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Director Policy & Statistics
Airports Economic Regulatory Authority of India
AERA Building, Administrative Complex
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INDIA

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cc. secretary@aera.gov.in

Dear Sir,

IATA RESPONSE TO AERA'S CONSULTATION PAPER FOR THE DETERMINATION OF AERONAUTICAL TARIFF FOR CHHATRAPATI SHIVAJI MAHARAJ INTERNATIONAL AIRPORT (BOM) FOR THE FOURTH CONTROL PERIOD (CP4)

The International Air Transport Association (IATA) is the global trade association for the world's airlines, representing some 350 airlines and over 80% of total air traffic. Many of our member airlines operate in the Indian market, and we support many areas of aviation activity and help formulate industry policy on critical aviation issues.

IATA appreciates AERA's efforts on the in-depth review and the detailed information provided for stakeholders to provide our feedback for the consideration of AERA in determining the tariffs for BOM in the CP4. The following are our comments and inputs which draw from our extensive involvement in similar discussions elsewhere and global best practices.

Civil Appeals in the Hon'ble Supreme Court of India

- IATA supports the approach by AERA to continue the tariff determination exercise consistent with the decisions taken in the Tariff Order for the Third Control Period. We fully agree that the final decision regarding the issues raised by the Authority in the Civil Appeal will be taken once the matter attains finality in the proceedings before the Hon'ble Supreme Court.

- We believe that this approach is in the public interest, as there are significant implications for user charges depending on the final decision of the Hon'ble Supreme Court. Airport users should not be burdened with excessive recovery of charges, given the fact that these charges which will be borne by the passengers, cannot be refunded in case Civil Appeals filed by the AERA are upheld or decided in its favor.

- AERA has also taken the right approach in following the directions of the Hon'ble Supreme Court and not treating the annual fee payable by the airport operator as an expense while calculating the corporate taxes on earnings pertaining to aeronautical services.

Related Party Transactions

- While MIAL as the JVC prescribed within the OMDA may sub-contract out its activities, *"… it shall not relieve MIAL from its obligations in respect of the provision of such Airport Services".*

- Deploying related parties as sub-contractors for various airport services continues to be a preferred option by private airport operators to maximize their returns and dilute the overall revenue in the regulatory account; aeronautical revenue as well as non-aeronautical revenues that are recognized to offset aeronautical costs.

- Perhaps there is merit for AERA to address this risk/gap by setting the baseline to when the private airport operator first took over the management of the concessioned airport i.e. regardless of the sub-contract arrangement post the handover. For example: 100% of the non-aeronautical revenue will be recognized for the calculation of S-factor, instead of a portion received by MIAL based on its share or royalty arrangement post-handover. This would draw behaviors that better reflect a competitive market and protect airport users from the abuse of the dominant position of the airport operator.

<u>Fuel Farm Services</u>

- We support the correction by AERA in recognizing the fuel farm revenue as aeronautical revenue.

Chapter 2 & 3: True Up of the First and Second Control Period

- IATA supports the approach by AERA, and the treatments applied, which is consistent with its position and best regulatory practices.

Chapter 4: True Up of the Third Control Period

<u>Traffic, HRAB and Depreciation</u>

- IATA is supportive of the proposals by AERA pertaining to Traffic, HRAB and Depreciation.

<u>Asset allocation</u>

While the usage of surface area can be considered as a relatively simple and common approach, it raises important concerns in the context of allocation costs at airports. Intuitively, the use of surface areas would not make sense in a competitive environment. If a company has two identical warehouses, one providing storage of luxury goods and the other of low value goods, it would make sense in an accounting approach to allocate the real estate costs across both equally. However, it would not make sense to allocate all other costs according to the same rule. This becomes even more obvious when considering that in airports most commercial activities are inextricably linked to air transport. When various lockdowns were lifted worldwide, airside revenues did not pick up in the same way that off-airport retail has.

Taking the simplistic surface area approach will lead to serious underestimations of the costs that should be allocated to non-regulated activities:

- The cost of building infrastructure to surface area: Volumetric considerations critically impact both CAPEX and OPEX.

- The cost of providing large open spaces with big spans and high ceilings will have a large impact on both substructure and superstructure that is not proportional to square meters. These types of spaces are usually designed to accommodate wide open spaces for commercial areas to increase commercial revenues.

- In some instances, the need to provide additional square meters for commercial spaces (shops, restaurants, offices…) will result in additional "floors" or reinforced structures resulting in a marked increase in costs.

- In some airports, decisions on affecting some areas to 100% regulated activity (i.e. check-in hall, security etc.) are not driven by sound, rational and customer-supported decisions after consultation and agreement, with the airlines operating and paying for those areas. Neither the passengers nor the airlines need an architectural masterpiece, wooden roofs or 15 meters high ceilings with art displays to efficiently do their required processes. All those decisions are usually made unilaterally by airports with the objective of creating a good impression on the passenger that will improve the likelihood of increasing commercial revenues by changing the passengers' frame of mind.

