



Ref: AIAL/CO/AERA-MYTP/2022/5

Date: 02<sup>nd</sup> December 2022

To,  
The Director (P&S, Tariff),  
Airports Economic Regulatory Authority of India,  
AERA Building, New Administrative Block,  
Safdarjung Airport,  
New Delhi- 110003

**Sub: Counter Comments on stakeholder comments in respect of Consultation Paper No. 10/2022-23 dated 20th October 2022 in the Matter of Determination of Aeronautical Tariff for Sardar Vallabhbhai Patel International Airport (SVPIA), Ahmedabad (AMD) for the Third Control Period (01.04.2021 - 31.03.2026)**

Dear Sir,

This is in respect to the Consultation Paper No. 10/2022-23 dated 20th October 2022 in the Matter of Determination of Aeronautical Tariff for Sardar Vallabhbhai Patel International Airport (SVPIA), Ahmedabad (AMD) for the Third Control Period (01.04.2021 - 31.03.2026), we hereby submit our counter comments to the stakeholder comments published by AERA on its website via Public Notice No. 17/2022-23 dated 23<sup>rd</sup> November 2022.

We shall be pleased to provide any further information that Authority may require in this regard.

Thanking you

Yours truly,  
**For Ahmedabad International Airport Limited,**

**Manoj Chanduka**  
Director

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**Counter comments on stakeholder comments in respect of Consultation Paper No. 10/2022-23 dated 20<sup>th</sup> October 2022 in the Matter of Determination of Aeronautical Tariff for Sardar Vallabhbhai Patel International Airport (SVPIA). Ahmedabad (AMD) for the Third Control Period (01.04.2021 - 31.03.2026)**



## Disclaimer

This document has been prepared by Ahmedabad International Airport Limited (AIAL) as counter comments to the comments provided by various stakeholders in respect to AERA's Consultation Paper (CP) No. 10/2022-23 dated 20<sup>th</sup> October 2022 in the Matter of Determination of Aeronautical Tariff for Sardar Vallabhbhai International Airport (SVPIA), Ahmedabad (AMD) for the Third Control Period (TCP) (01.04.2021 - 31.03.2026).

The purpose of this document is to solely provide a counter comment to the comments provided by stakeholders and should not be referred to and relied upon by any person against AIAL. This document includes statements, which reflect various assumptions and assessments by AIAL and relevant references to various documents. Same do not purport to contain all the information to support our response.

This document may not be appropriate for all persons, and it is not possible for AIAL to consider particular needs of each party who reads or uses this document.

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The counter comments provided below shall not be construed as an acceptance by AIAL of the various assumptions undertaken by the Authority in the CP.

The response is without prejudice to AIAL's rights, submissions, contentions available to it in accordance with applicable laws.



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## 1. Counter comments on comments from FIA

### Observations on proposed Tariff Card (Proposed by AIAL)

#### Response by AIAL:

Since last 10 years, no major capital investment has been undertaken at Ahmedabad Airport, the last being the New International Terminal Building T2 in Year 2010-11. In addition, the existing airport infrastructure is not commensurate with the growth achieved in traffic throughput, which can be correlated from the fact that the existing Airport terminals capacity is 7.5 mppa whereas the Airport had handled more than 11.4 mppa during FY19-20 (Pre-COVID). Accordingly, AIAL has planned investments in the third control period to create capacity, to rectify the deficiencies, meet compliance requirements, essential safety, and security requirements. The investment planned is essential to meet the requirements of the Concession Agreement signed with Airport Authority of India and is necessary to provide safe & secure Airport operations. AIAL is committed to providing the best-in-class experience to its users.

The tariff card is an outcome of the ARR computed as per the Regulatory Building blocks after rationalization of many capex and opex items by AIAL as well as AERA. Further, the increase in tariff also considers the under recovery of charges during the Second Control Period and almost 2 years of the current control period. The cumulative impact of these developments has affected the tariffs.

The percentage increase as projected by FIA is on account of the fact that base was low as already brought out in the preceding paras.

#### 1.1. Observation 2

*Fair Rate of Return (FRoR) to airport operators should be provided only at reasonable rates as any high value of fixed/ assured return favours the service provider/airport operators, creates an imbalance against the airlines, which are already suffering from huge losses and bear the adverse financial impact through higher tariffs.*

*Due to such fixed/assured returns, Airport Operators have no incentive to look for productivity improvement or ways of increasing efficiencies, take steps to reduce costs, as they are fully covered for all costs plus their hefty returns. Such a scenario breeds inefficiencies and higher costs, which are ultimately borne by airlines.*

*We observe that Fair Rate of Return of 14% provided to Airport Authority of India ("AAI") is higher than comparison to the same being given to the present Airport Operator i.e. AIAL@ 12.21% (Refer 8.2.10 of the CP). Without prejudice to (a) above, there appears no rationale to provide higher return to AAI in comparison to AIAL and accordingly AERA may reduce the FROR suitably.*

#### Response by AIAL:

As far as issue of airport charges leading to higher costs for airlines is concerned, we would like to state that the airport charges form 6-8% of the total operational cost of Airlines (based on the study of annual reports/financials available in public



domain of listed Indian airlines such as Indigo, SpiceJet etc.). Hence, contribution of Airport Charges to the Airline cost structure is very limited and of lower significance as compared to other higher-impact costs such as fuel, aircraft leases, aircraft maintenance costs, salaries etc.

In respect to FRoR, we would like to clarify that Authority has allowed FROR of 14% to AAI for true up purpose and also allowed FROR of 14% to AO for true up of 5 months from COD to March-2021, as no debt was raised by AAI or AO during the relevant period. For TCP, Authority has allowed FRoR of 12.21%. However, AIAL is seeking FRoR of 14.76% based on cost of equity of 17.30% as determined by the independent study done for AIAL and cost of debt of 12% as per actuals. If Airport Operators are not given suitable returns on their investment, the development and upgradation of such infrastructure facilities will not be of the level as expected by the Governments, Aviation Industry and Users.

As far as efficiency is concerned, Airport operator has done analysis of all expenses, capital or operational, and has projected the expenses after factoring necessary efficiencies like vendor consolidation, bundling of procurement etc.

#### 1.2. Observation 3

*We recommend that no adjustment of RAB should be provided in favour of AAI for period after the COD i.e. 6th November, 2020, post which the operational control of the Ahmedabad Airport is transferred to AIAL.*

#### **Response by AIAL:**

There is no adjustment of RAB after the COD. Calculations done by AERA in para 4.14 are in order to give effect to provisions of the Concession agreement which mandates the present value of the "Adjusted Deemed Initial RAB" to be paid by AO to AAI. Relevant clause of the Concession agreement is reproduced below:

*"The amount(s) to be paid by the Authority or Concessionaire shall be the present value of Adjusted Deemed Initial RAB calculated using the fair rate of return as determined by the Regulator for the time period from the COD to the date of actual payment of the Adjusted Deemed Initial RAB."*

#### 1.3. Observation 4:

*It is submitted, that FIA is not in agreement with the proposal of AERA to consider the billable ATM traffic after excluding the ATMs that pertain to less than 80-seater capacity for non-RCS flights that are exempted from landing charges as the same is without any basis. It may be noted that it will not be a true indicator of the traffic projections at the Ahmedabad airport and any deductions from billable traffic will adversely impact the computation of non-aeronautical revenue. We request the AERA to reconsider the same, in line with the AERA's proposal in the recent consultation paper number 10/2022-23 dated 20th October 2022 (ref 6.2.3 of the consultation paper number 10/2022-23), which is a consistent approach followed by the AERA in this regard in line with all Major Airports. In view of the above, we propose that the exempted billable ATM/passenger traffic as proposed by AERA in their tariff card) should not be accepted*





#### Response by AIAL:

It is submitted that as per current and likely future mix of ATMs, out of the total exempted traffic submitted by the Airport Operator (15% to 20% of the total domestic ATMs), 1.5% to 3% constitutes flights operating under the RCS Scheme and the balance pertains to non-RCS flights (i.e. less than 80-seater aircrafts which are exempted from landing charges as per Gol/MoCA guidelines).

