भारतीय विमानपत्तन प्राधिकरण
AIRPORTS AUTHORITY OF INDIA

F/No-AAI/JVC/Amritsar-Tariff/2024-25/1504 Dated 27.01.2025

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 Amritsar Airport.

Reference: - Submission of AAI's response to stakeholder comments in response to consultation paper no 06/2024-25 in respect of Amritsar Airport issued by Airport Economic Regulatory Authority of India (AERA).

Sir,

This has reference to AERA's consultation paper no 06/2024-25 dated 19.12.2024 in the matter of determination of Aeronautical Tariff in respect of Amritsar Airport for the 2nd control period (01.04.2024 to 31.03.2029).

AAI's response to stakeholder comments on consultation paper no 06/2024-25 is enclosed.

This issues with the approval of the Competent Authority.

Thanking You,

Yours sincerely,

(R.Prabhakar)
General Manager (Finance-Tariff)

Encl:-1. Response to Stakeholder comments on Consultation Paper no 06/2024-25

RESPONSE TO STAKEHOLDERS COMMENTS ON AERA'S CONSULTATION PAPER FOR DETERMINATION OF AERONAUTICAL TARIFF FOR AMRITSAR INTERNATIONAL AIRPORT (ATQ) FOR THE SECOND CONTROL PERIOD

A. FIA COMMENTS

1. FIA Comments on CP 06/2024-25

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

1. Tables A: AERA has proposed reduction in the Landing Charges (Domestic & International) on Q-400/ATR (80 & above seater) & on A320 / B-737-800 approximately by 42% from existing charges.

2. Tables B: AERA has proposed reduction in the Parking Charges (Domestic & International) on Q-400 (80 & above seater) and on A320 / B-737-800 approximately by 42% from existing charges

3. Table C: AERA has proposed a reduction in the UDF of by 42 % for Domestic & International Embarking Passenger from existing charges.

Due diligence done by AERA in rationalizing the tariffs is appreciated and in the interest of all the stakeholders FIA request that AERA further rationalize the proposed tariffs.

The Authority is requested to reconsider the proposed tariff structure mentioned above, in consideration of points as mentioned in Annex - B of FIA letter

Submission of AAI

Tariff has been proposed for Amritsar 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.

However, reduction of 42% in all the aeronautical charges is a big loss to AAI, AAI has submitted its comments to AERA .AERA is requested to reconsider the proposed tariff structure based on the written comments submitted by AAI.

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-subsidize aeronautical charges. In case the tariff in one particular year or contractual period turns out to be excessive, the same will be truing up and adjusted in next control period by AERA. AERA vide Order No. 14/2016-17 dated January 12, 2017 conveyed that to determine the future tariffs using Hybrid Till Methodology in line with the policy of Government of India directed Airport operator to submit the proposal on the lines of above said order. Accordingly, the proposal has been submitted by using Hybrid Till Methodology based on the above said directions of AERA.

4. True up for the FCP

Para 4.5.2

It is submitted that:

(a) We observe that the Fair Rate of Return (FRoR) of 14% provided to the Airport Authority of India ("AAI") for the First Control Period 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 Amritsar Airport. Accordingly, we request that AERA consider reducing the FRoR for the FCP appropriately.

(b) We also request that AERA conduct an independent study to assess the proposed FRoR for the Second Control Period.

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

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 the cost of equity was 15.64%, however, AERA has been considering cost of equity at 15.18%.

3. Further, In the order of First control period AERA has decided to provided then FRoR of 14% on the RAB to AAI.

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. Further, the work of Parallel taxi track which was one of the major capex could not be done due to delay on account of land issue with IAF.

5. AAI has already clarified in its comments that with respect to interest and penalties expenses at RHQ/ CHQ level for FY 2021-22, ICMAI in its report mentioned that interest and penalties are treated as non-cost items and are not treated as a part of costs and projection for the future years.