- The use of surface areas as the allocation driver also leads to situations where certain activities could generate revenues at "zero" cost (e.g. advertising on walls, boarding bridges, baggage belts, trolleys, information screens, among others that don't occupy "floor space").

Generally, the discretion of the airport operator to structure its business makes it difficult to divide one infrastructure - such as a terminal - into two or more mere segments; additionally, the cost allocation keys leave room for a lot of discretion. Similar issues arise on operating costs.

Fundamentally, allocation systems will be flawed if they are built on the wrong assumptions. If a system starts by directly allocating revenues or costs purely based on the name of the activity but without considering externalities or links between activities, the result will be flawed.

This accounting approach ignores the economic reality of different activities and the dependencies between activities. For instance, AERA does not apportion any runway costs to non-regulated activities under the premise that "landing" is a purely aeronautical activity. The fact that if a runway is closed, no passengers can arrive or leave and therefore certain activities will have no customers, is completely ignored. The significant investment made in bringing travellers through a specific building making them captive customers is reduced to zero in many systems. A number of airports are located outside of city centres with long journeys to the city and it is doubtful that a passenger would drive to that distant location and pay significant car parking fees to then shop and dine at the commercial facilities an airport proposes. In fact – shopping centres of that nature frequently provide complementary shuttles or shoulder the cost of public transport facilities or roads to bring foot traffic to the location. While sceptics would argue that this does not hold for city centre airports, any airport operator will confirm that post-security commercial offers are a substantial portion of commercial activity due to passenger dwell time and that simply does not hold for an equivalent non-airport facility in the same location.

Along the same lines – the costs of some services such as security provide benefits to both aeronautical and non-aeronautical activities, as do services that serve both passengers and staff. This complexity is rarely reflected in allocation rules and passenger security costs are deemed to be 100% aeronautical while restaurants and dining facilities are 100% non-aeronautical.

In a nutshell, a pure accounting-based approach that ignores economic externalities and links between activities will result in rules that are unfair. For the same reasons that competition authorities carefully scrutinize companies that attempt to vertically integrate or practices linked to tied selling, applying overly simplistic rules on the basis of surface areas will result in a bad outcome for consumers. It is of extreme importance that this fundamental issue is understood and acknowledged by AERA and that measures are taken to implement a fair cost allocation system for both assets and operating costs.

IATA would welcome the opportunity to bring alternative examples for AERA's consideration.

FRoR

- While we are supportive of AERA's proposal on the cost of debt, we would like to reiterate our objection as to how the cost of equity is being calculated. As evidenced in the entire chapter, both costs and revenues are being trued up, which eliminates the risks borne by MIAL. This has to be reflected in a much lower return on equity allowance. This point is further elaborated in our comments on WACC for the Fourth Control period.

Aeronautical O&M expenses

Employee Cost:

- IATA notes that the cost incurred by MIAL is lower than the cost approved for the Third Control Period. This could be attributed to the rationalization realized during the pandemic and the subsequent recovery of the number of employees corresponding to the passenger traffic. What is missing is the ability for stakeholders to determine if more can be done to contain and optimize the costs. In reviewing Table 97, IATA would like to get the assurance that the following employees' costs classified under AERO have been classified correctly, reflecting the following:

    - Is expenditure on horticulture solely to support the airside/aero areas? If it is to support the entire airport, such as the terminal and surrounding areas, it should be classified as Common expenses.
    - Engineering & Maintenance: similar to the above, we believe would be more appropriate to be classified under Common expenses?
    - Health & Safety: generally, this is aerodrome-wide, all-encompassing, both aeronautical and non-aeronautical activities and should therefore be classified under Common expenses.
    - Quality and Customer Care: we request that the scope of these employees be identified and the 'customers' being served by them be defined – whether this includes aero only or including non-aero.
    - Medical Services: these are aerodrome-wide, hence should be under Common expenses.
    - Corporate Aviation Terminal: costs to be demarcated to this group of users and appropriately recovered – without cross-subsidization by other users.
    - We also note the elimination of "airport services" staff. Do these relate to activities/services that are not provided anymore by the airport or has this staff been absorbed by other activities. If the latter, we recommend AERA to review whether these have been correctly allocated.

- In terms of the evolution of the number themselves (Table 97), we note a significant reduction in quality and customer care. We would appreciate understanding what activities this staff were involved in and why they were not needed.

Corporate cost allocation:

- We see that employee numbers at MIAL have reduced by around 200 staff. However, that is not necessarily due to the efficient running of operations at the airport, but simply that some of the activities have been "outsourced" through the "corporate cost". We are concerned that such cost is opaque and does not allow an appropriate scrutiny. We request AERA to further clarify how it has come to the conclusion of these costs as "efficient".

  We also note that a number of drivers have been used by MIAL to allocate corporate costs between AEL, AAHL and MIAL (such as employee numbers, IT users, PBT, etc.). However, the Authority has then used single driver to sub allocate those costs between Aero and non-aero (i.e. number of employees). The authority may need to revisit this.

- In a similar manner, we would also like to understand what are the Financial taxes being allocated to MIAL, which appear to be significant.