Similarly, there are certain categories of passengers who are exempt from payment of UDF charges. It is to be noted that AO has done the adjustment in ATMs/Passengers to calculate only the billable ATMs/Passengers as the same is necessitated to project the correct aeronautical revenues.

AERA has partially removed the exempted ATMs. However, AERA has only reduced non-RCS category ATMs. We would like to highlight that this approach of AERA, of not reducing RCS ATMs and exempted Passengers, is not in line with expected principle of regulatory framework which ensures timely and complete recovery of approved ARR by matching the expected revenue with ARR. If the exempted revenues are not taken into account by AERA, the same will result in lower recovery from landing charges and UDF and consequently lead to mismatch of ARR and revenue from day one.

Kindly refer detailed response in point 3.1 in the stakeholders' comments submitted by AIAL.

#### 1.4. Observation 5 (a):

*The entire ecosystem needs to be operationally efficient, which can be brought about, amongst other things by capital expenditure efficiency studies, which AERA is requested to conduct.*

#### Response by AIAL:

Airport Operator conducted the Airport User Consultation Committee (AUCC) Meeting on 21<sup>st</sup> Jan 2022, with all the stakeholders and discussed the Capital Expenditure proposed to be undertaken during the Third Control Period of FY 2021-22 to FY 2025-26 in detail. The meeting was attended by various airport stakeholders such as IATA, FIA, Indigo, SpiceJet, Vistara, Fly Dubai, Singapore Airlines, AAI, BCAS, TAAI and Immigration etc. AIAL had given a detailed presentation and justification for the capital expenditure planned by the Airport Operator taking into account the existing challenges in AIAL pertaining to constraint capacity vis-à-vis passenger growth, location, topography, weather conditions, limited availability of land, etc.



Further, the Authority as part of its examination of the Aeronautical Capital Expenditure submitted by the Airport Operator had raised queries and sought clarification on the essentiality of the capital expenditure and had been provided the necessary documents such as project cost estimates, technical Consultant's report, design, drawings, plans, inspection report issued by various authorities etc., substantiating the capital expenditure proposed by the Airport Operator in the MYTP.

The Authority convened meetings with the representatives of the Airport Operator along with AERA's consultant to obtain clarification regarding its queries on the ongoing and new projects proposed by the Airport Operator and reviewed all the necessary details and documents.

It is to be noted that AIAL has been very diligent in providing capex related information including the updates for some of the projects worth approx Rs. 200 Cr (including relocation of Torrent Power Station, Terminal Works etc) which were later dropped by AIAL and the same were communicated to the Authority's consultant and AERA.

Further, the Authority by themselves and through their consultant (including technical expert) have analyzed each project from the perspective of requirement and cost efficiency very minutely which is reflected in the Authority's comments in the Consultation Paper as well.

Given the above steps taken by the Airport Operator and Authority, we feel there is no need to do another separate study on efficiency of capex.

1.5. Observation 5 (b):

*Para 7.3.14 (read along with Para 14.2.3 to 14.2.6) and Table 76 & Table 83:*

*Capitalisation of Terminal Building:*

*It is to be noted that, as per Table 76, the expected traffic is only 19.85 MPPA by the end of the Third Control Period (2026), whereas AIAL has proposed to increase the capacity by the commissioning of the NITB Phase 1 to 36.6 MPPA by the end of 2026.*

*AERA has itself pointed out in para 7.3.14 of the CP, that there is gap in capacity planning by AIAL and has recommended expansion and development of the airport in a modular fashion.*

*In view of the above, it is humbly requested that AERA may allow only necessary modifications while taking normative approach which matches the capacity to projected traffic and avoids undue stress on the Airport end users.*

*This view is also supported by National Civil Aviation Policy (NCAP) 2016, which intends to provide affordable and sustainable air travel for passengers/masses. Which has also been conveyed by AERA vide its Order No. 14/2016-17 dated 12th January 2017.*

*Considering the above points, it is stressed that the expansion of the terminal building and its capitalization should be split into at least two (or more) control*





*periods, as per the expected traffic trends estimated at the end of each control period.*

**Response by AIAL:**

AIAL has provided detailed response on the capacity of Terminal Buildings as part of its response to CP (refer point 1.1 and 4.1 of AIAL's comments on CP vide letter dated 21<sup>st</sup> Nov 2022). In order to avoid repetition, request to refer the same.

1.6. Observation 5(c):

*Para 7.3.15 & 7.3.18; We request that AERA applies the normative norms for the capex projects as mentioned under AERA Order No. 7/2016-17 dated 13 June 2016 in order to keep the overall cost control and efficiencies in capex projects.*

**Response by AIAL:**

We request the stakeholder to kindly refer the relevant points in the Consultation Paper, like 2.1.4 (iii), 7.3.19, 7.3.33, 7.3.48 to refer to a few.

The Authority has applied the normative guidelines while assessing the costs of the new Capex projects submitted by the Airport Operator.

1.7. Observation 5(d):

*Para 7.3.160; It is mentioned that AIAL has estimated storage requirement to be 700 KL per day (pre-COVID) i.e., 5000 KL storage demand based on 7 day requirement and is proposing a greenfield project of 8,000 KL capacity.*

*While it is appreciated that AERA has reviewed the same and is proposing 5,00 KL as Phase 1, already all OMC's together combined capacity of ATF fuel facility has a storage capacity of approx. 2810 KL, can it please be clarified the reason to build additional storage capacity of 5000 KL within the Third Control period, as even if the pre COVID-19 volumes are doubled per day to 1400 KL per day during the Third Control Period, the current storage facility is more than sufficient to cater to this demand during the Third Control Period. It is requested that the same may be kindly reviewed and the need for expansion in the storage capacity, which has been proposed to be capitalised at RS. 135.87 Crores be please put on hold until the next control period.*

*Accordingly, the proposal of the AIAL in its MYTP for the revised pricing for Fuel Infrastructure Cost, Aircraft Defueling and Re-fuelling of defueled products may kindly not be accepted.*

*Para 7.3.15 & 7.3.18 We request that AERA applies the normative norms for the capex projects as mentioned under AERA Order No. 7/2016-17 dated 13 June 2016 in order to keep the overall cost control and efficiencies in capex projects.*

**Response by AIAL:**

Currently requirement of whole airport is around 700 KL per day, and total storage capacity is 2,810 KL. Thus, the total storage is equivalent to just 4 days of throughput. As per industry practice, the open access Fuel Farm should have storage equivalent to 8-10 days of throughput taking into account the unforeseen situations, which otherwise could directly affect aircraft operation. Other PPP Airports like DIAL and MIAL follow 10 days of storage requirement. With



anticipated growth at AMD during this control period, current 4 day's coverage will further come down.

