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**AIRPORTS ECONOMIC REGULATORY AUTHORITY OF INDIA**

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**Minutes of the Stakeholders Consultation Meeting held on  
07<sup>th</sup> June, 2017 at 3.00 PM**

**CONSULTATION PAPER NO.06/2017-18 DATED 12.05.2017 TO CONSIDER THE MULTI YEAR TARIFF PROPOSAL FOR DETERMINATION OF TARIFFS FOR 2<sup>ND</sup> CONTROL PERIOD (FY.01.04.2016 TO 31.03.2021) IN RESPECT OF COCHIN INTERNATIONAL AIRPORT, COCHIN**

Stakeholder Consultation Meeting was convened by the Authority on 07.06.2017 at 3.00 PM in the Conference Room, first floor, AERA Building, Administrative Complex, Safdarjung Airport, New Delhi to elicit the views of the stakeholders on the Consultation Paper no. 06/2017-18 dated 12.05.2017 issued by the Authority to consider the Multi-year Tariff Proposal for the 2<sup>nd</sup> control period (FY.2016-17 to FY.2020-21) in respect of Cochin International Airport, Cochin. The list of participants is enclosed at **Annexure-I**.

2. Secretary, AERA welcomed all the participants to the Meeting and briefly touched upon the subject matter of the Consultation Paper. The Chairman advised the stakeholders to give their written comments/ views on or before Monday, the 12<sup>th</sup> June, 2017.

3. The comments of various stakeholders are as follows:

**COCHIN INTERNATIONAL AIRPORT, (CIAL)**

3.1 Sh. Sunil Chacko, CFO CIAL thanked the Authority for bringing out the Consultation Paper regarding determination of Aeronautical tariffs in respect of Cochin Airport. He presented an overview of the tariff proposals submitted by CIAL and the analysis of the Authority. He also submitted a request to the Authority to reconsider the decision on the return to be provided on land as land was bought by CIAL at the then prevailing market prices. He said that if there is no return provided on the same the investors will be adversely affected. He also requested AERA to re-evaluate the cost of equity proposed for CIAL saying that it is inconsistent with earlier orders of AERA. He presented the Annual Tariff Plan proposed and the details of charges stating that CIAL has considered Affordability, Consistency, Value added service and optimum tariff as its principles for listing the charges. Sh Sunil Chacko also stated that the proposed tariff is comparable to the nearby airports and the estimated collection is still short by Rs. 93 crores which he hoped would be permitted to be recouped in the next control period. He also gave an overview of the new terminal commissioned by CIAL which is fully operational and informed that the entire electricity requirement of the airport was being met from Solar power plant installed by CIAL. (A copy of the presentation is enclosed at **(Annexure – II)**).

Chairman, AERA thanked CIAL for the presentation and commended CIAL on the new commissioned terminal and said that it looks comparable to other modern airports and also appreciated CIAL on their initiative to go green with Solar Power. He asked the stakeholders to visit and see the new Terminal at Cochin Airport. Chairman also stated that CIAL has not revised its landing charges since 2001 and they have in their proposal tried to keep the tariff low.

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**Jet Airways**

3.2 Sh. Mukesh Trehan, GM (F) stated that in CIAL both X-Ray charges and Passenger Service fee are collected and in order to keep parity, one of these should not be collected. He also commented that instead of the steep increase proposed in Landing and cargo charges in first year of implementation of new tariff, CIAL could consider a gradual increase over a period of five years. . He also commented that the 1<sup>st</sup> Control Period is still open and that needs to be considered. The representative of Jet airways also mentioned that CUTE charges are higher than what is paid in other Airports. He also remarked that part of the dividend payments could be used to fund costs and charges proposed to be collected.

**Bird Worldwide Flight Services (BWFS)**

3.3 Sh. Sanjay Savant, CFO stated that they would submit written comments in due course.

**BPCL**

3.4 Sh. Praveen Gangwar, Senior Manager (Marketing) BPCL representative informed that they support the proposal of CIAL on the Fuel Throughput charges and requested that it be made effective from a prospective date.

