Federation of Indian Airlines
E-166, Upper Ground Floor,
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Website: www.fiaindia.in

MOST URGENT & IMMEDIATE

15 December 2023

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

Kind Attention – Shri. Balwinder Singh Bhullar Ji

Sub: FIA response to the AERA Consultation Paper No. 17/2023-24 dated November 16th, 2023 on determination of Aeronautical Tariff for Kannur International Airport (CNN) for the Second Control Period (01.04.2023 – 31.03.2028)

Ref: AERA stakeholder consultation (virtual) meeting dated 01st December 2023.

Dear Sir,

We, the Federation of Indian Airlines (‘**FIA**”) (on behalf of our members, IndiGo, SpiceJet, Go First and Air India), write in response to the Consultation Paper No. 17/2023-24 issued by the Airports Economic Regulatory Authority of India (“**AERA**” or “**Authority**”) in the matter of determination of Aeronautical Tariff for Kannur International Airport, Kannur (CNN or KIA) for the Second Control Period (01.04.2023 – 31.03.2028) (‘**Consultation Paper**’ or ‘**CP**’).

At the outset, we would like to express our sincere gratitude to AERA for inviting stakeholder comments on the CP and conducting the Stakeholder consultation meeting on 1st December 2023.

Sir, you will appreciate that airlines which are the ‘catalyst’ for the global economy including the aviation sector, have been adversely impacted due to significant headwinds, including but not limited to, hostile financial environment of the economy, instability due to geo-political reasons, fallout of devastating COVD-19 pandemic, significant global supply chain issues, increase in the price of Aviation Turbine Fuel (ATF), limited financial support from the government, limited capacity of customer to pay, and fluctuation in foreign exchange *etc*.

It may be noted that the major Indian Airlines incurred a loss of approximately Rs. 11,658 Crores in FY 2021-22 (Ref: MoCA response to the Lok Sabha unstarred Q.No.201) and as per the DGCA, all scheduled Indian carriers made a loss of Rs. 14,871 Crores in FY 2020-21.

According to the Investment Information and Credit rating Agency of India (ICRA) the industry is estimated to report a net loss of Rs. 110-130 Billion (approx. USD 1.4-1.6 Billion) in FY 2023 (https://www.icraresearch.in/research/ViewResearchReport/5157).

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Industry reports also indicate that the traffic recovery (number of flights and passengers) would take around one year or more for airline international flight operations to reach pre COVID-19 levels, if no other negative event occurs. On the other hand, the same report mentions that Indian Airports are expected to report significant profits in the region of USD 420 million for FY23. Customers of airlines have limited capacity to pay for the Air Fares, and when the cost of travel goes up (caused in part due to high airport operator charges), the air traffic goes down, leading to further losses and financial crisis for airlines, which may be feared due to recession.

The CP proposes a significant increase in the aeronautical tariffs at KIA by AERA as mentioned under **Annex – A**, AERA is kindly requested to take note of our observations mentioned under Annex A.

In this regard, we humbly request AERA not to implement any increase in the aeronautical tariff in the Second Control Period and defer any increase in the same to subsequent control period, if any, given that any increase in tariff will adversely impact the demand for air travel.

Without prejudice to the above, we request AERA to kindly note our submissions as mentioned under, **Annex – B** hereto and not increase any tariffs.

We hope that your good self will positively consider such recommendations/ comments as it will help in achieving the affordability and sustainability of the airline, which is also outlined as a key objective in the National Civil Aviation Policy, 2016.

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

Thanking you in advance,

Yours Truly,

For and on behalf of the Federation of Indian Airlines,

UJJWAL DEY
Associate Director

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

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Annex - A

Observations on proposed Tariff Card by AERA

AERA is kindly requested to take note of our observations mentioned on the proposed Tariff card.

TABLE – A

Landing, Parking and UDF Charges: (Refer Public Notice no 22/2023-24– Annexure A)

(In INR.)

