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24/12/18

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भारतीय विमानपत्तन प्राधिकरण
AIRPORTS AUTHORITY OF INDIA

No. AAI/CHQ/AERA/MYTP-VISA/2017/716

Dated:- 24/12/2018

The Secretary,
Airports Economic Regulatory Authority of India,
AERA Building,
Administrative Complex,
Safdarjung Airport
New Delhi-110003

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

प्राप्त
जायरी नं० 13269
तारीख 24/12/18

Sub: - Replies to views of Stakeholders on Consultation Paper NO 23/2018-19 in the matter of Determination of Aeronautical Tariff in respect of Vishakhapatnam Airport for the first Control Period (01/04/2018 to 31.03.2023).

Madam,

Reference is invited to mail dated 19/12/2018 regarding views on the comments of stakeholders on Consultation Paper NO 23/2018-19 in the matter of Determination of Aeronautical Tariff in respect of Vishakhapatnam Airport for the first Control Period (01/04/2018 to 31.03.2023).

The replies to views of Stakeholders on Consultation Paper NO 23/2018-19 are enclosed here with along with views of AAI for consideration of AERA.

This issues with the approval of Competent Authority.

End: as above

(V.Vidya)

General Manager(JVC/Tariff)

Secretary - on leave of 24/12

Mr. Jainan

Replies of AAI on Consultation Paper NO 23/2018-19 in the matter of Determination of Aeronautical Tariff in respect of Vishakhapatnam Airport for the first Control Period (01/04/2018 to 31.03.2023).

Sr. No.	Query	AAI Response
1	HPCL	
1.1	<p>AERA has proposed Throughput charges at Visakhapatnam Airport as is Rs 157.39 Rs/ KL. effective 01.12.2018 to 31.03.2023. In this regard, it may be noted that in the absence of any approved AERA order, we are charging existing rate to our customers. Hence the date of implementation of the tariff prior to AERA order date will result in financial loss to us.</p> <p>View' above, HPCL request that any revision in Fuel Throughput charges should be approved on prospective basis only.</p>	AAI agrees with the comments of HPCL and IOCL and accordingly the new rates will be made applicable from a prospective date by issuance of AIC.
2	IOCL	
2.1	Effective date for implementation of tariff to be kept only after date of release of order.	
3.	Govt. of Andhra Pradesh	
3.1	<p>Para No. 5.5 along with Para 6.17, where it is mentioned that the reduction in the growth in FY 2022-23 to 10% is considered, as the Bhogapuram International Airport likely to be commissioned by FY 2022 23, is a wrong statement.</p> <p>As per in principle approval of Ministry of Civil Aviation Letter vide No. AV.TOO16/111/2015-AD, Dt:02/09/2016 the Civil Enclave will be shut down on opening of Bhogapuram International Airport for which suitable compensation shall be paid by State Govt to AAI. Hence it is recommended that the</p>	<p>It is submitted that the proposed investment vide Para 6.17 and 6.18 are necessary to cater to the needs of growing traffic at the airport.</p> <p>As per the decision of Standing Committee on Green Field airports held on 26.11.2018, Govt. of India has decided to operate Vizag Airport even after the Bhogapuram Airport is thrown open to passenger and cargo traffic.</p>