- We support AERA proposal not to allow the cost for the legal team of group companies AEL (Rs. 1.99 Crores) and AAHL (Rs. 3.58 Crores), which is in addition to the cost of employees of the legal department available at MIAL, already considered under the employee expenses. More scrutiny is needed as there could be further duplication of costs within corporate costs.

Utility expenses:

- While we note that actual costs have been lower than what AERA allowed (which are proposed to be trued up), we would encourage AERA to launch a comparator study of Indian airports to see whether electricity consumption at BOM is efficient relative to other major regulated airports.

Rental expenses:

- IATA would question loading costs such as rental paid for accommodating custom offices, guest house rentals, onto the airport users.

Advertisement expenses:

- IATA maintains our position that, as the sole monopoly service provider and with healthy traffic growth and constrained capacity, there is limited need/benefit derived from advertisements of aeronautical activities. If MIAL chooses to do so to benefit its brand, it should be rightfully funded by MIAL and not the users.

Administrative Expenses:

- In reviewing Table 107, we would like to better understand the details of the following expenses:
  - Travelling and Conveyance
  - Professional Charges
  - Legal Expenses

- It is important to emphasise that AERA should be excluding any legal expenses related to court cases linked to appeals to regulatory decisions. Users should not be asked to cover such expenses. We would appreciate for AERA to review whether this is the case.

Airport operator fees:

- We support discontinuing the Airport Operator Fees. We are concerned though, that the Corporate cost allocation appears to be an Airport Operator fee "through the backdoor".

Operating contracts:

- The Operating Contract Expense submitted by MIAL is lower than the cost approved in the Third Control Period Order by Rs. 47.88 Crores (5.83%), which MIAL submits is because of lower expenditure incurred during the periods affected by the COVID-19 pandemic. We would like to ascertain if this could have gone lower? For example, any clauses in contracts for Force Majeure events? Were these exercises triggered?

- It would be appropriate to review the current arrangement if it still delivers the best outcome, balancing cost efficiency and the overall need of MIAL in enlisting a third-party operator. A business case to support such an arrangement and a detailed assessment of the cost demarcations would be useful to allow users to assess the appropriateness of the arrangement.

Other expenses:

- IATA fully supports rejecting the costs stated under Table 125. Users should not be asked to cover these costs.

Working Capital interest:

- Please refer to our comments on the subject in relation to the 4th control period, as AERA estimates a negative working capital for the 4th control period but then allows a positive working capital on the third control period. This appears to be inconsistent.

True-up of NAR:

- We support the treatment of Fuel farm facility as aeronautical revenue (rather than NAR)

- We support the approach by AERA of not excluding the annual fee paid to AAI, revenue from existing assets and other incomes from the calculation of the "S" Factor.

True-up of Aeronautical Tax:

- We support the approach taken by AERA to recompute the Aeronautical Taxes based on the regulatory accounts by not treating the Annual Fee pertaining to Aeronautical Revenues as an expense towards True Up of the Third Control Period as per the directions contained in the judgement of Hon'ble Supreme Court.

True-up of Aeronautical Revenue:

- We support the true up of the aeronautical revenue as per Table 146.

Chapter 5: Traffic for Fourth Control Period

- Given the common cross-ownership of BOM and NMI, the airport operator will naturally be incentivized to shift traffic from BOM to NMI, considering the much lower rate of revenue share The mismanagement or lack of proper capacity planning at BOM, such as the unplanned demolition of T1 and airside constraints, is not an acceptable justification for escalation in costs on a per-pax basis. We request AERA to consider this aspect in its assessment, particularly on any behaviors that reflect the abuse of market power by MIAL and the overall consideration of the bundling of airports in the tariff determination process.

- Since T1 is mainly dedicated to Domestic flights, why does the forecast traffic assume a reduction in international passengers? Even worse, the reduction is bigger on the international passenger than domestic ones (-32% and -18% respectively between FY25 and FY27). And worse still, there is no recovery at all on the international passenger forecasts, when there is some on the Domestic side. This has a direct impact on the revenue forecast since there are differentials between international and domestic tariffs as well as the impact of different aircraft types.

  There may be some logic behind these numbers but these have not been shared with users. There needs to be much more transparency and justification behind these numbers. If these cannot be justified, then AERA may need to amend the forecast.

- On truing up: We note that the growth in traffic is truncated by the demolition of T1 and that it will start to ramp up after the reconstruction is completed (i.e. Oct 2028). We would like to propose AERA not to true up any traffic deviations in the case that the Terminal is not completed by the target date. Otherwise, a blanket true-up approach would not provide adequate incentives to BOM to finish on time (the 1% penalty on uncapitalized assets may not be enough on this particular project)

Chapter 6: CAPEX, Depreciation and RAB for Fourth Control Period

- IATA greatly appreciates the Authority's efforts and detailed assessments resulting in capital efficiencies reflected in benchmarked rates as a reasonable baseline, taking into account normative costs, operational impact uplift, and removing unjustifiable depreciation and demolitions for assets not in use. We wholeheartedly support AERA's efforts to assess capex plans in detail, including site visits to validate its views. This level of scrutiny is essential and required to ensure users' and consumers' requirements are delivered with the best value outcomes in line with competitive market rates, to the cost, quality and program agreed. To achieve this and support an effective assessment, more regular and transparent AUCC consultation as per the Consultation protocol is required, and more discipline and transparency to consult in detail during the key stages of a project are needed for airports to comply.

