



भारतीय विमानपत्तन प्राधिकरण
AIRPORTS AUTHORITY OF INDIA

F/No. AAI/JVC/Coimbatore -Tariff/2023-24/1351

Date: -20.08.2024

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 Coimbatore Airport.

Reference: -Submission of AAI's comments in response to consultation paper no 03/2024-25 in respect of Coimbatore Airport issued by Airport Economic Regulatory Authority of India (AERA).

Sir,

This has reference to AERA's consultation paper no 03/2024-25 dated 22.07.2024 in the matter of determination of Aeronautical tariff in respect of Coimbatore Airport for the 2nd control period (01.04.2023 to 31.03.2028).

AAI's response to consultation paper No. 03/2024-25 is enclosed.

This issues with the approval of the Competent Authority.

Thanking You.

Yours sincerely,


(R.Prabhakar)

General Manager (Finance-Tariff)

Encl: -1. Response to Consultation Paper no 03/2024-25



COIMBATORE INTERNATIONAL AIRPORT

Response to Airports Economic Regulatory Authority (AERA)'s Consultation Paper No. 03/2024-25 dated 22ND July 2024 Determination of Aeronautical Tariff for Coimbatore Airport for the 2nd Control Period (01.04.2023 - 31.03.2028).

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1.Introduction

Airports Economic Regulatory Authority of India ('AERA') has released Consultation Paper No. 03/2024-25 on Aeronautical services in respect of Coimbatore International Airport for 2nd Control Period (01.04.2023 to 31.03.2028), ('Consultation Paper' or 'CP') on 22nd July 2024.

We hereby present our observations, suggestions, and request in respect of determination of Aeronautical Tariffs for Coimbatore for the Tariff Determination for the 2nd Control Period – from 1st April 2023 to 31st March 2028 and True Up of 1st Control Period from 1st April 2018 to 31st March 2023.

2. True- Up the First Control Period (FCP)**i. Terminal Building Ratio (TBLR)****[Para 4.6.4 of CP]****AERA's Contentions**

AAI has submitted an average Terminal Building Ratio of 92.29% :7.71% (Aero : Non-Aero) based on the actual commercial area let out during the First Control period. The Authority proposes to consider the ratio as 92%:8% (for apportionment of common assets within the Terminal Building (Aeronautical: Non-Aeronautical). For the First Control Period.

Particulars	Ratio (Aero : Non Aero)-AAI	Ratio (Aero : Non Aero)-AERA
Terminal Building Ratio	92.29% : 7.71%	92% : 8%

AAI's Submission

- AAI has worked out the Terminal Building Ratio based on the actual utilization of Terminal Building for Non - Aero activities. However, AERA has considered the space allotted to Airlines for office space, Ticketing Office & Back-up office used for Aeronautical purpose and accordingly amount received from the Airlines as also shifted from Non-Aeronautical (30% used for cross subsidized against ARR) to Aeronautical Revenue.
- It is submitted that AERA has considered the space rent revenue from airlines as Aeronautical Revenue however the same has been considered as Non-Aeronautical for the purpose of calculating Terminal Building Ratio (Ratio of utilization of area of Terminal Building for Non- Aero Activity i.e. Commercial purpose.)
- However ,if AERA is treating space rent revenue as Aeronautical revenue then similar treatment should be given to the area allotted to Airlines while calculating the Terminal Building area ratio.

The Revised calculation of the Terminal Building Ratio based on the actual utilization is as under:-

As per AAI's Submission (Space to airlines considered as Non-Aero)						
Particulars	Location	2018-19	2019-20	2020-21	2021-22	2022-23
Space Rented (In TB-Sqm)	T. Build.	1608.33	1706.61	1649.62	1883.98	1653.50
Capacity (TB-Sqm)	T. Build.	22060.00	22060.00	22060.00	22060.00	22060.00
Non-Aero %	T. Build.	7.29%	7.74%	7.48%	8.54%	7.50%
Aero %	T. Build.	92.71%	92.26%	92.52%	91.46%	92.50%

Revised Terminal Building area (Space allotted to Airlines considered as Aero instead of Non Aero as per AERA Decision)						
Particulars	Location	2018-19	2019-20	2020-21	2021-22	2022-23
Space Rented (A)	T. Build (SQM)	1608.33	1706.61	1649.62	1883.98	1653.50
Space to Airlines (B) (Included in space rent)	Considered as AERO	423.72	572.23	518.93	518.93	530.29
Airlines space (%) on total Area		1.92%	2.59%	2.35%	2.35%	2.40%
Airlines space (%) on Non Aero		26.35%	33.53%	31.46%	27.54%	32.07%
C= (B-A)	T. Build. (SQM)- Excluding airlines space	1184.61	1134.38	1130.69	1365.05	1123.21
Capacity (D)	T. Build. (SQM)	22060.00	22060.00	22060.00	22060.00	22060.00
Non-Aero %	T.Build. (C/D)%	5.37%	5.14%	5.13%	6.19%	5.09%
Aero %	T.Build. (Revised)	94.63%	94.86%	94.87%	93.81%	94.91%

- AERA is requested to revise the TB Ratio in line with its consideration of Space rental income received from Airlines as Aero revenue instead of Non Aero revenue and accordingly revise the apportionment of common assets within the terminal building for the First and Second Control Periods and also revise the apportionment of overheads based on the revised Terminal Building Ratio.

