



भारतीय विमानपत्तन प्राधिकरण
AIRPORTS AUTHORITY OF INDIA

F. No. AAI/JVC/Indore-Tariff/2024-25 /1410

Date: 17.10.2024

To,

The Secretary,
Airports Economic Regulatory Authority of India (AERA)
3rd Floor, Udaan Bhawan,
Safdarjung Airport
New Delhi-110003

Sub.: Submission of Multi Year Traffic 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 Indore Airport.

Reference: - Submission of AAI's response to stakeholder comments in response of Consultation Paper no. 04/2024-25 dated 05.09.2024 In respect of Indore Airport issued by Airports Economic Regulatory Authority of India (AERA).

Sir,

This has reference to AERA's Consultation Paper no. 04/2024-25 dated 05.09.2024 in the matter of determination of Aeronautical Traffic in respect of Indore Airport for 2nd Control period (01.04.2023 to 31.03.2028).

AAI's response to stakeholder comments on Consultation Paper-no. 04/2024-25 is enclosed.

This issues with the approval of the Competent Authority.

Thanking You.

Yours sincerely,


(L. Kuppulingam)

Executive Director (JVC/Tariff)

Encl.: 1. Response to stakeholder comments on Consultation Paper no. 04/2024-25



Indore International Airport

AAI's Counter Comments of AAI in response to stakeholder comments on Consultation Paper 04/2024-25 for Determination of Aeronautical Tariff of Indore International Airport for the 02nd Control Period (01.4.2023 to 31.03.2028)

INDEX

S.NO	Stakeholders	Contents	Page no
1	FIA Comments	FIA Comments on CP 04/2024-25	3
2		Background, Framework of tariff determination	4
3		Methodology for tariff Determination-Hybrid till Vs. Single Till	4
4		True up for the First Control Period (FCP)	5
5		Traffic for the Second Control Period	6
6		Capital Expenditure, Regulatory Asset Base (RAB) and Depreciation for the Second Control Period.	6
7		Fair Rate of Return (FRoR) for the Second Control Period	9
8		Inflation for the Second Control Period	10
9		Operation and Maintenance Expenditure for the Second Control Period	11
10		Non-aeronautical revenue for the Second Control Period	12
11		Aggregate Revenue Requirement (ARR) for the Second Control Period	13
12		Proposed Annual Tariff proposal (Annexure-2):	13
13		Any Other Comment	15
14.	IATA Comments	Airport Users Consultative Committee (AUCC) meeting	17
15		Cost Allocation & adjustments	18
16		Steep upfront increase in tariff	18
17		Fair rate of return	18
18		Security expenses	18
19	HPCL Comments	HPCL Comments	18
20	BAOA Comments	Stakeholder Meetings	19
21		Publication of Ground Handling (GH) Charges for NSOP/GA	19

A. FIA COMMENTS ON AERA'S CONSULTATION PAPER FOR DETERMINATION OF AERONAUTICAL TARIFF FOR INDORE INTERNATIONAL AIRPORT (IDR) FOR THE SECOND CONTROL PERIOD

1. FIA Comments on CP 04/2024-25

FIA has conveyed at annexure 2 of CP (Table- A, B and C) regarding parking charges, Landing Charges & UDF Charges proposed in CP Vs. Existing Parking charges, Landing Charges & UDF charges at Indore Airport.

Refer the above displayed Tables A, B and C, kindly note the following from the above tables:

- **Tables A:** AERA has proposed an increase in the Landing Charges (Domestic & International) on Q-400/ATR (80 & above seater) & on A320 / B-737-800 approximately increasing by 61% to 103 % from existing charges.
- **Tables B:** AERA has proposed to increase the Parking Charges (Domestic & International) on Q-400 (80 & above seater) and on A320 / B-737-800 approximately to increase by 61 to 103% from existing charges.
- **Table C:** AERA has proposed an increase in the UDF of by 99 % for Domestic Embarking Passenger and 115% for International Embarking Passengers from existing charges. It is in the interest of all the stakeholders that the proposed tariffs as noted above may not be implemented as the proposals are excessive. AERA is requested to reconsider the proposed tariff structure in view of the points mentioned above, as also in consideration of points as mentioned in Annex - B of this letter.