- Having reviewed all the various details, IATA agrees with the authority's overall assessment regarding capital costs for the Fourth Control Period. We would like to take the opportunity to make some specific points in support of this position, given the substantial impact capex has on airlines' passenger experience, operations and aeronautical charges.

- IATA had attended the AUCC meeting on 13th March 2024 in Mumbai to review MIAL's capex plans that were under development and made multiple observations with requests for further information following coordinating with the Airline Operators Committee. We appreciate the Authority's assessments to hold the airport to account, which are broadly in line with IATA's feedback regarding the capital efficiency and scope of various projects.

- We appreciate AERA's efforts to encourage MIAL (and all regulated airports) to deliver capital investment outcomes and their benefits on time, to the cost and quality required, as has been committed to. The penalty for non-delivery of capex is a helpful regulatory tool in this respect, however, we respectfully propose an increase from 1% to 3% in order to address the still considerable non-delivery of projects that is a constant trend, notwithstanding pandemic impacts.

- Moving forward, IATA suggests enhancements to the regulatory process, such as the introduction of an independent fund surveyor to review the capital efficiency of major projects at key development stages, to complement the existing AUCC consultation process, which would provide even greater assurance on an individual project basis and very likely lead to greater efficiencies. An important part of this mechanism is a review of project costs in advance of them being incurred (in addition to an end-of-period review), avoiding the need for a retrospective review once costs have been incurred.

- Some specific observations regarding individual projects of particular interest and value are below:

  Increase in ACM through planned projects

  - Claims of increasing aircraft movements from 46 to 50+ ACMs per hour, as stated in the overall CAPEX proposal, must be substantiated with thorough research rather than making a few references to NATS UK in the document. More comprehensive and specific research is needed to support these claims.

  - This aspect has not been addressed adequately in the response to our queries at the AUCC, nor is it explicitly clear from the NATS review of airside changes, and feedback on the same has also been sought by AERA from AAI.

  A - Airside Improvement Work

  We support the Authority's assessment regarding the overall capex threshold of investments reflected in Table 201, noting:

  - A1-1: Recarpeting of runways should be part of operation and maintenance expenses and not capitalized.

  - A3-1: Construction of Additional Aircraft Parking Stand (V1+V2) – We would like to understand the business case where the recently constructed stands (V3L+V3R) have been converted into GSE parking. This raises questions of planning inefficiency.

  - A4: Reconstruction of perimeter road – We note in particular the provision of 40% of the length of the road, and the estimate of extra costs is entirely appropriate. We support this.

  - A5: Construction of Airside Tunnel – The business case for investment and return on investment in financial terms for users/payback years needs to be thoroughly reviewed and considered. It needs to be assessed in detail how many airlines use it for their regular flights v/s its usage for business aviation.

  - A7 & A8: Aircraft Maintenance Hangar & Parking Stands at NEC – We would need assurance these facilities will be used by scheduled carriers and are not being developed for the purpose of business & generation.

  B – Passenger Terminal

  - B1: Reconstruction of Terminal 1 – Capacity of 10MAP to meet the required demand, we believe this is sufficient for the Fourth Control Period and a well-thought-through phasing strategy based on an incremental, modular expansion plan is feasible with the appropriate effort applied, while maintaining passenger experience and operational efficiency. IATA made this same point at the 2024 AUCC and would like to reiterate it in the context of feedback sought by AERA in point 6.3.118 of the Consultation Paper.

Normative cost assessments help to reflect the economies of scale the airport is able to apply, to leverage cost efficiency benefits.

- A number of important questions do however remain unanswered regarding T1 redevelopment and phasing strategy that should be answered in full in advance of T1 redevelopment proceeding, given impacts on capex and traffic, including:

    - Phasing strategy to retain existing traffic levels – the airport has not consulted with the airline community or shared sufficient details regarding efforts to phase T1 redevelopment to minimize service level and capacity impacts. This is essential to try and provide the airline community with a less disruptive solution.
        - To what extent can existing traffic be re-provided in T2 with some temporary works and planning?
        - Are there existing parts of T1 that could be retained?
    - The airport operator has been unwilling to provide details regarding infrastructure capacity and demand dependencies between the existing Mumbai and Navi Mumbai airport. It could be viewed that T1 closure is a tactic to force airlines to relocate to the new airport with substantial, potentially unnecessary costs for airlines e.g. costs of switching, cost of increased charges resulting from capex combined with lower traffic in CP4.

