BANGALORE INTERNATIONAL AIRPORT LIMITED

Response to Stakeholder comments to Airports Economic Regulatory Authority of India's (AERA) Consultation Paper No. 10/2021-22 dated 22nd June 2021

Determination of Aeronautical Tariff for Kempegowda International Airport, Bengaluru (BLR) for the Third Control Period (01.04.2021 - 31.03.2026)

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DISCLAIMER

This document has been prepared by Bangalore International Airport Limited (‘BIAL') in response to the comments made by stakeholders on the Airports Economic Regulatory Authority of India’s (‘AERA' or ‘the Authority’) Consultation Paper No. 10/2021-22 on determination of tariffs for aeronautical services in respect of Kempegowda International Airport, Bengaluru (‘KIAB’ or ‘KIA’ or ‘the Airport’), for the Third Control Period (01.04.2022 to 31.03.2026) dated 22.06.2021 (‘Consultation Paper’ or ‘CP’).

The purpose of this document is to solely provide a response to the comments provided by the stakeholders on BIAL's submissions and the Authority’s proposals in the Consultation Paper and should not be referred to and/or relied upon by any person/party, in respect of KIAB for tariff determination for 3rd Control Period. The submissions of BIAL may not be reproduced or disseminated in whole or in part unless clarification is obtained from or specifically confirmed by BIAL in writing and except by the Authority.

The response set out below to the CP shall not be construed as an acceptance by BIAL of the various assumptions undertaken by the Authority in the CP.

The response is without prejudice to BIAL’s rights, submissions, contentions available to it before various forums, including in proceedings already initiated/pending before the relevant authorities/courts and its right to appeal before appropriate legal forums.

1. Current Context at BIAL

- Kempegowda International Airport, Bengaluru (KIAB or BLR Airport), is a major civil aviation hub and the 3rd busiest airport in India in terms of passenger and cargo traffic. Bangalore International Airport Limited (BIAL) and is the only private airport in India (among those set up pursuant to Airport Infrastructure policy of 1997) that has the serving Chief Secretary of the host state (Government of Karnataka (GoK)), as the Chairman of its Board.
- KIAB has also been ranked as one of the best airports globally and has won several accolades including the prestigious SKYTRAX Award for Best Regional Airport in India and Central Asia for 2017, 2018 & 2020 and has recently been inducted into Airports Council International Director General's Roll of Excellence. KIAB is also the only airport in the world to receive ACI's Global Award for Arrival Experience two years in a row.
- As per the Master Plan, KIAB will have an ultimate capacity of handling 92 million passengers & the current Expansion Project is a crucial phase in being able to scale up to the ultimate capacity level.
- Pursuant to Board approval, and on account of the unprecedented growth in traffic that it had witnessed, 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.
- Based on AERA's approved capital cost for the Expansion Project in the 2nd Control Period (CP) tariff order, BIAL has arranged its financial tie-up for Rs. 13,300 crores of which, the borrowing from project lenders is Rs. 10,200 crores with a consortium of Banks including SBI, Canara Bank, Union Bank of India and Axis Bank & the interest rate tied up is also one of the lowest across the Indian Airport sector.
- The NSPR was commissioned on 5th Dec 2019 and the Terminal T2 Project is 75% complete (as of 31st May 2021). BIAL has infused 100% of the equity requirements from retained earnings (Rs 2,425 crores) and 50% of debt (Rs 4,500 crores) has been disbursed.
- The current UDF rates were determined by AERA, after adjusting for recoveries made in the first 2 years of the 2nd control period wherein the UDF rate of the 1st control period was applicable. Hence the current UDF rates are not reflective of the actual ARR for the 2nd control period.
- On account of Covid-19, the actual passenger traffic for FY2021 was 10.91 million only as against 40.48 million as approved by AERA (a reduction of approx. 75%)
- BIAL's FY 2021 revenues have been severely impacted on account of drastic reduction in traffic, change in traffic mix (negligible corporate or international travel) leading to lower non-aero revenue revenues and increased transfer/transit passengers.
- The financial impact at BIAL, due to Covid-19 (including aeronautical and non-aeronautical) is given below

- BIAL's total revenues have dropped from Rs. 1,346 crores in FY 2020 to Rs. 509 crores in FY 2021, a drop of nearly 60%.
- Non-aeronautical revenues have witnessed a steeper drop, given the restrictions on international traffic & we expect this to continue and affect us through FY 2022.
- The 2nd wave has led to daily traffic dropping to new lows (lower even than those observed in 1st wave in May 2020).
- BIAL has suffered a loss of Rs. 572.8 Crores in FY 2021 and considering the current traffic trends, a similar situation is expected to continue in FY 2022 as well.
- We therefore expect the revenue and liquidity situation to worsen in FY 2022 with no respite on the horizon.

- BIAL is heavily reliant on operational cash flows to meet the operational expenses, debt service obligations and payment of concession fee dues in this financial year. BIAL had used up the accumulated cash reserves towards funding the capital expenditure program, prior to drawdown of the loan, in order to ensure that the interest cost on the project is minimized
- Based on loan agreements with Bankers, BIAL has committed to maintaining certain financial covenants including (i) minimum debt service coverage ratio of 1.10 (ii) interest coverage ratio (not less than 1.50) and (iii) Debt/EBITDA ratio of not more than 6. It is imperative for BIAL that all these covenants are met at all times to ensure the maintenance of the current credit rating. Hence, it is vital that there are no defaults by the company on any of these important covenants.
- It is imperative for BIAL to have an increased tariff to allow us to cover our operating expenses as well as ensure debt serviceability. The same is detailed as given below:
  - The debt servicing ability of BIAL has dropped considerably in FY2021 owing to drastic reduction in operating income. With the second wave of Covid-19 in April-June 2021 and the resultant reduction in passenger and ATM movement, the debt servicing ability for current year will also be impacted.
  - This problem gets compounded in FY 2022 by increase in debt servicing obligations due to increase in repayment obligations and increase in interest cost on account of capitalisation of new assets (in FY 21& 22) and use of additional working capital facility to meet operational shortfall. The same is summarized in the below table.

Parameter in Rs Crores	**FY 2019-20**	**FY 20-21**	**FY 21-22**
Interest expense - Project loan	129.4	191.7	234.6
Interest expense - WC loan			26.5
Debt repayment	28.3	30.8	77.3
Total	**157.6**	**222.5**	**338.4**

- Lower operating income in FY 2021 has led to the breach in key lender covenants of Debt Service Coverage Ratio (DSCR) and Interest Coverage Ratio (ICR) in FY 2021. This will have an adverse impact on interest rate charged on loans, thereby further increasing the Debt service obligations. A second consecutive year of breach of covenants will be viewed as a negative event and will have huge impact on entire loan portfolio including the loans availed for the Expansion project loan. Covenants for last 2 years are as given below:

Parameter	Min Requirement	FY 19-20	FY 20-21
DSCR	1.10	6.07	0.33
ICR	1.50	6.34	0.34

- With these developments, BIAL's credit rating of its debt instruments also will be hugely impacted. During previous year, the rating (AA+) has been put under -ve watch by one of the rating agencies.
- Hence, there is an urgent need to revise the current tariffs at KIAB in order to ensure that BIAL is able to meet its cash needs for sustenance, fulfilling debt servicing obligations & meeting mandatory capex spends.
- BIAL has extended all support that was possible within our limited means during the pandemic. Based on support request from airline operators, various relief measures were provided to the airlines in FY 20-21 and accordingly, BIAL had waived off the parking and housing charges during the lockdown period in the Q1 FY2021, amounting to Rs. 4.65 crores. It is imperative that Authority recognizes this as relief offered during the pandemic crisis, as a one time waiver and not consider it as aeronautical revenue based on airline request.
- BIAL is cognizant of the current situation and despite the challenging environment, BIAL has tried to strike a balance by keeping tariffs lower during FY 2021-22 and FY 2022-23 and increase the charges in a progressive manner, in the latter half of the 3rd Control Period. Further given the uncertainty surrounding recovery of aviation sector, we have requested AERA to conduct a limited mid-term review of the tariff proposal and enable us to amend/revise the annual tariff proposals (without undergoing a detailed tariff submission), thereby ensuring a win-win scenario.
- BIAL has undertaken several Capital Expenditure and Operational expenditure optimisation measures over the last 15 months, considering the drastic fall in traffic (demand) on account of Covid-19 and the same is detailed below.