**CELEBI**

3.5 Sh. Tauseef Khan COO, CELEBI stated that they are a new entrant to CIAL and have no comments as yet.

**DIAL**

3.6 Sh. Harsh Gulati, Head Regulatory, DIAL stated that they would submit written comments within the timeline.

**SPICEJET**

3.7 Sh. Pankaj Mathur, Senior Manager (Standard) stated that they support the views of Jet Airways on X-Ray charges and CUTE Charges and would submit written comments shortly.

**APAO**

3.8 Sh. Satyan Nayar, Secretary General stated that they support the proposal of CIAL and would submit written comments.

**IATA**

3.9 Sh. Eric Antia, Campaign Manager thanked the Authority for the opportunity provided and stated that they will submit written comments. Mr. Antia at the outset, expressed disappointment on Hybrid Till policy adopted by AERA and said that it will increase charges and reduce Air connectivity. He informed that Air Passengers Association has filed an appeal against the Hybrid Till Order, and requested that Orders under Hybrid Till be put on hold till the matter is decided by AERAAT or till then, assessment of charges be made by AERA on Single Till basis. He requested AERA to determine tariff based on ICAO principles. He also stated that a better mechanism to capture the service quality of Airports should be implemented instead of only the ACI survey which solely captures the passenger experiences. He also requested AERA to carry out a better scrutiny of Opex costs. He mentioned that an Airport SLA should be implemented and the best practice SLA document which IATA has drafted will be

submitted to the Authority along with responses. He queried if the minutes of the stakeholder consultation which was held earlier by CIAL for the Terminal Project could be shared by CIAL. CIAL informed that though IATA had been invited to participate in the said consultation, however, it did not participate. Chairperson remarked that it was too late to seek the stakeholder consultation minutes, and said that if IATA considers any capital expenditure to be high or not necessary, those can be specifically commented upon by IATA. He also requested representatives of IATA to visit Cochin to see the new terminal. Shri Antia said that IATA will submit a position paper on the manner of land use. Chairperson stated that a Consultation Paper is proposed to be issued by AERA on treatment of land and IATA can submit their views on it. Chairperson also informed that a report on useful life of the assets has been submitted by ICAI and a Consultation Paper on the same shall be issued shortly by AERA. Chairperson AERA then enquired if CIAL would like to respond on specific points relating to X-Ray charges, CUTE charges and moderating the increase of landing charges over the years.

Shri A.C.K. Nair ED & Airport Director, CIAL stated that Capital Expenditure for X-Ray screening (to the tune of Rs. 120 crores) has been incurred by CIAL to provide the mandated 360 degree CT scan. CIAL is the first Airport to have done the same and the screening activity is also carried out by CIAL itself. He stated that these were earlier performed by Air India and the charges proposed by CIAL are lower than that collected by Air India. On CUTE charges, CIAL noted that this activity was earlier outsourced to SITA and was carried out by them. The charge collected by SITA from Airlines is what is proposed to be collected by CIAL when the Operations are taken over by CIAL now, despite an additional Rs. 40 crore being spent on Capex. On steep increase in landing charges he commented that the rates were fixed earlier in 2001 and continued without a change and the proposed rates are also lower than nearby airports in Kerala and much lower than Chennai Airport rates. Also, after the initial increase, only a 5% annual increase is proposed for the remaining years of the control period.

Chairperson, AERA informed that the first control period is closed and as stated in the Consultation Paper issued for first control period itself, it has been proposed to not true up the first control period. This has also been stated in the current Consultation Paper. Chairperson stated that X-Ray charges would have otherwise been called as UDF, however, as there are certain sensitivities around the same and in order to give the flexibility of defining the components of charges to the Airport Operator, the manner of breaking down the ARR into charges is left to the Airport Operator.