- Given that T1 will remain unavailable for an extended period of time, we would like to urge the airport operator to:
    - Develop solutions that avoid schedule reductions and safeguard historic rights. Any reduction in capacity should be delayed until at least the start of the Northern Winter 25/26 season (i.e., 26 October 2025). This could ensure that the reduction does not take place after Initial Submission (15 May 2025 for the Northern Winter 25/26 season) and thereby better comply with the MoCA Guidelines for Slot Allocation.
    - Implement protocols for transparent communication, including publishing temporary capacity parameters, supporting analysis, and compliance details on the airport or coordinator website in advance of 15 May 2025.
    - Take adequate measures to mitigate operational disruptions, and provide formal assurance to airlines that historic rights will be protected for use in subsequent seasons.

    As mentioned by IATA in the stakeholder consultation meeting in March 2025, it should be ensured that the dominant market position of Adani Airports as the operator of the '2-airport system' in Mumbai, is not used to force airlines to shift operations to NMI on the pretext of demolition of the T1 at BOM. Any shifting of airline operations should be purely on a voluntary basis, after having consulted with the airline community.

    B3: GA Terminal Expansion - We fully support AERA for recognizing this project as a non-aero service. These facilities and the associated infrastructure should be funded by those specific users, and not recovered through aeronautical charges via scheduled traffic.

<u>C – Kerbside Improvements</u>

- C3-1: External Landscape & Horticulture – We support AERA for not allowing the hardscape costs proposed by the airport operator.

<u>E – Ancillary Building Development Work</u>

- E1: Construction of Airport Management Corporate Office Building – It should be noted that the airport has been managed without the need for such an expensive Rs. 1,200 Cr office complex to be built at premium real estate, which should ideally be only used for providing facilities to airport users. Reconstruction of Terminal 1 proposed by the airport operator, could have provided an alternate centralized office space for the airport operator. We would request AERA to review the overall rationale behind such an expenditure. This project is vastly over-specified, and appropriate reduction and right-sizing should be imposed by AERA, including utilities provision, with appropriate functional finishes.

- E2: Construction of NAD Colony – Our understanding is that this primarily houses the CISF/security personnel, with the arrangement having come into being before the introduction of new Aviation Security Fee (ASF), which has had several and significant increases since then. As per MoCA Letter 634903/2020 dated 15th December 2020, the leased accommodation expenses including the official and residential premises for CISF personnel, are a permissible item to be recovered from ASF.

  It is therefore recommended that, going forward, the cost recovery of this major expenditure is done by the Airport Operator via leasing agreement with CISF.

- E3: Cost of 3 levels of basements for 2 metro stations and Additional Cost of T-1 Metro Station payable to MMRC – Investments for the metro infrastructure should be fully funded by the metro operator on a cost recovery basis through fees imposed on metro users and not all airport users.

- E5: Development of T2 Forecourt considered based on actual incurrence subject to approvals, is reasonable.

- E7: Relocation of ATC Technical Block – We would request that this project be taken up by Airport Operator promptly, as it poses existing safety risks. Also, we would like to ascertain the location of the new ATC Technical Block is the same as was allocated to AAI previously.

<u>Allocation of Assets</u>

- Referring table 201, 207 and 208, we appreciate the detailed scrutiny by AERA to review the project basis cost allocation approach. However, D-1, D-2, E-5, 2I-50 should also be subjected to and reviewed for the cost allocation approach (between Aeronautical and Non-Aero).

<u>Depreciation</u>

- We appreciate AERA for identifying discrepancies in 614-line items where higher depreciation is considered by the airport operator, and rightfully adjusting it based on the useful life determined.

<u>HRAB</u>

- We agree with AERA's approach that since T1 and its related assets are being allowed to be demolished, the airport operator ought not to get a return on these assets nor claim Depreciation reimbursement on the same. Therefore, we support AERA's proposal to make a corresponding reduction in the HRAB value. However, we consider that the reduction of the HRAB should happen at the time the existing terminal is closed and not at the time when the new Terminal opens. Otherwise, there would be a depreciation and cost of capital for an asset that is not in use and will cease to exist once it gets demolished.

- We would therefore like to propose AERA to reduce the HRAB at the time the existing T1 closes (i.e. 2025/26).

Chapter 7: FROR for Fourth Control Period

Cost of Equity

Additional risk adjustment:
- We fully support AERA for rejecting the additional 1% upward risk adjustment, which is being sought by the airport operator based on lower growth in traffic at BOM. Level of constraints and saturation, as rightly pointed out by AERA, were well known at the time when the bids were submitted & the concession for the airport was awarded. Similarly, this should have been taken into account when Adani Airports bought out the airport from the erstwhile airport operator. Besides, the FRoR is meant to establish the level of reward for the level of risk being borne by the regulated company. The alleged limited traffic growth in itself has no impact on the WACC in the context of true ups, as explained below.

Asset Beta:
- On the matter of "risk-reward", we believe that AERA's assumed 15.13% for cost of equity is too generous. For instance, we note that the 15.13% assumes an asset beta of 0.57. As previously explained, the lower the amount of risk allocated to the regulated company, the lower the reward. AERA's regulatory practice of truing-up revenues and costs significantly reduces the risks (since deviations are passed on to consumers). However, the asset beta (0.57) applied for BOM was obtained from airports that do not have such risk. Therefore, there is an overestimation of the return on equity allowed to the company.

