

MIAL/VPR/15-16/35

26th November, 2015

OSD – II to Secretary,
Airports Economic Regulatory Authority of India,
AERA Building, Administrative Complex,
Safdarjung Airport,
New Delhi – 110 003

Madam,

Sub: Response to Consultation Paper No. 9/2015-16 dated 4th November, 2015 issued by AERA on Determination of Development Fee in respect of Metro Connectivity Project at Chhatrapati Shivaji International Airport, Mumbai

With reference to above, please find enclosed as 'Appendix A' to this letter, response of MIAL. In case any other information is required in this connection, we may please be informed.

Thanking you,

Yours Sincerely
For Mumbai International Airport Private Limited



Sanjiv Bhargava
Vice President - Regulatory

Enclosed: as above



Mumbai International Airport Private Limited

Response to Consultation Paper No. 9/
2015-16 dated 4th November, 2015
issued by AERA on Determination of
Development Fee in respect of Metro
Connectivity Project for Chhatrapati
Shivaji International Airport, Mumbai

26th November, 2015



Disclaimer

This document has been prepared by Mumbai International Airport Private Limited (MIAL) in response to AERA Consultation Paper No. 9/2015-16 issued by AERA on 4th November, 2015 on Determination of Development Fee in respect of Chhatrapati Shivaji International Airport (CSIA), Mumbai ('Consultation Paper' or 'CP').

The purpose of this document is to solely provide response to the proposals of AERA in Consultation Paper in respect of determination of Development Fee at CSIA. This response should not be referred to and relied upon by any person against MIAL. This document includes statements, which reflect various assumptions and assessments by MIAL and relevant references to documents, reports and secondary information in relation to the stated purpose. Such assumptions, assessments and statements do not purport to contain all the information to support our response.

This document may not be appropriate for all persons and it is not possible for MIAL, its employees or advisors to consider the objectives, technical expertise and particular needs of each party who reads or uses this document.

Whilst every effort has been made to ensure the accuracy of the information provided herein, MIAL cannot be held responsible for any errors or omissions. MIAL shall have no liability to any person under any law, statute, rules or regulations or tort, or otherwise for any loss, damages, cost or expense which may arise from or be incurred or suffered on account of anything contained in this document or otherwise, including the accuracy, adequacy, correctness, reliability or completeness of the information contained therein or deemed to form part of this document.

Information provided in this document is on a wide range of matters, some of which depend upon interpretation of law. MIAL accepts no responsibility for the accuracy or otherwise for any interpretation or opinion on the law expressed herein.

MIAL also accepts no liability of any nature whether resulting from negligence or otherwise however caused arising from reliance by any reader upon the statements contained in this document.



1 Introduction

- 1.1 Airports Economic Regulatory Authority of India ('AERA' or 'the Authority') has released Consultation Paper No. 9 / 2015-16 on Determination of Development Fee in respect of Chhatrapati Shivaji International Airport, Mumbai, ('Consultation Paper') on 4th November, 2015. We convey our thanks to the Authority for its comprehensive coverage and detailed analysis of issues in the Consultation Paper.
- 1.2 A stakeholder consultation meeting was convened by the Authority on 20th November, 2015 to elicit the views of all the stakeholders on the Consultation Paper. At this stakeholder meeting, MIAL presented its preliminary observations in respect of the major issues pertaining to determination of Development Fee (DF) for CSI Airport. Further, the Authority has solicited written, evidence-based feedback, comments and suggestions from stakeholders including MIAL on the proposals contained in the Consultation Paper.
- 1.3 Authority has proposed levy of additional DF of Rs. 15 for each embarking domestic passenger and Rs. 75 for each embarking international passenger towards Metro connectivity project. We hereby present our observations, suggestions and request in respect of determination of DF for CSIA, Mumbai.