A. Capital Expenditure related:

1. Second Control Period

- Due to the outbreak of the Covid-19 pandemic and its subsequent impact on the aviation demand / economy, BIAL has relooked into its AERA approved Capital Expenditure and steps have been taken by BIAL to defer some of the AERA approved projects, as given below:

S No	Package	Value in Rs Crores.
1	NSPR, Taxiways and Apron Development	55.56
2	T2 Apron – Phase 1	63.10
3	Aircraft Maintenance and Airport Maintenance	98.28
4	Airport and Airline Administration	61.18
5	Existing Runway and Taxiway Improvements	81.00
6	220 KV Substation	354.00
7	**Grand Total**	**713.12**

2. Third Control Period

S No	Details in Rs Crores	As per MYTP submissions in Jul 2020	Revised Estimates in Feb 2021	Revised Estimates as per Response to CP
1	Airfield Works	22.09	22.09	22.55
2	Passenger Terminal	249.51	249.51	50.00
3	Landside Access and Parking	592.45	440.38	400.85
4	Support Facilities	642.16	572.52	307.21
5	Construction Cost	1,506.22	1,284.50	780.61
6	Design Fee	75.31	64.23	39.03
7	PMC Fee	75.31	64.23	
8	Pre-Operative Expenses	75.31	64.23	15.61
9	Sub total	225.93	192.68	54.64
10	Contingency	173.21	147.72	25.06
11	Total	1,905.36	1,624.90	860.31

S No	Details in Rs Crores	As per MYTP submissions in Jul 2020	Revised Estimates in Feb 2021	Revised Estimates as per Response to CP
12	CISF Permanent Housing	369.68	369.68	-
13	**Grand Total**	**2,275.04**	**1,994.58**	**860.31**
	% Reduction from MYTP submission			**62%**

B. Operational Expenditure related:

The Authority had commissioned a study to determine the aeronautical Operations and Maintenance costs for the 2nd control period. BIAL has demonstrated cost efficiencies in the Second Control period and the cost per pax/ per ATM have been one of the lowest, as per the independent study conducted by AERA.

BIAL initiated Project BIAL 2.0 as a key initiative to redefine the way we do business and become agile and nimble. To achieve the important objectives of BIAL 2.0, the following major work streams were identified:

- Synergy – Explore possibilities of synergy within BIAL
- Cost optimization and Process excellence – Make BIAL become more FIT and lean in terms of operational spends.

Some of the key initiatives under each cost head and the results of the same are given below:

Headcount and Staff costs:

- Freeze on all new hires for FY 2020-21
- Salary increments not considered for FY 2020-21
- Owing to work from home scenario, many cost items relating to Personnel costs were reviewed and action taken
    - Staff canteen expenses removed
    - Fuel reimbursement expenses to employees suspended on account of work from home
    - Mobile phone reimbursement policy suspended for all employees
    - Leave entitlements reduced by 50%. No carry forward of unutilized leaves allowed
- Major reductions:
    - Increment, lower variable pay, lower headcount, savings in gratuity and leave Zero encashment, savings in staff activities, transportation, education & training.

- Outcome – 8% lower than FY 2020 actuals on account of above-mentioned measures

Operations & Maintenance costs

- Costs categorized as Mandatory, Essential, Discretionary. Cost related to compliance/regulatory were retained and efforts taken to optimize other costs
- Renegotiated all O&M contracts and mandated vendors to provide minimum 10% reduction in contract price as compared to 19-20 rates
- No contract price escalation for O&M contracts given as directive by management to Procurement division
- Major contracts that have costs linked to traffic were suspended/reduced owing to lower traffic (Housekeeping, Facilities management, Terminal area management, Civil/electrical works contract, etc)
- Major reductions achieved:
    - Rationalized landside traffic manpower, ARFF resources deployed for security screening/thermal scanning and social distancing norms monitoring
    - Suspension of airport shuttle, reduced trolley management spend by ~ 60%,
    - Deferred non-critical one time spends, Optimized spares & consumables
    - Renegotiated major ICT contracts and O&M contracts (AMC for NSPR AGL systems, AMC for specialized vehicles, Facility maintenance contracts, Landscaping contracts, etc)
- Outcome - 2% lower than FY 2020 actuals on account of above-mentioned measures

Lease rent, Property taxes:

- Approached GoK for waiver of lease rental payments for a period of two years. GoK has granted deferral of payments for a period of 1 year
- Outcome - Cashflows deferred but Expense accounted during the year

Utilities:

- Partial shutdown of Terminal & other infrastructure
- Minimum temperature requirement revised owing to lower traffic
- 100% energy consumption from renewable sources from last six months. Zero utilization of BESCOM power
- Potable water consumption reduced
- Outcome - 20% lower than FY2020 actuals on account of above-mentioned various measures

Marketing & Advertisement

- Deferral of marketing spends on T2 Video journey
- Deferral of Pinnacle event (Airport awards) and suspension of all events such as Dussehra, Christmas/New year celebrations at Terminal
- Optimized social media and digital media spends
- Outcome - 70% lower than FY2020 actuals on account of above-mentioned measures

Consultancy & Legal costs

- All discretionary spends cut down
- Deferrals sought for all contractual consultancy works
- Leveraged in-house capabilities instead of looking at external consultant

Travel & Office costs

- Zero business travel to international destinations
- No domestic travel unless approved by Management
- Suspended all conferences & seminars, business meetings. Encouraged virtual meetings
- Security manpower rationalized owing to partial shutdown of offices due to work from home
- 100% budget cut on travel costs and Office costs cut down by Rs. 9 Crores (42%)
- Outcome: 100% reduction in travel cost and 22% lower Office costs vis-à-vis FY 2020 actuals on account of above mentioned measures

<u>Soft cost incurred by BIAL for Projects approved in the second control period</u>

AERA had appointed RITES to examine BIAL's submissions made in the 2nd control period, with regard to the proposed capital expenditure of the Expansion Project.

The Authority, keeping RITES report as the base and giving effect to the Rs 723 crores cost savings obtained by BIAL in the award of NSPR contract (which happened on account of value engineering and detailed designs carried out prior to contract award) had approved the capex estimates at Rs 8167 crores (Table 25 of the Order no 18/2018-19).

In addition, the Authority had also considered

- 5% as benchmark for Design and PMC costs, based on terminal expansion projects at select AAI owned and operated Airports (as recommended by RITES)

- Rs 150 crores towards pre-operative expenses with true up of the PMC cost and pre-operative expenses based on actual costs incurred and its reasonableness

Pursuant to the issuance of tariff order for 2nd control period, vide letter dated 13th Sep 2018, Authority had clarified that, in case, there is delay in completion of project beyond March 2021, due to any reason beyond the control of BIAL or its contracting agency and is properly justified, the same would be considered by the Authority while truing up the actual cost at the time of determination of tariff for the 3rd Control Period in respect of IDC and PMC.

RITES had compared BIAL's soft costs (Design and PMC Costs) against AAI airport projects in the country, in order to determine the reasonableness of costs. The projects that were used for comparison are:

- Jaipur International Airport, Rajasthan (JAI)
- Chennai International Airport, Tamil Nadu (MAA)
- Lokapriya Gopinath Bordoloi International Airport, Guwahati, Assam (GAU)
- Tiruchirappalli International Airport, Tiruchy,Tamil Nadu (TRZ)
- Chaudhary Charan Singh Airport, Lucknow, Uttar Pradesh (LKO)

Upon comparing the projects undertaken by each of the above-mentioned airports vis-à-vis BIAL, there is a noted difference in the scale of work performed in each project. This is specifically noted in terms of total terminal area, the scale of check-in counters, scope of landside works, and overall airside work. From the list above, it is noted that with the exception of the BIAL expansion project, none of the other projects compared in RITES included a new runway or similar scale of airside works.

Projects of a similar size both from a passenger capacity and terminal size have to be looked at, to facilitate a similarity in terms of scale of construction. Larger and more complex terminal projects (terminals over 100,000 m2) provide a set of challenges uniquely different from projects less than that.

Within the design and construction industry, one of the most prestigious independent ratings for sustainable building is the Leadership in Energy and Environmental Design (LEED). There are a few airports in the country that have received or are seeking LEED ratings for their new terminals. Delhi and Mumbai have attained GOLD rating, Bangalore is targeting GOLD rating while Hyderabad is looking at SILVER rating. This necessitates additional design considerations, construction costs, and consultant oversight.

An additional parameter to be considered for comparison is the stage of design from which the Airport operator hands it over to the Contractor to take forward the construction. For large airport developments, the most commonly implemented general contracting strategy is through either Engineering, Procurement and Construction (EPC) or Unit Rate. Majority of the airports took the design to a Schematic Design Stage for the EPC Contractor to carry forward and BIAL alone has done Detailed Design prior to award of EPC contracts. This action of BIAL had resulted in costs savings to the tune of Rs 723 crores in NSPR contract and the same was adopted by the Authority in the 2nd tariff order.

Given this background and with due consideration of the benchmarking criteria, major airports in India have been identified with similarities in terms of size, passenger capacity, construction duration, and customer ratings for evaluation. There are majorly 3 airports within India, which provide the highest level of similarity.

