

Airports Economic Regulatory Authority of India



INTRODUCTION

- Airports public sector monopoly till 2003.
- Unprecedented growth in air traffic led to considerable strain on airport infrastructure (2004-05 to 2007-08)
 - 30% growth in domestic traffic and 15% in international
 - 2000-2010: Indian aviation had to cope with an additional 84m PAX.
- Need for attracting private investment to create world class infrastructure:
 - Govt permitted private sector in airport development in 2003-04.
 - In 2006, Delhi and Mumbai Airports leased out to GMR Group and GVK Group respectively. JVCs were formed.

INTRODUCTION

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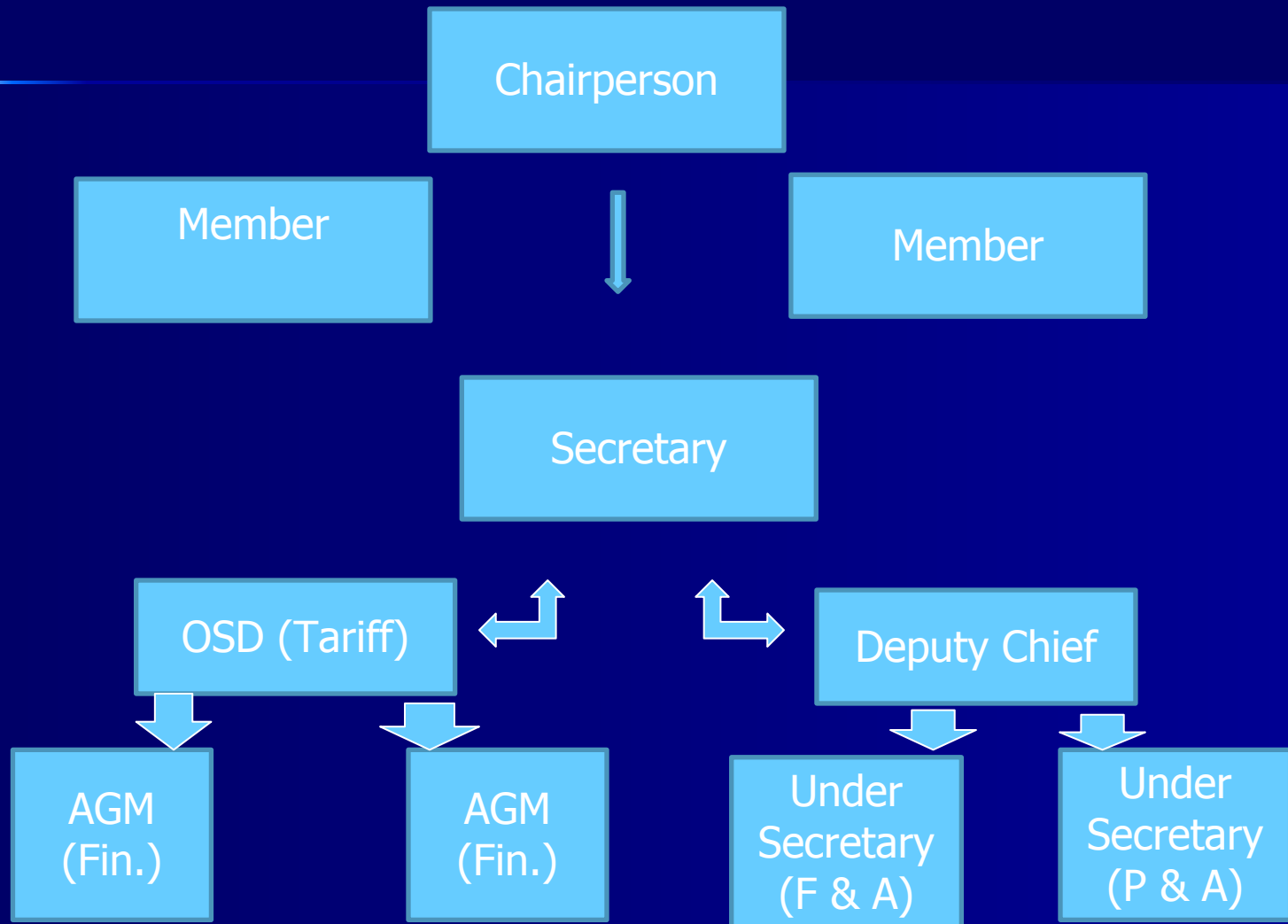
- OMDA and State Support Agreement (SSA) were signed with JVCs
- SSA indicated Govt intention to establish independent regulator
- AERA Act, 2008 was enacted for economic regulation of airports with effect from 1.1.2009.