2 Authority's Proposed Decisions

2.1 Authority has considered international passenger traffic growth rate of 6.78%

Proposal 1.a. – “To project both domestic and international passenger traffic based on the previous five year CAGRs of 7.73% and 6.78% respectively, as calculated in Table 1”

MIAL submission

- 2.1.1 We note that Authority (in para 3.7 of CP) has proposed to project passenger traffic based on a five year CAGR of international traffic, at growth rate of 6.78% in contrast to MIALs traffic growth projections at 3.8%. However, 5 year CAGR is not appropriate for projecting international traffic in the current scenario under which international growth is permanently subdued because of competing airports, increased points of call and recent traffic rights distribution. There will be further adverse effect once Navi Mumbai Airport comes into operation.
- 2.1.2 International passenger growth in current year till October 2015 is only 2.1%. Downwards trend in international passenger traffic has continued for the month of October 2015 which recorded YoY change of -3.1%. International traffic from April 2015 - October 2015, extrapolated till March 2016, also shows a reduction in International passenger by 1.7%.
- 2.1.3 Month-wise growth rate for the current year is as under:

International Passenger Traffic at CSIA in FY 16

Month	International Passengers (in Mn)		
	2015-16	2014-15	% Change
Apr-15	0.92	0.88	5.2%
May-15	1.06	1.00	6.6%
Jun-15	0.96	0.95	1.3%
Jul-15	0.92	0.90	2.1%
Aug-15	0.94	0.93	1.0%
Sep-15	0.87	0.85	1.8%
Oct-15	0.88	0.91	-3.1%
Total (Apr to Oct 15)	6.55	6.42	2.1%
Projected Linear Traffic In FY 2016	11.23	11.43	-1.7%
Traffic in FY 2011	9.08		
5 years CAGR considering FY 2016 projected traffic	4.4%		



-
- 2.1.4 There is subdued growth of international traffic at Mumbai. However, international traffic at other major airports viz. Chennai, Kolkata, Hyderabad and Bangalore has grown in the range of 6.83% to 22.77% during the period April 15 to Sep 15. Hence, lower growth rate at CSIA during the current year is not a temporary phenomenon.
- 2.1.5 For Domestic passengers, growth rate has stabilized and hence 5 year CAGR as considered by the Authority is appropriate.
- 2.1.6 In view of above trends, the Authority is requested to consider the 5 year CAGR till FY 16 of 4.4% for International passengers and 7.73% for Domestic passengers.

2.2 Authority has not considered the capacity constraint at CSIA while projecting passenger traffic.

MIAL response

- 2.2.1 CSIA is a capacity constrained airport. CSI Airport handled 36.63 million passengers in FY 15. Passenger traffic in current financial year i.e. FY 16 is likely be around 40 million passengers, which is the design capacity of CSIA.
- 2.2.2 With operational efficiency and creation of further infrastructure likely capacity is 47.25 mppa.
- 2.2.3 There is possibility of achieving 50 mppa, provided certain physical infrastructure are created. However, creation of such infrastructure is contingent on removing certain encumbrances and also involves support of stakeholders specially Air India. However, at present it is reasonable to consider passenger capacity of 47.25 mppa.

2.3 Proposed Decision: To consider rate of interest of 11.25% for NPV calculation

The Authority has considered the discount rate of 11.25% in Table 5 and Table 6 under para 3.25 of CP

MIAL response

- 2.3.1 Authority has considered rate of 11.25% for equating the cash inflows and outflows.
- 2.3.2 The interest rate scenario may not remain the same over the long period of nine years till 2023-24.
- 2.3.3 The current weighted average rate of interest for the month of October 2015 is 11.91% on DF securitized. MIAL requests the Authority to kindly consider the current rate of interest of 11.91% for equating the cash flows.