Particulars	**Unit**		**Tariff Proposed by Airport Operator**				
	MT	**EXISTING ORDER AS PER ORDER 26/2018-19 EXTENDED**	**FY 2023-24 Tariff w.e.f. 01.4.2023 to 31.03.2023)**	**FY 2024-25 Tariff w.e.f. 01.04.2024 to 31.03.2025)**	**FY 2025-26 Tariff w.e.f. 01.04.2025 to 31.03.2026)**	**FY 2024-25 Tariff w.e.f. 01.04.2026 to 31.03.2027)**	**FY 2025-26 Tariff w.e.f. 01.04.2027 to 31.03.2028)**
LANDING CHARGES							
DOMESTIC			-	-	-	-	-
	Up to 100 MT (INR/MT)	**325**	423	453	485	519	555
Eg: Q400 Parking charges for 80 & PLUS seater (INR)	30 MT	9750	12690	13590	14550	15570	16650
B737-800 (AUW 79016) (INR)	79 MT	25675	33417	35787	38315	41001	43845
Variance % from existing	Q-400		30%	39%	49%	60%	71%
Variance % from existing	B737-800		30%	39%	49%	60%	71%
INTERNATIONAL							
	Up to 100 MT (INR/MT)	448	582	623	667	714	764

Eg: Q400 Parking charges for 80 & PLUS seater (INR)	30 MT	13440	17460	18690	20010	21420	22920
B737-800 (AUW 79016) (INR)	79 MT	35392	45978	49217	52693	56406	60356
Variance % from existing	Q-400		30%	39%	49%	59%	71%
Variance % from existing	B737-800		30%	39%	49%	59%	71%
PARKING CHARGES							
DOMESTIC & INTERNATIONAL			-	-	-	-	-
	Up to 100 MT (INR Per HOUR /MT)	8	10	11	12	13	14
Eg: Q400 Parking charges for 80 & PLUS seater (INR)	30 MT	40	50	55	60	65	70
B737-800 (AUW 79016) (INR)	79 MT	632	790	869	948	1027	1106
Variance % from existing	Q-400		25%	38%	50%	63%	75%
Variance % from existing	B737-800		25%	38%	50%	63%	75%
UDF							
DOMESTIC	Per Embarking (INR/Pax)	320	420	449	481	515	551
Variance % from existing			31%	40%	50%	61%	72%
INTERNATIONAL	Per Embarking (INR/Pax)	1070	1170	1252	1,340	1,433	1,534
Variance % from existing			9%	17%	25%	34%	43%

DOMESTIC	Per DisEmbarking (INR/Pax)	0	50	54	57	61	66
Variance % from FY 24				8%	14%	22%	32%
INTERNATIONAL	Per DisEmbarking (INR/Pax)	0	400	428	458	490	524
Variance % from FY 24				7%	15%	23%	31%

Refer the above displayed **Table A** kindly note the following from the above table:

1. Landing Charges: KIA has proposed to increase the Landing Charges on Q-400 (80 & above seater) and on Boeing, both domestic and international flights between 30 % to 71% approx., for the second control period from the existing charges.

2. Parking Charges: KIA has proposed an increase in the Parking between 25% to 75 % on Domestic and International Passengers for the Second Control Period from the existing charges.

3. UDF: KIA has proposed an increase in the UDF between 31% to 72% on Domestic Passengers, and from 9% to 43% on International Passengers for the Second Control Period.

4. UDF: KIA has proposed UDF for disembarking passengers also between 7 to 32 % approx. on both domestic and international passengers.

It is in the interest of all the stakeholders that the proposed tariffs as noted above may not be implemented as the proposals are excessive. AERA is requested to reconsider the proposed tariff structure in view of the points mentioned above, as also in consideration of points as mentioned in Annex - B of this letter.