5. Traffic for the Second Control Period

Para 5.2.5 and Table 27

While we appreciate that AERA has considered the traffic forecast data published by IATA (refer para 5.2.5), 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.

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 ATQ, with a more focussed study-especially on the international front –considering the plans of airlines to expand international operations from ATQ.

Hence, we respectfully request that the Authority conduct an independent study by the help of consultants to evaluate the findings while finalizing the projected ATM and passenger's 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. 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(i)b

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. In addition to above, 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 underutilized capex in this control.

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.

During 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 as there was shortage of labour and restriction imposed by the GOI. Further, the work of Parallel taxi track which was one of the major capex could not be carried out due to land issue with IAF, which is beyond the control of AAI.

Further, 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. Tender process is carried out by AAI through competitive bidding only and invited tender though CPP portal /Gem portal etc.

Para 6.2.9

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 capitalize and put to use.

Para 6.2.8

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 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.

During 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 as there was shortage of labour and restriction imposed by the GOI, **which is beyond the control of AAI.** Further, the work of Parallel taxi track which was one of the major capex could not be carried out due to land issue with IAF, **which is again beyond the control of AAI.**

Para 6.2.7

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

However, it is important to recognize the significance of Amritsar as a prominent destination and a vital hub in Punjab, not only within India but also in a broader regional context. The city is renowned for its rich cultural heritage, vibrant food scene, and for being a prominent pilgrimage and for its growing presence in sectors such as education, export, and tourism.

Amritsar is rapidly 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.

Amritsar's educational institutions, including Guru Nanak Dev University and other leading academic centers, have become major drawcards for students, scholars, and researchers from across the globe. These institutions contribute not only 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.

Amritsar's export potential is also significant, particularly in the textile and handicraft industries. The city is renowned for its woollen textiles, carpets, and phulkari embroidery, with local artisans producing world-renowned products that are increasingly reaching global markets. The city's rich tradition of arts and crafts, particularly in brassware and embroidered fabrics, further strengthens its economic fabric and provides new avenues for growth. With its growing reputation and steady influx of tourists, business travellers, and culinary enthusiasts, Amritsar plays a crucial role in tourism. The city is home to the iconic Golden Temple, and its strategic location further enhances its appeal, serving as a major gateway for both domestic and international tourism. The development of ATQ and ongoing improvements in infrastructure further underscore its potential for increased nonaeronautical 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 Amritsar's diverse industries, educational institutions, and cultural significance. Compared to major airports like DIAL, MIAL, and BIAL, ATQ's TBLR (Terminal Building Lease Revenue) appears 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 Amritsar's unique combination of cultural, pilgrimage, 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 in assessing the potential for non-aeronautical allocation revenue for ATQ.

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 of passengers 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 7.2.12 (Table 41)

FIA submits that only reasonable Fair Rate of Return (FRoR) to airport operators should be provided. It is observed that AERA have considered FRoR of 11.90%, for the Second Control Period. It may be noted, that AERA in the recent times have approved lower FRoR for other airports such as Shirdi & Pune.

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. Recent Annual reports of one of the airlines having dominant position in india's domestic traffic shows the profitability of Rs.7000 crores- Rs.8000crores, so the contention of FIA that all the airlines are suffering from huge loss does not seem correct.
2. The FRoR for an airport depends upon the cost of equity and cost of debt.

3. 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 the cost of equity was 15.64%, however, AERA has been considering cost of equity at 15.18%.
4. Further, In the order of First control period AERA has decided to provided then FRoR of 14% on the RAB to AAI.
5. AERA has reduced FRoR to 11.90% 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 by airport operators to maintain world class airport used mostly by the airlines and the pax. Further, there is no dynamic system available to the Airport Operator to charge from the airlines, while airlines have that dynamic system to charge high price from passengers.
6. It may further be noted that Airport charges constitute a small percentage to the total ticket price airlines charged from passengers.
7. We request AERA to consider cost of equity as per study conducted by KPMG.