- In this regard, back in 2024 we requested the consultancy company Swiss Economics (SE) to calculate a level of asset beta commensurate with the risks borne by DEL and BOM (attached to the submission). In order to take into account the different levels of risk between DEL/BOM vs listed, as a consequence of the true-up approach, SE also considered asset betas of utility companies (which tend to be less volatile and therefore less risky). This approach led SE to conclude that an asset beta of 0.4 better reflects the risks borne by BOM.

- It should also be mentioned that when the UK CAA introduced a traffic risk sharing element on the LHR determination (so-called "H7"), it also made an adjustment to the asset beta to reflect the lower risks borne by LHR[1].

Risk Free rate:
- The calculation of the 15.13% return on equity also assumed a risk-free rate of 7.56% based on the 10-year Indian government bond. However, nowadays the same bond yield is around 6.5%, which would suggest that using the previous figure would imply an overestimation of the risk-free rate. There is therefore merit in reviewing such rate and we request AERA to consider this before its final decision.

Cost of Debt

- We appreciate AERA for correcting the cost of debt based on rates that would have prevailed if MIAL had continued with the existing loan arrangement as at the start of the TCP. We support AERA's view of seeking to allow what it considers to be an efficient cost of debt.

- If AERA pursues a true up approach, then we support the proposal to true up on the basis of actual or SBI 1-year +150bps (whichever is lowest).

[1] Details on how the UK CAA made its adjustments can be found here. It should be noted that the true up approach applied by AERA reduces even more the risks borne by BOM (vs. the traffic risk sharing approach applied by the UK CAA)

Chapter 8: Inflation for the Fourth Control Period

- No major comments on the rate of inflation used.

Chapter 9: O&M Expenses for the Fourth Control Period

- Regarding the proposed 4.4-4.5% inflation forecast, while the OMDA allows for the consideration of CPI inflation rate, IATA opines that this has no basis to start with, at the outset. While we understand that eventually they will be trued up based on actuals in the following CPs, there is a potential that allowing inflationary increases will de-emphasize the airport's focus on the delivery of efficiency improvements.

- We are also missing an analysis of the level of efficiency of operating costs. In previous periods, AERA carried out some operating cost benchmarking to inform its decisions. While we consider that such studies were not detailed enough, the solution is not dropping the studies altogether, but to increase the level of analysis in the comparison. A bottom-up external analysis would also have been extremely useful to AERA. As previously mentioned, automatic inflation adjustments can lead to inefficient outcomes. A proper efficiency analysis is necessary.

- Despite the requirement stated in the OMDA, AERA can work towards enhancing its regulatory approach going forward. For this particular determination, we request AERA to set expectations/targets on lowering the unit cost per pax, per ATM, etc., which would be a better measure to counter any inflationary pressure on costs. It would be useful for AERA to analyse the unit cost over CP1 to CP3, and how the proposed unit cost in the CP4 fares against these.

Employee cost

- With the demolition of T1 for the period 2025-2028 and the forecasted reduction in traffic, we expect the employee count to be rationalized (considering MIAL mentions that 200 additional staff would be needed at time the new T1 is completed, it would make sense the assume a reduction in staff at the time the existing T1 closes).

- There is no explanation on why a 6% increase in salaries and corporate costs is assumed. If at all, it should be limited by the level of inflation.

- Also, any project-related staffing for the reconstruction of T1 should be capitalized by the project cost and depreciated over the life of the asset. A CAGR of 15.33% increase requested by MIAL is unconceivable.

Utilities Expenses

- The utilities expenses should reflect the reality of the negative growth/lower traffic as a result of T1 demolition, for example, usage of water, electricity, repair and maintenance, rather than continuing to see year-on-year growth. We commend AERA for making the necessary adjustments to reflect this aspect. What we would like to see is more in-depth analysis and consideration of efficient operations to drive these costs down, i.e. on a per passenger basis.

- IATA noted the current approach to the treatment of utility expenses. While the concessionaires are being charged directly for their consumption, which reduces the gross consumption charges attributed to Aeronautical, we believe that the Utility Expenses (after subtracting the above) should also be subject to the cost allocation treatment. The rationale for this being that the concessionaires must pay their fair share of the utilities to support the shared facilities, i.e. common terminal area (which facilitates the access of the customers to their shops, etc.)

Repairs and Maintenance

- We see that AERA is allowing MIAL's assumption of Repairs and Maintenance increases CAGR of 10.34%, which still appears to be excessive. We consider that further analysis is required to understand the need to increase the level of maintenance and how such expenses will improve the reliability of the assets. The latter could be measured through appropriate KPIs.

Rents and Taxes

- With regards to the leased land, this should be allocated 100% non-aeronautical as there is no identified aeronautical use. Users should not be charged for any expense that is not linked to any aeronautical service.

CISF deployment costs

- We appreciate AERA review with respect to MoCA's directive that expenditure towards the Cost of Deployment of CISF personnel deployed at GA Terminal, Cargo, and MRO to be borne by the Airport operator, and not to be charged to the ASF collected from embarking passengers under scheduled operation.

