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March 3, 2022

To,  
The Chairperson,  
Airports Economic Regulatory Authority,  
AERA Building, Administrative Complex,  
Safdarjung Airport,  
New Delhi- 110 003.

Kind Attention – Shri. Balwinder Singh Bhullar

Dear Sir,

**Subject: Response to Consultation Paper No. 31/2021-22 dated February 4, 2022 on determination of tariff for Bridge Mounted Equipment Services at Kempegowda International Airport, Bengaluru in respect of M/s Celebi Airport Services India Private Limited, for the Third Control Period (FY 2021-22 to FY 2025-26)**

In response to the Consultation Paper No. 31/2021-22 dated February 4, 2022 issued by the Airports Economic Regulatory Authority of India ("AERA") in the matter of determination of tariff for Bridge Mounted Equipment Services ('BME Services') in respect of M/s Celebi Airport Services India Private Limited ('CASI') at Kempegowda International Airport, Bengaluru ('KIA') for the Third Control Period (FY 2021-22 to FY 2025-26) ('Consultation Paper' or 'CP').

At the outset, we would like to express our sincere gratitude to AERA for inviting stakeholder comments on the Consultation Paper, and further acknowledging the impact of COVID-19 on the aviation sector.

Sir, you will appreciate that airlines which are the 'catalyst' for the global economy including the aviation sector, have been hit the hardest by COVID-19. Since February/March 2020, due to restrictions on the scheduled international and domestic air travel issued by the Ministry of Civil Aviation and Directorate General of Civil Aviation and other restrictions on inter/intra state travel (collectively 'Government Restrictions'), airlines' cash flows have been severely impacted.

While the airline operations showed an upward trend from December 2020, however the brutal second wave of COVID-19 in March 2021 and subsequent emerging variants of COVID-19 (December 2021 onwards), has again impacted the operations to a certain extent and resultantly prolonged the process of financial recovery.

As per industry estimates issued by IATA and CAPA, it will take almost two (2)- three (3) years for airline operations to reach pre COVID-19 level, in terms of number of flights and passengers. In the current situation, airlines in India are staring at a loss of approximately USD 8.0 billion for the FY 2020-21 and 2021-22. With limited financial support from the Government, Airlines are constrained to implement severe cost control measures to sustain its operations.

You will further appreciate that, while the low passenger demand for air travel/ load coupled with certain Government Restrictions on fare, prevents airlines from generating adequate passenger revenue, airlines continue to incur high operational cost, including on account of high airport charges and taxes.

As desired by AERA, please find below our recommendations/ comments on the Consultation Paper:

**1. Applicability of BME Services: - (Refer 1.9.2, 1.9.4.1 and 3.8 of the CP)**

While it is generally mentioned in section 1.9.2 and 1.9.4.1 of the CP that the BME Services would provide an option to the airlines, however in section 3.8 of the CP it is mentioned that *"CASI has also confirmed that the airlines shall have options either to choose BME services or avail the power and air from their APUs."* Here the option is limited to availing air and power from APU's, and does not mention Ground Power Units (GPUs) and Air-conditioning Units (ACUs) as options. Airlines widely utilise GPUs and ACUs as an option to utilising APUs as not only a standard cost saving practice but also for conserving the life of the APUs, which are very expensive in maintenance. Hence, we request AERA to clarify whether airlines would be allowed to utilise GPUs and ACUs (*and/or any other suitable means allowed by applicable authority*) as an option to the BME Services. In the event GPUs and ACUs etc. are excluded from being an option to BME Services in the present CP, we request AERA to ensure inclusion for allowing utilisation of GPUs and ACUs (*and/or any other suitable means allowed by applicable authority*) as options to the BME Services at KIA in its Tariff Order. In the event utilisation of GPUs and ACUs etc. as option is not included, we submit that we are not in agreement with present proposal for BME Services at KIA for the reasons mentioned above.

**2. Capital Expenditure: - (Refer 4.2.2 of the CP)**

Without prejudice to the above, although it is noted that CASI is a new entrant to commence the BME Services at KIA, in case CASI 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. Further, in the event the AERA allows the proposed Capex, in the current situation in order to support the airlines to continue and sustain its operations, and since IATA and CAPA have projected that it will take around two (2) - three (3) years for the flight operations to reach to its pre COVID-19 peak levels (and especially international traffic), we suggest that the Capex for FY 2022-23 (and remaining Capex of FY 2021 – 22, if any) be more evenly spread into not only to FY 2023-24, but into FY 2024-25 as well.

