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September 9, 2022

To,
The Chairperson,
Airports Economic Regulatory Authority,
AERA Building, Administrative Complex,
Safdarjung Airport,
New Delhi - 110 003.

Kind Attention – Shri. Balwinder Singh Bhullar

Subject: Response to Consultation Paper No. 09/2022-23 dated August 17, 2022 on determination of tariff for Ground Handling Services for M/s Bird Worldwide Flight Services Mumbai Private Limited (BWFSMPL) at Chhatrapati Shivaji Maharaj International Airport (CSMIA), Mumbai for the third Control Period (FY 2021-22 to FY 2025-26)

Dear Sir,

We write in response to the Consultation Paper No. 09/2022-23 issued on August 17, 2022 by the Airports Economic Regulatory Authority of India ("AERA") in the matter of determination of tariff for Ground Handling Services for M/s Bird Worldwide Flight Services Mumbai Private Limited (BWFSMPL) at Chhatrapati Shivaji Maharaj International Airport (CSMIA), Mumbai for the third Control Period (FY 2021-22 to FY 2025-26) ("Consultation Paper" or "CP").

At the outset, we would like to express our sincere gratitude to AERA for inviting stakeholder comments on the Consultation Paper, and further acknowledging the impact of COVID-19 on the aviation sector.

Sir, you will appreciate that airlines which are the 'catalyst' for the global economy including the aviation sector, have been severely impacted due to significant headwinds, including travel and fare restrictions during COVID-19, increase in prices of Aviation Turbine Fuel (ATF) and fluctuation in foreign exchange etc.

As per industry estimates issued by IATA and CAPA, it would take almost another one (1) - two (2) years for airline operations to reach pre COVID-19 level, in terms of number of flights and passengers, if subsequent variants of COVID-19 do not further impact the recovery. In the current situation, airlines in India are staring at a loss of approximately USD 8.0 billion for the FY 2020-21 and 2021-22 as per CAPA. With limited financial support from the Government, airlines are constrained to implement severe cost control measures to sustain their operations. You will further appreciate that, while independent service providers continue to enjoy cost plus profit and/or assured returns tariff structures, airlines continue to incur high operational cost and losses, including on account of high airport charges and taxes.

In the given circumstances, it is humbly submitted that it is imperative that AERA does not take any steps, including by way of approving the proposed high tariffs, during the Third Control Period, which would precipitate further adverse financial impact on the airlines.

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In this regard, we also humbly request AERA to not implement any Y-O-Y increase in tariffs during the Third Control Period and defer any increase in the same to the subsequent control period, given the scenario described above.

Without prejudice to the above, and as desired by AERA, please find below our recommendations/ comments on the Consultation Paper:

1. Review of Tendering Process

License Agreements (1.2 of the CP):

AERA is requested to ensure that Airport Operator does not take the decision to award concession agreements solely on the revenue share being offered. Basing decisions solely on highest revenue share being offered breeds inefficiencies and tends to disproportionately increase the cost.

2. Deferment of Capital Expenditure - Regulatory Asset Base

Stoppage of non-safety/security related capital expenditure (Refer 4.1 & 4.2 and Table 4 & 5 of the CP, along with Table 3 and 3.4 & 3.5 of the CP):

As projected by IATA and CAPA it will take around one (1) - two (2) years for the flight operations to reach to its pre COVID-19 peak levels, if subsequent variants of COVID-19 do not further impact the recovery. In this situation, and as BWFSMPL has itself has projected that they would reach traffic levels of pre-Covid levels (2019-20) only by 2025-26, it is unlikely that additional capex equipment would be required in addition to the existing inventory, unless as a replacement for damaged/worn-out equipment. In order to support the airlines to continue and sustain its operations, all non-essential CAPEX proposed by BWFSMPL should be put on hold/deferred to the Fourth Control Period, unless deemed critical from a safety or security compliance perspective.

Without prejudice to the above, in case BWFSMPL wants to make capital expenditure, then it should be at no additional expense to the airlines until the project is completed and put to use. Similarly, if any proposed Capex projects can be deferred from the Third Control Period to the Fourth Control Period, same should be considered by AERA.

3. Abolishment of Royalty Charges/ Concession Fee

Operating & Maintenance Expenditure (5.2, 5.4 (v) and Table 6 of the CP)

Any attempt to award the contracts by the airport operator on highest revenue share basis should be discouraged as it breeds inefficiencies and tends to disproportionately increase the cost. It is general perception that service providers have no incentive to reduce their expenses, as most of any such increase would be passed on to the airlines/stakeholders through the tariff determination mechanism process and indirectly airlines would be forced to bear these additional costs. There needs to be a mechanism for incentivizing the parties for increasing efficiencies and cost savings and not for increasing the royalty for the airport operator.

As you are aware, royalty is in the nature of market access fee, charged (by any name or description) by the airport operator under various headings without any underlying services. These charges are mostly passed on to the airlines by the airport operator or other services providers. It may be pertinent to note that market access fee by any name or description is not practiced in most of the global economies, including European Union, Australia etc. Sometimes it is argued by the airport operators that 'Royalty' on 'Aero

Revenues' helps in subsidizing the aero charges for the airlines, however royalty in 'Non-Aero Revenues' hits the airlines directly without any benefit.

In view of the above, we urge AERA to abolish such royalty which may be included in any of the cost items.

4. Operational Expenditure – Drastic Cost Cutting

Operating & Maintenance Expenditure (Refer 5.2, 5.3,5.4 and Table 6 of CP)

It may be noted that across various industries, instead of cost escalations, all the costs have been renegotiated downwards substantially. It may also be noted that cost incurred by BWFSMPL impacts the airlines, as such cost is passed through or borne mostly by the airlines. In order to ensure that there is no adverse impact/increase in the tariff, we request AERA to kindly put on hold any increase in operational expenditure by BWFSMPL not related to safety or security. Further, we submit that:

- (i) Payroll Costs: The Y-o-Y increase after 2023-24 may please not be more than approx. 6%, in line with recent proposals of AERA in other consultation papers.
- (ii) Administrative & General Cost, Utility & Outsourcing Costs and Repair & Maintenance Cost: The Y-o-Y increase after 2023-24 may please not be more than approx. 5%, in line with recent proposals of AERA in other consultation papers.

5. Tariff: - (Refer 6.1,6.2, 6.3,6.4,6.5 and Table 7,8 & 9 of the CP)

We humbly request AERA to kindly consider our submission as mentioned above, and review the proposed tariffs in light of the same, as the proposed rates of tariff are very high, especially for the scheduled passenger flights and especially in the back drop of COVID-19. It is in the interest of all the stakeholders not to implement such high tariffs in order to encourage middle class people to travel by air, which will help in sharp post COVID-19 recovery of aviation sector. In addition, as no reason for proposing higher tariff for International Non-Scheduled and General Aviation Flights, while we recommend that tariff for the International Non-Scheduled and General Aviation Flights be not more than those of International Scheduled flights.

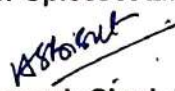
We hope that your good self will positively consider the above recommendations/ comments as it will help in achieving the affordability and sustainability of the aviation sector including airlines, which is also outlined as a key objective in the National Civil Aviation Policy, 2016.

We look forward to your continued support in these challenging times.

Thanking you in advance,

Yours Truly,

For SpiceJet Limited


Suryavir Singh Bisht
Sr. General Manager – Regulatory Affairs

Copy to: Director (P&S Tariff), Airports Economic Regulatory Authority of India (AERA)