



**Federation of Indian Airlines**

**E-166, Upper Ground Floor,  
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18 October 2020

To,  
The Hon'ble Chairperson,  
Airports Economic Regulatory Authority of India  
AERA Building, Administrative Complex,  
Safdarjung Airport,  
New Delhi – 110003.

**Kind Attention: Shri. B.S. Bhullar, IAS**

**Sub: In the matter of determination of Aeronautical tariffs in respect of Swami Vivekananda Airport, Raipur for the First Control Period (April 1, 2020 to March 31, 2025) - Consultation Paper No. 34/2020-21 dated 18 September, 2020)**

Ref: Stakeholder Consultation (Virtual) Meeting held on dated 9 October, 2020

Dear Sir,

We, the Federation of Indian Airlines (**FIA**), write in response to the above captioned consultation paper issued by the Airports Economic Regulatory Authority of India (**AERA**) in the matter of determination of aeronautical tariffs in respect of Swami Vivekananda Airport, Raipur (**Raipur Airport**) for the First Control Period (April 1, 2020 to March 31, 2025), referred to as '**Consultation Paper**' and the stakeholder consultation (virtual) meeting dated 9 October, 2020 on the same.

The Consultation Paper, inter alia, propose an increase/hike in aeronautical tariffs w.e.f 1 April, 2020 at Raipur Airport as follows:

- (i) Landing and Parking Charges – Increase in the existing Landing and Parking charges by 45% in the FY 2021-22, by 10% in the FY 2022-23 and thereafter by 6% on a compounded basis up to FY 2024-25; and
- (ii) Existing PSF (F) of INR 77 shall be applicable up to March 31, 2021. Thereafter, AERA has proposed that PSF (F) will be subsumed in UDF i.e. to be levied at the rate of INR 500 on tickets issued on or after April 1, 2021.

While FIA acknowledges AERA's proposal to defer the increase/hike in the above-mentioned aeronautical charges at Raipur Airport to April, 2021, FIA requests AERA to kindly not allow/implement any increase of aeronautical tariff, during the First Control Period, due to reasons stated below.



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As you are aware, airlines have suffered adverse financial impact due to operational restrictions on scheduled domestic and international air transport, imposed by government authorities due to COVID – 19. At the same time, airlines have continued to incur airport charges and further been directed to mandatorily refund cancelled tickets for certain categories of passengers w.r.t booking/travel period, which has aggravated the financial impact.

While the scheduled domestic air transport has been permitted a calibrated opening w.e.f. 25<sup>th</sup> May, 2020, such flight operations are subject to restrictions on capacity and fare, and adherence to safety protocols, as imposed by the Ministry of Civil Aviation / Directorate General of Civil Aviation (**DGCA**). It may be appreciated that until there is a complete opening of scheduled domestic and international flight operations, coupled with regaining confidence of passengers in air travel, airlines will continue to face a weak financial position.

We wish to highlight that the proposed increase in Landing Charges itself will adversely impact the operating expenditure of one of its member airlines operating at Raipur airport, by a minimum of approx. INR 13 lakh per month. This impact is likely to further increase with the Year on Year increase of tariff proposed by AERA and increase of flight operations.

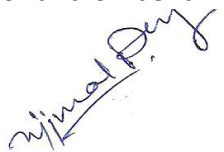
In the given circumstances, it is imperative that AERA does not take any steps, including any increase in aeronautical tariff at Raipur Airport, during the First Control Period, which precipitates any further adverse financial impact on the airlines.

Without prejudice to the above, and as desired by AERA, please find attached FIA's comments on the Consultation Paper, under **Annex – A**.

Thanking you,

Yours sincerely,

For and on behalf of **Federation of Indian Airlines**,

  
UJJWAL DEY  
Associate Director

Copy to:

- Director (P&S Tariff), Airports Economic Regulatory Authority of India.

**Annex – A**

**FIA Comments on AERA CP.No. 34/2020-21 - Determination of Aeronautical tariffs in respect of Raipur Airport for the First Control Period (April 1, 2020 to March 31, 2025)**

S. No.	Para of CP	Particulars	Comments/Submission
1.	3.2, 3.3 and 3.3	Revenue from Air Navigation Services and Cargo services	<p>FIA submits that as per section 2 (a) of Airports Economic Regulatory Authority of India Act, 2008 (<b>AERA Act</b>),</p> <p><i>“aeronautical services means any services provided-</i>  <i>(i) For navigation, surveillance and supportive communication thereto for air traffic management.....</i>  <i>(v) for the cargo facility at an airport..”</i></p> <p>FIA submits that considering the above provisions of the AERA Act, revenue from Air Navigation Services and Cargo services (100% revenue accruing to AAICLAS) should form part of aeronautical revenues and accordingly Authority should take into account of the corresponding revenues from such services and recompute the Aggregate Revenue Requirement (ARR) and further revise the tariff card accordingly.</p>
2.	4	Traffic	<p>While FIA acknowledges the consideration of traffic reports issued by industry bodies like CAPA and IATA, it is submitted that AERA should conduct its own independent study on traffic projections in accordance with the AERA Act.</p> <p>Without prejudice to the above, and as discussed during the stakeholder consultation meeting dated 9th October, 2020, AERA may revisit/review the conservative traffic assessment, proposed for Raipur Airport and may consider higher growth rates air traffic (passenger and ATM) taking into account the following:</p> <ul style="list-style-type: none"> <li>(i) Relaxation of quarantine norms for domestic air travel passengers notified by the Govt. of Chhattisgarh in October, 2020;</li> <li>(ii) Proposed increase in flight capacity to 75%, as announced by Hon’ble Minister for Civil Aviation; and</li> <li>(iii) Instead of a 3 Year CAGR considered by AERA, a 5 Year CAGR indicating a higher growth in traffic may be applied at Raipur airport. It is pertinent to note that a 5 Year CAGR (domestic) has been considered by AERA for determination of aeronautical tariff at Amritsar airport.</li> </ul>