**3. Regulatory Asset Base: - (Refer 5.5.1 of the CP)**

While AERA has considered a nominal return of 5% on the Security Deposit, we suggest this rate of return may not reflect the present rate of return being offered by bank fixed deposit of around three (3) % (i.e., return on investment after the income tax), and request the AERA to reconsider the same.

*AM*

**4. Fair Rate of Return: - (Refer 6.2.3 and Table 20 of the CP)**

With regard to the FRoR of 11.04 % considered by the AERA, such fixed/ assured return favours the service provider, but however it creates an imbalance against the airlines, which are already suffering from huge losses and bear the adverse financial impact through higher tariffs.

Due to such fixed/assured returns, Independent Service Providers at KIA have no incentive to look for productivity improvement or ways of increasing efficiencies, or to take steps to reduce costs as they are fully covered for all costs plus their hefty returns.

Such a scenario breeds inefficiencies and higher costs, most of which are ultimately borne by airlines. In the present scenario any assured return on investment to any services providers like CASI, in excess of three (3) %, i.e., being at par with bank fixed deposits (i.e., return on investment after the income tax), will be onerous for the airlines.

**5. Operating Expenditure: - (Refer 7.1, 7.2, 7.2.5 and Table 28 of the CP)**

It may be noted that cost incurred by the service provider impacts the airlines, as almost all such cost is passed through or borne by the airlines. Further, in view of industry reports from IATA and CAPA, which foresee a minimum period of two (2) - three (3) years for air traffic and flight operations to reach pre COVID-19 levels, we submit that AERA may consider the Operating Expenses more in line with the revised Financial Year scheduled for capitalisation, as per Point 2 above (Capital Expenditure). Considering that CASI being a new entrant at KIA, it should bring in efficiency in its operations and optimize the overall O&M expenses, so that it can have a competitive edge to achieve economy of scale in its operations in the interest of all the stakeholders.

Further, on the Concession Fees, any attempt to award the contracts by the airport operator on highest revenue share basis should be discouraged as it breeds inefficiencies and tends to disproportionately increase the cost. It is general perception service providers has no incentive to reduce its expenses as most of 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 / concession fees for the airport operator. As you are aware, royalty / concession fees 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 providers.

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 'Aeronautical Revenues' helps in subsidizing the aero charges for the airlines, however royalty in 'Non-Aeronautical Revenues' hits the airlines directly without any benefit.

The rates of royalty at KIA airport for CASI is as high as 24% of Gross Revenue. On requesting abolishment of Royalty Charges / Concession Fees, sometimes it is rebutted that the matter



of Concession Fee is a subject between the Independent Service Providers and the Airport Operator as per the agreement entered between these two parties, and this should be taken up with the Independent Service Providers and the Airport Operator at the time of the tariff determination process in consultation papers (E.g. Ground Handling Charges). However, when the matter is taken up with the Independent Service Provider as part of the tariff determination process (E.g. Ground Handling Charges), it is again informed that this is a matter between the Independent Service Providers and the Airport Operator as per their agreement and that this is non-regulatory matter in nature. It appears that the AERA or airline has no say in this matter. However, the AERA is not bound to be governed by the agreement between the Independent Service Providers and the Airport Operator, and may take a fair view on the amount of concession fee to be built into the building blocks, if any, for the computation of the ARR.

In view of the above, we urge AERA not to be limited by any agreement that may have been entered into between CASI and KIA and to abolish such royalty/concession fee which may be included in any of the cost items.

**6. Tariff Proposal: - (Refer 10.4.4 and Annexure II of the CP:**

The proposed tariff is very high, especially in the backdrop of COVID-19. It is in the interest of all the stakeholders to keep the tariff very competitive, in order to encourage the airline to reduce carbon emission and noise pollution, which will also help in sharp post-COVID-19 recovery of aviation sector.

We hope that your good self will positively consider such recommendations/ comments as it will help in achieving the affordability and sustainability of the airline, which is also outlined as a key objective in the National Civil Aviation Policy, 2016. Needless to state that sustainability of airlines will be key for continuity of service providers in aviation sector.

We look forward to your continued support in these challenging times.

Thanking you in advance,

Yours Truly,

**For SpiceJet Limited**



**Suryavir Singh Bisht**

**Sr. General Manager – Regulatory Affairs**

Copy to:

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