8. Operation and Maintenance Expenditure for the Second Control Period

Para 9.2.21 (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 has not levied over and above the charges while billing electricity charges to concessionaires for the units consumed by the concessionaires. The accounts of AAI are subject to CAG Audit which also covers the above aspect.

Para 9.2.24 Table 48&49

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 huge increase in utilities and outsourcing expenses. FIA respectfully urges AERA to further explore avenues to minimizing escalations across the expense categories. This action would significantly enhance our ability to manage overall costs more effectively.

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

FIA wishes to highlight that the same has been proven in cases of other PPP Airports like DIAL, MIAL, BIAL that while truing up the O&M in subsequent control periods, it always leads to 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

The costs captured by the airports are based on the actual spend and same are used for true up. To determine the costs, there are detailed tendering mechanisms for every contract and approving authorities as per delegation of powers approved by Board. 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. Further, the accounts of airports are subject to C&AG audit on a yearly basis. Further, AAI has submitted the O&M expenses for true up of first control period **lower by 2.2%** (i.e. RS. 446 crores against Rs. 456 crores) against the O&M expenses approve by the AERA during the order of first control period. This shows that projection of expenses is reasonable hence the question of over estimation does not arise. Hence, We request AERA to consider the O&M expenses of Rs. 446.44 crores as submitted by AAI.

Further Recent Annual reports of one of the airlines having dominant position in India's domestic traffic shows good profit, so the contention of FIA that all the airlines are suffering from huge loss does not seem correct.

9. Non-aeronautical revenue for the Second Control Period

Para 10.2.5 (Table 52)

It has been observed that the Non-Aeronautical Revenue ('NAR') projected by AAI appears to be conservative given the traffic projections and scope of increasing NAR. As, It is submitted that the 117.85 crore NAR achieved during the First Control Period was based on low traffic movement i.e., only half of the proposed traffic movement for the Second Control Period due to the impact of COVID-19 pandemic and other external factors. Given that the traffic movement is expected to be more than double in the Second Control Period, the proposed NAR of 282.53 crore still remains a conservative estimate.

In light of these factors, we strongly recommend that AAI should 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.

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, we request that AERA further rationalize its projections for NAR in the Second Control Period.

Given the substantial growth opportunities, we request that AERA adopt a more optimistic and expansive approach to NAR projections, aligning them with the actual potential and economic benefits for ATQ. It is also worth noting that at other airports, the truing up of NAR in subsequent control periods has often resulted in the underestimation of potential revenue, leading to higher tariffs in those control periods.

FIA submits that Amritsar is increasingly recognized as a key destination for cultural, educational, and business tourism, attracting visitors globally. With air travel being the preferred option for many, the city's air traffic is expected 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 Amritsar Airport (ATQ).

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 re-assess their estimates in line with other comparable airports. Including the impact of the tourism lineage that Amritsar has to increase their NAR in accordance with the submissions above.

AERA is requested to ensure no adjustments are proposed to NAR which are not dependent on traffic but are derived from agreements with concessionaires. In view of the above, we request AERA to allow higher NAR for ATQ

Submission of AAI

It may please be noted that 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.

AAI has made all the efforts to increase Non Aeronautical revenue without compromising the passenger facilitation as per BCAS norms and projected more than the double of what actually earned during first control period.

Further, Non-Aeronautical revenue may not be linked with operating expenditure as the passenger may not be insisted on spending 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 where as non-aero Revenue generation depends upon consumer behavior/License Fees quoted by Concessionaires. So both may not be correlated.

Further, we don't agree with FIA's view that proposed NAR of 282.53 crore is a conservative estimate. In this regard, it is to be submitted that 30% (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. Even after exclusion revenue from the space in terminal building occupied by airlines, the projection of Non-aero revenue of Rs. 282.53 crores (more than the double of what actually earned during first control period) can not be termed as conservative estimate.

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

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

Para 14.2.4 (Table 62)

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 relevant during periods of economic difficulty (such as the adverse financial impact on airlines following the post Covid-19 situation). Any attempt by AAI to award the contracts based on the highest revenue share basis should be discouraged, as it breeds inefficiencies and tends to disproportionately increase the costs.

