भारतीय विमानपत्तन आर्थिक विनियामक प्राधिकरण
सफदरजंग एयरपोर्ट, नई दिल्ली-110003
प्राप्त
डायरी न० 16609
तारीख 08/03/2022

भारतीय विमानपत्तन प्राधिकरण
AIRPORTS AUTHORITY OF INDIA

8/3/22

निदेशक (नि० एवं सां०)

F.No. AAI/JVC/Goa -Tariff/2021 388 Date: 08/03/2022

573/सचिव(टैरी)
08/3/2022

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

8/3
AGM(RG)

**Sub: - AERA's Consultation Paper No. 29/2021-22 in the matter of Determination of Aeronautical Tariff in respect of Goa Airport for the Third Control Period (01.04.2021 to 31.03.2026).**
**Ref:- AAI's counter comments in response to Federation of Indian Airlines (FIA) and GMR submission – Reg.**

Sir,

This is in reference to the Federation of Indian Airlines (FIA) and GMR comments received through AERA e-mail dated 02.03.2022

In this regard, please find attached herewith the AAI's counter comments in response to FIA's and GMR submission.

101/DMEU(RS)/22
9/3/22

Thanking You,

Your faithfully

8/3/2022
**(R. Prabhakar)**
General Manager (JVC & PPP)-I

Enclosed: *As above*

**Response to Counter Comments of Federation of Indian Airlines (FIA) for Consultation Paper No.29/2021-22 dt:27 Jan'22 on determination of Aeronautical Tariff for Goa International Airport, Goa for the Third Control Period (01.04.2021 – 31.03.2026) and the Tariff Card.**

<table>
<tr><th></th><th>Comments of FIA</th><th>AAI's Reply</th></tr>
<tr><td>1</td><td colspan="2">Revenue from Air Navigation Services and Cargo services: (Refer 3.3.1 and 3.3.2 of the CP)</td></tr>
<tr><td></td><td>It is submitted that as per section 2 of Airport Economic Regulatory Authority of India Act, 2008 (AERA Act), under sub-section (a), "aeronautical services means any services provided-<br>(i)For navigation, surveillance and supportive communication thereto for air traffic management<br>(v) for the cargo facility at an airport."<br><br>It is submitted that considering the above provisions of the AERA Act, we request that instead of considering only 30% of the revenue from Air Navigation Services and Cargo services, 100% revenue accruing from the same should be considered to compute aeronautical revenues.<br><br>Accordingly, AERA should take into account the above and revise the Aggregate Revenue Requirement (ARR)/tariff card.</td><td>The methodology adopted by the Authority to determine Aggregate Revenue Requirement (ARR) is based on AERA Act, 2008 and the Airport Guidelines issued by AERA. (para 3.3.1.)<br><br>As per the guidelines, for the Second Control Period, the Authority had adopted the Hybrid-Till mechanism for tariff determination, wherein, only 30% of the Non-aeronautical revenue is to be used for cross-subsidizing the Aeronautical charges. The Authority has considered the same methodology in the true up of the Second Control Period and for tariff determination in the Third Control Period. (para 3.3.2.)<br>The ARR under Hybrid Till for the Control Period (ARR) shall be expressed as under:<br>$ARR = \sum_{t=1}^{5} ARR_t$<br><br>$ARR_t = (FRoR \times RAB_t) + D_t + O_t + T_t - s \times NAR_t$" (para 3.3.3.)<br><br>AAI submits that the tariff determination for airports by AERA is done only for the Aeronautical charges collected by the AAI of Major airports.<br><br>Tariff for Air Navigation Services (ANS) for India as a whole has been revised by MoCA whereas, AAICLAS (Cargo services) is 100% subsidiary of AAI and tariff is determined separately by AERA. However, 30% royalty from AAICLAS has been considered as Aeronautical Revenue.</td></tr>
<tr><td>2</td><td colspan="2">True Up of Operational & Maintenance (O&M) Expenses for the Second Control Period: (Refer 4.6, 4.6.4 and Table 12 &15 of the CP)</td></tr>
<tr><td></td><td>We observe that AERA has noted that the process adopted by Goa Airport for allocating the expenses is not transparent (Para 4.6.4).<br><br>We further observe that Goa Airport has paid Interest/penalties to Government of India at CHQ & RHQ level (Para 4.6.4(b) and in this regard AERA has rightly stated</td><td>It is submitted that AAI has saved under. payroll and R&M, as projected in the Second Control period.<br>• The actual O&M Expenses i.e. payroll expenses of AAI for the 2nd Control Period have gone down in comparison to 2nd Control Period Order thereby resulting in savings as shown below:<br>In cr.<table><tr><th>Particulars</th><th>Approved in SCP</th><th>Submitted for True - up</th><th>Variation</th></tr><tr><td>Pay Roll Expenditure</td><td>71.6</td><td>59.79</td><td>11.81</td></tr></table></td></tr>
</table>

that the stakeholders should not be burdened with interest/penalties paid to Government of India, due to various lapses/delays on part of the Airport Operator. We support AERA's decision to direct AAI in adopting a scientific/ rational approach for justifiable allocation of expenses attributable to Goa Airport, in future.

Further, AERA has noted that Goa Airport should exploit the potential of its non-traffic avenues fully so that 30% of the same, by cross subsidisation, can be used to cover Aeronautical expenses (Para 4.6.4 (b).