To remove these bottlenecks, AIAL is building an open access fuel farm of 8,000 KL capacity with a provision for hydrant. This capex is required to enable facility to cater the airport's demand for the whole control period in a safe and reliable manner.

1.8. Observation 5(e):

*Para 7.3.183; We agree with AERA's proposal that an adjustment of 1% (or higher of the project cost from the ARR, as deemed fit), is made by AERA for capital expenditure projects is/are not completed/capitalised as per the approved capitalisation schedule other than those affected solely by the adverse impact of COVID-19. Such adjustments can be made by AERA during the tariff determination for the Fourth Control Period..*

**Response by AIAL:**

It is to be noted that AIAL is only undertaking capital expenditure which is necessary for safety, security and convenience of airport users and same has been proposed by AERA in RAB or actual incurrence basis.

As per AERA regulatory framework, return is given only when assets are capitalized. There is no additional expense to the airlines until the project is completed and put to use.

Regarding the Authority proposal to disincentivize the AO by reducing 1% of the project cost in case of delay in implementation of the project, it is to be noted that it is in the interest of AIAL to complete the project as per schedule as delay in completion implies denial of return on such asset and depreciation. However, there could be delays due to various un-certainties, especially in present situation. There may be shortage of manpower, funds, force majeure, and unforeseen event, for any reason including but not limited to the scarcity of raw material, finished goods and manpower due to pandemic. One of the principles for tariff fixation stipulates, incentive for undertaking investment in timely manner. Instead of providing incentive for timely completion of project the Authority is proposing a disincentive due to delay.

1.9. Observation 5(f):

*Para 7.3.184 We observe that AERA has remarked on the trend of revisions to the capital projects does not instill confidence in about the near and long-term planning of capital projects by AIAL. In this regard, we urge AERA to undertake an independent study on Efficient Capex at Ahmedabad International Airport.*

**Response by AIAL:**

In the previous paragraphs (point 1.5), we have already detailed the steps taken by the Airport Operator and the Authority on the basis of which the capital projects and cost estimates have been arrived at.

We would like to re-iterate what was mentioned in the minutes of the AUCC conducted on 21<sup>st</sup> Jan 2022, that the Master Plan had gone through a rigorous



exercise. AIAL is proposing only those projects which are critically required for safe and secure operations and customer experience.

We have provided all the information to AERA and its consultant as and when requested by them. Accordingly, AERA has taken considered view on the Capex proposal as provided in the Consultation Paper. In respect to both short term planning and long-term planning, the Master Plan is submitted to relevant authorities who have appreciated the meticulous planning done by AIAL.

We reiterate our views that there is no need to undertake a separate study on Efficient Capex at Ahmedabad International Airport.

The comment from the stakeholder reflects that stakeholder is doubting the detailed examination of capex conducted by the independent regulator in fair and transparent manner.

1.10. Observation 5(g):

*Para 7.7.3 Table 161; While acknowledging the depreciation rate applied by AERA in accordance with AERA Order No. 35/2017-18 the 'Useful Life of Airport Assets', it is pertinent to note that useful life of assets at various international airports like London Heathrow, Sydney airport and Amsterdam airport indicated that terminal buildings have useful life of as long as sixty (60) years and aprons have it for as long as ninety-nine (99) years. FIA submits that the useful life of terminal building for Kannur and Cochin airports have been considered sixty (60) years by AERA and accordingly AERA should prescribe sixty (60) years for the 'Building' including 'Terminal Building as' is practiced by some of the developed aviation ecosystem.*

**Response by AIAL:**

AERA Order No. 35/2017-18 the 'Useful Life of Airport Assets' carries a note on the useful lives of buildings as follows:

3	Terminal Building (including VIP Terminal, Bus Terminal, Haj Terminal)	30/ 60	3.33/ 1.67	Either 30 years or 60 years as evaluated by the Airport Operator
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Further it is to be noted that the Concession Agreement is valid for 50 years. Therefore, the life of any asset cannot be more than the life of the Concession Agreement.

In AIAL's estimation, the useful life should be 25 years as substantiated by the technical study conducted by an independent expert. Given the AIAL estimation, the Authority has considered it to be 30 years in line with other Airports.

1.11. Observation 1:

*It is submitted that as per section 2 of Airport Economic Regulatory Authority of India Act, 2008 (AERA Act), under sub-section (a), "aeronautical services means any services provided -*

*(i)For navigation, surveillance and supportive communication thereto for air traffic management."*

*It is submitted that considering the above provisions of the AERA Act, revenue from Air Navigation Services, should form part of aeronautical revenues and accordingly*



AERA should take into account of the corresponding revenue and revise the tariff card.

**Response by AIAL:**

AIAL submits that no capital and operational expenditure related to ANS services (except those mandated under Concession Agreement (CA)) have been included in the tariff proposal.

As per CA, Schedule Q CNS/ATM Agreement, similar to other PPP Airports, the services of ANS are retained by AAI and the same are not under the purview of AIAL. Since the services are provided by AAI, the rate of ANS services cannot be made part of tariff card of AIAL

1.12. Observation 5(h):

*In addition to above, in order to support the airlines to continue and sustain its operations, it is requested that all non-essential capital expenditure proposed by Airport operator be put on hold/ deferred, unless deemed critical from a safety or security compliance perspective. Further, in case Airport operator 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 by the airlines. And lastly, we appreciate AERA's consideration of deferring few proposed Capex projects from the Third Control Period to the Fourth Control Period.*

**Response by AIAL:**

In order to avoid repetitions on this matter, please refer our remarks in point 1.5 above.

1.13. Observation 6:

*Para 8.2.10 & 8.3:*

*FIA submits that, only reasonable Fair Rate of Return (FRoR) to airport operators should be provided.*

*It is observed that AERA has considered FRoR of 12.21%, which is the net of income tax return to the airport operator, for the Third Control Period. However, while such fixed/ assured return favours the service provider/airport operators, but it creates an imbalance against the airlines, which are already suffering from huge losses and are bearing the adverse financial impact through higher tariffs.*

*Due to such fixed/assured returns, Airport Operators have no incentive to look for productivity improvement or ways of increasing efficiencies, take steps to reduce costs as they are fully covered for all costs plus their hefty returns. Such a scenario breeds inefficiencies and higher costs, which are ultimately borne by airlines.*

*Without prejudice to the above:*

*1) In the present scenario any assured return on investment to any services providers like AIAL, in excess of three (3) % (including those on past orders), i.e., being at par with bank fixed deposits (i.e., return on investment after the income tax), will be onerous for the airlines.*

*2) And, in case AERA is unable to accept our recommendation mentioned above, AERA is requested to conduct an independent study for determination of FRoR to be provided to Airport operator. Such independent study can be exercised by the*



*powers conferred under the AERA Act and in line with studies being conducted by AERA in case of certain major airport operators..*

**Response by AIAL:**

As per AERA methodology, return on RAB is one of the important building blocks for tariff determination. As claimed by FIA, this is not fixed or an assured return. As per AERA guidelines, AERA must determine the Fair Rate of Return (FRoR) for a Control Period as its estimate of the weighted average cost of capital for an Airport Operator. Any business is viable only if it generates adequate return equivalent to its cost of capital as it helps to repay its obligations and give returns to shareholders commensurate to the risks involved in the project.

As per AERA guidelines, FRoR has to be computed using cost of equity which is to be determined using the CAPM method and cost of debt as per actuals for airport operator. FRoR has no linkage with fixed deposit rates. Linking it to the rate of interest on FD is devoid of any merits.