It is commonly perceived that service providers have no incentive to reduce expenses, as any such increase in cost will be passed on to the airlines through the tariff determination mechanism process, thus forcing airlines to absorb these additional charges. There should be a mechanism in place to incentivizing the parties for improving efficiencies and achieving cost savings, rather than relying on the royalty for the airport operator. In light of the financial challenges faced by the airlines, as outlined in this letter, FIA requests AERA to further rationalise the reduction in tariff 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.

11. 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 best interest of all stakeholders that the proposed tariff reductions be further rationalised. Additionally, in order to encourage more middle-class people to travel by air, this will contribute to a strong post-COVID-19 recovery of the aviation sector. As per the government's stated vision to make UDAN ("Ude Desh ka Aam Naagrik") a reality, this can only be achieved if we maintain the lowest possible cost structure, enabling more and more people to access air travel

In addition, we request AERA and AAI to clarify the following:

I. Ref: Notes to User Development Fee (UDF) Charges:

Collection Charges: We would like to invite AERA's attention to notes 1 of 17.2.5 UDF charges in the Annexure -2 of CP, wherein the rate of collection of UDF charges is not mentioned by AERA. We request AERA to consider the collection charges at Rs. 5.00 embarking passengers as proposed by AAI in annexure 1. Further, AERA is kindly requested to consider that in light of the increasing administrative expenses due to inflation and other reasons (example - 5% inflationary / administrative increase each year), the collection charges may kindly be increased to keep pace with the proposed increase in UDF, as airlines only get a fixed rate, which results in disincentivizing the airlines.

a) Ref: Notes to User Development Fee (UDF) Charges:

We further request that in the Collection Charges, the entitlement by airlines for the same may kindly be against AAI having received the 'undisputed' invoiced UDF amount within the applicable due date.

i. UDF effective from 1st March 2025 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 ATQ on a domestic flight and then a connecting flight to an international destination.
- Passenger disembarking in ATQ from a domestic flight, however he originated his journey from an international destination.

II) Parking Charges (17.2.4)

Refer Note of Table 75:

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.

III) Landing charges:

a) AERA has proposed a reduction in the Landing Charges for all flights by approximately 42% approx. from the existing charges. We respectfully request AERA to consider further rationalising this reduction.

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 is as approved by AERA.
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

i. 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 ATQ- 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.

ii: 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:

AAI is making all the efforts to submit the MYTP within the prescribed time.

Further Recent Annual reports of one of the airlines having dominant position in India's domestic traffic shows good profit, so the contention of FIA that all the airlines are suffering from huge loss does not seem correct.

For operation of increasing number of aircrafts, Airport operator has to update the airport infrastructure and required to spend huge capital expenditure for passenger facilitation.

Regarding FIA's comment on charging 21% royalty, it is hereby submitted that fixed revenue sharing by ground handler to AAI at Amritsar airport is 3% (Domestic) and 15% (International) and not 21%

B) IATA COMMENTS

1) True up:

i) We agree with AERA's view of computing the depreciation of assets based on the date of capitalization instead of considering 50% of the depreciation in the year of capitalization, making it consistent with the approach being followed for other major airports.

ii) The FROR for the true-up period, computed at 14% continues to be excessive for airports managed by AAI. The FROR rate arrived at for the Second Control Period is a useful reference point that may kindly be considered by AERA.

Submission of AAI

(ii) The FRoR for an airport depends upon the cost of equity and cost of debt.

1. 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 the cost of equity was 15.64%, however, AERA has been considering cost of equity at 15.18%.
2. Further, In the order of First control period AERA has decided to provided then FRoR of 14% on the RAB to AAI.
3. AERA has reduced FRoR to 11.90% against AAI's submission of 14%. Huge capex and operating expenses are incurred by airport operators to maintain world class airport used mostly by the airlines and the pax.
4. It may further be noted that Airport charges constitute a small percentage to the total ticket price airlines charged from passengers.
5. We request AERA to consider cost of equity as per study conducted by KPMG.