Annex B

We humbly request AERA not to implement any increase in the aeronautical tariff in the Second Control Period. In addition, without prejudice to above, we request AERA to kindly note our submissions to the AERA C.P. No. 17/2023-24 on determination of Aeronautical Tariff for Kannur International Airport, Kannur for the Second Control Period (01.04.2023 – 31.03.2028):

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S. No.	AERA's Proposal under each Chapter	Comments
1.	**Revenues from Air Navigation Services (ANS).**	Para 2.1.3 It is submitted that as per section 2 of Airport Economic Regulatory Authority of India Act, 2008 (AERA Act), under sub-section (a), *"aeronautical services means any services provided -* *(i)For navigation, surveillance and supportive communication thereto for air traffic management.."* It is submitted that considering the above provisions of the AERA Act, revenue from Air Navigation Services should form part of aeronautical revenues and accordingly AERA should take into account the corresponding revenue and revise the tariff card.
2.	**Methodology for Tariff Determination – Hybrid Till Vs. Single Till**	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.
3.	**True up for First Control Period**	Para 4.7.1 It is submitted that: (a) Fair Rate of Return (FRoR) to airport operators should be provided only at reasonable rates as any high value of fixed/ assured return favours the service provider/airport operators, creates an imbalance against the airlines, which are already suffering from huge losses and bear 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. (b) We observe that the Fair Rate of Return of 12.21% provided to the KIA is higher in comparison to some of the Airports such as Chennai and Pune. Without prejudice to the above, there appears to be no rationale to provide higher return to KIA and accordingly AERA may reduce the FRoR suitably.

		Para 14.2.2 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 Under-recovery in first control, 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
4.	**Traffic for Second Control Period**	Para 5.2.8 and Table 41 While we appreciate that AERA has computed the traffic forecast after considering the forecasted data published by ACI and IATA (refer para 5.2.5 and 5.2.8), we request AERA to kindly conduct an independent study, which may also include demand drivers that may not have been part of report issued by IATA and ACI India. We would also like to draw the attention of the Authority, that the trends in the recent post pandemic times may not be a reasonable benchmark, whether be it of passengers or traffic, as economic factors such as inflation or market demand / prices may not continue in the same rate or trend in the future, as the same are due to unusual factors including but not limited to the geo-political causes etc, Hence, we request that the Authority may kindly take the same into consideration and appoint independent consultants to evaluate the same while finalising the projected Annual Traffic Movement and passengers.
5.	**Related Party Transactions**	It is noted that there is no mention of related Part Transaction in the Consultation Paper. FIA submits that in our view AERA should conduct the RPT Compliance check. In this regard, we request AERA to kindly ensure that: (a)the provisions of Concession Agreement (‘CA’) have been complied with; (b) tendering and awards for services must go through a competitive, transparent and fair process; (c) agreement with related parties shall not have any onerous terms, aggressive cost escalation, restrictive covenants, unfair lock in period or cost escalations or any other terms that may arise from awards to Related Parties, which is not in favour of airport users/other stakeholders.

		It is not in the interest of the stakeholders that related parties be awarded agreements for services (or otherwise) as there is fear of multi-layered transactions between / among airport operators or their Joint Ventures or their Holding / Subsidiary / Sister Subsidiary companies (or business associates by whatever name called), which is not efficient for the eco-system, and should be banned.
6.	**Capital Expenditure, Depreciation and Regulatory Asset Base (RAB) for the Second Control Period**	FIA submits that, the entire ecosystem needs to be operationally efficient, which can be implemented, amongst other things by considering the following: Para 6.2.10 We request that AERA applies the normative norms for the capex projects as mentioned under AERA Order No. 7/2016-17 dated 13th June, 2016 in order to keep the overall cost control and efficiencies in 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, such that stakeholders, including passengers, do not pay for services/ facilities which are not being availed by the stakeholders or passengers. Para 6.1.2 We note that AERA has conducted an in-depth analysis of the submissions made by the Airport operator by an independent consultant, which is appreciated. Further, as observed by AERA itself in para 14.2.2 of the CP the significant mismatch in the designed capacity of the airport, i.e., the airport is designed for 9.4 MPPA. However, their actual reported passenger throughput volume is only 1.59 MPPA for FY 2019-20, which is lesser than the threshold limit of 3.5 MPPA defined under the AERA Act 2008 for making KIA a major airport. AERA vide Public Notice 17/2019-20 dated March 16th, 2020 notified KIA as a major airport and determined the tariff for First Control Period. Further, as mentioned in para 5.2.9 and table 40 of the CP, the traffic for FY22-23 is still lower than the traffic for FY19-20. In this regard, FIA submits that there is an apparent design flaw in the infrastructure and planning on the part of KIA, due to which the tariff for First Control Period was high and KIA has proposed a significant increase for the Second Control Period, which should not be allowed.

