भारतीय विमानपत्तन प्राधिकरण
AIRPORTS AUTHORITY OF INDIA

F/No. AAI/JVC/Bhubaneswar -Tariff/2023-24/1165 Date: -14.02.2024

The Secretary,
Airport Economic Regulatory Authority of India
AERA Building, Administrative Complex,
Safdarjung Airport
New Delhi-110003

Subject: -Submission of Multi Year Tariff Proposal (MYTP) for 2nd control period (01.04.2023 to 31.03.2028) and True-up of 1st control period (01.04.2018 to 31.03.2023) in respect of Bhubaneswar Airport.

Reference: -Submission of AAI's Counter comments in response to stakeholder comments on CP -22/2023-24 in respect of Bhubaneswar Airport.

Sir,

This has reference to Stakeholder comments in the matter of determination of Aeronautical tariff in respect of Bhubaneswar Airport for the 2nd control period (01.04.2023 to 31.03.2028).

AAI's Counter comments in response to stakeholder comments is enclosed.

This issues with the approval of the Competent Authority.

Thanking You.

Yours sincerely,

14/2/24

(V. Vidya)
Executive Director (JVC/Tariff)

Encl: -1. AAI's Counter comments in response to stakeholder comments.

भारतीय विमानपत्तन आर्थिक विनियामक प्राधिकरण
सफदरजंग एयरपोर्ट, नई दिल्ली-110003
प्राप्त
डायरी न. 18229
तारीख 14/02/24

BHUBANESWAR INTERNATIONAL AIRPORT

AAI's counter comments in response to stakeholder's comments on Consultation Paper No. 22/2023-24 dated 5th January 2024 Determination of Aeronautical Tariff for Bhubaneswar International Airport (BIA) for the 2nd Control Period (01.04.2023 - 31.03.2028).

Contents

Counter Comments of AAI in response to stakeholder comments on CP 22/2023/24 for determination of aeronautical tariff of Bhubaneshwar Airport

A. FIA Comments on CP 22/2023-24

FIA has conveyed at annexure A regarding parking charges, Landing Charges & UDF Charges proposed in CP Vs. Existing Parking charges, Landing Charges & UDF charges at Bhubaneswar Airport.

Submission of AAI

Increase in landing, parking and UDF charges has been proposed for BIA on account of

a) true up of First Control Period and the resultant shortfall due to various reasons including the pandemic.

b) Proposed capex, opex and other components of building block in order to work out the target revenue for the SCP.

Parking charges are applicable after two hours free parking available to airlines. Parking of Aircraft is neither encouraged by the Airport Operators nor by the Airlines Operators. Parking of aircraft beyond two hours at any airport reflects inefficiency of Airport Operations as well as Airline Operations. Further, it contributes less than 5% of AAI revenue.

In respect of chargeability of UDF and landing it is methodology to recover the cost incurred by Airport operator i.e. BBI from passenger / Airlines who are the ultimate user of the airport.

1. Revenues from Air Navigation Services (ANS). Para 2.1.3 and 3.3.1

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 the corresponding revenue and revise the tariff card.

Submission of AAI

Air Navigation Services (ANS) are a separate segment of services provided by AAI in addition to Airport Services. AAI does not consider the assets, expenses and revenue pertaining to ANS while submitting the tariff proposal to AERA for determining of tariff for Airport Services. The ANS charges have been fixed by MoCA.

2. Methodology for Tariff Determination - Hybrid Till Vs. Single Till Para 3.1.2

It is observed that AERA have determined tariffs using the 30% Hybrid Till model including true ups, as applicable.

FIA has advocated the application of Single Till model across the airports in India and submits that AERA should adopt Single Till across all control periods, including by way of true up.

In a Shared/Hybrid till model, the airport operator has the incentive to skew the asset base towards aero-assets, thereby having a higher capital base for calculation of return offered by the regulator.

Submission of AAI

As per National Civil Aviation Policy (NCAP)-2016 there should be uniformity and level playing field across various operators, future tariffs at all airports will be calculated on a 'hybrid till' basis, unless otherwise specified for any project being bid out in future. 30% of non-aeronautical revenue will be used to cross-subsidise aeronautical charges. In case the tariff in one particular year or contractual period turns out to be excessive, the same will be truing up and adjusted in next control period by AERA.

