Director Policy & Statistics,
Airports Economic Regulatory Authority of India,
AERA Building, Administrative Complex,
Safdarjung Airport, New Delhi – 110003,
INDIA.
Email:director-ps@aera.gov.in,
jaimon.skaria@gov.in, gita.sahu@aera.gov.in
cc secretary@aera.gov.in

Date 20/07/2021

To whom it may concern:

IATA RESPONSE TO AERA'S CONSULTATION PAPER FOR THE DETERMINATION OF AERONAUTICAL TARIFF FOR KEMPEGOWDA INTERNATIONAL AIRPORT (BLR) FOR THE TCP (04/2021-03/2026)

The International Air Transport Association (IATA) is the trade association for the world's airlines, representing some 290 airlines or 82% of total air traffic. We support many areas of aviation activity and help formulate industry policy on critical aviation issues.

The aviation industry is facing the biggest challenge of its history; restarting an industry that has essentially ceased to operate across borders while ensuring it does not become a vector for the spread of COVID-19. All while taking an unprecedented economic hit that has crippled the industry and threatening its survival. Although we expect airline losses to shrink in 2021 compared to 2020, financial performance will be worse than what we expected in our December 2020 forecast (2021 net post-tax losses forecast at $47.7bn[1] vs $38.7bn in the December 2020 forecast).

Contrary to the misconception by some; airlines have not been bailed out by governments but in reality, they have accumulated more debts in addition to capital injection from shareholders to help them tide through this period of great uncertainty. However, airport operators are generally demanding/expecting to recover their losses from their users which further substantiate the notion that they possess market power as there is no such 'loss recovery' in normal/competitive markets. Hence, the role of AERA as the economic regulator is critical to bring the necessary balance and protection for airport users.

IATA is cognizant that existing frameworks are not intended to cover this exceptional circumstance brought about by the COVID-19 crisis. For this reason, we will provide a number of recommendations in this submission to deliver a balanced outcome for both the airport operator and users over the long term, on top of the good work already done by AERA so far to address this unprecedented situation.

Chapter 2 – True Up of Pre-control Period, FCP and SCP

IATA is generally in agreement of the proposed changes outlined by the authority in Table 3 and would like to add the following comments:

- IATA noted the proposal by AERA on the treatment of shortfall/over-recovery of the pre-control period and fully support the decision to reject pre-airport opening date accumulated losses for the reasons mentioned in the consultation paper. This will also better reflect the cost-relatedness principle outlined by ICAO.

[1] April 2021 Forecast by IATA

- Cost of equity of 16% is considerably still on the upper range based on the reasons IATA has shared in our previous submissions to AERA. This will be further covered in the next chapters.

- Real estate revenue and in fact all other revenues within the airport ecosystem should be classified as aeronautical or non-aeronautical. They are considered as part of the airport and should not be ring-fenced/treated separately as such.

- Just as debt comes at a cost to users, any interest accumulated by the airport should be recognized as a revenue to offset aeronautical cost.

- It is extremely unfortunate that AERA is calculating the under-recovery based on a 30% hybrid till approach.

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Chapter 3 – True Up for the SCP

3.13.1 To consider the aeronautical RAB as per Table 15 for true-up of the SCP

There were several capital expenditures incurred in the SCP period which are of concerns especially in relation to the cost escalations compared to what have been previously approved by AERA in the SCP:

- The cost overrun of T2 Apron 1 of 11% is beyond the acceptable variance of 10%. Any such exceedance should have triggered the need to review the project prior to proceeding ahead with the changes.

- The forecourts, roadways and landside development cost has escalated by 54%. IATA would like to reiterate our view expressed at the consultation meeting that at present the development of MMTH is not supported by users pending further clarification from BIAL as outlined in our letter dated 14 September 2020, attached to this submission for your reference (see Appendix A). For this reason, any changes to the scope/design of infrastructure to support the development of the MMTH such as roads etc. should be funded/apportioned accordingly to BIAL and metro/rail authorities, and not to airport users. The statement below further exemplify the lack of consultation with airport users who are now being asked to fund the development of the MMTH and associated cost escalations to support its development.

- There is a need for BIAL to more timely engage airport users for its capital projects where any potential cost overrun, changes to scope or specification can be highlighted much earlier on and users feedback taken into consideration. The project cost overruns should not be accepted if there is no prior agreement/validation from airport users through the required (ongoing) consultation process.

IATA fully supports the decision by AERA to exclude pre-operative expenses from the asset additions of the SCP. As highlighted, these expenses are redundant and is double-counting the design and PMC allowance if they were to be included.

3.13.2 To consider depreciation as per Table 26 for true-up of the SCP.

We note and support the adjustments made by AERA on the life of certain assets as well as other adjustments. We also note AERA's comment that the asset lives have been determined on the basis a "typical usage" of the asset. Since 2020-21 was not a typical year, AERA may wish to consider extending the life of the assets.

3.13.3 To consider WACC as per Table 22 for true-up of the SCP

While we see that AERA has reduced BIAL's proposed cost of equity from 23.61% to 16.00%, we still believe that the allowance is generous, as it is not commensurate with the risks BIAL is facing. In particular, AERA is proposing to fully true up the traffic generated by a one-in-one-hundred-year event and on top of this reward the company with a 16% on equity, a rate that is almost 10 percentage points higher than that paid by the Indian Government. It is evident that traffic is one of the major risks an airport face and truing it up involves transferring this business risk towards users. AERA must be cognizant of this fact and adjust the cost of equity downwards accordingly.

Independently from the above we note that in its order for the Second Control period, decision 11 (iii) states "*to commission a study on Cost of Equity and consider the results of the same at the time of truing up Second control period revenues*". Since the latest study, as per appendix IV of the consultation document, concludes that the Cost of Equity should be 15.05%, and considering what was mentioned in Decision 11 (iii), shouldn't AERA consider adopting the 15.05% for the true up calculations of the second control period?

Separately, we note the truing up on the cost of debt to an average of 9.11%. We also note from paragraph 3.5.10 that interest rates had been reset to 7.85% in August 2020. It would be important for AERA to compare this rate against the cost of debt that is being paid by other airports it regulates. If BIAL or the any of the other airports pay a lower interest rate, then AERA should consider adopting the lowest available cost of debt at all airports instead of solely truing up actuals. Such an approach would encourage airports to seek the lowest possible rates (and avoid potential complacency).

3.13.4 To consider aeronautical operating expenditure as per Table 33 for true-up of the Second Control Period

We note that AERA has commissioned a study on operating costs efficiency for BLR, similar to those commissioned for the DEL, BOM and HYD determination processes. And while all the studies go into minute detail on cost allocation and make adjustments accordingly, neither of the studies are thorough enough in relation to adjustments on the basis of efficiency[2]. Since no major efficiency are proposed in these studies, by implication all airports are being considered to be at the "efficiency frontier" and we seriously doubt this is the case. In normal regulated environments, there is usually one company situated at an efficiency frontier and the gap between this and the rest (the efficiency gap) is used for setting efficiency targets for the latter airports. We encourage AERA to further improve the benchmarking of costs to allow it to better differentiate the performance of each of the airports and be able to promote more efficiency at those airports that are not delivering it in full.

