR expenditure, given to CIAL at Cochin International Airport. Further, AERA may review the Operating Expenses based on an independent study for allocation of assets and efficient operating expenditure.</p>	<p>As per TDSAT Order Dated 16th December, 2020 in Appeal No 8 of 2018 BIAL vs AERA, the Appellate Authority had decided to include the Corporate Social Responsibility (CSR) as Aeronautical Expenditure. Therefore, we request the Authority to consider the same as Aeronautical expenses.</p> <p>Further, CHIAL is also open to the proposal of appointing an independent study for allocation of assets and efficient operating expenditure.</p>
4.	2.10	True up of Non – Aeronautical Revenue	<p>FIA requests AERA to conduct an independent study on the Non-Aeronautical Revenues, in accordance with the Airports Economic Regulatory Authority of India Act, 2008, as amended(AERA Act).</p>	<p>No comments on the observation. However, the decision on the subject under reference is falling under the purview of authority. We would like to add that such study may be done for all major airports, civil enclaves, and private airports, for setting up of efficient benchmark for Airport industry as a whole for non aeronautical revenue.</p>

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5.	5	Traffic	While FIA appreciates that AERA has considered industry inputs/reports on traffic from agencies like IATA and ICAO, FIA requests AERA to conduct an independent study for traffic assessment, in accordance with the AERA Act.	No comments on the observation. However, the decision on the subject under reference is falling under the purview of authority.
6.	4.2	Analysis of RAB & Capital Expenditure	FIA appreciates that considering the reduced traffic owing to COVID-19, AERA has rationalized the capital expenditure and excluded certain proposed additions to RAB. FIA reiterates its request for independent study of asset allocation and efficient capital expenditure, as mentioned at Sr. No. 1 above.	Refer reply at sl. no.1.
7.	4.4	Depreciation	Same as our comment at Sr. No. 2 above.	Refer reply at sl. no.2.
8.	5	Return on Land Cost	FIA recommends that no returns may be provided for investment in land by CHIAL, in view of the fact that value of land does not depreciate over time.	<p>AERA vide order no. 42/2018-19 dated 5th March, 2019 states that fair return on land will be provided to Airport operators, who have purchased land. As in case of CHIAL, land has been purchased long back in the year 2015 and the same was contributed as equity by shareholders, hence a nominal rate of return as per AERA order was proposed for consideration.</p> <p>Further, Authority vide above said order has considered to amortize the land value over 30 years for tariff computation. It is worthwhile to mention here that CHIAL is not a land developer and using the land majorly for aeronautical purpose only and any increase in the land valuation has only the notional impact and may not be commercially exploit like other land owners as there is restricted use of land/for specified purpose of airport sector. Therefore, CHIAL has considered return on land cost in line with the AERA Order.</p> <p>If the return on land is not being provided than it would otherwise impact the airlines by increasing the cost of other available infrastructure at airport.</p> <p>Further if the land is purchase in trenches in future that will</p>

