21 November 2022

Director (P&S, Tariff)
Airports Economic Regulatory Authority of India
AERA Administrative Complex
Safdarjung Airport
New Delhi 110003, India

Via email: secretary@aera.gov.in, director-ps@aera.gov.in, rajan.gupta1@aera.gov.in

Dear Sir,

IATA COMMENTS ON AERA'S CONSULTATION PAPER FOR THE DETERMINATION OF AERONAUTICAL TARIFF FOR SARDAR VALLABHBHAI PATEL INTERNATIONAL AIRPORT (AMD) FOR THE THIRD CONTROL PERIOD

The International Air Transport Association (IATA) is the trade association for the world's airlines, representing some 290 airlines or 82% of total air traffic. We support many areas of aviation activity and help formulate industry policy on critical aviation issues.

While there has been some upswing in the passenger traffic volumes, largely underpinned by pent-up demands, there is still a lack of certainty in the trajectory of the recovery, especially for the international sector. When it comes to the aviation value chain, airlines continue to be at the bottom in terms of return on invested capital compared to airports, ANSPs, ISPs etc. This further exemplifies the critical role AERA has not only in regulating the economic aspects but also the service levels impacting the overall passenger experience.

IATA would like to commend the close scrutiny by AERA as outlined in the consultation paper and we are generally in agreement with many of AERA's proposals. Below are some specific comments for consideration by AERA.

AUCC

- IATA participated in the virtual consultation meeting by the Ahmedabad International Airport Limited (AIAL) in January 2022 and has provided our comments on the development plans based on best practices elsewhere. Our participation should not be construed as validation and support of the proposed capital expenditure projects. IATA has highlighted the need to establish a robust consultation framework with early and ongoing engagements with stakeholders throughout the lifecycle of the assets. This would be in the best interests of all parties and would help to support the assessment and validation by AERA to deliver the required CAPEX efficiency. We reflect on AERA's well-established process to identify PIF to inform decisions, which has been applied piecemeal and rather ineffectively for this process so far.

CAPEX

- Improvement in CAPEX program governance is needed to ensure that only critical and demand-driven investments are prioritised following consultation and endorsement from the airline community. Ongoing monitoring of CAPEX items against the agreed business case following assets capitalization is needed focused on confirmation the airport operator is delivering on the agreed benefits/objectives, and consulting on changes that impact costs, programme or quality. AERA's PIF and consultation process is very helpful in this regard, and we encourage it is implemented consistently throughout the project lifecycle.

- An issue to carefully consider is the capacity being planned resulting from the combined refurbishment of T1 &T2 and the new integrated terminal, that would result in substantial, excess capacity of +80% even if the airport's high case growth scenario in FY26 materialises (that is not guaranteed). Based on IATA's high level capacity and demand analysis taking into account global best practices and design efficiency, the new integrated terminal alone is of sufficient size to accommodate 100% of the airport's demand in FY26. Applying IATA's benchmarks, a refurbished T1, T2 and new terminal could result in an excess of up to129,000m2 of terminal infrastructure with the associated costs. This reinforces the need for a phasing strategy linked to demand triggers, also considering traffic forecasts beyond the TCP.

  Critical principles here are to ensure that Airlines:
  - Do not pay for infrastructure where there is no beneficial use for consumers – passengers and airlines. This includes OPEX which we note is proposed to increase as a result that is not acceptable for users without a unit cost reduction.
  - Do not pre-fund infrastructure developments e.g. we would not pay for a car to cross a bridge before the bridge is built.
  - Phasing infrastructure is critical to ensure capacity and demand balance, and airport charges are affordable. Demand triggers for investment taking into account demand, level of service and design, development and construction timeframes.
  - Technology as a method to address efficiency should be reviewed and emphasized to a greater extent, both in T1 and T2 where this is almost non-existent and within the new terminal development. Airports such as BLR are capitalizing on a technology strategy to drive efficiency and improve passenger flows to maintain an Optimum level of service.
  - Both airports (via Airports Council International - ACI) and airlines have committed to net zero targets by 2050 and there is very little proposed or assessed regarding carbon impacts of construction e.g. CO_2 equivalent per sq. m. We urge some consideration of these elements as again, oversizing infrastructure results in unnecessary emissions. Green investments should be subject to a robust business case process similar to other investments.

- Phase 1 of the New Integrated Terminal Building is proposed to be commissioned in February 2026 at an estimated cost of INR 4,115.3 Cr. <u>Considering the principles we have stated above, we urge AERA to include this cost only in the Fourth Control Period, following an assessment of capex efficiency.</u>

- Overall, we welcome and support AERA's assessments and constructive scrutiny of the proposals and agree in broad terms with the investment incentives to deliver infrastructure on time or be faced with a 1% penalty. This is as much about the delivery of beneficial assets to users based on what they require (not what the concession agreement states) as well as financial elements.

- Management of risk, inflation and change control processes is essential, both now in determining the TCP and during the control period to proactively manage these elements and avoid retrospective assessments. Risk liabilities should be mitigated and capped to the greatest extent possible during the design and procurement phases.

Non-Aeronautical Revenue (NAR)

We are concerned that the Non-Aeronautical Revenues, which are meant to cross-subsidize the Aeronautical charges, are clearly under-developed and under-projected in the case of AMD airport.

- It is seen that the airport operator in their submission has projected Non-Aero Revenue for the full TCP at 165 Cr. Their projections show NAR at a steady Rs. 33 Cr every year from 2022 up to 2026 – even though during this same period, their projection for traffic goes from 6MPPA to 19MPPA. Thus, while traffic grows by 3 times, NAR remains steady at Rs. 33 Cr each year. This is clearly not right – especially with the retail and aerotropolis focus of the new airport operator. This also brings into question the very need for the privatization of the Airport in the first place.

