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ಮುಖ್ಯ ಕಾರ್ಯದರ್ಶಿ  
P. RAVI KUMAR, I.A.S.,  
Chief Secretary



ಕರ್ನಾಟಕ ಸರ್ಕಾರ  
Government of Karnataka

2740640  
D.O. Letter No. CS/ / 2021

Dated: 14.07.2021

Dear *L. Shullar*,

Sub: Consultation Paper issued by AERA for 3<sup>rd</sup> Control Period (FY 2021-2026) for Bangalore International Airport Ltd.

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I would like to thank you for allowing me to put across the views of Government of Karnataka and also the BIAL during the stake holders' meeting on 9.7.2021.

2. Kempegowda International Airport, Bengaluru (KIAB/BLR Airport), operated by Bangalore International Airport Limited (BIAL), drives the region's economy by providing infrastructure and significantly contributing to the growth of the region. It is our intent to support BIAL in creating world-class infrastructure for the City of Bengaluru and State of Karnataka.

3. On account of the unprecedented growth in traffic, BIAL had embarked on implementing significant investment in creating new facilities such as the New South Parallel Runway (NSPR), Terminal 2 (T2) & associated landside and support infrastructure (collectively called Expansion Project) at a cost of Rs.13,300 crores.

4. BIAL has brought to our attention certain key issues in the Consultation Paper that is likely to seriously impact the cash flows of the company, besides affecting the progress of the Expansion Project currently underway.

The key issues pertain to

- Realism in traffic estimates to enable BIAL to recover its Aggregate Revenue Requirement (ARR), without which it is likely to have significant cash flow challenges
- Consistency in application of previously laid down policies & principles such as financing allowance and depreciation methodology.
- Fairness in approach towards approvals given in the previous tariff order (2<sup>nd</sup> CP order) for the capital expenditure as these costs have already been incurred and lenders have accepted these as legitimate costs and have funded them.

5. I would like to bring to your notice that Covid-19 has severely affected the operational cash flows of BIAL. The Company is heavily reliant on operational cash flows to meet operational expenses, debt service obligations and payment of concession fee dues. For

the ongoing expansion, BIAL had used up the accumulated cash reserves towards funding the capital expenditure program, prior to drawdown of the loan, to ensure that the interest cost on the project is minimized.

6. I would like to bring to your notice certain issues which require consideration in determination of tariffs for the third control period.

- i. **Traffic estimates:** The traffic estimates by the AERA appear aggressive and overestimated. Given the crushing impact of COVID-19 and the risk of further waves the traffic recovery projections need to be placed on a reasonable slow growth. Disruptions, lock-downs, restrictions may not lead to traffic growth at the rate AERA has forecast.

Any under recovery of revenue would either result in fall of service standards or in BIAL defaulting on loans.

**AERA may consider mandating a Mid-Term review of the Traffic projections, Revenues and ARR as given the unfolding circumstances, projections may not hold.**

- ii. **Levy of penalty:** The construction of T2 has been delayed as a result of the impact of COVID-19, due to migration, lock-down. AERA should consider this as an extraordinary situation and not to levy 1% penalty for delay on account of the impact of COVID-19.
- iii. **Reconsideration of key projects directed by Government of Karnataka:** The Metro Rail Scheme and Appurtenant works and the tunnel works under the active run way for connecting the terminal to the eastern access road have been mandated by Government of Karnataka to provide better connectivity to passengers travelling to their home. The capital cost for these projects should be considered in this control period.

7. To sum up, we would request that the tariff should be determined to –

1. Provide for adequate tariff & aeronautical revenue to meet the cash flow needs of project completion, debt & interest servicing to the lenders & meet operational needs by ensuring realistic projections for traffic, O&M costs, debt interest rates etc;
2. Allow capital costs towards Metro Rail scheme and its enablement works & costs incurred by BIAL for the tunnel works under the active taxiway for ultimately connecting the airport terminals to the eastern side of the airport. These are important projects for airport connectivity initiated by Government of Karnataka.
3. Consistency in application of previously approved costs for the expansion project and allowances / costs as per policies / directions previously laid down by AERA;

8. In light of the above, we would request a realistic, fair, and consistent approach to be adopted by AERA in determination of aeronautical tariffs for KIAB, ensuring that adequate cash flows are provided to the Company for completing Expansion Project and to have viable operations of the airport for the next 5 years.