In addition, it is observed that several actual O&M expenses submitted by Goa airport for the Second Control Period significantly vary from their respective projections made at the beginning of the Second Control Period. Further it is noted that while the AERA expected Goa Airport to reduce O&M over a period of time, still the O&M expenses in the Second Control Period spiralled and has further increased in the Third Control Period (Para 4.2.2). In view of the above, we would request AERA to undertake suitable independent study for efficient calculation of O&M expenses. For e.g., AERA has conducted a study for "Operations & Maintenance of Expenses dated December 2021" in the case of Kolkata Airport, with an intent to review these expenses.

| | | | |
|---|---|---|---|
| CHQ & RHQ Payroll exp. | 9.7 | 7.72 | 1.98 |

AAI has carried out a detailed examination of the Administration expanses & found that the Main reason for increase in Administration exp are as under:-

- Projection for the 2nd control was done based on existing contract @ Rs.7.15 lacs pm awarded in 2014 for 36 months and new contract was awarded on March 2017 @ Rs.30.88 lacs pm . The reasons for increase in cost is due to cost inflation and addition of new area -Admin Block, Western side Finger, paved area city side and airside.
- Further the New contract has been awarded on Sept 2020 @ Rs.41.47lacs pm for 36 months based on lowest offer received through Tendering process.
- The upkeep contract is awarded to the lowest bidder based on approved tendering policies.

- The O&M expenses are incurred by AAI are based on operational requirements. The expenses are incurred after due diligence based on the powers given to various authorities, and there are also tendering processes for awarding the O&M contracts.

- AAI will undertake a study for CHQ & RHQ allocations to devise a robust methodology for uniformity and standardization of allocations.
- AERA, while issuing Consultation Paper No 08/2021-22 dated 15.06.2021 in the matter of determination of Aeronautical Tariff in r/o Cochin International Airport Ltd, had undertaken a study on Study on Efficient Operation & Maintenance Expenses for Cochin International Airport Ltd ( FY 2017-2021) where in AERA had stated in chapter External Benchmarking that Goa airport has the lowest O&M Expenses . per PAX and per SQM of Terminal area( Refer Para 7.2.61) comparing with Airports having similar passenger Through Put. Table of O&M Expenses per pax and per sqmtr of Terminal Area as under

2. The various aspects related to O&M expenses based on passenger traffic compared acros airports considered above are summarized in the table below.

Table 16: O&M expense comparison (passenger traffic wise) across select domestic airports

| Airport location | Employee expense (INR) per PAX | R&M expense (INR) per PAX | Utilities expense (INR) per PAX | A&G expense (INR) per PAX | Total O& (INR) |
|---|---|---|---|---|---|
| chin | 66 | 21 | 26 | 56 | |
| mbai | 37 | 23 | 22 | 77 | |
| tna | 49 | 15 | 5 | 63 | |
| a | 19 | 7 | 9 | 11 | |
| lkata | 95 | 33 | 36 | 17 | |
| ne | 51 | 10 | 9 | 8 | |
| nmedabad | 40 | 26 | 24 | 24 | |
| ubaneswar | 51 | 23 | 9 | 86 | |

•

7.2.5. The various aspects related to O&M expenses compared across the select airports consi
and based on terminal area are summarized in the table below:

Table 18: O&M expense comparison (terminal area wise) across select domestic airports

| Airport location | Employee expense (INR) per sqm | R&M expense (INR) per sqm | Utilities expense (INR) per sqm | A&G expense (INR) per sqm |
|---|---|---|---|---|
| Cochin | 3140 | 985 | 1250 | 2670 |
| Mumbai | 3660 | 2285 | 2145 | 7620 |
| Patna | 24240 | 7330 | 2450 | 30755 |
| Goa | 2605 | 930 | 1300 | 1490 |
| Kolkata | 8475 | 2910 | 3180 | 1550 |
| Pune | 20295 | 3900 | 3605 | 3360 |
| Ahmedabad | 5840 | 3915 | 3580 | 3490 |
| Bhubaneswar | 6320 | 2855 | 1170 | 10675 |

Note: The numbers in the above table have been approximated to nearest multiple of 5

| | | |
|---|---|---|
| 3 | **Traffic Forecast for Third Control Period:** (Refer 5.4.1, 5.4.8 and Table 21 of the CP) | |
| | While we appreciate that AERA has considered various study/reports by international bodies like ACI, IATA and CAPA India, we request AERA to conduct an independent study for traffic assessment, in accordance with the AERA Act.<br><br>Further, as AERA has an opinion that with the gradual revival of the economy, increase in the uptake of the vaccines, measures taken by the Government of India to make the air travel safe along with easing of air travel by various countries, the aviation industry is expected to recover at a better pace in the next few years. Thus, we further request AERA to consider traffic growth keeping in view the removal of all capacity restrictions by the Ministry of Civil Aviation. | AERA has proposed that Goa Airport will achieve pre-COVID period traffic in the F.Y 23-24 whereas AAI had proposed it would achieve in the F.Y 24-25.AERA has considered 5 yrs CAGR for Dom and Intl. from FY2024-25 to FY2025-26 which is also not achievable as New MoPA Greenfield Airport will be operationalize by August 2022.During a pandemic Covid -19 where is so much of uncertainty.<br>Higher projection may lead to higher projection for Aeronautical Revenue and resulting huge increase in Actual shortfall for the next Control period and attract steep hike in Tariff which is unfavorable to AAI & Other stakeholders.<br><br>The projections submitted by AAI for the F.Y. 2022-23 to 2025-26 may be considered as the pandemic has not yet ended and there is no certainty yet.<br><br>Further AERA may like to offer their views. |
| 4 | **Regulatory Asset base (RAB)/ Capital Expenditure for Third Control Period:** (Refer Table 25 & 27of the CP) | |
| | It is observed that Goa Airport has deferred certain capital expenditure from the Second Control Period to the Third Control Period.<br><br>In this regard, we recommend that an adjustment of 1% or higher of the project cost from the | AERA had sought various details/justifications on the unplanned capital expenditure during MYTP process which were submitted by AAI.<br><br>It is submitted that these are legitimate capex expenditure made after various levels of approval within the organization. Depending on the quantum of spend, the regional/central head-quarters are also involved. AAI submits that after careful consideration and discussion at appropriate levels within the organization, the |