	proposed investment vide Para 6.17 and 6.18 be kept on hold and taken out of MYTP (Multi Year Tariff Proposal) being avoidable expenses of public money.	
3.2	The FROr appears to be unjustified as the comparison is either with a Metro or a State Capital Airport with higher passenger density, wherein Vizag is not a full fledged airport. It is only a Civil Enclave which is presently handling 2MPPA and the main infrastructure, i.e. runway belongs to Indian Navy. (Page 28, Para-Repair and Maintenance). Hence FROr may be reduced to a lower number.	No comments.
3.3	The costs shown against the runway was never supposed to be reimbursed by the State Govt. as mentioned. Hence the amount may not be included in Operation and Maintenance expenditure for FY2017-18. The runway being the property of Indian Navy, this matter may be resolved between AAI and Indian Navy, Vishakhapatnam being a civil enclave.	The cost of upgradation of airfield was to be borne by AAI, MOD and Govt of AP. The amount due from Govt of AP were received as per MOU. However, the amount due from HOD was charged as the amount could not be recovered from MoD for long.
3.4	Rate of tax (VAT) on ATF 5% is incorrect as Govt. of Andhra Pradesh has already reduced VAT on ATF to 1% since 2014 vide G.O.MS.No.4, dated:22/06/2015. Accordingly, night parking charges may be amended.	AAI has proposed in the proposed rate card to waive off the night parking charges in principle for all domestic scheduled operators at Visakhapatnam Airport if the State Government has brought the rate of tax (VAT) on ATF < 5%. The above waiver of night parking charges (between 2200 hours to 0600 hours) will be made applicable from the date of implementation of < 5% tax on ATF by the State Government. In the event of upward revision in the tax rate of ATF by the State Govt., the relief of free night parking charges will also be deemed to be withdrawn for all the airports within the jurisdiction of the said State.

4	Business Aircraft Operators Association	
4.1	<p>Authority's order may please elaborate the rationale behind authorising the amount of Rs. 157.39 as FTC, as to the service being provided by airport operator for levying charge and, how it has been calculated to be Rs. 157.39 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>	<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.</p>
5	FIA	
5.1	<p>FIA submits that it has not been provided with the copies of the submissions of Vizag Airport dated 12.09.2017 & 18.07.2018 and any minutes of AUCC consultation (except dt:07.06.18 AUCC Minutes obtained by FIA from AAI). Project Investment File (PIF), as applicable. Accordingly, in the absence of the receipt of such submissions made by Vizag Airport, FIA is unable to appreciate, assess and comprehend the facts and figures (and any comparison thereto) of the Consultation Paper in its entirety and actuality.</p>	<p>AAI has submitted the MYTP and all the relevant documents to AERA for determination of aeronautical tariff.</p>
5.2	<p>FIA submits that the existing rates for parking and housing have been derived based on 114% increase from existing rates as mentioned in Table 48 of the CP, however the existing rates have not been mentioned in the CP. Further, as per "<i>Charges for airport services (major / non major airports) effective from 1 April 2017</i>" as issued by Airports Authority of India, it was noted that existing tariff rates at Vizag airport are based on the following slabs: (i) upto 40 MT, (ii) Above 40MT upto 100MT and (iii) Above 100MT. Since, the weight slabs mentioned</p>	<p>AAI has proposed 114% increase in Parking and housing charges based on an average increase in parking/housing charges and same rate has been proposed for Domestic and International flights.</p>

	for Parking and housing charges as per AAI tariff card are different from the ones mentioned in Schedule of charges on Page 47 of CP and no bridge has been provided between these slabs, FIA would request Authority to confirm the manner in which the increase of 114% has been computed for first control period over the existing tariff rates of parking & housing charges.					
5.3	Year on year growth rate proposed by the Authority for domestic air traffic movement (“ATM”), which forms 90% of total ATM, is only 9% as compared to the historical 5-year CAGR of 15.93% mentioned in Table 5 of the CP. FIA understands this conservative approach considered towards estimation of domestic ATM may have resulted in 114% increase in the housing and parking charges. FIA submits that Authority should consider a 16% year-on year growth rate for domestic ATM and re-evaluate the 114% increase in housing and parking charges.	No comments.				
5.4	As per assumptions taken by Vizag Airport under Table 48 of the CP, ‘Ground handling’ services are assumed to grow year-on-year at the rate equivalent to the combined growth rate of ATM traffic and CUTE charges are assumed to grow year-on-year at the rate equivalent to the growth rate of total passenger traffic. This assumption has been accepted by the Authority as it is, except growth rate of traffic for CUTE charges has been considered on basis of Authority’s forecast. However, tariff rates applicable for each of Ground Handling and CUTE have not been mentioned by the Vizag Airport/ Authority in the CP. FIA submits that Authority ought to confirm applicable charges for	<p>As per agreement, an amount of Rs 37 per pax is to be charged from Airlines by M/s SITA on account of cute charges and pay the royalty to AAI @ Rs 17.55 per pax.</p> <p>AAI recovers Royalty @ 31.81% from following Ground Handlers</p> <table border="1"> <tr> <td>M/s Taurus Aviation Services Pvt. Ltd.</td> </tr> <tr> <td>M/s Vision Aviation Pvt. LTD.</td> </tr> <tr> <td>M/s Visakha Enterprises</td> </tr> <tr> <td>M/s Sri Sai Sampath Aviation Handling Service</td> </tr> </table> <p>AAI recovers Royalty @13% from Air India Air Transport Services Limited (AIATSL) on account of GH charges.</p>	M/s Taurus Aviation Services Pvt. Ltd.	M/s Vision Aviation Pvt. LTD.	M/s Visakha Enterprises	M/s Sri Sai Sampath Aviation Handling Service
M/s Taurus Aviation Services Pvt. Ltd.						
M/s Vision Aviation Pvt. LTD.						
M/s Visakha Enterprises						
M/s Sri Sai Sampath Aviation Handling Service						