9. I look forward to a favourable consideration of our request mentioned above.

*with regards*

Yours

  
(P. RAVI KUMAR) 14/3

**Shri Balwinder Singh Bhullar,**  
Chairman,  
Airports Economic Regulatory Authority,  
Administrative Complex, AERA Building,  
Safdarjung Airport Area, Safdarjung Airport,  
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ಕಪಿಲ್ ಮೋಹನ್, ಭಾ.ಆ.ಸೇ.,  
ಸರ್ಕಾರದ ಅಪರ ಮುಖ್ಯ ಕಾರ್ಯದರ್ಶಿ  
ಮೂಲಸೌಲಭ್ಯ ಅಭಿವೃದ್ಧಿ,  
ಬಂದರುಗಳು ಮತ್ತು ಒಳನಾಡು ಜಲಸಾರಿಗೆ ಇಲಾಖೆ

**Kapil Mohan, I.A.S.,**  
Additional Chief Secretary to Government  
Infrastructure Development,  
Ports and Inland Water Transport Department



ಕರ್ನಾಟಕ ಸರ್ಕಾರದ ಸಚಿವಾಲಯ

ಕೊರಡಿ ಸಂಖ್ಯೆ ೨೮, ನೆಲ ಮಹಡಿ,  
ವಿಕಾಸ ಸೌಧ, ಬೆಂಗಳೂರು-೫೬೦೦೦೧

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D.O. Letter No:IDD/69/DIA/2021

Dated: 17.07.2021.

Dear *Sri Bhullappa,*

Sub: Response to Consultation Paper No 10/2021-22

Ref: Consultation Paper No 10/2021-22 published by AERA for KIAB  
on 22<sup>nd</sup> June 2021.

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Kempegowda International Airport, Bengaluru (KIAB/ BLR Airport), operated by Bangalore International Airport Limited (BIAL) drives the region's economy by providing infrastructure and significantly contributing to the growth of the region.

BIAL has been one of the most successful greenfield PPP airports in the world with KIAB being one of the fastest growing airports in the pre-Covid world and the only airport in the world to be consistently rated as the best airport for departures as well as arrivals in its category by Airports Council International (ACI). Bengaluru International Airport Limited is in middle of a huge expansion to cater to the further growth of Bengaluru Metropolitan region.

The surge in Covid cases in the 2nd wave, had adversely impacted the nascent recovery that was witnessed in number of states including Karnataka. Government of Karnataka had to implement strict lockdowns in order to curtail the spread of the second wave of Covid 19. BIAL's Expansion project has also been impacted by this 2nd wave. Additionally, there is also a risk of a potential 3rd wave in the future.

Given the above background, Government of Karnataka would like to highlight its response on the certain key matters:

#### 1. Traffic Forecast for 3<sup>rd</sup> Control Period:

Given the crushing impact of the 2nd wave of Covid 19 and the residual risk for further Covid-19 waves over the next 6-12 months, traffic recovery projections need to be based on reasonable assumptions of recovery. Lockdowns, disruptions, supply-side challenges etc., mean that the path to recovery to pre-covid levels will be slower than the rate AERA has forecast.

We feel that AERA has assumed a very optimistic traffic forecast for KIAB for the Third Control Period, which differs greatly from the assumptions considered by AERA for Delhi and Mumbai Airports in their recent tariff determination process as well as from the traffic assumptions proposed in the ongoing tariff consultation processes for Hyderabad Airport for the same period.

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Traffic growth rates assumed, do not factor in the impact of 2<sup>nd</sup> wave of Covid 19 and considering BIAL's performance in the first quarter of this year and time taken for recovery. International passenger traffic has been severely affected on account of continued restrictions placed on international travel both in Indian and international airports. This will delay the recovery of international traffic.

Government of Karnataka requests the Authority to consider moderating the traffic estimates and adopt principles used in the other airports at the time of finalization of the tariff order.

## **2. Consistency in Regulatory Approach**

There has to be consistency in the approach of AERA and that existing guidelines of AERA and decisions taken in the past tariff orders must not be reversed/rolled back in a retrospective manner, unless there is a statutory ruling or such a change is a part of wider consultation in regard to revision of existing airport regulations. These frequent reversals will affect Airport operator's financials and create cause of concern in the minds of Investors.

With the above background, Government of Karnataka requests the Authority to continue the established approach based on decisions taken in the past tariff orders in regard to Financing Allowance, Depreciation and Pre-operative expenses (for the Expansion project) for BIAL.