AERA vide Order No. 14/2016-17 dated January 12, 2017 conveyed that to determine the future tariffs using Hybrid Till Methodology in line with the policy of Government of India directed Airport operator to submit the proposal on the lines of above said order. Accordingly, the proposal has been submitted by using Hybrid Till Methodology based on the above said directions of AERA.

3. True up for First Control Period Para 4.5.1 & 4.5.3

It is submitted that:

(a) 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.

(b) We observe that the Fair Rate of Return of 13.60% provided to the BIA is higher in comparison to some of the Airports such as Chennai and Pune. Without prejudice to the above, there appears to be no rationale to provide higher return to BIA and accordingly AERA may reduce the FRoR suitably.

Para 4.7.4 (b):

It has been noted by AERA that AAI has paid interest/penalties to Government of India at both CHO and RHO levels. We appreciate that AERA holds a considered view that stakeholders should not be burdened with interest/penalties paid to the Government of India, due to various lapses/delays on the part of the Airport Operator.

Submission OF AAI

1) The FRoR for an airport depends upon the cost of equity and cost of debt.
2) In 1st Control Period of Chennai Airport, AAI had submitted a study conducted by M/s KPMG in regards to calculation of Cost of Equity wherein, Estimated Asset Beta was 0.92 and corresponding Equity Beta works out to 0.98.
3) The cost of Equity submitted by AAI in r/o BIA Airport works out to 16%, whereas AERA has considered cost of equity is 14% only resulting FRoR to 13.60%.
4) AERA has been considering cost of equity at 14% as against 16.82% as per study report submitted by M/s KPMG. The variation in the FRoR rates at the airport is due to the gearing and the cost of debt.

4. Traffic for Second Control Period
Para 5.2.10 and Table 28

While we appreciate that AERA has computed the traffic forecast after considering the forecasted data published by ACI and IATA (refer para 5.2.8 and 5.2.9), we request AERA to kindly conduct an independent study, which may also include demand drivers that may not have been part of report issued by IATA and ACI India.

We would also like to draw the attention of the Authority, that the trends in the recent post pandemic times may not be a reasonable benchmark, whether be it of passengers or traffic, as economic factors such as inflation or market demand / prices may not continue in the same rate or trend in the future, as the same are due to unusual factors including but not limited to the geo-political causes etc.

Hence, we request that the Authority may kindly take the same into consideration and appoint independent consultants to evaluate the same while finalising the projected Annual Traffic Movement and passengers.

<u>Submission of AAI</u>

Projection of traffic forcast is carried out by the AAI specialized cell i.e. CP&MS Deptt. which has carried out projections of traffic on real time survey and data analysis.

5. Capital Expenditure, Depreciation and Regulatory Asset Base (RAB) for the Second Control Period

FIA submits that, the entire ecosystem needs to be operationally efficient, which can be implemented, considering the following:

Para 4.4.5

It may be noted that AERA itself has analyzed the variances between the approved Capex for the First Control Period and the actual Capex incurred and notes that AAI has not implemented 89.15% of the approved CAPEX.

It is requested that such variances shall be taken into cognizance by AERA and findings of an independent study to determine the efficiency of the Capex shall be provided to the stakeholders and giving a reasonable time for the stakeholders to comment on such study thereafter, prior to approving this control period's tariff order.

<u>Submission of AAI</u>

FY2020-21 and 2021-22 of the first Control Period were unprecedented years affected due to the pandemic Covid-19 resulting in postponement of the capital expenditure to the future years. AAI has cautiously considered only those capex which are essentials, thorough discussions with the Corporate Headquarters and stakeholders during these years. Further, MoCA has directed to put on hold the project due to initiation of monetization process of Bhubaneswar Airport but later on communicate to continue with the capex works at 25 Airports including Bhubaneswar Airport. Also AAI has reconfigured the capacity of existing Terminal Building in order to increase the passenger throughput within the infrastructure available. Accordingly, AAI had shifted the capex of major expansion of Terminal Building from 1st Control Period to 3rd Control Period for optimum utilization of Terminal Building in order to reduce burden on the passengers.