The list of Airports which should have been used for benchmarking are:

- Indira Gandhi International Airport, Delhi - Terminal 3 (DEL)
- Chhatrapati Shivaji Maharaj International Airport, Mumbai – Terminal 2 (BOM)
- Rajiv Gandhi International Airport, Hyderabad – Terminal 1 Expansion (HYD)

The below table compares the various elements of soft costs for BIAL against the above mentioned 3 projects and also includes data on T1 A expansion of BIAL. Project cost excluding Interest during construction has been taken as the base for computing the % depiction.

Rs in crores	DIAL	MIAL	HIAL	BIAL - T1A	BIAL - T2	
					Mar-22	Mar-21
Project cost	10,657.00	9,245.00	1,989.00	1,335.75	9,183.00	9,183.00
Design cost	286.00	818.00	50.00	75.28	354.00	354.00
PMC	203.00		92.00		209.00	159.00
Pre-operatives expenses	488.00	684.00	54.00	35.00	401.00	329.00
Total soft cost	**977.00**	**1,502.00**	**196.00**	**110.28**	**964.00**	**842.00**
Net project cost other than soft costs	**9,680.00**	**7,743.00**	**1,793.00**	**1,225.47**	**8,219.00**	**8,341.00**
% Design cost	2.95%	10.56%	2.79%	6.14%	4.31%	4.24%
% PMC	2.10%		5.13%		2.54%	1.91%
% Pre-operatives expenses	5.04%	8.83%	3.01%	2.86%	4.88%	3.94%
Total soft cost	**10.09%**	**19.40%**	**10.93%**	**9.00%**	**11.73%**	**10.09%**

Source: AERA orders & BIAL MYTP submissions

We have also compared BIAL's Soft costs with International airports like King Abdul-Aziz International Airport, Jeddah, Kingdom of Saudi Arabia - Terminal 1 (JED) and Tan Son Nhat International Airport, Vietnam - Terminal 1 (SGN). The total Soft costs as a % of total project cost is around 10%.

Conclusion:

- BIAL soft costs are comparable to the expansion projects of DIAL, MIAL and GHIAL
- The essential difference being the Design costs, which is a reflection of the Detailed Design done by BIAL, prior to award of construction contracts in comparison to the Schematic Design done by the other airport operators
- Additionally, BIAL actual completion dates have been severely impacted by COVID 19 pandemic which has resulted in a delay in the completion of the Project
- It is to be noted that the comparable airports had actually completed their projects 6-12 years back and Soft costs being primarily "service oriented", increase in soft costs are likely to be higher than the increases in hard costs. Applying inflation adjustment will result in BIAL's T2 soft costs being considerably lower than the comparable airports.

2. Comments from the Chief Secretary, Government of Karnataka ('GoK')

3.1 BIAL is thankful for the continued support and guidance provided by the Government of Karnataka in all of BIAL's endeavors. The Chief Secretary to Government of Karnataka who is also the Chairman of BIAL provides guidance as part of the Board in all matters, balancing the interest of the shareholders with the public need. BIAL thanks all the members on the Board for its continued support.

3.2 The Chief Secretary Government of Karnataka has, in response to the Consultation Paper commented on certain key issues that could impact BIAL such as the aggressive traffic estimates, penalty levy on projects, aligning the practice followed by the Authority on principles and earlier orders. He has also emphasized on the need for the Metro related expenditure and the eastern connectivity tunnel.

- BIAL concurs with the Chief Secretary that the Traffic estimates made are aggressive. BIAL is also agreeable to a limited mid-term review, based on traffic, as suggested by the Chief Secretary.
- BIAL has also submitted that for any delay in the completion of projects due to circumstances that are not in control of BIAL, penalty for delay should not be levied.
- BIAL has also submitted to the Authority to ensure consistency in application of previously laid down policies & principles such as guidelines issued for financing allowance and depreciation methodology.
- BIAL has also requested for adoption of fairness in approach towards honoring the approvals given in the 2nd tariff order by the Authority, for the capital expenditure items like Pre-operative Expenses, as these costs have already been incurred and based on AERA's approvals, BIAL has achieved financial closure and project lenders have also accepted these as legitimate costs and have funded them.
- BIAL has submitted detailed explanations and justifications for the Metro enabling works and Eastern Tunnel works. BIAL has executed the same based on requirements from Government and requests AERA to consider the same as part of RAB.

3.3 BIAL acknowledges and accepts the comments made by the Government of Karnataka and requests the Authority to consider the submissions in order to provide BIAL with a reasonable assessment of ARR by adopting a fair approach and ensuring consistency in the principles adopted by the Authority.

3. Comments from the Additional Chief Secretary, Infrastructure Development department, Government of Karnataka (‘GoK’)

4.1 BIAL thanks the Addl. Chief Secretary for providing comments on the Consultation Paper.

4.2 The Addl. Chief Secretary Government of Karnataka has also echoed certain submissions made by BIAL with respect to aggressive traffic estimates, need to ensure that the regulatory approach aligns with the earlier principles adopted and the past Orders.

4.3 He has also emphasized on the need for the Metro related expenditure and the eastern connectivity tunnel.

4.4 BIAL concurs with the Addl. Chief Secretary’s views that a realistic, consistent, and fair approach should be adopted in determination of tariff which should provide for adequate cash flows needed to complete the projects, meet the debt servicing obligations and the operational needs of the airport.

4.5 Addl. Chief Secretary has also noted that KIAB is an iconic symbol of the state and demands high standards of consistency and maintenance of its reputation on par with International Airports. BIAL requests the Authority to provide for right tariff determined on fair principles to meet with the expectations and aspirations of the people of the state and the various stakeholders.

4. Response to comments from Shareholders, Airport Operators and Association of Private Airport Operators

5.1 Private Shareholders of BIAL and the Airport Operators such as Mumbai International Airport and APAO have echoed BIAL's submissions and comments on certain key matters relating to estimation of Tariff, Regulatory Principles etc.

5.2 Comments from Stakeholders include matters relating to:

- Traffic forecast
- Withdrawal of Financing Allowance
- Changes to the useful lives of assets
- Lower Interest rates considered
- Matters on Notional Lease Rentals on AAI
- Need to revise O&M estimates for third control period
- Need to revisit Non-Aeronautical estimates made by BIAL
- Pre-AOD losses to be considered as part of Pre-control period losses
- Issue of Pre-Operative Expenses being disallowed
- Notional Lease rentals from BAHL before commencement of operations

5.3 BIAL has also submitted its detailed explanations and justifications on all the above matters as part of its response to the Consultation Paper. BIAL requests the Authority to consider the well-reasoned comments provided by BIAL's shareholders and the aforementioned stakeholders.

5. Response to comments from Airline Operators Committee (AOC)

5.1. Regarding Concession Fee

"Binding issues like concession fee should be abolished as these are pass through charges meant to acquire the right to conduct business. This is against ICAO policies and presents a negative business environment for the country as an investment destination."

BIAL's Comments

- It is unclear as to the context in which the comment is made and whose concession fee is being referred to. BIAL pays 4% Concession Fee to GoI as per the concession agreement and this is an expense to BIAL and being an obligation under the Concession Agreement, it needs to be adhered to and cannot be abolished.
- BIAL collects revenue share/concession fees from Ground Handlers, Into Plane service providers and Cargo service providers as per the agreements executed, pursuant to a competitive tender process followed for selection of these service providers. These amounts are treated as aeronautical revenues by the Authority, and they actually reduce the aeronautical tariffs and the burden on the passengers and airlines.
- Tariff for such service providers are being determined by AERA, taking into consideration principles set out in various guidelines, directions and orders issued by the Authority.

5.2. Regarding Aeronautical Charges

"The difference in charges between domestic operators and International needs to be balanced again as charges for International airlines is many times higher for the same services that both enjoy. The steep increases in landing & parking and UDF costs for International operators in the current proposal is an example of this disparity.

It is also imperative that landing & parking charges be calculated on actual take-off weight (ATOW) rather than the current maximum take-off weight (MTOW). This would eliminate deficiencies and bring about a transparent metered or pay per use standard."

BIAL's Comments

- BIAL submits that there are no discriminatory charges being applied between Domestic and foreign airline operators.
- All airlines within the same category are charged according to the same principles based on established global guidelines.
- The charges are based on type of operations (domestic or international). In the ATP submission for the third control period, BIAL has made efforts to gradually reduce the gap in landing charges between domestic and international operations from 2x to 1.2x by the year FY 2023. Also, International UDF rates are kept at 3 times the domestic rates for the years FY 2022, FY 2023, and FY 2024 to help International traffic to rebound post Covid-19.
- BIAL has proposed the rates in the Annual Tariff plan, considering the need to balance the interest of all stakeholders.

- Calculation of landing and parking charges based on MTOW is a globally accepted norm and in line with ICAO recommendations.

5.3. Regarding Capital Projects

"Traffic projections although uncertain presents a bleak picture, this again entails that all unnecessary expenditure must be kept in abeyance until the actual requirement surfaces.

The present terminal itself seems to be large enough to accommodate the current operations and the addition of a larger terminal, although a state of the art facility, will not be actually needed for the near future.