Secondly we would like to highlight the significant issues we have with the operating costs allowances for FY2021. COVID has decimated traffic and stakeholders in the sector have had the need to adapt to such circumstances to survive. Airlines have cut opex by 40% by the end of Q1 2021. Even a number of airports, which long argued that their costs are fixed, have had to make drastic cost reductions (of up to 40%). Examples of how some airports have done are reported below:

[2] Being the only exception in the case of the BLR study, the disallowance of increases in marketing expenses, the allocation of CSR adjustments on the basis of the 2% * PBT formula.

Operating costs (sample of European airport groups)							
2020/19 (%)	Staff costs (excluding aid)	Maintenance	Utilities	Security	Other	Total before aid and one offs	Total after aid & one offs
AMS group	3%	-4%	2%	-22%	-28%	-16%	-21%
ADP group	-14%	-22%	-24%	-40%	-43%	-32%	-34%
AENA	2%	-30%	-41%	-42%	-20%	-20%	-20%
DAA group	-23%	n.a.	n.a.	n.a.	-47%	-38%	-28%
Fraport group	-25%	n.a.	n.a.	n.a.	-40%	-33%	-21%
CPH	-15%	-35%	-22%	n.a.	-43%	-20%	-30%
VIE	-13%	-68%	-30%	n.a.	-48%	-26%	-42%
ZRH group	-1%	-34%	-11%	-23%	-35%	-19%	-25%

However, the consultation document proposes an increase in opex for the Financial year ending in 2021. There is a significant mismatch between what is being done elsewhere and what is being presented in the consultation document. We note that at the consultation meeting BLR showed some cost reductions (compared to the increases showed in the consultation document), so there is a mismatch AERA would need to review.

Even with the reductions showed by BLR at the meeting, these are not adequate. For instance, we note BLR's decision to preserve staff levels which is a noble act, but that cannot be done at the expense (due to the true up mechanism) of the rest of the industry which has had the need to adjust their own cost bases to survive. If BLR wants to take positions that are not in line with what a real competitive industry would need to do, then that should be funded through its own equity and not by the airlines and their passengers.

AERA should only allow a proposed cost by BIAL if it is satisfied that the airport has considered (and implemented applicable/feasible) all possible cost reduction initiatives. Appendix B to this submission contains a non-exhaustive list of potential cost optimization initiatives which AERA may wish to test whether BLR has adopted them. While the list is generic and contains suggestions that may not be applicable in an Indian context, it is still a very useful starting point to challenge what an airport has done.

We note that the Efficiency study provides some detail on the plan BIAL 2.0 but clearly, it does not go far enough.

We would also like to add further remarks in relation to the efficiency study:

- The reports states that it analyses BIAL's O&M costs with respect to its "competition" (Page 12). We would like to state that we do not believe BIAL is in a competitive environment, which explains the need for the airport to be subject to economic regulation. We suggest that future reports refrain some such unfounded assertions and only calls DIAL, MIAL and HIAL as "comparator" airports.
- In the trend analysis (which is only until FY20), the study accepts the explanation "*Headcount increase was mandated due to increase in passenger traffic, commissioning of New south parallel runway during FY 2019-20 and the increased area of operations:"* It would be appropriate to further analyse the details on the individual activities assigned to the c. 150 new personnel (16% of the staff base) been hired rather than just being satisfied through a "one-line" response.
- One of the major flaws of a trend analysis is that it assumes the "starting" point is as efficient as it could be. Based on the high-level external efficiency benchmark analysis that have so far been carried, we cannot be certain that this is the case.
- Table 47 of the efficiency study shows the trends of general expenses but only up to 2020. It would be important to see the details of such expenses for FY2021 to see how the measures announced in BIAL 2.0 are reflected in such expenses.
- Much of the trend analysis justifies cost increases on the basis that their growth is lower than the rate of growth of traffic. If such is the sole justification to allow increases, then we should be seeing the same

argumentation for seeking downwards costs in FY2021 on the significant reduction in traffic, but the reports stay mute on the subject.

- We suggest better KPIs are used on the calculation of power consumption. This is also an area that would benefit from external benchmarking (i.e. making comparisons on energy consumption per sq/metre, etc) in order to compare efficient utilization. There could also be further analysis in what elements of utility consumption are variable vs. those that are fixed (and that would further help to determine adequate KPIs).
- Marketing and advertisement expenses should be fully funded by non-aeronautical revenue rather than bifurcated, or should be funded from BIAL's return/profit. Any increase in traffic will greatly benefit the airport operator and its non-aeronautical business (i.e. more passengers using non-aeronautical services/products) and will not necessarily benefit paying aeronautical users. Furthermore, the marketing and advertisement activities are largely seen as to enhance the standing/brand of BIAL within the local community which is not necessary for the provision of aeronautical services. Hence it should be funded as such by BIAL from its profit, at its own discretion. In any case, we do not see how marketing costs could be justified in the current context.
- We support the exclusion of bad debt from the operating expenses as otherwise it would generate perverse incentives on the regulated company.
- We see that the conclusions of the study on the internal benchmarking of personnel cost indicate that such comparisons are not reliable because some personnel is outsourced, but the study does not propose a solution (just to rely on full operating costs comparisons). It would be important for AERA for consider collecting information in different breakdowns (i.e. costs allocated on an activity basis).
- We note in Figure 29 shows BIAL's Repair & Maintenance were the highest of the four comparators to up to 2019 then slightly fell in 2020 (presumably due to the large fixed asset addition in the year), though still higher some of the comparators. Still, the authors of the study seemed to be "satisfied" since BIAL was "in range". We request AERA to carry out further scrutiny on the reasonableness of R&M expense as this is the second largest expense at the airport.
- More generally, and as highlighted previously, we take issue when conclusions of "efficiency" are made because an airport is "in range". This cannot be the way to determine efficiency nor provide the appropriate incentive for airports to become "the best of the lot", since its fine to be "in range".
- To be fair, we note that BLR's overall operating cost per pax and per ATM is relatively lower than the comparable airports, which could probably highlight that the need to adjustments is lower than those needed at other airports. However, and as highlighted above, we still see the need to further scrutinize specific areas within operating costs. Moreover, and as also mentioned above, the study does not really analyze FY21, year of paramount importance since opex should have been expected to decrease substantially due to lower traffic.

We would appreciate for AERA to take into consideration the abovementioned points before publishing the order.

3.13.5 To consider aeronautical taxation as per Table 36 for true-up of the SCP
We support the adjustments proposed by AERA for the calculation of aeronautical taxation.

3.13.6 To consider non-aeronautical revenues as per Table 40 for true-up of the SCP

We would appreciate for AERA to consider the following comments in relation to the true up for non-aeronautical revenues:

- Lease to AAI: Firstly, we support the implementation of a "notional" income for the lease to AAI. What we would appreciate AERA to further consider is whether this income should be treated as aeronautical. As AERA rightly mentions in paragraph 3.10.2, income "*The Authority vide decision no. 1a (ii) of the SCP order*

had decided to consider revenues from Cargo, Ground Handling and Fuel farm services and rentals from leasing of space to agencies for providing core aeronautical services as aeronautical revenues…". Since AAI will utilize such building to provide aeronautical services (noting that the building is used to provide air navigation services) to the entire aviation community, it would seem appropriate that such income is treated as Aeronautical.
- Treatment of interest income: We see that AERA intends to treat interest income as non-aeronautical revenue. If this is cash generated from the aeronautical business, why should it be treated as non-aero? We would appreciate for AERA to consider treating at least a portion of such income as aeronautical.

