भारतीय विमानपत्तन प्राधिकरण
AIRPORTS AUTHORITY OF INDIA

F/No. AAI/JVC/Coimbatore -Tariff/2024-25/1361 Date: -30.08.2024

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 response to stakeholder 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 stakeholder comments on consultation paper No. 03/2024-25 is enclosed.

This issues with the approval of the Competent Authority.

Thanking You.

Yours sincerely,

30/8/24.
(R.Prabhakar)
General Manager (Finance-Tariff)

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

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Coimbatore International Airport, Coimbatore

AAI's counter comments in response to stakeholder's comments on Consultation Paper No. 03/2024-25 dated 22nd July 2024 Determination of Aeronautical Tariff for Coimbatore International Airport (CJB) for the 2nd Control Period (01.04.2023 - 31.03.2028).

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Counter Comments of AAI in response to stakeholder comments on CP 03/2024-25 for Determination of Aeronautical Tariff of Coimbatore International Airport, Coimbatore.

1. FIA Comments on CP 03/2024-25

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 Coimbatore Airport.

Submission of AAI

Increase in landing, parking and UDF charges has been proposed for CJB 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 the methodology to recover the cost incurred by Airport operator i.e. CJB from passenger / Airlines who are the ultimate user of the airport.

2. Background, Framework of tariff determination.
Para 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.

3. 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.

4. True up for the FCP

Para 3.7.5 & 3.7.6
It is submitted that:

(a) We observe that the Fair Rate of Return (FRoR) of 13.71% provided to the Airport Authority of India (“AAI”) is higher in comparison to some of the Airports such as Chennai and Pune. Without prejudice to above, there appears no rationale to provide higher return to AAI for CJB and accordingly AERA may reduce FRoR suitably.

(b) We do appreciate that AERA have tried to rationalise the same, however we request AERA to consider an independent study for the submission for FRoR and it was shared later on via email.

Para 4.6.12 (b) point 3

We appreciate that AERA holds a considered view that stakeholders should not be burdened with significant increase in the Aeronautical tariff arising on account of the NPV of the Under-recovery or due to interest/penalties paid to Government of India at both CHQ and RHQ levels due to various lapses/delays on the part of the Airport Operator, or due to deficiency to recover the ARR on account of higher O&M expenses projected for the Second Control Period caused due to under-recovery pertaining to the First Control Period.

Para 4.4.14

It is noted that the New Terminal Building, which was proposed and approved in the First Control period was not undertaken. Additionally, there is no mention of this project for the next Control Period as well.

As observed by AERA in para 4.4.3bof the CP, that about 55.08% (118.31 Cr) of the approved capital expenditure was not utilized by AAI in the First Control Period, which was part of the computed ARR at that time. We request AERA to consider implementing a 1% adjustment for the delay in this case as the Airport Operator did not implement/complete the project within the stipulated time.

Para 2.4.1
Without prejudice to the above:

1. Further, FIA wishes to draw AERA’s attention that any delay in submitting

the Multi Year Tariff Plan by the airport operator should be taken into account, as delay in tariff determination process will lead to increase in adjusted deemed initial RAB.

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 CJB Airport works out to 16%, whereas AERA has considered cost of equity of 14% only resulting in FRoR of 13.26%.
4. AERA has been considering cost of equity at 14% as against 15.64% as per study report submitted by M/s KPMG. The variation in the FRoR rates at the airport is due to the gearing ratio and the actual cost of debt taken at varied rates over the years.
5. The work of Construction of New Terminal Building proposed in the 1st Control period could not be taken up because of the land had not been handed over by the State Govt which is still under process.
6. The capital expenditure approved in the 1st CP could not be utilized because of the Covid-19, Pandemic-shortage of labour and restriction impose by the GOI.

5. Traffic for the Second Control Period
Para 5.2.10 and Table 46

While we appreciate that AERA has considered the traffic forecast data published by ACI and IATA(refer para 5.2.5 and 5.2.6 and 5.2.7), further, we understand that, AERA itself have observed the actual traffic from AAI's website for FY23-24 has surpassed pre-covid-19 levels and exhibit a positive trend. Accordingly, we request AERA to kindly conduct an independent study, which may also include demand drivers that may not have been part of the 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, since the recent post pandemic trends are due to unusual factors such as the COVID-19, revenge tourism, Geo-political causes, recent financial meltdown of banks in the USA, etc, however there have been certain increase in the load factors, post recovery of COVID-19 period.

Hence, we request that Authority may kindly take the same into consideration (and appoint independent consultants to evaluate the same, if deemed fit, while finalising the projected ATM and passengers.

