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26/12/18

भारतीय विमानपत्तन प्राधिकरण
AIRPORTS AUTHORITY OF INDIA

608

No. AAI/CHQ/AERA/MYTP/Bhubaneswar/2017

719

26.12.2018

The Secretary
Airport Economic Regulatory Authority of India
AERA Building, Administrative Office
Safdarjung Airport
New Delhi.

Subject: Replies to views of Stakeholders on Consultation Paper No. 24/2018-19 in the matter of determination of Aeronautical Tariff in respect of Bhubaneswar Airport for the first Control Period (01/04/2018 to 31.03.2023).

Madam,

Reference is invited to email dated 17.12.2018 regarding views on the comments of stakeholders on Consultation Paper No. 24/2018-19 in the matter of determination of Aeronautical Tariff in respect of Bhubaneswar Airport for the first Control Period (01/04/2018 to 31/03/2023).

2. The replies to views of Stakeholders Consultation Paper No. 24/2018-19 are enclosed herewith alongwith views of AAI for consideration of AERA.
3. This issues with the approval of the competent authority.

Yours sincerely,

(V. Vidya)

General Manager (Finance)-Tariff

भारतीय विमानपत्तन आर्थिक विनियामक प्राधिकरण
सफदरजंग एअरपोर्ट, नई दिल्ली-110003

प्राप्त
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तारीख 26/12/18

Secretary - On leave

Sh. Jafar

AGM

26/12/18

for Handl:
BBR - MYTP file
27.12.18



Replies of AAI on Consultation Paper No. 23/2018-19 in the matter of determination of Aeronautical Tariff in respect of Bhubaneswar Airport for the first Control Period (04/04/2018 to 31/03/2023).

Sr. No.	Query	AAI Response
1	Govt. Of Odisha.P-276/c	
1.1	<p>The suggestions on behalf of State Government in the matter of determination of aeronautical tariff in respect of Biju Patnaik International Airport, Bhubaneswar are as follows,</p> <ol style="list-style-type: none"> 1. E-Visa facility 2. Embarkation point for Haj Pilgrims 3. Additional X Ray baggage system 4. Common men tea stall with minimum unit cost 5. More international flights / domestic flight may be started. 6. for entrance the car a king problem <p>It is, therefore, requested to take necessary steps to include the above suggestions in the Consultation Paper no. 24/2018 9 dt. 16.11.2018 of Airports Economic Regulatory Authority of India.</p>	It is noted for further compliance.
2.	HPCL-P277/c	
2.1	<p>We request that any revision in Fuel Throughput charges should be approved on prospective basis only.</p>	AAI agrees with the comments of HPCL and accordingly the new rates will be made applicable from a prospective date by issuance of AIC
3.	Business Aircraft Operators Association-P275/c	
3.1	<p>BAOA has submitted that Authority's order may please elaborate the rationale behind authorising the amount of Rs. 322.52 as FTC, as to the service being provided by airport operator for levying charge and, how it has been calculated to be Rs. 322.52 per KL. Further, 'authority' may please provide for 'Airport Operator' to levy the charge directly to the aircraft operator, uplifting ATF, rather than FTC being charged thorough the 'Fuel Supplier Company'.</p>	Throughput Charges are akin to royalty charges and as per agreement between the airport operator and the oil companies, these are services and comes under GST.
4	FIA-P280to309/c	

670

Sr. No.	Query	AAI Response
4.1	<p>FIA also submits that it has not been provided with the copies of the submission of AAI dated 10.08.2018 and any future submission, if any. Accordingly, in the absence of the receipt of such submissions made by AAI, FIA unable to appreciate, assess and comprehend the facts and figures (and any comparison thereto) of the Consultation Paper in its entirety and actuality. Thus, FIA hereby request that the above mentioned MYTP submissions as submitted by the AAI may be made available to all the stakeholders (including FIA) for perusal and comments so as to ensure complete transparency and to enable FIA to submit requisite and consolidated observations / comments to the present Consultation Paper.</p>	<p>AAI has submitted MYTP and all the relevant documents to AERA for determination of aeronautical tariff.</p>
4.2	<p>FIA further submits that the one of the key reasons of shortfall is acceptance of AAI's submission in all building blocks like higher RAB, higher FRoR, operating expenditure, and lower non-aero revenue. All such factors have led to a higher ARR. If the current shortfall is to be recovered from airlines and passengers through increase in tariffs, the rates will be higher than that of other comparable airports.</p> <p>Also, FIA has noted that revenue from cargo operations and air navigation services have not been formed part of tariff proposal, which has led to an increase in shortfall during control period..</p>	<p>No Comments</p> <p>Revenue from cargo operations cannot be the part of tariff proposal as the cargo operation have been hived off to the AAICLAS, and air navigation services cannot be formed part of tariff proposal as the same is determined by the MoCA.</p>
4.3	<p>Further, the Authority has also proposed INR 350 as UDF per domestic and INR 400 per international embarking passenger, an increase of 133% from the existing rate of INR 150 per domestic passenger. In this regard, FIA submits that Authority should reduce the proposed rates of UDF, bearing in mind the YoY growth rate of 17.7% for domestic passengers while computing aeronautical tariffs.</p>	<p>No Comments.</p>
4.4	<p>As per "<i>Charges for airport services (major / non major airports) effective from</i></p>	<p>AAI has proposed increase in Parking and Housing charges based on as</p>