ARR, as deemed fit, is made by AERA for capital expenditure projects is/are not completed/capitalised as per the approved capitalisation schedule other than those affected solely by the adverse impact of COVID-19. Such adjustments can be made by AERA during the tariff determination for the Third Control Period.

Goa Airport has proposed capex in the respective control period and postponed it to the next control period. AERA has acknowledged the effect of the pandemic in the Second Control Period on certain capital expenditure projects. It is pertinent to note that AERA has observed in other consultation papers that a delay in the capitalisation of works would unfairly burden the airport users without passing on the benefits to them. As mentioned above it will take around two (2) - three (3) years for the flight operations to reach to its pre COVID-19 peak levels.

In view of the above, in order to support the airlines to continue and sustain its operations, all non-essential capital expenditure proposed by Goa Airport be put on hold/ deferred, unless deemed critical from a safety or security compliance perspective. Further, in case Goa Airport wants to make capital expenditure, then it should be at no additional expense to the airlines until the project is completed and put to use by the airlines. Similarly, if any proposed Capex projects can be deferred from the Third Control Period to the Fourth

additional unplanned capex was categorized as "essential".

AAI submits to consider capex on case to case basis as due to pandemic/other genuine reasons which were beyond the control of AAI, work delay is unpredictable. AAI would always endeavor to ensure that the work is completed in time. Hence it is requested not to make adjustment of 1% or higher of the project cost from the ARR,

Regarding normative cost, it is submitted that Goa Airport had proposed major work of expansion of Existing Terminal Building with PDC- March 2023(FY2022-23) of Rs.182.13 cr. (Aero cost of Rs.121.18 Cr.) and the normative cost in compliance with the normative norms/approach as per the Order No.07/2016-17 had already shared to AERA along with the proposal. The details are as under

**Abstruct cost for the Extension of Existing Terminal Building at Goa airport**

**(in Lacs)**

| S.No | Desctiption | Extn. T.Building | | Existing TB | Total Cost |
|---|---|---|---|---|---|
| | **Area (in SQM)** | **18300** | | **62000** | |
| 1 | CIVIL & Elect | 12458.46 | | | 12458.46 |
| 2 | Modification of TB (Existing) | | | 300.00 | 300.00 |
| 3 | Pavement work | | | | 0.00 |
| 4 | PMC @ 4.28% | 669.23 | | | 669.23 |
| 5 | Airport system | | 3227.45 | | 3227.45 |
| 6 | IT System | | 100.00 | | 100.00 |
| | **Total** | **13127.69** | **3327.45** | **300.00** | **16755.14** |
| 7 | 5% for Operational area hindrance (Apron) | | | | 0.00 |
| 8 | 1% labour cess | 0.00 | 33.27 | 0.00 | 33.27 |
| | **Total** | **13127.69** | **3360.72** | **300.00** | **16788.41** |
| 9 | Contigency @ 3% | 393.83 | 100.82 | 9.00 | 503.65 |
| | **Total** | **13521.52** | **3461.55** | **309.00** | **17292.07** |
| 9 | Esclation @ 6.5% | 878.90 | 225.00 | 20.09 | 1123.98 |
| | **Total** | **14400.42** | **3686.55** | **329.09** | **18416.05** |
| | **Total cost** | **18086.97** | | | |
| | **cost per Sqm (cost/area)*lacs** | **98835.88** | | | |

| | | |
|---|---|---|
| | Control Period, the same should be considered by the AERA.<br><br>Moreover, as discussed in the Stakeholder meeting conducted on 15th February 2022, we request AERA to ensure that the extension of Terminal building & related works are being done in compliance with the normative norms/approach as per the Order No.07/2016-17.<br><br>Further, we request AERA to conduct an independent study for efficient capital expenditure in the Third Control Period in accordance with the AERA Act, 2008. | <br><br><br>Regarding an independent study for efficient capital expenditure, AERA may like to offer their views. |
| **5** | **Terminal Building Ratio:** (Refer 6.2.2 of the CP) | |
| | AERA has proposed a Terminal Building ratio of 8%, and mentions that this is in line with the optimum Non- aeronautical ratio of 8% - 12% as per IATA and IMG norms.<br><br>However, AERA has approved 10% in case for similar airports (for e.g. Pune Airport) while apportioning the common assets within the Terminal Building, leading towards TBLR of 90:10.<br><br>In view of the above, we would request AERA to conduct an independent study on the allocation of assets including Terminal building ratio (Aeronautical & Non-Aeronautical) before issuing the order for the Third Control Period. | Although Goa airport is currently the 9th busiest airport in India and being Civil Enclave (Table Top), there is shortage of land. The Terminal Building passenger handling capacity is 7.65 MPPA however the Airport handled 8.35 MP during FY2019-20 (Pre-covid). As the terminal Building is already saturated and there is not enough space providing more space for commercial activity inside the Terminal Building.<br><br>The ratios have been computed based on the actual space in the terminals. Hence, AAI submits that assuming a different ratio based on international benchmarks when there is no substantial change in the terminal building composition during TCP may not be justified. AERA had approved Non Aero ratio 7.5% as against the 7.41% actual utilization for Non-Aero Activities in 2nd control period order.<br><br>Hence, we request AERA to consider TBLR 92.5% as approved in tariff order by AERA. |
| **6** | **Depreciation:** (Refer 6.4 of the CP) | |
| | While we acknowledge that the depreciation rate applied by AERA is in accordance with AERA Order No. 35/2017-18 the 'Useful Life of Airport Assets', we request that it is pertinent to note that useful life of assets | Depreciation rates used for the 2nd & 3rd Control period are in line with the rates as per AERA Order No. 35/2017-18 the 'Useful Life of Airport 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. We submit that the useful life of terminal building for 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.