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				<p>cost significantly and may impact the airlines and other stakeholders and may create this venture unviable.</p> <p>And from the investor point of view, the risk free return is available in the market at 6-7% whereas the airport sector is full of risk and Authority has rationalized the return on land by above said order i.e SBI Rate +2% which is reasonable from the equity stakeholder point of view.</p>
9.	6	Fair Rate of Return	<p>FIA submits that fixed/ assured return favours the Airport Operators, and creates an imbalance against the airlines, which are already suffering from huge losses and bear the adverse financial impact through higher tariffs.</p> <p>Further, due to such fixed / assured returns, service providers like CHIAL 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.</p> <p>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.</p> <p>In view of the above, AERA is requested to immediately review FRoR by capping the returns to a maximum of three (3)%.</p>	<p>We understand the concerns raised by FIA with regards to reasonableness of the cost incurred by airport operator. And as mentioned in our earlier responses we are open to any independent review for accessing the reasonableness of the capital expenditure and operating expenses.</p> <p>Further, CHIAL would like to submit that it would be difficult to attract any future investment in form of Debt or Equity if the FROR is capped at 3%. Therefore we request the Authority to consider their initial proposal for capping cost of equity at 14%.</p> <p>It is for the kind information that CHIAL has initiated various measures for the creation of infrastructure (i.e facilities like PBB, Inline X-ray Baggage, night parking facilities for scheduled airlines) for airlines with no additional cost whereas airlines are paying for the same at other airports. Further CHIAL has also taken the initiative to introduce the incentive schemes for the domestic & international airlines which may be rarely available at any other airport. This may directly reduce the cost to airlines.</p> <p>It is also worthwhile to mention here that the risk free returns available in the market at government bonds is close to 6-7% and considering the airport sector is the most sensitive sector, and majorly impacted sector as its revenue is directly affected due to change in any stimulus impacting the economy.</p>

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10.	7	Operating Expenses	Same as our comment at Sr. No. 3 above.	Please refer reply at sl. no.3.
11.	8	Non-Aeronautical Revenue	<p>FIA submits AERA to conduct an independent study on the Non-Aeronautical Revenues, in accordance with AERA Act.</p> <p>Without prejudice to the above, FIA submits that:</p> <ol style="list-style-type: none"> 1. Increase in non-aeronautical revenue is a function of passenger traffic growth, inflationary increase and real increase/escalations in contract rates. AERA to ensure no adjustments 2. 'Royalty' is in the nature of market access fee, charged by the services providers under various headings. These charges are passed on to the airlines by the service providers. The rates of royalty at some of the airports are as high as forty six (46)%. 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. 	<p>Please refer reply at sl. no.4.</p> <p>The royalty/revenue share is charged from the independent service providers of groundling by CHIAL which is presently 3% in case of scheduled airlines and 15% in case of non – scheduled airlines and 0% in case of RCS.</p>
12.	1.2.2	Methodology for Tariff Determination – Hybrid Till Vs. Single Till	<p>FIA submits that as per para 1.2.2 of the Consultation Paper, it is stated that the AERA shall determine tariffs for IXC using the Hybrid Till model. It is to be noted that FIA from time to time has advocated the application of a Single Till model across the airports in India. FIA submits that AERA should adopt Single Till basis the following legal framework:</p> <p>In the Single Till Order, AERA has strongly made a case in</p>	<p>CHIAL has submitted the MYTP model for SCP as per authority order no 23/2016-17, which is in line with the National Civil Aviation Policy 2016, as issued by the Ministry of Civil Aviation in 2016.</p>

			<p>favor of the determination of tariff on the basis of 'Single Till'. It is noteworthy that the AERA has, inter alia, in its Single Till Order:</p>	
			<ul style="list-style-type: none"> (i) Comprehensively evaluated the economic model and realities of the airport – both capital and revenue elements. (ii) Taken into account the legislative intent behind Section 13(1)(a)(v) of the AERA Act. (iii) Concluded that the Single Till is the most appropriate for the economic regulation of major airports in India. (iv) The criteria for determining tariff after taking into account standards followed by several international airports (United Kingdom, Australia, Ireland and South Africa) and prescribed by ICAO. <p>AERA in its AERA Guidelines (Clause 4.3) has followed the Single Till approach while laying down the procedure for determination of ARR for Regulated Services.</p> <p>The fundamental reasoning behind 'Single Till' approach is that if the consumers/passengers are offered cheaper airfares on account of lower airport charges, the volume of passengers is bound to increase leading to more footfall and probability of higher non-aeronautical revenue. The benefit of such non aeronautical revenue should be passed on to consumers/passengers and that can be assured only by way of lower aeronautical charges. It is a productive</p>	

