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This AIC is issued for dissemination of the directions of Ministry of Civil Aviation in their letter No. AV. 29012/43/2016-AD dated 18.06.2020.



(Arun Kumar)
Director General of Civil Aviation

ISSUE OF AIC FOR PROVISION OF COMPENSATION IN LIEU OF FUEL THROUGHPUT CHARGES AT AAI CIVIL ENCLAVE, VISAKHAPATNAM

The Airports Economic Regulatory Authority (AERA), in exercise of powers conferred on them by section 13(1) of the Airports Economic Regulatory Authority of India Act, 2008, vide Order No. 12/2020-21 dated 12th June, 2020, has allowed AAI Civil Enclave, Visakhapatnam to increase the UDF for the remaining 1st Control Period from 15.06.2020 to 31.03.2023 or, till determination of charges for the 2nd Control Period. A copy of the aforesaid order is enclosed herewith.



Airports Economic Regulatory Authority of India

**In the matter of Provision of Compensation in lieu of Fuel Throughput Charges at
AAI Visakhapatnam Airport (Civil Enclave)**

12th June, 2020

भा.वि.आ.वि.प्रा.
AERA Building
Administrative Complex
Safdarjung Airport
New Delhi – 110 003



1. Introduction

The Airports Economic Regulatory Authority (AERA) is a statutory body constituted under the Airports Economic Regulatory Authority of India Act, 2008 vide Gazette Notification dated 5th December 2008. The AERA was established by the Government, to create a level playing field and foster healthy competition among major airports, to encourage investment in airport facilities, to regulate tariffs for aeronautical services etc.

2. Functions of AERA

The main functions of AERA are:

- to determine the tariff for the aeronautical services;
- to determine the amount of the development fees in respect of major airports;
- to determine the amount of the passengers service fee levied under rule 88 of the Aircraft Rules, 1937 made under the Aircraft Act, 1934 (22 of 1934);
- to monitor the set performance standards relating to quality, continuity and reliability of service as may be specified by the Central Government or any authority authorized by it in this behalf.

3. Back Ground

In accordance with the provisions contained in Section 13 of Airports Economic Regulatory Authority of India Act (AERA Act), 2008, the Authority determined aeronautical tariffs of AAI Civil Enclave, Visakhapatnam, for the First Control Period i.e. 01.04.2018 to 31.03.2023 vide Order No. 38/2018-19 dated 09.01.2019.

3.1 As detailed in Table 45 under para 14.4 of the above said Order, the Authority determined Rs.215.99 Crores as the total discounted Aggregate Revenue Requirement (ARR) as per Regulatory Building Blocks for the entire period of First Control Period. Fuel Throughput Charge (FTC) was one of the components to achieve this revenue requirement along with other revenues from aeronautical services such as Landing, Parking & Housing, UDF, etc.

3.2 The Fuel Throughput charges considered as a part of ARR, as per the above Tariff Order considered by the Authority is given in table -1 below:

Table - 1

	FY 2019-20	15.01.2020 to 31.03.2020	FY 2020-21	FY 2021-22	FY 2022-23
Charges per KL (in Rs)	157.39 / KL		157.39 / KL	157.39 / KL	157.39 / KL
Revenue (Rs. in crores)	1.11	0.23 (pro rata)	1.22	1.33	1.43



4. Ministry of Civil Aviation vide letter No.AV.13030/216/2016-ER (Pt.2) dated 08.01.2020 has decided to discontinue the levy of Airport Operator Charge or Fuel Throughput Charge in any manifestation at all airports. Para 4 of the said letter reads as under:

“Keeping in view all aspects of the matter, in light of the need to uphold affordability and sustainability of air passenger and air cargo transportation as per the National Civil Aviation Policy 2016, it has been decided as follows:

- (i) Levy of airport operator charge or fuel throughput charge in any manifestation shall be discontinued at all airports, airstrips and heliports across India with immediate effect.
- (ii) AERA/ Ministry of Civil Aviation, as the case may be, should take into account the amount in this revenue stream and duly compensate the Airport Operator/ AAI by suitably recalibrating other tariffs during their determinations of airport tariffs.”

5. Considering the above policy decision of MoCA, the Authority vide letter No. AERA/ 20015/FT/2010-11/Vol.II dated 15.01.2020 advised the Airport Operators at all ‘major’ airports to implement the aforesaid MoCA letter with immediate effect. AERA, also advised the Airport Operators to submit their proposal for compensation, if any, due to discontinuation of Fuel Throughput Charges (FTC) for consideration of the Authority.