Legal Costs

- IATA has made comments in the past that legal expenses should not be included in the O&M expenses and considered as a pass-through. We strongly support AERA's decision to exclude these legal expenses from its tariff determinations. Airport operators should not be allowed to recover legal expenses from users that are, by their very nature, paid towards the airport operators' legal cases with other aviation stakeholders. This decision is aligned with the specific provisions in recent concession agreements awarded by the government of India.

Corporate Costs

- As expressed in our comments for the Third control period, we are concerned about the inclusion of such opaque costs. While we note that AERA has adjusted MIAL's proposals, we do not see why such costs need to increase by 6% annually. At most, AERA should consider applying the level of inflation.

Digitalization Cost Allocation

- IATA is generally in alignment with AERA in the approach of allocating operating expenses to aeronautical users, particularly the structured MCDA model that is applied in determining the split for Digitalization cost allocation.

- Whilst recognizing that AERA has done a commendable job, IATA believes that the allocation to the aeronautical side is still on the high side and does not fairly reflect the resources attributed to non-aeronautical activities.

- MIAL should provide a quantitative description of the targeted improvements and the projected increase in NAR specifically triggered through such digitalisation and use of the app. MIAL has only made broad and indicative statements such as '*enhance airport user experience*', '*make real-time information available to passengers*', '*facilitate state-of-the-art digital point of sales*', etc.

- As per the description provided by MIAL, most features of the app to be developed overlap with existing initiatives for biometric facilitation – leading to a duplication of efforts and resources. Features such as flight tracking and baggage belt information are basic utilities already provided by airline apps and global aggregators.

- No technological innovation or public value has been demonstrated to justify the Rs. 659 crore expenditure via a related party, which is significantly higher than global benchmarks, for similar platforms. Leading international airports (e.g., Changi, Heathrow, Schiphol) have implemented real-time flight tracking, baggage monitoring, and digital wayfinding for a fraction of this cost.

- Despite an increase in the adoption of travel-related mobile apps, airport-specific apps haven't been popular with passengers due to their limited use case. As a consequence, more and more airports have stopped offering mobile apps. During the pandemic, this trend accelerated as the majority of airports focused on cost reduction and re-prioritization of investments.[2]

- We implore AERA to set the expectation of a gradual decrease in the allocation to aeronautical users to better reflect the sizeable growth of non-aeronautical activities. Where the ratio allocated to aeronautical by MIAL is lower than AERA's, it is best to utilize MIAL's ratio for e.g. R&M expenses, operating contracts, and rents, rates & taxes.

Advertising Expenses

- Despite the existence of the cap for advertisement expenses, IATA would question the value of advertisement expenses by MIAL, i.e. in attracting traffic, given the capacity constraint and its dominant market position. If it is to increase MIAL's brand value, this has no direct linkage to service provision, and hence it should not be passed on to users. More appropriately, it should be funded from MIAL's profits if it so chooses, similar to the approach by AERA on rejecting CSR-related expenses

- Continuing on our comment concerning the Advertisement Expenses, if and when MIAL justifies the necessity of specific expenses that benefit/add value to the aeronautical activity, the link should be made clear with the expected results/benefits stated. This is also keeping in view of the plan to shift a significant portion of operations to the airport which could pose any competition, i.e NMI – though owned by the same airport operator.

- In the absence of such justifications, the proposed allocation for Advertisement Expenses should be fully attributed to non-aeronautical, or at the least set at a lower aeronautical share e.g. 30% (opposite of the hybrid till allocation).

Working capital interest

- We note AERA's calculation of the working capital requirement. Since the resultant is a negative working capital, AERA then concludes that there should be no interest (actually, AERA may need to consider an interest income).

- What we are unclear about is that in Chapter 4 of the consultation document, AERA allows for a positive working capital and a consequent interest expense. If AERA considers that an efficient working capital is a negative one, then it should not be truing up the working capital interest for the third control period.

[2] https://tnmt.com/airport-apps-are-dying-out/

Chapter 10: NAR for Fourth Control Period

Similar to our comments on the O&M section, we consider that AERA's ability to determine whether the proposed levels of non-aero revenues are adequate could be significantly enhanced by carrying out comparisons against other Indian regulated airports (and international ones). While AERA scrutinizes the % changes assumed annually, it does not really challenge whether the starting point is the best the airport could deliver. A benchmark, supported by a bottom-up analysis, could help on this. We highly encourage AERA to consider carrying out such analysis.

Average Transaction Value

- IATA holds a similar view as expressed by AERA, that the projected NAR by MIAL is on the conservative end. As a rule, if aeronautical costs are subject to inflationary increases (the 4.4-4.5% proposed by AERA), similarly, we would expect that the non-aeronautical costs would have incorporated this aspect in the NAR annual increases, i.e. to cover its costs plus returns, etc. At the moment, the proposed growth rates by MIAL (average 2%) don't seem to reflect this reality.

- Hence, we support the higher growth adjustments proposed by AERA (average 4.5%), recognizing that some growth rates could potentially be much higher (inflation + growth), referencing our point on the impact of inflationary increases on non-aeronautical costs and their effect on the NAR.