All public works like the multi-modal transport hub, roadways, CISF housing and metro must be financed separately without the burden being imposed on airline or passenger."

BIAL's Comments

- Terminal 2 is being developed, based on traffic forecasts, that saw growth rates of 20% year-on-year for three years in the second control period and based on service level requests by the airlines and other stakeholders. T2 design had also been presented as a part of AUCC process.
- Pursuant to issue of CP 10, BIAL has relooked at the capital expenditure and has submitted the bare minimum capital expenditure of Rs 860.31 crores as detailed in Para 1. Hence, BIAL has already done 3 rounds of capital expenditure optimization and deferred most of the capital expenditure to the 4th control period. Other than the delayed projects of 2nd CP and the revised capital expenditure submitted for Group B projects (which has been kept at bare minimum) and the sustaining capex, BIAL has not proposed any additional capex for this control period.
- The details of Terminal Capacity Utilization in 3rd Control period is as given below:

Year	Terminal Capacity (MPA)	Total Traffic as per CP10	Total Traffic as per BIAL ATP submissions	Capacity utilization as per CP10	Capacity utilization as per BIAL ATP submissions
FY 21-22	26.5	21.24	15.24	80%	58%
FY 22-23	32.75*	34.09	31.16	104%	95%
FY 23-24	52.5	39.81	36.55	77%	70%
FY 24-25	52.5	46.36	42.53	89%	82%
FY 25-26	52.5	54.02	49.41	104%	95%
TOTAL		**195.22**	**174.89**		

**based on 3 months of T2 availability*

- From the above table, it clearly evident that in 3 out of the 5 years of the 3rd control period, BIAL is operating at peak capacity levels of more than 80%. Hence, there is a need for the 2nd terminal in the current control period.

- Based on discussions with the Bengaluru Metro Rail Corporation Limited (BMRCL), airport metro connectivity was felt necessary. Hence the forecourt and land side facilities at BIAL had to cater to this new requirement. The concept further evolved into a Multi-Modal Transport Hub (MMTH), which could accommodate private vehicles, taxis, city buses and the metro rail. MMTH is not a public works but is an integrated facility offered by BIAL with the focus to be a passenger-oriented and a focused transit node for the city. Connections between the terminals and the transportation hub are a key component of the passenger experience and overall airport vision.

- Security is one of the important functions in the airport and is handled by CISF and this service falls under the "reserved activities" as defined in the Concession Agreement. CISF has repeatedly approached BIAL to provide a permanent CISF Township and hence BIAL proposed to develop a housing facility near the airport so that the operational and emergency needs can be met. However, CISF Housing project has been deferred by Authority in the Consultation paper and BIAL requests the Authority to provide suitable guidance on matters relating to such CISF related Capital Expenditure to all Airport Operators.

- All roadways inside the airport are to be developed by the airport operator as per the Concession Agreement and hence BIAL is responsible for the development of all roadways within the airport boundary. Roads constructed within the airport premises are for the sole purpose of connectivity for the arriving and departing passengers and hence is considered as part of the capex plan.

- BIAL has considered costs pertaining to Terminal Metro Station & its canopy and the KIA West Station in our revised capital expenditure table for Group B projects. BIAL has executed a binding MOU with BMRCL in regard to Metro scheme. As per the said MOU, BIAL is responsible for construction of the 2 metro stations. Govt of Karnataka has set a deadline of June 2025 for commencement of Airport metro line and BIAL also has to adhere to this timeline. The metro line is dedicated to the airport and terminates at the Terminal station and hence the Metro is of utmost importance for connectivity of passengers to the Airport. Further, AERA has already approved funding of Metro Stations' related capital expenditure in Delhi and Mumbai (even though the Metro lines in these cities are not dedicated for the airport) unlike the case of BIAL where the metro station terminates in Terminal 2.

- As detailed above, MMTH, Roadways and the Metro stations are for the exclusive use of the Airport, particularly to the passengers arriving and departing from the airport. The road network within the Airport premises is dedicated for the Airport and is not a public purpose road. MMTH and Metro have been conceived and developed with the sole purpose of reducing the cost and time of the commute of the passengers from the city to the airport.

- Therefore, these costs are Aeronautical in nature, aforesaid assets are owned by BIAL and are to be added to the RAB.

5.4. Regarding Relief Measures

"The current dispensation like many other concerned governments across the world must step in and help the industry recover. This could be in the form of waiver of concession fee and land lease costs or any other fee that the airport pays to the authorities. This grant would result in a pass through to airlines in the form of discounts and decreased charges.

The current discounts that are offered to airlines to help tide over the pandemic also needs to be appreciated and not accrued to the airport lest they be withdrawn and never offered again.

The AOC's position is that we need a moratorium on all increases for at least two more years after which a review can be undertaken and charges increased if justified, additionally we would like an environment where non aeronautical revenue is pursued vigorously, and airline operators enjoy the subsidy that this would eventually create."

BIAL's Comments

- Given the impact of 1st and 2nd wave of Covid-19 on the sector, we eagerly await for a positive action by MoCA to protect the interests of airport operators as well as stakeholders alike in this hour of need. Such a step by Government of India can alone revive the sector and assuage concerns of operators and investors who have always stood by the Ministry and have created much needed airport infrastructure in the country.
- While BIAL welcomes the suggestion, BIAL requests that this needs to be separately taken up with MoCA, ensuring that one stakeholder of the Aviation ecosystem is not made to subsidise and face cash flow situations in order to provide relief to another suffering stakeholder of the same eco system.
- The Authority was aware of the request from the Airlines seeking waiver of certain charges and the fact that MOCA had also made a request to the airports for extending support. Despite that, the Authority has taken a stand of disallowing the waivers and adding it to BIAL aeronautical revenue. This stand-by the Authority is detrimental to the aviation sector and BIAL requests the Authority to take a more holistic approach and allow the same as a one-time waiver, given the adverse impact of Covid-19 pandemic
- BIAL has explained, in detail in its submissions, the need and justification for revision in rates and has again set the context in Para 1 of this response.

6. Federation of Freight Forwarders' Associations in India (FFFAI)

6.1. Regarding Aeronautical Charges

"BIAL proposal of the revision in charges in respect of Aeronautical and Service Charges like Landing, *Parking, Housing, and UDF Charges are astronomical and unviable, especially with the prevalent Pandemic situation and with only assumptions of grim hopes of normalcy in the future for the Air Travel & EXIM Cargo Industry.*

BIAL in their Annexure-2 to the Consultation Paper -Background note admit of the astronomical revision of charges. Request BIAL to withdraw the proposed revision of charges.

BIAL's Comments

BIAL has explained, in detail in its submissions, the need and justification for revision in rates and has again set the context in Para 1 of this response.

6.2. Regarding Incentives and benefits to Air Travel and Cargo

BIAL should adopt a practical approach and look for confidence boosting measures like offering incentives to the Air Travel Industry and EXIM Cargo, thereby, improvising the Air Travel Market and EXIM Cargo Business.

Any Revision of charges by BIAL for the next two years may result in drastic reduction of the movement of the Air Travel and EXIM Cargo Business, which will be disastrous for BIAL operations and growth of EXIM Business at Bangalore Station."

BIAL's Comments

On the air-cargo side, below are the list of initiatives BIAL has undertaken to create an efficient operating environment to support the community and grow the cargo business:

- To make KIAB Airport a 'Smart Airport – digitalized and seamlessly connected', BIAL has introduced Air Cargo Community System (ACS), to further streamline air logistics. This digital platform has enabled seamless collaboration between all stakeholders in the supply chain to deliver superior and efficient cargo operations at KIAB Airport.

- To facilitate the cargo truck management, BIAL has developed India's first on-airport, dedicated truck management facility. This facility is equipped with various features like parking, fueling, cafeteria, medical, rest areas, etc.

- In order to provide a dedicated handling facility for express courier shipments as per industry needs, the country's first dedicated Express Courier Terminal was inaugurated on 12th Mar '21 at KIAB.

- To ensure the smooth inflow of perishables in the pandemic environment, BIAL has regularly engaged with all stakeholders including Government of India agencies to streamline handing processes; this helped KIA process the highest number of exports of perishables among Indian Airports till Feb 2021, i.e., 42,406 MT which is 31% share of India's export of perishable cargo via air (source: APEDA website).

- To promote additional flights to KIAB, BIAL has proposed **<u>Variable Tariff Plan</u>** in the submission for the 3rd Control Period intending to:
    - Enhance Domestic & International cargo connectivity (by route and frequency)
    - Encourage New Domestic & International cargo airlines / flights into KIAB
- We would like to assure the trade partners that the services provided at KIAB have remained competitive in nature and BIAL has taken and will take measures to boost trade and connectivity from KIAB.
- BIAL is cognizant of the current situation and despite the challenging environment, BIAL has tried to strike a balance by keeping tariffs lower during FY 2021-22 and FY 2022-23 and increase the charges in a progressive manner, in the latter half of the 3rd Control Period. Further given the uncertainty surrounding recovery of aviation sector, we have requested AERA to conduct a limited mid-term review of the tariff proposal and enable us to amend/revise the annual tariff proposals (without undergoing a detailed tariff submission), thereby ensuring a win-win scenario.

