



Federation of Indian Airlines
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MOST URGENT

13 November 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: FIA comments on the AERA Consultation Paper No. 36/2020-21 dated 14.10.2020 - In the matter of determination of Aeronautical tariffs in respect of Tiruchirappalli International Airport (TRZ) for the First Control Period (April 1, 2020 to March 31, 2025)

Ref: Stakeholder Consultation (Virtual) Meeting dated 3 November 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 Tiruchirappalli International Airport (**Trichy Airport**) for the First Control Period (April 1, 2020 to March 31, 2025), referred to as '**Consultation Paper** or **CP**' and the stakeholder consultation (virtual) meeting dated 3 November, 2020 on the same.

The Consultation Paper, inter alia, propose an increase/hike in aeronautical tariffs w.e.f 1 April, 2021 at Trichy Airport as follows:

1. Increase the existing Landing, Parking and Housing 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. Existing Landing, Parking and Housing charges shall be applicable up to March 31, 2021; and
2. Existing User Development Fee (UDF) will be applicable up to March 31, 2021. Thereafter, UDF (inclusive of PSF (F) will be levied at the rate of INR 600 (domestic) and INR 800 (international) 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 Trichy Airport to April, 2021, FIA requests AERA to kindly not 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. 25th May, 2020, such flight operations are subject to restrictions on capacity and fare, and adherence to safety protocols, as imposed by 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 result in commensurate increase in the operating expenditure of one of its member airlines operating at Trichy airport, on a year on year basis.

In the given circumstances, it is imperative that AERA does not take any steps, including any increase in aeronautical tariff at Trichy 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

FIA Comments on AERA Consultation Paper No. 36/2020-21 dated 14.10.2020 - In the matter of determination of Aeronautical tariffs in respect of Tiruchirappalli International Airport (TRZ) 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 3.4	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 (AERA Act), <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 AERA 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 AERA’s 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, it is submitted that, in addition to study reports, AERA has considered actual traffic figures of only the first quarter of FY 2020 – 21 for projecting conservative growth in traffic. FIA submits that AERA should consider actual growth in subsequent quarters of FY 2020-21, as available, and revisit/review the conservative traffic assessment, taking into account the following:</p> <ul style="list-style-type: none"> (i) Proposed increase in flight capacity to 70%, as issued vide Ministry for Civil Aviation’s Order No. 10/2020 dated 11 November,2020; and (ii) Gradual easing of travel restrictions by state governments and robust movement of air traffic under ‘Vande Bharat Mission’ and ‘Air Bubble Arrangement’. The same may further

			<p>be verified from official traffic data for the year 2020, as released by government authorities/DGCA on the respective websites.</p>
3.	5	<p>Allocation of Assets between Aeronautical and Non – Aeronautical</p>	<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 through an 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 an independent study in terms of the AERA Act.</p> <p>Without prejudice to the above:</p> <ol style="list-style-type: none"> 1. With regard to para 5.5, AERA may kindly clarify the reasons of bringing FY 20 19-20 under the regulatory ambit for the purposes of calculating initial RAB; and 2. It may be noted that the aero allocation ratio proposed as per AERA CP 5/2014-15 on Normative Approach is 80%. Hence, to consider 91% as an aeronautical asset will increase the RAB and will consequently burden airlines and passengers. Accordingly, may kindly review and apply the above-mentioned normative norms for the purposes of asset allocation.
4.	7	<p>Capital Expenditure for the 1st Control Period</p>	<p>FIA understands that AAI has proposed capital expenditure of INR 951.78 Cr. for the First Control Period in accordance with Table 14 of the CP. In response, AERA after reviewing the proposed capital expenditure have allowed a total capitalization of INR 732.90 in accordance with Table 20 of the CP.</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 (refer below). Further, AAI/AERA may kindly ensure that any non-essential capital expenditure projects may be deferred to the next control period.</p> <p>In regard to the above, while FIA noted per para 7.18 of</p>