INTRODUCTION

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- AERA Act applies to all major airports other than airports and airfields belonging to or subject to control of the Armed forces or paramilitary forces of the Union.
- A major airport which handles or is designed to handle more than 1.5mln passengers in a year
- Govt may notify any airport as a major airport
- There are 24 major airports as on 1.1.2017

Organizational Structure



Regulatory Objectives

- Facilitating wider policy aims for the aviation sector through regulation of major airports, recognising their role in the sector and economy;
- Protecting and promoting interests of existing and future users of major airports and air navigation services through provision of quality services commensurate with the respective charges, keeping in particular focus the interests of passengers and cargo facility users and the user expectations;
- Promoting investment in airports and air navigation services and their effective management so that all reasonable demands for airport services are met efficiently.

Main Functions of AERA

- Determine tariffs for the aeronautical services.
- Determine amount of Development Fees.
- Determine amount of Passenger Service Fee.
- Monitor the set performance standards relating to quality, continuity and reliability of the service at the airport.

Aeronautical Services and AERA's Approach To Economic Regulation

Aeronautical Services are as given below:

- Services provided by the airport operators (Airport Services)
- Air Navigation Services (ANS) AAI
- Cargo Facility, Ground Handling & Supply of Fuel to an aircraft

Regulatory approach for tariff determination:

Price cap Model

Light touch approach

Airport Charges

- Airline charges
 - Landing, Parking, Housing Charges.
 - Navigation charges (RNFC, TNLC)
- Passenger charges
 - UDF
 - ADF
- Cargo Charges
- Fuel Supply
- Ground Handling

Factors affecting tariff determination

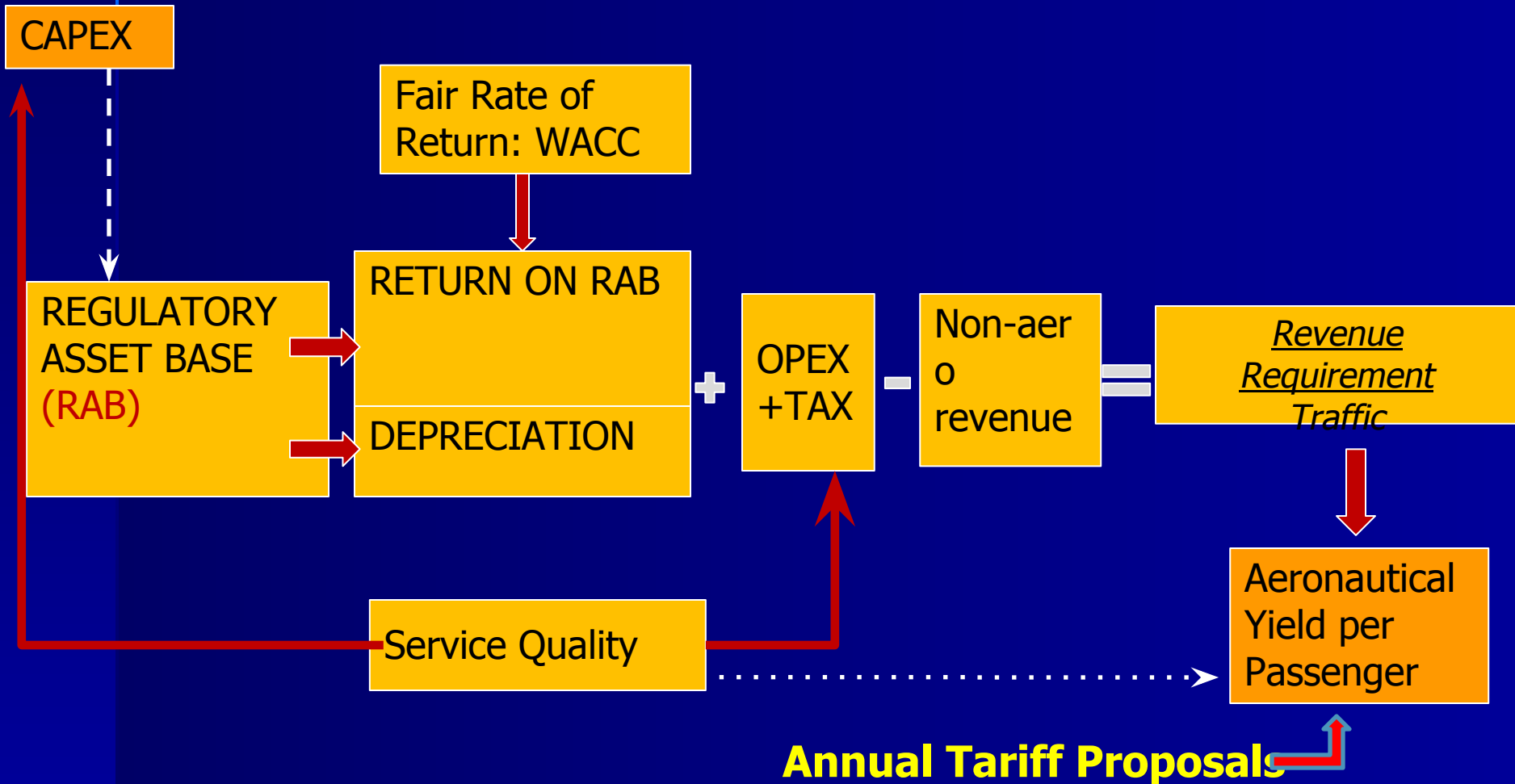
- (i) Capital expenditure incurred and timely investment in improvement of airport facilities;
- (ii) Services provided, its quality and other relevant factors;
- (iii) Cost for improving efficiency;
- (iv) Economic and viable operation of major airports;
- (v) Revenue received from services other than the aeronautical services;
- (vi) Concession offered by the Central Government in any agreement or memorandum of understanding or otherwise;
- (vii) Any other factor which may be relevant for the purposes of this Act.