Para 6.3.3
We request AERA to ensure that BIA conducts an Airport User Consultative Committee Meeting ('AUCC') meeting for any proposed new additional Capex or any Capex which is now deferred from First Control Period to Second Control Period, before the issuance of tariff order.

Submission of AAI

AAI is complying with AERA guidelines to carry out Airport User Consultative Committee Meeting ('AUCC'). AUCC was conducted on 09.10.2018 in r/o project namely

a) Expansion of Terminal-2 for integrated operation using PBB.
b) Control Tower, Technical Block, Fire Station and E & M workshop
c) Parallel Taxi Track, Rapid Exit Taxi Way & Apron for parking
d) Re-carpeting of Runway
e) Ground Mounted Solar PV Power System etc.
f) New Domestic Terminal Building T3 AUCC carried out on 17.01.2019

Para 6.3.2
We request that AERA applies the normative norms for the capex projects as mentioned under AERA Order No. 7/2016-17 dated 13th June 2016 in order to keep the overall cost control and efficiencies in capex projects.

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.

We note that AERA has conducted an in-depth analysis of the submissions made by the Airport operator by an independent consultant, which is appreciated.

It is requested that AERA should:

(a) consider imposing a penalty of 1% (or higher as deemed fit) towards the cost incurred for Capex in this Control Period. BIA should also be directed to encourage their traffic in the upcoming years to justify the designed capacity.

(b) to conduct an independent study for determining the efficient and reasonable Capex for Second Control Period before issuing the final tariff order.

Submission of AAI

AAI is incurring capital expenditure after detailed analysis and need of the capex at the respective airport. FY2020-21 and 2021-22 of the first Control Period were the unprecedented years affected due to the pandemic Covid-19 resulting in postponement of the capital expenditure to the future years. AAI has cautiously considered only those capex which are essentials, thorough discussions with the Corporate Headquarters and stakeholders during these years. Further, during 2018-19 MoCA has communicated to put on hold capex on airports which are under consideration for privatization including Bhubaneshwar Airport. Later on MoCA has directed to go ahead with capex at Bhubaneshwar and other airports also AAI has reconfigured the capacity of existing Terminal Building in order to increase the passenger throughput within the infrastructure available.

Para 6.3.6 (A3.ii)
FIA supports AERA's proposal of shifting the Terminal 3 Building project to the next (third) control period.

Para 6.3.8
We agree with AERA's proposal that an adjustment of 1% (or higher of the project cost from the ARR, as deemed fit), made by AERA for capital expenditure projects is/are not completed/capitalised as per the approved capitalisation schedule. Such adjustments can be made by AERA during the tariff determination process for the Second Control Period.

Para 6.3.9
AERA has considered the Terminal Building Ratio ('TBLR') of 92:8 for the Second Control Period.

However, considering that Bhubaneswar is tourist destination and have potential of higher non-aero revenue, the non-aeronautical ratio proposed by BIA appears to be on the lower side, and also as compared to the other similar airports such as Varanasi, Amritsar, Trichy, Calicut and Raipur.

Further, keeping in view the fact that BIA have underutilized infrastructure and terminal space which can be better utilised towards increasing their non-aeronautical activities.

We request AERA to allot the best possible ratio towards NAR as deemed appropriate. In view of that, we request AERA to:

a) To consider the highest possible non-aeronautical allocation in the case of BIA.
b) To undertake detailed scrutiny examination with the assistance of an independent study for asset allocation, which is a standard practice done by AERA for other similar airports on or before the tariff determination.

FIA submits that this study will assist to ensure correct assessment of allocation of assets, which is a standard practice followed by AERA

Submission of AAI

The ratios have been computed based on the actual space in the terminals. Hence, AAI had submitted TB ratio of 92.47% for First Control Period. AERA has determined the Terminal Building ratio as 92% in FCP. The basis for considering 8% as the commercial area in the 2nd CP is ad-hoc and without any basis. The actual occupied area for commercial activities (Design) for Terminal Building works out to 7.53%.