- 2.3.4 MIAL understands that in case there is deficit in cash flow collection vis-a-vis payments to MMRC, the resulting interest paid on DF amount securitized would be paid out of additional DF collection. MIAL would like to state that explicit decision like in Decision no. II.b of the earlier DF order no. 29/2012-13 dated 21st December 2012 also be made for the additional DF now being proposed by the Authority. Decision II.b of the earlier DF order states - "The Authority decides to include the interest component in the allowable DF billing if DF is securitized."
- 2.3.5 Authority has considered DF billing as DF collected and used the same for NPV calculation. However, there will always be a time gap between the following:
- Date of DF billing and date of DF deposited by airlines in AAI escrow account
 - Date of DF amount deposited in AAI escrow account and date of transfer of the same from AAI escrow account to MIAL escrow account
 - Date of DF amount transfer to MIAL escrow account and payment to MMRC
- 2.3.6 Authority is requested to consider the actual date of payment to MMRC and not the date of billing of DF for DF computation by the net present value method referred in Para 3.25 of the CP.

2.4 Authority has stated that DF levy is exclusive of any applicable service taxes.

Proposal No. 1.c. To levy an additional DF of Rs. 15 for each embarking domestic passenger and Rs. 75 for each embarking international passenger towards Metro connectivity project, as calculated in Table 6 and further reasoned in para 3.26. The above DF levy is exclusive of any applicable service taxes

MIAL response

- 2.4.1 It is noted that Authority has mentioned that DF rates are exclusive of any applicable service taxes. There is a likelihood that Service tax may be replaced by GST by Government of India. Hence, it would be appropriate if rate of DF is mentioned exclusive of any tax and levy, which shall be charged extra at actuals.

2.5 Computation of Rate of DF by Authority

- 2.5.1 Authority has computed a single rate of DF throughout the period of DF till FY 24. It leads to a situation under which there would be large deficits in initial years.
- 2.5.2 MIAL requests the Authority to kindly determine two separate rates for collection of DF for two stages, being FY 16 – FY 21 (Stage 1) and FY 22 – FY 24 (Stage 2). This will minimize the annual deficit/ surplus collections to an extent. It will eliminate/ minimize the need for securitization of DF collection to fund the deficits and burden on passengers will be minimized. MIAL has attached detailed computation for rate of DF in **Annexure 1**



A) Stage 1 - Rates for DF w.e.f. January, 2016 to March, 2021

In Rs.

Per embarking passenger	Existing DF	Proposed Additional DF	Total DF to be collected w.e.f 1-1-2016
Domestic	100	18	118
International	600	108	708

B) Stage 2 - Rates for DF w.e.f. April, 2021 to March, 2024

In Rs.

Per embarking passenger	Existing DF	Proposed Additional DF	Total DF to be collected w.e.f 1-4-2021
Domestic	100	9	109
International	600	54	654

The above revised rates for DF proposed would minimise the annual deficits which were noticed in the single rate of Rs.15 and Rs.75 proposed in the CP and would minimise the need for securitization to a great extent.

The above revised rate of DF plus applicable taxes, not confined to service tax alone, should be determined and allowed by the Authority.

2.6 Authority has proposed that AAI would release payments after ascertaining award and progress of the project

Proposal No. 1.i. *“To request Airports Authority of India to release payments to MIAL upon receipt of demand notice from MMRC and after ascertaining award and progress of the project”*

2.6.1 MIAL response

Mumbai Metro Line 3 is being implemented by Mumbai Metro Rail Corporation Ltd. (MMRC), a JV of Government of India and Government of Maharashtra and its projects are being monitored by Government of India, Government of Maharashtra and the Prime Minister Office. Raising of Demand notice by MMRC being a government body should be sufficient for release of DF payment to MMRC. In case payments are released after ascertaining the award and progress of the project by Airports Authority of India (AAI), it would create delays. Further, MMRC has informed, in the Stakeholders meeting held on 20th November, 2015, about the extension of Metro line 3 beyond SEEPZ Andheri to Khanjurmarg, and start of operations for stretch between BKC and Khanjurmarg (including the CSIA area) to December 2019. Hence, any additional monitoring by AAI would create obstacles in ensuring timely availability of



funds to MMRC, which becomes all the more essential in view of preponement of operations mentioned above.