7 **Fair Rate of Return (FRoR):** (Refer 7.2.4, 7.2.6 and Table 37 of the CP)

AERA has considered a FRoR of 12.91%, which is net of income tax return to the airport operator, for the Third Control Period. However, while such fixed/ assured return favours the airport operator, it creates an imbalance against the airlines, 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 Goa Airport have no incentive to look for productivity improvement or ways of increasing efficiencies and take steps to reduce costs as they are fully covered for all costs plus their returns. Such a scenario breeds inefficiencies and higher costs, which are ultimately borne by airlines.

In view of above, in the present scenario any assured return on investment to any services providers like Goa Airport, in excess of three (3) % (including those on

AAI had appointed M/s KPMG to carry out a study on Cost of Equity during 2011 the results of which are given below:

*Table 3: Beta of comparable airports*

| Airport / Group | Country | Equity Beta | Tax Rate | Debt (in Billion local currency) | Mkt Cap (in Billion local currency) | Debt /Mcap | Asset Beta |
|---|---|---|---|---|---|---|---|
| Airports of Thailand PCL | Thailand | 1.14 | 30% | 56.2 | 54.3 | 1.03 | 0.66 |
| Beijing Capital International Airport | China | 1.03 | 25% | 18.5 | 14.8 | 1.25 | 0.53 |
| Guangzhou Baiyun International Airport | China | 0.91 | 25% | 0.0 | 8.3 | 0.00 | 0.91 |
| Shanghai International Airport | China | 1.04 | 25% | 2.5 | 22.0 | 0.11 | 0.96 |
| Xiamen International Airport | China | 0.95 | 25% | 0.0 | 4.1 | 0.00 | 0.95 |
| Grupo Aeroportuario del Sureste SAB de CV (Group of 9 airports in Mexico) | Mexico | 0.94 | 30% | 0.6 | 21.0 | 0.03 | 0.92 |
| Grupo Aeroportuario del Pacifico SAB de CV | Mexico | 0.84 | 30% | 1.0 | 27.2 | 0.04 | 0.82 |
| Grupo Aeroportuario Centro Norte, S.A. de C.V. | Mexico | 0.99 | 30% | 1.0 | 9.2 | 0.10 | 0.92 |

The median value of asset beta for the above comparable set is 0.92 which is being used as the asset beta for airport operations business of AAI. This needs to be re-levered as per the expected gearing of AAI in the control period to estimate the equity beta for AAI.

*Table 4: Equity Beta for AAI*

| | |
|---|---|
| Estimated asset beta for AAI | 0.92 |
| Gearing for AAI | 8.84% |
| Tax rate for AAI | 32.45% |
| Equity beta for AAI | 0.98 |

Equity beta for AAI works out to 0.98.

For full Report, please refer Consultation Paper No. 16/2012-13.

Based on the above report, AAI submitted during SCP consultation that the CoE was 16%. AERA in the SCP order had also considered CoE of 16% and FRoR was determined to be 14%.

The Equity estimation can also yield a range of values depending on the assumptions employed.

Cost of Equity depends on ownership structure, Comparable Airports & Revenue Till

Asset Beta plays an important role in determination of Equity Beta even if Debt/Equity Ratio is low (low gearing). Cost of Equity depends on both Asset Beta and Equity Beta.