Submission of AAI

Increase in landing, parking and UDF charges has been proposed for Indore International Airport on account of

a) true up of First Control Period and the resultant shortfall due to various reasons including the COVID-19 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. for Indore International Airport 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 trueing 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 4.6.2 - 4.6.5

It is submitted that:

(a) We observe that the Fair Rate of Return (FRoR) of 13.36% 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 IDR 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 to assess the proposed FRoR as AAI has not factored any debt as part of the MYTP submission for FRoR, and Indore Airport has one of the lowest debt components of all AAI airports of similar capacity.

Para 4.7.17 (b) point 2

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 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. AERA has been considering cost of equity at 13.36% 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.

4. The capital expenditure approved in the 1st CP could not be utilized because of the Covid-19, Pandemic-shortage of labour and restriction imposed by the GOI.

5. Traffic for the Second Control Period

Para 5.2.7 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), we request AERA to kindly conduct an independent study, which may also include demand drivers' hat 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, 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.

We request the authority to rationalize the traffic projections by AAI with a more focused approach for Indore International Airport, especially considering plans of airlines to expand domestic and international flights from IDR, as we feel that the growth projections for IDR are very aggressive given the existing base of passenger numbers. This is with a view to further rationalise and optimize the CAPEX being undertaken and avoid more costs being passed on to airlines and passengers alike.

Hence, we request that the 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 7.2.7

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.

Wherever the normative cost is applicable on the capital work, AAI calculates and submit the normative cost and accordingly AERA allows/approves the same. Normative cost is required for construction of Terminal Building/Apron/Taxi Way/Parallel Taxi Track etc. Since no such work is proposed in second control period and only modification of existing Terminal Building will take place. Therefore, the requirement for such working does not arise.

Para 6.2.2

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

Further, it is also observed that, at the time of True-up of First Control Period ('FCP'), there is a significant amount of 'unplanned' capex additions done by AAI. Hence, it does not instil confidence in the Stakeholder (i.e., Airlines), that the capex planning has been efficient. In view of that, we request AERA to conduct an independent study for 'efficiency of capex for SCP' before issuing the final order, which may help in understanding the exact needs of the airport and lower risk of unplanned capex in the next control.

Further, 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. The unplanned expenditure has been incurred after considering operational requirement at the airport. 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. AERA is considering return on RAB after the assets get capitalize and put to use.

Para 6.2.31

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. The unplanned expenditure has been incurred after considering operational R AAI has cautiously considered only that capex which are essential, through discussions with the Corporate Headquarters and stakeholders during these years.

Para 6.1.3

FIA submits that, AERA have considered the Terminal Building Ratio ('TBLR') of 92:8 for the Second Control Period.

However, it is important to recognize the significance of Indore as a prominent destination and a vital hub in Madhya Pradesh. The city is Known for its rich cultural heritage, vibrant food scene, and emerging IT and business sectors, attracting a significant number of domestic and international visitors. Additionally, Indore's flourishing educational institutions and proximity to popular tourist attractions such as Mandau and Maheshwar further enhance its appeal.

With its growing reputation and steady influx of tourists, business travellers, and culinary enthusiasts, Indore plays a crucial role in tourism. Its strategic location and the development of Devi Ahilya Bai Holkar Airport further underscores 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 Indore's diverse industries, educational institutions, and the significant impact of its cultural attractions, making it a prominent centre for tourism and business.

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 IDR 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. Due to constraints in existing building, it is very difficult to increase the

area allocation for Non-Aero. However, AAI will make more efforts to increase its Non-Aero Revenue as per projections submitted in MYTP.