2.7 Schedule adopted by the Authority

2.7.1 Authority in the Para 3.17 of the CP has considered the payment schedule to MMRC for the purpose of computation of DF as per MoU dated 16th September 2015. MIAL has requested MMRC for restoring the Schedule of Payment as per MoU dated 16th September, 2015. In case MMRC does not agree to restoring the same, MIAL shall once again approach the Authority to reconsider the Schedule of payment as set out in Amendment to MoU dated 12th October, 2015.

2.8 DF from Transfer and transit passengers

Presently DF as well as UDF is being collected from the embarking passengers, excluding the exempted passengers. Exempted passengers include inter alia transit / transfer passengers whose travel journey is within 24 hours from arrival into airport and is part of same ticket. Allowing exemption to such passengers results in subsidization of charges related to such passengers by the general passengers.

2.8.1 Though not within the purview of the Authority, it is requested that Authority take up the matter of exemption of DF, in case, of Transit and transfer passenger with MoCA. Since, funding of contribution towards two metro stations is through levy and collection of DF from passengers while such stations are being developed, there is no reason to exempt transfer/ transit passengers because status of these passengers is akin to other passengers.

2.9 Truing up of DF collection for passengers who have booked tickets in advance

2.9.1 The Authority has noted that airlines issue tickets in advance (nearly 12 months for international travel and 3 to 6 months for domestic travel). In case DF levy is made effective from 1 January 2016, the Authority has to consider operational inconvenience at the airport on account of gate collection of DF for tickets issued in advance.

2.9.2 In order to avoid the inconvenience to the passengers on account of gate collection of additional DF, MIAL request the Authority to allow for a 100% true-up for any shortfall in collection on account of lower DF rate paid by passengers due to air tickets purchased in advance.

2.9.3 We request the Authority to allow MIAL to levy DF effective from 1 January 2016 and to true-up any shortfall in DF billing.



2.10 The Authority in para 3.33 proposes that the DF collections, securitization, etc. be reviewed as part of the consultation process for the determination of tariff at CSIA for the 2nd control period and has indicated in Table 7, a difference between collection shown by AAI and MIAL of Rs 3 crores, which needs to be reconciled.

MIAL response

2.10.1 MIAL is in process of reconciling the said difference and shall submit the same to the Authority in due course.

2.10.2 MIAL wants to bring to the notice of the Authority that during the period May 2012 to October 2015, rate of interest for DF securitized is in the range of 11.13%-12.45% with current rate of interest being 11.91% (for October 2015).



Two stage DF rates proposed by MIAL for DF collection and payment to MMRC

Year	No of passengers@		DF collection (Rs. Crs.)			Payments to MMRC (Rs. Crs.)	Present values (Rs. Crs.)*	
	Dom	Int	Dom	Int	Total		DF collection	Payments to MMRC
Jan - March 2016	2.72	1.12	4.89	12.13	17.02	30.00	16.69	29.41
2016-17	11.70	4.69	21.06	50.64	71.70	70.00	65.31	63.77
2017-18	12.60	4.89	22.69	52.84	75.53	75.00	61.11	60.69
2018-19	13.58	5.11	24.44	55.14	79.58	75.00	57.20	53.90
2019-20	13.74	5.16	24.72	55.78	80.50	75.00	51.39	47.88
2020-21	13.74	5.16	24.72	55.78	80.50	75.00	45.65	42.53
2021-22	13.74	5.16	12.36	27.89	40.25	39.33	20.27	19.81
2022-23	13.74	5.16	12.36	27.89	40.25	39.33	18.01	17.60
2023-24	13.37	5.03	12.03	27.14	39.17	39.33	15.59	15.63
Total					524.50	518.00	351.22	351.22

@ No. of passengers are computed considering 5 year CAGR till FY 16 for international passengers and 5 year CAGR till FY 15 of 7.73% for domestic passengers, considering capacity constrained at 47.25 mppa and 20% exempt passengers (including transfer and transit).

* Actual rate of interest of 11.91% for securitised DF for October 2015 is considered as Discount Rate for NPV calculation. Present value computation is done considering monthly discounting of cash flows.