	CUTE and ground handling for stakeholder review.	
5.5	Authority should consider 16 % & 25 % Year on Year (YOY) growth rate for domestic passengers & ATM respectively while computing the said charges.	No comments.
5.6	FIA submits that the Authority has proposed INR 295 as UDF per domestic and international embarking passenger, a 97% increase from the existing rate of INR 150 per domestic passenger. Accordingly, it is submitted that Authority should consider 25% YoY growth rate for domestic passengers while computing UDF.	No comments.
5.7	FIA further requests the Authority to confirm if landing charge for the first control period is NIL.	Vishakhapatnam is a civil enclave and landing charges are being claimed by MOD (Navy).
5.8	<p>For the opening RAB, the Authority has considered this allocation based on earmarked areas for terminal building and essentially relied on assumptions of Vizag airport. Also, with respect to additions, Authority has proposed to allocate the expansion of terminal area into aero and non-aero in ratio of 93.15% to 6.85%. FIA submits that even in the case of terminal area allocation, the Authority has relied on submissions of Vizag Airport. However, FIA understands that entire capex additions during the control period (except terminal expansion mentioned as above) has been considered as Aeronautical by the Authority. Hence, certain additions which could have been allocated to non-aero has not been considered by Authority.</p> <p>FIA submits that given the criticality of allocation of the airport assets between aeronautical and non-aeronautical in shared till approach, the Authority should carry out allocation of assets on the basis of independent study rather than on</p>	No comments.

	<p>the basis of submissions by Vizag airport.</p> <p>Without prejudice to the above, FIA submits that if an independent study cannot be conducted due to paucity of time, it is submitted that Authority consider aero allocation of 80% as per Proposal 6(a) of CP 5/2014-15</p> <p><i>“In the matter of Normative Approach to Building Blocks in Economic Regulation of Major Airports”</i> for the first control period and true up the allocation ratio based on independent study in the second control period.</p>	
5.9	<p>FIA submits that the approach of the Authority for reviewing the operating expenditure is not in line with provision of AERA Guidelines, and accordingly it is submitted that in order to assess efficient operating expenditure the Authority should have conducted independent analysis. Further, FIA submits that the Authority ought to have scrutinized the expenses in detail instead of leaving it for true up in the next control period. It is submitted, that airport has already completed a significant period of operations, and hence benchmarking the costs would not be difficult for the Authority. Therefore, it is submitted that rather than truing up, a price cap should be mandated by the Authority for each of the operating expenditures depending on the evaluation of past trends, cost drivers, productivity movements, future expansions otherwise Vizag Airport would not make palpable efforts to contain the costs. This would lead to additional burden on the passengers for the next control period.</p>	No comments.
5.10	<p>FIA further submits that the Gross operating expenditure, allocation ratio and basis of allocation has not been mentioned by Authority in the CP.</p>	No comments.

