Subject: **Stakeholder's Queries and AAI's replies for Trivandrum Airport .**
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Stakeholders queries and AAI Reply.docx (59kB)

Dear Abhishek

Please find attached AAI's replies in response to queries raised at Stakeholders consultation meeting for determination of tariff of Trivandrum Airport .

R.K.Das
AGM(F&A)
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IATA's QUERIES AND AAI's REPLIES		
Sl. no.	**IATA's Queries**	**AAI's Replies**
1	Proposal No. 3 The allocation of asset to aeronautical at 97.9% as requested by AAI is exceptionally high and unreasonable even with AERA proposing to allocate these assets in the ratio of 90% to 10%. A proper cost allocation methodology could be used to partially correct the excessive profits.	Detailed analysis was carried out in order to determine for the Aero and Non Aero ratio of Terminal Building. The percentage of Aero and Non Aero ratio works out to FY 2015-16 , FY 2016-17 and FY 2017-18 is 93.47% : 06.53%, 93.11%:06.89% and 92.70%:07.30% respectively. The detailed ratios are calculated on the basis of actual and projected non-aeronautical activities. AAI will endeavor to increase the Non Aero area to 10%.
2	Proposal No. 5 There is a need for AERA to ensure user consultation by AAI is undertaken in a meaningful way for CAPEX decisions. Regulated airports have an obligation to consult Users as stipulated in the AERA's consultation protocol between airport operator(s) and user(s). Disappointingly, there is generally a lack of meaningful consultation with Users on CAPEX at major airports in India to ascertain that investments in capacity meet current and future demand in a cost-effective manner. In some instances airport operator have yet to form the Airport Users Consultative Committee (AUCC) as mandated by AERA and decisions on investment are made unilaterally without agreement from Users. We call on AERA to exercise a stronger hand to ensure compliance with the consultation protocol. One way to assure this is by checking with Users (IATA included) if airport operators have satisfactorily followed through with the stipulated consultation process and not just merely conducting information session for Users.	AAI is conducting User Consultation of Major works of an airport as per guidelines issued by AERA on Airport User Consultative Committee (AUCC) meetings.
3	Proposal No. 6 Commend AAI on correcting AAI's depreciation rate to 3.33%.	AAI has accepted AERA's view point on depreciation.

4	Proposal No. 7 Regarding RAB for 2nd Control Period AERA intends to true up the RAB on the basis of actual capital expenditure, while it does not mention whether such expenditure will be subject to a capital efficiency analysis. The latter is extremely necessary in order to provide the right incentives to TVM to deliver capex in an efficient manner.	The major capital expenditure incurred by AAI for a particular airport follows the guidelines issued by AERA on AUCC as well as Normative Approach.
5	Proposal No. 8 Regarding WACC (FROR) – WACC at 14% is unacceptably high simply because debt is not apportioned to TVM. The financing structure of a very high equity proportion (equity is more costly than debts) is not efficient. AERA has mentioned in previous determinations for AAI airports that "it expects AAI to take steps to move toward efficient means of financing and achieve a debt equity ratio of 60:40 over a period of time", with no firm deadline set. We call for the normative 60:40 structure to be applied now in this exercise as the debt arrangement (apportioning) between TVM with AAI is not likely to change in the near future.	The Return on Equity allowed by AERA in order to calculate cost of capital is 16% whereas, AERA has allowed only 14% Return on Cost of Capital for AAI's airports.
6	Proposal No.9 Regarding Non aeronautical revenues. AERA highlights that it wishes TVM to increase is non-aeronautical revenues, and make an upwards adjustment because of it. But then it also proposes to true up the non-aero revenues (which could be at odds with AERA's wish if the actual non-aeronautical revenue is lower than forecast). In order to be consistent, AERA should consider a minimum amount of non-aero revenue that will be considered when truing up.	The projected non-aeronautical revenues are trued up in the 3rd Control period on the basis of actuals.
7	Proposal No.10 Regarding Operation and Maintenance Expenditure. I.The 95% aeronautical vs 5% non-	The allocation of Pay roll cost is done on