		<p>the CP that an AUCC meeting has taken place on January 11, 2019, the process of AUCC has not been duly complied in accordance with the Appendix 1: Consultation Protocol of the AERA (Terms and Conditions for Determination of Tariff for Airport Operators) Guidelines, 2011 (AERA Guidelines), as seen below:</p> <p>AAI has not provided the stakeholders in advance, all requisite information relating to capital expenditure projects, in the form of 'Project Investment File'(PIF) (Refer Para A1.4 of AERA Guidelines). It is pertinent to note that the PIF is required to be given at each stages of the consultation i.e. Needs Identification, Options development, Detailed project design. Such PIF is required to disclose the minimum information as listed under Para A.1.5.2 of the AERA Guidelines.</p> <p>AAI/AERA may appreciate that such advance intimation of the minimum information under PIF is critical for providing well informed stakeholder inputs in the AUCC meetings. Thus, AERA is requested to examine the sufficiency and due compliance of AUCC Consultation Protocol in the present case.</p> <p>Without prejudice to the above, w.r.t. the cost of terminal building, FIA submits that the regional dynamics of Trichy is not similar to Guwahati, Lucknow and Patna, and therefore considering the cost escalations in those regions will not be appropriate. FIA would also like to highlight that the cost per square meter of the terminal building in the case of Vishakhapatnam Airport is INR 58,546.60 per sq. mt.</p> <p>Accordingly, with a view to rationalize cost for capital expenditure projects (including for terminal building i.e. within the ceiling of INR 65,000 per sq.mt.), FIA submits that cost allocation should be within the normative norms prescribed by the AERA under AERA 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. In the event of any deviations from the Normative Norms while reviewing capital expenditures, AERA is requested to provide justification for the same.</p> <p>Further, the cost of residential quarters (INR 65.12 Cr.) at</p>
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			<p>Trichy Airport may be reviewed by AERA. It is pertinent to note that in the case of Patna Airport the cost of residential quarters was revised by AAI to approx. INR 50.24 Cr. out of which INR 32.56 was allowed by AERA for the purposes of capitalization in RAB.</p> <p>Further, AERA may review a higher penalty amount proposed in the event of any delay in commissioning of a new terminal building and align the same with market standards, as deemed fit.</p>
5.	8	Depreciation	<p>(i) Terminal Building</p> <p>FIA submits that on 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 Trichy 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 the election of 30 years or 60 years in case of residential buildings is not to be evaluated by the Airport Operator but is to be derived from provisions of Companies Act, 2013.</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 building 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 buildings 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 Trichy Airport in line with decisions for other AAI airports, including Chennai, Jaipur, Patna.</p> <p>However, as stated under Para 10.4, 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. 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.</p> <p>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 norms on capital structure through an independent study 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, through an independent study.</p> <p>Without prejudice to the above, it is requested that:</p> <ul style="list-style-type: none"> (i) AAI may kindly clarify the reasons of awarding a lesser value contract for Car Parking; (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. (iii) AERA may kindly consider higher growth rate in line with increase in traffic i.e. corresponding to proposed capitalization of new terminal building and revival of the economy.

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</p> <p>(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</p> <p>(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.</p> <p>FIA submits that Trichy Airport has already completed a significant period of operations, hence benchmarking the costs would not be difficult for AERA.</p> <p>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> <p>Without prejudice to the above, FIA submits that:</p> <p>(a) In view of underutilization of terminal building to 50% as mentioned under Para 7.11 of the Consultation Paper, AERA is requested to kindly review reduction of all operating costs including Payroll expenses, electricity and Upkeep Charges etc., as deemed fit;</p> <p>(b) AERA/AAI is requested to clarify the reference of DIAL/MIAL under para 12.11.2 of the CP.</p>
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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.</p> <p>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 CP, it is stated that AERA shall determine tariffs for Trichy 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"> (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.



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			<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	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/Trichy Airport prior to the First Control Period.
12.	16	Annual Tariff Proposal	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 Trichy Airport. This will further ensure the lowering of tariff, including UDF, which will be beneficial to passengers and airlines.