FEDERATION OF INDIAN AIRLINES

Federation of Indian Airlines
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URGENT & IMPORTANT

25 November 2024

To,
The Chairperson,
Airports Economic Regulatory Authority,
AERA Building, Administrative Complex,
Safdarjung Airport,
New Delhi- 110 003.

Kind Attention – Shri. S.K.G. Rahate, Ji

Sub: FIA Response to the AERA CP. No. 05/2024-25 dated 26th October 2024 on determination of Aeronautical Tariff for Lal Bahadur Shastri International Airport, Varanasi for the Second Control Period (01.04.2024 – 31.03.2029)

Ref: *AERA stakeholder consultation meeting dated 11th November, 2024.*

Dear Sir,

We, the Federation of Indian Airlines ("**FIA**") (on behalf of our members, IndiGo, SpiceJet, Go First and Air India) submit our response to the Consultation Paper No. 05/2024-25 issued by the Airports Economic Regulatory Authority of India ("**AERA**" or "**Authority**") regarding the of determination of Aeronautical Tariff for Lal Bahadur Shastri International Airport, Varanasi ('**VNS'**) for the Second Control Period (01.04.2024 – 31.03.2029) ('**Consultation Paper**' or '**CP**').

At the outset, we would like to express our sincere gratitude to AERA for inviting stakeholder comments on the CP and conducting the Stakeholder consultation meeting on 11th November 2024.

Sir, FIA submits that, according to the Investment Information and Credit rating Agency of India ('ICRA') the aviation industry is projected to report a net loss of over INR 5,000 in FY25. However, it may be noted that the aviation industry has far reaching impacts from the strong financial headwinds caused by factors such as seasonal economic slowdown, geo-political instability, ongoing wars, significant global supply chain issues, increased Aviation Turbine Fuel (ATF) prices, limited government financial support, subdued customer willingness to pay, and foreign exchange fluctuations among others.

It may be noted that, despite the gradual improvement in passenger traffic, the elevated ATF prices and depreciation of Indian rupee continue to severely affect airlines. This is because the cost structure of airlines is heavily dependent on ATF, which is priced in USD, along with many other operational costs that are largely dollar denominated.

The CP proposes an increase in the aeronautical tariffs at VNS. As outlined in **Annex – A**, we request that AERA kindly considers our observations and feedback. In this regard, we respectfully urge the authority to reconsider and review any increase in the aeronautical tariff in the Second Control Period and wherever possible, defer any increase to the subsequent control period, given the financial impact this will have on airlines and passengers alike.

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Without prejudice to the above, we request AERA to kindly review our detailed submissions, which are mentioned under **Annex – B**.

We trust that AERA will give due consideration to our recommendations, which we believe will contribute to the affordability and sustainability, of the airline industry –goals that align with the objectives outlined in the National Civil Aviation Policy, 2016.

We look forward to your continued support in these challenging times.

Yours Truly,

For and on behalf of the Federation of Indian Airlines,

Ujjwal Dey
Associate Director
+91-9899423302

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Copy to:
Director (P&S Tariff), Airports Economic Regulatory Authority of India.

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Annex – A - Observations on proposed Tariff Card (Proposed by AERA)

TABLE – A

Landing Charges: (Refer– (17.2.3 of Annexure 2 of the CP) (In Rs.)

Particulars	Unit	Tariff Proposed by AERA					
	MT	FY 2024-25 (Tariff w.e.f. 01.04.2024 to 31.09.2024)	FY 2024-25 (Tariff w.e.f. 01.12.2024 to 31.03.2025)	FY 2025-26 (Tariff w.e.f. 01.04.2025 to 31.03.2026)	FY 2026-27 (Tariff w.e.f. 01.04.2026to 31.03.2027)	FY 2027-28 (Tariff w.e.f. 01.04.2027 to 31.03.2028)	FY 2028-29 (Tariff w.e.f. 01.04.2028 to 31.03.2029)
LANDING DOMESTIC (INR/MT)							
Eg: Impact on Q400 Landing charges for 80 & PLUS seater (Rs.)	30 MT	7180.5	10060	10670	11315	11995	12710
Variance % from existing	Q-400		40%	49%	58%	67%	77%
Variance % from YoY			40%	6%	6%	6%	6%
A320 / B737-800 (Rs.)	79 MT	26148	36621	38828	41168	43641	46247
Variance % from existing	A320 / B737-800		40%	48%	57%	67%	77%
Variance % from YoY			40%	6%	6%	6%	6%
LANDING INTERNATIONAL (INR/MT)							
Eg: Impact on Q400 Landing charges for 80 & PLUS seater (Rs.)	30 MT	12473.5	17460	18510	19630	20820	22080
Variance % from existing	Q-400		40%	48%	57%	67%	77%
Variance % from YoY			40%	6%	6%	6%	6%
A320 / B737-800 (Rs.)	79 MT	50182	70254	74476	78964	83718	88767
Variance % from existing	A320 / B737-800		40%	48%	57%	67%	77%
Variance % from YoY			40%	6%	6%	6%	6%