3.13.7 To consider aeronautical revenues as per Table 42 for true-up of the SCP

As commented in the previous section, we would appreciate for AERA to consider allocating the notional income from the lease to AAI and at least a portion of the interest income as aeronautical income.

While support schemes are appreciated, we would like to note that ICAO's policies on charges clearly state that discounts offered by airports should not be paid by airlines that are not benefiting from them (See section II, 3 v). In this regard, we request AERA to consider aeronautical revenues (gross of discounts) for the purpose of true-ups.

3.13.8 To consider the adjustment to the First Control Period true-up as per Table 43 for true-up of the Second Control Period

We note that AERA is implementing the TDSAT decision with regards to CSR, so there is not much that can be mentioned regarding this item (despite our disappointment for the decision). We agree how AERA is implementing this decision so that this doesn't come as a simple "pass through" and therefore support the notion of allowing the minimum of actual CSR expenses and CSR expense based on aeronautical PBT.

3.13.9 To carry forward the over-recovery amount of 2nd control period of INR 1030.21 cr. as on 31 March 2022 (excluding pre-control period shortfall) as per Table 46 to the TCP

The over-recovery calculated helps in lowering the pressure for charges increases in the Third control period. Still, we think that this amount could be higher than that calculated in table 46 based on the analysis and comments provided by IATA throughout this section. In this regard, we would appreciate for AERA to consider the commentaries made here before it determines the amount over-recoveries for the period.

Chapter 4 – Traffic Projections for the TCP

We agree with AERA proposals on traffic. The airport seems comparatively pessimistic on the profile of recovery in domestic pax. It is reasonable to expect that domestic volumes should recover faster than international (as has been empirically seen), but that is not reflected in the outlook (e.g. BIAL in FY23 say recovery to 89% of intl volumes but only 86% domestic and then a recovery of both more or less at the same time in 2024). Therefore we find AERA's adjustment to be justified,

Chapter 5 – RAB and Depreciation for the TCP

The below commentary provides IATA's views on AERA's proposals from 5.3.1 to 5.3.29.

IATA proposes all non-essential investments are deferred or cancelled taking into account the crippling effects of Covid on our airline members resulting in a heavy debt burden and the ongoing threat of bankruptcy.

We welcome AERA's efforts to scrutinize BIAL's investment plans and reduce the total capex by INR2,932.04 crores that goes some way to addressing capital cost inefficiencies, a reduction in unnecessary project scope and major changes that have not been meaningfully consulted upon or where there is a lack of detail available to make a reasonable assessment.

However we remain concerned that a substantial deferment from the SCP (INR6544.38 crores) is contributing to an investment plan of over 8,800 crores (circa USD1.19bn), with a backdrop of limited AUCC user consultation regarding major capital items.

Given the exceptional circumstances our airline members face resulting from Covid, a capital plan of this scale is not economically sustainable for users, will add to airlines' debt and more likely suppress rather than stimulate demand.

As such we strongly request the Authority considers alternative mechanisms to reduce the cost burden for users recognising the fragile state of airlines by avoiding capex related charges in the TCP to the greatest extent possible. Ideas for discussion with the airline community could include:

- Identifying when new capacity is required taking into account traffic demand forecasts, to link the actual/beneficial use of assets with the tariff on an annual basis, for instance for T2 Phase 1 and T1 refurbishment costs.

- Reconsidering Level of Service ranges and tolerances for the period to phase in when capacity is required and cost can be incurred.

- Providing assurances that existing infrastructure is being used as efficiently as possible in advance of investing in new infrastructure through process improvements, technology and digitisation.

- Notwithstanding these suggestions addressing the cost burden on users resulting from approved TCP capital costs would enable some respite for airlines and better balance the commercial impacts across the aviation supply chain, for instance by avoiding all tariff increases during the period until a later specified date.

Regarding project details and cost assessments, we refer the Authority to IATA and the airline community's letter of 14th September 2020 to BIAL identifying a number of important TCP queries that remain outstanding following its AUCC meeting on 26th August 2020. In fact, we have not received a reply from BIAL's management and there has been no effort to engage with the airline community since then.

Capital plans that translate into airport charges should be agreed by consensus with users and not advance without their approval in line with AERA's consultation protocol. Basic details such as Project Investment Files indicating the return on investment, capital efficiency, outcomes and benefits are needed however have not been shared with airlines on the majority of projects to date. Noting not all projects are in a mature state we do not expect forensic level details for all projects, however fundamental questions remain regarding some major projects and we expect high level costs and benefits to be shared for all projects

Comments on specific investments follow based on details shared with IATA and the airline community that we would appreciate the Authority taking into account in its determination:

For category A capex projects deferred from SCP to TCP:

- A1 Terminal 2 – Phase 1, we agree with the Authority's position:
    - To waive the adjustment of 1% on delay in operationalization of Terminal 2 - Phase 1 till 31 March 2022.
    - To exclude the additional PMC costs estimated by BIAL for Terminal 2 for FY22 as the scope of work has remained the same. We suggest the same logic should be applied to the SCP true-up given the projects deferral.
    - To levy the reduction (adjustment) of 1% in the project cost of Terminal 2 in case BIAL fails to commission and capitalize Terminal 2 Phase 1 by 31 March 2022 under any circumstances.
    - We also request a review to identify the incremental capacity BIAL anticipates will be used on an annual basis, and its underlying assumptions.
- A2 Forecourt, roadways and landside development - Phase 1b costs have risen substantially since the CP2 determination resulting primarily from the inclusion of Multi-Mode Transport Hub (MMTH) in the region of INR480 crores. A number of fundamental questions remain unanswered raised in our September 2020 letter regarding BIAL's funding arrangements and obligations noting:
    - Users should not fund or pre-fund capex investments that are commercialized with revenue generated through services provided by an external party.
    - In addition to the MMTH itself, the costs associated with changes to the design and scope for other infrastructure such as roads etc. should not be funded by airport users.
    - Investments should be recovered and split by the actual users of the metro that would also include non-passenger traffic such as airport workers, visitors and non-flying members of the public using the metro as a transport interchange.
    - We also seek more clarity regarding the construction of the airport metro station to reassure ourselves users will not fund or cross-subsidise capital costs.

Until we are able to satisfy ourselves this investment is justified and delivers a return on investment for users, we object to the capex being included in the TCP.

- A7 – Design, PMC and Pre-Op's costs reduction by INR 480.37 crores – we agree with the Authority's position to reduce these costs in line with market benchmarks and to avoid duplication.

For proposed category B projects we broadly agree with the Authority's position to defer, reduce or cancel new capex for the TCP for the reasons provided, noting a few specific comments as follows:

- B3 - T1 Optimisation reduction of 199.51 crores is supported in principle reflecting the lack of clarity regarding essential asset replacement and potential cross-over with sustainable capex. The reduction however seems arbitrary and requires further review and consultation with users, A review to understand capex that is required in the TCP is requested.

- Asset reliability and regulatory will be addressed via quantitative metrics
- Capacity is optimised through technology and digitisation taking users needs and costs into account

- B5, B6 – MMTH Phase 2 reduction of 129.41 crores. We agree with the Authority's assessment to exclude the cost for MMTH Phase 2 and Airport terminal metro station project from the TCP. We would also need greater clarity about the funding commitment from the metro authority for the associated metro infrastructure within the MMTH as future revenue generated will only benefit the metro authority. There is no reason for airport users to fund the metro infrastructure within the MMTH if the future revenue will not contribute to offsetting the costs of the investment made.