6.3. Regarding Terminal operators and EXIM cargo

"BIAL should ensure that the Terminal Operators do not charge demurrages for shipments held by Customs Department or due to their Operating System Technical Issues.

BIAL needs to upgrade the existing infrastructure machinery with the Terminal Operators and provide better facilities to the EXIM trade.

BIAL needs to co-ordinate with the operating Airlines and provide promotional offers to the Passengers / EXIM Cargo when the restrictions on Operations are lifted by the Government of India and Karnataka.

BIAL needs to enhance the existing Airlines Operations by increasing the EXIM Cargo Operating Flights and inclusion of New Cargo Operating flights with additional destinations."

<u>BIAL's Comments</u>

- At KIAB, all customers have a choice of two cargo terminals namely Air India SATS and Menzies Aviation Bobba (B'lore) and both are common-use cargo terminals.
- Having two terminals has ensured that they are competitive, and the airlines have a choice for their operations.
- All the airlines operating at KIAB are using common-use infrastructure, for their general cargo operations. The charges by the cargo terminal operators are subject to AERA tariff determination and governed by guidelines / directions from Ministry of Civil Aviation/ AERA.
- Further, the contract between the cargo terminal operators and the airlines are bilateral agreements which are mutually agreed by them based on services needed, SLAs and other factors and BIAL does not play a role in those bi-lateral agreements.
- The design capacity at KIAB for cargo for the end of financial year FY 20/21 was enhanced from 570,000 MT pa to 715,000 MT pa.

- Further based on stakeholder consultation we intend to follow through on following development in 3rd Control period to ensure medium-term capacity and cargo handling efficiencies are maintained.
    - Development of a new domestic cargo terminal,
    - Refurbishment of the existing cargo terminals for capacity enhancement
    - Expansion of cold-chain facility
- BIAL through the proposed Variable Tariff Plan in the submission for the 3rd Control Period intends to:
    - Enhance Domestic & International cargo connectivity (by route and frequency)
    - Encourage New Domestic & International cargo airlines / flights into KIAB.
- It is imperative that such positive plans to increase trade connectivity be approved by the Regulator.

7. Blue Dart Aviation Limited

7.1. Regarding Aviation Charges

"While we thank KIAL for their efforts in supporting the airline community during pandemic in 2020, with waiver of annual increase in lease rentals for the period from April 2020 to June 2020, we wish to submit to AERA that the prolonged Covid-19 pandemic has imposed a period of great distress on airlines. Airlines are already severely challenged, with no relief from any quarter, and any further increase in charges at this time will do irreparable damage. In view of the current situation, unprecedented in the history of the airline industry, we would request AERA to consider maintaining status quo for landing, parking, and other aeronautical charges for the next 2 years and conduct a mid-term review once the situation normalizes.

BIAL's Comments

- BIAL is cognizant of the current situation and despite the challenging environment, BIAL has tried to strike a balance by keeping tariffs lower during FY 2021-22 and FY 2022-23 and increase the charges in a progressive manner, in the latter half of the 3rd Control Period. Further given the uncertainty surrounding recovery of aviation sector, we have requested AERA to conduct a limited midterm review of the tariff proposal and enable us to amend/revise the annual tariff proposals (without undergoing a detailed tariff submission), thereby ensuring a win-win scenario.
- Landing charges proposed cross the earlier charges applicable during March 2016 only in FY 2023. Rates of FY 2023 are lower than the inflationary increase in rates from the March 2016 rates.
- As explained in Para 1 On the current context at BIAL, BIAL is implementing a large scale expansion project and the increased rates are necessary for BIAL to meet and honour its financial obligations and the Operating expenditure.
- The status quo on the tariffs has been extended till 30th Sep 2021 and the revised charges need to be given effect from 1st Oct 2021. Keeping the current situation in mind, BIAL has proposed a very modest increase for the next 6 months.
- It is noteworthy to specify herein that BIAL had, as part of response to the Consultation Paper issued for the second control period, proposed an equalised levy over a longer period, in anticipation of increase in charges due to large scale expansion being commissioned. AERA had not accepted the said comment. This situation as only further amplified by the reduced traffic levels due to Covid-19 pandemic.
- Having noted the above, BIAL has also requested for a limited midterm review in charges should the traffic situation be very different from the final approved levels.

7.2. Regarding CSR

"Corporate Social Responsibility (CSR) has been introduced in the Companies Act, 2013 as a concept, whereby companies are obliged to spend part of their profit for the betterment of their

less privileged communities and/or the preservation and the environment. In the Consultation Paper AERA has considered Rs. 74.41 cr. Of CSR expenses, which needs to be incurred by KIAL for third control period as operating expenditure. This is contrary to the spirit of CSR provision, as it is no longer a CSR activity from the profits of KIAL, but an imposition of an additional obligation of a funding contribution by airport users who already have their own CSR obligations. Airport users cannot be made responsible for a government obligation deductible from the profits of the airport operator, especially not when this same obligation is already imposed on the users themselves. We request AERA not to consider the cost of CSR incurred by BIAL and disallow the same for recovery from the airport users."

<u>BIAL's Comments</u>

- CSR expenses has been considered as operational expenditure as per the directions of the TDSAT judgement dated 16 Dec 2020.
- When the airport operator, under mandate of law, has to incur expenditure towards CSR, it is bound to adversely affect the regulated and determined fair return on equity.

7.3. Regarding FRoR

"AERA has considered 7.85% as cost of debt for Third Control Period. The said rate is considered based on present interest rate charged by State Bank of India for Rupee Term Loan offered to BIAL. As there has been overall reduction in the interest rate for costs and said trend is going to be continued in near future, we request AERA to further reduce the interest rate for cost of debt. The said reduction will provide a window of opportunity for KIAL to look at various options to reduce the interest cost further to benefit KIAL and all users, as the Fair Rate of Return is linked to cost of debt."

<u>BIAL's Comments</u>

- 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%.
- BIAL has tied up debt for the Expansion project at a floating interest rate of 7.85% and this is one of the lowest in the airport sector.
- Interest rates have bottomed out and they are only expected to rise in future and not stay at the current levels.
- The Bank MCLR rates are at their historic lows and the past experiences have shown that over a 5-year period, they definitely average higher than their historical lows. Therefore, 7.85% cannot be considered as the interest rate for 3rd control period
- BIAL has accordingly requested for 9.35% to be the cost of debt for the 3rd control period with the same being trued up at the end of the control period.
- BIAL's detailed analysis and submission are part of its response to the Consultation Paper.

7.4. Regarding Personnel Expenses

"Based on KIAL's submission, AERA has considered 16% increase in personnel expense for FY 2023 and FY 2025. The increase of personnel expenses appears excessive and does not appear

to be in line with the market increase in the aviation industry which is negatively impacted. We would request AERA to kindly review the same."

BIAL's Comments

- BIAL has always managed its costs very efficiently with stringent measures of Budgeting, controlling and reviews together with staggering and postponements of costs wherever possible, at the same time maintaining service quality standards.
- These are demonstrated by BIAL's costs being benchmarked as one of the lowest as per the study report being published as part of the Consultation Paper.
- BIAL has managed the personnel cost efficiently in the past by ensuring optimal sizing of personnel, staggering the headcount increases wherever possible to be deployed to a later point in time, deferring replacement of open positions during Covid-19. Despite a 200% increase in Terminal capacities, increase in manpower for Operations is only from 1019 numbers to 1527 numbers, less than 50%.
- BIAL has submitted a detailed response as part of its comments to Consultation Paper 10, which it requests the Authority to review and consider.

8. Air India

8.1. Regarding UDF charges and CUTE Charges & the Impact of Covid-19

"….are way too high than the present rate and will raise the average ticket prices by a great extent. Further, in the present situation, it is unlikely that International travel will resume back to normalcy level shortly, which makes Domestic travel more important for airlines in India. A 110% percent jump in UDF will have a direct effect on the total fare of tickets and will discourage passenger travel.

Even the background report prepared and submitted by BIAL openly states that normalcy to be restored in air travel in India is unlikely before the country reaches and optimal level in vaccination of the population which will maybe push it to second quarter of 2022."

"The submission of BIAL regarding Impact of COVID is also echoed by all airlines operators in India and as such any increase in tariff like UDF which in turn will have an amplifying effect on the final ticket price will have a rebounding effect. Higher ticket price in an unstable economy due to the current pandemic will have a negative incidence on passenger growth, which will not be a welcome situation for the aviation industry in whole."