TABLE – B

Parking Charges: (Refer – Annexure 2 of the CP) (In Rs.)

Particulars	Unit	Existing Rates	Tariff Proposed by AERA				
	MT	FY 2024-25 (Tariff w.e.f. 01.04.2024 to 31.09.2024)	FY 2024-25 (Tariff w.e.f. 01.12.2024 to 31.03.2025)	FY 2025-26 (Tariff w.e.f. 01.04.2025 to 31.03.2026)	FY 2026-27 (Tariff w.e.f. 01.04.2026to 31.03.2027)	FY 2027-28 (Tariff w.e.f. 01.04.2027 to 31.03.2028)	FY 2028-29 (Tariff w.e.f. 01.04.2028 to 31.03.2029)
DOMESTIC PARKING CHARGES - INR/ Hr/ MT (for 1st 2 chargeable hrs)							
Eg: Impact on Q400 Parking charges for 80 & PLUS seater (Rs.)	30 MT	98	137.25	145.5	153.75	163.5	173.25
Variance % from existing	Q-400		40%	48%	57%	67%	77%
Variance % from YoY			40%	6%	6%	6%	6%
A320 / B737-800 (Rs.)	79 MT	349.5	489.55	518.85	549.6	582.85	617.55
Variance % from existing	A320 / B737-800		40%	48%	57%	67%	77%
Variance % from YoY			40%	6%	6%	6%	6%
INTERNATIONAL PARKING (INR Per HOUR /MT)(for 1st 2 chargeable hrs)							
Eg: Impact on Q400 Parking charges for 80 & PLUS seater (Rs.)	30 MT	98	145.75	154.25	164	174	184.25
Variance % from existing	Q-400		49%	57%	67%	78%	88%
Variance % from YoY			49%	6%	6%	6%	6%
A320 / B737-800 (Rs.)	79 MT	349.5	566.35	599.8	636.2	674.8	714.9
Variance % from existing	A320 / B737-800		62%	72%	82%	93%	105%
Variance % from YoY			62%	6%	6%	6%	6%

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TABLE C

UDF Charges: (Refer – 17.2.5 of Annexure 2 of the CP) (In Rs.)

Particulars	Unit	Existing Rates	Tariff Proposed by AERA				
	MT	FY 2024-25 (Tariff w.e.f. 01.04.2024 to 31.09.2024)	FY 2024-25 (Tariff w.e.f. 01.12.2024 to 31.03.2025)	FY 2025-26 (Tariff w.e.f. 01.04.2025 to 31.03.2026)	FY 2026-27 (Tariff w.e.f. 01.04.2026 to 31.03.2027)	FY 2027-28 (Tariff w.e.f. 01.04.2027 to 31.03.2028)	FY 2028-29 (Tariff w.e.f. 01.04.2028 to 31.03.2029)
UDF	Per Embarking	UDF					
DOMESTIC	Inr/Per Embarking pax	400	440	480	500	520	540
Variance % from existing			10%	25%	25%	30%	35%
Variance from YOY			10%	9%	4%	4%	4%
INTERNATIONAL	Inr/Per Embarking pax	1300	1350	1360	1370	1380	1390
Variance % from existing			4%	5%	5%	6%	7%
Variance from YOY			4%	1%	1%	1%	1%

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

1. 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 increase by 40 to 77% from existing charges.
2. Tables B: AERA has proposed to increase in the Parking Charges (Domestic) on Q-400 (80 & above seater) and on A320 / B-737-800 approximately increase by 40 to 77% from existing charges and for International Q-400/ATR (80 & above seater) approximately increase by 49 to 88% and approximately 62 to 105 % for A320/B-737-800 from existing charges.
3. Table C: AERA has proposed an increase in the UDF of by 10 to 35 % for Domestic Embarking Passenger and 4% to 7% for International Embarking Passengers from existing charges.
4. It is also seen that the increase in UDF charges for VNS is disproportionate as compared to the increase in the aeronautical chares. The authority is requested to take cognizance of the fact that this will place undue burden on airlines leading to increase in operating costs. Compared to increase in UDF charges, increase in aeronautical 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.