- The CP correctly highlights that for all other PPP airports (DEL, BOM, HYD etc.), the NAR is roughly equal to / or higher than 50% of the O&M expenses projected for that Control period. While for AMD, the NAR was projected at Rs. 165 Cr, whereas O&M expenses submitted are Rs 2,385 Cr. This comes to NAR being about 7% of the O&M, which raises further questions.

Therefore, <u>IATA disagrees with AERA's adjustment in the CP, to the NAR for the airport operator. It is too low and needs to be increased significantly.</u> And we would expect that any shortfall in NAR will NOT be trued up in the next control period.

Increase in Tariff & UDF

We see the significant increase that has been proposed by AIAL in its Tariff card – on account of both landing & parking charges, as also in the UDF.

- The proposed tariffs by AIAL would see a significant increase in charges, both landing and parking, as well as UDF, in the first year of the control period from 1 February 2023, followed by yearly increases.

- We request that AERA adopts the same approach as in the determination for other airports in moderating the increases to facilitate a strong recovery in traffic rather than curtailing its full potential which would be detrimental to all parties as a result of the lower traffic and underutilized capacity.

- In the case of AMD airport, given that the users are getting the vast part of capital expansion only in the last phase of the control period, IATA recommends that at least 50% of the ARR recovery should be carried forward to the 4th Control period. We note that a greater percentage of the ARR has been carried forward to the next control period in the case of other recent tariff orders like for BOM and HYD.

- Lastly on Tariffs, we see that Adani Airports' approach seems to be to propose UDF for both embarking and disembarking passengers – similar to the one proposed in the case of Mangalore. This is not in sync with the charging of UDF only for departing pax which seems to be the norm for airports in India. Any departure from this practice takes away from the simplicity of the existing practice. Moreover, disembarking passengers do not expect / or enjoy the same level of airport usage, or even services, compared to embarking passengers.

Service Level Agreement

- Regarding service quality frameworks qualitative, perception-based measures need to be complemented with objective, quantitative measures to be effective and ensure we have a framework that blends functional planning with ambiance. IATA's level of service framework provides an optimum range of space per passenger and queuing times to accomplish this.

O&M Expenses

- We commend AERA for leveraging on the independent studies such as for O&M expenses which have demonstrated that close scrutiny is needed to ensure that all allocations are done accurately and reflect the required level of efficiency as we would expect from a private airport operator. This is especially crucial as AERA is dealing with the determination of the tariffs based on two airport operators which could result in double-counting and inclusion of costs that would otherwise not be allowed.
- We support AERA's decision No. 11.B on the expectation to optimize O&M expenditure over a period of time. There is definitely room to pursue greater rationalization of not just O&M expenses with the transition from AAI to the new private airport operator, to align with the objective of the privatization in delivering greater efficiency in the management of the airport.

Monthly Concession Fee

- We would like to seek clarity on clause 27.1.2 as to how will the new airport operator account for the monthly passenger fee payments, as this is not allowed to be passed through. Although this would naturally not appear in the regulated costs for the determination of the ARR, we encourage AERA to maintain visibility of this aspect to ensure that the passenger fees are not picked up by airport users, either fully or partially, intentionally or not.

Fuel Infrastructure

IATA is concerned with the airport's involvement as the sole provider of into-plane services. Given the traffic projections by the airport, the volumes would be large enough to justify two independent providers. We therefore recommend the airport have in place two independent into-plane service providers.

It is also recommended that airport operator should consult with the users regarding the development of the new centralized fuel infrastructure.

Under 1.6.3. in the CP, it is stated that the fuel farm operations have been factored in the ARR of the Airport Operator, however, Capex, depreciation, operating expenses and revenues with respect to the fuel farm operations and facilities have been presented separately in the respective sections.

- We would like to seek clarity if the Capex for fuel infrastructure is included in the RAB of the airport.

- AERA usually regulates fuel infrastructure separately at the other major airports such as DEL, BOM, BLR and HYD as the fuel infrastructure is owned by a separate entity. Presumably, this will not be the case for AMD with the airport owning the infrastructure? It is important to clarify how are the fuel tariffs then determined assuming that the capital cost of the fuel farm is included in the airport's RAB.

IATA

Cargo Infrastructure

- New Integrated Cargo Terminal (ICT) is being developed by the airport operator and separately AAICLAS is developing its own facility. Competition in the provision of cargo services is most welcomed. However, the planning of infrastructure developments could be better coordinated & phased to meet cargo demands without stifling competition. There is a need to ensure that no significant excess capacity is planned as all associated costs could be passed on to users by AIAL.

Additionally:

- With regard to procurement and award of capital projects, IATA would like to recommend that the operator must also include disclosures on related-party transactions by Adani Airports. The independent studies should focus on related party transactions within the group and ensure that the award of projects has been through competitive bidding, and does not suffer from infirmities or cost escalation arising from awards to related parties.

- At the consultation meeting held on 9-November 2022, Adani Airports had mentioned that the same consultant engaged by AERA for its independent studies, had infact been retained / engaged by Adani Airports. IATA recommends that there should not be any conflict of interest arising through the engagement of independent consultant, where a consultant assisting the airport operator should not then be engaged by AERA for independent studies, or for scrutiny of proposals for that particular airport operator.

IATA appreciates the opportunity to provide our comments to AERA, to complement the other submissions from the airline community. We will be happy to provide further clarification if required.

Yours sincerely,

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