



16 March 2018

Secretary
Airports Economic Regulatory Authority of India
AERA Building, Administrative Complex, Safdarjung Airport,
New Delhi- 110003
Email: puja.jindal@aera.gov.in

Dear Ms. Puja,

SUBJECT: IATA'S RESPONSE TO CONSULTATION PAPER NO. 45/2017-18 DETERMINATION OF AERONAUTICAL TARIFFS OF CHENNAI INTERNATIONAL AIRPORT (MAA) FOR THE SECOND CONTROL PERIOD

As the global trade association representing the world's leading airlines, the International Air Transport Association (IATA) is pleased to provide a submission on AERA's consultation paper mentioned above. IATA's membership includes some 280 passenger and cargo airlines comprising 83% of total air traffic and IATA's mission is to represent, lead and serves the airline industry.

IATA has reviewed the consultation paper and we welcome the overall important reduction in charges by AERA. In addition, we would like to make the following comments for AERA's consideration:

1. We find important to once again emphasise our disagreement of shifting from Single to a Hybrid till basis for the second control period, as it unnecessarily increases costs for consumers. In this regard, it is a great disappointment that AERA has proceeded to adopt the hybrid till approach which will make aeronautical charges more expensive and goes against the fundamental requirements to boost air connectivity as envisaged by the National Civil Aviation Policy 2016 in a sustainable manner.

It should be noted that a significant part of the reductions in the second control period is driven by the one-off adjustment related to the true up exercise of the first control period. Users could therefore face steep increases for the third period which could have been avoided (or minimized) if the Single till approach had been maintained.

2. Proposal No. 1 True-up for the 1st Control Period:

We agree with the proposals, but would appreciate AERA to take the following into consideration:

- While we understand the rationale behind not capitalising a portion of Terminal 4, it would be advisable for AERA to state the conditions that the airport need to meet in order to allow such expenditure.
- We see that land cost has been disallowed pending further study on the matter. We also see that such approach has been adopted in other decisions. It would be prudent for AERA to carry out such assessment as soon as possible in order to bring this matter to a close.
- AERA has apparently not made an assessment on whether the value of the capitalised assets is efficient. AERA may need to make such an analysis before allowing costs in full. Similar can also be said of the operating costs.
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- 3. Proposal No. 2 Traffic Forecast:** While it is appealing to use historic average growth to forecast the future, we do believe that traffic forecasts should be based on a combination of top-down analysis (i.e. econometric model, which usually links economic development with growth) and bottom-up analysis (i.e. individual airline expectations). Therefore, AERA may wish to undertake a more in-depth analysis on traffic forecast. In any case, given the large scale variations in traffic, there may be merit in some form of truing up (though taking into account that truing up reduces the risk for an airport, and therefore that lower risk should be reflected via a lower cost of capital).

4. Proposal No. 3 Allocation of assets:

We note that AERA is proposing to adopt a 92.5% allocation of terminal assets to the aeronautical area (instead of AAI's proposed 95.6%). While we agree that adjustment goes in the right direction, we still believe that the percentage allocated to aviation is too high. As mentioned in previous submissions, there needs to be a review on the methodology for allocating common assets at airports.

We would appreciate for AERA to provide a calculation of the return that would be achieved in the non-aeronautical activities with the proposed cost allocation, as we believe it would be extraordinarily high, and therefore provide a clear indication that the allocation methodology needs to be reviewed.

We would appreciate for AERA to provide more information in relation to Cargo, and why it should be excluded from the asset base, and whether there would be a difference in the regulatory treatment of this activity if there was a separate MYTP.

5. Proposal No. 4 Opening RAB for the 2nd Control Period:

On the basis of the comments stated on proposal 3, we believe the aeronautical RAB to be overestimated, and request AERA to review its cost allocation methodology.