In view of the above, it is requested that AERA should:

(a) consider imposing a penalty of 1% (or higher as deemed fit) towards the cost incurred for Capex. KIA should also be directed to encourage their traffic in the upcoming years to justify the designed capacity.
(b) to conduct an independent study for determining the efficient and reasonable Capex for Second Control Period before issuing the final tariff order.

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), made by AERA for capital expenditure projects is/are not completed/capitalised as per the approved capitalisation schedule. Such adjustments can be made by AERA during the tariff determination process for the Second Control Period.

Para 6.2.9

AERA has considered the Terminal Building Ratio ('TBLR') of 92:8 for the Second Control Period.

However, considering that Kannur is tourist destination and have potential of higher non-aero revenue, the non-aeronautical ratio proposed by KIA appears to be on the lower side, and also as compared to the other similar airports such as Varanasi, Amritsar, Trichy, Calicut and Raipur.

Further, keeping in view the fact that KIA have underutilized infrastructure and terminal space which can be better utilised towards increasing their non-aeronautical activities. We request AERA to allot the best possible ratio towards NAR as deemed appropriate. In view of that, we request AERA to:

a) To consider the highest possible non-aeronautical allocation in case of KIA.

b) To undertake detailed scrutiny examination with the assistance of an independent study for asset allocation, which is a standard practice done by AERA for all other PPP model airports on or before the tariff determination.

FIA submits that this study will assist to ensure correct assessment of allocation of assets, which is a standard practice followed by AERA.
Para 6.3.6 Table 49

In this regard, we request AERA to seek for more justification from KIA on the depreciation of assets and scrutinize the depreciation rates instead of basing it solely on opening RAB.

		We further request to conduct an independent study on depreciation, as it does not provide clarity on the percentage of depreciation applied. Fuel Infrastructure Charges at KIA – Order Number 11/2019-20: Charges for Fuel Infrastructure It may be noted that before privatization of airports, there were no such charges related to fuel infrastructure and into plane which were levied on the airlines. The Fuel Farm at the airport was developed by the Oil Marketing Companies (OMCs) and they were also refuelling aircrafts as per the respective airlines' requirements. Airlines are/were only paying for ATF uplifted at each of the airports at an agreed product price to OMCs. Since privatization of airports, two new charges related to fuel have been levied; First 'Fuel Infrastructure Charges' (FIC) and Second 'Into Plane Charges' (ITP) at all the Privatized airports. At a lot of Privatized airports, fuel infrastructure has been bought over by the airport operator or its Joint Venture (JVs) / Holding / Subsidiary / Sister Subsidiary companies from the OMCs at a very low price. The investments made in fuel farms are also through multi-layered transactions between / among airport operators or their Joint Ventures or their Holding / Subsidiary / Sister Subsidiary companies (or business associates by whatever name called). A lot of legal entities have been formed by the airport operator as Joint Venture (JVs) or Holding / Subsidiary / Sister Subsidiary companies with multiplicity of agreements. As a result of multiple layers of companies and transactions, there is no transparency and on top of it, multiple layers of overheads are loaded into the costs. In addition, royalty / revenue share to the airport operator or its JV / Holding / Subsidiary / Sister Subsidiary companies is also added in proposed FIC and ITP charges. FIC and ITP including royalty and / or revenue share, along with GST thereon, is charged by the airport operator from OMCs. OMCs include these charges in the cost of fuel. Once these charges become the cost of fuel, they attract 'non-creditable' Excise Duty @ 11% and 'non-creditable' VAT which may vary from 1% to 29%. Average VAT rate is ~ 17% in India. As ATF is outside GST, there is no 'Input Tax Credit' (ITC) on GST paid on FIC and ITP. Due to this circuitous billing cost of FIC and ITP become 1.53 times i.e. airlines end up paying 53% higher cost and there is no tax credit available to the airlines. It is a burden on the beleaguered airlines which are suffering from huge losses to the tune of > Rs. 23,500 cr in FY 2022.