| | | |
|---|---|---|
| | past orders), i.e., being at par with bank fixed deposits (i.e., return on investment after the income tax), will be onerous for the airlines.<br><br>Without prejudice to the above, in case the AERA is unable to accept our recommendation mentioned above, the AERA is requested to conduct an independent study for determination of FRoR to be provided to Goa Airport. Such independent study can be exercised by the powers conferred under the AERA Act and in line with studies being conducted by AERA in case of certain major airport operators. | In 1st Control Period, AAI had submitted a study conducted by M/s KPMG in regards to calculation of Cost of Equity wherein, Estimated Asset Beta was 0.92 and corresponding Equity Beta works out to 0.98. The cost of Equity submitted by AAI works out to 16.82%<br><br>If AERA considers the debt equity ratio as 48:52 as ideal ratio and provides Asset Beta @ 0.92 then the FRoR will increase to more than 16%.<br><br>In MIAL, DIAL, HIAL and CIAL the Cost of Equity has been considered @ 15+%. Thus AERA is requested to consider the Cost of Equity @ 16% as submitted by AAI.<br><br>AAI had requested AERA to consider the FRoR as submitted instead of an Average FRoR @ 12.91% for TCP.<br><br>AAI hence submits that not having a leveraged financing structure has already been factored by AAI by considering an FRoR of 14%. Further, suggesting that a return equal to interest rate of bank to be applied does not factor in the risks associated with the aviation business and more specifically the uncertainties in this current pandemic scenario. |
| **8** | **Non-Aeronautical Revenue:** (Refer 9.2.1 & 9.2.2 of the CP) | |
| | We observe that the non-aeronautical revenues of Goa considered by AERA are low / conservative. It is requested that Goa Airport explores all avenues to maximise revenue from the utilisation from the expansion of terminal building for non-aeronautical purposes. As mentioned in para 9.2.1, the non-aeronautical revenue for Third Control Period is lower than the Second Control Period due to cessation of certain concessionaire agreements in FY20-21. Accordingly, we request AERA to direct AAI to enter into suitable agreements with concessionaires to exploit the potential/ growth of non-aeronautical revenue.<br><br>In this regard we also request AERA to kindly undertake detailed examination with the assistance of an independent study to be conducted on the non-aeronautical revenue before the tariff determination of | Generally, increase in traffic is not proportionate with increase in NAR.<br>It is to mention that in view of Covid-19 pandemic, AAI had provided Concessionaire Support Scheme (CSS) to various contractors linked to the passenger traffic till 31/12/2021. Under the CSS, license/concession fee was charged based on actual passenger traffic during a particular month. In addition, additional discount was also given due to adverse impact on buying behaviour of the passenger.<br>In view of the above, revenue growth after 31/12/2021 is not to be linked with passenger traffic growth. Most of the commercial contracts have been awarded by AAI on fixed license fee basis having annual escalation provision of 10%. Therefore, AAI projections are based on the consistent revenue increment trend during pre- Covid years<br>Hence, projections from FY 2022-23 onwards should be delinked with total traffic numbers and AAI circulars 24 & 26. Further, in the revenue projection for FY 2021-22, additional discount provided under CSS in license fee due to adverse impact on passenger buying behaviour has also to be factored in.<br><br>The main reasons for lower non-aeronautical revenue for Third Control Period to the second control period are as under:<br><br>**Restaurants and Snack bar:** The revenue projected in this category was ₹ 25.90 Crores, whereas the actual revenue is ₹ 52.85 Crores (which is higher than the projections). The revenue for the year 2019-20 was higher than the other years (at ₹ 35.65 Crores) due to award of Master concession for Food & Beverage (F&B) outlets to the party M/s Travel Food Services Private Limited at ₹ 3.88 Crores per month. This agreement was in place only for FY 2018-19 and 2019- 20 and after which it was foreclosed in November 2020, due to COVID-19 pandemic. This had resulted in decrease in the revenues for the FY 2020-21.<br><br>**T.R Stalls**: The revenue projected in this category was ₹ 16.00 Crores, whereas the actual revenue is ₹ 122.10 Crores (which is higher than the projections). The revenue for FY 2018-19 was higher than the other years (at ₹ 52.42 Crores) due to award of Master concession for Individual Retail outlets to the party M/s FLFL Travel Retail West Private Limited at ₹ |

| | | |
|---|---|---|
| | the Third Control Period.<br><br>Without prejudice to the above, our submission is that increase in non-aeronautical revenue is a function of passenger traffic growth, inflationary increase, and real increase/escalations in contract rates. AERA is requested to ensure no adjustments are proposed to non-aeronautical revenue which is not dependent on traffic but are derived from agreements with concessionaires. | 2.92 Crores per month. The above revenue was not forecasted by AAI, while submitting their MYTP for the Second Control Period to AERA and hence there is significant increase in the actual revenue as compared to that approved in the Tariff Order for the Second Control Period. This agreement was in place only for the FY 2018-19 and FY 2019-20 and after which it was foreclosed in July 2020, due to COVID-19 pandemic. This had resulted in decrease in the revenues for the FY 2020-21. |
| | a. **Royalty:**<br><br>Any attempt to award the contracts by the airport operator on the highest revenue share basis should be discouraged as it breeds inefficiencies and tends to disproportionately increase the cost.<br><br>It is general perception service providers have no incentive to reduce its expenses as any such increase will be passed on to the airlines through tariff determination mechanism process and indirectly airlines will be forced to bear these additional costs. There needs to be a mechanism for incentivizing the parties for increasing efficiencies and cost savings and not for increasing the royalty for the airport operator.<br><br>As you are aware, royalty is in the nature of market access fee, charged (by any name or description) by the Airport operator under various headings without any underlying services. These charges are passed on to the airlines by the airport operator or other services | **Royalty:** AAI has initiated tender as per the terms and conditions, period of license etc., mentioned in line with the AAI commercial manual. Commercial Department is collecting 13% of GTO from Inflight Caterers for doing business at Airport. Collection of 13% royalty from Inflight catering service provider is prevailing in all the AAI managed Airports as per the internal policy.<br>AAI is incurring huge expenditure on providing the infrastructure to facilitate the Ground Handling Agencies for providing their services to the airlines. Further, the royalty on Ground handling charges (Revenue Share) payable by Ground Handling Agency has been brought down to 3% of Actual Gross Revenue from Scheduled Domestic Passenger Flights and 15% of Actual Gross Revenue from users other than Scheduled Domestic Passenger Flights and RCS flights. This is effective from 1st October 2021.<br><br>Hence AERA is requested not to link Passenger growth with Non Aeronautical Revenue. |