- B7 – City Metro Station – we agree with the assessment to exclude this project on the basis it does not serve airport users. Our position is that the related investments in this infrastructure should not be funded by airport users. The agreement/MOU between BIAL and the rail authority was done without any prior consultation with airport users (who are expected to fund the development). Any such commitment for investment should be segregated from the calculation of the RAB. Furthermore, this investment does not generate any aeronautical revenue for BIAL. If this is to proceed, the investment should be funded from the revenue generated by future users of the metro.

- B16 and B17- Landscaping works and Alpha 4 investments are non-essential capex and we agree with their postponement and review regarding the need for investment in a future control period.

- B19 - Design, PMC and Pre-Op's allowances. We agree with the Authority's logic based on RITES assessment as per Table 67.

- B20 – CISF Permanent Housing for the TCP – we certainly agree with the deferral of INR 369.68 crores and would add this project requires a more fundamental review beyond the scope of the Authority's comments referencing traffic, and cost benefit analysis of the township construction costs. Per IATA's previous comments to BIAL in our September 2020 letter:
    - We seek clarity on the funding aspects for this project given a separate charge is collected through the Aviation Security Fee (ASF) from passengers payable to the Authority, also noting significant increases over the past 2 years. We also request clarity if it is BIAL's sole responsibility to provide housing after the removal of the PSF security component and query the reason for BIAL purchasing the land to construct the housing.

Regarding category C Sustaining capex we agree with the Authority's logic to exclude INR596 .92 crore from new sustaining capex works until these costs are properly justified through user consultation.

IATA is also of the view that structural enhancements will improve capex efficiency and deliver user requirements in the passengers' interests by introducing some specific project controls. In particular, we suggest:

- A change control mechanism is introduced for / approved for major projects in the design and development phase where there are significant impacts to costs, scope or programme to assess the reasonableness of these changes when they can be best influenced. This approach is much preferred compared with the Authority's retrospective assessment for true-up purposes.

- A rebate mechanism for all major projects where outcomes and benefits are not delivered on time, similar in principle to the Authority's approach for T2 phase 1. Such mechanisms have been successfully introduced at airports such as Heathrow and incentivise the airport to deliver as expected.

- A mechanism to provide an on-going assessment of the reasonableness of all key decisions made on key projects and, in undertaking capital projects ensure the capital is being used effectively to deliver the outcomes determined by the business case. This approach is being actively applied at various airports and provides assurance for both the airport and stakeholders through an independent expert to monitor progress and highlight risks and issues.

  A key related element is to ensure the agreement of both the airport and airlines before key projects proceed within the control period (i.e. over a certain capital value, of strategic importance, with complex scope or stakeholder impact) at certain pre-approved project stages or gateways

Chapter 6 WACC for TCP

In this section we address the proposals made by AERA in relation to the WACC calculation for the third control period.

6.3.1 To consider the cost of equity at 15.05% as per the outcome of the independent study.

We would like to make the following comments in relation to assumptions underpinning the calculation of the cost of equity in the study:

<u>Beta:</u>

In order to determine an appropriate Beta (which is a reflection of the risk the airport faces vis a vis the market), the study should have first started by understanding what are the risks faced by BIAL (regulatory, demand, supply risks) and then how these risks compare to those faced by airports where financial/regulatory information is available. The study intends to do this through the application of the proximity scores, which is a good approach, but we think that the factors that are used for the calculation of the proximity scores are not complete enough to provide an adequate result.

The regulatory regime of BIAL is close to a "rate of return" regulation. At the end of the regulatory period, AERA "trues up" most of the components that underpin the calculation of charges. There are true ups on traffic, non-aeronautical revenues, OPEX, CAPEX (with certain disallowances), taxes and the WACC (with the exception of cost of debt ceiling). So, in practical terms, BIAL is protected from a series of risks (not all) that many of the other regulated airports do face.

One of the biggest business risks upfronted by an airport is demand risk, as has been made evident by the pandemic. If the demand risk is eliminated via the implementation of true ups, then the risks borne by this airport would tend to be closer to that of water or electricity companies rather than that of other airports. As far as we understand, none of the final comparator airports is under a regulatory regime in which there is a 100% true up of demand.

We understand that some risks still remain in the non-aeronautical side, but that is a consequence of having a hybrid model (Which users did not ask, as our position has always been to implement a Single till). Consumers were against the proposal to move to a hybrid till and now should not be further penalised by rewarding a higher WACC due to this decision.

We note that page 47 of the study mentions that Betas of developed countries could be used because traffic is trued up. We would like to make the point that the Beta for BLR could (and should) be even lower than these since most of such airports do still have traffic risk.

With this in mind, we strongly request AERA to reconsider the calculation of the Beta for BIAL, by making a significant downwards adjustment of the Beta calculated in the report since the risks faced by the comparator group are much higher than those faced by BIAL (at least to somewhere around or below 0.4). This downwards adjustment should be informed by Betas applied by regulators for utilities companies.

On a separate note:

- Table 2.17 is out of date in relation to the determination of the Beta for Dublin airport. The table makes reference to the 2014-19 determination, when 2020-24 determination has already been made and can be downloaded from here (And the supporting study from here). The allowed asset beta for Dublin airport is 0.50 (noting that traffic risk is faced by the airport, and therefore MIALs beta should arguable be lower than that). We also do not see what the study references as "complicated"

- Only Beta decisions or studies commissioned by the UK CAA should be included in table 2.15. This table makes a reference to a study (NERA) that has not been commissioned by the regulator.

- We note that the study calculates equity betas from Bloomberg. We would appreciate for AERA to confirm whether the consultants have used the "raw" or "adjusted" Beta from Bloomberg. The problem is that the adjusted based (aka Blume adjustment) assumes that Beta tends to the value of 1 over time, which is fundamentally wrong in the context of determining a Beta of a regulated company.

Equity Risk premium

From what we have seen for regulatory decisions, the most accepted and used method for calculating the ERP is based on historic information (and the longer in time the dataset, the better).

Models based on predicted future ERP (e.g. dividend growth model) are much less reliable as they are constructed on the basis of a number of assumptions and introduce certain optimism bias, and therefore we would request AERA not to consider it.

There is more recent data to feed into the Damodaran approaches (i.e. Bond linked & CDS). The latest available information from Damodaran (see link), the equity risk premium for India is 6.23% on the basis of the bond rating approach (rather than the 8.60% mentioned in the report), and 5.5% on the basis of the CDS approach (rather than the 7.87% provided in the study). The calculation are as follow:

Bond approach: 4.38% (mature market implied risk premium) + 1.82% (rating based default spread) * 1.0154 (multiplier) = 6.23%

CDS approach: 4.38% (mature market implied risk premium) + 1.1% (sovereign CDS net of US) * 1.0154 (multiplier) = 5.50%

There is also an inconsistency issue in the ERP comparators and the other Return on Equity assumptions. While the study introduces the Damodaran approximations for an Indian ERP by adding a sovereign risk estimate (based on CDS and sovereign bond ratings) on top of the ERP of a mature market, it then double counts the same risk by using Indian government bond yields as the basis for the Risk Free Rate (which by definition, as it is not a AAA rated bond, its yield already includes a sovereign risk). In fact, as highlighted by Damodaran in its paper "*Country Risk: Determinants, Measures and Implications – The 2020 Edition*", (Table 30: Risk free rates in Currencies with non-AAA Rated government issuers), the author calculates the risk free rate for India as of 1 July 2020 (Government bond rate: 5.82%, Rating Moody's Baa2, Default spread 2.23% with the consequent "risk free rate" of 3.59% (5.82%-2.23%).