3.	5	Allocation of Assets between Aeronautical and Non – Aeronautical	<p>FIA submits that the AERA's proposal to bifurcate assets between aeronautical assets is based on information received from Airports Authority of India (AAI) and no detailed technical evaluation or any independent study of the same has been done by AERA.</p> <p>FIA submits that allocation of the airport assets between Aeronautical or Non- Aeronautical categories is critical under Hybrid Till approach (adopted by AERA), hence the same should be carried out on the basis of independent study in terms of the AERA Act.</p> <p>Without prejudice to the above, FIA requests AERA to clarify the allocation ratio of terminal building and electrical installation and basis for splitting the expenditure. FIA submits that the split of new terminal building costs between electrical installation and terminal building will have significant impact on depreciation as higher allocation of electrical installation will lead to accelerated depreciation and consequently higher ARR (as depreciation rate of electrical installation is higher than the depreciation rate of building).</p>
4.	7	Capital Expenditure for the 1st Control Period	<p>FIA understands that AAI has proposed in its revised MYTP dated June 1, 2020 to defer capitalization of the new terminal building of ₹ 762.65 Crores (Aeronautical costs) to FY 2026-27, in accordance with AERA's suggestion vide letter dated May 14, 2020 to AAI, to revise MYTP projections pertaining to capacity enhancements, by giving credence to the impact of COVID 19 pandemic on the aviation sector. Further, the proposed capital expenditure for Raipur Airport is limited to ₹ 54.28 Crores for the First Control Period.</p> <p>In this regard, FIA submits that keeping in view of impact of COVID- 19 on passenger air traffic and aircraft movements, the need/requirement of any capital expenditure projects should be thoroughly examined by AAI/AERA post a suitable user consultation exercise/AUCC meeting. AAI/AERA may ensure that any non-essential capital expenditure projects may be deferred to the next control period.</p> <p>Further, with a view to rationalize cost for capital expenditure projects, cost allocation should be within the normative norms prescribed by the AERA under AERA Order No. 07/2016-17 "In the matter of normative approach to building blocks in economic regulation of major airports – capital costs reg." dated 13.06.2016.</p>

5.	8	Depreciation	<p>(i) Terminal Building</p> <p>FIA submits that on the review of 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 60 years and aprons have it for as long as 99 years. FIA submits that the useful life of terminal building for Kannur and Cochin airports have been considered 60 years by AERA and accordingly the same should be applied at Raipur Airport.</p> <p>(ii) Residential Building</p> <p>FIA submits that as per Sl. No. 8 of Annexure - I of the Authority's Order 35/2017-18 "In the matter of determination of useful life of Airport Assets" dated 12.01.2018, residential buildings have a prescribed useful life of 30/60 years. It is pertinent to note here that unlike in case of terminal buildings where option of 30 or 60 years is to be evaluated by Airport Operator, the election of 30 years or 60 years in case of residential buildings is not to be evaluated by Airport Operator but is to be derived from provisions of Companies Act.</p> <p>FIA submits that Part C of Schedule II of Companies Act 2013 prescribes the useful life of Buildings (other than factory buildings) having Reinforced Concrete Cement (RCC) frame structure to be 60 years. It is very unlikely that residential buildings will not be built on RCC Frame structure. FIA submits that residential buildings should be depreciated over a period of 60 years and not 30 years.</p> <p>In view of (i) and (ii) above, FIA submits that AERA should consider the useful life of Residential building and Terminal Building as 60 years as envisaged in Order 35/2017-18 read with Schedule II of Companies Act 2013, as applicable, and revise the amount of depreciation accordingly.</p>
6.	10	Fair Rate of Return (FRoR)	<p>AERA has proposed FRoR at the rate of 14% for Raipur Airport in line with decisions for other AAI airports, including Chennai, Jaipur, Patna.</p> <p>However, as stated under Para 10.3, AERA has recognized that AAI's capital structure may not be regarded as an efficient one, as it does not optimize the cost of funds from a regulatory perspective.</p>