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			chain reaction which needs to be taken into account by the AERA.	
13.	13.	Aeronautical Tariff	<p>(i) <u>Overall Tariff/ARR</u></p> <p>AERA is requested to review the suggestions/comments on the regulatory building blocks as mentioned under Annex – A, which is likely to reduce the ARR (including shortfall) of CHIAL. This will further ensure the lowering of tariffs including UDF, which will be beneficial to passengers and airlines.</p> <p>(ii) <u>Parking Charges</u></p> <p>(a) In the present Consultation Paper, it is observed that ‘Parking Charges’ are bifurcated for ‘First Two hours after free parking period’ and ‘Beyond Four Hours’, which was not prescribed in the earlier AERA order No. 17/2016-17 dated 27 March, 2017, as extended, for the First Control Period for IXC (FCP Order).</p> <p>(a) <u>BRS/CUTE Charges</u></p> <p>Whether CHIAL will raise the invoice for BRS/Cute charges instead of SITA in the Second Control Period?AERA/CHIAL to kindly clarify.</p>	<p><u>Overall Tariff/ARR</u></p> <p>CHIAL give consensus with the proposal of authority i.r.o. UDF Charges for the second control period as per the consultation paper no 09/2021-22. There is marginal hike proposed by CHIAL in the UDF charges from 2nd year of the second control period. Further, CHIAL would only be able to recover the shortfall which was eligible for the 1st control period, as shortfall for 1st Control period itself is about Rs. 350 Crores and with this UDF in second control period, CHIAL would get about only Rs. 450 Crores as Aero revenue in 2nd Control period.</p> <p><u>Parking Charges</u></p> <p>‘Parking Charges’ are bifurcated for ‘First Two hours after free parking period’ and ‘Beyond Four Hours’, was decided to stream line the movement of aircraft and to discourage the delay in the aircraft movement. CHIAL has separately defined the night parking charges according to the different category of users which is again submitted at annexure – ‘A’.</p> <p><u>BRS/CUTE Charges</u></p> <p>CHIAL will raise the invoice to the service provider (presently SITA) in respect of revenue sharing of services provided to the airlines.</p>

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			<p>(b) <u>Charges for Domestic cargo handling (Ref. Para IV.5 on Page 102 of the Consultation Paper)</u> In respect of airlines undertaking cargo <u>self-handling</u> in accordance with applicable law/regulations, no charges should be billed to such airlines. (For e.g., as IndiGo is undertaking services of loading/unloading of cargo through its wholly owned subsidiary 'Agile Airport Services Private Limited' at IXC, no charges should be billed to IndiGo).</p>	<p>In this regard it is to be mention that airlines has to ensure for sitting place/common place for the staff deployed at airport for cargo operations/ ground handling for the airlines who has opted for self handling. Further, airlines also to ensure the basic amenities/infrastructure for the staff deployed for self handling at airport.</p>
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COMMENTS BY AIRPORTS AUTHORITY OF INDIAN

Comments/Submission	CHIAL Response
Sr. No 1. - Regarding airlines space rentals and land lease rental as aeronautical.	No comments on the observation.
Sr. No. 2. – Regarding Cost of Equity	No comments on the observation.

