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The Chairman,
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Our reference	MT
Date	July 16, 2021

Response to Consultation Paper issued by AERA for 3rd Control Period
Consultation Paper No 10/2021-22 published by AERA on 22nd June 2021

Dear Sir,

This has reference to the Consultation Paper No. 10/2021-22 published by the Airport Economic Regulatory Authority (AERA) for the 3rd Control Period for Kempegowda International Airport Bengaluru (KIAB) on 22nd June 2021.

With its 20 percent stake, Siemens Project Ventures GmbH is the 2nd largest shareholder in Bangalore International Airport Ltd (BIAL). Siemens was the lead member of the consortium that was awarded the concession to develop, finance, build and operate the new airport (KIAB) in 2001. This project is one of the most prominent German investments into India's infrastructure to date. In our opinion, this is also a compelling example of the role Private Public Partnership (PPP) can play in creating a modern network of airports to serve the needs of India's economy.

We would also like to point out that the German Federal Government has extended a substantial investment guarantee covering Siemens' stake in BIAL, and thus holds a genuine interest in the economic viability of BIAL.

Siemens lauds and supports India's efforts to engage the private capital as a means to accelerate the establishment of the state of art infrastructure necessary to cope with the rapidly growing aviation sector.

We firmly believe that the partnership between Government and Private sector is the only viable option for the development of the airport sector in India. For the success of PPP model, a fair and consistent regulatory framework is a critical requirement for the success of the entire privatization process adopted by Gol.

The above referred Consultation Paper has raised serious concerns, both on the Expansion Project under implementation, and the adequacy of cash flows towards meeting BIAL's operational costs and debt-service obligations over the period of 5 years in the 3rd Control Period. The impact of this will significantly impact the confidence of the Investors like Siemens, who have committed to infrastructure growth in India.

Issues of Concern in the Consultation Paper

Investors have strongly relied on the policy framework established by AERA through its own guidelines, airport regulations and past tariff orders and Government policies. The reversal of some of these accepted and adopted policies and principles have shaken our confidence.

We request AERA, to consider the following submissions and address our key concerns on the Consultation Paper, which will go a long way in restoring the Investor's confidence in airport projects in India.

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Page 1 of 4

1) Realistic Assumptions to be adopted

a. Traffic Projections for the 3rd Control Period at 195 million passengers is over-optimistic and BIAL will face a serious challenge of ARR under-recovery on account of substantially lower actual traffic

- AERA has assumed an over-optimistic traffic forecast for KIAB for the Third Control Period, which appears inconsistent with the feedback from aviation agencies like ICAO, ACI, IATA and also 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 for the ongoing tariff consultation processes for Hyderabad Airports for the same period, which has been published on 2nd of July 2021

We would request the Authority to consider moderating the traffic estimates between 160-165 million and accordingly revise its proposal during finalization of the tariff determination Order for BIAL.

b. O&M cost basis – No O&M costs allowed for new asset addition (0% for new RAB addition) in spite of internal benchmarking showing efficiency in O&M cost for BIAL

- The Authority had appointed an independent consultant to determine efficient O&M costs for BIAL in the 2nd Control Period & the report says that the overall (total) operational expenditure incurred by BIAL appears reasonable and within the range of other private airports in India.
- However, the Authority has completely ignored this report while projecting the O&M costs for the 3rd Control Period and has proceeded to adopt O&M norms which are hitherto unheard off in the airport sector & are unreasonable in nature

We request the Authority to apply rationale norms for estimating the O&M cost for new assets and follow the principles followed in DIAL and MIAL 3rd tariff orders, wherein the Efficient Costs report prepared by the independent consultant was used as the basis for projecting O&M expenses in the current control period.

c. Non-Aeronautical Projections – over optimistic increase assumed (much faster than DIAL / MIAL recovery)

- Authority has projected the return to Pre-Covid levels by FY2023. This is in contradiction to the traffic assumption made by AERA, wherein it is mentioned that international traffic will return to pre-Covid levels only in FY2024.
- International Traffic contributes substantially to the non-aeronautical revenues and given the uncertainties regarding resumption and recovery of the same, the assumption made by AERA regarding non-aeronautical revenues appear misplaced and not realistic.

We therefore request AERA to moderate the Non aeronautical projections and adopt principles used in DIAL & MIAL 3rd control period tariff orders regarding recovery of Non-aeronautical revenues to pre-Covid levels.

d. Interest Rates – no increase assumed for next 5 years

- AERA has considered BIAL's existing interest rate of 7.85% for the entire tenure of 5 years of the 3rd Control Period as against BIAL submission of 10%.
- The economic growth forecast for India for FY22 has also been revised downward by RBI, World Bank and S&P Global ratings.

- BIAL has tied up debt for the Expansion project at 7.85% and this is one of the lowest in the airport sector. Interest rates have bottomed out and they are only expected to raise and not stay at the current levels.

