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05 May 2017

WITHOUT PREJUDICE

Secretary
Airports Economic Regulatory Authority (AERA) of India
AERA Building, Administrative Complex
Safdarjung Airport, New Delhi 110 003
Email: puja.jindal@aera.gov.in

Dear Ms. Puja,

**SUBJECT: IATA'S RESPONSE TO CONSULTATION PAPER NO. 07/2016-17
DETERMINATION OF AERONAUTICAL TRARRIFFS OF TRIVANDRUM INTERNATIONAL
AIRPORT (TVM) 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 265 passenger and cargo airlines comprising 83% of total air traffic and IATA's mission is to represent, lead and serves the airline industry.

IATA appreciates the opportunity for us to comment on the consultation paper. This submission is based on the views expressed by IATA at the stakeholder consultation meeting held on 20 April and additional comments following the meeting.

We would like to specifically request AERA to consider the following:

- 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 way.
- The Air Passengers Association of India has filed an appeal with AERA's Appellate Tribunal challenging the Hybrid Till Order passed by AERA. Any pricing determination by AERA based on Hybrid Till should be put on hold until a decision is made by the Appellate Tribunal, or be assessed under a Single Till framework.
- It should be noted that with the proposed asset and operating cost allocations, it can be inferred that TVM will be making on its non-aeronautical activities a return on assets of around 300%, which is outrageously high. This already highlights the issues of shifting to a hybrid till approach. While such excessive profits were being utilized to reduce aeronautical charges in a single till environment, they are only partially used in a hybrid till. The result of applying the hybrid cannot be in the interest of users and their passengers, and has to be reconsidered.
- 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 issue highlighted in the previous paragraph.
- 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

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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.

- Proposal No. 6 Commend AAI on correcting AAI's depreciation rate to 3.33%.
- 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.
- 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.
- 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.
- Proposal No.10 Regarding Operation and Maintenance Expenditure.
 - I. The 95% aeronautical vs 5% non-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 Authority is proposing to true up most of the components that form the basis of the building block calculations. It is unclear as to how such an approach will incentivise the regulated company to run efficient operations. Truing up minimises the risks borne by

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airports while AERA is not reflecting such lower risks through a lower WACC. AERA should start reconsidering its approach towards truing up.

- 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.
- We call on AERA to ensure alignment with ICAO's policy to ensure airport charges are set based on the cost of delivering the services rather than other factors which might not be applicable/relevant when assessing the appropriateness of airport charges.
- We also call on AERA to apply greater scrutiny on the proposed OPEX by the airport operators including cost efficiency targets while delivering optimal level of services to Users.
- Regarding Quality of Service – Overall benchmark for service quality requirements utilizing the ACIASQ Survey which is essentially a passenger experience survey. There is a need to better capture the service quality feedback/rating from aircraft operators using the airport services/facilities to drive the rebate scheme as well.
- An Airport Service Level Agreement Framework (SLA) with airlines should be recommended to deliver consistent levels of service and promote continuous improvement. This will also allow a process to establish a clear link between airport service standards and user costs. The IATA best practice document for SLA is attached to this submission for your easy reference.

We request that our views expressed above be taken into consideration by your respected agency leading to an objective and rational decision. Please do not hesitate to contact IATA's Country Director for India, Mr. Amitabh Khosla at khoslaa@iata.org or myself if further clarification is needed.

Yours sincerely,

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cc Amitabh Khosla, Country Director - India