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To
The Secretary
Airports Economic Regulatory Authority of India (AERA)
AERA Building, Administrative Complex,
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Tel: 011-24695043; Fax: 011-24695039

Dear Madam,

Sub: Consultation Paper No. 05/2018-19 In the matter of Determination of tariffs for Aeronautical Services in respect of Kempegowda International Airport, Bengaluru, for the Second Control Period (01.04.2016 to 31.03.2021)

This has reference to your cited consultation paper, wherein you have invited feedback and suggestions from various stakeholders pertaining to the Multi Year Tariff Proposal and Annual Tariff proposal submitted by Kempegowda International Airport, Bengaluru (BIAL) for the Second Control Period (01.04.2016 to 31.03.2021).

In this regard Cochin International Airport Limited (CIAL) would like to offer the following comments on the cited consultation paper.

1. Treatment of Income from Real Estate Development AERA's Treatment

"iii. To consider revenues from Property development activities as Non-Aeronautical activity."

As per clause 5.2.1 (b), of Airports Economic Regulatory Authority of India (Terms and Conditions for Determination of Tariff for Airport Operators) Guidelines, 2011, The assets that substantially provide amenities / facilities/ services that are not related to, or not normally provided at an airport, may be excluded from the scope of RAB and the same shall be excluded from the computation of Aggregate revenue requirement to be recovered from aeronautical services.

Further clause 5.2.1 (b) (v) of the mentioned order stipulates that, the Authority shall require the Airport Operator(s) to insulate the Users by suitably ring fencing the assets excluded from the scope of RAB.

Hence as per the cited clause, the entire financial risks associated with non-airport related projects rest with the Airport Company, however, the present treatment mentioned in the consultation paper, if implemented, will deviate from authority's own stand in this regard.

2. Treatment of lease rentals from aeronautical service providers as aeronautical revenues

AERA's Treatment

"2.5.4 The Authority also proposes to consider any revenue earned by BIAL from Concessionaires providing Aeronautical services as Aeronautical revenues (For ex. space to AAI etc.)."

In the cited consultation paper, the authority has considered the space rentals received from concessionaires providing aeronautical services as aeronautical income. As the principle nature of service rendered for the generation of space rentals, is the letting out of space, which is fundamentally a non-aeronautical service rendered by the Airport.

Further, as per para 4.23 ICAO's Airport Economics Manual (Doc 9562), rentals payable by aircraft operators for airport-owned premises and facilities (e.g. check-in counters, sales counters and administrative offices) are included in the list of Non aeronautical services.

Moreover, in the recent TDSAT Order, in the case of DIAL, it was held that the essence of service has to be considered for determining a service to be aeronautical or non-aeronautical. Hence in view of the above facts, authority may consider the space

rentals received from concessionaires providing aeronautical services as Non aeronautical income.

3. Treatment of interest income

AERA's Treatment

"Authority proposes to consider Interest Income, without any exclusions as Non-Aeronautical Income

The interest income is primarily generated out of the company-wide surplus fund management activities of the company which has no specific relation to any aeronautical or non-aeronautical services rendered by the Airport operator.

It is exclusively an activity falling under the investment activities of the company and carried out as per the approvals granted by the respective Board of Directors from time to time. Hence, it may be considered as an activity outside the purview of regulated activities.

4. Treatment of Corporate Social Responsibility Costs

It is observed that the Authority has proposed to disallow expenditure pertaining to Corporate Social Responsibility (CSR) as part of the tariff determination exercise.

As per the Airport Guidelines, operation and maintenance expenses shall include all expenditures incurred by airport operators including statutory operating costs. We would like to highlight that expenses incurred on CSR is a statutory requirement mandated by the Companies Act, 2013 and hence, such costs incurred by airport operators would fall under the category of statutory operating costs defined by the Airport Guidelines.

Further, while the Authority is of the view that CSR cost is an appropriation of profit, we would like to submit that it is instead an "above the line" item, which reduces the net profit of the airports.

Accordingly, we would request the Authority to allow CSR costs in the nature of statutory costs to be incurred by airport operators and consider the same while determining final tariffs.

5. Considering Notional Revenues from Security Deposits

AERA's Treatment

"11.2.41 These Security Deposits could mean a reduction in the rentals/ charges collected from the respective users. The Authority accordingly proposes to consider a notional revenue on the Security Deposits collected from Non-Aeronautical service providers."

The security deposits collected from Non Aeronautical service providers are refundable by the Airport operator at any point of time, either on expiry or termination of the contract whichever is earlier. Hence there will not be any case of reduction in the rentals/ charges through security deposits.

Further, these security deposits which are been invested in airport related activities shall be treated as an equity capital in nature, as there is an opportunity cost associated with these security deposits.

Moreover, in the recent TDSAT Order in the case of DIAL, it was held that refundable security deposit cannot be considered as a zero cost debt and its cost needs to be ascertained and made available through appropriate fiscal exercise at the time of next tariff redetermination.

Hence in view of the above facts, it is requested that Authority may consider security deposits as quasi equity and cost of equity may be allowed on the security deposits.

Thanking You

Yours faithfully,


Sunil Chacko
Chief Financial Officer