2) CAPEX:

- While we recognize the need for the next phase of expansion of the Terminal Building at Amritsar, details of the overall design and planning parameters should be shared and discussed in detail – such as the overall level of service and concept of operations with the addition of the new facility – which was not done during the AUCC meeting conducted in December 2024 by Amritsar airport.

- As highlighted by IATA, the AUCC should be an ongoing engagement with stakeholders rather than a one-off exercise conducted right before the submission of the MYTP.

- We commend AERA for issuing its circular dated 1st January 2025 which serves as a much-needed reminder for airport operators on the consultation protocol prescribed under the AERA Guidelines of 2011. IATA is committed to support the AUCC process and requests that AERA monitor and enforce the requirements more closely.

Submission of AAI

Timely conduct of AUCC in respect of proposed Capital project will be taken care of in the future.

3) OPEX :

- We appreciate the principles based on which AERA has rationalized the allocation of HQ expenses.
  - We agree with AERA's proposal of not including expenses such as legal costs, interest/ penalties allocated in the common pool of CHQ/RHQ expenses.
  - Legal and Arbitration expenses incurred by CHQ and RHQ level should be funded from the returns earned by AAI, and not via the user charges of a particular airport.

- We request that the methodology for assessment of CHQ/RHQ expense allocation which is being worked on should be brought up for consultation with stakeholders before being formalized.

Submission of AAI:

AAI has submitted detailed comments regarding CHQ/ RHQ through letter dated 16.1.2025 to AERA wherein following is also submitted:

- ❖ With respect to Legal expenses for FY 2021-22, we request AERA to refer details given in Table 7.8 of ICMAI Report submitted to AERA and AAI's reply dated 21.11.2024, on the allocation of CHQ/RHQs Expenses. AAI analysed & identified some of the legal expenses related to JVC's and arbitration cases of other airports. Legal expenses for defending the international Arbitration wherein it is mentioned that arbitration expenses of Rs. 23.04 crores are allocated based on the revenue of the respective 7 airports as it is related to ground handling services of 7 airports only. After deducting such identified legal expenses, balance common legal expenses, which constituted only 16% of the total, which were allocated in the 50:50 ratio as being already followed by AAI.

- With respect to interest and penalties expenses for FY 2021-22, we request AERA to refer page no. 107 of ICMAI Report and point no. 6 of AAI's reply dated 21.11.2024, wherein it is mentioned that interest and penalties are treated as non-cost items and are not treated as a part of costs.

AERA is requested to consider the study conducted by ICMAI, an independent renowned institute, for Apportionment of Administrative and General Expenditure of CHQ/RHQ for FY 2021-22 and consider 5% YOY increase on it for future years for first control period or consider FY 2019-20 (a normal year) for Apportionment of Administrative and General Expenditure of CHQ/RHQ for FY 2021-22 and consider 5% YOY increase on it for future years.

4) NAR :

- We appreciate AAI for optimizing NAR which will benefit the airport users, and rationalize user charges.

Submission of AAI:

Thank you for acknowledgment by IATA for sincere efforts of AAI.

5) FROR:

- We appreciate AERA for highlighting the need for an efficient capital structure of the airport operator via a balanced Debt-Equity ratio. Balancing this ratio for Amritsar has resulted in the rationalization of the computed FROR.

Submission of AAI:

1. The FRoR for an airport depends upon the cost of equity and cost of debt.
2. In 1st Control Period of Chennai Airport, AAI had submitted a study conducted by M/s KPMG in regards to calculation of Cost of Equity wherein the cost of equity was 15.64%, however, AERA has been considering cost of equity at 15.18%.
3. Further, In the order of First control period AERA has decided to provided then FRoR of 14% on the RAB to AAI.
4. AERA has reduced FRoR to 11.90% against AAI's submission of 14%. Huge capex and operating expenses are incurred by airport operators to maintain world class airport used mostly by the airlines and the pax.
5. It may further be noted that Airport charges constitute a small percentage to the total ticket price airlines charged from passengers.
   We request AERA to consider cost of equity as per study conducted by KPMG.

