AIRPORTS COUNCIL INTERNATIONAL

Geneva, 13 May 2011

Shri Sandeep Prakash
Secretary
Airports Economic Regulatory Authority of India AERA Building
Administrative Complex
Safdarjung Airport
New Delhi- 110003

OSD II

AGM (APBS)

DIAL DF
CP-No 2/11-12 comments

13/5/11

Consultation Paper No.2/2011-12

Dear Sir,

this letter refers to Consultation Paper No.2/2011-12 as issued by the Airports Economic Regulatory Authority of India on the Review of Levy of Development Fee at IGI Airport, New Delhi.

ACI is in support of AERA's proposal under 15.1 to consider the total project cost that resulted in additional funding gaps and to extent the tenure of the levy of Development Fee beyond March 2012.

ACI welcomes the proposal against the background of an extremely ambitious and challenging timetable fixed in the Operations, Management and Development Agreement (OMDA) between the Government of India and GMR. The project was completed in three years on a much faster scale than comparable projects elsewhere. Yet, while final project costs exceeded initial estimates (which were preliminary and based on scanty designs), the final cost in terms of the overall project as well as unit cost were still below or on par with similar projects at other airports. The project management approach selected (design build on cost plus basis), was the only possible method to meet the ambitious target of commissioning the terminal in 37 months.

ACI endorses the concept of pre-financing of airport infrastructure as a valid method of funding large projects. Pre-financing smoothes annual increases in charges that may otherwise occur sharply and abruptly after the commissioning of the project infrastructure. Also, it can reduce the overall financing cost of the project as loan requirements are lower. In the case of IGI, pre-financing enabled the T3 project in the first place as traditional financing options through loans and equity are exhausted. Consequently, it was and is appropriate and reasonable to enlist airport users.

ICAO in its Policy on Airport Charges (Doc 9082/ 8) in paragraph 48 recognizes the option of pre-funding of large scale infrastructure projects notwithstanding the principle of cost relatedness. Similarly the European Union allows for pre-financing of airport investments within the ICAO framework.

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ICAO elaborates further on pre-funding in the ICAO Airport Economics Manual (Doc 9562 Attachment 6):

"...pre-financing may constitute an appropriate solution for large-scale projects such as new terminals or runways or any large scale master plan modifications. ... Pre-financing allows for a smooth charging policy in the long-run and refrains from sudden abrupt increases applicable over shorter periods. By reducing the financial risk to the airport operator, pre-financing has the effect to reduce the cost of financing the investment and, consequently, decrease the overall cost to airlines of the project."

Ultimately the very tight project time table and its fulfillment make it necessary that levy of DF continues to bridge the funding gap. The envisaged overall duration of 62 months of levy of DF would not be unusual for an overall terminal planning, design and construction schedule. The ultra fast completion and successful operation of T3 should not undermine DIAL's ability to fund the project even after its completion.

Sincerely,

Andreas Schimm
Director Economics