Chairperson, AERA thanked all the stakeholders for their active participation and requested them to furnish their comments/views on the Consultation Paper within the stated timelines.

The Meeting ended with a vote of thanks to the chair.

  
(Puja Jindal)  
Secretary

**List of Participants:-****Airports Economic Regulatory Authority Of India**

1. Shri S. Machendranathan, Chairperson- in Chair
2. Shri N. Shankar, Member
3. Shri S. Samanta, Member
4. Ms. Puja Jindal, Secretary
5. Shri V.K. Sachdeva, DGM(F)
6. Shri Rajesh Khanna, AGM (F)
7. Shri Jaimon Sakaria, Manager (F)

**CIAL**

8. Shri Sunli Chacko, CFO
9. Shri Santhosh Poovatil, DGM(F)
10. Shri Pran Pillai
11. Shri A.C.K. Nair, ED/Airport Director
12. Shri A.M. Shabeer, ED (Engineer services)

**DIAL**

13. Shri Harsh Gulati, Head Regulatory

**IATA**

14. Shri Eric Antia, Campaign Manager

**Spice Jet**

15. Shri Pankaj Mathur, Sr. Manager (Standards)

**APAO**

16. Shri Satyan Nayar, Secretary General

**CELEBI**

17. Shri Manoj Sharma, S&M
18. Shri Tauseef Khan, COO
19. Shri Tansu, Head of Commercial

**BPCL**

20. Shri Praveen Gangwar, Senior Manager Marketing

**BWFS**

21. Shri Sanjay Savant, CFO
22. Shri S.K. Jha, EVP

**KPMG**

23. Shri Jodhbir Singh, Manager

Annexure-II

Annexure-II

**Stakeholder Meeting on Determination of tariffs of  
Cochin International Airport Ltd for the  
Second Control Period (01.04.2016 to 31.03.2021)**



**SUNIL CHACKO  
CFO, COCHIN INTERNATIONAL AIRPORT LIMITED**

**Stakeholder Meeting on Determination of tariffs of  
Cochin International Airport Ltd for the  
Second Control Period (01.04.2016 to 31.03.2021)**



**SUNIL CHACKO  
CFO, COCHIN INTERNATIONAL AIRPORT LIMITED**



**CIAL MYTP - Background**

- CIAL filed MYTP for the second control period on November 2015
- CIAL filed MYTP online in AERA's portal on November 2016.
- Submission of updated financial model with FY 2015-16 figures on December 2016.
- Submission of Additional Clarifications on various dates viz. 8th August 2016, 23rd November 2016, 17th January 2017, 24th January 2017, 10th February 2017, 27th February 2017, 15th March 2017 and 25th March 2017.
- Authority issued the consultation paper No 06/2017 dated 12<sup>th</sup> May 2017.

## Key Assumptions



## Traffic projections by CIAL

	FY17	FY18	FY19	FY20	FY21
<b>Passenger Traffic (mn)</b>					
Domestic	3.4	3.8	4.1	4.5	4.9
International	4.9	5.1	5.7	6.4	7.2
<b>Total</b>	<b>8.3</b>	<b>8.9</b>	<b>9.9</b>	<b>10.9</b>	<b>12.1</b>
<b>ATM Traffic ('000)</b>					
Domestic	30.1	32.5	35.1	38.0	41.0
International	31.0	32.4	35.9	39.8	44.0
<b>Total ATMs</b>	<b>61.1</b>	<b>65.0</b>	<b>71.1</b>	<b>77.7</b>	<b>85.0</b>
<b>Cargo Traffic (MT)</b>					
Domestic	12,542	13,851	15,298	16,900	18,673
International	56,687	62,390	68,685	75,632	83,301
<b>Total Cargo</b>	<b>69,228</b>	<b>76,241</b>	<b>83,983</b>	<b>92,533</b>	<b>101,974</b>