So, while the approximation done by Damodaran for an Indian ERP is perfectly valid, and to be taken into account when assessing the ERP for BIAL, the study should then make the necessary adjustments in the Risk Free rate to avoid any "double counting" of risk.

So, there are two items for AERA's consideration with regards to equity risk premium

- Consider using latest data available for the calculation of the ERP under the bond rating and CDS approach.
- Ensure that there is no "double counting" of risk in between assumption for the equity risk premium and Risk free rates.

Risk free rate:

- There is no justification as to why an 18-year average has been used for the calculation of the government bond. Since this average is on nominal yields, it picks up inflation expectation from more than a decade ago which may not be the same as nowadays. More generally the worldwide situation is completely different from more than decade ago. We recommend AERA to consider a much shorter period (somewhere between 1 and 5 years).
- We also note that over the past year the Indian Government bonds have been significantly lower than that assumed in the study. While the risk free rate is assumed to be 7.56%, the 10-year government bonds yield has been less than that rate since April 2019. AERA may need to take this into consideration.

In summary, below are the recommendations with respect to the Return on Equity:

- Acknowledge that BIAL (as well as the other Indian regulated airports) demand risks are significantly mitigated (due to the true up mechanism) and therefore use a lower asset beta relative to any other comparator airport (or even consider using betas of utilities).

- Ensure that there is consistency between the ERP assumption and the Risk free rate to avoid "double counting" of risks.

- Consider updating data for the bond based and CDS based approaches for calculating the Return on Equity

- Consider dropping the forward-looking analysis on ERP

We are convinced that, once the recommendations above are taken into account, the Return on Equity would be significantly lower than that proposed by AERA.

6.3.2 To consider the notional debt to equity (gearing) ratio of 48%:52% as suggested by the independent Study

We support the usage of a notional gearing, as the regulated companies should be encouraged to implement the most efficient capital structure.

6.3.3 To consider 7.85% as cost of debt for the TCP.

We are in agreement with the utilization of this rate. We would also like to reiterate the point made in chapter 3 which relates to the recommendation for AERA to compare cost of debt of the various airports it regulates and only consider allowing the lowest available cost of debt.

6.3.4 To true-up the cost of debt of BIAL for the TCP based on actuals.

It would be important for AERA to consider implementing a limit as to how much this rate could increase throughout the third control period. Without such cap, we fear that there wont be any incentive to maintain a low cost of debt. In other determination AERA used to impose such caps.

6.3.5 To consider the WACC of 11.59% for the TCP based on above mentioned cost of equity, cost of debt and considering the notional gearing ratio as suggested by the independent study.

We welcome the fact that AERA has reviewed BIALs (fully unjustified) proposed level of WACC and made appropriate amendments to reach a level significantly lower compared to such proposals. However, we believe that, based on the analysis provided throughout this section, the level of allowed WACC should be even lower. We would appreciate for AERA to take into consideration our recommendations for the final order.

Chapter 7 Operating Expenses for the TCP

7.3.1 To consider total operating expenditure as set out in Table 112 above for the Third Control Period

We would like to make the following comments with respect to the proposals on operating expenses:

- Overall opex (COVID years)
    - As mentioned in the section addressing the true ups for the second control period for the FY21, we do not see operating costs have been adjusted down enough to reflect how competitive markets (i.e. airline) needed to survive as a consequence of COVID. It is important that AERA put this kind of pressure on its regulated airports, especially in a regulated environment reliant on true ups, as failing to do so would send an extremely wrong signal to them.

- Personnel expenses:
    - While we appreciate that AERA is limiting the increase in personnel numbers for years 2023 and 2025, we are concerned about the starting point. If BLR pursues a policy of maintaining its staff numbers, it cannot be at the expense of airlines (due to the true up mechanism) which have had the need to adapt their size to survive in the current situation.
    - We are concerned that the Authority is proposing to true up on the basis of actuals, but without clarifying that such true up would be subject to an efficiency study. We urge the Authority to include a proposal that any true ups must be subject to an efficiency analysis.
- O&M costs
    - We fully agree with the Authority's assessment that O&M rates should be minimal (if at all) for new assets and therefore we find sensible the percentages provided on Table 95.

- We would still like to point out that the assumed O&M percentage (excluding new capex) is high relative to the comparable airports (as noted in the opex efficiency study, Figure 29, O&M is more than 2% of the gross block assets). We would appreciate for AERA to further consider which percentage to apply for O&M on the existing assets.
    - As previously indicated, we note that the Authority proposes to true up O&M on the basis of actual. We find imperative that AERA should clarify that such actuals will be trued up after an efficiency assessment.
- Lease rental
    - No major comments
- Utilities
    - In principle, the proposal appears reasonable. However, and as highlighted in the relevant section on the true up of the second control period, it is important to understand whether the airport electricity consumption is efficient. In this regard further benchmarking with comparable airports would be beneficial in order to determine potential efficiency targets.
- Insurance
    - We note that the authority proposes to use 0.07% as the average premium rate (using the 2017-21 as a reference). However, we note that table 50 from the Cost efficiency study shows insurance costs between 0.05% and 0.06% of the gross block. AERA may wish to revisit its assumptions in the light of this information.
- Rates and taxes
    - No major comments
- Marketing and Advertisement
    - As formulated in our comments on the true up for the Second Control Period, we do not believe that marketing costs should be allocated to aeronautical. Passengers will go through Bangalore airport if the wish to visit Bangalore or live in Bangalore and wish to visit another city. We do not see that expenditure in marketing will make any difference to this fact.
    - On the basis of the above we request AERA to reconsider its current approach towards allowing Marketing and advertisement costs towards aeronautical expenses.
- CSR:
    - We see that the inclusion of CSR costs is in response to the TDSAT ruling.
    - Our comments provided in the True up for the Second Control period regarding CSR are also applicable for this section.
- General Administration Costs
    - Usually General administration costs is the account in which most reductions are generally thought in times of crisis. For example, we do not see why travel costs & consultancy costs should be allowed unless under very exceptional circumstances. In this regard, we request AERA to start FY21 with a much lower base than currently proposed.
    - We would appreciate for AERA to carry out more scrutiny in relation to office costs. We see that it has allowed a 30% increase when in fact staff numbers are only allowed to increase in 10%. We would request AERA to reconsider such an increase unless there is an appropriate justification for it.
- Concession fee
    - We support AERA proposal to calculate the concession fee on the basis of aeronautical revenues, since that is way in which the methodology that will be used by the government for determining such fee.

7.3.2 To consider allocation ratio as set out in Table 113 above for the Third Control Period

- As mentioned on numerous occasions, we consider that cost allocation applied for Indian airports does not reflect the fact that non-aeronautical activities would not exist without the aeronautical ones. This positive externality needs to be reflected in the allocation of costs. We would welcome the possibility to further present our views on the matter.