6. Accordingly, AAI vide letter no. AAI/CHQ/AERA/FTC/2020 dated 23.03.2020 submitted their proposal to compensate revenue loss of Rs.2.89 crores (at NPV) on account of discontinuation of FTC at Civil Enclave Visakhapatnam, for the remaining period of first control period i.e.15.01.2020 to 31.03.2023. AAI proposed to recover the expected revenue loss in the form of increased UDF charges.

The AAI calculated the shortfall in revenue from 15.01.2020 to 31.03.2023 as given in Table-2 below:

Table – 2 Shortfall in FTC Revenue as calculated by AAI

Period for which Loss of FTC Revenue claimed by AAI	15.01.2020 to 31.03.2020	FY 2020-21 to FY 2022-23	Total FTC loss claimed by AAI
FTC Revenue Projections as per AERA Tariff Order (Rs. in crores)	0.23	3.98	4.21
PV factor	0.88	0.77/0.67/0.59	
FTC Revenue Projections (discount factor as per Order No. 38/2018-19)	0.20	2.69	2.89



6.1 AAI submitted a proposal to increase the UDF charges by Rs.4/- per Domestic / International Embarking Pax towards compensation for loss of FTC as shown in table-3 below.

Table – 3 Increase in UDF / Pax as Proposed by AAI

FTC Compensation claimed by AAI for period up to FY 2020-23 (at NPV) (Rs. In Crores)		2.89 (A)	
No. of Departing Pax as per Tariff Order [50% of total traffic projections for period FY 2020-21, FY 2021-22 & FY 2022-23]		6443622 (B)	
Increase in UDF per Pax proposed by AAI (A / B)		Rs. 4/- approx	
Existing Rates of UDF as per AERA Tariff Order		Revision in UDF Rates proposed by AAI	
DOM	INTL	DOM	INTL
300	300	304	304

7. Authority's Examination

The Authority carefully examined the proposal of AAI submitted in reference to letter no. AV.13030/216/ 2016-ER (Pt.2) dated 08.01.2020 issued by MoCA.

7.1 The Authority, is of the view that, normally, the monetary benefit of abolishing the FTC is expected to entirely go to the Airlines, and, accordingly, any compensation on account of abolishing FTC should be recovered from Airlines. However, the Authority noted that at all Civil Enclaves, including Visakhapatnam, Landing Charges accrue to the Defence Authorities, and, not to the AAI (Airport Operator). The compensation of FTC at the Civil Enclaves cannot be recovered / compensated through increase in Landing Charges. The Authority, therefore, viewed that at Civil Enclave, Visakhapatnam, the shortfall in FTC revenue, hitherto accruing to AAI, has to be compensated by way of increase in UDF charges. As per Tariff Order No.38/2018-19, the Authority, had expected that during FY 2020-21 to FY 2022-23 of the First Control Period, AAI would generate revenue from UDF Charges and FTC as detailed in table 4 below:

Table – 4 Projected Revenue from UDF / FTC as per Tariff Order

	(Rs. in crores)				
	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23
Revenue from UDF	24.00	49.2	56.59	65.07	71.65
Revenue from FTC	0.94	1.11	1.22	1.33	1.43



7.2 The Authority observed that the tariff for Civil Enclave Visakhapatnam have been determined up to 31.03.2023 i.e. the First Control Period (01.04.2018 to 31.03.2023) of which the third tariff year (T_3) FY 2020-21 is in progress. Therefore, the expected shortfall in revenues from FTC may not be more than the FTC revenues projected for FY 2019-20 (pro rata for 2.5 months), FY 2020-21 to FY 2022-23 as per the AERA Tariff Order No.38/2018-19.

Further, the Authority agreed with AAI's calculation of expected shortfall in FTC/ARR of Rs.2.89 crores for the period from 15.01.2020 to 31.03.2023.

7.3 The Authority proposed that the expected shortfall for FY 2020-21 has to be recovered in the remaining 9.5 months instead of 12 months (w.e.f. 15.6.2020 to 31.03.2021). Accordingly, the Authority adjusted the period available for recovery of UDF charges in the 1st Control Period (FY 2019-20 to FY 2022-23) and the corresponding passenger numbers.

The Authority, in its Consultation Paper proposed to compensate the shortfall of Rs.2.89 crores in FTC/ARR revenues to AAI by increasing the existing UDF Charges at Civil Enclave, Visakhapatnam, by Rs.5.00 per pax for the period 15.06.2020 to 31.03.2023 (Total Pax = 6050669 for period from 15.06.2020 to 31.03.2023 considered by Authority).

8. The Authority, having examined the submissions made by AAI issued the Consultation Paper No. 02/2020-21 dated 27.05.2020 proposing the following for Stakeholder Consultation:

- (i) The Authority proposes to increase UDF charges at Civil Enclave, Visakhapatnam, by Rs.5/- per pax for the remaining first control period from 15.06.2020 to 31.03.2021, or, till determination of aeronautical charges for the 2nd Control Period, to recover the shortfall in FTC revenue of Rs.2.89 crores.
- (ii) To true up revenue based on actuals while determining tariff for 2nd Control Period.