We request Authority to consider 9% (interest rate for 2nd Control Period) as cost of debt for the 3rd control period and true up of the same in the subsequent control period

2) Fairness in Treatment

a. Levy of 1% penalty for delay in completion of Terminal T2 beyond 31st March 2022 to be levied under all circumstances of delay irrespective of the raging COVID pandemic

- The Authority has not considered the impact of 2nd wave of impact (which was very severe in Karnataka) and the strong likelihood of further Covid waves. Construction activities at site have been severely impacted and there has been steady migration of labour back to their native places, impacting the completion of Terminal T2.
- If the delay is for Covid reasons or for similar events (which are beyond the control of BIAL, it would be wholly wrong to impose such a penalty

We request Authority to consider the 2nd wave of Covid 19 as an extraordinary situation and not to levy a 1% penalty for any delay, on account of the impact of the 2nd wave of Covid 19.

– b. Considering Notional Revenues from Lease Rentals from Taj Hotel (BAHL) for period prior to the start of operations.

- AERA has proposed considering notional lease rentals for the land leased to BAHM and treat the same as non-aeronautical revenue, from the date of Airport opening (24th May 2008).
- The hotel at the Airport started commercial operations only on 30th Sep 2016 and it is not logical to apply any lease rentals before this date.

AERA is requested not to apply any notional lease rentals from BAHM for the period prior to hotel operations start date.

c. Non-consideration of pre-AOD period shortfall for tariff determination – this being expenses required to be incurred but could not be capitalised as per accounting rules.

- BIAL started operations on 24th May 2008, much before AERA came into existence. BIAL has also incurred losses of Rs. 53 crores, prior to the date of airport opening, on account of non-capitalization of preliminary expenses due to the then prevailing accounting standards.
- Being a regulated entity, this loss can only be recouped through the tariff mechanism for the subsequent period.
- Denial of this recouping mechanism is against principles of natural justice to BIAL, as the loss is on account of accounting standards and not because of BIAL

AERA is requested to consider pre-AOD losses as per the direction of TDSAT and not resort to partial consideration of pre-control period losses.

3) Consistency in Regulatory approach

a. Withdrawal of Financing Allowance

- Financing Allowance as per Direction No. 05 was followed by AERA in the last 2 tariff orders. This was the basis for lenders and shareholders to commit their share of investment in the Expansion Project
- AERA has abruptly decided to revise the concept of Financing allowance and this will seriously affect the cash flows and debt service obligations of the company, especially considering the fact that BIAL has invested 100% of the equity (amounting to Rs 2425 crores) prior to debt disbursement.

We request the Authority to uphold its own guidelines and airport regulations and allow Financing Allowance as claimed by BIAL.

b. Changes to useful life of assets in computation of depreciation

- Authority has proposed changes to useful life of assets in computation of depreciation, which was previously approved by AERA in the previous tariff order.

- AERA has disregarded its own principles /decisions taken in past orders regarding useful life of assets for the purposes of computing the depreciation in the 3rd Control Period, without assigning any reasoning or rationale for the change in its position

We request the Authority to uphold its own regulations and allow Depreciation as claimed by BIAL.

c. Disallowance of approved Capital Expenditure in Tariff determination towards preoperative costs earlier allowed in the 2nd Control Period tariff order

- These are expenses incurred for having a dedicated Project team that is responsible for implementation of Expansion Project by working along with team of international consultants
- Contrary to the decision taken in the 2nd control period tariff order, AERA has now disallowed the entire cost of Rs. 355 crores and this disallowance will severely impact the cash flows of BIAL
- Authority had approved pre-operative expenses in the case of Delhi and Mumbai airport expansion projects in the recent past and has also been proposed in the consultation paper for GHIAL by AERA recently.

We request Authority to reinstate the pre-operative expenses as approved in the 2nd tariff order and true up the same at the time of completion of the projects based on actual costs incurred and its reasonableness.

Conclusion

Indian Airports have attained international standards in terms of quality, and standards of customer service globally, and are winning awards and accolades in international platforms. In fact, BLR Airport is the only airport in the world to twice win the ACI / Skytrax Award for Best Arrivals Experience in the World (no other airport has ever won this), in addition to a host of other accolades.

The monetisation of operating public infrastructure assets to the tune of Rs. 2.5 lakh crore by Government of India (Gol), will see the Airports Authority of India (AAI) sell its stakes in the country's top metro airports of Delhi, Mumbai, Bengaluru, and Hyderabad. Besides AAI's stake sales, the identification of 13 more airports for privatisation is afoot. Given this background, the proposals contained in the Consultation Paper, would work against the proposed plans of Gol.

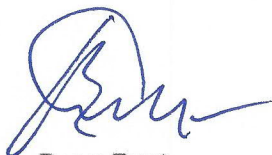
The need of the hour is for the regulator to have a balanced view and adopt realistic, fair and consistent approach without resorting to reversal of earlier decisions and existing guidelines.

In summary, we would like to request a more realistic, fair, and consistent approach to tariff determination by AERA. It is our intent to create world-class infrastructure for the City of Bengaluru and State of Karnataka. BIAL is focused on providing capacity, despite Covid-19's staggering impact on its traffic and revenues to meet forecast medium and long-term demand.

We request that our views expressed above be taken into consideration by the Authority at the time of issuing a final tariff order.

Sincerely yours,

Siemens Project Ventures GmbH



Roger Ernst
Managing Director



Rüdiger Hoffs
Executive Director