7.3.3 To consider aeronautical operating expenditure as set out in Table 114 for the Third Control Period

- We would appreciate for AERA to consider the points made above before deciding a final level of operating costs

7.3.4 To consider ORAT as part of operating expenditure as given in Table 111 for the Third Control Period

- We would prefer if the ORAT expenses are capitalized since those expenses are essential for a successful commissioning Terminal 2. Besides, this may be an opportunity to shift some of the costs over time and therefore lower the pressure on charges.

7.3.5 To true up the operating expenditure for the current control period based on actuals, at the time of determination of tariff for the next control period.

- As highlighted throughout this section, any proposals for true up needs to be subject to an efficiency analysis. Otherwise there is the serious risk that the airport will not be incentivized to deliver the lowest reasonable overall cost. We urge AERA to clarify this in the final order.

Chapter 8 Non-Aeronautical Revenue for TCP

8.3.1 To consider non-aeronautical revenue as set out in Table 130 above for the Third Control Period

- Cargo, ground handling, fuel, CUTE/ CUSS, common infrastructure charges and aerobridges revenues
    - As previously indicated, we agree that such income should be treated as aeronautical
- Car Parking
    - We agree with the nominal increase in car parking as well as aligning it to the amended pax traffic. AERA may also wish to consider that the FY23 car park revenue /pax should be at least the same as that achieved in FY 20 (unless it can be demonstrated that there is a shift in transport modality away from car)
- Retail revenue
    - We agree with including assumptions for increases. We would propose that the retail domestic revenue to reach FY20 levels in FY23 since it is expected that domestic traffic will reach this level on this year.
    - Also, with the opening of a new terminal, there is an opportunity for economies of scope and increase the service offering, which should translate into a higher revenue per passenger (i.e. on top of inflation adjustments). Generally, there is an elasticity bigger than 1. AERA may wish to consider this for its order.
- F&B
    - We agree that adjustments are needed to the forecasts provided by BLR. Since domestic traffic is expected to be back by FY23 (as per AERA forecast), F&B domestic revenue should at be the same as that of FY20 (plus inflation). We request AERA to consider this further adjustment.
- Advertising and promotions
    - We wonder whether the income from advertising should be significantly higher due to the opening of a new Terminal (since there will be a significant amount of space that could be used for advertising, and this will not be driven by passenger numbers). We would appreciate for AERA to give further thought on this aspect and decide whether there should be a significant increase in this regard from the opening of T2.

- Lounge
    - Similar to previous comments, we would like to request AERA to consider increase domestic lounge revenue to match FY20 by FY23 since this is the year AERA predicts Domestic traffic will be back to FY20 levels.
- Rent and Land Lease
    - We agree with the assumptions for land leases. We also agree to assume a notional income from the AAI building. The only comment we would like to raise, and as raised in the section regarding the true up of the Second Control period, is whether such notional lease should be considered as aeronautical, since AAI provides an essential aeronautical service. We would appreciate for AERA to consider this for the order.
- Flight catering
    - Since flight catering is an essential aeronautical service, we would appreciate AERA to consider reallocating this income as aeronautical revenue (similar to that of Cargo, Ground handling, etc).
- Utility revenues
    - We agree with AERA's approach in relation to utility revenues
- Miscellaneous & Real Estate
    - We agree with AERA's proposals.
- Interest income
    - In the section relating to the true up of the Second Control Period we commented on whether such income should be treated as aeronautical. In any case, it should at least be considered as non-aeronautical revenue.

8.3.2 To consider notional lease rental for AAI office space as non-aeronautical revenues in the Third Control Period as per Table 122

We agree with assuming a notional lease. What we would like for AERA to consider is whether such lease should be considered as aeronautical (since AAI provides essential aeronautical services).

8.3.3 To treat real estate revenue as non-aeronautical revenues as stated in Table 128 above.

We agree with the proposals as these are in line with the TDSAAT ruling.

8.3.4 To treat interest income as non-aeronautical revenues as stated in Table 129 above.

As previously mentioned, consideration should be given as to whether this should be considered as aeronautical. But in any case, it should be at least considered non-aeronautical.

8.3.5 To true up non-aeronautical revenues for the current control period, at the time of determination of tariff for the next control period.

We agree with the proposal

Chapter 9 Taxation for TCP

9.3.1 To consider tax outflow estimate as set out in Table 132 for the Third Control Period.

We agree with the methodology used to derive the tax allowances. In particular with the decision on not including the 30% contribution, for the reasons clearly stated in paragraphs 9.2.2 to 9.2.5, as well as being consistent with our previous submissions on the subject.

9.3.2 To true-up the aeronautical tax estimates based on actual tax outflow at the end of the current control period

We agree with the proposal.

Chapter 10 Working Capital Interest for TCP

10.3.1 To consider working capital interest / fee as detailed in Table 134 for the Third Control Period./ 10.3.2 To *true up the working capital interest/ fee projections based on actuals, at the end of the control period, in computation of tariff for the next control period*

If Aera is considering a Working Capital interest as aeronautical, then it should also consider interest income as aeronautical.

Chapter 11 Inflation for TCP

To consider the inflation of 4.9% for the TCP based on the mean WPI inflation forecast for FY 2021-22 given in the 69th round of survey professional forecasters on macroeconomic indicators of RBI.

We don't have any major comments regarding the proposal.

Chapter 12 Quality of Service for TCP

IATA has highlighted in our past submissions on the need for improvements to the existing framework that is predominantly driven by ACI's ASQ standard, which is qualitative and perception based while completely overlooking quantitative, objective measurement of BIAL's actual performance and the customer (airline Users) – supplier relationship.

IATA provides best practice industry guidance regarding Airport Service Level Agreements [3] broadly used across best practice airports, and we strongly encourage adoption of our policy in users and consumers interests. This will also assist AERA in conducting a more objective assessment of the service level performance of the airport operator.

Chapter 13 Aggregate Revenue Requirement for TCP

13.3.1 To consider Aggregate Revenue Requirement (ARR) as detailed in Table 139 above as the eligible ARR for the Third Control Period for BIAL

We appreciate the effort made by the Authority to scrutinize Bangalore airport's proposals. We believe that a substantial improvement has been achieved compared to those proposals. However, we are still being faced with significant increases, and after thoroughly analysing the Authority's proposals in the Consultation Paper, we

[3] https://www.iata.org/contentassets/4eae6e82b7b948b58370eb6413bd8d88/airport-service-level-agreement.pdf

have laid out in this response a number of areas in which we believe the Authority should go even further. We urge the authority to take the comments in account before it makes its final decision on the ARR.

One additional item to consider is whether AERA could consider the possibility of moving back to a Single till approach. This would not only reflect the mechanism that airports would adopt if they were in a competitive environment but would also help alleviate the pressures on charges currently faced. We would welcome to have further discussions with the Authority about such potential change.

13.3.2 To direct BIAL to submit the Annual Tariff Proposals within 7 days from issue of this Consultation Paper which will be reviewed and put up for stakeholder consultations.

We received the Annual tariff proposals (that would be in line with the Authority's calculated ARR). In addition to the concerning substantial increases, we also note that there is still different treatment to airlines (since equivalent aircraft would be paying differential charges on whether they are domestic or international). This appears to be contrary to the TDSAAT decision (as summarised by the Authority in paragraph 1.4.3 v). While during the pandemic times it wouldn't be advisable to carry our structural changes, it is important that AERA should at least lay out a plan on how such discrimination could be phased out after the pandemic.