Sr. No.	Query	AAI Response
	<p>1 April 2017" as issued by AAI, it was noted that existing tariff rates at BBI Airport are based on the following slabs: (i) upto 40 MT, (ii) Above 40MT upto 100MT and (iii) Above 100MT. Since, weight slabs mentioned for existing charges as per AAI tariff card are different from the ones mentioned in Schedule of charges on Page 46-49 of the CP and no bridge has been provided between these slabs, FIA requests the Authority to substantiate the percentage increase for first control period over the existing tariff rates.</p>	<p>average increase in parking/housing charges and same rate has been proposed for Domestic and International flights.</p>
4.5	<p>FIA submits that the Authority ought to confirm applicable tariff for CUTE charges. Further, the Authority should consider 17.9% YoY growth rate for domestic passengers while computing the said charges.</p>	<p>As per agreement with M/s SITA, the Cute charges payable by M/s SITA are Rs.17.55 per pax.</p>
4.6	<p>FIA submits that as per para 3.2 & 3.3 of the CP, it is observed that the tariff proposal submitted by AAI did not consider revenues, expenses & assets related to air navigation services provided by AAI and cargo services provided by AAI Cargo Logistics and Allied Services (AAICLAS), a wholly owned subsidiary of AAI.</p>	<p>Revenue from cargo operations cannot be the part of tariff proposal as the cargo operation have been hived off to the AAICLAS, and air navigation services cannot be formed part of tariff proposal as the same is determined by the MoCA</p>
4.7	<p>FIA recommends Authority to conduct an independent study on passenger growth rate, as the ATM growth has been projected at 16% (YoY), which is higher than both 5-year CAGR and 10-year CAGR. FIA wish to submit that any increase in ATM growth will tantamount to increase in passenger throughput over the control period. Hence, FIA submits that the Authority should consider the historical 5-year CAGR of 17.9% for YoY growth rate projections for domestic passenger traffic for first control period.</p>	<p>No Comments</p>
4.8	<p>Traffic projections are based on the data received from the AAI. Authority has not conducted its own independent study on traffic projections and broadly relied on the</p>	<p>No Comments</p>

612

Sr. No.	Query	AAI Response
	<p>data provided by AAI. Further, as per Proposal 1(b) of the CP, the Authority has proposed to true up the passenger and ATM for first control period based on actuals. FIA submits that Authority should conduct an independent study in the future and should not defer the detailed evaluation under garb of truing up..</p>	
4.9	<p>There is an astronomical increase in the costs of project (for eg. New Terminal building (T3) i.e. from INR 450 cr. To INR 935.39 cr., expansion of Terminal (T2) from INR 62 cr. to INR 87.21 cr.). AAI has not explained as to how the costs shown in the AUCC in October, 2018 has increased manifolds during the consultation stage under the CP.</p>	<p>The initial costs were based on the estimates and revised later based on operational requirements.</p>
4.10	<p>Certain projects were projected in the AUCC, however the same have not been dealt under the CP (for eg. Construction of hangars, re-carpeting of runway etc). FIA submits that the status of such projects and the manner in which the same will be capitalized under RAB, present or next control period is not known.</p> <p>FIA would like to submit that the very purpose of conducting an AUCC is to ensure transparency and fairness in the process of executing works for major capital expenditure at an airport. Keeping in view the significant deviation in the projection and submissions of AAI in the AUCC and the CP, it may be stated that AAI has not conducted the AUCC at BBI Airport in an efficient, complete, fair and transparent manner.</p>	<p>As the costs of project (Terminal Building-T3) has been revised and accordingly AUCC would be convened as per AERA's guidelines.</p>
4.11	<p>New terminal Building of INR 935.39 crores - Deferment of capitalization to next control period.</p> <p>It is submitted to Authority to conduct detailed technical evaluation, although we have requested for deferment of capex.</p> <p>It is submitted that lack of basic planning, financial closure for new terminal building has not been achieved yet for capex to be incurred in first control period, this can</p>	<p>No Comments</p>