With respect to issue of independent study, we would like to state that AIAL has already done an independent study for Ahmedabad airport which has determined cost of equity of 17.30%. We request Authority to use the same for calculation of FRoR.

1.14. Observation 7:

*It may be noted that as per the Reserve bank of India's Monetary policy report dated 30th September 2022, the rate of inflation is expected to reach around 4.9% by the end of FY23 and the target provided by Central government to RBI is to fix the inflation rate at 4%.*

*In view of that, it is requested to re-consider the rate of inflation at that benchmark or lower (i.e., between 4-4.9%).*

**Response by AIAL:**

AERA has rightfully used the latest WPI inflation as per Results of the Survey of Professional Forecasters on Macroeconomic Indicators – Round 78” released on 30th September 2022 published by the Reserve Bank of India (RBI).

*4% target as referred by stakeholders from Reserve bank of India's Monetary policy report dated 30th September 2022 is in relation to CPI and not for WPI.*

1.15. Observation8(a):

*Para 10.2.109 (Fuel Operating Expenses): FIA requests, that AERA should not permit outsourcing of fuel facility on a 'Volume linked fee basis' and instead it should be on "lowest cost model" through competitive bidding.*

**Response by AIAL:**

AIAL has outsourced the operations and management of the facility and not the Fuel Facility. AIAL followed the process of selection of vendors through an open competitive bidding as per approved procurement policy and in compliance with Concession Agreement.

Traditionally, there are two commercial models for O&M tendering for Jet Aviation Fuel Station :-

1. Cost plus – In this model, O&M agency is reimbursed whole Opex as per actuals and topped with some fixed (% or amount) service fee. However, this model is not efficient, as it does not encourage the agency to optimize Opex.
2. Per KL fee – This model encourages the agency to optimize the Opex. However there are some concerns in this model too:-
  - a. Normally with high (additional) volume, due to economy of scale the incremental opex comes down. However this model does not capture this opportunity as per KL opex remains uniform.
  - b. It does not ensure a minimum billing to the agency. It discourages bidders as successful bidder (O&M Agency) needs to maintain its manpower and minimum operating standards / service levels irrespective of the volume. Thus operating agency looks for a minimum guaranteed billing irrespective of the volume. This has been a learning out of crisis like COVID during the past two years.

Therefore, AIAL has used an innovative model i.e. minimum payment till a given volume, and over and above a per KL fee for additional volume. It balances the risk taken by the vendor, with the opportunity to optimize the overall cost as with incremental volume per KL costs comes down substantially.

1.16. Observation8(b):

*Para 10.2.40 (Utility Expenses); AIAL is requested to constitute a Committee to verify the bills relating to Power expenses or submit a report on the same to AERA, if the same has already been conducted as part of Stakeholder comments / feedback.*

**Response by AIAL:**

Report of the Committee on Power Expenses had been shared earlier to the Authority and their consultant as part of information requested by consultant prior to issue of the Consultation Paper. Further, the same has also been submitted to the Authority as part of stakeholders' comments by AIAL. Please refer Annexure-3 of comments submitted by AIAL.

1.17 Observation8(c):

*Para 10.2.26 (Cargo Operating Expenses): It is requested that the Customs Cost Recovery Charges for Customs staff posted at Air Cargo complexes, courier terminals etc. as prescribed by the Central Board of Excise and Customs needs to be levied on custodians, and not on the airlines.*

**Response by AIAL:**

In this particular case, AIAL is the custodian and also the operator of cargo complex. Recovery charges for customs staff is a statutory cost for AIAL for running the cargo facility and same is included as part of O&M expenses for tariff determination purposes.

1.18. Observation8(d):

*Para 10.1.5, 10.2.117 & Table 174 & 176; While FIA appreciates, the study on Operations and maintenance expenses (O&M expenses) conducted in the Second Control Period and AERA's revision based on rationalisation of each line item on the submitted O&M expenses by AIAL for Third Control Period. However, FIA*





*requests AERA to not provide any Y-o-Y increase for (i) all Repairs & Maintenance expenses, (ii) Operating expenses, (iii) and manpower expenses.*

*We submit that while the aviation sector, including airlines have incurred huge losses and are struggling to meet their operational costs, the Airport operator on the other hand seems to have incurred/will incur incremental expenses which may not appear prudent considering the significant losses incurred by the aviation sector.*

**Response by AIAL:**

Ahmedabad Airport is undertaking Refurbishment of Terminals including expansion (from ~79,600 sq mtr to ~95,400 sq mtr) & Parallel Taxi Track work and facilities are likely to be commissioned in FY 23 and FY 24 respectively. Same will result in significant increase in airside and terminal capacity. Consequently, manpower, utility expenses and various other expenses for running these new assets are bound to increase the overall O&M of the airport. Also, existing assets of airport are very old (last major capex happened in 2010). In our experience, R&M expenses increase significantly once the assets matures due to ageing of infrastructure facilities, equipment and general wear and tear.

AIAL is a new AO and needs to build its manpower to run the Airport operations. Airport Operators face difficulties while hiring a new workforce. This is because suitable personnel available for the aviation sector is very limited. To obtain and retain competent employees, it is imperative to compensate them well. AIAL needs to hire all people from industry who come at 25%-30% higher salaries. Building of such a talent pool is an essential requirement to ensure delivery of optimized efficiencies to the airport users and more importantly to the airline community.

Further private Airport Operator is given various additional responsibilities under the Concession Agreement including the service level obligations and same will result in commensurate increase in expenses.

1.19. Observation 9 (a):

*Para 11.2.9 – 11.2.16: It is observed, that the non-aeronautical revenues projected by AIAL is substantially low / conservative. It is requested that AIAL explores all avenues to maximise revenue from the utilisation from the expansion of terminal building for non-aeronautical purposes. As correctly observed by AERA in para 11.2.16, the non-aeronautical revenue projected by AIAL for Third Control Period is substantially lower as compared to other PPP airports. Accordingly, we request AERA to mandate AIAL to enter into suitable agreements with concessionaires to exploit the potential/ growth of non-aeronautical revenue at Ahmedabad airport.*

*In this regard we also request AERA to kindly undertake detailed examination with the assistance of an independent study to be conducted on the non-aeronautical revenue before the tariff determination of the Third Control Period.*

*Without prejudice to the above, we submit that increase in non-aeronautical revenue (NAR) is function of increase in terminal building area, passenger traffic growth, inflationary increase and real increase in contract rates. Despite all these factors increasing during the control period, on examination of the non-*



*aeronautical revenue projected for the third control period by AERA, it was noted by that a conservative approach has been taken by the AERA.*

*AERA is requested to ensure no adjustments are proposed to non-aeronautical revenue which is not dependent on traffic but are derived from agreements with concessionaires. Further in para 11.2.16, AERA has remarked that NAR projected by AIAL is significantly less than PPP airports – which are generally not less than 50% of the total O&M Expenses of the respective airports.*

*In view of the above, we request AERA to allow higher non-aeronautical revenues being not less than 50% of the projects O&M Expenses for AIAL, as approved by AERA.*

#### **Response by AIAL:**

In the interests of its users and in its own commercial interests, Airport Operator will always endeavor to increase the non-aeronautical revenues to the maximum possible extent. As suggested by FIA, AIAL as Airport Operator has already entered into Master Concessionaire Agreement to exploit the potential/ growth of non- aeronautical revenue whereby a minimum amount of Non-Aeronautical revenues are guaranteed to the AO. This has insulated the Airport Operator from any future event which may negatively impact the Non-Aeronautical revenues.