| | | |
|---|---|---|
| | providers.<br><br>The rates of royalty at Goa airport are as high as up to 13- 15% for some services. 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. Sometimes it is argued by the airport operators that 'Royalty' on 'Aero Revenues' helps in subsidizing the aero charges for the airlines, however royalty in 'Non-Aero Revenues' hits the airlines directly without any benefit.<br><br>In view of the above, we urge AERA to abolish such royalty which may be included in any of the cost items. | |
| 9 | **Operation & Maintenance (O&M) Expenses for Third Control Period:** (Refer 10.2.15 and Table 46 of the CP) | |
| | As per Para 4.2.2 (*decision 11b)* & Table 15 of the CP, AERA has itself observed that it expected Goa Airport to reduce O&M expenditure over a period of time.<br><br>However, as can be observed from Para 9.2.2, despite the directions of AERA, no such reduction in O&M expenses have taken place and on the contrary, as per para 10.2.15 and Table 46 of the CP, a further increase is proposed O&M expenditure for Third Control Period.<br><br>In view of the above, we request AERA to:<br><br>(a) Put on hold any increase in operational expenditure by Goa Airport;<br>(b) Advise Goa Airport to review its spending on operational expenditure and re-negotiate all the operational expenditure | The costs captured by the airports in their respective trial balances are based on the actual spend. To determine the costs, there are detailed tendering mechanisms for every contract and approving authorities. Further, the airports are subject to C&AG audit on a yearly basis. |

costs in a significant manner and address any increase in fees sought by Goa Airport. It may be noted that across various industries, instead of cost escalations, all the costs have been renegotiated downwards substantially. Accordingly, Goa Airport needs to significantly reduce all such costs.by at least 35% and further no escalation should be permitted; and

(c) In view of the above, Goa Airport should be directed to pass on cost benefits to the airlines.

(d) In particular, we submit that:

1. Instead of a significant reduction in cost items of operating expenses, AERA has proposed a Y-O-Y percentage increase of around 6% on Payroll and Repair & Maintenance, and 5-10% in Administration and General Expenses. Such an increase in the name of escalation, in a highly uncertain environment, where airlines are operating under curtailed operations, appears to be without any rationale and should be avoided.

**Pay Roll** :-7% is the average increase in the payroll due to annual increment of 3% in salary, increase in HRA, and quarterly increase in DA and Employer contribution to PF. The figures for the F.Y. 2020-21 are actual as submitted by on 24.12.2021 in r/o Pune Airport. (for Illustration)

The following illustration clearly shows that there is an average 7% increase in the Payroll expenditure.

| **Calculation of incremental increase in Salary (in %age terms)** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | **(In Rs.)** |
| **Particulars** | **Per Month** | **Salary Year 1** | **Q 1** | **Q 2** | **Q 3** | **Q 4** | **Salary Year 2** | **Yearly Incremental** |
| **Basic Pay** | 10000 | 120000 | 3090 | 3090 | 3090 | 3090 | 123600 | 3600 |
| **DA** | 1800 | 21600 | 6798 | 7725 | 8343 | 8652 | 31518 | 9918 |
| **HRA** | 2700 | 32400 | 8343 | 8343 | 8343 | 8343 | 33372 | 972 |
| **PERKS** | 3500 | 42000 | 10815 | 10815 | 10815 | 10815 | 43260 | 1260 |
| **EPF** | 1200 | 14400 | 3708 | 3708 | 3708 | 3708 | 14832 | 432 |
| **Total** | **19200** | **230400** | **60564** | **61491** | **62109** | **62418** | **246582** | **16182** |

| **Particular** | **%age Increase** | | | | | |
|---|---|---|---|---|---|---|
| DA | 18% | | 22% | 25% | 27% | 28% |
| HRA | 27% | | 27% | 27% | 27% | 27% |
| Perks | 35% | | 35% | 35% | 35% | 35% |
| **EPF** | 12% | | 12% | 12% | 12% | 12% |

| | |
|---|---|
| **Total Increase (in Rs.)** | **16182** |
| **% increase** | **7.02** |