NAR Projection for Lounges

- On the matter of forecast NAR for Lounges, AERA has correctly highlighted the reduction in the base year revenue (reduction of 47.38%) as a matter of concern, which has not been addressed or justified by MIAL, despite multiple requests and reminders.

- It is worth noting that the ADANI Group acquired a stake in the lounge concessionaire after the concession was awarded in FY25. This is another example of a potential transfer pricing associated with related party transactions which IATA has raised earlier in this submission.

- IATA supports the treatment by AERA in assuming the higher base for estimation and calculation of future NAR from this line item.

Marketing Funds

- The Airport operator has collected a marketing fund from concessionaires to support promotional activities and controls the expenditures made from it. Since FY 2018-19, the fund is recorded as a balance sheet item, with unspent funds balance amounting to Rs. 50.24 crores carried forward year-to-year without being fully utilized.

- The current arrangement leads to the reduction and artificial dilution of NAR, and other airport operators could easily expand this arrangement to result in the hiving off the NAR, leading to its overall reduction, justifying that the costs will be covered by earmarked funds. This is not in the best interest of users and is not in line with the regulatory treatment by AERA to preserve the NAR.

- IATA does not agree with the current treatment of the Marketing Fund by AERA and recommends that any fund collected by the airport operator should be treated as revenue. Without earmarking the fund for specific purposes, the airport operator should treat these activities as marketing costs funded from non-aeronautical revenue.

- IATA suggests that the entire NAR, including the marketing fund, should be considered for calculating the "S" Factor and requests AERA to reconsider the treatment of the marketing fund

Chapter 11: Taxation for the Fourth Control Period

- IATA is in alignment with AERA on the proposed treatment for the calculation of aeronautical tax. The non-aeronautical costs incurred to deliver the NAR should not be passed on to aeronautical users.

Chapter 12: Quality of Service for the Fourth Control Period

- Regarding the Authority's summary in 12.3.1 to not consider any adjustment in the Aggregate Revenue Requirement/Target Revenue on account of Quality of Service for the Fourth Control Period, we would highlight that a purely qualitative and perception-based approach, while overlooking quantitative, objective measurement of MIAL's actual performance is ineffective and not reflective of the true passenger experience or operational performance at the airport. Nor does it recognise the customer (airlines) – service provider (airport) relationship.

- The purpose of any airport service quality framework is to provide the Airport with a clear understanding of the levels of service and outcomes required to meet the expectations of users (airlines and passengers), in return for the airport charges that they pay. Despite this critical requirement, there is no accountability, cost-relatedness or recognition of airline customers' requirements in an ASQ-based approach, resulting in a major failure of the Concession Agreement and the current approach.

- Further, performance can only be truly measured, and continuous improvement be supported with regular, structured reviews of airport performance conducted between the airline community and MIAL, which is largely lacking.

- In this context, we greatly appreciate and value the Authority's efforts to develop an enhanced service quality framework with appropriate metrics and measurement, to ensure the actual performance at regulated airports is recorded and airports are held to account in the consumers and users' interest. IATA would appreciate any insights the Authority may be able to share regarding the early application of its enhanced framework in the context of this review.

Chapter 13: Target Revenue for the Fourth Control Period

- IATA is supportive of the assessment by AERA in the calculation of the Target Revenue. We request AERA to consider our inputs and recommendations in the preceding sections that should lead to further adjustments that will result in a lower Target Revenue in the Fourth Control Period.

Annual Tariff Plan (ATP)

- We note that MIAL has proposed a differential in Landing Charges for international flight. We would urge the AERA to consider eliminating the difference in landing fees between international and domestic flights. This differentiation of charges is not in line with the ICAO-compliant model. Similarly, we see that landing charges are based on aircraft codes. As per ICAO policies, aircraft codes are not a valid criteria for setting landing charges.

- MIAL has proposed a hike in User Development Fees (UDF) and other aeronautical charges in the fourth control period. We request to confirm that this increase is not implemented retrospectively on the tickets sold before the date of the revised tariff being brought into effect, as airlines would have collected UDF at the prevailing (old) rate.

- We note that there is an incentive scheme included in the tariff scheme: the so-called variable tariff plan. It is unclear as to how such scheme is being funded. As per ICAO's policies, costs associated with rebates should not be allocated to those airline users who do not benefit from them. We request AERA to confirm that the costs of incentives schemes have been excluded from the calculation of the aeronautical tariffs.

- Additionally, IATA requests enhancements for AERA to consider for all future airport tariff determinations. It is requested that the tariff card filed by the airport operators must be accompanied by an impact/comparative analysis, clearly detailing the increases compared to current/prevailing tariffs. In its current form of filings of tariff cards, the airport operator tariff plan does not transparently reveal the headline increases sought by the Airport – and this diverges greatly from the otherwise extensive analysis undertaken by AERA in the consultation document.

IATA looks forward to AERA's consideration of our concerns and recommendations highlighted above that will deliver better outcomes for consumers. We are available for any further clarifications that AERA may require during the review process of the stakeholder submissions to AERA.

Yours Sincerely,

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