Para 6.4.3, 6.4.5 and Table 35 & 37

In this regard, we request AERA to seek for more justification from BIA on the depreciation of assets and scrutinize the depreciation rates instead of basing it solely on opening blocks of assets and proposed additions.
We further request to conduct an independent study on depreciation, as it does not provide clarity on the percentage of depreciation applied.

Submission of AAI

AAI has computed the depreciation in compliance with AERA order no.35 on various fixed assets.

6. Fair Rate of Return (FRoR) for the Second Control Period

Para 7.2.3, 7.2.8 and Table 45

It is observed that AERA has considered FRoR of 13.78%, with cost of equity at 14%, cost of debt at 6.57%, which is calculated on the basis of cost of equity and debt.

However, it may be noted that AERA in recent times have approved lower FRoR for other AAI airports (Third Control Period), such as Chennai (11.98%), Pune (11.68%), and Cochin (11.63%).

In this regard, AERA may consider:

(a) to conduct an Independent Equity and FROR study;

(b) consider the fact that airport industry in India has been established, hence the risk is lower as this is a cost=plus margin business; and

(c) to review the financial closures details, debt to equity ratio based on actual weighted average rather than a notional percentage.

Further, it is to be noted, that while such fixed/ assured return favours the service provider/airport operators, it creates an imbalance against the airlines,

Without prejudice to the above:

1) In the present scenario any assured return on investment to any services providers, in excess of six (6) % (including those on past orders) will be onerous for the airlines, i.e., being at par with reasonable returns on other investments after tax based on the current economic situation of worldwide run=away inflation coupled with rising and historic interest rates offered by banks.

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 the 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.

Submission OF AAI

1) The FRoR for an airport depends upon the cost of equity and cost of debt.

2) In 1st Control Period of Chennai Airport, AAI had submitted a study conducted by M/s KPMG in regards to calculation of Cost of Equity wherein, Estimated Asset Beta was 0.92 and corresponding Equity Beta works out to 0.98.

3) The cost of Equity submitted by AAI in r/o BIA Airport works out to 16%, whereas AERA has considered cost of equity is 14% only resulting FRoR to 13.78%.

4) AERA has been considering cost of equity at 14% as against 16.82% as per study report submitted by M/s KPMG. The variation in the FRoR rates at the airport is due to the gearing and the cost of debt.

7. Operation and Maintenance Expenses for the Second Control Period

Para 9.2.1

FIA submits that, as observed by AERA itself, that there has been major variance in the O&M expenses approved by AERA for First Control Period from the actuals submitted by BIA. Further, BIA has increased the O&M expenses for the Second Control Period by 63% from the First Control Period, even though there has not been implementation of major Capex projects such as construction of Terminal building.

In this regard, and particularly as AAI has shifted the construction of new Terminal Building (T3) to the Third Control Period (refer Para 6.3.6 (A3) (ii) of the CP). We request AERA to kindly rationalise the O&M expenses by conducting an independent study on the actual requirement of O&M for this Control Period.

Submission of AAI

R&M Expenses: There are various heads of R&M expenses which are incurred for Operational Requirements, Regular maintenance of the airport infrastructure and equipment at the airport.

The costs captured by the airports are based on the actual spend. To determine the costs, there are detailed tendering mechanisms for every contract and approving authorities as per delegation of powers approved by Board. Further, the accounts of airports are subject to C&AG audit on a yearly basis. Further, AERA has proposed an increase of O&M expenses for the Second Control Period by 39% only over the 5 years i.e. from the First Control Period (excluding the amount 75.33 crs. for re-carpeting of Runway i.e. special repair work) which is reasonable taking into account Maintenance of old TB, equipments etc. Even though the capex of the NTB is shifted to 3rd CP, the R&M expenses are increasing due to reconfiguration of the existing Terminal Building and increase in the cost of labour, material, cleaning, electricity, water etc.

Para 9.2.14

While we are in agreement with AERA that as BIA gradually expands its non-aeronautical operations, it should also proportionately increase the power recovery charges from Concessionaires. Thus, BIA is requested to constitute a committee to verify the bills relating to Power expenses and submit a report on the same to AERA, for greater transparency.