The AO invited bids through a global competitive bidding process for selection of a Master Service Provider for Non-Aeronautical services at Ahmedabad Airport. A third-party consultant was appointed to oversee the process adopted by the AO. Entire process was undertaken in a fair and transparent manner. Any further study on this would vitiate the very purpose of the open competitive bidding.

Last 2 years of pandemic clearly point to the fact that airport operators are highly vulnerable to passenger volumes and spending power of the customer as far as non-aeronautical revenues are concerned. In order to mitigate the impact of this volatility, AO has entered into contract which ensures minimum annual guaranteed amount is also available to airport operator.

We are in consonance on the view of FIA that AERA should not make any adjustments on non-aeronautical revenue which are derived from agreements with concessionaires. Further any comparison of non-aeronautical revenues with O&M costs is not rational and unwarranted as non-aeronautical revenues are dependent on traffic volume, passenger profile, spending propensity, whereas O&M costs are largely fixed.

Further, refer our comments in point 7.2 of AIAL's comments on CP.

#### **1.20. Observation 9 (b):**

*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 service providers has no incentive to reduce its expenses as any such increase will be passed on to the airlines through tariff determination mechanism process and indirectly airlines will 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 passed on to the airlines by the airport operator or other services providers.*

*The rates of royalty at the airport are as high as up to 45.5% for some services. 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 humbly urge AERA to abolish such royalty which may be included in any of the cost items.*

#### **Response by AIAL:**

In case of Ahmedabad airport, there is no royalty or concession fee which will be recovered in case of cargo and fuel activities as these facilities will be managed and operated by Airport Operator only. As far as royalty of 45.5% on Ground Handling (GH) activity is concerned, we would like to state GH is aeronautical service. Abolition or reduction in royalty will result in increase in other aeronautical charges like Landing, Parking and UDF as ARR of AO as determined by the Authority is fixed. Further, we would like to state that selection of concessionaire through competitive bidding based on highest revenue share is common industry practice being followed by various airports in India and World.

#### **1.21. Observation 10:**

*Tax Efficiencies: Airlines are now paying separately for FIC and ITP which was earlier part of ATF pricing. Such FIC and ITP along with GST thereon becomes part of ATF pricing and suffers from Excise Duty and Sales Tax. The additional burden of non-creditable taxes becomes sixty-four (64) % - seventy (70) % on the airlines. We would also like to urge Authority to devise methods or pass an order stating that FIC and ITP should be directly invoiced by fuel farm operator or the services providers to the airlines to avoid circuitous billing and for the sake of 'Ease of doing businesses and 'Transparency'. This will also help in avoiding unnecessary tax on tax to the tune of sixty-four (64) %- seventy (70) % sixty-seven (67) % to Airlines.*

#### **Response by AIAL:**

We believe relevant Authority has been mindful of the undue tax burdens on various players in the aviation ecosystem. This is substantiated by the fact that fuel throughput charges were abolished by AERA/MoCA in Jan 2020 and airport operators were compensated by way of increase in landing charges and airlines were benefitted by way of lower tax burden. Having said the above, we will welcome any new steps that are taken by MoCA/Gol/AERA in this direction.



However, as far as billing of FIC and ITP charges is concerned, OMCs (not airlines) are the users of the open access facility and fuel farm operator is appropriately charging FIC and ITP charges to the users of the facility.

1.22. Observation 11:

*Para 14.2.3 to 14.2.7; It is submitted that, AERA has noted the "AO has on-going capital expenditure projects and other planned works, which have resulted in a higher ARR for the Third Control Period. Whereas the existing traffic base is not sufficient for the complete recovery of ARR in the current Control Period and this would require a significant increase in tariff, which in the present times is likely to adversely impact the recovery of air traffic. "*

*Further, AERA has also observed and considered the "guiding principles issued by the International Civil Aviation Organization (ICAO) on charges for Airports and Air Navigation Services (ICAO DoC 9082), which lays down the main purpose of economic oversight" which is to achieve a balance between the interest of Airports and the Airport Users.*

*This policy document categorically specifies "that caution be exercised when attempting to compensate for shortfalls in revenue considering its effects of increased charges on aircraft operators and end users". This should be applied particularly during periods of economic difficulty (i.e., airlines incurring adverse financial impact post Covid-19).*

*FIA appreciates that AERA in para 14.2.7 has considered to carry forward some portion of ARR to the next control period. However, FIA requests AERA that, keeping in view the adverse financial health of the airlines as mentioned in this letter, no tariff shall be increased for this control period.*

**Response by AIAL:**

In order to avoid repetitions on this matter, please refer our comments in point 9.1 of AIAL's comments on CP.

1.23. Observation 12 (a):

*AERA is requested to review the suggestions/comments on the regulatory building blocks as mentioned above which is likely to reduce the ARR. This will further ensure the lowering of tariff including UDF, which will be beneficial to passengers and airlines.*

*It is in the interest of all the stakeholders that the proposed excessive hikes in the tariffs be reduced and also in order to encourage middle class people to travel by air, which will help in sharp post- COVID-19 recovery of aviation sector. It is the stated vision of the government to make UDAN ("Ude Desh ka Aam Naagrik") a reality and this can only happen if we have the lowest possible cost structure, such that we can bring more and more people to airports to travel by air.*

**Response by AIAL:**

AIAL appreciates the vision of the Government to introduce UDAN scheme. We will continue to abide by all the orders of the Authority to boost regional connectivity whereby no landing charges are charged to Airlines and no UDF is charged to the departing passenger.

1.24. Observation 12 (b):

*We request AERA to clarify in the Tariff Order, the date and method of applicability of change in UDF charges, if any (as done through addendums for MAA & CCJ airport vide addendum to order no. 38/2021-22 dated 4th March 2022 and addendum to order no. 39/2021-22 dated 8th March 2022, respectively)*

**Response by AIAL:**

We understand that by virtue of the above-mentioned addendum orders, AERA has stated that revised UDF charges are applicable for tickets issued on or after the effective date of the tariff order. This was done based on the request made by AAI in order to bring clarity regarding the applicability of revised UDF charges. We request Authority to put similar clause in AIAL order as well.

1.25. Observation 12 (c):

*Collection Charges: We would like to invite AERA's attention to notes 2 of UDF charges in the Public notice 15/2022-23, wherein the rate of collection of UDF charges has been proposed to be reduced by AIAL from the current Rs. 5.00 per embarking/disembarking passenger to Rs. 2.50. As airlines have not agreed to this reduction, we request AERA to consider the collection charges to be reverted to Rs. 5.00 embarking/disembarking passenger, in line with other Airports.*

*Also, there appears to be inconsistency in the proposed rates by AIAL (Rs. 2.5 in numeric form and Rs. FIVE in the words form), which kindly clarify*

**Response by AIAL:**

Collection charges paid to airlines is pass through expense for airport operator. Reduction in collection charges is in interest of all airport users.

With respect to the inconsistency in numeric and words form, AIAL would request AERA to consider "Rupees Two and Half only" in place of "Rupees Five only"

1.26. Observation 12 (d):

*We further request that in the Collection Charges, the entitlement by airlines for the same may kindly be against AIAL having received the 'undisputed' invoiced UDF amount within the applicable due date.*

**Response by AIAL:**

As approved by AERA for other airports, airlines entitlement to collection charges should only be against full and timely payment of all outstanding dues.