	FIA submits that the allocation of the operating expenditure between Aeronautical and Non-Aeronautical categories is critical under Shared Till approach, Authority ought to confirm the allocation ratio and gross operating expenditure being projected prior to the release of Order, for stakeholder review.	
5.11	Review of the CP indicated that for the purpose of determining Non-Aeronautical Revenue, the Authority, rather than evaluating non-aeronautical revenue in detail as per AERA Guidelines to consider the impact of inflationary increase and real increase while projecting these Non-Aero revenue, has primarily relied on ad-hoc growth rate and basis provided by Vizag Airport.	No comments.
	FIA submits that the Authority to re-consider growth rates for non-aero revenues so as to keep them in line with the growth in passengers and terminal expansion. Further, Authority has not commented on the real increase, inflationary increase, terminal area based 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, it is submitted that Authority re-evaluate the growth rates for non-aeronautical revenue basis a consultant study.	
5.12	Hence, FIA submits that Authority consider the 5-year CAGR of 25% and 16% for YoY growth rate projections for domestic & international passenger traffic respectively for the first control period.	No comments.
5.13	FIA submits that Authority should consider the 5-year CAGR of 16% YoY growth rate projections for	No comments.

	domestic ATM for the first control period.	
5.14	<p>FIA further submits that the Authority has computed the growth rates based only on traffic numbers of past years and has applied the same for projections that too on lower side, however, the Authority has not considered qualitative factors affecting the traffic growth such as the UDAN scheme, double digit growth in passengers across Indian airports in the last 4 years (as per the DGCA domestic traffic reports), and Vizag airport presently being the busiest in Andhra Pradesh. Without prejudice to the above, FIA submits that since, traffic projections are critical in ascertaining the tariffs and CAGR considered by Authority is significantly lower than past CAGR, the Authority must appoint an independent consultant to evaluate traffic forecasts.</p> <p>Also, the expert study would be scientific as apart from past trends of traffic it will also consider various qualitative factors affecting macro environment of the aviation sector like (a) impact of new civil aviation policy (b) commencement of operations from new airlines (b) future changes in economic environment (c) population growth (d) trends of increase in disposable income.</p>	No comments.
5.15	it is submitted that, Authority could consider useful life of buildings as 60 years instead of taking a conservative view.	No comments.
5.16	FIA noted that in the CP, Yield per passenger has not been computed and submitted by Vizag airport and further not computed and evaluated by the Authority. Hence, we request authority to compute the YPP or else provide the reason for not computing	The Yield per pax has been computed and submitted by AAI to AERA in the MYTP.

	the same as the same is not in accordance with AERA Guidelines.	
5.17	<p>Prior period shortfall of FY17 and FY18 as per Authority's examination Table #39 on Page 36 of CP no. 23/2018-</p> <p>19Quarter20172018Q14.04 4.15 Q24.17 4.36 Q33.97 -Q44.17 - Average4.09 4.26.</p> <p>FIA submits that as the ASQ ratings (for Q1 & Q2) of Vizag Airport have not met the target rating of 4.80 as agreed upon in the, the Authority should impose suitable penalty on Vizag Airport in terms of the AERA Guidelines in the present control period, and not leave such exercise of review in the next control period.</p>	<p>ASQ of Vishakhapatnam airport is quite high comparing with ASQ benchmark of 3.75 as proposed by AERA.</p> <p>ASQ rating of 4.8 is as per MOU of AAI with MoCA is based on average of twenty airports. The target is not for the individual airports to achieve.</p>
5.18	FIA submits that carry forward losses for periods prior to FY17 (if any) should be considered in the first control period rather than leaving it for true up in the second control period.	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.
5.19	<p>FIA submits that the Authority as per Table 1 of the CP, mentions apron bay area of 82,986 sq. m., which includes 56,610 sq. m. for 8 parking bays and 26,376 sq. m. for 6 new parking bays completed and commissioned on September 2018. However, as per Para 6.17 of the CP, "Vizag Airport confirmed that scope of work includes extension of apron for an area of 26,712 sq.m., construction of New link taxiway (N5) with associated shoulders, construction of vehicular lane, shoulders for the old apron, old taxiways N1 and N2, and new VIP road. The surface area of all the above pavements including the extended apron area is 52,357 sq.m". Hence, as the areas mentioned in the CP are different, FIA requests that Authority to clarify which area for apron is accurate.</p>	It is confirmed that scope of work includes extension of apron for an area of 26,712 sq.m., construction of New link taxiway (N5) with associated shoulders, construction of vehicular lane, shoulders for the old apron, old taxiways N1 and N2, and new VIP road. The surface area of all the above pavements including the extended apron area is 52,357 sq.m"