We thank AERA for its consideration of these points in order to provide a balanced determination taking into account the needs of users and ultimately consumers.

IATA is also available for any further clarifications that AERA may require during the review process of the stakeholder submissions, to the AERA Consultation paper for BLR airport for the TCP.

Yours Sincerely,

Allan J Young

Allan Young
Head Airport Infrastructure
APCS-Airport, Infrastructure and Fuel

Tel: +41227702558
younga@iata.org

International Air Transport Association
IATA Center, 33 Route de l'Aéroport, PO Box 416,
1215, Geneva, Switzerland
iata.org

Cesar Raffo
Head Airport Charges
APCS-Airport, Infrastructure and Fuel

Tel: +41227702778
raffoc@iata.org

International Air Transport Association
IATA Center, 33 Route de l'Aéroport, PO Box 416,
1215, Geneva, Switzerland
iata.org

Appendix B: Examples of Operation cost reduction initiatives

1. Personnel

- Regular evaluation of which functions can be outsourced and the cost/benefit
- Early retirement and departure packages
- Government wage subsidy, part-time work and unemployment schemes
- Repurposing of staff across functions
- Wage reductions (Temporary or permanent)
- Hiring freezes and non-renewals
- Cut performance bonuses and executive salaries
- Review benefits packages (as opposed to salaries)
- Identify a level of activity or a duration at which dismissing staff and re-hiring is less costly than keeping staff considering government benefit schemes
- Change from defined benefit to defined contribution pension systems,

2. Contracted services

- Re-evaluation of the business case for outsourcing where relevant
- Review of force majeure clauses permitting prices and quantities to be modified
- Balancing fixed-price vs. variable-price contacts with ceiling and floor levels. Variable-price contracts based on volume are advantageous in a low-growth market but there should be caps to avoid costs exploding when traffic grows
- Eliminate redundancies (are multiple consultants used to produce reports for the same projects?)

3. Materials, equipment, supplies

- Ensure there is appropriate inventory management to minimize stocks on hand
- Consider multifunctional equipment where appropriate (snow-clearing equipment that can perform other functions in the summer, etc.)

4. Communications, utilities, energy and waste

- Review agreements with telecommunication and IT providers to shut down unneeded services when not in use
- Lease IT and telecom equipment as opposed to purchasing the equipment where this makes sense
- Consider lowering/raising temperature and operating hours of HVAC systems where relevant to conserve energy
- Building shutdown / pier shutdown / gate consolidation where relevant to save costs on energy etc.
- Consider temporary substitution of ground transportation solutions by less costly solutions if volumes justify (busses vs. people movers or trains)
- Review use of airfield lighting within the constraints of regulation to turn off lighting when not needed
- Consider whether parts of the baggage system can be switched off or whether with re-organization a smaller subset of the baggage system can be used.

5. Insurance, claims, settlements

- Review contracts to see whether they can be volume based

6. Maintenance

- Switch from "scheduled maintenance" to "usage-based maintenance" where possible to reduce required intervention
- Consider closing airside infrastructure that is only required when there are higher levels of traffic (e.g. dual taxiways, additional runways, multiple towers) without compromising safety

7. Lease, rent and concession fees

- Request deferrals of payments in lease, rent and concession fees

8. General and administration expenses

- Consider outsourcing the invoicing and collection of revenues
- Cut business travel, internal and external events, marketing spend
- Implement better A/P and A/R management
- Consider renting and leasing equipment in the COVID context rather than purchasing

9. Broader cost-reduction initiatives

- Consider closing terminals or parts of terminals where there is little activity
- Consider moving airport management offices from off-site premises to the terminal if there is space and renting the off-site locations to tenants
- Close certain facilities (e.g. restrooms etc) either during parts of the day or permanently to save on cleaning and utilities

Mr. Satyaki Raghunath,
Chief Strategy & Development Officer
Bangalore International Airport Limited (BIAL)

Date 14 September 2020

Dear Mr. Raghunath,

IATA AND AIRLINE COMMUNITY FEEDBACK FOR STAKEHOLDER CONSULTATION -STAGE I & II FOR 3RD CONTROL PERIOD

On behalf of IATA and our airline members, we would like to thank BIAL for arranging the Airport Users Consultative Committee (AUCC) virtual meeting with your stakeholders on 26th August to share BIAL's proposed CAPEX projects and associated works in the 3rd control period.

Further to the meeting, we take this opportunity to provide our feedback regarding the discussions held, summarised here for your consideration. This letter also represents the views of the Airline Operators Committee (AOC) of BLR and can be considered as the consolidated feedback from the airline community.

Recommended Approach for CAPEX/Traffic Forecasts/ Business Cases

While the information shared at the AUCC was helpful it was not nearly sufficiently detailed enough to enable IATA and the airline community to provide informed feedback on a meaningful and reasonable basis. The point of consultation is to seek the views and inputs from airport users and customers on their requirements, to form and shape airport investment concepts, options and solutions through an iterative design and development process, alongside a Business case to demonstrate the return on investment, not to present the airports concepts and options formed unilaterally without users involvement.

The impact of COVID-19 on air traffic demand has been severe and unprecedented, calling into the question the need to invest in capacity enhancing and all projects in such uncertain times, and ability of airlines and passengers to pay for investments reflected through airport charges. At this juncture the industry's focus in solely on successfully restarting the industry. Therefore, IATA strongly recommends **an immediate freeze on all capital investments** pending a comprehensive review of traffic forecasts and all project business cases with the airline community, to determine the need, timing and affordability of investments. A pause in all but essential investments is required for at least the remainder of 2020 given the considerable ongoing uncertainty regarding traffic demand to avoid investments that may not be necessary and/or affordable. The status of all existing CAPEX projects should be reviewed with stakeholders to ascertain their criticality and joint agreement reached prior to progressing further.

Regarding forecasts, we specifically request BIAL provides the AUCC with the detailed assumptions used to form its updated passenger, ATM and Cargo forecasts. Sharing and agreeing these for assurance with the airline community is essential to identify project demand triggers and should be viewed as a pre-requisite to investment. For the passenger forecasts, in addition to annual data, we would also require peak hour planning data, and ideally the Design Day Schedule as well as a break-up of domestic and international departing/arriving/transit passenger numbers. This information is essential enable informed consultation regarding the phasing and need for capacity enhancing investments.

We also require a review of existing and new project Business Cases to enable us to assess the need for investments. Essential information including capital cost estimates and benchmarks, operational and maintenance costs, the impact on airport charges, project specific benefits and the overall return on investment for each major project has not yet been shared with stakeholders. Despite projects being in the fairly early stages of development, initial high-level cost estimates and the key financial data should be, and definitely so during Options stages. This is standard practice, and we request benchmarks are shared as soon as possible.

In terms of the design and development feasibility process, please share the project briefs and scoping documents used as the basis for concept / options developed to date in detail. We require more details on an individual project basis to provide feedback at the Needs Identification/ Options stage of projects, even though this is already partly retrospective. Involving airlines for inputs to scope airport project briefs and concepts, leading to options development should be the first step to capture user requirements and discuss ideas in an open environment such as a workshop however has not occurred yet. Without the detailed involvement of users from an early stage in the development process, our requirements will simply not be taken into account. At this stage there is not enough transparency, and this is not yet a collaborative effort, until we have the opportunity to provide feedback on BIAL's proposals. Moving forwards, we would be grateful if BIAL could involve users more closely and regularly in its planning process to ensure airlines needs are met in accordance with AERA's Consultation Protocol and international best practices. A pre-requisite to investment should be transparent and meaningful consultation with users in order to seek consensus and the approval of the airline users as a pre-requisite to investment.