1.27. Observation 12 (e):

*There is no mention of Collection charges for PSF in the MYTP submitted by the Airport operator. In the event the PSF is subsumed in the UDF, then airlines may kindly be eligible to claim collection charges at 2.5% of PSF per passenger, is being done currently. If PSF is not subsumed in the UDF, then current practices may kindly be continued.*

**Response by AIAL:**

When AIAL took over the operation in Nov-2020, there was only UDF in the tariff card and PSF (facilitation) component was mentioned NIL in the then prevailing



rate card. The same tariff card is carried forward by AIAL with the necessary approval of AERA.

1.28. Observation 12 (f):

*CUTE, CUPPS, CUSS: As these are aeronautical revenues, we could neither find a proposal for the same in the MYTP submitted by the Airport operator for the Third Control Period, nor any comment by AERA on regulating these charges in the CP for the First Control Period. We would like to state that (i) the current prices are excessive; (ii) whatever bouquet of services is agreed between the AIAL and the service provider, this is enforced upon the airlines; (iii) the airlines have no say on the prices (unbundling), even if the airlines do not require all the services; and (iv) are in foreign currency at certain airports, making airlines vulnerable due to currency fluctuations. AERA is kindly requested to inform us the guidelines for price regulation on the same.*

**Response by AIAL:**

At AIAL, the CUTE/CUPPS/CUSS (CUTE) charges are charged by third party concessionaire who in turn shares certain portion of these charges with AIAL. AIAL is not directly charging the users. The arrangement was existing before COD when AAI was operating the Airport and it is novated to AIAL from COD onwards as per terms of the CA.

Kindly refer the point 5 of the covering letter no. AIAL/CO/AERA-MYTP/2022/3 dated 31<sup>st</sup> October 2022, whereby it is clarified upfront that CUTE revenue has been considered Aeronautical and it has been suitably accounted while determining the tariff card. Therefore, other aeronautical charges like landing, UDF etc, calculated to provide the recovery of ARR, as provided in the tariff card are arrived after reducing contribution of revenues from CUTE services from eligible ARR.

In simple terms, Present value of eligible ARR = Present value of Aeronautical Revenues other than revenues from CUTE services + Present value of revenues from CUTE services.

Any reduction in revenues from CUTE services will increase landing/parking charges by that amount as the ARR to be recovered is a fixed number.

1.29. Observation 12 (g):

*Query: Whether landing charges will be charged in INR or US\$ for international flight?*

**Response by AIAL:**

Kindly refer General Conditions point 3 in the proposed tariff card, it is mentioned that all the charges to Indian Carriers (including international operations) will be done in INR terms and to international carriers in USD terms.

1.30. Observation 12 (h)

*As per ATP proposed by AIAL "Parking time will be calculated based on On-Blocks and Off-Blocks time as recorded at the Airport Operations Control Centre. (AOCC)."*





*Comment: As per standard practice, 15mins time each after touchdown and before takeoff of aircraft is provided as an exemption. We would want to propose the same industry practice to be implemented here.*

**Response by AIAL:**

On Block and Off Block time are much cleaner to monitor and is more relevant from a true parking time perspective unlike touch-down / take-off which is highly variable in nature.

1.31. Observation 12 (i)

*As per ATP proposed by AIAL "In case of an aircraft being parked beyond 24 hours due to technical or any other reasons, the parking charges shall be levied on a weekly basis in-line with the governing tariff order.*

*Query: Please clarify which governing tariff order is being mentioned above. Please provide the corresponding rate card.*

**Response by AIAL:**

There is no such statement mentioned in the rate card which has wording "governing tariff order"

1.32. Observation 12 (j)

*As per ATP proposed by AIAL "For calculating chargeable parking time, part of an hour shall be rounded off to the next hour."*

*Query: It is submitted that for calculating chargeable parking time, part of an hour shall be rounded off to nearest hour.*

**Response by AIAL:**

We have found "Next hour" is a standard in tariff card for all Airports like BIAL, HIAL and AAI Airports. The statement was existing in the previous tariff card for the Ahmedabad Airport which was approved by AERA when the Airport operations were managed by AAI.

1.33. Observation 12 (k):

*With respect to effectiveness of UDF from 1<sup>st</sup> February 2023 " Will the above UDF effective date shall be considered as Travel date or Sale date or Both-travel and sale date?"*

**Response by AIAL:**

As per recent orders approved by the Authority, revised UDF charges are applicable on tickets issued on or after effective date of tariff order. We request similar practice may be followed for AIAL as well.

1.34. Observation 12 (l):

*With respect to Collection Charges "Please note that the same is paid by airport operator to airlines separately after airlines raises an invoice against the same as a standard industry practice. We request the same practice is applied."*



**Response by AIAL:**

Once AIAL receives the UDF amount within the due date as mentioned in the invoice; and there are no overdue on any account with AIAL, the collection charges payable to the Airlines will be paid as per due dates mentioned on the invoice. However, no collection charge shall be payable by AIAL to the airline if the airline fails to make UDF invoice payment within aforesaid applicable time limit/credit period. This is as per the existing provisions made in the AERA order for other airports.

1.35. Observation 12 (m):

*With respect to Variable Tariff Plan for Scheduled Passenger Airlines "New Route: A flight to a new destination that is currently unserved from Ahmedabad by any airline already operating at Ahmedabad. (Destination must be unserved for the previous 36 months)"*

*Query: We understand "Unserved" means no scheduled operations. Please confirm.*

**Response by AIAL:**

Same is confirmed

1.36. Observation 12 (n):

*In the table of VTP Applicable Rates for Scheduled Passenger Airlines Rate per MTOW (MTOW >100 MT) appears to be repeated, with no additional conditions. Please clarify the same.*

**Response by AIAL:**

We are not able to find such anomaly in the VTP rate card. For quick reference the table is re-produced below:

*Table 10: VTP Applicable Rates for Scheduled Passenger Airlines*

Type	Rack Rate (RR) per MT in IN₹	Existing flight	New Route	New Route	New Route
<b>Landing Charges</b>			Year 1	Year 2	Year 3
<b>International Flights</b>					
Rate per MTOW (MTOW ≤ 100 MT)	RR	0	0.50*RR	0.75*RR	0.90*RR
Rate per MTOW (MTOW > 100 MT)	RR	0	0.50*RR	0.75*RR	0.90*RR

1.37. Observation 12 (o):

*FIA submits that the Hon'ble TDSAT Order dated 16 December 2020 for BIAL stated as follows: '100...However, there is substance in this grievance and AERA will do well to ensure that if delay is caused by the Airport operator, its*



*consequences should not fall upon the users. Tariff orders should be prepared well in time so that the burden of recovery is spread over the entire period for which the order is passed...'*

*In view of the above, AERA is requested to ensure that airlines/passengers are not burdened in view of the apparent shrinkage in the period of recovery of the aeronautical tariff from passengers/airlines, as the AERA Tariff Order for AIAL - Third Control Period, will now be issued after the commencement of the Control Period i.e., 1 April 2021.*

**Response by AIAL:**

It is to be noted that AIAL started commercial operations from 7<sup>th</sup> November 2020. As per the clause 28.11.1 of the CA, AIAL shall have not less than 365 days from the COD to seek revision of the Aeronautical Charges from AERA. The existing tariffs were extended till 31<sup>st</sup> March 2023 or till the determination of tariff for Third Control Period. AIAL had submitted its MYTP to AERA on 4<sup>th</sup> February 2022 and complied with provisions of CA.