5.20	It is submitted without prejudice that determination of aeronautical tariff on Hybrid Till basis for the First control period would set the tone and precedent for determination of aeronautical tariff in subsequent control periods contrary to the applicable legal framework. Thus, 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

S.No.	AERA	Comments of AAI												
1.	<p>Refer Para -5.5 of CP (Traffic Forecast)</p> <p>AERA has considered Traffic growth rate for passenger as under</p> <table data-bbox="528 1279 847 1447"> <tr> <td>FY19-FY22</td> <td>Domestic PAX</td> <td>15%</td> </tr> <tr> <td>FY-23</td> <td>PAX</td> <td>10%</td> </tr> </table> <p>AAI had proposed Traffic growth rate for passenger for the control period as under;</p> <table data-bbox="528 1621 847 1789"> <tr> <td>FY19-FY22</td> <td>Domestic PAX</td> <td>10%</td> </tr> <tr> <td>FY-23</td> <td>PAX</td> <td>8%</td> </tr> </table>	FY19-FY22	Domestic PAX	15%	FY-23	PAX	10%	FY19-FY22	Domestic PAX	10%	FY-23	PAX	8%	<p>AERA is requested to consider 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>
FY19-FY22	Domestic PAX	15%												
FY-23	PAX	10%												
FY19-FY22	Domestic PAX	10%												
FY-23	PAX	8%												
2.	<p>Refer Para 15.5 of CP (Revenue From Aeronautical Services)</p> <p>AERA has considered Rs.17.89 per embarking pax for cute charges for</p>	<p>As per agreement with M/s SITA ,the Cute charges are Rs.17.55 per pax .</p> <p>AERA is requested to considered the rate of Rs.17.55 per pax as this</p>												

	calculating Aeronautical Revenue	has resulted in reduction in short fall to the Tune of Rs.2.33 cr
3.	<p>Refer Para 12.3 of CP(Prior Period Shortfall)</p> <p>AERA has considered compound factor for FY17:- 1.24 and FY18:- 1.09 as on 1st December 2018 and PV of compounded shortfall for FY17 &FY18 is Rs.16.72 cr.</p> <p>Similarly AERA considered discount factor @14% p.a and considered 0.96(FY 19),0.84(FY 20),0.74(FY 21),0.65(FY 22),0.57(FY23)</p>	<p>AAI has considered compound factor for FY17:- 1.30 and FY18:- 1.14 as on 1st April 2018 and accordingly PV of compounded shortfall for FY17 &FY18 works out to Rs.17.46 cr. This has resulted in reduction of prior period shortfall of Rs.0.62cr.</p> <p>AERA is requested to consider Compound Factor /Discount factor as proposed by AAI.</p>
4.	<p>Refer Para 10.7 of CP (Taxation)</p> <p>AERA has carried forward of losses Rs.11.33 crores for FY 16-17 to FY17-18 and set off against the profit of FY18-19 to FY19-20.</p>	<p>As AAI is not filing tax return on standalone basis, AERA is requested not to carry forward and set off the losses as this has resulted in reduction of tax benefit to the tune of Rs.7.68 cr.</p>