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Annex - B

We humbly request AERA to not implement any increase in the aeronautical tariff in the Second Control Period. In addition, without prejudice to the above, we request AERA to kindly note FIA's submissions to the AERA C.P. No. 05/2024-25 on determination of Aeronautical Tariff Lal Bahadur Shastri International Airport, Varanasi ('**VNS**') for the Second Control Period ('SCP') (01.04.2024 – 31.03.2029)

S. No.	AERA's Proposal under each Chapter	Comments
1.	Background, Framework of tariff determination	<u>**Para 3.3.1**</u> 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.
2.	Methodology for Tariff Determination – Hybrid Till Vs. Single Till	<u>**Para 3.1.2**</u> 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.
3.	True up for the FCP	<u>**Para 4.5.2 - 4.5.3**</u> It is submitted that: (a) We observe that the Fair Rate of Return (FRoR) of 14% provided to the Airport Authority of India ("AAI") is higher compared to some of the airports, such as Chennai and Pune. Without prejudice to the above, there appears to be no clear rationale for providing a higher return to AAI for VNS . Accordingly, we request that AERA consider reducing the FRoR appropriately. (b) We also request that AERA conduct an independent study to assess the proposed FRoR. As AAI has not factored in any debt as part of its MYTP submission for FRoR, while VNS has one of the lowest debt components among all AAI airports of similar capacity. <u>**Para 4.7.6 (b) point 2**</u> 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.

<table>
<tr><td></td><td></td><td><u>Para 2.1.6</u>
Without prejudice to the above:- 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.</td></tr>
<tr><td>4.</td><td>Traffic for the Second Control Period</td><td><u>Para 5.2.7 and Table 28</u>

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 kindly request AERA to conduct an independent study. This study should include additional demand drivers that may not have been covered in the report issued by IATA and ACI India.

We would also like to draw the Authority's attention to the fact that the trends observed in the recent post-pandemic period may not serve as a reasonable benchmark for future projections, whether in terms of passengers or traffic. Economic factors such as inflation, market demand and prices may not continue at the same rate or trend, as the current post-pandemic trends are influenced by exceptional factors such as COVID-19, revenge tourism, Geo-political issues, and recent financial disruptions in the USA. While there has been an increase in the load factors post COVID-19 recovery, these factors may not necessarily hold in the long term.

Therefore, we request the Authority to rationalize the traffic projections by AAI, specifically for Varanasi International Airport, with a more focussed study-especially on the international front – considering the plans of airlines to expand international operations from VNS.

Hence, we respectfully request that the Authority take this consideration into account and, if deemed appropriate, appoint independent consultants to evaluate the findings while finalising the projected ATM and passengers' figures.</td></tr>
<tr><td>5.</td><td>Related Party Transactions</td><td>It is noted that there is no mention of related Party Transaction in the Consultation Paper.
FIA submits that in our view AERA should conduct the RPT Compliance check.

In this regard, we request AERA to kindly ensure that:

(a) Any tendering and awards for services must go through a competitive, transparent and fair process;

(b) Agreement with related parties shall not have any onerous terms, aggressive cost escalation, restrictive covenants, unfair lock in period or cost escalations or any other terms that may arise from awards to Related Parties, which is not in favour of airport users/other stakeholders.