## 2. Counter comments on comments from IATA

### 2.1. 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.*

#### **Response by AIAL:**

Pursuant to the provisions contained in the AERA Guidelines, AIAL invited the stakeholders for attending a consultation meeting to discuss the capex above Rs 15 Crores (5% of opening RAB) planned in the Third Control Period (1st Apr 2021 till 31st March 2026). The meeting was held over video conference on 21st January 2022. Project Information Files (PIF) in respect of planned capex projects were shared beforehand with the stakeholders.

Meeting was attended by various airport stakeholders including but not limited to IATA, FIA, Indigo, SpiceJet, Vistara, Fly Dubai, Singapore Airlines, AAI, BCAS, TAAI and Immigration.

AIAL had given a detailed presentation and justification for the capital expenditure planned by the Airport Operator taking into account the existing challenges in AIAL pertaining to constrained capacity vis-à-vis traffic growth, location, topography, weather conditions, limited availability of land, etc.

Airport Operator has submitted only the efficient costs that are necessary and critical for the safety, security and convenience of the passengers. Same has been duly reviewed and rationalized, by the Authority and Independent consultant appointed by the Authority, in various heads of operational and capital expenditure.

- 2.2. *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 to 129,000m<sup>2</sup> 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:*

*o 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.*

*o Do not pre-fund infrastructure developments e.g. we would not pay for a car to cross a bridge before the bridge is built.*

*o 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.*

*o 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.*

*o 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<sub>2</sub> 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. 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*

#### **Response by AIAL:**

AIAL has provided detailed response on capacity of Terminal Buildings as part of its response to CP (refer point 1.1 and 4.1 of AIAL's comments on CP vide letter dated 21st Nov 2022). In order to avoid repetition, request to refer the same.

- 2.3. *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.*

**Response by AIAL:**

In order to avoid repetitions on this matter, please refer our remarks in point 1.9 above as counter comments on FIA's comments.

- 2.4. 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, 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. And we would expect that any shortfall in NAR will NOT be trued up in the next control period.*

**Response by AIAL:**

In order to avoid repetitions on this matter, please refer our remarks in point 1.19 above as counter comments on FIA's comments and also refer our comments in point 7.2 of AIAL's comments on CP.

- 2.5. 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.*

#### **Response by AIAL:**

With respect to IATA's comment on relating to Carry forward some portion of ARR, please refer our comments in point 9.1 of AIAL's comments on CP.

With respect to IATA's comment on UDF for embarking and disembarking passengers, please note, we have proposed UDF only on embarking passengers at AMD.

- 2.6. *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 ambience. IATA's level of service framework provides an optimum range of space per passenger and queuing times to accomplish this.*

#### **Response by AIAL:**

AIAL has been obligated to maintain service standards as mentioned in the Concession Agreement and Schedule H of the Concession Agreement. For quick reference the relevant extract from Concession Agreement is re-produced below.

*19.6.9 Commencing from the date which is 1 (one) year from the COD, the Concessionaire agrees and undertakes to achieve IATA Level of Service Optimum at the Airport.*

*"IATA Level of Service Optimum" means the minimum service requirements at various airport subsystems as set out in the 'Optimum' category in the 10th edition of IATA's Airport Development Reference Manual, as may be amended,*

*modified or supplemented from time to time, and shall, for the avoidance of doubt, mean any similar level of service framework in the event of IATA discontinuing publication of the Airport Development Reference Manual;*

## 2.7. 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.*

### **Response by AIAL:**

Airport Operator has taken measures to rationalize its O&M expenses wherever possible. Kindly refer point 2.3 of AIAL's comments to the consultation paper for details relating to the matter.

## 2.8. 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.*

### **Response by AIAL:**

Article 27 of the CA provides for necessary provisions relating to Concession Fees. For quick reference some of the relevant extracts provided as: -

*27.1.2 The Monthly Concession Fee paid/ payable by the Concessionaire to the Authority under and pursuant to the terms of this Agreement shall not be included as a part of costs for provision of Aeronautical Services and no pass-through would be available in relation to the same.*

### *27.2 Verification of Passenger Throughput*

*The Authority may, in order to verify the International Passenger Throughput and/ or Domestic Passenger Throughput and/ or to ascertain the actual International Passenger Throughput and Domestic Passenger Throughput at the Airport, depute its representatives to the Airport and the offices of the Concessionaire, and undertake such other measures and actions as it may deem necessary. The Authority may call upon the Concessionaire to furnish any and all data, information, log, sheet, document or statement, as the Authority may deem fit and necessary for these purposes.*

As provided above, the Concession Agreement does not allow pass-through of the per passenger fees. Further CA provides for necessary governance mechanism about the verification and reconciliation of the monthly passenger fees.

Lastly, the audited financial statements separately disclose the monthly passenger fees.

AIAL is of the opinion that there is sufficient mechanism provided to safeguard the interest of the users such that passenger fee is not picked up by airport users fully or partially. Further, AERA has ensured not to add monthly fees payable to AAI as an expenditure while calculating ARR

2.9. *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.*

**Response by AIAL:**

Different Airports adopt different business models. At Hyderabad Airport, the Fuel Farm infrastructure is owned by Airport Operator and this model has been prevalent since last 15 years. The business model is well accepted by AERA for last three Control Periods for Hyderabad Airport. AIAL has adopted the established best practice.

AIAL is performing the into-plane services by itself unlike some other Airport Operators who have outsourced it to independent service providers. Hence the question of engaging another player for such service does not arise.

Open Access fuel infrastructure is a mandated requirement under the CA. The methodology and business model were explained in the AUCC held on 21<sup>st</sup> Jan 2022 and users (OMCs) were duly consulted.

As explained by AERA in point 1.6.3 of the CP, the fuel farm operations have also been factored in the ARR of the AO, however, the major components such as capital expenditure, depreciation, operating expenses and revenues with



respect to the fuel farm operations and facilities have been presented separately in the respective sections. Similarly, revenue generated from these operations also have been factored in as AERO revenue.

2.10. *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.*

**Response by AIAL:**

AIAL is planning infrastructure considering future growth of Ahmedabad air cargo market and capacity constraint considering the current available infrastructure, wherein airlines are also not utilizing their flight capacities upto potential. Ahmedabad Airport is expected to attract considerable surge in air cargo volumes in near future. The growth is expected due to addition of more airlines and freight forwarders choosing Ahmedabad as their preferred gateway for air cargo movement and growing importance of Gujarat as the epicenter of production activities. Airlines and freight forwarders will need to have sufficient confidence in terms of available capacity.

Air Cargo Forum India (ACFI) in its comments on CP submitted that, "*considering the Govt. of India's vision and the industry growth prediction in the next 05-10 years, Ahmedabad airport will require infrastructure development support for processing Export/Import from Gujarat at least 03 time more than its current capacity to cater the growing demand from trade.*

*Considering the future industrial growth from Gujarat, especially in manufacturing sector, the air cargo demand is expected to grow exponentially and with the required support from airport operators as well as concerned Govt agencies in augmenting the facility and providing solutions for ease of doing business will further boost the business from Gujarat.*

Based on our interaction with industry players, trade partners, business associations, we expect that volume to surpass over 300,000 MT by FY30. In order to cater to the same, infrastructure to be built at least 4-5 years ahead of demand.