## Key Assumptions

CIAL has submitted MYTP for 2<sup>nd</sup> control period under 30% Hybrid Till

## Aggregate Revenue Requirement proposed by CIAL

INR crore	FY17	FY18	FY19	FY20	FY21
Average RAB	957.9	1543.0	1639.1	1820.3	2110.8
FRoR	14.1%	14.1%	14.1%	14.1%	14.1%
Return on RAB	135.1	217.6	231.1	256.7	297.6
Depreciation	65.9	105.4	117.8	132.5	150.9
O&M Expenditure	172.2	237.9	265.9	297.7	331.6
Tax	64.1	40.1	50.4	60.9	73.0
Less: 30% of non-aeronautical revenues	47.3	58.8	70.5	83.7	94.3
<b>ARR</b>	<b>389.9</b>	<b>542.1</b>	<b>594.6</b>	<b>664.0</b>	<b>758.8</b>
<b>Total (INR Cr)</b>					<b>2949.5</b>

16. Shri J. P. Singh

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## Key Assumptions



## Total capital expenditure

INR crore	FY17	FY18	FY19	FY20	FY21
Buildings & Civil Works	202.0	89.0	58.3	119.3	169.6
Runway, Roads and Culverts	147.4	28.9	138.2	113.4	98.9
Plant and Equipment	214.6	93.3	122.5	79.2	117.7
Office Equipment	13.8	0.7	0.8	0.8	0.9
Computers and Accessories	39.8	11.9	5.4	1.3	5.3
Furniture and Fixtures	7.4	1.1	1.2	1.3	1.4
Vehicles	2.5	1.1	0.6	0.4	1.2
Intangible assets	2.4	1.2	0.8	0.9	1.5
Maintenance Capex	0.0	0.0	0.0	95.5	111.3
<b>Total Capital expenditure</b>	<b>630.0</b>	<b>227.2</b>	<b>327.8</b>	<b>412.0</b>	<b>507.8</b>
					<b>2104.8</b>

## Key Assumptions



## Fair Rate of Return

INR crore	FY17	FY18	FY19	FY20	FY21
Debt	515.7	521.7	613.4	730.3	881.5
Equity	1263.5	1373.1	1496.8	1665.9	1877.7
Weighted Average Gearing	29.8%				
Cost of Debt	9.63%				
Cost of Equity	16.0%				
FRoR	14.1%				



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## Key Assumptions



### Operating and Maintenance Expenses, under Hybrid Till

Particulars	2017	2018	2019	2020	2021
Payment to Employees	60.65	90.99	100.08	110.09	121.10
Repair cost	18.41	22.67	28.13	34.82	40.50
Safety & Security Expenses	4.73	6.70	7.11	7.54	8.01
Power, Water and Fuel	34.88	51.53	57.42	63.27	69.69
Vehicle Running Expenses	0.84	0.84	0.85	0.85	0.86
Housekeeping Expenses	11.56	18.53	20.16	21.93	23.86
Consumables	3.18	5.42	5.68	5.95	6.24
Miscellaneous Expenses	14.13	16.80	19.98	23.75	28.23
CSR Expenses	4.89	4.10	4.37	5.24	6.06
CUTE Operational Expenditure	3.75	3.91	4.08	4.26	4.45
Administration Expenditure	15.16	16.44	18.05	19.96	22.57
<b>TOTAL OPERATING EXPENDITURE</b>	<b>172.19</b>	<b>237.92</b>	<b>265.89</b>	<b>297.67</b>	<b>331.58</b>