COMMENTS BY Govt of Punjab, Department of Civil Aviation

Item	Comments/Submission	CHIAL Response

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<p>Point no. 2.7.3 of page no. 34 of CP</p>	<p>GMADA has invested in land of CHIAL way back in 2015 and deferment of return on land till 2nd control period not considers even the inflationary impact over a period of time on cost of land is discouraging to the shareholders.</p>	<p>No comments on the observation.</p>
<p>Point no. 5.2.6 of page no. 63 of CP</p>	<p>Authority has proposed to take the return on land only on the land actually used for aeronautical purpose. It is requested to give compounding impact of cost of inflation index (CII) on cost of land from 2015 which was originally purchased in 2008 for construction of international terminal, may be considered. The return on cost of land for second control period may be provided on the compounded value of cost of land taking into consideration the cost of inflation index for the first control period.</p>	<p>No comments on the observation.</p>
<p>Point no. 5.2.8 of page no. 63 of CP</p>	<p>AERA vide order no. 42/2018-19 dated 5th march, 2019 states that SBI rate plus 2% will be return on land for the Airport operator who has purchase the land. The act is silent incase of debt free companies. It is to mention that the authority has consider the return on land for CHIAL is just 6.21% on the basis of cost of debt of AAI and consider return on only 201 acres land against the CHIAL submission of 270 acres. Whereas cost of debt of other airports likes Hyderabad (8.82%), Bangalore (7.85%), Kochi (7.80%) etc has been considered. It is worthwhile to mention that Airports Authority of India is a statutory body working under Ministry of Civil Aviation, Government of India whereas CHIAL is a company which is registered under Companies Act and have different credentials and not guaranteed by Govt. of India. Hence, it is requested to reconsider SBI Base rate + 2% as applicable as per AERA vide order no. 42/2018-19 dated 5th march, 2019.</p>	<p>No comments on the observation.</p>

ANNXURE - A

I) NIGHT PARKING CHARGES 2200 HOURS TO 0600 HOURS

Night parking charges proposed for **second control period from 01/04/2021 to 31/03/2026** according to different category of users: -

<p>Category 1. For SCHEDULE AIRLINES with prior permission of Night parking facility from CHIAL for the number of aircrafts approved for Night parking</p>	<p>No night parking charges will be charged from schedule airlines for the night parking hours as mentioned. Airlines have to obtain prior approval/permission of CHIAL for night parking of aircraft between 2200 hours to 0600 hours as per CHIAL night parking policy.</p>
<p>Category 2. a. Non Schedule Airlines having night parking permission of CHIAL as per CHIAL night parking policy b. Schedule Airline who is not having permission of CHIAL for night parking c. Schedule Airlines parking the aircraft beyond permissible number of aircraft approved by CHIAL For the above said category 2 (a,b,c) following are the rates:-</p>	
<p>WEIGHT OF THE AIRCRAFT</p>	<p>RATE IN (INR)</p>
<p>Upto 40MT</p>	<p>1.80 per hour per MT</p>
<p>Above 40MT Upto 100MT</p>	<p>72.00 + 3.40 per hour per MT in excess of 40MT</p>
<p>Above 100MT</p>	<p>276.00 + 5.20 per hour per MT in excess of 100MT</p>
<p>Category 3. The aircrafts not covered in category 1 & 2 above</p>	<p>Normal Parking charges as mentioned at point no. I) will be applicable for the period of stay.</p>

Notes:-

- a) Night Parking Hours (2200 Hours to 0600 Hours Next Day)

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- b) After landing of any aircraft, two hours of parking will be free for all the aircrafts. While calculating free parking period, standard time of 15 Minutes shall be added on account of time taken between touch down time and actual parking time on the parking stand. Another standard time of 15 minutes shall be added on account of Taxing Time of Aircraft from parking stand to takeoff point. These periods shall be applicable for each aircraft irrespective of actual time taken in the movement of aircraft after landing and before takeoff.
- c) For calculating chargeable night parking time, part of an hour shall be rounded off to the nearest hour.
- d) Charges shall be calculated on the basis of nearest MT.
- e) Charges for each period parking shall be rounded off to nearest Rupee.
- f) At the in contact stands and open stands, after free parking of two hours night parking charges shall be levied.
- g) In case of aircraft following under the category 1 i.e scheduled airlines having night parking permission, parking charges as applicable will be paid by airlines for the period of occupancy of parking bay between 0601 hours to 2159 hours.
- h) In case of aircraft following under the category 2, applicable night parking charges will be paid by the respective airlines and in case of parking beyond the permissible night parking hours, parking charges as mentioned at point no. I) will be applicable from 0601 hours upto period of stay.