Further, it is always necessary to consider the airlines and passengers ability and willingness to fund capital investments recovered through airport charges, and even more so during this time of extreme cost sensitivity.

It may be that some projects are required for regulatory or health and safety reasons, while others in the advanced stages of construction that are more costly to freeze or defer may be viable to continue with – in either case we request these are discussed in detail with the airlines through AUCC meetings.

In addition, we request an overview of the total proposed capital investment plan for the third control period, key programmes in addition to major projects, the overall impact on airport charges resulting from the proposals, project timeframes and dependencies, major risks, and any impacts to existing airline operations. While we completely understand the plan is in the early/various stages of development, the information that should be available is also currently unclear.

For clarity, we view these requests as the absolute minimum level of information required for stakeholders to provide feedback on the proposed investments. While we are unable to provide informed feedback on BIAL's proposals or support capital investment proposals at this stage, we look forward to BIAL sharing further details and consulting more comprehensively on investment proposals moving forwards.

Feedback on Projects proposed by BIAL

Project design and development feasibility is an iterative process requiring regular, structured interaction to identify and select project concepts, options, and ultimately to select the most cost-effective solution to deliver joint airport-user benefits. Again, we appreciate the information shared to date and appreciate BIAL responding to our queries and providing further details.

In the context of these points, we would also like to take the opportunity to briefly comment on project details shared in the presentation pack.

<u>Project 1: T1 Rehabilitation</u>

- For each major “identified need “referenced in Project 1, we request a **Business Case including cost estimates and the return on investment** in addition to the benefits already noted.

- The need to progress these projects in the control period should be reviewed particularly for capacity enhancing elements, while we would expect to see the financial benefits and operational efficiencies for asset replacement projects clearly demonstrated especially for those that are not at their end of life.

- We would appreciate further information for asset replacement projects taking into account CAPEX, operational and maintenance costs, and for passenger experience projects an overview of the passenger process, improvements in level of service and return on investment for stakeholders.

Project 2: Metro Stations Project

- There is a need to understand the funding aspects and various obligations of BIAL and those of the authorities or /government in more detail, in addition to the need for the metro stations.

- It is IATA's position that air passengers should not fund, or pre-fund such investments as would be the case with other infrastructure that would be commercialized, and revenue generated through services in the future for an external party (in this case BMRCL). The investment should be recovered through the actual users of the metro which would also include non-passengers such as airport workers and visitors.

- For the proposed Multi Modal Transport Hub (MMTH), we request for more clarity on the split of capital costs between BIAL and BMRCL and relevant parties), recognition of assets, impact on user charges, pricing strategy including projected revenue sources to support the business case of the investment.

- From recent media reports, we also understand that while BMRCL will construct the airport metro section (along with civil, electro-mechanical, other associated facilities, works and related assets) BIAL will develop, manage, and maintain the two metro stations that will be located within the airport boundary. IATA would like to understand the rationale for this arrangement and the assurance that there will be no impact on aeronautical charges i.e. cross-subsidization by air passengers /airlines.

- IATA also learned through media reports that BIAL will be constructing the Halt Station for Indian Railways. We request further details of the role of BIAL including the funding for the construction. Similarly, air passengers should not fund the cost of such an investment which is not related to the provision of aeronautical services.

- Regarding KIA West, we see that it would cater mainly to workers and visitors to the Airport Ancillary & Support facilities. It is important to understand the ridership level at this proposed station, especially if the targeted traffic will convert their current transport arrangements to the metro.

- Besides convenience, pricing is an important factor that will influence utilization and the case for investment outcomes. We request this assessment is made or results shared, including the availability of other transport modes to help evaluate the need for KIA West and its phasing.

Project 3: Cargo Capacity

- We are pleased to see some ongoing demand for cargo facilities during COVID and note a shift in the options development proposal to develop cargo on the west side of the airport. We would appreciate further information supporting the case and timing for investment including the detailed traffic forecast assumptions, costs, ability that this expansion will deliver to service demand in the long term and impact of charges.

- We look forward to BIAL's thoughts on how the available land in the East could be used optimally in the future.

Project 4: Airline and Airport Administration Building

- In addition to the options overview, we request BIAL to provide further details including capital costs, operating and property rental costs, benefits, and the underlying space requirements for each key stakeholder, taking COVID impacts into account. It would also be useful to understand the fit-out specifications and proposals.

- For operational staff, proximity and access to terminals and operational areas is important. Please do provide details of how this has been taken into account.

Project 5: BIAL campus parking and canteen facility

- We request cost estimates for the construction, and ongoing cost (operating and maintenance) based on the designs that are being considered. It would also be useful the understand the cost-recovery mechanism and level of pricing to justify the business case and its affordability.

- In addition, we request an overview of the options considered including access to terminals, and the impact on the road layouts. Whether a consolidated facility the right solution for efficiency or will this cause road congestion and potential access issues to some areas of the airport, it is important that the costs of options are shared before recommendations by BIAL.

Project 6: Road Expansion

- Regarding Project 6, road expansion on the north west and north east. Please provide us with as assessment of the forecast traffic flow, costs, and project phasing.

Project 7: CISF Permanent Housing

- Firstly, IATA would like clarity on the funding aspect given that a separate charge is now collected through the Aviation Security Fee (ASF) from passengers, payable to the authority. We also noted the significant increase in the ASF rates effective July 2019 (international passengers from USD3.25 to USD4.84 or 49% and domestic passengers INR130 to INR150 or 15.4% plus GST) and again from 1 September 2020. These two rounds of increases represent a significant increase in the ASF rates of 60% and 23% for international passengers and domestic passengers respectively in a short span of time.

- IATA would like a confirmation from the authority concerned that the funding obligation to provide housing is ‘solely the responsibility of BIAL especially after the removal of the PSF (Security) component and introduction of the new ASF last year. One would deduce that this responsibility should now rest with the Government with this change and the associated costs should no longer be considered by AERA for the purpose of determining the tariffs for BLR.

- If this is indeed mandated (including pick-up and drops for CISF staffers and any other obligations?), we would then like to understand the comparison in cost between the current arrangement vs providing permanent housing to CISF employees, factoring in the operation and maintenance cost consideration in the design phase as well to minimize running cost in the long term.

- There is also a merit in exploring other options with the authority such as continuing on the arrangement of providing housing allowance and administered directly through CISF. IATA would encourage that this is pursued.

- In addition, we would like to understand the reason for BIAL going beyond the airport and the need to purchase land to construct the permanent housing. This is not the core role of BIAL and neither is purchasing land asset (or leasing) for non-aviation services, which have its own set of risks.

We view the information provided as a good starting point and request further AUCC sessions are set-up over the coming months to address the points raised, in line with AERA's Consultation Protocol which provides an excellent basis for consultation with the airline community. BLR AOC and IATA would be pleased to work with BIAL to agree a suitable schedule meeting for the remainder of the year.

Yours sincerely,

Allan Young
Head of Airport Infrastructure
younga@iata.org

Richard Tan
Regional Manager Airport, Passenger, Cargo and Security
Asia Pacific
tanr@iata.org

cc:

BLR AOC
AERA