"…..would like to put forward that we strongly feel that any revision in tariffs by BIAL should be kept in abeyance till signs of recovery in the Indian Aviation sector is observed. However, for CUTE charges, we do not have any objections and the same maybe implemented as proposed."

<u>BIAL's Comments</u>

- BIAL is cognizant of the current situation and despite the challenging environment, BIAL has tried to strike a balance by keeping tariffs lower during FY 2021-22 and FY 2022-23 and increase the charges in a progressive manner, in the latter half of the 3rd Control Period. The landing charges proposed in the ATP submissions clearly show that the landing charges until FY 2022 are being kept lower than the previous high of Rs. 331 per MT for Domestic landing which was prevalent in the year FY 16.
- Further, given the uncertainty surrounding recovery of aviation sector, we have requested AERA to conduct a limited midterm review of the tariff proposal and enable us to amend/revise the annual tariff proposals (without undergoing a detailed tariff submission), thereby ensuring a win-win scenario.
- BIAL has explained, in detail in its submissions, the need and justification for revision in rates and has again set the context in Para 1 of this response.

9. International Air Transport Association (IATA)

<u>Overview</u>

1) Upon perusal of IATA's letter, we find that IATA has expressed reservations on studies conducted by AERA through independent consultants with respect to (a) the Cost of Equity Study; and (b) the Benchmarking of Costs Study. BIAL does not express its counter comments on IATA's views on such reports. BIAL has, submitted its own observations/ responses as part of its response to the Consultation Paper.

2) IATA has made certain suggestions on regulatory philosophy of AERA etc. which are not in alignment with AERA Act or the Civil Aviation Policy. This is a matter for MoCA/ AERA to comment on.

3) <u>Traffic:</u> Further, it appears that IATA has accepted the Authority's Traffic projections, which is in contradiction to IATA's own recent published reports.

4) <u>Metro:</u> As for metro station development, we would request IATA as the flag bearer of passenger interests, to understand that passengers spend up to Rs 1000 today to commute to the airport (for one way journey), and that the airport earns Non Aeronautical Revenues from car parking and taxis. The aim is to make the cost of commuting to the airport cheaper for all users of the airport, and the same has been proposed by BIAL, putting passenger interest in fore front, instead of using the available land for other commercial use.

   However, in compliance to the process of tariff determination, as required by AERA, we herewith submit our counter comments on the relevant sections of IATA's letter.

9.1. Regarding 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."

<u>BIAL's Comments</u>

- BIAL started operations on 24th May 2008, much before AERA came into existence. BIAL has also incurred losses of Rs. 53.3 crores upto the Financial year ending 31st March 2008.

- This was on account of non-capitalization of certain expenses due to the then prevailing accounting standards. Hence, these expenses had to be charged to the P&L statement and this resulted in loss on the opening date of the Airport.

- Expenses incurred upto FY 08 and debited in the P&L account, up to the commencement of commercial operations of the Airport (AOD), include costs relating to Salaries, Legal / Professional Fees, Travel, Overheads etc. These expenses are reflected in the Audited

Financial Statements of the respective years and the same was also submitted to the Authority for consideration.

- BIAL submits that these were actual costs incurred by BIAL at the time of setting up of the Airport facilities for the beneficial use of the Airport users in future, which could not be capitalized as per the extant accounting principles. Such costs are normally incurred at the time of setting of large Infrastructure facilities. Accounting treatment given to these costs were exactly in compliance to the applicable accounting standards as mandated under the Companies Act.
- Being a regulated entity, any loss / costs incurred can only be recouped through the tariff mechanism of the subsequent periods. Denial of this recouping mechanism is against principles of natural justice to BIAL, as the loss is on account of compliance to prevalent accounting standards and not otherwise. Also, AERA's principles of True up mechanism adequately provide for recovery of costs/ shortfalls of the past periods in the future tariff years.
- If these costs were not expensed off but added to the Asset Base, as per Authority's extant guidelines, the cost would have been recouped in the form of depreciation and also provided a Fair Rate of Return. On the contrary, BIAL has only sought for recoupment of these expenses, and hence BIAL requests the Authority to include this as a part of Pre-Control period losses.
- All these costs have been incurred towards construction of the airport facilities and such costs are incurred by every Corporate Entity. This has also been explained in Direction 5 – Authority's guidelines. Direction 5 – Authority's guidelines itself provide the framework and recognizes that certain costs may be capitalized to Projects and certain other costs could be considered as part of the P&L (not capitalized). BIAL has exactly followed the same to comply with the extant accounting standards and guidelines applicable.
- BIAL cannot be penalized for following the standards and the law of the land. BIAL has no other means of recovery of these costs other than through true up of the ARR.

9.2. Issues on certain matters taken up with TDSAT

"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."

<u>BIAL's Comments</u>

- On the above 3 issues, BIAL believes that its submissions made to AERA / TDSAT, and its legal positions are as per the provisions of Contracts entered into with Sovereign governments, tenable in law and BIAL reiterates the same. BIAL has exercised its rights to appeal against the said TDSAT order and AERA's decision is subject to outcome of the legal proceedings.

- For brevity, BIAL is not reiterating its earlier positions and contentions contained in its submissions to various consultation papers, memoranda of appeal, written submissions and requests that the same be read as a part of this submission. BIAL respectfully states that all its submissions in this response are without prejudice to whatever BIAL has contended earlier.

9.3. Hybrid Till as the framework for Tariff determination

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

BIAL's Comments

Hybrid Till has been adopted by AERA, pursuant to NCAP 2016 and BIAL is in agreement with the same.

9.4. Regarding True Up of SCP – Capital Expenditure

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 exemplifies 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."

BIAL's Comments

On Cost Overrun for T2 Apron 1

The major reasons for the increase in costs are as given below:

a) On account of having additional rainwater harvesting ponds. In order to meet the water requirement through sustainable means, additional 3 rainwater harvesting ponds are added on the landside. Construction of these ponds involve earthworks, pond lining, pump rooms and piping works. The cost towards this is Rs. 22.50 crores.

b) Non-Availability of ECT necessitated additional costs.

   - The T2 Apron is located on the western side of the ECT tunnel, and the earth stockpiles are on the eastern side of the ECT.
   - The ECT which was completed in November 2019 could not be used till Sep 2020 as BCAS Approval was given only in Sep 2020.
   - There was no additional space available for stockpiling of the T2 excavated earth on the western side, and hence shifting of the soil was carried out through the longer route passing through the villages. This non-availability of the tunnels has resulted in a significantly longer lead of approx. 20 kms for movement of men, material, and equipment. This has contributed to the balance overrun to be incurred.

On Cost Overrun for Forecourts and Landside

MMTH

- Of the Projects being executed in Second Control period, significant changes were necessitated only in 1 project – Forecourts including MMTH. This was largely due to change in design resulting in increasing the size, scale, and the magnitude of work in so far as the Forecourts and landside projects are concerned. This was necessitated mainly due to the need to accommodate and integrate the Metro facilities with other transport options.
- The following key elements have been synthesized to optimize functionality and throughput, while creating an architectural framework which integrates the following:
  - Terminal roadways entering and exiting T2
  - Internal roadways connecting passenger-facing ground transport facilities, and goods flow
  - Multi-Storey Car Park
  - Private Car Pick-Up
  - App-based taxi pick-up
  - Bus Station
  - Metro Concourse and Platform
  - Inter-Terminal Connecting Bridge

- Inter-Terminal Transfer Facility

- Metro station facility is being taken up in the third control period and a separate AUCC (Stage I and II) has been conducted for the same.

  Landside facilities

- At the planned Trumpet expansion, land acquisition was to be carried out by NHAI. The Way Leave Charges towards the acquisition was borne was BIAL.

- At the time of finalization of Metro Terminal Station, it was found optimum to align the road network connectivity to the Terminal 2 along with the metro vertical alignment. In the current scheme, the road network connectivity to/from T2 reaches approx. minus 6 metres at the current ATC tower and continues at a minus 6 metres till it reaches T1 arrivals road. From here it again starts to ramp upwards towards the Terminal 2. Deep drains had to be added due to the shift from elevated network to a -6m level network.

- Certain other facilities such as Vehicular underpass, CISF checkpoint, pedestrian walkways were necessitated which led to increase in the area and cost.

- Detailed explanations and justifications for the increase in Forecourt and Landside projects have been provided in the MYTP submissions and the clarifications given to the Authority.

- IATA has submitted a letter regarding Third control period projects (PAL-2, Group B Projects as per CP) for which, BIAL had conducted Stage I and Stage II consultations. The increase in Landside and Forecourt projects which are part of the Projects approved in the Second control period, being capitalised in the third control period on account of delay due to Covid-19, does not have any linkage to IATA's letter of 14th September 2020.