	aeronautical for allocation of payroll costs is on the high side and can be more appropriately adjusted. We lack detailed information to justify such heavily lopsided allocation ratio, all the more so in a hybrid till approach. II. While the CHQ/RHQ costs are being allocated among major airports on a revenue basis, AERA is not following the same approach for splitting these costs among aeronautical and non-aeronautical activities. For consistency, AERA should consider allocating these costs among aero and non-aeronautical activities on a revenue basis. III. While AERA is reducing salary increases from 40% to 25% in 2017/18, no evidence has been provided that would justify either the original or the reviewed amount. A more appropriate assumption would be to assume the same percentage growth as per the other years of the regulatory period (i.e.7%).	the basis of actual strength of Aero vs. Non-aero employees. The common pay roll expenses for non-aero employees is also deducted in order to find out the actual pay roll cost. The CHQ/RHQ cost are apportioned on Revenue basis for all Airports. As per last wage revision in the F.Y 2007-08 in regards to Salary & Wages Expenditure, there was approx. increase of 50% . AAI has considered an increase of 40% in determination of tariff.
8	Proposal No. 12 Regarding tariff rate card. It is not clear how the incentives offered for Domestic operation will be funded. Ideally it should be funded from marketing budget or the Regional Connectivity Scheme rather than Operation and Maintenance Expenditure which forms the basis for the calculation of unit rate of aeronautical charges. The proposed differential charges between international & domestic is discriminatory in nature and not in alignment with ICAO's Policy. This is also not in alignment with ICAO's policy of non- discriminatory pricing unless there is a clear cost justification that explains why the charges should be different. Pricing structure changes are impacting larger aircraft which is also discriminatory in nature.	The incentive offered for domestic operations would not form part of MYTP. The expenses incurred for incentivizing the domestic operation would be borne by AAI.

	FIA's QUERIES AND AAI's REPLIES	
	FIA's Queries	**AAI's Replies**
	Table 1 International Traffic is higher than the domestic Traffic.	The differential landing charges for domestic and International carriers have been worked out considering market conditions. Such practice of charging different rates for domestic and international carriers is prevalent at many foreign airports also.
	Para 3.1, 3.2 and 4.18 AERA vide its order 15/2015-16 dated 17.04.2015 had decided to continue existing tariffs on ad-hoc basis and advised AA1 to submit MYTP for the 2nd control period well in time. AERA order 15/2015-16 Para 4.2 It may kindly be noted that AAI has submitted its proposal on 29.02 2016 (10 months from the order) and further AERA allowed AAI to resubmit the MVTP under hybrid till on 29.112016 (additional 9 months from first submission) post release of NCAP (June, 2016). AERA circulated the Consultation Paper on 28.03.2017 (4 months from revised submission). This can be treated as an intentional delay, allowing AAI to move from Single Till to Hybrid Till. AERA vide Para 4.18 proposes to determine the present value of the shortfall in the Ist control period as of 1 April, 2016 instead of 1 April, 2017. Going with the same logic which AERA might have thought in determining the present value of the shortfall as on 1 April, 2016– AERA should also determine the tariff under Single Till for 2nd control period as an date of 1 April, 2016 NCAP was not released.	AERA vide Para 4.18 proposes to determine the present value of the shortfall in the Ist control period as on 1st April, 2016 instead of 1st April, 2017. Then the shortfall will further increase if we consider present value as on 1st April, 2017 as there was substantial shortfall for the F.Y. 2011-12 to 2016-17.

	Table 5 and 1 In table 5, point 3.1 Domestic PSF (FC) for 2012-13 to 2014-15. There is reduction in the revenues under PSF (FC), however, as per Table 1 number of Domestic Pax flown were almost same.	The total PSF (FC) for the F.Y. 2012-13 to 2015-16 synchronizes with the passenger volume of Table 1.
	Tale 6 and Para 4.18 The table indicates calculation as per AAI of shortfall for the 1st control period. In this table only aeronautical revenues (calculated in table 5) are deducted from ARR, while non-aeronautical revenues are ignored. Further, had the submission been made within the time from the order date, the future value of the shortfall (i.e.Rs. 350.72 crores) would not be so high. AERA proposes to consider the present value of shortfall as on 1 April, 2016 instead of 1 April, 2017.	The calculation of ARR includes 30% reduction of Non-aeronautical revenue. This is the reason that the non-aeronautical has not been again deducted in order to compute shortfall. The shortfall will further increase if present value of shortfall is taken 01.04.2017 instead of 01.04.2016.
	Para 4.12 and Table 8, 9, 23 & 24 AERA has revised depreciation rate and excluded land from RAB. If table 9 Is observed Rs 8.36 crores was ONLY reduced from the initial RAB while there is huge difference In the depreciation amount calculated by AERA (Rs 104.13 crores) and as mentioned by AAI (Rs 258.15). This has resultant into higher average RAB. Average RAB as per AAI- Rs 223.09 crores Average RAB as per AERA – Rs 358.82 crores. The high average RAB also impacted opening RAB for the 2nd control period. Also the impact of increase In the average RAB needs to be examined.	The depreciation rate considered by AAI was higher than the depreciation rate recommended by AERA. The total depreciation as calculated by AAI as on 01.04.2016 is Rs. 357.07 crores whereas as per AERA as on 01.04.2016 is Rs. 203.61 crores. The depreciation rate recommended by AERA is lesser than depreciation rates of AAI. Hence the average RAB as per AERA calculation is higher than AAI 's calculation.
	Para 4.21and Table 13 & 9 AERA agrees to consider the tax calculation as submitted by AAI. But while doing so it has ignored the revised calculation of Depreciation mentioned In table 9.Impact of	Depreciation for tax calculation is done on the basis of Written Down Value whereas, Table 9 shows depreciation on Straight Line basis. Depreciation as per IT Act is shown in Table 13.