Example:

FIC / ITP (including royalty / revenue share of airport operator)	100.00
GST	18.00
Total	118.00
Excise Duty @ 11%	12.98
Total with Excise Duty	130.98
VAT @ average rate of 17%	22.27
Total cost with excise duty and VAT	153.25

It is clear from the above example that against the original assumed cost of Rs.100 towards FIC and ITP, airlines end up paying Rs. 153.25 i.e. 53.25% additional cost and there is no tax credit against the same. Had these charges which are 'Aero' in nature as per AERA Act 2008, been charged directly by the airport operator from the airlines i.e. Rs. 118 including GST, airlines would have got ITC against GST and net cost to airlines would have been ~ Rs. 100 only.

The current method of circuitous billing of FIC and ITP suffers from the following:

1. Makes the whole process non-transparent
2. Against the concept of 'Ease of Doing Business'
3. Increases cost for the airlines and is against the principle of 'Making Aviation Affordable and Sustainable'.
4. Against the vision of Hon'ble Prime Minister of India, Shri Narendra Modi that he would like to see 'Hawai Chappal Wale, Hawai Jahaj Mein' as the high cost will be passed on the common man by the airlines
5. There is application of tax on tax, which is fundamentally wrong and adds to Airlines cost.

In addition to the above, it is pertinent to note that there are number of other infrastructure services / facilities like aircraft taxiways, runways, fire services and bird scarers etc., for which there is no separate charge as they are part of airport infrastructure however their separate charges for ATF in the shape of for FIC and ITP charges, which is a contradiction.

In this context, reference may be drawn from the abolishment of Fuel Throughput Charges (FTC), which were being earlier charged as separate charges for provisioning of ATF but were subsequently abolished.

The FTC were being charged by the Airport Operators from the airlines through OMCs with the above circuitous billing mechanism with ultimate non creditable cost of Rs. 153.25 to the airlines.

		Both the Ministry of Civil Aviation (MoCA) and AERA have abolished FTC vide their order dated 08 January 2020 and 15 January 2020 respectively. Subsequently their revenues have been recalibrated by AERA and there has been no loss to the airport operators. In view of all the above facts, it is recommended that FIC and ITP be abolished, and necessary calibration may be done in the revenue for airport operators for fuel farms and into plane operations. This will in turn help the airlines to address the long pending issue of circuitous billing. Thus, it is requested that pricing for Fuel Farm Tariff (Fuel Infrastructure Cost, Aircraft Defueling and Re-fuelling of defueled products) may kindly not be accepted and recalibrated in line with FTC into other airport charges and help and support airlines with to address long pending circuitous tax billing. We would also like to urge AERA to devise methods or pass an order stating that FIC and ITP should be directly invoiced by fuel farm operator or the services providers to the airlines to avoid circuitous billing and for the sake of 'Ease of doing businesses' and 'Transparency'. This will also help in avoiding unnecessary tax on tax. It is submitted that the AERA to please consider the pre-operative expenses for the purpose of RAB which are eligible for capitalization as per Indian Accounting Standards to avoid overstatement of RAB and consequently return and depreciation. Further, we request AERA to clarify that whether the treatment of pre-operative expenses is in accordance with I-GAAP which is not explained or clarified in CP.
7.	**Fair Rate of Return (FRoR) for the Second Control Period**	Para 7.2.3, 7.2.8 and Table 53 It is observed that AERA has considered FRoR of 12.21%, with cost of equity at 15.18%, cost of debt at 9%, which is the net of income tax return, calculated on the basis of cost of equity and debt. However, it may be noted, that AERA in the recent times, have approved lower FRoR for AAI airports (Third Control Period), such as Chennai (11.98%), Pune (11.68%), and Cochin (11.63%) (i.e., neighbouring airports to KIA). Further, it may be noted that as per Para 7.2.3 of the CP, AERA have proposed to consider the notional debt to equity ratio of 48%:52% in line with the target gearing ratio being considered in case of other PPP airports. In view of the above, it is submitted that AERA should re-consider equity return of 15.18% due to it being enormously high rate of return.