Submission of AAI

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

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

FIA submits that the entire ecosystem needs to be operationally efficient, which can be implemented, amongst other things by capital expenditure efficiency studies, which AERA is requested to conduct.

Para 6.2

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

FIA notes that the normative rate for capex projects is not specified in the consultation paper (CP). We submit that there should not be any incremental normative rate for capex projects.

We request AERA to ensure that all aeronautical capex is efficient and without any unreasonable excesses. This is crucial to prevent stakeholders, including passengers, from bearing costs for services or facilities that are not utilized or availed by stakeholders.

Submission of AAI

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 that capex which are essential, through discussions with the Corporate Headquarters and stakeholders during these years.

Wherever the normative cost is applicable on the capital work, AAI calculate and submit the normative cost and accordingly AERA allow/approve the same.

Para 6.2.2

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.

However, it is requested that, 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.

Submission of AAI

AAI is incurring capital expenditure after detailed analysis and based on the 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 that capex which are essential, through discussions with the Corporate Headquarters and stakeholders during these years.

Any capital investment is eligible for return & Depreciation only after the assets put to use.

Para 6.2.25

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 Second Control Period instead of Third Control Period.

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 that capex which are essential, through discussions with the Corporate Headquarters and stakeholders during these years.

Para 9.2.4

FIA submits that, AERA have considered the Terminal Building Ratio ('TBLR') of 90:10 for the Second Control Period.

However, it is important to recognize the significance of Coimbatore as a prominent destination and a vital hub in Tamil Nadu. The city is home to the Isha Foundation, which is renowned for its large-scale spiritual and wellness programs, which attracts a significant number of domestic and international visitors. Additionally, Coimbatore’s thriving textile industry, educational institutions and proximity to major tourist attractions such as the Nilgiri hills further enhanced its appeal.

With its renowned status and the steady influx of tourists, business travellers, and spiritual seekers, Coimbatore plays a crucial role in tourism. Its strategic location and the growth of Coimbatore Airport further underscore its potential for increased non-aeronautical revenue. The current non-aeronautical ratio proposed by AERA may not fully capture the extensive economic opportunities presented by Coimbatore’s diverse industries, educational institutions and the significant impact of institutions like the Isha foundations making it a prominent tourism and business centre.

Further, as observed by AERA itself, in comparison to the other airports such as DIAL, MIAL, BIAL etc., the TBLR was considered above 10%, as per the IMG norms, which are applied and adhered by AERA for all other airports.

In view of the above, we request AERA to kindly allot the best possible ratio towards NAR while keeping a consistent approach of applying IMG norms. Accordingly, we request AERA to consider the highest possible non-aeronautical allocation in the case of CJB and/or request to conduct and independent study for the same. We further recommend that AAI should utilize such aspects and space towards increasing their non-aeronautical activities.

Submission of AAI

Since the existing Terminal Building is old and saturated. AERA has considered Terminal Building ratio in line with 1st CP.

Para 6.3.2, Table 57

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.

Hence, in view of that AERA should conduct an independent study on depreciation, as the current depreciation rationale does not provide clarity on the depreciation applied.

<u>Submission of AAI</u>

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

7. <u>Fair Rate of Return (FRoR) for the Second Control Period</u>

Para 7.2.8 Table 64

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

It is observed that AERA has considered the FRoR at 13.71%, which is based on cost of equity and cost of debt to the airport operator, for the Second Control Period. It may be noted, that AERA in the recent times, have approved lower FRoR for other AAI Airports (Third Control Period), such as Chennai (11.98%) and Pune (11.68%) on the same cost of equity and cost of debt i.e., 14% and 6.21%.

Further, it is to be noted, that such fixed/ assured return favours the service provider/airport operators, this also 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, we request AERA to consider:

1) In the present scenario any assured return on investment to any service providers like AAI, in excess of five (5) % (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.

2) 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

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

4) 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 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. This is particularly highlighted since other AAI airports like Chennai, Kolkata and Pune have a much lower FRoR.

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 CJB Airport works out to 16%, whereas AERA has considered cost of equity as 14% only resulting in FRoR of 13.26%.

AERA has been considering cost of equity at 14% as against 15.64% as per study report submitted by M/s KPMG. The variation in the FRoR rates at the airport is due to the gearing ratio and the actual cost of debt which is taken at varied rates over the years.