***Assumptions:***

Year 1 Means Previous Year

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<td>2. Upkeep and Utility expenses: Although the activity level has gone down drastically, rather than significant reduction in the cost, the Upkeep Expenses as proposed by AERA are to increase Y-O- Y each year by 4.9% other than 2025-26, for which it will be an exceptional 35%. This exceptional increase should be avoided.</td>
<td>Year 2 Means Current Year<br>Basic Pay – 3% yearly increase considered.<br>Dearness Allowance- Quarterly increase considered.<br>HRA, Perks & EPF – Considered Constant<br><br>In the abovementioned example, the Salary expenditure for Year 1 shown as Rs. 230400/- per employee. Whereas, in the year 2 the salary expenditure is shown as Rs. 246582/- per employee. On the basis of above assumptions, the incremental expenditure on the head of salary is Rs. 16182/- per employee which comes out to 7.02% on Year on Year basis.<br>AAI requests AERA to consider 7% increase on Year on Year basis for the Third Control Period to maintain consistency and also allow 10% additional increase in FY2023-24 as the expansion of Terminal Building will be completed by March 2023 and additional employees will be required for smooth functioning of operation. The work of Expansion of Existing Terminal Building is delayed basically due to delay in issue of Environmental Clearance by MoEF, COVID pandemic and extended rain. At present the work is in full swing and presently progress is 17% and will be completed as scheduled. Date of Completion i.e.31.03.2023.<br><br><u>R&M Electrical: -</u><br>R&M Electrical & Electronics includes Manpower (Operators) and to be payable as per the minimum wage of the state Govt and additional manpower will be required for the equipment installed at expansion area.<br>Some Expenses are of Revenue Nature to be charged off as per the Accounting policy e.g. Renovation of Toilet & Floor tiles etc.<br>AERA is requested to consider 10% increase year on year instead of 6% and also allow additional increase of 10% in FY2023-24 due to operationalization of expanded area of TB.<br><br><u>Upkeep Expenses:-</u><br>Projection for the 2nd control period was done based on existing contract @ Rs.7.15 lacs pm for 36 months award in FY2014.<br>Further, New contract was awarded on March 2017 @ Rs.30.88 lacs pm (cost increase due to cost inflation and new area included-Admn Block, paved area city side and airside).<br>Recently the New contract has been awarded on Sept 2020 @ Rs.41.47lacs pm for 36 months.<br>The upkeep expenses are merely not linked with the area of building but there are other factors like cleaning with modern and high technology equipment, wages of the labor, escalations in the prices of the materials, cleaning of Transparent Glass Facades, Ceilings, Covid-19 protocols etc. The minimum wages of labor play an important role in deciding the upkeep expenses at airport.<br>The Upkeep expenses cost are arrived by the approved tendering process and are market driven and may not with the approved fixed percentage (%) as considered by AERA.<br>Therefore, AAI requests AERA to allow the expenditure as submitted by AAI instead of restricting it to inflation of 4.9% from F.Y. 2021-22 and thereafter and also requests to consider revised PDC of Expansion of Existing Terminal Building (March2023) and allow propionate increase in Upkeep Exp as proposed by AAI.<br><br><u>3.CSR</u>: In accordance with the requirements of the DPE guidelines on CSR and Sustainability and Section 135 of the Companies Act, 2013, two percent of the average net profits (to be calculated in accordance with the provisions of the Act) during the three immediately preceding financial years will be allocated for CSR activities every year.<br><br>AAI has constituted a CSR Committee. The composition and terms of reference of the CSR Committee is provided in the Report on Corporate Governance, which forms part of this Annual Report. AAI has also formulated a Corporate Social Responsibility Policy, which is available on AAI's website.</td>
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|---|---|---|
| | | The overview of various CSR projects and programme undertaken by AAI and detail amount spent on CSR across India in different projects are there in the Annual Report at AAI website.<br><br>CSR Budget will be utilized for implementing CSR projects approved by the Board on an annual basis. The budget allocation to the CSR Schemes shall be made in the beginning of every financial year after considering the CSR budget for that year. AAI is committed to play a larger role in India's sustainable development by embedding wider economic, social and environmental objectives.<br><br>CSR provisions are made on the basis of 2% of Average profits of preceding 3 financial years at Corporate Headquarter Level. |
| | 3. Expenses on account of CSR as given in Para 10.2.14 and Table 45 of the CP may be excluded. This will be in line with the similar treatment of CSR expenditure given to CIAL at Cochin International Airport.<br><br>Accordingly, we submit that while the aviation sector, including airlines have incurred huge losses and are struggling to meet their operational costs, Goa Airport on the other hand seems to have paid/will pay incremental salaries which may not appear prudent considering the significant losses incurred by the aviation sector.<br>It appears that Goa Airport wants to recover its full employee cost from the airlines, which are facing significant challenges to meet its operating expenses.<br><br>We submit that there should not be any increase in manpower till the existing manpower is effectively utilised as it will take another two (2) - three (3) years to recover. Existing manpower can be reviewed and any additional costs due to contract manpower or otherwise should be reduced, particularly in view of the new MoPA airport coming up soon. | In view of above, like income tax reimbursement it is requested to reimburse an amount of Rs. 498 lakhs for Goa Airport during 2nd control period on account of CSR Expenditure.<br><br>AERA is requested to consider the submission made by AAI regarding Opex. |

| | | |
|---|---|---|
| | Without prejudice to the above, Goa Airport needs to considerably restructure its employee benefit expenses and other expenses and hold any revisions at least for the next two (2) years to three (3) years. | |
| **10** | **Methodology of tariff Determination (Application of Hybrid Till Vs Single Till):** | |
| | We submit that in Para 3.1.2 of the Consultation Paper, it is stated that the AERA shall determine tariffs for using the 30% Hybrid Till model including for true ups as applicable.<br><br>It is to be noted that we have from time to time, advocated the application of a Single Till model across the airports in India. We submit that AERA should adopt Single Till basis across all Control Periods, including by way of true up, in view of the following legal framework:<br><br>In the Single Till Order, AERA has strongly made a case in favour of the determination of tariff on the basis of 'Single Till'.<br><br>It is noteworthy that the AERA has, inter alia, in its Single Till Order:<br><br>i. Comprehensively evaluated the economic<br>ii. model and realities of the airport – both capital and revenue elements<br>iii. Considered the legislative intent behind Section 13(1)(a)(v) of the AERA Act.<br>iv. Concluded that the 'Single Till' is the most appropriate for the economic regulation of major airports in India. | As per National Civil Aviation Policy 2016 [Page17 para-c] *"to ensure uniformity and level playing field across various operators, future tariffs at all airports will be calculated on a 'hybrid till' basis, unless otherwise specified for any project being bid out in future. 30% of non-aeronautical revenue will be used to cross-subsidise aeronautical charges. In case the tariff in one particular year or contractual period turns out to be excessive, the airport operator and regulator will explore ways to keep the tariff reasonable, and spread the excess amount over the future".*<br>AAI has prepared MYTP on Hybrid Till Basis and AERA has considered it.<br><br>AERA may also offer its views. |