		In this regard, AERA may consider: (a) to conduct an Independent Equity and FROR study; (b) consider the fact that airport industry in India has been established, hence the risk is lower as this is a cost-plus margin business.; (c) to review the financial closures details, debt to equity ratio based on actual weighted average rather than a notional percentage. Further, it is to be noted, that while such fixed/ assured return favours the service provider/airport operators, it 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: **1)** In the present scenario any assured return on investment to any services providers, in excess of six (6) % (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)** 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.
8.	**Operation and Maintenance Expenses for the Second Control Period**	<u>Para 9.2.14</u> While we are in agreement with AERA that as KIA gradually expands its Non-aeronautical operations, it should also proportionately increase the power recovery charges from Concessionaires. Thus, KIA is requested to constitute a committee to verify the bills relating to Power expenses and submit a report on the same to AERA, for greater transparency.

		Para 9.2.13, 9.2.30Table 68, 69 FIA submits that, in para 9.2.30, AERA for the purposes of estimating manpower expenses have considered a 5% growth rate, which is quite high. Further FIA requests AERA to not provide such huge escalations, for the following: (i) Repairs & Maintenance expenses (between approx. 7% to 10 %) (ii) Housekeeping Expenses (approx. 10% YoY) (iii) Para 9.2.13 Security expenses. (approx. 10% YoY) AERA and Airport operator have proposed Rs. 3.43 Cr as security expenses as per Table 68 of the CP. However, as it is understood that expenses of this nature are funded through National Aviation Security Fees Trust (NASFT). In this regard, we request the Authority to clarify the burden of such expense on the airline, as the end user/customer is already paying Aviation Security Fee ('ASF'). Further, it is to be noted that: a) The percentage of manpower cost proposed by AERA is high as there has been no terminal expansion or manpower additions in case of KIA. It is also important to highlight that the manpower expenditure is semi- fixed in nature and does not increase proportionately. Hence, any increase may only be done with scrutiny and proper justification, that may be achieved by way of an independent study. b) AERA accepts that to assess the accuracy, reasonableness and estimate of expenses in the Second Control Period of a greenfield airport is challenging and O&M expenses is one of the key building blocks. c) FIA appreciates AERA for conducting the study on 'efficient Operation and Maintenance expenses' for the First Control Period to analyse the need of O&M incurred, which showcased that there was an overall deviation of 34.10% in the total O&M approved for First Control Period versus the incurred cost (para 17.2.4 of the CP). In view of the above, it is submitted that the current estimated O&M expenses requires further scrutiny by way of an Independent Study in this Control Period, so the same deviation is not reported for Second Control Period, which will result in over recovery of ARR in next control period under garb of True up. FIA wishes to highlight that the same has been proven in cases of other PPP Airports like DIAL, MIAL, BIAL that while truing up the O&M in