3. Second Control Period (SCP)

i. Payroll Expenses

(Para 9.2.6 of CP)

AERA Contention

AAI considered a growth rate of 7% in payroll expenses for the period 2023-24 to 2027-28. However, AERA proposes to consider a growth rate of 6% year on year throughout the Second Control Period. AAI has projected an additional 25% increase in the last tariff year (2027-28) considering the implementation of 8th Pay commission. The Authority proposes that such an increase shall be considered on incurrence basis.

AAI's Submission

- 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 the recent past orders of AAI Major Airports, AERA has considered 7% increase.
- The following illustration clearly shows that there is an average 7.71% increase in the Payroll expenditure. AAI requests AERA to consider the figures for the SCP as submitted by AAI.

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							
	Q1	Q2	Q3	Q4	Year 1	Year 2	Year 1	Year 2
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.
- Also, AERA has proposed to reduce growth rate of Payroll expenses from 7% y-o-y to 6% y-o-y for the FY 2023-24 to FY 2026-27 resulting in reduction of payroll expenditure by Rs. 9.23 Cr.
- **Based on the above facts, AERA is requested to consider 7% y-o-y increase in Payroll expense instead of an increase of 6% y-o-y in Second Control Period of Coimbatore. 25% increase proposed by AAI in the last tariff year considering the implementation of 8th Pay commission may also be considered by AERA to avoid carry forward of shortfall for the Third control period.**
- **Also, AERA is requested to consider the entire amount of Rs. 127.70 Crore towards payroll expense.**

ii. Expenses towards Utilities and Outsourcing expense -Other than Power charges**AERA's Contentions**

AERA examined the expenses towards utilities and noted the following: Utilities and outsourcing expense other than power charges: AAI has proposed an increase of 10% YOY basis for the Second Control Period.

AERA takes cognizance of utilities expenses projection submitted and approved at similar AAI airport and proposes to consider a 5% YOY increase on the same for the Second Control Period

AAI's Submission

It is submitted that Utilities and outsourcing expense other than power charges may be approved as submitted by AAI as it includes man power (Hiring of Vehicles/consultant) as well as material cost(Consumption of stores).

iii. Upkeep expenses

[Para 9.2.14 of CP]

AERA's Contentions

AERA observes that for upkeep expenses, AAI has proposed 10% increase year-on-year for the Second Control Period. AERA notes that these are contractual expenses, wherein the rates have been finalized for the entire contract period (which is 3 years), and it includes the cost of materials and labour (including statutory benefits such as PF, ESI, Bonus etc). Further, there is no escalation clause mentioned in the Contract/ Letter of Award, with respect to revision of the contracted rates.

Hence, AERA proposes to consider cost of MESS contract of Rs.12.55 cr. equally over the period of 3 years from FY 2024-25 to FY 2026-27. For FY 2027-28, the Authority proposes to apply an inflationary increase on the cost considered for FY 2026-27.

The inflationary rates proposed by AERA as per Table 65 as followed

Particular	FY 2023-24	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28
Inflation	-0.70%	3.10%	3.70%	3.70%	3.70%

AAI's Submission

AAI submits the following with regard to Upkeep Expense: -

(in Rs.
Crore)

Particular	FY 2024-25	FY 2025-26	FY 2026-27	FY 2027-28	Total
As per AERA (CP)	4.18	4.18	4.18	4.33	16.87
				3.70%	
AAI Methodology	4.18	4.60	5.06	5.56	19.40
		10%	10%	10%	

A comparison of increase in MESS contract due to minimum wages increase is already been shared to AERA in MYTP.

MESS contract justification

	Monthly awarded value	Actual gross payment last month (Aug23)	Increase (%)
	(A)	(B)	C = ((B-A)/A)
MESS	1498491	1907688	27%
ESS	99526.33	118987	20%
total	1598017	2026675	27%

Labour Category	Wage Estimated(Previous Award)-MESS	Current Wage Estimation for preparation for AA&ES (FY23-24) - MESS	Increase (%)	Wage as per current period-Apr 2024
	(A)	(B)	C = ((B-A)/A)	
Highly Skilled	653	866	33%	948
Skilled	593	788	33%	862
Semi-Skilled	506	671	33%	734
Unskilled	448	595	33%	651

- i) It is to be mentioned that AERA has considered inflation rate only in the last year of the control period (FY2027-28) whereas AAI, Coimbatore airport has to abide by rule of the Central Govt. Labor Law from the start of the contract i.e. Feb 2024.
- ii) The material cost will also increase as the no. of passenger (consumer) increase 14% to 16%(appx) in each year.