## **3. Levy of 1% penalty for delay in completion of Terminal T2 beyond 31st March 2022, under any circumstances of delay**

As a principle, if the delay in completion is on account of any reason which is beyond the control of BIAL or its contracting agency, then it would not be fair to impose a penalty on BIAL.

AERA should consider the 2<sup>nd</sup> wave of Covid 19 as an extraordinary situation and not to levy 1% penalty for any delay on account of the impact of the 2<sup>nd</sup> wave of Covid 19.

## **4. Priority Projects for Government of Karnataka has not been considered by Authority**

### **a) Metro related costs**

BIAL has proposed Metro enabling works and Metro Station costs as part of its submission to AERA. AERA has opined that the Airport Metro line may not be ready by end of FY26 and hence the Metro station capitalization is not considered in BIAL's 3rd Control period. Government of Karnataka has set a deadline of June 2025 for commencement of Airport metro line and BIAL also has to adhere to this timeline. An MOU executed between BMRCL & BIAL in regard to Metro scheme. It may be noted that majority of works on these lines have already been tendered and we expect it to be completed by end of Financial Year 2025.



Government of Karnataka requests the Authority to consider Airport station capitalization in FY2025 in line with Karnataka government target date & provide BIAL with adequate cashflows to undertake the Airport station and related enabling works.

b) Enabling works to Eastern Tunnel Access Road

Currently, the NH 44 passing through the existing trumpet, is the only external access available between Airport and Bangalore city. As this was of a serious security concern, BIAL Management explored alternate access points to the airport and evaluated options which were discussed with Government of Karnataka (GoK)/ Infrastructure Development Department (IDD).

An Eastern Connectivity Road providing connection to the KIA Eastern side (not connected to the airport west areas and the terminals) is under construction by the PWD department, Govt of Karnataka

An Eastern Connectivity Road providing connection to the KIA Eastern side (not connected to the airport west areas and the terminals) is under construction by the PWD department, Govt of Karnataka. The proposed Eastern Tunnel Access road would provide easy accessibility to East Bangalore, besides lessening the burden on the existing NH44 connecting to Hebbal.

The construction of the enabling works to the Eastern Tunnel Access Road involves construction of Tunnel below cross field taxiway (approx. 300metres of civil works) and BIAL has executed the project thereby saving future costs, as doing this project later under a "live taxiway" would have created more operational problems and also would have costed more.

Government of Karnataka requests AERA to consider the capitalization as per BIAL submissions, given the importance of this project to Bangalore city.

### Conclusion

We would request a realistic, fair, and consistent approach to be adopted by AERA in determination of aeronautical tariffs for KIAB, ensuring that adequate cash flows are provided to the Company for completing Expansion Project and to have viable operations of the airport for the next 5 years.

In particular, the tariff determination should keep in consideration, the successful completion of Terminal T2 & smooth operation of the airport. The tariff should be determined to -

1. provide for adequate tariff & aeronautical revenues to meet the cash flow needs for Expansion project completion, debt & interest servicing to the lenders & meet operational needs by ensuring realistic projections for traffic, O&M costs, non-aeronautical revenues etc.

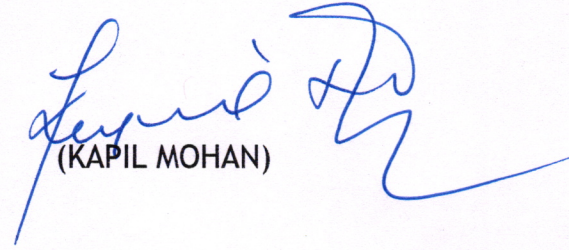


3. allow for inclusion of capital costs towards Metro Rail scheme and its enablement works & costs incurred by BIAL for the tunnel works under the active taxiway for ultimately connecting the airport terminals to the eastern side of the airport. These are important projects for airport connectivity initiated by Government of Karnataka.

KIAB is an iconic symbol of the State and is poised to be a gateway to South India in general and the State in particular. It demands high standards of consistency and reputation to be maintained on par with International Airports. The airport must fulfil the expectation of the people of the city and the aspirations of its people. It is our intent to support BIAL in creating world-class infrastructure for the City of Bengaluru and State of Karnataka.

The State of Karnataka is a significant stakeholder in BIAL and a partner in the progress of the airport. The proposed tariffs and other regulatory proposals need to be fair and reasonable and we request your support for the same.

With regards,



(KAPIL MOHAN)

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