		subsequent control periods, it always leads to over-estimation which has been observed leading to higher tariff in past control periods. We further submit that, while the aviation sector, including airlines have incurred huge losses and are struggling to meet their operational costs, the Airport operator on the other hand seems to have incurred/will incur incremental expenses which may not appear prudent considering the significant losses incurred by the aviation sector. In view of the aforementioned reasons, we request AERA to conduct an independent study for determining the true value of the O&M expenses before approving the tariff for the Second Control Period.
9.	**Non-aeronautical revenue for the Second Control Period**	**<u>Para 10.1.2, 10.2, Table 73 & 74.</u>** It is observed that the Non-Aeronautical Revenues ('**NAR**') projected by KIA is substantially low and conservatively estimated, with a standard approach without detailed thought to each line item. It is requested that KIA explores all avenues to maximise revenue from the utilisation of terminal building for non-aeronautical purposes. There appears to be scope of considerable improvement in increasing the NAR. It may be noted that the entire NAR growth is driven by passenger growth, which has been considered based on estimates and not based on any independent study by AERA. FIA would further like to highlight that the WPI inflation has been considered for inflationary increase, however the revenue from NAR is coming from passengers and in the case of F&B, retail, duty free, actual inflation is much higher than WPI. We also would request AERA to provide clarity for not considering CPI/Food Inflation in this regard. It may be noted that, in other PPP Airports like DIAL, MIAL, BIAL, while truing up the NAR in subsequent control periods have always been the under-estimation and leads to higher tariff in the control periods. Kerala is widely recognized as one of the most popular tourist destinations globally. With airlines being the preferred mode of travel, the city's air traffic is expected to increase drastically. Accordingly, we request AERA: a) to mandate KIA to enter into suitable agreements with concessionaires to exploit the potential/ growth of NAR at KIA. b) to kindly undertake detailed examination with the assistance of an independent study on the NAR before the tariff determination of the FCP. c) to further determine and re-assess their estimates in line with other comparable airports. It may also include the impact of the

		tourism lineage that Kerala 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.
10.	**Proposed Annual Tariff Proposal (Tariff Rate Card) <u>(Refer Annexure A of Public notice 22/2023-24):</u>**	In accordance with the preamble of the National Civil Aviation Policy, which envisages to make air travel affordable and sustainable, AERA is requested to review the suggestions/comments on the regulatory building blocks as mentioned above which is likely to reduce the ARR. This will further ensure the lowering of tariffs including UDF, which will be beneficial to passengers and airlines. It is in the interest of all the stakeholders that the proposed excessive hikes in the tariffs be reduced and also in order to encourage middle class people to travel by air, which will help in the sharp post-COVID-19 recovery of aviation sector. It is the stated vision of the government to make UDAN ("Ude Desh ka Aam Naagrik") a reality and this can only happen if we have the lowest possible cost structure, such that we can bring more and more people to airports to travel by air. In addition, we request AERA and KIA to clarify the following: **1**) Ref: Notes: 1 to User Development Fee (UDF) Charges: We would like to invite AERA's attention to notes 1 of the Annexure A of the Public Notice No.22/2023-24, UDF charges, wherein no rate of collection charges of UDF charges has been proposed by AERA. We further request AERA to consider, in this regard that: **a)** The collection charges to be published as Rs. 5.00 per departing passenger, in line with other airports. **b)** These charges are paid by airport operators to airlines separately after airlines raise an invoice against the same as a standard industry practice. We request the same practice be applied. 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. **c)** Disembarkation: KIA has also proposed UDF charges on disembarkation as well at the Airport. However, as KIA may not be considered as a Greenfield airport as this is its 2nd Control period (and consultation paper) UDF charges on disembarkation may not be allowed. AERA is requested to kindly review this trend as this will be