Para 6.3.2, Table 71

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.

Submission of AAI

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

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

Para 7.2.6 (Table 78)

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

It is observed that AERA has considered FRoR of 13.53%, 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. 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. AERA has been considering cost of equity at 13.36% as against 15.64% as per study report submitted by M/s KPMG. AERA has reduced FRoR to 13.36% against AAI's submission of 14%. AAI does not accept with the view of FIA that Airport industry is established with lower risk. However, huge capex and operating expenses are incurred to be maintain world class airport used mostly by the airlines and the pax.

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% - 3.2 %. 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 9.2.19 & 9.2.20

(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 9.2.23 Table 88

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 to not 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 prior to issuing the final tariff order. 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.

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 10.2.12 (Table 91)

It is observed that the non-aeronautical revenues projected by AAI is 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 Indore 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 nonaeronautical 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 for Indore 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 Indore is increasingly recognized as a key destination for cultural, educational, and business tourism drawing visitors from around the world. With air travel being the preferred option for many, the city's air traffic is projected to see significant growth.

Accordingly, we request AERA:

- a) To mandate AAI to enter into more agreements with concessionaires to exploit the potential/ growth of NAR at IDR
- 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 Indore 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 IDR.

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 behavior, spending patterns and per capita income of the region. Therefore, a standardized approach may not accurately reflect the ground reality of non-aeronautical business and may be detrimental to the Airport Operator.

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

Para 14.2.1 (Table 98)

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 tend 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

12. 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 18.2.5 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. UDF effective from 1st November 2024 to 31st March 2028: -

Comment to Note. a. of Collection Charges: Please note that the same is paid by the airport operator 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 of Collection charges for PSF in the MYTP submitted by the Airport operator. In the event the PSF is subsumed in the UDF, then airlines may kindly be eligible to claim collection charges at 2.5% of PSF per passenger, 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:

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

2) Parking Charges (18.2.4)

Refer Note:

- a) "Note b". 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".

- b) Further, FIA recommends to add note (i) in Para 18.2.4 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 airline".

3). Landing charges:

a) AERA has proposed to increase the Landing Charges for all flights to 61% to 103% approx.: - from the existing charges. We request AERA to kindly consider rationalising the same.

b) Para 18.2.4. (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.

Submission of AAI

We may request AERA to comment.

13. 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 IDR- Second Control Period, will now be issued after the commencement of the Control Period i.e., 1 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 through 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 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. 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.

Submission of AAI

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

B. IATA COMMENTS ON AERA'S CONSULTATION PAPER FOR DETERMINATION OF AERONAUTICAL TARIFF FOR INDORE INTERNATIONAL AIRPORT (IDR) FOR THE SECOND CONTROL PERIOD

1. Airport Users Consultative Committee (AUCC) meeting

- IATA would like to highlight that there was no AUCC meeting conducted by the AO before embarking on capital expenditure projects. This was highlighted by IATA as well as by the airlines during the AERA consultation meeting held on 20th September. At the behest of AERA, the AO subsequently scheduled the AUCC meeting on 1st October 2024.
 - During the AUCC meeting on 1st October, the misalignment of priorities between airport operator and airlines operating was evident, which could have been avoided if due consultation had been undertaken in a timely and meaningful manner.
 - Scheduling an AUCC 5 months after the beginning of CAPEX work is too late for establishing the need and business case for any CAPEX, or to incorporate any changes into the CAPEX plan. This certainly does not adhere to both the intent and due process stipulated by AERA. AO should recognize that such unsupported decisions/investments that have not been validated by airport users/airlines would run the risk of not being accepted for inclusion in the RAB and in determining the overall ARR.
 - We would request AERA to recognise such gaps and put in place a mechanism so that the mandated consultation protocols are respected and followed in a timely manner. IATA has previously provided AERA with our recommendation for a best practice consultation framework that facilitates ongoing engagements by an AO with its stakeholders in an inclusive and collaborative manner.