Submission of AAI

It is submitted that AAI cannot levy electricity charges over and above the units consumed by the concessionaires and the same is approved by the competent Authority.

Para 9.2.9, 9.2.10, 9.2.12, Table 50, 51

FIA submits that, in para 9.2.9, AERA for the purposes of estimating manpower expenses have considered a 6% growth rate & 25 % (in the FY 2027-28), which is quite high.

Further FIA requests AERA to not provide such huge escalations, for the following:

(i) Para 9.2.12 Administration and General Expenses-Excluding CHQ./RHQ., Upkeep expenses and CSR (approx. 10 % YoY)

(ii) Para 9.2.16 Other Outflow. (between 11 to 20% YoY)

In view of the above, it is submitted that the current estimated O&M expenses requires further scrutiny by way of an Independent Study in this Control Period, so that any deviation is not reported for Second Control Period, which will result in over recovery of ARR in next control period under garb of True up.

FIA wishes to highlight that the same has been proven in cases of other PPP Airports like DIAL, MIAL, BIAL that while truing up the O&M in subsequent control periods, it always leads to over- estimation which has been observed leading to higher tariff in past control periods.

We further 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.

In view of the aforementioned reasons, we request AERA to conduct an independent study for determining the true value of the O&M expenses before approving the tariff for the Second Control Period.

Submission of AAI

- 7% is the average increase in the payroll due to annual increment of 3% in salary, increase in HRA, quarterly increase in DA and Employer contribution to PF. In all other Airports AERA has considered 7% increase.
- The following illustration clearly shows that there is an average 7.71% increase in the Payroll expenditure. Therefore, AAI requests AERA to consider the figures for the SCP as submitted by AAI.
- The following illustration clearly shows that there is an average 7.71% increase in the Payroll expenditure.

Calculation of incremental increase in salary (in % Terms)											
Particulars (Rs.)	Year 1				Year 2				Total		Difference
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Year1	Year 2	
BASIC	30000	30000	30000	30000	30900	30900	30900	30900	120000	123600	3600
DA	5520	6960	8160	8820	9270	10042.5	10753.2	11494.8	29460	41560	12100
HRA	8100	8100	8100	8100	8343	8343	8343	8343	32400	33372	972
PERKS	10500	10500	10500	10500	10815	10815	10815	10815	42000	43260	1260
EPF	3600	3600	3600	3600	3708	3708	3708	3708	14400	14832	432
Total									**238260**	**256624**	**18364**

Particulars	% Increase							
DA	18.40%	23.20%	27.20%	29.40%	30.00%	32.50%	34.80%	37.20%
HRA	27%	27%	27%	27%	27%	27%	27%	27%
PERKS	35%	35%	35%	35%	35%	35%	35%	35%
EPF	12%	12%	12%	12%	12%	12%	12%	12%

Total Increase (in Rs.)	**18364**
% increase	**7.71**

Assumptions :

- Year 1 Means Previous Year
- Year 2 Means Current Year
- Basic Pay – 3% yearly increase considered.
- Dearness Allowance- Quarterly increase considered.
- HRA, Perks & EPF – Considered Constant

- In the abovementioned example, the Salary expenditure for Year 1 shown as Rs. 238260/- per employee. Whereas, in the year 2 the salary expenditure is shown as Rs. 256624/- per employee. On the basis of above assumptions, the incremental expenditure on the head of salary is Rs. 18364/- per employee which comes out to 7.71% on Year on Year basis. Further, an addition 18% estimated increase has been considered in the FY2027-28 due to the expected revision of wages as per DPE in the past.

Upkeep Expenses

AAI submits that the 10% increase in consideration of 5-10% increase in contractual obligations including increase in minimum wages.

CSR Expenses

As per the provisions of Section 135 of the Act, the Companies (CSR Policy) Rules, 2014 and the DPE Guidelines, 2014, two percent of the average net profits (to be calculated in accordance with the provisions of the Act) during the three immediately preceding financial years will be allocated for CSR activities every year.