6. Proposal No. 5 Capital Expenditure:

IATA urges AERA in the strongest possible terms to enforce its Consultation Protocol per the 2011 Act at Chennai airport (and all other airports that are subject to economic regulation), to ensure meaningful consultation with airline stakeholders who fund and pay for major capital expenditures. At present, the consultation process is a failure. The airline community has insufficient information available to provide informed feedback or take informed decisions regarding airport capital developments. We are perplexed and frustrated that this is the case at Chennai, and many other airports given the Consultation Protocol exists, and supports a structured process of dialogue and consultation between airports and Users. We would welcome AERA's feedback regarding its reluctance to enforce the protocol that is having a substantial, detrimental impact on airline Users and consumers. Put simply, airlines require a Business Case to ensure investments deliver a return on investment for them, as any businesses do.

Based on the frugal information provided, IATA will take the opportunity to make the following comments:

- No reasonable explanation is provided by AERA to justify its position that INT traffic will grow by 5.3% in the second control period, noting AAI's assessment is less rapid growth and actual growth is more conservative again considering the last 5 years. While any forecast is subject

to variation, the underlying assumptions should be shared in detail and consensus agreed between Users and the airport authority in advance of any determination. IATA requests AERA's planning assumption are shared so that we may comment appropriately on behalf of Users, recognising

- The impact of not taking User's perspectives and feedback into account, is infrastructure that may be triggered resulting in higher than acceptable levels of aeronautical charges
- The timing of when additional terminal infrastructure is required needs further scrutiny in consultation with the airline community considering different views on when the existing capacity will be saturated. This needs to take into account both million passengers per annum to determine the scale and timing of when facilities are required, and in more detailed terms peak hour passengers to determine terminal sub-system requirements.
- Within the 5 year control period, annual assessments of traffic is required in consultation with Users, to adjust the timeframes to trigger investment if required.
- AAI's strategy to replace 2 old terminals with a new DOM and INT terminal needs to be justified and explained in more detail. An airport with 2 recently developed terminal that is the scale and size of Chennai should not require 4 terminals. IATA recommends a review and study to assess how the existing terminal buildings can be optimised and extended to accommodate additional demand. Multiple terminal will result in inefficient operations and additional operating and maintenance costs that is to be avoided. We recommend all approvals and development works ceases until a thorough consultation on terminal strategy has been reviewed.
- IATA Levels of Service (LoS) referred to is out of date and needs to reflect updated industry standards. The IATA Airport Development Reference Manual (ADRM) 10th Edition recommended an "Optimum" LoS that strikes the correct balance between functionality and costs, and take both space and time into account.
- IATA LoS refer to the functionality required to deliver the required airport capacity, to meet demand. Building specifications and finishes that drives substantial costs needs to be consulted upon thoroughly with the airline community, as this is choice to be considered and made with airline Users funding developments.
- Numerous references are made regarding aircraft parking and stands provision, yet oddly no information is provided regarding the total number of parking stands required to meet demand over time, the mix of aircraft stands, or levels of pier service that drives the requirement for contact gates. Again, this should be consulted upon with Users.
- IATA welcomes AERA's comparison of proposed costs versus its normative cost assessments, however this does not replace the need for a detailed, independent cost study to demonstrate value for money to Users.
 - Capital estimates and benchmarking is a complex subject that also requires an assessment of the overall design, operating and maintenance costs in close consultation with Users.
 - Regulatory mechanisms should be applied to incentivise airports to be efficient that are well proven at other airports, for instance:
 - Costs should only be agreed and added to the RAB once the project meets Scheme Design or an estimated 85% design certainty
 - A mechanism should be applied to ensure the beneficial use of assets Users are funding are delivered on time, and to the quality and costs agreed, or rebates applied.

7. Proposal No. 6 Treatment of Depreciation:

No major comments on this proposal.