8. Inflation for the Second Control Period

Para 8.2.2

FIA submits that as per a report published by the Ministry of Finance dated 8th December 2023, the WPI inflation rate is 5%. However, we have noted that the proposed inflation rate by AERA is 3.7%. This proposed rate aligns closely with the current economic conditions and reflects a prudent approach towards the tariff adjustments.

Submission Of AAI

We request AERA to verify the contents addressed by FIA and requested to reply accordingly.

9. Operation and Maintenance Expenditure for the Second Control Period

Para 9.2.25 (Power Charges)

AAI 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.

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 9.2.28 Table 73

While we appreciate the rationalisation by AERA of each line item on the submitted O&M expenses by AAI, however, at the same time we request AERA not to provide such a huge jump in O&M expenses.

FIA respectfully urges AERA to further explore avenues to minimizing escalations across the expense categories. This action would significantly enhance our ability to manage overall costs more effectively.

It is further submitted that the current estimated O&M expenses necessitate additional scrutiny through an Independent Study in this Control Period. This measure is vital to prevent deviations from being carried forward to the Second Control Period, doing so would help avoid over recovery of ARR in the control period under the guise 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

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. As per CP 03/2024-25 AERA has Proposed an amount of Rs. 251.40 Crs. O&M expenses in the true up (refer Table 32) as against AERA approval of O&M expenses amounting to Rs. Rs.259.69 Crs in the Tariff order of the 1st CP (refer Table 20). Further, AERA has proposed to consider O&M expenses amounting to Rs.313.57 Crs. in the 2nd control period which is just increase of 24.7%.

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.

10. Non-Aeronautical revenue for the Second Control Period

Para 10.2.10, Table 76

It is observed that the non-aeronautical revenues projected by AAI are significantly low / conservative. It is requested that AAI explores all avenues to maximise revenue from the utilisation of terminal building for non-aeronautical purposes.

We request AERA to mandate AAI to enter into suitable agreements with concessionaires to exploit the potential/ growth of non-aeronautical revenue at Coimbatore 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 (‘NAR’) before the tariff determination of the Second Control Period.

Without prejudice to the above, we submit that the increase in NAR is influenced by factors such as the expansion of terminal building area, growth in passenger traffic, inflationary pressures and real increases in contract rates.

Despite these factors contributing to increasing potential revenues, it has been observed that AERA’s projections for non-aeronautical revenue in the control period appear to be conservative. Given the substantial opportunities for revenue growth, we request that AERA consider a more optimistic and expansive approach to NAR projections to better align with the actual potential and economic benefits foe Coimbatore Airport.

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

FIA submits that Coimbatore is widely recognized as a major destination for spiritual, educational, and business tourism, attracting visitors from across the globe. 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 AAI to enter into suitable agreements with concessionaires to exploit the potential/ growth of NAR at CJB

b) To kindly undertake detailed examination with the assistance of an independent study on the NAR before the tariff determination of the Second Control Period.

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 Coimbatore has to increase their NAR in accordance with the submissions above.

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.

In view of the above, we request AERA to allow higher non-aeronautical revenues for CJB.

Submission of AAI

Increase in Non-aeronautical revenue is not proportionate with increase in traffic.

The percentage of non-aeronautical business is dependent on multiple factors such a demand, customer behaviour, spending patterns and per capita income of the region. Therefore, a standardised approach may not accurately reflect the ground reality of non-aeronautical business and may be detrimental to the Airport Operator.

It is worthwhile mention here that major revenue from non-aeronautical activities flow from Duty free shop, Money exchange counter, food & beverage (from International side of airport) which is lower as compared to other major airports.

25% (approx.) of non-aeronautical area is occupied by airlines (airlines offices) and AAI is getting only space rental.

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

11. Quality of Service for the First Control Period

Para 12.2.3, Table 80

As noted by AERA in the CP, the average ASQ rating achieved by CJB for the past four years is 4.50 (except for CY 2022 where it was 4.80) as compared to target 4.68 as per the MoU with MoCA. We request AERA to kindly note the same, and implement corrective measures, if any, as per the MoU for the same.

Submission OF AAI

The Coimbatore airport has achieved average ASQ rating 4.5 in the past four year. The parameters of the MOU has been decided by MoCA and not falling in the purview of AAI.

12. Aggregate Revenue Requirement (ARR) for the Second Control Period

Para 13.2

As per 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 explicitly advises "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 caution is especially pertinent during periods of economic difficulty (such as the adverse financial impact on airlines following the post Covid-19).

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

It is general perception that service providers have no incentive to reduce 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 should be a mechanism for incentivizing the parties for increasing efficiencies and cost savings and not for the royalty for the airport operator.