	depreciation as per table 9 on tax calculation needs to be examined.	
	Table 16 & 17 and Para 5.5 & 5.8 AERA proposes to adopt14% growth rate for domestic passenger traffic based on 10-year CAGR, while It proposes 4% growth rate for international ATM for 2nd control period as per the projections submitted by AAI. AERA cannot pick and choose growth rate from CAGR for domestic and from AAI for international traffic. It may kindly be noted that Trivandrum has high international traffic as compared to the domestic traffic. Therefore, choosing lower traffic growth of 4% as proposed by AAI and not 9% as per CAGR, AERA has not applied practical logic.	It does not pertain to AAI The query pertains to AERA.
	Proposal 6b AERA should share the timelines the study and likely date of the report.	It does not pertain to AAI
	Table 29 Depreciation on additional assets (point E) for years 2017-18 is higher than the aero additional assets (point B), while depredation of additional is almost same to the aero assets. Further there is still depreciation on additional assets although aero additional assets is NIL.	Depreciation shown in 2017-18 (Table 29) includes the depreciation on additions of 2016-17 also.
	Table30 AERA for year 2017-18 has increased the aero additional asets without any justification and still allowed depreciation on additional assets although aero additional assets is NIL	AERA has considered half year depreciation on addition of assets for the F.Y. 2016-17
	Table 32 AERA has accepted growth rate as proposed by AAI at a flat rate of 10%. AERA needs to reconsider the same	The query pertains to AERA.

	Table 45 AERA has accepted all the tariffs proposed by AAI. It has removed PSF (FC) and introduced UDF.	The query pertains to AERA.
	Para 16.7 AERA has also accepted annual increase in UDF, Landing Charges and Fuel Throughput charges. It may kindly be noted that these tariffs are determined to achieve target revenue calculated on cost plus basis method. Any annual increase is allowing higher rate of return, which is unjustifiable specially under the scenario where there is a double digit pax growth rate.	The tariff of a particular airport is determined on the basis of target revenue. The projected revenue at proposed rates cannot exceed the target revenue.

APAI's QUERIES AND AAI's REPLIES

	APAI's Queries	AAI's Replies
	1. Each airport in India is at variance with the other in terms of the revenue generating capacity, facilities offered, numbers of nights operating. passenger traffic and importantly passengers handling services. A sweeping presumption that one rule should be applicable to every airport, that way, is unrealistic and not warranted by real life situation. Official documents prepared by AERA also speak about such variance. 2. Section 12 of NCAP 2016 has categorized three different types of Airports -Airports developed by the 'state Government, Private Sector and Public Private Partnership (PPP). This excludes Airports Developed by the Airports Authority of India (AAI). Section I 3 of the NCAP 20 I6 addresses Airports developed by AAI. This means by its very nature and operation, airports by AAI belongs to a different category and they should be treated that way and any effort to club them along with airports developed by other agencies is against the established norms and principles laid. 3. Trivandrum Airport commenced its operation in 1935 and presently it is 82 years old. In addition to civilian operation, Trivandrum International Airport also caters to Indian Air Force and Coast Guards for their strategic operations. Trivandrum International Airport has been under the administrative jurisdiction of Airports Authority of India (AAI). 4. The airport was established as a part of the Royal Flying Club. The ers1while Royal family of Travancore has funded the setting up of the airports. The first flight took off on 1 November 1935, carrying mails of Royal Anchal	Ministry of Civil Aviation has in the recently announced Civil Aviation Policy stated that: "To ensure uniformity and level playing field across various operators, future tariffs at all airports will be calculated on a 'hybrid till' basis, unless otherwise specified for any project being bid out in future. 30% of non-aeronautical revenue will be used to cross-subsidize aeronautical charges. In case the tariff in one particular year or contractual period turns out to be excessive, the airport operator and regulator will explore ways to keep the tariff reasonable, and spread the excess amount over the future." AERA vide letter No. F.No. AERA/20010/Civil Aviation Policy/2014-15/9408 dated 4th August, 2016 has requested AAI to re-submit the Multi Year Tariff Proposal for determination of Aeronautical Tariff for the 2nd Control period on 30% Hybrid Till basis for Seventeen Major Airports and true up of eleven Major Airports for the First control period .