For any cargo terminal, to meet optimum service standards, capacity utilization should be close to 75%. Hence the proposed maximum capacity by AIAL of 276,000 MT is built till FY 26, the optimum operational capacity will be approx. 200,000 MT. Therefore, to cater to the projected demand of over 300,000 MT in FY30, infrastructure development and capacity infusion in line with our proposal becomes a necessity.

While AERA has allowed Phase 1 of the development, we request AERA to allow maximum capacity of cargo developments, to be considered in the next control period on incurrence basis.



- 2.11. *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:*

**Response by AIAL:**

In respect to award of contract, all the contracts are awarded as per competitive bidding process as defined in the approved procurement policy and as per requirements under the Concession Agreement and provisions of Companies Act. Moreover, as sought by AERA's consultants, contracts and process have also been provided for their examination.

Likewise, we request AERA to take cognizance of price discovery happened for Non-Aeronautical revenues as per competitive bidding.

- 2.12. *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 in fact 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.*

**Response by AIAL:**

The consultant was engaged by AIAL before the submission of MYTP to help in conducting certain independent studies. These studies helped AIAL in taking informed decision while submitting the MYTP proposal to AERA and some of these studies were provided as annexure of the MYTP.



### 3. Counter comments on comments from Federation of Freight Forwarders' Associations in India

- 3.1. *Under Appendix B (1) and Appendix B (2) Serial no E and 5 respectively – Type of charges mentioned as “Handling of Shippers built ULD” and Rate per KG is “50% of applicable Handling Charges”. There is no mention of AFS Built up Pallet Cargo rate. We suggest the Type of Charges should be mentioned as “Handling of AFS Built & Shippers built ULD”.*

**Response by AIAL:**

We are fine with the changes suggested as “Handling of AFS Built Or Shippers built ULD”. The same will be incorporated in the final order.

- 3.2. *We find the escalation in overall cargo handling rates in the Third control period (FY-2022-2026 for SVPIA) as proposed by Ahmedabad International Airport Limited. We should also synchronize the cargo industries and the business volume which is not doing well for last few years. We suggest this escalation is not justified.*

**Response by AIAL:**

The rates upto FY24 are the same which are already approved for the market and is being applied for AIAL. The future increase taken is only 5% YoY in-line with inflation increase.



#### 4. Counter comments on comments from Business Aircraft Operators Association (BAOA)

*BAOA has the following comments to make: -*

- a) We have not been receiving invitation to be part of AUCC meeting, supposed to be held biannually with all the stakeholders by the airport operator. It is requested that AUCC meetings should have the option to 'join online through VC' to help ensure maximum participation.*
- b) Since GH and other mandatorily levied airport charges are aeronautical in nature, as provided in AERA Act, it is requested that, going forward, these charges should be included in the CP issued for MYTP by AERA along with all other aeronautical charges like, landing, parking etc.*
- c) Authority (AERA) is requested to refer to recent letter written by BAOA, Ref. No. BAOA/AERA/04/2022-23, dated 17 November 2022 for kind consideration to ensure aeronautical charges levied on small aircraft in NSOP/GA category are always reasonable and affordable. This would go a long way to support government's recent push for last-mile connectivity in India (copy enclosed)*

#### **Response by AIAL:**

- a. AIAL has conducted the virtual AUCC in Jan-2022. We will make sure BAOA representatives are duly invited in future AUCCs for all Adani Airports.
- b. AERA has published the tariff card vide Public Notice No. 15/2022-23 dated 31<sup>st</sup> October 2022 for comments by the stakeholder.
- c. The matter is not related to the subject consultation paper.

## 5. Counter comments on comments from Mr. Mukesh Bhandari

*In my view, there should not be any increase in the tariff. Please consider the following points to support my views.*

- 1. Earlier, the Airport was operated by the Airport Authority of India (AAI). The salaries of government employees are not less, and certainly not many more people have been employed till date*
- 2. The average fare of domestic airline tickets ranges from Rs.4,000 to Rs.10,000 depending on the distance and destination. Over and above, this added amount of Rs.600 & Rs.1,400 per ticket for domestic and international travel respectively is very high and an additional burden to the passengers.*
- 3. I would also like to add that during the time when the Airport was managed by the Airport Authority, the operations were not so efficient. The Government had decided on privatizing the operations keeping in mind, the efficiency in the system at a lower cost for the people. So, with the increased efficiency, the tariff should in fact be reduced. However, a marginal increase of about 50% (Rs.150) on Domestic and 100% (Rs.200) on International departures seems appropriate to take care of the additional expenses.*

### **Response by AIAL:**

The airline flight ticket prices are dependent on multiple variables like airline strategy for the routes, time of booking of tickets, capacity deployed by the airline on particular sector, competition amongst the airlines etc.

The airport tariff card is an outcome of the ARR computed as per the Regulatory Building blocks after rationalization of many capex and opex items by AIAL as well as AERA. AIAL has considered the rate card after considering the full recovery of the proposed ARR by AERA during the control period.

In last 30 years investments of approx. Rs. 750 Crs has been made in the Ahmedabad Airport by AAI, the last major expansion being in the year 2010. During the period FY10 to FY20 traffic had increased significantly whereas Airport capacity was not enhanced to take care of the requirement. Going forward, the annual passenger throughput is expected to grow to 20 million in next 5 years and 30 million over 10 years.

Considering the potential demand and operational requirements, AIAL is mobilizing investment of over Rs 10,000 crores during the control period. AIAL believes that the investment proposed will debottleneck the current infrastructure issues at the Airport and enhance the service levels. AIAL will aim to exceed the satisfaction level of consumers.



## 6. Counter comments on comments from Airport Operators (BIAL, DIAL, AAI) and Industry Bodies (APAO, Air Cargo Forum India)

Airport Operators such as BIAL, DIAL and AAI and industry bodies APAO have supported AIAL's submissions and comments on certain key matters relating to estimation of Tariff and various Regulatory Principles etc.

Comments from Stakeholders including but not limited to

1. Cost of debt allowed at 9% and not at 12% at which actual debt is taken by AO
2. Cost of equity allowed at 15.18% instead of 17.30% requested by AO
3. Billable traffic not adjusted for calculating aeronautical revenues
4. Notional increase in Non-Aeronautical Revenues
5. Notional Terminal Building Ratio
6. Capping of R&M expense to 6% of opening RAB as against the AERA Guidelines
7. Proposal to defer ARR to next control period
8. Intangible assets (Pre-COD expenses) not allowed
9. Cost claimed towards technical services, PMC, Preliminaries and Pre-operatives, Contingencies, Statutory approvals, Labor cess, Site-preparation, Insurance etc. reduced to 8%.

AIAL has also submitted its detailed explanations and justifications on all the above matters as part of its response to the Consultation Paper. AIAL requests the Authority to consider the well-reasoned comments provided by AIAL which are duly supported by the aforementioned stakeholders.

In addition, Air Cargo Forum India (ACFI) has highlighted the potential air cargo market at Ahmedabad and its catchment area. They have highlighted the urgent need to enhance the cargo capacity at Ahmedabad which will help to reduce the logistics costs and ultimate cost to the users. ACFI has appealed to allow AIAL develop maximum capacity of cargo facility as proposed in the MYTP.

AIAL acknowledge the request from ACFI and the trade partners. AIAL has proposed to create a greenfield Integrated Cargo facility with annual capacity of 276,000 tonnes in phases. While AERA has allowed Phase 1 of the development, we request AERA to take cognizance of the need of the trade partners and allow maximum capacity of cargo developments, to be considered in the next control period on incurrence basis.