In Light of the financial challenges faced by the airlines, as outlined in this letter, FIA requests AERA that no higher tariff shall be fixed for this control period.

Submission OF AAI

Landing, Parking and UDF charges are worked out to recover the ARR as per AERA methodology. Further, the collection charges will be paid to Airlines as per the credit policy of AAI

13. Proposed Annual Tariff Proposal (Annexure 2):

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 sharp post-COVID-19 recovery of the 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 AAI to clarify the following:

1. Ref: Notes to User Development Fee (UDF) Charges:
Collection Charges: We would like to invite AERA's attention to notes 1 of 17.2.5 UDF charges in the Annexure -2 of CP, wherein the rate of collection of UDF charges is not mentioned by AERA. We request AERA to consider the collection charges at Rs. 5.00 embarking passengers as proposed by AAI in annexure 1. 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.

a) Ref: Notes to User Development Fee (UDF) Charges:
We further request that in the Collection Charges, the entitlement by airlines for the same may kindly be against AAI having received the 'undisputed' invoiced UDF amount within the applicable due date.

i. <u>UDF effective from 1st October 2024 to 31st March 2028</u>:-
Comment to Note (a) - Collection Charges: Please note that the same is 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.

ii. There is no mention 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, which is being done currently. If PSF is not subsumed in the UDF, then current practices may kindly be continued.

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

Please clarify w.r.t UDF applicability in both below scenarios:

a. Passenger embarking from CJB on a domestic flight and then a connecting flight to an international destination.
b. Passenger disembarking in CJB from a domestic flight, however he originated his journey from an international destination.

3. Landing charges:

a) It is proposed to add below notes to Landing Charges which were part of Existing Tariff card as published in AIC09_2019.

1. 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 and b) helicopters of all types c) DGCA approved flying school/flying training institute/aircraft.
2. All domestic legs of International routes flown by Indian operators will be treated as domestic flights as far as landing charges is concerned, irrespective of flight number assigned to such flights.
3. Charges shall be calculated on the basis of nearest MT (i.e. 1000 kg).
4. Flight operating under Regional connectivity scheme will be completely exempted from landing charges from the date of

the scheme is operationalized by GOI.

b) AERA has proposed to increase the Landing Charges for all flights to 29.21% approx.: - from the existing charges. We request AERA to kindly consider rationalising the same.

c) Para 17.2.4. (Note h) – It is requested that AERA should propose the definition of ‘Unauthorised Overstay’, which will provide clarity to all stakeholders regarding charges to be applied for such overstay by the airport operator.

d) Further, FIA recommends to add note no.09 in Para 17.2.4 of the Annexure 2,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 aviation".

Submission of AAI

We may request AERA to comment.

14. Any Other Comment

A. Shrinkage in Control Period

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 CJB - Second Control Period, will now be issued after the commencement of the Control Period i.e., 01 April 2023.

We submit that cost of operations for the airlines are 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.

B: 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 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 31.8% 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.

<u>Submission of AAI</u>

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

IATA COMMENTS ON AERA'S CONSULTATION PAPER FOR DETERMINATION OF AERONAUTICAL TARIFF FOR COIMBATORE INTERNATIONAL AIRPORT (CJB) FOR THE SECOND CONTROL PERIOD

The International Air Transport Association (IATA) is the trade association for the world's airlines, representing some 330 airlines or 80% of the world's air traffic. Many of our member airlines operate in the Indian market – and 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 the Airport Operator for Coimbatore International Airport. We would like to highlight the below-stated points:

Asset and Cost Allocation

1. We commend AERA for its review of CHQ and RHQ expenses allocation to Coimbatore Airport, as well as other asset and cost allocations.

    - Non-inclusion of CSR expenditure in operating expenditure is a welcome step. We completely agree with AERA's view that CSR expenditure is to be incurred out of net profits and should not be a part of Operating Expenditure.

2. We also support AERA in correcting the asset depreciation approach by AAI i.e. 50% depreciation rates in the year of capitalization of the asset.

Fair rate of return

3. At 13.71%, the FROR continues to be high considering the true-up approach, which essentially removes any downside risk for airports. We request AERA to rationalise this further.

Service Levels

4. We urge AERA to look beyond using the ASQ survey alone as a proxy for assessing the quality of service. While we await AERA establishing its service framework regulation/requirement, we request AERA to ask for service level and performance data from AAI for the regulated airports to aid in its evaluation. (This is also applicable for all airports concessioned under the various OMDAs, as well as airports where the service level metrics have been specified and are to be reported to and monitored by AAI).

Submission of AAI

No Comments