| | | |
|---|---|---|
| | v. The criteria for determining tariff after considering standards followed by several international airports (United Kingdom, Australia, Ireland and South Africa) and prescribed by ICAO.<br><br>Further, 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. 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.<br><br>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 chain reaction which needs to be considered by the AERA. | |
| 11 | **Tariff:** (Refer 18.2, Table 63, 64 & 65, Annexure II of the CP) | |
| | 1. **Overall Tariff:**<br><br>AERA has proposed increase in the Parking Charges of around 15% on Year 2 of the Third Control Period (and going up to a cumulative of approximate 33% by end of Year 5); and has proposed increase in the UDF of around 16% on Domestic Passengers (and 8% on International Passengers) on Year 2 of the Third Control | **Overall Tariff:**<br><br>The financial condition of AAI during the Covid-19 Pandemic has deteriorated to a great extent. AAI has incurred a loss of Rs. 1962 Crores (approx.) in F.Y. 2020-21. AAI has resorted to borrowing from market to finance its capital as well as opex. Although it is expected that the Aviation sector is likely to bounce back to Pre-Covid level by F.Y. 2023-24, yet for AAI's current survival, it is required to improve cash flows. Under the present situation there is no hope to augment Non-aeronautical revenue. |

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<td>Period (and going up to a cumulative 41% and 20% Domestic Passengers and International Passengers respectively by end of Year 5).<br><br>Without prejudice to the above, it is in the interest of all the stakeholders that the proposed tariffs be reduced in order to encourage middle class people to travel by air, which will help in sharp post-COVID-19 recovery of aviation sector.<br><br>AERA is requested to review the suggestions/comments on the regulatory building blocks as mentioned in this Annex – B, which is likely to reduce the ARR of Goa Airport. This will further ensure the lowering of tariff including UDF, which will be beneficial to passengers and airlines.<br><br>2. Collection Charges:<br><br>We would like to invite AERA's attention to Para 18.2.2 of Annexure II of the Consultation Paper that the rate of collection of UDF charges has not been clarified. We understand that such rate of Collection Charges being clarified in other Consultation Papers is Rs. 5 (Rupees five only) per departing passenger. We request that the same is clarified in the Tariff Order for Goa Airport.<br><br>We further request that the Collection Charges the entitlement for airlines, should be against Goa Airport having received the 'undisputed' invoiced UDF amount with the applicable due date.</td>
<td>2.Collection Charges:<br><br>Policy referred to with respect to collection charges: Rs.5/- plus GST per passenger will be paid by AAI to the Airline Operators if they make the payment within 15 days from the receipt of the invoice. No collection charges shall be paid in case the airline fails to pay the UDF invoice to AAI within the credit period of 15 days or in case of any part payment. This is as per the Credit Policy of AAI which has been provided in the tariff card by AERA.</td>
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**Response to Counter Comments of GMR Goa International Airport Ltd for Consultation Paper No.29/2021-22 dt:27 Jan'22 on determination of Aeronautical Tariff for Goa International Airport, Goa for the Third Control Period (01.04.2021 – 31.03.2026) and the Tariff Card.**

| | Comments of GMR Goa Intl Apt | AAI's Reply |
|---|---|---|
| | GMR Goa International Airport Ltd has stated as MoPA Airport will be soon coming into operation and hence the Goa Air travel requirement is going to be served by two airports. According, it is paramount to assess the air traffic in Goa as a whole. It is observed that in the above referred consultation paper AAI has not provided the system traffic for Goa.<br><br>In this regard we have appointed an expert CRISIL to estimate Goa traffic as a whole. CRISIL has considered historical traffic trend, current constraint due to non-flying hours and Goa market potential. Accordingly, CRISIL has estimated following Goa system traffic for the period considered by Dabolim Airport: | While projecting Traffic Forecast, AAI had proposed to reduce the passenger traffic and ATM estimates for FY 2022-23 by around 20%, due to operationalization of Greenfield Airport at MoPA, Goa. The details are as under |

(In Mn)

| F.Y | Dom. | Intl. | Total |
|---|---|---|---|
| **2022-23** | 3.76 | 0.43 | 4.19 |
| **2023-24** | 10.74 | 0.54 | 13.82 |
| **2024-25** | 12.19 | 0.99 | 13.18 |
| **2025-26** | 13.82 | 1.04 | 14.86 |
| **2026-27** | 15.68 | 1.09 | 16.77 |

We request Authority to kindly take a note of Goa system traffic estimates while allocation of traffic between Dabolim and MoPA Airport.

(In Mn)

| | As per AAI | | | As per AERA | | |
|---|---|---|---|---|---|---|
| **F.Y** | **Dom.** | **Intl.** | **Total** | **Dom.** | **Intl.** | **Total** |
| **2019-20** | 7.65 | 0.71 | 8.36 | 7.65 | 0.71 | 8.36 |
| **2020-21** | 2.85 | 0.04 | 2.89 | 2.85 | 0.04 | 2.89 |
| **2021-22** | 5.13 | 0.06 | 5.19 | 4.85 | 0.06 | 4.91 |
| **2022-23** | 5.39 | 0.08 | 5.47 | 6.20 | 0.15 | 6.35 |
| **2023-24** | 6.74 | 0.15 | 6.89 | 7.75 | 0.27 | 8.02 |
| **2024-25** | 7.75 | 0.27 | 8.02 | 8.87 | 0.49 | 9.36 |
| **2025-26** | 8.67 | 0.46 | 9.14 | 10.15 | 0.66 | 10.81 |

The Authority considers the same to be appropriate and has also factored it in its estimation of passenger traffic and ATM.