AERA has reduced upkeep expenses by Rs. 2.53 Cr. as AERA has considered inflation rate whereas AAI has proposed for 10% increase YOY for the 2nd control period. which is including increase in minimum wages and material cost.

In view of the above AERA is requested to consider 10% increase in upkeep expenses YoY basis as submitted by AAI.

iv. Repair and Maintenance Expense

AERA's Contentions

AERA notes that AAI has proposed an increase of 10% year- on- year on repair and maintenance expenditure for the Second Control Period. AERA notes that AAI has claimed the total Repairs & Maintenance expenses of ₹ 61.44 Crores for the Second Control Period which Authority notes that R&M expenses proposed by AAI for the Second Control Period is higher than the cap of 6% of the

Opening RAB (net block of that year) generally considered by the Authority in this regard. Accordingly, the same has been rationalised as shown in the table below:

(in Crore)

Particular	FY 2023- 24	FY 2024- 25	FY 2025- 26	FY 2026- 27	FY 2027- 28	Total
Expenses Claimed by AAI (Other than AMC cost of Digi Yatra Assets) (A)	9.87	10.86	12.02	13.22	14.54	60.52
AMC cost of Digi Yatra Assets (B)				0.44	0.44	0.88
Total (C= A+B)	9.87	10.86	12.02	13.67	14.99	61.40
Opening RAB (D)	134.01	174.60	175.16	180.65	168.48	
6% of Opening RAB (E= D*6%)						
Allowable expenses (F= 6% of Opening RAB or A, whichever is lesser)	8.04	10.48	10.51	10.48	10.11	49.97
Total R&M Expenses allowed by the Authority (G= F + B)	8.04	10.48	10.51	10.84	10.11	49.97
Difference (H= A-G)	1.83	0.38	1.51	2.83	4.88	11.43

AAI's Submission

- There are various heads of R&M expenses which are incurred for operational requirements & regular maintenance. of the airport operator infrastructure and equipment at the airport
- Applying a ratio on the WDV will further reduce the cost whereas in reality is that the maintenance costs will increase to make good the wear and tear over the years
- R&M expenses includes various services like May I Help You, Solid Waste Management, Noise control, Pollution control which are not related to any Assets which needs to be reimbursed in full.
- Maximum AMC contract includes man power which is based on the labor rate which is revised time to time by the Ministry of Labor.
- Even if buildings are new it is not justifiable reason to reduce the recovery of expenses to a percentage of opening RAB
- Restricting R&M expense to 6% of Opening RAB discourages Airport Operator to spend on R&M to maintain the quality standard and enhance customer.
- To highlight the effect of restricting R&M to 6% of opening RAB, actual values of two assets (Grass cut cum collecting machine and tractor) along with their AMC costs have been shown below. Total value of assets is Rs. 31.54 Lakhs (Rs.17.00 Lakhs + Rs.14.54 Lakhs).

Year	Capitalisation	1st	2nd	3rd	4th	5th	6th
Opening RAB	31.54	27.60	23.66	19.71	15.77	11.83	7.89
Depreciation	3.94	3.94	3.94	3.94	3.94	3.94	3.94
Net RAB	27.60	23.66	19.71	15.77	11.83	7.89	3.94

Year	Cap.	1st	2nd	3rd	4th	5th	6th
AMC Cost		5.33	5.70	11.88	12.71	13.38	14.33
% of AMC on Net RAB		23%	29%	75%	107%	170%	364%
6% of Net RAB		1.42	1.18	0.95	0.71	0.47	0.24
Net loss to AAI (Diff.)		-3.91	-4.52	-10.94	-12.00	-12.91	-14.10

AAI would like to highlight that even in the first year the R&M costs of the assets exceeds the cap of 6% of opening RAB.

- Hence, AERA is requested to remove the cap of R&M expenses at 6 % of Opening RAB and consider the total expense of Rs. 61.40 Crore as projected by AAI .

v. Non -Aeronautical Revenue for 2nd Control Period

AERA's Contentions

AERA has proposed to consider the average revenue from other income /sale of scrap from F.Y 2021-22 TO 2022-23 as the base for F.Y 2023-24 and there after proposes a 5% growth rate YOY basis as per submission by AAI

AAI's Submission

AERA has considered average revenue from other income /sale of scrap from F.Y 2021-22 TO 2022-23 as the base for F.Y 2023-24 and there after proposes a 5% growth rate YOY basis , which is not a regular income and not in the regular course of business, hence AERA is requested to consider the Rs 8.36 cr. as against Rs.11.56 cr. proposed by AERA.

In view of above, AERA is requested to consider the above points for projecting Non-Aero Revenue for 2nd control period.

vi. **Tariff Card**

Please insert the clause for applicability of Minimum Landing Charges in the Tariff Card: -

- a. Non-Schedule Flights: "A minimum fee of Rs.4000/- per flight or applicable landing charges shall be charged as per landing for all types of aircraft flights, helicopter flights including but not limited to domestic landing, international and general aviation landing for the control period."
- b. Domestic leg of International routes of foreign carriers shall be treated as International flights