CSR Budget will be utilized for implementing CSR projects approved by the Board on an annual basis. The budget allocation to the CSR Schemes shall be made in the beginning of every financial year after considering the CSR budget for that year.

CSR provisions are made on the basis of 2% of Average profits of preceding 3 financial years at Corporate Level.

8. Non-aeronautical revenue for the Second Control Period Para 10.2.1, 10.2, Table 55 & 56

It is observed that the Non-Aeronautical Revenues ('NAR') projected by BIA is substantially low and conservatively estimated, with a standard approach without detailed thought to each line item.

It is requested that BIA explores all avenues to maximise revenue from the utilisation of terminal building for non-aeronautical purposes.

There appears to be scope of considerable improvement in increasing the NAR. It may be noted that the entire NAR growth is driven by passenger growth, which has been considered based on estimates and not based on any independent study by AERA.

FIA would further like to highlight that the WPI inflation has been considered for inflationary increase, however the revenue from NAR is coming from passengers and in the case of F&B, retail, duty free, actual inflation is much higher than WPI. We also would request AERA to provide clarity for not considering CPI/Food Inflation in this regard.

It may be noted that, in other PPP Airports like DIAL, MIAL, BIAL, while truing up the NAR in subsequent control periods have always been the under=estimation and leads to higher tariff in the control periods.

Orissa is widely recognized as one of the most popular tourist destinations globally. With airlines being the preferred mode of travel, the city's air traffic is expected to increase drastically.

Accordingly, we request AERA:

a) to mandate BIA to enter into suitable agreements with concessionaires to exploit the potential/ growth of NAR at BIA.

b) to kindly undertake detailed examination with the assistance of an independent study on the NAR before the tariff determination of the FCP.

c) to further determine and re=assess their estimates in line with other comparable airports. It may also include the impact of the tourism lineage that Orissa has to increase their NAR in accordance with the submissions above.

AERA is requested to ensure no adjustments are proposed to NAR which are not dependent on traffic but are derived from agreements with concessionaires.

<u>Submission OF AAI</u>

Generally, increase in traffic is not proportionate with increase in NAR.

It is worthwhile mention here that Most of the commercial contracts have been awarded by AAI on fixed license fee basis having annual escalation provision of 10%. Therefore, AAI projections are based on the Agreements with the various concessionaire in the SCP

Hence, projections from FY 2023-24 onwards are not linked with total traffic numbers for arriving of the Non-Aero Revenue.

Certain contracts are based on fixed license fee with annual escalation and not linked to the passenger movements like Restaurant/Snack bar, Hoarding and Display, Car Rentals & Car Parking.

As regards to TR stalls & Duty -free shops, the projections are based on turnover with a minimum annual guarantee.

In view of above, AERA is requested to consider the growth rate as submitted in the MYTP for SCP.

9. Proposed Annual Tariff Proposal (Tariff Rate Card) (Refer Annexure II of the CP):

In accordance with the preamble of the National Civil Aviation Policy, which envisages to make air travel affordable and sustainable, 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 tariffs 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 the 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.

In addition, we request AERA and BIA to clarify the following:

1) Ref: Annexure II= 17.2.3= Landing Charges:

FIA requests AERA's to mention the following notes missing herein w.r.t landing charges as below:

a) No Landing Charges shall be payable in respect of a) aircraft with a maximum certified capacity of less than 80 seats, being operated by domestic schedule operators at airport, b) helicopters of all types, and c) DGCA approved Flying school/flying training institute aircrafts.
b) All domestic legs of international routes flown by Indian operators will be treated as domestic flights as far as landing charges concerned irrespective of flight number assigned to such flights.
c) Domestic leg of international routes of foreign carriers shall be treated as international flights.
d) Charges shall be calculated on the basis of nearest MT (i.e. 1000 kg).

e) Flight operating under regional connectivity scheme will be completely exempted from Landing charges from the date of the scheme is operationalized by GOI.

2) Ref: Notes: 1 to User Development Fee (UDF) Charges (17.2.5):

We would like to invite AERA's attention to notes 1 of the Annexure II of the CID, UDF charges, wherein no rate of collection charges of UDF charges has been proposed by AERA.

