



12 June 2018

WITHOUT PREJUDICE

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

Ref: IATA'S response to Consultation Paper No. 06/2018-19 In the matter of Determination of Aeronautical Tariffs in respect of Indira Gandhi International Airport, Delhi with respect to Base Airport Charges (BAC), for the Second Control Period (01.04.2014 to 31.03.2019)

Dear Ms. Puja,

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 285 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 to comment on the consultation paper. In this regard, we would respectfully request AERA to consider the following views.

Firstly, we express again our strong concern that the ability of AERA to carry out its role of regulating airport tariffs is being curtailed by unjustified conditions in a concession contract. The tariffs currently applicable at DEL reflect the proper assessment of AERA on what are the reasonable costs for providing the services (including justified adjustments for true-ups). Applying minimum tariffs that have no relation to AERA's assessment undermines the main purpose of the existence of the regulator.

Having said that, we understand AERA's interpretation that Schedule 6 Clause 2 of the concession agreement allows for a minimum level of charges (Base Airport Charges plus a one-time increase of 10%, henceforth referred to as 'BAC+10%') and that these should be made available to the concessionaire. In this regard, under protest, we go along with AERA's general direction to amend the rate card to reflect this undesirable situation. We also agree that the only way for AERA to preserve the sanctity of its role as an economic regulator is to apply true-ups in future control periods to ensure that DEL does not over collect aeronautical revenues from users.

However, there is one matter we want to highlight for AERA's consideration. As AERA rightly pointed out, the fuel throughput charge (FTC) was not part of the BAC and therefore this situation gives AERA some discretion on how to set this particular charge.

In this regard, we strongly disagree that utilizing the 2009 price of Rs 500 per KL would be appropriate. FTC was unjustifiably and unilaterally raised by DIAL to this level from a much



lower level of well below Rs100 per KL which existed prior to the signing of the concession agreement in 2006. If AERA were to use a historical price, it would be more appropriate to use the 2006 level (which is when the SSA was signed, and the year that was used as the basis for the BAC) and not the one applicable in 2009, which was substantially higher and hence favoured by the airport for obvious reasons.

In any case, rather than setting FTC on the basis of a historical rate, we believe that there is a more reasonable approach. Given the discretion that AERA has on treatment of the FTC, we propose that AERA considers using the FTC as a means to adjust for the revenue imbalances created by the application of the 'BAC+10%' requirement.

Since: - the fuel throughput charge was not included in the BAC,

- the charge is not cost related (IATA has long argued it should not exist unless there is a cost justification for it), and
- the application of the proposals unjustifiably increase DEL's revenues by around Rs. 103 crore compared to the application of AERA Order No. 40/2015-16 (as per appendix 4 of the consultation document),

AERA could adjust the FTC to an extent that nets off the unjustified additional revenue created from the application of 'BAC+10%' in order to match the resultant revenue with the amount obtained through applying AERA Order No. 40/2015-16. Applying an FTC rate of Rs. 131.75 per KL would serve this purpose.

By applying this approach, AERA is able to meet the conditions of the concession agreement (BAC + 10%) and at the same time uphold its decision for the second control period per AERA Order No. 40/2015-16. This will also lower the true-up value in the next control period.

With regards to the over-recovery by DIAL leading up to July 2017 estimated at Rs 5200 Crores, IATA implores AERA to resolve this aspect soonest by applying true-up in the third control period at the latest and not to accept the prospect of doing so in the fourth control period.

We would appreciate AERA's consideration of these proposals before it makes a final decision on the matter.

Yours sincerely,

A handwritten signature in purple ink, appearing to read "Cesar Raffo".

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