## Key Assumptions



Depreciation - Hybrid Till	2017	2018	2019	2020	2021
Land	0	0	0	0	0
Buildings & Civil Works	9.57	13.92	15.13	16.75	19.88
Runway, Roads and Culverts	21.15	32.68	34.71	42.44	50.87
Plant and Equipment	24.36	41.25	48.76	56.38	65.59
Office Equipment	1.22	2.46	2.57	2.7	2.85
Computers and Accessories	4.76	9.72	11.61	10.77	8.05
Furniture and Fixtures	1.12	1.36	1.42	1.49	1.59
Vehicles	0.6	0.78	0.84	0.88	0.94
Intangible assets	3.1	3.18	2.71	1.06	1.14
<b>TOTAL</b>	<b>65.89</b>	<b>105.36</b>	<b>117.75</b>	<b>132.46</b>	<b>150.9</b>

## Key Assumptions



Non Aero Revenues (INR Cr)	2017	2018	2019	2020	2021
Non aero Royalty, license Fees & lease rentals	73.2	99.2	120.3	142.7	152.8
Duty Free Revenues	60.1	68.7	83.0	100.2	121.0
Interest Income	2.7	0.9	0.9	0.9	0.9
Utility services charges	8.9	13.1	14.6	16.1	17.7
Other income	8.2	9.0	9.9	10.9	12.0
Golf Course, Trade center, Commercial Complex	4.6	4.9	6.3	7.9	9.7
<b>Total Non aero revenues</b>	<b>157.7</b>	<b>195.9</b>	<b>235.1</b>	<b>278.9</b>	<b>314.3</b>

## Key Assumptions



Particulars	2017	2018	2019	2020	2021
Income Tax	64.12	40.06	50.38	60.9	72.98

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## CIAL MYTP Proposal Vs AERA Consultation Paper



Building Block	CIAL Proposal	AERA Consultation Paper
RAB Additions	2473.74	2159.01
Depreciation	572.36	437.6
Opex	1305.25	1073.04
Non Aeronautical Revenue	1181.79	1163.47
Fror	14.10%	11.17%
Tax	288.44	44.6
ARR	2949.53	2008.65
ARR (Present Value Terms)	2216.54	1596.17

## ARR Approved by the Authority



Particulars	Amount (NR Cr)	
<b>Total ARR at the beginning of the control period for 5 years as per CIAL</b>	<b>2,949.53</b>	
<b>Impact of Changes</b>		
<b>Building Block</b>	Description of Change	
Regulatory Asset Base	Removal of Maintenance Capital Expenditure	-49.08
	Remove certain items of Capex - Dummy Aircraft, Aircraft recovery equipment, adjusting Aerobridge cost	-16.38
	Changes to Financing allowance	-14.29
	Changes to Asset allocation ratios	-71.68
	Remove Land from RAB	-139.24
Operating Expenditure	Not consider CSR Expenditure	-20.74
	Not consider Duty Free Marketing Expenditure, change to repair cost, Cute fee etc.	-5.75
	Moderating Personnel cost and change in Personnel cost allocation ratios	-142.82
	Change Power purchase rate from CIAL Infra	-17.78
	Net off Power recoveries from Utilities cost	-11.02

**ARR Approved by the Authority**



Particulars	Amount INR Cr
<b>Non Aero Revenues</b>	
Increase In Duty free revenue share %	-29.73
Considering Fuel farm and Airline rentals as Aero	9.97
<b>Taxation</b>	
Adjusting MAT credits	-89.67
<b>FRoR</b>	
Remove Long Term Investments from Equity for computing Gearing	-34.26
Consider Gearing based on average balances Instead of closing balances	11.92
Change return on equity from 16% to 14%	-142.71
Removing Grant from being considered as part of Shareholder funds	-0.79
<b>Depreciation</b>	
Change in Depreciation rates for Runway, BHS and CFT	-80.65
<b>FRoR</b>	
Considering Fuel Farm Deposit for FRoR computation	-96.19
<b>Sum of changes</b>	<b>-940.89</b>
<b>Revised Aggregate Revenue Requirement as computed by the Authority</b>	<b>2,008.65</b>