		discouraging for passengers to take flights to KIA because of the increase is total cost to fly to KIA. **2)** CUTE, CUPPS, CUSS: As these are aeronautical revenues, (Serial No 7 of Annexure A) We would like to state that: (i) The current prices are excessive. Please note that the AAI tariff for the same services at 44 airports is Rs 35.05 per passenger which is much lesser than private entities. AAI chose a service provider based on a public reverse auction mechanism. As such the proposed rate of Rs 85.1 per passenger at KIA for domestic and Rs 92.5 for international is too high. It should be same and in-line as at other AAI airports since all services provided in this regard are same. Please note that the high fees set a precedent for other private airports hence it is important to bring down the rate to be in line with tariff at AAI airports. It may further be noted that AERA has notified INR 60 for same service of CUTE, CUPPS, CUSS in its latest order no. 27/2023-24 for Manohar International Airport, MoPA, Goa Airport. (ii) Whatever bouquet of services is agreed between the KIA and the service provider, this is enforced upon the airlines and the airlines have no say on the prices (or unbundling), even if the airlines do not require all the services; and (iv) The rates are in foreign currency at certain airports, making airlines vulnerable due to currency fluctuations. The same may kindly be published and applied in Indian currency only. (v) There are differential CUTE charges for international and domestic pax without any substantial rationale, since the ICT/CUTE services used are same for both types of customers. Hence there should be only one uniform CUTE charge for domestic and international both passengers. (vi) Cute Charges collection Authority has not been defined in order as currently these charges are not being collected by KIAL. Also, passenger inclusions and exemptions have not been defined for domestic embarking and international embarking passengers. AERA is requested to clarify both these points. Thus, AERA is kindly requested to intervene and kindly regulate the CUTE, CUPPS, CUSS prices as per the AERA Act, with transparency to all stakeholders.

3) Further, FIA recommends AERA to add Note of the Annexure A (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 airlines".

4) Parking Charges (Notes:- 2b)

Refer*:*

i. *"4. For calculating chargeable parking time, any part of an hour shall be rounded off to the next hour"*

It is submitted that for calculating chargeable parking time, part of an hour shall be rounded off to the "nearest hour".

(Notes: - 2g)

ii. Additional parking charges added in proposed tariff card for parking beyond 24 hours is also excessive since the parking charges after first two hours are already doubled. A higher fees of INR 25 per hour per MT sets a bad and unacceptable precedent for other private airports hence it is important to bring down the rate to be in line with tariff at AAI airports.

5) Landing Charges (Notes: - 1d)

We request AERA further clarification on unscheduled flights operated by domestic scheduled operator as the same are currently being charged by KIA. There should be a clarification to this effect since the exemption is provided to domestic scheduled operators and not restricted to only schedule operations by them.

6) Aviation Security Fee (ASF) (Notes: - 4b)

It is submitted that the note 4b seems incomplete since the last two categories are not visible completely in the tariff card. We request AERA to include all the categories included in exemption list as has been defined under AIC15/2019 dated 19.06.2019.

7) General Conditions

It is requested to define the applicability or exemption of any of the tariff charges pertaining to RCS Flights which have been excluded.

11.	**Any Other Comment**	<u>Shrinkage in Control Period</u> We submit 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...'* FIA appreciates, AERA's efforts of spending considerable time in consultation process and assessment of the information provided by Airport Operator. However, despite relying on information provided by the Airport Operator in many instances there is an inordinate delay in tariff fixation, which has diminished the effective Control period of 60 months by 9-10 months and will lead to burdening of passengers travelling during balance period of 52 months. This further leads to a mismatch between the recoveries of target revenue with the actual/projected revenue. 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 KIA - Second Control Period, will now be issued after the commencement of the Control Period i.e., 1 April, 2023. **Royalty** Any attempt to award the contracts by the airport operator on the highest revenue share basis should be discouraged as it breeds inefficiencies and tends to disproportionately increase the cost. It is general perception service providers have no incentive to reduce its expenses as any such increase will be passed on to the airlines through tariff determination mechanism process and indirectly airlines will be forced to bear these additional costs. There needs to be a mechanism for incentivizing the parties for increasing efficiencies and cost savings and not for increasing the royalty for the airport operator. As you are aware, royalty is in the nature of market access fee, charged (by any name or description) by the Airport operator under various headings without any underlying services. These charges are passed on to the airlines by the airport operator or other services providers. The rates of royalty at the airport are as high as up to 41% 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. <u>Cost of airport operations:</u> We submit that cost of operations for the airlines is 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. Any other Govt. grants/Subsidies: It is requested that in case there are any Govt. grants/subsidies (State or Central) provided to the airport operator, it should also be factored in for the purpose of tariff determination.