It is not in the interest of the stakeholders that related parties be awarded agreements for services (or otherwise) as there is fear of multi-layered transactions between / among airport operators or their Joint Ventures or their Holding / Subsidiary/ Sister Subsidiary companies (or business associates by whatever name called), which is not efficient for the eco-system, and should be banned.</td></tr>
</table>

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 6.2.6 A1 (iv) a** 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. We submit that there should not be any incremental normative rate for capex projects. 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. 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. In view of the above, 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 and/or under-utilized capex in this control. **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 case the 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. **Para 6.2.3** We would like to highlight the authority's observation that the Airports Authority of India (AAI) conducted an AUCC meeting with all stakeholders concerning the capital expenditure for the construction of the New Terminal Building at VNS. This was done to meet the demands of robust traffic growth and passenger facilitation, as per the meeting held on November 25, 2019 (AAI/APD/VNS-2019/). However, we wish to bring to attention the long gap that has occurred since this consultation, exacerbated by the challenges posed by the COVID-19 pandemic, which led to significant shifts in passenger traffic patterns and operational priorities. In light of these changes, we urge AERA to recognize the gaps in the consultation process and establish a clear mechanism to ensure that the mandated consultation protocols are followed in a timely manner. This will help address the evolving needs of airport operations and stakeholder engagement. We have previously submitted recommendations to AERA for a best-practice consultation framework, designed to facilitate ongoing, inclusive, and collaborative engagement between the Airport Operator (AO) and its stakeholders. We hope this framework can be adopted to ensure more effective and timely consultations moving forward, particularly in the post-COVID.

Para 6.2.9

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.

Para 6.1.2

FIA submits that AERA has considered the Terminal Building Ratio ('TBLR') of 90:10 for the SCP. However, it is important to recognize the significance of Varanasi as a prominent destination and a vital hub in Uttar Pradesh, not only within India but also in a broader regional context. The city is renowned for its rich cultural heritage, bustling food scene, and growing prominence in sectors such as education, export, and tourism. Varanasi is quickly emerging as a key player in these fields, attracting both domestic and international visitors. Its role as a center for education, with a range of prestigious institutions, further enhances its appeal, making it a strategic location for academic and business collaborations.

In particular, Varanasi's educational institutions, including Banaras Hindu University (BHU), have become major draw cards for students, scholars, and researchers from across the globe. These institutions not only contribute to the intellectual vibrancy of the city but also support its growing role in the export sector, with research and technological innovation helping to drive local and national economies. Varanasi's export potential is also significant, particularly in the textile and handicraft industries, with local artisans producing world-renowned products such as silk, handwoven textiles, and brassware. The city's rich tradition of arts and crafts is increasingly reaching global markets, adding to its economic strength and providing new avenues for growth.

With its growing reputation and steady influx of tourists, business travellers, and culinary enthusiasts, Varanasi plays a crucial role in tourism. Its strategic location along the banks of the Ganges, along with proximity to popular tourist attractions such as Sarnath, Kashi Vishwanath Temple, and the ghats of Varanasi, strengthens its position as a major tourist destination. The development of Lal Bahadur Shastri International Airport and ongoing improvements in infrastructure further underscore its potential for increased non-aeronautical revenue, including services related to tourism, business, and export logistics.

The current non-aeronautical revenue ratio proposed by AERA may not fully capture the extensive economic opportunities presented by Varanasi's diverse industries, educational institutions, and cultural significance. Compared to major airports like DIAL, MIAL, and BIAL, Varanasi's TBLR (Terminal Building Lease Revenue) is undervalued, despite the city's increasing contributions to tourism, exports, and education. As noted by AERA, airports with TBLR above 10% are often cited as benchmarks for success, and Varanasi's unique combination of cultural, educational, and business assets suggests that its economic impact will continue to rise, reinforcing its status as a major centre for both tourism and business.

In view of the above, we request AERA to kindly allot the best possible ratio towards Non-Aeronautical Revenue (NAR), while maintaining a consistent approach in applying IMG norms. We further urge AERA to consider conducting an independent study to assess the potential for higher allocation non-aeronautical allocation for Varanasi Airport.

		Para 6.3.5, Table 47 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.
7.	Fair Rate of Return (FRoR) for the Second Control Period	**Para 7.2.11 (Table 50)** FIA submits that only reasonable Fair Rate of Return (FRoR) to airport operators should be provided. It is observed that AERA considered FRoR of 12.21%, 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., 15.18% and 9%. 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.

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.
9.	Operation and Maintenance Expenditure for the Second Control Period	**Para 9.2.20 (Power Expenses)** 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. **Para 9.2.23 Table 57** 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 especially in FY 2028-29. 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.
10.	Non-aeronautical revenue for the Second Control Period	**Para 10.2.12 (Table 91)** It has been observed that the non-aeronautical revenues projected by AAI is conservative. Typically, non-aeronautical revenue is expected to cover about 50% of the operation and maintenance expenses (OPEX). However, it is noted that in this Control Period (CP), AAI has projected the non-aeronautical revenue to be only about 27% of OPEX. Even accounting for the reductions in OPEX proposed by AERA, the non-aeronautical revenue would remain at approximately 36% of the OPEX, which is still too low. We strongly recommend that AAI explore all possible avenues to maximise revenue from the utilisation of the terminal building for non-aeronautical purposes.