** Stage 1 - DF is collected at Rs 18 and Rs 108 per Domestic and International passenger respectively from 1st Jan 2016 to 31st March 2021.

Stage 2 - DF is collected at Rs 9 and Rs 54 per Domestic and International passenger respectively from 1st April 2021 till 21st March 2024



Ann 2



9th February, 2015

MIAL/CEO/170

Secretary,
Ministry of Civil Aviation,
Rajiv Gandhi Bhavan,
Safdarjung Airport,
New Delhi - 110 003

Sir,

Subject: Exemption for Transfer/Transit passengers

DGCA vide AIC Sl. no. 6/2012 dated 31st August, 2012 in terms of section 40 of the Airports Authority of India Act, 1994, had directed airports of AAI and its lessees as a policy matter, to exempt various categories of passengers from levy and collection of UDF / DF/ PSF at such airports. The list of categories covered includes, inter-alia:

(vi) Transit/ transfer passengers (this exemption may be granted to all the passengers transiting upto 24 hours. "A passenger is treated in transit only if onward travel journey is within 24 hours from arrival into airport and is part of the same ticket, in case 2 separate tickets are issued, it would not be treated as a transit passenger")

Prior to issue of the above AIC, the exemption from levy of UDF was for "Transit / transfer passengers (less than 6 hours stay at the concerned airport)"

MIAL would like to mention that transit / transfer passengers transiting upto 24 hours are getting exemption from levy of UDF / DF /PSF against the interests of the passengers who are departing and arriving at the airport and are staying in the airport terminal for much lesser time. Passengers who are departing/ arriving at CSIA are not utilizing the facilities within the airport premises in same proportion as that being utilized by a transfer passenger staying for upto 24 hours.

We wish to bring to your kind notice that after increasing the free period from 6 hours to 24 hours, substantial increase in exempted passengers has been experienced. Overall there are 20% exempted passengers against the total departing passengers from CSIA, Mumbai. Such exempted passengers have even gone upto 40% in case of an airline which serves transit/transfer passengers. It is highly undesirable that such exempted passengers are enjoying the benefit at the cost of non-exempted passengers.



Mumbai International Airport Pvt Ltd
Chhatrapati Shivaji International Airport
1st Floor, Terminal 1B, Santacruz (E), Mumbai 400 099, India
T +91 22 6685 0900 / 6685 0901 F +91 22 6685 2059
www.csia.in
CIN : U45200MH2006PTC160164

Cont..2

ENERGY
RESOURCES
AIRPORTS
TRANSPORTATION
REALTY
HOSPITALITY
LIFE SCIENCES

As you may be kindly aware of that overall aeronautical charges are decided based on RAB, Weighted Average cost of capital and other building blocks, which translates into balance passengers bearing airport charges in the next control period when true up of aeronautical revenues is carried out.

Therefore, it is imperative that, transit / transfer passengers should be considered as it was earlier i.e. for less than 6 hours, secondly such transfer/transit passengers should pay same charges, say at least 50%, as is the practice worldwide.

It may be noted that various airports in Asia are also levying transfer charges on such transit / transfer passengers viz.:

	Name of the Airport	Country	Currency	Rate per departing pax	Rate for transit pax
1	Changi	Singapore	SGD	20	9
2	Narita, Tokyo	Japan	JPY	2,090	1,050
3	Mactan-Cebu International Airport	Philippines	PHP	200	200

Yours sincerely,
For Mumbai International Airport Pvt Ltd



(R.K. Jain)
Chief Executive Officer

CC: DG, DGCA, New Delhi



Mumbai International Airport Pvt Ltd
Chhatrapati Shivaji International Airport
1st Floor, Terminal 1B, Santacruz (E), Mumbai 400 099, India
T +91 22 6685 0900 / 6685 0901 F +91 22 6685 2059
www.csia.in
CIN : U45300MH2006PTC160184

ENERGY
RESOURCES
AIRPORTS
TRANSPORTATION
REALTY
HOSPITALITY
LIFE SCIENCES