



भारतीय विमानपत्तन प्राधिकरण AIRPORTS AUTHORITY OF INDIA

F/No. AAI/JVC/Varanasi -Tariff/2024-25/1458

Date: -05.12.2024

**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 (01.04.2024 to 31.03.2029) and True-up of 1st control period (01.04.2019 to 31.03.2024) in respect of Varanasi Airport.

Reference: -Submission of AAI's response to stakeholder comments in response to consultation paper no 05/2024-25 in respect of Varanasi Airport issued by Airport Economic Regulatory Authority of India (AERA).

Sir,

This has reference to AERA's consultation paper no 05/2024-25 dated 26.10.2024 in the matter of determination of Aeronautical tariff in respect of Varanasi Airport for the 2nd control period (01.04.2024 to 31.03.2029).

AAI's response to stakeholder comments on consultation paper No. 05/2024-25 is enclosed.

This issues with the approval of the Competent Authority.

Thanking You.

भारतीय विमानपत्तन आधिक विनियमक प्राधिकरण
सफदरजंग एयरपोर्ट, नई दिल्ली-110003

प्राप्त
डायरी न. 19/12
दिनांक 5/12/24

Yours sincerely,

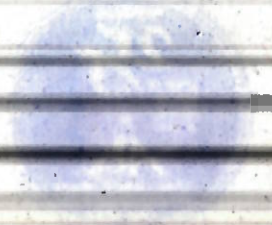
(R.Prabhakar)

General Manager (Finance-Tariff)

Encl: -1. Response to Stakeholder comments on Consultation Paper no 05/2024-25

O/C

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

1. FIA Comments on CP 05/2024-25

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 Q400/ATR (80 & above seater) approximately increase by 49 to 88% and approximately 62 to 105 % for A320/B737-800 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.

Submission of AAI

Increase in landing, parking and UDF charges has been proposed for Varanasi 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 Varanasi International Airport (VSN) 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 4.5.2 - 4.5.3

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.

Para 4.7.6 (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 2.1.6

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.

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. AERA has not considered of Interest / penalties while evaluating MYTP Varanasi Airport.

5. Traffic for the Second Control Period

Para 5.2.7 and Table 28

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 focused 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 finalizing the projected ATM and passengers' figures.

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. Related Party Transactions

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.

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 6.2.6A1(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.

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 New Terminal Building/Apron/Taxi Way/Parallel Taxi Track etc.

1. Tender process is carried out by AAI through competitive bidding only and invited tender through CPP portal Gem portal etc.
2. In case any related party transaction, the same has been disclosed in annual report of the AAI and in compliance to rules in vogue.

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.

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 capitalized and put to use.

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.

Submission of AAI

AAI had conducted AUCC meeting on 25th Nov,2019. Thereafter one AUCC Meeting was proposed in Jan 2024 which was postponed AERA/AAI due to request raised by FIA to AERA/AAI. AUCC for the capital works will be called very soon for deliberation of various project before all the stakeholders.

The capital works are planned to complete in timely in manner. Some time for the want of approvals from various outsides agencies may get work delayed which are beyond the control of Airport operator.

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/capitalized as per the approved capitalization 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 6.1.2

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 center 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

Submission of AAI

AAI is making all efforts to increase Non-Aeronautical revenue. The Terminal Building are designed to comply IMG Norms/ICAO guidelines/BCAS Norms and other regulatory Authorities. (Further, 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).

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.

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 7.2.11 (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.

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 9.2.20 (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.

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 57

While we appreciate the rationalization 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 trueing up the O&M in subsequent control periods, it always leads to overestimation 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

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. Since the New building is proposed in FY 2027-28, therefore R&M cost of building will be increased for up keep of building, Air-conditioning, New X-BIS, Escalators, Aerobridges etc.

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 maximize revenue from the utilization 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 as 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, tripping 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.

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 as 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.

Non-Aeronautical revenue may not be linked with operating expenditure as the passenger may not be inclined for spending of money on Non-aero activities however airport operator is bound to maintain the airport.

The operating Expenditure is consistently required to be incurred to maintain Terminal building/Airport to world standard whereas non-aero Revenue generation depends upon consumer behavior/Licence Fees quoted by Concessionaires. So both may not be correlated.

Further, 25% (approx.) of non-aeronautical area is occupied by airlines (airlines offices) and AAI is getting only space rental which is now considered as Aero Revenue by AERA.

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 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.

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.

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:

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 dis-incentivizing 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 December 2024 to 31st March 2029: -

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 'Unauthorized 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 rationalizing 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.

Submission of AAI

- a. UDF is collected by Airlines on behalf of Airport operator at the time of issuance of ticket, which is normally well before the actual date of travel. Airlines make payment of UDF only after the actual travel executed by Passengers and using such amount as working capital.

Collection charges paid to Airlines by Airport operator to get the payment timely and to maintain cash flow. AAI is making payment of collection charges as per approved credit policy.

- b. The parking charges proposed by AAI is as per industry practices.

- c. Landing Charges are proposed to recover Capital cost & Operating cost incurred and proposed to be incurred by the Airport Operator.
- d. CUTE/CUSS is managed by Third Party appointed through call of Open Tender as per the award letter the payment receivable by AAI is Rs.24 out of Rs.35 per embarking pax collected by the Third party.

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 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 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 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.

Submission of AAI: AERA may please comment.