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10th July 2017

Dear Sir / Madam,

**IATA comments – AERA consultation regarding determination of useful life of airports
assets**

IATA has pleasure in submitting comments regarding AERA's consultation "In the matter of Determination of the Useful life of Airports Assets."

May we also take the opportunity to request AERA's deadlines for stakeholders to comment are extended in the future, as short timeframes for responses makes it extremely difficult to provide comprehensive feedback given our many other pre-existing commitments. With the best of intentions we request AERA extends consultation timeframes to a 4 weeks minimum, as is common practice on a global basis. Nevertheless, IATA has reviewed the various papers and would make the following comments for AERA's consideration.

IATA supports AERA's approach to consider the useful life and residual value of assets specific to the requirements of airports, recognising the particular nature of airport assets either not listed in the Companies Act, for instance runways, taxiways and aprons. Having guidance in place will help to avoid extremes, regulatory gaming, and provide Users with the confidence there is a reasonable basis to work from.

IATA recommends the development of ranges for all airport assets corresponding to an asset's useful life taking into account well documented and proven industry norms from sources such as ICAO, including those already listed in the corresponding Companies Act. Having robust ranges in place is important as the useful life of assets will vary from airport to airport depending on a number of variables between projects. For example, the useful life of baggage systems can vary depending on the type of system, level of automation, intensity of use and type i.e. complicated system with in-built transfers at major hub airports will have a very different requirement to small-medium sized airports with origin and destination traffic.

Another example is airfield infrastructure where the FAA highlights the design life of an asset is determined by a number of factors such as the condition of sub-surface, aircraft loads,



volumes and peak hour traffic that need to be considered. Specific to airfield infrastructure, IATA strongly recommends further work to determine ranges for the useful life of assets in more detail, as at present there is insufficient guidance to support informed decision making in this area. Runways, taxiways/taxilanes, and aprons should all be considered in their own right, and a clear differentiation made between resurfacing and other work. Further, we recommend further analysis to review typical ranges for runway resurfacing, as 5 years is a very short space of time compared with most well maintained runways. A typical busy hub airport will resurface its runways every 10-15 years.

A range is a useful starting point as the basis for more detailed consultation with Users, in order to demonstrate and justify to Users exactly why a particular useful life for an asset has been selected, taking into account site specific variables, and other critical elements such as whole life costings, operating and maintenance costs. Consultation with Users to seek their views and feedback as those funding capital developments is critical, as part of a Business case process to review the costs and benefits of major project's, and it's return on investment so informed investment decisions can be taken.

A good rule of thumb as a starting point when considering Business Cases is to ensure investment results in lower operating costs (for both airport and airlines) – otherwise why invest?

Another principle we recommend is to aligned amortisation with an assets useful life, to ensure assets are not depreciated artificially and too quickly that is not in Users or consumers Interests, and could result in overinflated airport charges. Where a concession agreement is in place and the land is not owned by the operator, we query why land that is leased is able to be depreciated and suggest this is not an eligible category to consider - as ICAO states the land itself should not be allowable as an item to be depreciated since unlike other assets it does not deteriorate and its useful life is not limited.

Related to amortisation in concession agreements, we suggest it is not in consumer's interests for AERA to allow concessionaire to depreciate assets in line with their agreements if this results in a faster rate of depreciation compared with the assets useful life. IATA suggests AERA considers other mechanisms are considered to avoid this scenario.

Another recommendation applied by regulators such as the UK CAA is to ensure assets should not start to be depreciated until they come into operational use. Construction completion or similar definitions such as "practical completion" used in the industry are not sufficient – the beneficial use of assets must be delivered for Users, in-line with the outcomes defined in the Business Case. IATA suggests In keeping with international best practice, that Users of the assets are jointly responsible for signing off their operational use. Examples of regulatory mechanisms that apply this approach include the UK CAA, through the "capital triggers" mechanism.



We would specifically recommend airport specific ranges are developed for Baggage Handling Systems as a key component of an airport terminal, and would also highlight other specific areas for further work including aircraft piers.

We trust this feedback is useful and look forward to AERA's consideration and response in due course.

Yours faithfully,

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