We further request AERA to consider, in this regard that:

a) The collection charges to be published as Rs. 5.00 per departing passenger, in line with other airports.

b) These charges are paid by airport operators to airlines separately after airlines raise an invoice against the same as a standard industry practice. We request the same practice be applied.
Further, AERA is kindly requested to consider that in light of the increasing administrative expenses due to inflation and other reasons (example=5% inflationary/ administrative increase each year), the collection charges may kindly be increased to keep pace with the proposed increase in UDF, as airlines only get a fixed rate, which results in disincentivizing the airlines.

c) Further, FIA requests AERA, to clarify the applicability of UDF, whether it will be charged on per passenger or per flight basis, as UDF is applied on a per passenger basis i.e., for embarking passengers. As we have observed, there are corresponding references of domestic and international flights. Hence, the manner in which UDF is to be collected in case of a connecting flight appears unclear, especially in cases, where one leg of the flight is domestic, and the other is international or vice versa.

To illustrate: For a passenger with connecting flight from one domestic station to another domestic station with final destination to international station (i.e., BBI=DEL=DXB), clarity is required whether the UDF will be charged as per domestic flight or international flight;

i) Will it be considered as a domestic passenger for the route of BBI=DEL=DXB (which means domestic UDF rate applicable on this passenger); or

ii) The passenger will be charged international rates of UDF as per the PNR/Ticket, as the final destination is international.

a) AERA is kindly requests to add the following exemption to maintain uniformity, as also mentioned under Directorate General Civil Aviation ('DGCA') AIC No.14/2019 dated 16.05.2019, DGCA AIC No.06/2023 dated 29th April 2023 and other tariff orders such as for Ahmedabad Airport Order no.40/22=23 for Third Control Period:

((g) Passenger departing due to involuntary re-routing i.e. technical problems or weather conditions."

2) Further, FIA recommends AERA to add Note of the Annexure II (17.2.4), as follows:

"No additional parking charges other than normal parking charges be payable by the airlines for any force majeure reasons or for any technical or meteorological situation, which is beyond the control of any airlines".

3) Parking Charges (Notes:- 2b) Refer:

i. *"2. For calculating chargeable parking time, any part of an hour shall be rounded off to the next hour"*

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

(Notes: - 8)

ii. Additional parking charges added in proposed tariff card for parking beyond 24 hours is also excessive since the parking charges after first two hours are already doubled. A higher fees of INR 20 per hour per MT sets a bad and unacceptable precedent for other airports hence it is important to bring down the rate.

iii. FIA further requests AERA to provide the definition of 'unauthorised overstay' for clarity on parking charges.

4) General Conditions

It is requested to define the applicability or exemption of any of the tariff charges pertaining to RCS Flights which have been excluded.

Submission of AAI

AAI has submitted proposed tariff for 2nd Control Period which is available at page no. 99 of CP no. 22/2023-24 whereas AERA has proposed partially and left out notes on the landing charges. We have requested in our response to CP to AERA to incorporate missing lines of tariff proposed by AAI while issuing final order of Bhubaneshwar Airport.

Parking charges are applicable after two hours free parking available to airlines. Parking of Aircraft is neither encouraged by the Airport Operators nor by the Airlines Operators. Parking of aircraft beyond two hours at any airport reflects inefficiency of Airport Operations as well as Airline Operations. Further, the chargeability of parking time for the next charge is correct methodology instead of part of an hour shall be rounded off to the "nearest hour".

10. Any Other Comment

Shrinkage in Control Period

We submit 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...'*

FIA appreciates, AERA's efforts of spending considerable time in consultation process and assessment of the information provided by Airport Operator.

However, despite relying on information provided by the Airport Operator in many instances there is an inordinate delay in tariff fixation, which has diminished the effective Control period of 60 months by 9-10 months and will lead to burdening of passengers travelling during balance period of 52 months. This further leads to a mismatch between the recoveries of target revenue with the actual/projected revenue.

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 BIA = Second Control Period, will now be issued after the commencement of the Control Period i.e., 1 April 2023.