9. Stakeholder's Comments

In response, the Authority, has received comments from Airports Authority of India (AAI) only. The comment so received was uploaded on AERA's website vide Public Notice No. 05/2020-21 dated 10.06.2020. AAI in its comments have requested the Authority to consider FY 2019-20 & FY 2020-21 as base year for the purpose of calculating NPV (considering discounting rate as 14%) as considered and proposed by the Authority in its Consultation Paper issued in respect of CE Pune & CE Goa (ref: AERA CP no. 03,04/2020-21 dt: 27.05.2020).

10. Authority's view on Stakeholder's Comments

The Authority, takes note of AAI's submission to consider FY 2019-20 & FY 2020-21 as base year for the purpose of calculating NPV (considering discounting rate as 14%). The Authority acknowledges the error of principle which has occurred in the proposal put forward in the Consultation Paper for CE Vizag and decides to rectify the same by revising the calculation of shortfall in FTC revenue as may be seen in table 5 below :



Table – 5 Revised calculation by Authority - Shortfall in FTC Revenue

(Rs. in Crores)

Period for Loss of FTC Revenue		15.01.2020 to 31.03.2020 plus FY 2020-21	FY 2021-22	FY 2022-23	Total shortfall in FTC/ARR
FTC Revenue Projections as per AERA Tariff Order		1.45 (0.23 + 1.22)	1.33	1.43	4.21
<i>PV factor</i>		1.00	0.88	0.77	
FTC Revenue Projections (at NPV)	A	1.45	1.17	1.10	3.72
Total departing pax from 15.06.2020 to 31.03.2023	B				6050669
Increase in UDF per pax (revised)	A /B				Rs.6/-

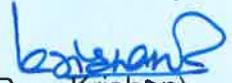
Thus, as per Authority's revised calculation the total shortfall is expected to be Rs.3.72 Crores for the period from 15.01.2020 to 31.03.2023, which the Authority decides to compensate by increasing the existing UDF rate by Rs 6/- per domestic and international embarking passenger.

Order

Upon careful consideration of material available on record, the Authority, in exercise of powers conferred by Section 13(1) (a) of the AERA Act, 2008 hereby orders that:

- (i) The Authority has decided to allow the increase in UDF charges at Civil Enclave Visakhapatnam for the remaining 1st Control Period i.e. from 15.06.2020 to 31.03.2023, or, till determination of aeronautical charges for the 2nd Control Period, to recover the shortfall of Rs.3.72 crores in lieu of abolition of FTC. The Authority has decided to enhance the existing UDF to ₹306/- and ₹306/- for Domestic and International Embarking Passengers respectively w.e.f. 15.06.2020 as annexed at "**Annexure I**";
- (ii) To true up the Revenue based on Actuals while determining tariff of Civil Enclave, Visakhapatnam, for the 2nd Control Period;
- (iii) **The Revised UDF will be applicable on tickets issued on or after 15.06.2020;**
- (iv) The UDF rates indicated in the tariff card are also in accordance with section 13(1)(b) read with rule 89 of the Aircraft Rules, 1937. The rates approved herein are the ceiling rates, exclusive of taxes if any.

By the Order and in the name of the Authority


(Ram Krishan)

Director (Policy & Statistics)

To
Airports Authority of India,
Rajiv Gandhi Bhavan,
Safdarjung Airport,
New Delhi -110 003.



AAI Civil Enclave Visakhapatnam

Revised UDF Charges approved by AERA for CE Visakhapatnam to be applicable from 15.06.2020 to 31.03.2023

I) User Development Fee (UDF)

PAX	Existing Rates of UDF as per AERA Tariff Order No. 38/2018-19	Revised UDF applicable for ticket issued on or after 15.06.2020
Domestic per embarking passenger	₹ 300 (excl. taxes)	₹ 306 (excl. taxes)
International per embarking passenger	₹ 300 (excl. taxes)	₹ 306 (excl. taxes)

*The above UDF Charges are excluding of GST. GST at the applicable rates are payable in addition to above charges.

II) Fuel Throughput Charges for the period from 01.04.2020 to 31.03.2021

	Unit	As per AERA Order No. 38/2018-19	Abolished by MoCA w.e.f. 15.01.2020
Fuel Throughput Charges	INR per KL	157.39	NIL

Note: All other charges, and, terms & conditions, as determined vide AERA Order No.38/2018-19 dated 09.01.2019 shall remain applicable.