Sr. No.	Query	AAI Response
	lead to deferment of capex to subsequent control period.	
4.12	<p>FIA submits that AAI has proposed to construct a new apron for parking of 8 numbers of Code C aircraft. Phase 1 of the project has already been awarded and will be completed by FY21 and phase 2 will be completed by FY23.</p> <p>No area of aprons has been mentioned in the CP and the Authority has accepted the cost as projected by AAI. No benchmarking with similar airports/normative order has been conducted by Authority to check the reasonableness of the proposed capital expenditure.</p> <p>It is submitted to Authority to mention the area and conduct benchmarking study with comparable airports and normative order. In the absence of key information, FIA cannot comment on proposed capital expenditure on aprons proposed by Authority.</p>	No Comments
4.13	FIA submits that the Authority has not mentioned the detailed breakup of other assets of INR 77.25 crores	No Comments.
4.14	<p>FIA submits that the Authority has not mentioned the detailed breakup of other assets of INR 77.25 crores. Also, the split of these other assets under various categories mentioned in table 13 of the CP has not been provided. These assets have been considered 100% aeronautical, for which no basis has been given by Authority. Also, the categorisation for these assets has not been provided under the CP & no allocation has been proposed by Authority into aeronautical & non-aeronautical assets.</p> <p>It is submitted to Authority to give a detailed breakup of each category of additions along with year of capitalisation & the same shall be considered for the purpose of calculation of depreciation.</p>	No Comments.
4.15	FIA submits that the Authority has proposed to bifurcate the new terminal building & new link building in ratio of 65:35 to building & electrical installation	No Comments

(674)

Sr. No.	Query	AAI Response
	respectively. Further, the Authority proposed to allocate the terminal building & new link building in aeronautical & non-aeronautical in the ratio of 90:10. No basis, benchmarking or independent study has been conducted by Authority for ascertaining this ratio.	
4.16	FIA understands entire other assets additions during the control period has been considered as aeronautical by Authority. FIA submits that rather than proposing tentative allocation, the Authority to consider the asset allocation ratio of 80% : 20% in the 1st control period to reduce ARR & minimize shortfall and conduct an independent study on asset allocation which may be used for truing up in the 2nd control period.	No Comments
4.17	Employee Ratio:- This is a ratio of staff providing non-aeronautical services (i.e. commercial and land management) to total staff employed at the airport excluding ANS and cargo. As per Para 12.7 of the Consultation Paper, the Authority examined the correct ratio for allocation of payroll expenses should be 7:105 instead of 7:98. Hence, the corrected ratio i.e. 7:105 should be used for allocating the common assets into aeronautical and non-aeronautical assets.	The ratio of staff providing Non-aeronautical service to Aeronautical service is 7:98.
4.18	This is a ratio based on number of non-aeronautical staff to aeronautical staff residing at the residential quarters at the airport. To arrive at the correct ratio, denominator should be total staff (aeronautical staff & non-aeronautical staff) rather than just non- aeronautical staff. Therefore, the corrected ratio should be 5:60 rather than 5:55. Hence, the correct ratio of 5:60 should be used for allocating the common assets into aeronautical and non-aeronautical assets. After the allocation of common assets, 93% of total assets are aero assets & balance are non-aero assets as depicted in the table above.	This is a ratio based on number of non-aeronautical staff to aeronautical staff residing at the residential quarters at the airport, which is 5:55.
4.19	FIA understand that depreciation has also been computed as per depreciation order	No Comments.