  Funding of additional cost in Forecourt and Landside development projects

  - The increase in Forecourts and landside project is done for the purposes of integrating the following key elements. All these elements are only to cater to the requirements of passengers who will be using the Airport.
    - Terminal roadways entering and exiting T2
    - Internal roadways connecting passenger-facing ground transport facilities, and goods flow
    - Multi-Storey Car Park
    - Private Car Pick-Up
    - App-based taxi pick-up
    - Bus Station
    - Metro Concourse and Platform
    - Inter-Terminal Connecting Bridge
    - Inter-Terminal Transfer Facility

- Hence, Authority has considered as part of the RAB and the allocation ratio between Aeronautical and Non-Aeronautical has been proposed by the Authority.

Regarding interim consultations for changes in scope/ design of Infrastructure

- Protocols for Stakeholder consultations are detailed in Direction 5. Appendix-1 to Direction 5 provides for the different stages of consultation process (Stage I – Need Identification, Stage II – Option Development and Stage III – Detailed project design stage), timeline for completion of consultation and the details of information to be submitted at each stage. Direction 5 also details the Monitoring and compliance review activities to be carried out by the Authority.
- Accordingly, BIAL has complied with the requirements and submitted the documents to the Authority for review.
- The Authority's guideline does not prescribe any methodology for consulting users regarding potential scope change/ design change etc. during project implementation stage.
- It is the function of the Authority to examine the completed costs (including any changes to scope/ design etc.) and then allow the same into RAB. The Authority puts up the Consultation Paper containing the details of the capital expenditure and seeks comments from all stakeholders and then decides on the final tariff order. We do not see any reason for changing the existing approach.
- In our view, any interim consultation regarding proposed change in design/ scope/ specification done mid-way into the project implementation, will only delay the completion of the project, resulting in increased costs. Further, manner of dealing with situations where all users do not have a uniform opinion to the changes to design, scope is not laid down in AERA's guidelines. In BIAL's case currently, the major changes in design and scale of the Forecourts and landside projects happened on account of GoK's decision to enable metro connectivity to the Airport. This metro connectivity was a long pending request from the Airport users, considering the fact that the Airport is located 30-40 kms away from the city and the long commute time.
- Without having the design changes implemented into the PAL-1 projects which are under implementation, it will not be possible to enable metro connectivity to the Airport in future. Hence, BIAL has only undertaken activities which will enable a future metro connectivity.
- Further, Master plan update meeting was conducted by BIAL on 24th April 2019 with all those who were within the Airport's system including Airlines (Domestic and International) and AoC. This discussion and update included MMTH concept and future metro connectivity and the minutes have also been shared. BIAL has carried out a proactive briefing for the Master plan update.

On Pre-Operative Expenses

- IATA has, during the stakeholder consultation process for the second control period, not commented that the Pre-Operative costs are redundant or not needed.

- IATA has conveniently overlooked the Authority's own statement in the 2nd control period order wherein the same Authority has noted that there was a need for BIAL to have an own Project Management Team when large scale Capital Expenditure Projects are being executed.
- Further, IATA has also not commented on the issue while reading the 2nd tariff order wherein Authority has approved Rs 150 crores as expenditure towards Preoperative expenses and further stated that it will true up the same based on a study of the actual cost incurred and its reasonableness.
- Also, we request IATA to note the difference between Design, PMC, and Pre-operative expenses in Project implementation.
- BIAL has submitted its detailed analysis and justification on the nature of activities carried out by the Project Management team of BIAL and how the same is different from the role performed by PMC. BIAL requests the Authority to review them and accordingly allow Pre-Operative Expenses as submitted by BIAL as part of the Capital Expenditure.

9.5. Regarding True Up of SCP – Depreciation

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.

BIAL's Comments

- Depreciation charge to P&L is guided by the Accounting Standards and Accounting principles followed by BIAL. These cannot be changed instantly. Also, all the assets were put to use and in operation even during FY 21.
- BIAL has submitted detailed explanations and clarifications done on the useful lives of assets which BIAL requests the Authority to consider and allow accordingly in the ARR computations.

9.6. Regarding True Up of SCP – WACC

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 <u>lowest available</u> 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)."

<u>BIAL's Comments</u>

- The study conducted by AERA is to determine an appropriate CAPM rate for the Cost of Equity (CoE) for the third control period (FY2021-22 to FY2025-26). This is evidenced by the scope of work referred to in Para 1.3 of the independent consultant's report. Hence, the Authority has applied the same for the 3rd control period. This is the approach adopted by AERA uniformly across all other major airports too. We do not find any inconsistency in this approach of the Authority.
- Every airport has a different credit rating and risk profile as determined by the lenders (who are different for various airports). Hence the reason for different interest rates among the various airports. As being an association of Airlines, IATA, surely is cognizant of the credit rating scenario in airlines sector.
- BIAL has obtained one of the lowest debt rates in a conscious effort to minimise the charges to the users.
- Also, every bank will have its own benchmark lending rate as the cost of funds for each bank is different. So, to even say that the lowest interest rate obtained by one airport operator should be the benchmark for other airports is incorrect.
- Authority has, taken note of the above fact that the cost of funds varies across banks and for borrowers and has accordingly considered different interest rates for each of the Airports.

9.7. Regarding True Up of SCP – Operating Expenditure

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

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:

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.

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.

BIAL's Comments

- Covid-19 has affected the airport operators in a big way. Each airport operator has initiated cost reduction measures and are on track to achieve the target measures. Each country is affected in different ways and hence practices followed in European airports cannot be fully expected to be followed in case of Indian Airports.

- Each of the European airport mentioned by IATA has obtained some sort of support from the host Government – be it in the form of short working time (as in the case of ZRH and Fraport) or 50% support on airport charges payable by airlines (as in the case of CPH). The same is not the condition in India. Additionally, IATA should be aware that BIAL is a single terminal based airport while most of the airports in the table shown by IATA have multiple terminals, hence the ability to save costs should also factor this aspect.
- Another factor to be considered in the European airports is the cost reduction on security costs. In BIAL, security is a "reserved activity", and the state is responsible for the same. The cost saving table given by IATA includes security costs and hence is not directly comparable with the Indian Airport scenario.
- BIAL has undertaken various cost reduction measures and has managed to reduce it costs by 16% when compared to FY2020. All these are without any state support unlike the measures offered to the European airports.

Staff related Cost saving measures

- In Indian Context Layoff means *"failure, refusal or inability of an employer on account of shortage of coal, power or raw materials or the accumulation of stocks or the breakdown of machinery [or natural calamity or for any other connected reason] to give employment to a workman whose name is borne on the muster rolls of his industrial establishment…."*
- In case of decision to retrench employees, the same can be done only after seeking approval from appropriate government authorities and by giving three months' notice. Further, recent labour court decisions have held that forced resignation of the employees (which is what retrenchment or lay off is all about) obtained under duress, coercion and without their free will and consent and accepted by any employer is unsustainable in the law and acceptance of the such resignations is illegal.
- After the break-out of Covid-19 pandemic, Ministry of Labour and Employment, Government of India had issued an advisory Directives dated 20th March 2020, bearing ref No. D.O. No.M-11011/08/2020-media, advising all Private and Public enterprises not to terminate their employees.
- GoK and GoI hold 13% stake each in BIAL. Given the public nature of the airport and with Government shareholders, lay-off / retrenchment cannot be considered as easily as what is being suggested by IATA.
- BIAL is, in principle not agreeable to IATA's suggestion regarding staff levels reduction through the method of retrenchment/ layoffs.
- However, BIAL has taken all austerity measures as possible on personnel costs. No increments were given, no new job hire was made other than the commitments already made and there was a freeze on the recruitments.
- Cost reduction measures taken up by BIAL on this front are elaborated in the MYTP submission. There was no clarity on how to Covid-19 pandemic situation would pan out and hence if BIAL were to lay off the employees, there would be a need to hire again in FY 23 when

additional facilities were being commissioned, which would be counter-productive and lead to higher costs.

- BIAL has noted the suggestions on cost optimisation measures made by IATA. Most of these have already been implemented by BIAL and a comparative analysis is enclosed in Annexure.
- Marketing and Advertisement activities are common costs incurred for both Aeronautical and Non-Aeronautical purposes. New airline connectivity, new route development etc. are typical examples of Aviation marketing. Hence, to comment that Marketing & Advertisement is entirely Non-Aeronautical is not correct.

9.8. Regarding True Up of SCP – Taxation

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."

BIAL's Comments

BIAL has submitted its comments on Taxation computation and requests the Authority to consider the same.

9.9. Regarding True Up of SCP – Non-Aeronautical Revenues

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.*

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.

BIAL's Comments

- In regard to notional income from AAI and treatment of Interest income, our submissions to AERA are self-explanatory. We request AERA to note our submissions in this regard.
- As regards AAI, notional income is not applicable as BIAL has charged lease rentals based on contractual basis of cost recovery. Post recovery of costs, the agreement does not allow for charging lease rentals. For the additional space given to AAI, these are guided by the Green field Airport policy of GoI.

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."

