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15.09.10

To
Mr. Sandeep Praksh - Secretary,
Airports Economic Regulatory Authority of India,
AERA Building, Administrative Complex,
Safdarjang Airport, New Delhi-110003

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SM (RBS)

Pl find to
PWC

Sub: Comments on "Cargo Facility, Ground Handling and Supply of Fuel to aircraft" Guidelines.

15/9/10

Sir,

This refers to the Consultation Paper No.05/2010-11. Our brief comments on the guidelines

Non Discrimination

It is presumed that these guidelines would be applicable uniformly to all the ground handling agencies without any discrimination amongst the players in the level playing field be that a National carrier or its Subsidiary.

Definition :- Competitive

The term "competitive" as prescribed in Para 5 of the guidelines in the Chapter of competitive assessment shall be modified on the following grounds –

- (i) It is unjustified, illegal and inequitable that if a regulated service is provided by two service providers it would be construed as 'not competitive'. In a perfect competitive scenario, It is obvious that in between two service providers there would be a continuous competition and for the best interest of the qualitative service as well as rate of such services the definition of 'competitive' be immediately changed and make it also competitive. Otherwise also for competition, two parties are enough. As and when in the aviation industries two metros like Mumbai and Delhi are having more than two ground handling service providers due to the voluminous work, the pressure of competition mood would continue to the other metros like Kolkata, Bangalore, Cochin and Hyderabad. Thus for better analogy the definition of competition be changed accordingly. Competition clause should consist of more criteria instead of just number.
- (ii) The services offered under service level agreements are based on airport infrastructure so the cost is directly proportionate to manpower required to fulfill the services

Investment & Profit

- (i) Since investment towards new equipment and deployment of skilled personnel ground handling companies are required to generate adequate revenue so that they can earn at least 20 % profit these companies are required to earn minimum charges per Pax / Tonnage etc. therefore a minimum rate is required to be fixed. This may save the Company from the virus of 'curtail'. Can AERA suggest a minimum charge for providing such services?
- (ii) Each service provider has different SLAs with airlines and airports. It may not be proper AERA independently decide costs, demand and service quality without taking a view on the resultant service quality.

Materially Assessment

Materiality of regulations should have a larger threshold in all three services. AERA may set the limit at 10% instead of 5%.

Mechanism of Regulation

- (i) A cost plus regulation by itself will cause skewed pricing within an airport. Two service providers within the same airport may have different service levels, costs structure, market share forecasts. A cost-plus-return approach would result in different tariffs for the two service providers. This can lead to the service provider with a large share of the market become more dominant and the other, because of differential price capping become even smaller.
- (ii) A light touch regulation on both price and service levels is possible within the ambit of the existing contracts. Will AERA be willing to look at this option?
- (iii) Capital investments to the extent included in the contracts should be recognized in the Cost Plus model.
- (iv) The annual review and truing up mechanism specified is cumbersome – the same should be reduced to one or two reviews in a Control Period
- (v) Sufficient time should be given for the first filing as the service provider would need to understand the regulatory framework and the expectations in details. Two months are not adequate for the first filing.

Further Changes in Ground Handling Policy

Changes in ground handling policy a major factor which need to be accounted for, as and when they arise

Service Quality Agreement

- (i) The competition/competitors should be decided on the volume and extent of business and revenue share.
- (ii) Each service provider has different SLAs with airlines and airports. It is desirable that AERA independently take a view on costs, demand and service quality without taking a view on the resultant service quality?

We re assure our assistance to AERA to take proper course in regulating the charges/tariff towards ground handling services

Yours Sincerely,

Radha Bhatia
Director