6) Service Quality Levels:

- We are looking forward to the service level monitoring framework being developed by AERA and are committed to supporting its efforts in this direction.

Submission of AAI:

AERA may please comment.

C. CONSUMER UNITY AND TRUST SOCIETY SUBMISSION

1. Stakeholders Meeting :

We respectfully urge AERA to issue an advisory to all airports, recommending the adoption of a hybrid format for stakeholders' meetings, which would include the option for virtual participation. This approach would ensure that experts from diverse fields, who may not be able to attend in person due to geographical or other constraints, can still actively engage and contribute to the discussions. By offering a virtual participation option, we can foster a

more inclusive and collaborative environment, allowing for a broader range of perspectives and expertise to be brought to the table, ultimately enhancing the quality and effectiveness of the consultation process.

Submission of AAI:

No comments.

2. Airport issues:

In an article published in The Tribune on August 14, 2024, consumers at Sri Guru Ram Das Jee International Airport in Amritsar expressed dissatisfaction with the airport's facilities despite a rise in international flights. Key concerns revolved around poor sanitation, including unhygienic and poorly maintained washrooms, broken toilets, waterlogging, and leaking roofs, particularly in guest areas.

Thus, continuous real-time feedback systems can serve as a valuable tool for improving airport services, ensuring that concerns are addressed before they escalate and fostering a more positive travel experience for consumers.

Submission of AAI:

There is ASQ survey every quarter for Amritsar Airport. According to the press release by ACI, Amritsar, was awarded as the best airports in the Asia-Pacific region for year 2020 for 2 to 5 million yearly passengers category. AAI is making all the endeavors to achieve high service level quality for passenger facilitation and other stakeholders.

3. Inclusive Pricing:

To make sure passengers have a good experience while the airport stays financially healthy, the Airports Economic Regulatory Authority (AERA) should take a closer look at the non-aeronautical income at Amritsar International Airport (AIA), especially the rental costs for food and drink outlets. According to AERA's

Consultation Paper No. 06/2024-25, the airport's non-aeronautical income is expected to be much higher in the Second Control Period compared to the First Control Period (Chapter 10). This suggests that higher rental fees for food outlets may be driving this increase. Since these high rental costs are often passed on to passengers in the form of higher prices for food and drinks, AERA could consider setting limits on rental rates or offering incentives to food vendors to keep prices reasonable.

The AERA's Hybrid-Till mechanism, which uses only 30% of non-aeronautical revenue to cross-subsidize aeronautical charges, suggests a focus on increasing non-aeronautical revenues, but a more balanced approach could help ensure that passengers are not unduly burdened by high food and beverage prices. This strategy would allow the airport to remain profitable while safeguarding consumer interests and enhancing the overall passenger experience.

Additionally, the recent inauguration of the Udan Yatri Cafe at Kolkata Airport, which offers affordable food options starting from just Rs 10, marks a significant step towards making air travel more inclusive and accessible. A similar approach could be explored at Amritsar International Airport, where implementing a similar café concept could not only cater to the needs of all travelers, regardless of their budget, but also enhance the overall passenger experience. By offering reasonably priced food options, Amritsar Airport could set a positive example of balancing financial sustainability with customer satisfaction, ensuring that air travel remains accessible to everyone.

Submission of AAI:

Contract for Non aeronautical income i.e. restaurant, master concessionaires etc. are awarded through the process of Tendering through competitive bidding only and invited tender though CPP portal /Gem portal etc. as per the applicable policy. Regarding Udan Yatri Café, firstly AAI would like to thank you for your acknowledgment/appreciation for Kolkata Airport. Further, your point will be taken care as per policy.