



भारतीय विमानपत्तन प्राधिकरण
AIRPORTS AUTHORITY OF INDIA

No.AAI/MC/JVC-25/MYTP/2013/955

June 25, 2013

The Secretary,
Airports Economic Regulatory Authority of India,
AERA Bldg., Administrative Complex,
Safdarjung Airport,
New Delhi-110 003.

Sub: - Determination of Aeronautical Tariff in respect of GMR Rajiv Gandhi International Airport, Hyderabad for the 1st Regulatory Period (01.04.2011 to 31.03.2016)

Sir,

This has reference to letter No T-12023(14)/1/2012-Tariff-Vol.III/4195 dated 21st May, 2013 on the above subject.

The comments/views of AAI on MYTP proposal of HIAL have been forwarded to MoCA vide letter No.AAI/MC/JVC-25/MYTP/2013 dated 25th June 2013. This is for your information.

Thanking you,

Yours faithfully,

(S Samanta)

General Manager (Fin.)-JVC

Comments on MYTP, Hyderabad International Airport (HIAL) (Part)

1. Brief Fact Factual. No comments.
2. Investment and guiding principle of AERA
 - AERA has proposed to determine the tariff taking the Airport only as the single entity without taking into account its subsidiary in SEZ and hotel considering them as non Airport activity AERA need to define the airport activity and non airport activity in view that the entire land has been acquired for airport.
 - It has not been stated whether HIAL has received any interest free security deposit from its concessionaire, which has been used in the Project.
3. Consideration of pre control period loss.
 - AERA has proposed to consider the carry over loss for the past period while calculating the tariff for the first control period 2011-16.
 - AERA has to spell out the policy regarding carry over of loss from previous control period or period prior to affective control period.
 - It is felt that AERA should consider actual operational loss for the previous periods instead of calculating it on ARR method
 - The consideration of loss effective 2008 on ARR method implies shifting of control period effective 2008.
4. Control Period.
 - AERA has considered the period of April 2011 to 2016 as the first control period as per the policy framed by them.
5. Regulatory Building Block - No comments.
6. Allocation of Asset
 - AERA has agreed to accept the principle proposed by HIAL to bifurcate the assets between aeronautical and non aeronautical asset. But it has stated that it proposed to undertake a study regarding the policy proposed by HIAL.
 - It is not clear whether the security assets procured through PSF (SC) have been excluded both from the aeronautical as well as non aeronautical assets.
 - It is also not clear whether the portion of the asset like electrical installation, water supply, roads etc. which also catered to its subsidiaries (non-Airport Activity) have been apportion to its subsidiary and deleted from the Airport list.

- It needs to be determined whether asset like ATC Tower, Technical Block has been funded through Government grant. If so, the effect has to be given in RAB on this asset. Moreover, in case Dual Till is considered, the classification of this asset in aeronautical or non-aeronautical is to be determined.

7. Future Capital Expenditure -

- All future capital expenditure proposed which are not finalized at this stage.
- The general capital expenditure proposed during the period of 5 years seems to contain a number of works like modification of security hold area, modification of old duty free space which are revenue in nature and if so, needs to be deleted from the capital expenditure.

8. RAB

- The Govt. of Andhra Pradesh (GAP) has given the land at concessional rate and no rent is to be paid during first 8 years. It needs to be examined whether the cost of the land in respect of Airport is to be included in the RAB for the first control period.
- Some of the assets at the Airport may be utilized for subsidiary like SEZ or hotel (non-Airport Activity). All such assets should be identified and deleted (100% or proportionately) as utilized for the subsidiary.
- All assets created out of non refundable grant given by GAP should be identified and deleted from RAB. Further depreciation on such assets is to be adjusted. In case it cannot be identified the same has to be deleted proportionately over all assets.

9. Cost of Debt

- The rate in respect of debt needs to be analysed and fixed with reference to present interest rate with option of truing up the rate.

10. Cost of Equity

- GMR, Hyderabad has stated that cost of equity should be determined taking into account the concession agreement rate of minimum 18.5% and risk involved. AAI feels that there are various methods and policies to determine the cost of capital. AERA has to take a decision this matter.
- It is felt that the cost of equity should be more or less same for all the airports due to the fact that at all places there is only one

Airport and economic scenario and factors affecting the Aviation Industry is almost the same at all places.

- It is not specified whether any internal accrual has been utilized for construction of the project.