8. Proposal No. 7 RAB for 2nd Control Period: The allocation of asset to aeronautical at 92.5% can still be considered high. We would recommend AERA to consider conducting on-site assessment or evaluation to get a more accurate indication of assets and resources allocation between aeronautical and non-aeronautical activities. A proper cost allocation methodology could be used to partially correct the excessive profits issue highlighted in the previous paragraph.

9. Proposal No. 8 FRoR: We welcome the plan by AERA to undertake a study to determine the FRoR for major AAI airports, recognizing the low debt structure of AAI as a whole.. In particular, we understand that the cost of debt of AAI is 8.6%, so we fail to see how allowing an overall return of 14% to be appropriate. We urge AERA to carry out its study as soon as possible.

10. Proposal No. 9 Non Aeronautical Revenues:

We see positively the proposal on 9c as that will provide an incentive to airport to meet the non-aeronautical forecasts, rather than having the airport relying on true-ups should it fail to achieve them.

11. Proposal No. 10 Operation and Maintenance Expenditure: While we see that AERA is adopting lower rates than those proposed by AAI (5% instead of 9%), we believe that AERA should be carrying out a study to determine the efficiency levels of the operating costs at the airport, as that would determine the scope for efficiency targets. This is of particular importance since AERA mentions that operating costs are on the high side. In this regard, we believe that AERA proposal 10c should be modified so that the true up should be subject a scrutiny of costs, rather than solely truing up on the basis of actual costs.

12. Proposal No. 11 Taxation:

It would be important to note that the low geared (suboptimal) capital structure of AAI will end up in unnecessarily high tax calculations. Interest expenses are normally a tax deductible expense.

13. Proposal No. 12 Tariff Rate Card: As communicated in previous submissions, IATA is against discriminatory practices such as differential pricing or waiver of landing charges for select domestic operations. If the approach is driven by government policy, it should be funded accordingly by the state. However we welcome and support the following:

- a. AERA's proposal to reduce fuel throughput charge by 89% to 196 Rs/KL. IATA has long stated that the fuel throughput charge has no cost basis and should be eliminated. With the fuel throughput charge reduced to a much lower level, future increases should not be allowed but instead the aim should be to have it fully removed.
- b. It is timely that AERA recognised the need for the UDF to be removed. Prefunding of infrastructure investment by users should not be allowed in the first place. Furthermore, from a consumer perspective we consider pre-funding a more costly form of financing when the time value of money of consumers is taken into account. Financial markets exist for the purpose of raising resources efficiently. Abusing airport monopoly by making consumers pre-fund investments is more costly than funding through the financial markets. Instead, the airport should finance any funding gaps from the equity and debt markets, and against future revenue gained from the expanded airport operations.

- c. Overall 89% reductions in Landing, parking, and Housing charges. We encourage AERA to take advantage of the proposed reduction in these charges and eliminate the unjustified differentials in landing charges between domestic and international flights (eliminating imbalances is best dealt with in the context of a reduction in charges, as that eliminates the need to increase charges to the group that was benefiting from the imbalance. The reduction would just be smaller on the domestic charges compared to the international ones)

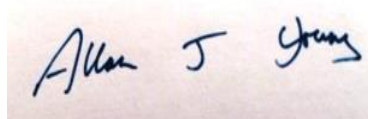
AERA has also noted that airport is expected to achieve ASQ rating of 3.75 and above as required under Section 6.14.3 of Airport Guidelines. The quarterly ASQ rating is based on passengers' perception and hence is subjective in nature. We would implore AERA and the airports to look at data driven service performance metrics which would provide a more objective indication of actual service level being captured in a consistent manner. The IATA [Level of Service \(LoS\)](#) is a concept we would recommend AERA to consider adopting for airport passenger terminals design and service level monitoring. In addition, IATA provides best practice industry guidance regarding [Airport Service Level Agreements \(SLA\)](#) broadly used across best practice airports, and we strongly encourage adoption of our policy in Users and consumers interests by AERA.

We trust this feedback is useful and look forward to AERA's consideration and response.

Yours sincerely,



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