		Additionally, we would also like to highlight that the 90.63 crore NAR achieved during the first control period (CP) was based on traffic movement that was only half of the proposed traffic movement for the second control period. The COVID-19 pandemic and other external factors significantly impacted the NAR during the first Control period, further limiting the airport's non-aeronautical revenue potential. Given that the traffic movement is expected to be more than double in the second control period, the proposed NAR of 163.09 crore remains a conservative estimate. In light of these challenges, we recommend that AAI take proactive steps to leverage available space and resources to enhance their non-aeronautical activities and revenue generation, which will positively contribute towards the airport's financial performance in future periods. We respectfully request AERA to mandate AAI to enter into suitable agreements with concessionaires to fully exploit the potential growth of non-aeronautical revenue at VNS. In this context, we also request AERA to undertake a detailed examination of non-aeronautical revenue by commissioning an independent before determining tariff for the SCP. Without prejudice to the above, it should be noted that factors such the expansion of terminal building area, growth in passenger traffic, inflationary pressures and real increases in contract rates influence the increase in NAR. Despite these factors contributing to increased revenue potential, it appears that AERA's projections for non-aeronautical revenue in the second control period are conservative. Given the substantial opportunities for growth, we request that AERA adopt a more optimistic and expansive approach to NAR projections, aligning them with the actual potential and economic benefits for VNS. It is worth noting that in other airports, truing up of NAR in subsequent control periods has often led to underestimation of potential revenue, resulting in higher tariffs in those control periods. FIA submits that Varanasi is increasingly recognized as a key destination for cultural, educational, and business tourism, attracting 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 growth potential of NAR at Varanasi Airport (VNS). b) To kindly undertake a detailed examination, with the assistance of an independent study, of the NAR before the tariff determination of the Second Control Period. c) To further determine, re-assess their estimates in line with other comparable airports. It may also include the impact of the tourism lineage that Varanasi must 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 VNS.**

11.	Aggregate Revenue Requirement (ARR) for the Second Control Period	**Para 13.2.1 (Table 67)** 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.
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. Also, the proposed tariff increase in the CP is quite steep in the first year, with a gradual reduction in subsequent years. This sudden increase could place a significant burden on airlines and passengers. We request that the increase be more evenly distributed across the control period, ensuring that the airport operator still meets the required target revenue while minimizing the financial impact on airlines and passengers. 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:

<u>**Collection Charges**</u>**:** 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) <u>**Ref: Notes to User Development Fee (UDF) Charges**</u>**:**

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 December 2024 to 31st March 2029: -</u>

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

2) **Parking Charges (17.2.4)**

Refer Note of Table 87:

a) FIA recommends to add note (i) 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 airline".

		b) "Note 8" – 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. **3. Landing charges:** **a)** AERA has proposed to increase the Landing Charges for all flights to 40% to 77% approx. from the existing charges. We request AERA to kindly consider rationalising the same. **b) CUTE, CUPPS, CUSS** AERA is kindly requested to provide transparency by clearly publishing the detailed breakdown of CUTE and BRS charges, in accordance with the AERA Act, for the benefit of all stakeholders.
13.	Any Other Comment	**A. <u>Shrinkage in Control Period</u>** 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 VNS- Second Control Period, will now be issued after the commencement of the Control Period i.e., 1 April, 2024. 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.

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		B: Royalty Any attempt to award the contracts by the airport operator on highest revenue share basis should be discouraged as it breeds inefficiencies and tends to disproportionately increase the cost. It is general perception service providers has no incentive to reduce its expenses as any such increase will be passed on to the airlines through tariff determination mechanism process and indirectly airlines will be forced to bear these additional costs. There needs to be a mechanism for incentivizing the parties for increasing efficiencies and cost savings and not for increasing the royalty for the airport operator. As you are aware, royalty is in the nature of market access fee, charged (by any name or description) by the Airport operator under various headings without any underlying services. These charges are passed on to the airlines by the airport operator or other services providers. The rates of royalty at the airport are as high as up to 21% 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.