Sr. No.	Query	AAI Response
	on basis of useful life of these asset heads rather than useful life of these components. This might lead to accelerated depreciation.	
4.20	FIA submits that, in the interest of consumers, the Authority should consider useful life of buildings as 60 years instead of taking a conservative view.	No Comments.
4.21	It is submitted to Authority to not to consider new terminal building for the purpose of capitalization and accordingly, revise depreciation calculation for FY23.	Work of construction of New Terminal Building will be awarded in July 2019 with 3 year completion period. (P.D.C: July 2022). AERA is requested to consider the same in the control period.
4.22	The Authority has given a tentative allocation of RAB additions for first control period. As submitted under RAB allocation section, "to consider the asset allocation ratio of 80%:20% in the 1st control period", it is submitted that Authority to re-compute the depreciation basis the allocation of RAB assets in the ratio of 80:20 for this control period. Also, the allocation of initial RAB assets under aeronautical and non -aeronautical assets has been done on incorrect ratios. Hence, FIA submits that the Authority should revise the depreciation on initial RAB based on revised/corrected ratios.	The actual usage/space allocation ratio of Aero/Non aero of Terminal Buildings T1 and T2 are as under T1:-92.2(Aero):7.8(Non Aero) T2:93.02(Aero):6.98(Non Aero). Even the new proposed Link Building would have ratio of 94(Aero):6(Non Aero). AERA is requested to consider the ratio 95:5 as Aero/Non Aero as proposed by AAI in MYTP.
4.23	FIA noted that solar power plant of INR 41.24 crores has been considered as electrical installation by virtue of which its useful life has been considered as 10 years. However, FIA submits that as per CERC (Terms and Conditions for Tariff determination from Renewable Energy Sources) Regulations, 2017, the useful life of solar power plants is 25 years whereas the Authority has considered the life of such assets as 10 years under electrical installation. Hence, FIA submits to revise the depreciation on solar plant considering the life of solar power plant as 25 years instead of 10 years	No comments.
4.24	FIA further submits that Authority should provide detailed calculations for depreciation charged on opening RAB &	No Comments.

Sr. No.	Query	AAI Response
	<p>additions made therein, rather than just giving a consolidated number. In the absence of detailed calculations for depreciation, FIA cannot comment on the depreciation considered for tariff determination.</p>	
4.25	<p>it is submitted that in order to assess efficient operating expenditure the Authority should have conducted independent analysis in accordance with AERA Guidelines.</p>	<p>No Comments.</p>
4.26	<p>FIA submits that the allocation of the operating expenditure between Aeronautical or Non-Aeronautical categories is critical under Shared Till approach. However, till the time study is conducted, FIA would like to highlight aero allocation ratio proposed as per CP 5/2014-15 of Normative approach of 80% should be used, hence it is submitted that aero expenditure should be considered at 80% for the first control period.</p>	<p>The actual usage/space allocation ratio of Aero/Non aero of T1 and T2 are as under T1:-92.2(Aero):7.8(Non Aero) T2:-93.02(Aero):6.98(Non Aero).</p> <p>Even the new proposed Link Building would have ratio of 94(Aero):6(Non Aero).</p> <p>AERA is requested to consider the ratio 95:5 as Aero/Non Aero as proposed by AAI in MYTP.</p>
4.27	<p>Further, it is submitted that the Authority should order for independent study for determining the reasonableness of allocation ratios and consider the same at the time of passing order on Consultation Paper (on basis of that study) on issues like 'bifurcation of expenditures into aeronautical & non aeronautical instead of leaving it for truing up without assigning any cogent reasons.</p>	<p>No Comments.</p>
4.28	<p>FIA submits that as per agreements entered by AAI with various vendors, five non-aeronautical revenue streams (namely restaurant/snack bar, T.R. stall, hoarding & display, car rentals, car parking) which contributes 81% of total non-aeronautical revenue for first control period, year on year 10% increase has been proposed by Authority between FY20 to FY23. As per Para 11.7 & 11.8, we understand that Authority has verified the agreements with retail store vendors & car rental vendor. However, no further details & breakup pertaining to agreements have been</p>	<p>The copies of all agreement related non aeronautical streams have been shared with AERA.</p>