Royalty

Any attempt to award the contracts by the airport operator on the highest revenue share basis should be discouraged as it breeds inefficiencies and tends to disproportionately increase the cost.

It is general perception service providers have 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 very high for some of the 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.

<u>Cost of airport operations:</u>
We submit that cost of operations for the airlines is increasing continuously every year and airlines are incurring losses in the current challenging scenario, even while airport operators have an assured rate of return on their investment. At the same time, it is projected by most agencies that over 1,200 new civil aviation aircraft will be inducted by airlines in India over the next 5 years. While economies of scale are a big factor for the airlines to keep the cost of operations low, this applies to airport operators as well. With the huge increase in aircraft, there is bound to be huge benefits for the airport operators as well due to economies of scale.

Hence, we request AERA to conduct a study of the passengers and air traffic at selected airports taking data over the past 20 years wherein it may please be made transparent as to what is the cost of one take off separately to the airport operator and an airline, for various class of aircraft, at a periodicity of every 5 years (excluding the pandemic times period).

It is felt that cost of business is simply passed on to the airlines by some airport operators, as it appears that there are multi layered companies undertaking various activities at the same airport, which not only add to the cost of doing business, but also force airlines to pay tax on tax for availing services though multi-layered companies. This study will then make it evident who is actually bearing the cost of doing business at the airport, and whether the same is justified.

Any other Govt. grants/Subsidies:
It is requested that in case there are any Govt. grants/subsidies (State or Central) provided to the airport operator, it should also be factored in for the purpose of tariff determination.

Submission of AAI

Royalty: Chargeability of 13% royalty from Inflight catering service provider is prevailing in all the AAI managed Airports as per the internal policies / approvals of AAI for allowing the Inflight caterers for doing business at the airport.

AAI is incurring huge expenditure on providing the infrastructure to facilitate the Ground Handling Agencies for providing their services to the airlines. Further, the royalty on Ground handling charges (Revenue Share) payable by Ground Handling Agency has been brought down to 3% of Actual Gross Revenue from Scheduled Domestic Passenger Flights and 15% of Actual Gross Revenue from users other than Scheduled Domestic Passenger Flights and RCS flights. This was effective from 1st October 2021.

Cost of airport operations

No comments as it pertains to request to AERA to conduct a study.

B. IATA Comments

The International Air Transport Association (IATA) is the trade association for the world's airlines, representing some 320 airlines or 83% of the world's air traffic. Many of our member airlines operate in the Indian market including Air India, IndiGo, SpiceJet, and Vistara. We support many areas of aviation activity and help formulate industry policy on critical aviation issues.

We appreciate and thank AERA for its due diligence in reviewing the proposal by AAI for Bhubaneswar International Airport. We are largely in agreement with the proposed adjustments by AERA. Some additional points/suggestions for consideration by AERA:

For the First Control Period, 89% of approved CAPEX was not incurred given the challenges in the last few years. However, this further demonstrates the need for ongoing consultations with users to validate the business case and the phasing of the investments and monitor progress, including decisions to defer or cancel.

We support AERA's call for an AUCC to be conducted to review the proposed CAPEX items in the CP, reiterating the importance of ongoing consultations as highlighted in the point above.

We would like to reiterate our position on the need for more objective measurement of Service Quality Levels. In addition to ASQ, which is survey-based and subjective in nature, we request Airport Operator to share the targets and actual performance of the metrics that are being monitored, similar to the requirements imposed on PPP airports. This would be very useful in validating the service level and delivery of the envisaged outcomes for the investments. We understand that under the AERA Act, AERA has the authority to call for further information necessary for its assessment.

The proposed tariff increases in the Second Control Period are still very significant, despite the review and adjustments by AERA. We respectfully request for further moderation, wherever possible, by deferring some of the recovery to the next control period. The higher charges could also have an adverse impact on the project traffic growth, which could lead to less overall revenue against the projection, requiring further true-up in the Third Control Period.

Submission of AAI

AAI has been following AERA's guidelines on service quality levels.

Airport charges increase or decrease on the basis of ARR requirement and Aeronautical Revenue of the Control Period.