11. WACC

- WACC needs to be determined after taking into account the amount of debt utilized by HIAL towards formation of SEZ and Hotel business. The HIAL has stated that the SEZ and Hotel has mainly been finalized through debt and internal accrual.
- The amount of internal accrual (which has the same nature of equity) needs to be determined and decided whether to reduce it from the equity involved in the Airport.

12. Depreciation

- The AERA has proposed to charge depreciation on 100% of the asset. It is not clear that the treatment given in respect of scrap /residual value of the asset after the life time.

13. Operating Expenses

- Any operating expenses relating to the common asset used by the non airport services and security is to be proportionately deleted.

14. Taxation and non aeronautical revenue

The treatment of commercial revenue inside the Terminal Building should be treated as aeronautical revenue as Terminal Bldg. is mostly treated as aeronautical asset.

15. Treatment of Cargo, ground handling and Fuel

- The AERA has proposed to include the cargo and Fuel dispenses activity in the aeronautical services. However, it has proposed to treat ground handling as non aeronautical services. This aspect needs to be re-examined.
- In the Consultation Paper ground handling has been treated as non aeronautical revenue. In case of Single Till there is no effect on this subject. However, in case of Dual Till, the classification of some assets like Conveyor Belt, Baggage Claim Area used for ground handling activity into aeronautical and non aeronautical needs to be determined.

16. Traffic forecast.

- The HIAL had projected a negative growth in aircraft movement and passenger movement for 12-13 and nil growth for 13-14. The growth of 13-14 needs to be analysed with respect to the aircraft

movement and passenger movement with reference to the first quarter of 13-14.

17. Inflation and calculation of WPI - No comments.

18. Sensitivity analysis,

- The AERA has calculated YPP in respect of Hyderabad Airport with the various policies and conditions stated by them in the consultation paper. We are unable to comment in absence of detailed traffic statistics and factors considered for calculation of YPP.

19. Tariff structure

- HIAL has proposed UDF both for domestic and international arrival and the departing passengers. It has also proposed different rates for metro cities and non metro cities in respect of domestic passengers and SAARC countries and other countries in respect of international passengers.
- AERA in its consultation paper had stated that it proposed to levy UDF only on departing passengers, domestic and international as the concession agreement between HIAL and Govt. of Andhra Pradesh specifies UDF only on departing passengers which seems to be in order.
- AERA has proposed UDF under two conditions - (i) with existing airport charges and (ii) with increase in airport charges as proposed by HIAL.

UDF (In Rs.) in single and dual till for departing domestic and international pax as per Authority (with enhanced LPH and other charges)

Passenger	UDF under Single Till	UDF under Dual Till
Domestic departing	330.49	845.77
International departing	1306.60	3343.73

UDF (In Rs.) in single and dual till for departing domestic and international pax as per Authority (keeping LPH etc. charges unchanged at current level.

Passenger	UDF under Single Till	UDF under Dual Till
Domestic departing	40233	917.60
International departing	1590.61	3627.73

- AERA may specify the policy regarding revenue to be recovered from passenger through UDF and amount of revenue to be recovered from Airline through airport charges (Proportionate).
- AERA has not specified whether the Govt. directive/policy on Aeronautical charges like discount on small aircraft rates for Flying Club etc. will be applicable to the operator.

20. Till System

It is felt that the till method should be determined taking the following factors into consideration:

- i) Economy of the aviation sector.
- ii) The load/burden on Air passengers.
- iii) The return to be provided to the operator.
- iv) Any agreement between G.O.I and the Airport Operator, if methodology is specified in the agreement.
- v) Exclusivity provision reduces risk in operation/revenue generation.
- vi) Existing Airport closed for Commercial operation in public interest and benefit must accrue to public at large by lowering charges.

AAI has been following the principles of Single Till due to following factors:

- i) Difficulty in allocation of asset between aero and non aero activity. It is also difficult to classify some assets between ANS and aero activities.
- ii) Single till is more simplified and transparent.
- iii) It harmonizes the Revenue & Expenditure of Aero and non aero activities avoiding confusion and avoid various assumptions.
- iv) It helps to keep the aero and non aero charges lower and thereby helping the passenger and Airlines in the present socio-economic condition of India.
- v) It also follows the principles of cross subsidizing the aero charges and development of Airport through non-aero activities.
- vi) The rate fixed for aero charges are on cost plus basis.

Previously there was no fixed policy/formulae for determining the Aeronautical charges. The charges were low and stress/incentive was given on non-aeronautical Revenue to make the Airport viable.