Sr. No.	Query	AAI Response
	mentioned in the CP. No details have been mentioned with respect to key terms, duration, tenure of these agreements.	
4.29	On comparing the passenger growth rate with the escalation clauses in agreement, we analysed that escalation clauses as per agreements is 8% to 10% during FY20 to FY23, which is far lower than year on year projected passenger growth over the control period. Therefore, non-aeronautical revenue per passenger was analyzed for each year of the first control period and a decreasing trend was noted in the same, which clearly indicated that the Authority has taken lower growth rate projections for non-aero revenue.	No Comments.
4.30	FIA submits that the Authority to reconsider growth rates for non-aero revenues so as to keep them in line with the growth in passengers. Further, Authority has not commented on the real increase, inflationary increase and passenger traffic based increase for the growth rates proposed for the first control period. Since, each of them affect the non-aeronautical revenues, FIA submits that the Authority should reevaluate the growth rates for non-aeronautical revenue on the basis of an independent expert/consultant study. However, in case of paucity of time for the purpose of issuance of the order, it is submitted that Authority to consider 17.9% YoY growth (being 5-year passenger growth CAGR) in non-aero revenue during the control period except in case of long term contracts where YoY escalation is agreed.	No Comments
4.31	It is submitted that Authority should direct AAI to enter into contracts where an escalation clause is linked with passenger growth and propose true up in second control period based on actuals.	No Comments
4.32	It is submitted to Authority, in the event that the capitalisation for new terminal building is done in FY23, then the Authority should re-consider the growth rates projected in FY23 as new contracts will be entered with various vendors which	AAI has proposed additional 10% increase in Non-Aeronautical revenue in FY 23 considering the operation of new Terminal Building (T-3)

Sr. No.	Query	AAI Response
	will lead to higher non-aeronautical income.	
4.33	<p>Under Para 11.4, "Authority observed that for restaurant and snack bars, AAI has awarded new master concession to a vendor. The commercial terms as examined by the Authority indicate that AAI will receive a minimum of INR 1.03 crore per month from the vendor. However, AAI has considered INR 1.03 crores as an annual figure. On further discussions with AAI, it was observed that INR 1.03 crores is indeed a monthly amount and hence the Authority proposes to consider it accordingly".</p> <p>However, the Authority has rectified the revenue figures for FY19 onwards without making any correction in FY17 & FY18. Accordingly, FIA submits that the Authority to rectify the revenue figures for restaurant/snack bars for FY17 & FY18 (if not considered) and adjust the shortfall as computed on page 43 of the CP. Further, the Authority should calculate the ARR for first control period based upon revised figures & propose a new tariff card accordingly.</p>	The new master concessioner has been awarded in January 2018
4.34	FIA submits that losses for periods prior to FY17 (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. Also, the actual payment of income taxes should be considered for true up purposes.	AERA has shifted the control period from F.Y.2018-19 to F.Y 2022-23. The carry forward of losses is applicable during the control period and not prior period.
4.35	It is submitted that Authority should discard the option of determination of aeronautical tariff on Hybrid Till and follow Single Till scrupulously.	No Comments

Comments of AAI on Consultation Paper for consideration of AERA

Sr. No.	Consultation Paper	AAI Response
1.	Refer Para -4.7 of CP (Traffic Forecast)- P265/c	AERA has though accepted projection of

	<p>AERA has considered t Traffic growth rate for the FY 23 as under;</p> <p>PAX Domestic 16% International 35%</p> <p>ATM Domestic 15% International 35%</p> <p>AAI had proposed Traffic growth rate for the FY 23 as under;</p> <p>PAX Domestic 10% International 20%</p> <p>ATM Domestic 9% International 18%</p>	<p>AAI from FY18-19 to FY21-22 for 4 years and also requested to consider the same growth rate for FY22-23.</p> <p>Further, the projections made by AAI as same has been done based on trend analysis for last fifteen years and also considering GDP as predictor variable.</p>
2.	<p>Refer Para 12.15 of CP (Operation & Maintenance Expenditure)-P241/c</p>	<p>AAI has proposed 5% increase in payroll expenses for FY2018-19 to FY2022-23 in the MYTP ,whereas the projection has to be 7% . AERA is requested to consider 7% as has been considered in other airports</p>
3.	<p>Refer Para 13.11 of CP (Taxation)-P236/c AERA has carried forward of losses Rs.97.4 for FY 16-17 to FY18-19 and set off against the profit of FY19-20 to FY21-22.</p>	<p>As AAI is not filing tax return on standalone basis, AERA is requested not to carry forward and set off the losses</p>
4	<p>Refer Para7.3.3 of CP(Capital Expenditure-New Link Building –Rs 87.21 cr) P-255/c</p> <p>AERA proposed to consider a terminal ratio of 90:10 for allocation to aeronautical and non-aeronautical assets.</p>	<p>The total area of proposed New Link Building –Rs 87.21 cr) is 2500 sqmtr and 100 sqmtr will be allocated for non aeronautical activities.</p> <p>AERA is requested to consider the ratio of 96:4 instead of 90:10.</p>