Procedure to Determine Tariffs

- Determine tariff once in five years
 - Amend in public interest during the said period of five years
- Transparent process
 - Consultation with stakeholders.
 - stakeholders make submissions to AERA
 - all decisions of AERA fully transparent, documented & explained.
- Airport operators, Indian registered airlines, representative bodies of the airlines and airports, Cargo facility user, Central Government, respective State Governments and consumer organizations consulted on a regular basis by the Authority.

Regulatory Building Block Approach

Price Cap Regulation | Single Till



Appeal Process

- First Appeal: AERA Appellate Tribunal
- Second appeal: Supreme Court

Regulatory Asset Base

Consists of only aeronautical assets.

Common area in Terminal building is classified into aeronautical, non aeronautical.

Normative cost prescribed for runway, apron and terminal building

DEPRECIATION

Companies Act rates are followed for standard assets

Runway, Apron and Taxiways AERA will prescribe based on a study

Weighted Average Cost of Capital

Cost of Equity 16% Study by NIPFP

Cost of debt

Normative debt equity not prescribed

Operation and Maintenance Expenditure

Efficient O&M Expenses to be included

O&M Expre to be allocated- aero &
non-aero based on certain criteria

Non Aeronautical Revenue

Major non-aero revenues

Duty free

Retail

Food & Beverages

Car park

Advertisements

TILL

Single Till- All non-aero revenues used to subsidise aeronautical charges:

Dual Till - Non-aero revenues not taken into consideration

Hybrid Till- Portion of non-aero revenues taken as subsidy

Taxation

Taxes paid on aeronautical revenue are returned to the airport operator.

Annual Revenue Requirement

$$ARR = RAB * WACC + D + O + T - NAR$$

RAB-Regulatory Asset Base, WACC-

Weighted Average Cost of Capital,

D-Depreciation, O- O&M Expre, T- Tax

and NAR is Non-Aero Revenue

X Factor

PV of five years ARR is equated to the PV of expected revenue at the current airport charges to arrive at the X Factor.

Yield Per Passenger

Maximum Allowable Yield per Passenger

PV of Aggregate ARR divided by
estimated passenger throughput.

Tariff Card

Airport Operator submits tariff card.

AERA checks to see that tariff as proposed earns the operator a sum equivalent to the ARR

CGF and Light Touch Regulation

Cargo, Ground Handling and Fuel Farm Operations

Fixed on light touch if the service is

not material, or if material it is competitive and if material and not competitive,
based on User agreements

Recent Developments

- National Civil Aviation Policy-2016(NCAP-2016)-The NCAP-2016 has been approved by the Govt.
- Para 12(C) of the NCAP-2016 has envisaged changed in the till regime from "Single Till" to "Hybrid Till" . Under Hybrid Till 30% of the Non-aeronautical Revenue shall be used to cross subsidize the aeronautical tariffs .
- Para 19(a) of the NCAP-2016 has recommended for minimum 3 ground handlers instead of 2 as the criteria for competition assessment .
- Normative Approach: AERA has issued Order No. 07/2016-17 dated 13.06.2016 benchmarking the cost for terminal building, runway, taxiway etc.



Thank you

Orders Issued

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