**ARR- submissions**



Particular	Authority's proposal	CIAL's request
Land – RAB	<ul style="list-style-type: none"> <li>The Authority has proposed to exclude land from RAB</li> </ul>	<ul style="list-style-type: none"> <li>In case of CIAL, the entire land was acquired at market rates by the Government of Kerala (GoK) and transferred to CIAL at cost</li> <li>If land is removed from RAB, CIAL will not earn any return on the assets it has invested its own money and the investors will be penalized for uncertainty over the treatment of land owned by CIAL</li> <li>CIAL requests the Authority to include land as part of RAB for 2nd control period</li> </ul>
Cost of Equity	<ul style="list-style-type: none"> <li>The Authority has proposed to consider cost of equity as 14% for CIAL</li> </ul>	<ul style="list-style-type: none"> <li>The Authority has allowed 16% cost of equity for Delhi, Mumbai, Bangalore and Hyderabad</li> <li>All the airport operators should be allowed reasonable return on equity and the cost of equity should be same and fair for different airport operators in India</li> <li>Different cost of equity for different airport operators also leads to ambiguity and inconsistency for investors at a time when the government is focused on increasing private sector participation in airports development and operations</li> <li>CIAL requests the Authority to consider cost of equity at 16%</li> </ul>

## CIAL ATP Proposal Highlights



CIAL's guiding principles in Tariff setting

- Affordability of Passengers
- Consistency in Tariff
- Value Added service by Airport Operator.
- Existing Tariff since 2001.

## CIAL ATP Proposal Highlights



- Increase In Domestic Landing Charges by 49%
- Increase In International Landing Charges by 54%
- No User development fees.
- Fuel Throughput Royalty as per the agreement with fuel farm supplier.
- Increase in Cargo rates by 50% In major heads.
- In order to smoothen the tariff increase rates and lessen the burden to Airline and passenger community, CIAL is only proposing a moderate increase in rates resulting in an under recovery of around Rs.93 Crore from approved ARR for 2<sup>nd</sup> Control Period.
- Similarly, additional ARR on account of revised submissions of CIAL may be allowed to true up in next control period only to avoid further increase in tariffs.

PKP1

## CIAL T3 Features

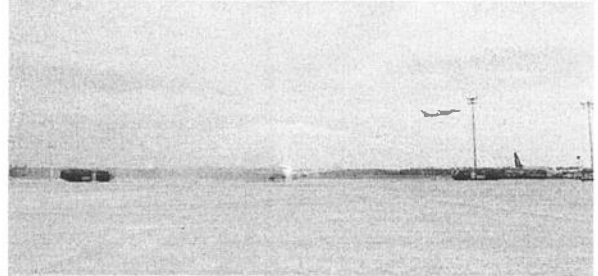


- 1.5 lakh sq.m. structure, nearly 2.5 times bigger than the existing two terminals taken together
- 2.41 lakhs sq.m of apron area is newly constructed
- 5 Entry gates, 84 check-in counters, 80 Immigration/ Emigration counters
- Four 360-degree CT based in-line scanners with 3D imaging facility giving a detailed description of the baggage at Level-1 first in the country
- 3,000 full HD cameras (with resolution 1920 \* 1080), 7 PB of Storage, 30 days primary storage in DC with full HD, One of the largest storage installations in the country, comparable with that of Aadhar
- 3,500 sq.m total area designed for providing a global shopping experience
- Arrival duty free area is having 2,500 sq.m.
- Solar Car Park' with charging facility for electric cars

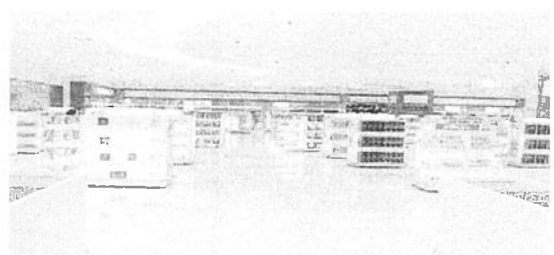
## CIAL T3



CIAL T3



CIAL T3



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