

Economic Regulation
of Airports
&
Air Navigation Services
—
Indian Experience
Oct 21, 2009

Background

- Airports traditionally in public sector with Government as regulator.
 - 2003 – Legislation amended to enable private participation.
 - August 2005 – Concessions for private airports at Bangalore and Hyderabad finalized.
 - May 2006 – Delhi and Mumbai airports leased out to JV Companies.

Need for independent regulator

- 2008 – Airports Economic Regulatory Authority of India Act legislated.
- 12.5.2009 – AERA established.

Mandate of AERA

- Economic regulation of major airports.
- Monitoring of set performance standards.
- Economic regulation of Air Navigation Services.

Major Airports

- Having passenger throughput
 - in excess of 1.5 mppa.
- Designated to have passenger throughput
 - in excess of 1.5 mppa.
- Any other airport notified by the Government.

Presently, 11 airports covered; 85 % traffic.

Constitution

- Chairperson + 2 Members
 - Protected Tenure
- Matters involving a Civil Enclave – an additional Member to be nominated by Ministry of Defence.
- Secretary + Supporting Staff
- Present Status:
 - Chairperson & Secretary appointed
 - Skeleton staff available
 - Regular staffing in process

Functions

- (a) To determine the tariff for aeronautical services;
- (b) To determine the amount of development fee;
- (c) To determine the amount of PSF;
- (d) To monitor the set performance standards relating to quality, continuity and reliability of service;
- (e) To perform such other functions relating to tariff as may be entrusted to it by the Central Government.

Aeronautical Services

“Aeronautical Services” means any service provided-

- (i) for navigation, surveillance and supportive communication thereto for air traffic management;
- (ii) for the landing, parking of an aircraft or any other ground facility offered in connection with aircraft operations at an airport;
- (iii) for ground safety services at an airport;

Aeronautical Services

- (iv) for ground handling services relating to aircraft, passengers and cargo at an airport;
- (v) for the cargo facility at an airport;
- (vi) for supplying fuel to the aircraft at an airport; and
- (vii) for a stake-holder at an airport, for which the charges, in the opinion of the Central Government for the reasons to be recorded in writing, may be determined by the Authority.

Factors to be considered for determination of tariff for the aeronautical services

- (i) the capital expenditure incurred and timely investment in improvement of airport facilities;
- (ii) the service provided, its quality and other relevant factors;
- (iii) the cost for improving efficiency;
- (iv) economic and viable operation of major airports;
- (v) revenue received from services other than the aeronautical services;
- (vi) the 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 of AERA

- Transparent Procedure
 - Stakeholder Consultation a must
 - Fully documented and explained decisions
- Tariff Cycle
 - 5 years
 - Amend, from time to time, in public interest

Regulatory Issues

- Capital Expenditure - Gold Plating
- Quality of services - Bench Marking
- Cost for improving efficiency - Factor 'X'
- Fair return - Cost of debt, Cost of equity
- Non aero revenue - Single, Dual or Hybrid till

Consultancy

- **Engagement of Consultant to advise AERA on-**
 - (i) **Structuring of the AERA** – Designing organizational structure and staff responsibilities including capacity building of AERA;
 - (ii) **Define systems, process and procedures** for enabling AERA to carry out its regulatory functions;
 - (iii) **Assist in stakeholder consultations** with respect to the recommendations made at clause (ii) above and modifying and alerting the same, if required;
 - (iv) Translating the recommendations regarding the processes and procedures after stakeholder consultations into legally binding document (s) like **rules and regulations for implementation** and enforcement;
 - (v) **Hand holding support.**
- **Period – 4 months**
- **Handholding support period– 12 months.**

Present Status of Airport/ ANS Charges

- RNFC
- TNLC
- Landing, Parking & Housing Charges
 - Last revised in 2001
 - 10% increase allowed in February, 2009

Present Status of Airport/ ANS Charges

- **UDF –**
 - Hyderabad
 - @ Rs. 1050/international pax – w.e.f. 23.03.2008
 - @ Rs. 375/domestic pax – w.e.f. 18.08.2008
 - Bangalore
 - @ Rs. 1000/international pax – w.e.f. 24.05.2008
 - @ Rs. 260/domestic pax – w.e.f. 16.01.2009
- **DF (Pre-funding) –**
 - Delhi
 - @ 1300/international pax – w.e.f. 1.03.2009
 - @ Rs. 200/domestic pax – w.e.f. 1.03.2009
 - Mumbai
 - @ Rs. 600/international pax – w.e.f. 1.4.2009
 - @ Rs. 100/domestic pax – w.e.f. 1.4.2009

Key Issue before AERA

- **Airports**

- Committed investment of about Rs. 50000 crores (US \$ 10 billion)
- Most of the projects underway
- Declining revenue stream

- **Airlines**

- Declining passenger traffic
- High operation costs
- New user charges not conducive

Regulation at the TROUGH.



Thank You