			<p>Further, AERA desires that the FRoR allowed to AAI should come down over a period of time by optimizing capital gearing and leveraging AAI's credit ratings. In this regard, AERA has proposed to conduct a study for normative capital structure, in future.</p> <p>In view of the above findings of AERA, FIA requests AERA to kindly expedite the study for a normative norm on capital structure to review the high cost of equity/FRoR being awarded to state entities like AAI, which are required to cater to public interest and not commercial interests.</p>
7.	11	Non-Aeronautical Revenue	<p>FIA submits that increase in non-aeronautical revenue is a function of passenger traffic growth, inflationary increase and real increase/escalations in contract rates. Accordingly, AERA is requested to examine the reasonableness of growth in such factors and accordingly review any conservative estimates.</p> <p>Without prejudice to the above, it is requested that:</p> <ul style="list-style-type: none"> <li>(i) AAI may kindly clarify the reasons of awarding a lesser value contract for Car Parking;</li> <li>(ii) AAI may kindly provide the minutes of meeting of JVC/ Tariff cell on May 20, 2020 wherein it was proposed to allow waiver in the contractual revenues from the Concessionaires, considering the impact of COVID-19 on the Aviation sector.</li> </ul>
8.	12	Operation and Maintenance Expenditure	<p>FIA submits that the 'Operating and Maintenance; expenditure is one of the major components for determining ARR, hence, the AERA should evaluate such expenses in detail rather than accepting projections provided by AAI on an "as is" basis.</p> <p>FIA further submits that as per clause 5.4.2 of AERA Guidelines, while reviewing forecast of operating expenditure the Authority has to assess (a) baseline operation and maintenance expenditure based on review of actual expenditure indicated in last audited accounts and check for underlying factors impacting variance over the preceding year; and (b) efficiency improvement with respect to such costs based on review of factors such as trends in operating costs, productivity improvements, cost drivers as may be identified, and other factors as may be considered appropriate.</p>

			<p>FIA submits that in order to assess efficient operating expenditure, AERA should conduct an independent analysis in terms of AERA Act. FIA submits that Raipur Airport has already completed a significant period of operations, hence benchmarking the costs would not be difficult for AERA. However, till the time an independent study is conducted by AERA, FIA would like to highlight the aeronautical allocation ratio proposed as per AERA CP 5/2014-15 of Normative approach of 80% should be applied.</p>
9.	14	Taxation	<p>FIA submits that business losses can be carried forward for eight (8) years and can be set off with profits in future years. FIA submits that the actual tax paid by the Company in control period shall be lower due to the setting- off the carry forward of losses prior to the present control period.</p> <p>FIA submits that losses for periods prior to the present control period (if any) that are allowed to carry forward as per Income Tax Act, 1961 should be considered while computing taxation in the first control period rather than leaving it for true up in the second control period. Further, FIA submits that actual payment of income taxes should be considered for true up purposes.</p>
10.	2.2	Methodology for Tariff Determination – Hybrid Till Vs. Single Till	<p>FIA submits that as per para 2.2 of the Consultation Paper, it is stated that AERA shall determine tariffs for Raipur Airport using the Hybrid Till model.</p> <p>It is to be noted that FIA has from time to time 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 being:</p> <p>In the AERA Order No. 13/2010-11 dated 12 January, 2011 (Single Till Order), AERA has strongly made a case in favor of the determination of tariff on the basis of 'Single Till'. It is noteworthy that AERA has in its Single Till Order, inter alia:</p> <ul style="list-style-type: none"> <li>(i) Comprehensively evaluated the economic model and realities of the airport – both capital and revenue elements.</li> <li>(ii) Taken into account the legislative intent behind Section 13(1)(a)(v) of the AERA Act.</li> <li>(iii) Concluded that the Single Till is the most appropriate for the economic regulation of major airports in India.</li> </ul>



			<p>(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> <p>Further, AERA in its AERA (Terms and Conditions for determination of tariff for airport operator) Guidelines, 2011 has followed the Single Till approach while laying down the procedure for determination of ARR for Regulated Services.</p> <p>The fundamental reasoning behind the '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. Thus, the above productive chain reaction needs to be taken into account by AERA.</p>
11.	15	ARR and Annual Tariff Proposal	<p>FIA submits that no losses or shortfall pertaining to pre- First control period should be considered by AERA. FIA submits that the passengers travelling during the first Control Period cannot be burdened unnecessarily on account of the losses suffered by AAI/Raipur Airport prior to the First Control Period.</p>
12.	16	Annual Tariff Proposal	<p>In Clause (e) of the Notes to User Development Fee (UDF) of the 'AERA Proposed Rate Card' (Annexure to Consultation Paper), it is stated that <i>"No UDF/PSF (Facilitation) will be levied for Transit Passengers."</i> The requirement of Clause (e) may be reviewed as the exemption in the levy of UDF/DF/PSF from transfer/transit passengers is already covered under Clause VI of the AERA Proposed Rate Card (i.e. with reference to by Ministry of Civil Aviation letter dated 30.11.2011). Further we request AERA to kindly provide a copy of the Ministry of Civil Aviation Letter No. AV.13024/659/2015-AS dated 13.06.2019.</p> <p>AERA is requested to review the suggestions/comments on the regulatory building blocks as mentioned under Annex – A, which are likely to reduce the ARR requirements of AAI at Raipur Airport. This will further ensure the lowering of tariff, including UDF, which will be beneficial to passengers and airlines.</p>