Submission of AAI

AERA during consultation meeting held on 20.09.2024 has advised AAI to conduct AUCC meeting for the eligible projects before issuing of order. Accordingly, AAI has conducted AUCC meeting on 01.10.2024 at Indore Airport. The minutes of AUCC meeting has already been shared with AERA. In the said meeting, Airport Director, Indore assured that all facilities would be provided and AAI will adhere to all norms of BCAS and that there would be no compromise with passenger experience

2. Cost allocation & adjustments

- We appreciate AERA for excluding unjustifiable costs from RAB that were proposed by the airport operator, such as cost related to CSR, lega, as well as costs incurred due to penalties.
- IATA supports the proposal to review of CHQ/RHQ costs allocation methodology and would request AERA to subject the proposed approach to consultation. The consultation can either be to review the proposal by AAI or to provide feedback on AERA's preliminary view of the proposal by AAI.

Submission of AAI

No Comments

3. Steep upfront increase in tariff

- The increase in tariff proposed in the CP is very steep during the first year of the CP and then gradually tapers down during the rest of the years of the control period.
- We request that this increase could be better spread out over the years across the control period, while still providing the airport operator with the required target revenue within the control period.

Submission of AAI

No Comments

4. Fair rate of return

- The FROR approved by AERA at 13.53% is high and does not reflect the business risk (or lack of) assumed by the airport operator, given the true-up approach adopted by AERA.

Submission of AAI

No Comments

5. Security expenses

- We would like to understand as to why major security expenses related to the construction of CISF quarters included in the Regulatory Asset Base (RAB) are not being funded via the Aviation Security Fund (ASF)? All security related costs previously funded through the PSF-SC should rightfully be funded through the ASF. This expense should thus be disallowed by AERA.

Submission of AAI

As per National Aviation Security Fee Trust (NASFT) guidelines, all capital expenditure related to security to be borne by Airport Operator. Hence, the same has been considered in MYTP.

C. HPCL COMMENTS ON AERA'S CONSULTATION PAPER FOR DETERMINATION OF AERONAUTICAL TARIFF FOR INDORE INTERNATIONAL AIRPORT (IDR) FOR THE SECOND CONTROL PERIOD

" HPC is not currently providing its services at Indore Airport but would certainly like to do so in the future. Given that Indore Airport is growing at a decent rate, with nearly 6 million passengers expected by 2026-27, AAI should plan to implement an Open Access facility not only at Indore but at all major airports showing potential for growth. An Open Access facility would allow more suppliers, fostering competitiveness among ATF suppliers."

Submission of AAI

It is a policy matter. AAI has initiated Open Access System at Bhuvneshwar Airport. The same may be taken up with AAI management for further necessary directions.

D. BAOA COMMENTS ON AERA'S CONSULTATION PAPER FOR DETERMINATION OF AERONAUTICAL TARIFF FOR INDORE INTERNATIONAL AIRPORT (IDR) FOR THE SECOND CONTROL PERIOD

1. Stakeholder Meetings:

We request that AERA issue an advisory to all airports to conduct stakeholders' meetings at least once every six months, preferably in a hybrid format with the option of virtual participation, to ensure regular feedback on ongoing services and development plans.

Submission of AAI

AERA to comment.

- 2. Publication of Ground Handling (GH) Charges for NSOP/GA:** In line with the directives issued by the Ministry of Civil Aviation (MoCA) and the commitments made by the Airports Authority of India (AAI), itemized ground handling charges for Non-Scheduled Operator Permit (NSOP) and General Aviation (GA), specifically for smaller aircraft, as approved by AERA, must be published on the airport and AAI websites for all public airports, including Indore. We request AERA to issue the necessary directions to all airports in this regard when finalizing aeronautical charges. Kindly refer to the attached letters from MoCA and AAI for further reference.

Submission of AAI

AERA to comment.