	(Travancore Post) to Bombay. After Independence the airstrip was used for domestic flights with construction of a domestic terminal: International operations were initiated by Air India to the cities in Arabian Peninsula in the late 1970s using Boeing 707. 5. The growth in domestic passenger footfall at the airports was 30 percent in 20 16 in the first nine months of the current fiscal. In comparison the growth in national average registered in the period was 23.18 percent . At the Thiruvananthapuram airport, the domestic foot-fall registered in 2016 was 15.55 lakhs, against the 11.96 lakh passengers in the previous fiscal. 6. The airport revenue streams can be broadly divided into two in India viz aeronautical and non-aeronautical. Aeronautical includes passenger service fee and user development fee. both these are collected by the airlines and passed on to the respective airports. 7. APAI feels that the Single Till mechanism for fixation of aeronautical & non-aeronautical costs is time tested one. The evolution of Double and Hybrid Till are disruption and is synonymous with higher degree of commercialization of airports. Commercialization is mostly driven by entry of private operators and to retain their interest in operations. 8. Trivandrum Airport, since it is a part of Airports Authority of India (AAI) network should not have ever thought of switching over to the Hybrid Till since it is run by AAI on the one hand and on the other it is used by multiple agencies like Air Force and Coast Guards. Ideally, a costing could have taken these factors into consideration rather than passing the entire burden to the passenger community. 9. Also, the airport being set up in 1935 and under the direct jurisdiction of the Raja of Travancore and later	

	the kingdom got annexed to India, there is no direct initial cost incurred by the AA1 in this regard. Later modifications and expansions undertaken by the AA1 would have been funded by the revenue stream obtained by the footfall and various amenities run by the airport. 10 There is overwhelming opinion that airports created by AAI should remain under the purview of Single Till. There is evidence collated from Indian airports which clearly proves how Single TILL model is advantageous in the Indian context in terms of ensuring affordability and thus throwing open air travel to the common man as envisaged the goal of NCAP 2016. In the case of Hyderabad airport AERA in 2014 fixed tariff on the basis of Single Till and charged User Development Fee (UDF at zero level. Even in that dispensation the airport operator achieved its targeted Annual Revenue Requirement (ARR) as empirical1y proved by the government prosecutor who argued against the airport operator for his plea to switch over to Hybrid Till. 11 Airports Authority of India (AAI) submitted in the said case of Trivandrum airport that it has earned Rs 530.94 crore during first control period as actual aeronautical revenue. Correspondingly, AAI has submitted that It has shortfall of Rs. 350.72 crore during first control period. Therefore it was compelled to switch over to Hybrid Till. AAI in the consultative note circulated nor in the presentation made had not substantiated how did the shortfall has set in. 12 Under a Hybrid Till, only aeronautical assets are included as part of the	

	regulatory asset base. To switch over to hybrid till in the second control period. AAI has divided assets into aeronautical, non aeronautical and common components. Common components have been further segregated into aeronautical and non-aeronautical assets. 13 A cursory look at the segregation of the assets under various heads will reveal the casual approach adopted by AAI in segregating assets. 14 S1mi1ar]y, there are other flaws in the computation and segregation of other heads such as depreciation, capital expenditure, fair rate of return etc. It is therefore advisable to continue with the present system of Single Till as a matter of policy. Switch over to Hybrid Till will create abnormalities and will result in passenger community liable to pay more.	

1	Hindustan Petroleum Corporation Limited	We agree with the proposal of Authority to include land lease rental as aeronautical revenue. Further, any revision in the fuel Throughput charges (FTC) should be on prospective basis only.	The revision in rates are on prospective basis only. Hence no comment.
2	Federation of Indian Export Organizations	From the proposal we have observed that there will be a substantial increase of 6387% in rate per landing for international flights as earlier rate is of Rs 250.50 for upto 100 MT has been proposed to increase to RS. 16250. Similarly, for above 100 MT, there will be an increase of 44.71% in rates. Further, Parking and Housing charges too will increase substantially by more than 4100% (up to 100MT) and for above 100 MT there is an increase of 41%. Such a substantial increase will work against the end user and will add to the cost of doing business. As per AAI's annual report 2015-16, AAI has PAT of RS. 2,537 crores and can absorb any cost escalation due to up gradation of facilities at the airport and it is therefore suggested that it may be kept in abeyance for the present.	The comparison for existing Landing rate of 100 MT of international flight with proposed Landing rate is wrongly interpreted. The existing rate of 100 MT comes out to Rs.25050/-(100 MT @ Rs.250.50 per MT) where as it has been considered as Rs. 250.50. In regards to proposed parking and housing charges there is reduction in charges for aircraft weighing up to 50 MT. The parking charges are very nominal. For example if an aircraft weighing 50MT parked at airport for an hour, the parking charges would be Rs. 175/- only.