BIAL's Comments

- Central Government vide notification dt. 23rd Mar 2020 ceased all domestic/ International flight operations (except cargo) from 24th Mar 2020 to 24th May 2020 in the wake of the threat from the Covid-19 pandemic.
- Etihad Airways, a member of IATA, wrote to the Authority vide it letter 16th July 2020 requesting for 100% waiver for Landing charges at Mumbai, Del, Blr, Chennai, Cochin & Hyd as financial support for recommencement of Operations to and from Abu Dhabi.
- The request made by Etihad Airways was forwarded by Authority to MoCA vide letter dt. 21st August 2020 for further actions. MOCA in turn wrote the concerned airports including BIAL vide letter dt. 15th September 2020 requesting on details of the Action taken for providing reciprocal support to the airlines for recommencement of operations.
- Further, Federation of Airlines (FIA) had written to MoCA even as late as May 2021, requesting for waiver of airport charges along with a number of other requests relating to Airlines. This was forwarded vis email dt. 17th May 2021 with a request as given below:

  "………2. Both airports and airlines are the most important stakeholders in the civil aviation ecosystem, and it is acknowledged that both of them have been hit hard due to Covid-19 and passing through a rough phase.

  3. In view of the above, it is requested to suggest in what ways airports can provide assistance to airlines for their sustainable operations and likely impact of such assistance on the airports. "

- In view of the above requests, BIAL had waived the parking and housing charges during the lockdown period of Rs. 4.26 crores in FY 21 and Rs. 0.32 crores in FY21 towards international recovery linked airline support scheme as a support to the Aviation fraternity.
- The airport is a regulated entity and has suffered severely in the Covid-19 situation and despite that had accommodated the request of Airlines/ MOCA as being part of the integrated aviation ecosystem and offered discount genuinely to help Airlines who were grounded due to lockdown situation.
- Having allowed the waiver, it was very unfortunate that the Authority has taken a stand of disallowing the discount and adding it to BIAL aeronautical revenue.

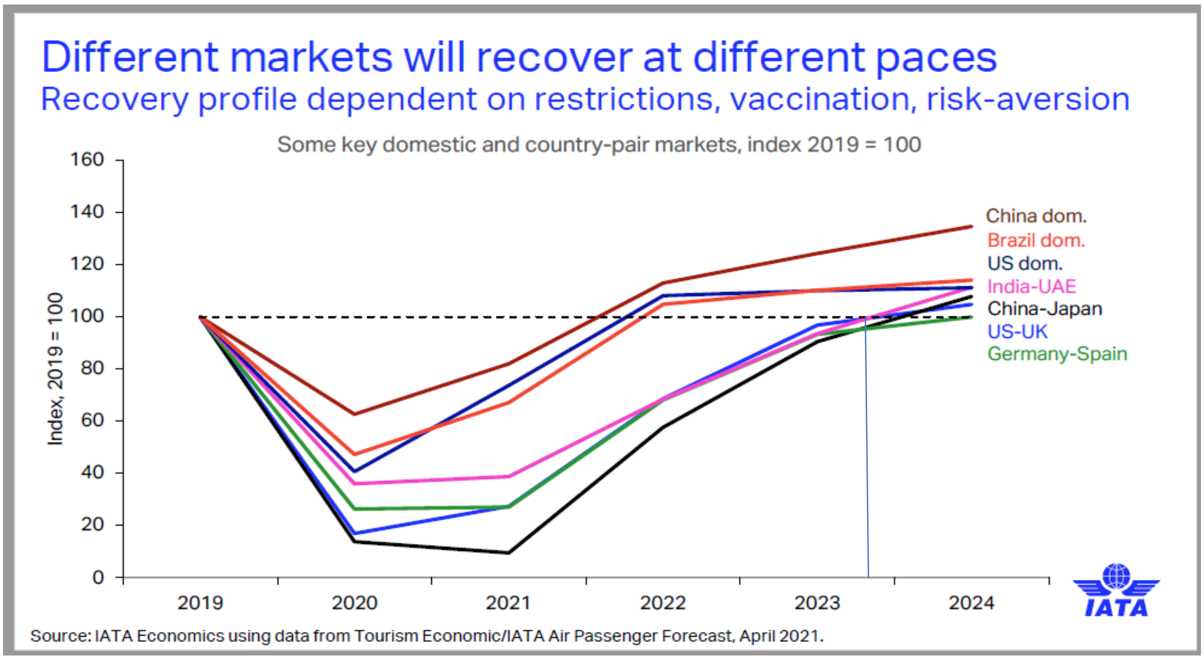
- IATA has quoted the ICAO policy in its response above, which states that the discounts offered by airports should not be paid by airlines that are not benefiting from them. BIAL wishes to submit that the waiver/discount was given to all airlines without discrimination and the airlines have directly benefitted by it. Hence the Authority should consider the Waiver/ discount provided to the Airlines in the Covid-19 Pandemic.

9.10. Regarding Traffic Estimates

"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 international 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."

BIAL's Comments

- IATA's forecast from its study report dated 26th May 2021 is shown below:



- The report clearly shows that India domestic market will reach 2019 (i.e., pre-covid) levels towards the end of CY 2023 which is FY 2024 in India.

- On the contrary, AERA has projected domestic recovery to reach pre-covid levels by FY2023 (1 year ahead).

- It is most unfortunate and wholly incorrect for IATA to take a contradictory position now, having already forecasted Traffic recovery to happen by FY 2024 in its own report to stakeholders and public at large, but now agreeing with Authority's position that recovery will actually happen 1 year ahead.

9.11. Regarding RAB and Depreciation

"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 INR 2,932.04 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 (INR 6544.38 crores) is contributing to an investment plan of over 8,800 crores (circa USD 1.19bn), 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."

<u>BIAL's Comments</u>

- We strongly object to IATA's characterization of BIAL's proposed capex in the 3rd control period. IATA cannot throw wild allegations such as capital cost inefficiencies, unnecessary project scope etc.
- It appears that IATA is mixing up the projects approved in the Second control period which are getting capitalised in the third control period (on account of delay due to Covid 19 pandemic) with the fresh capital expenditure proposed as Group B projects in the third control period. To clarify, most of the capital expenditure being added to asset base in the 3rd control period is on account of the spill over of capital expenditure relating to approved projects that were supposed to be completed in the 2nd control period. The completion of these projects has been delayed on account of the impact of Covid-19. The AUCC for the 2nd control period projects have been made way back in 2015-16. These details are captured in the 2nd control period tariff order, and we request IATA to please refer the same. After such AUCC meetings, AERA had considered these projects and approved the same in the 2nd control period tariff order. There has been a cost increase in certain of these approved projects. The reasons for the cost increase have also been submitted to AERA.
- Notwithstanding IATA's comments, BIAL has deferred most of the proposed projects to the 4th control period. We have been very judicious in the investment in capacity (airside, terminal and landside + support) over the past 15 years and would like to remind IATA that, in the past, we have been criticised for not providing adequate capacity or level-of-service.

Fresh Capital Expenditure for 3rd Control period

- BIAL had submitted a cost estimate of Rs. 2275 crores for Group B projects as part of MYTP. Of this, AERA had proposed only Rs. 438 crores to be added to RAB.
- BIAL has already conducted Stage 1 and 2 AUCC for the list of projects mentioned under Group B in CP 10. Hence, IATA's comments on AUCC process if any, can only refer to Rs. 438 crores worth project proposed to be added and not the total of Rs. 8800 crores investment that will be capitalised in the third control period.
- The details of Capacity Utilization in 3rd Control period is as given below:

Year	Terminal Capacity (MPA)	Total Traffic as per CP10	Total Traffic as per BIAL	Capacity utilization as per CP10	Capacity utilization as per BIAL Traffic
FY 21-22	26.5	21.24	15.24	80%	58%
FY 22-23	32.75*	34.09	31.16	104%	95%
FY 23-24	52.5	39.81	36.55	77%	70%
FY 24-25	52.5	46.36	42.53	89%	82%
FY 25-26	52.5	54.02	49.41	104%	95%
TOTAL		**195.22**	**174.89**		

**based on 3 months of T2 availability*

- From the above table, it clear that in 3 out of the 5 years of the 3rd control period, BIAL is operating at peak capacity levels of more than 80%. Hence, there is a need for the 2nd terminal in the current control period.
- We have taken enough care to ensure that Terminal capacity and Airside capacity augmentation are not planned, and these costs relate to other Infrastructure proposed to be created such as Cargo, Metro, and certain additional roads.

Comment on AUCC – Lack of effort to engage with Airline community

- IATA had been invited to the AUCC (Stage I and Stage II for the Group B Projects (26th August 2020) and they had also attended this meeting. Pursuant to this meeting, IATA had sent a letter to BIAL dated 14th Sep 2020 seeking certain clarifications on the proposed projects.
- BIAL had looked into the contents of the said letter and then circulated the MOM and the presentation made by BIAL in the AUCC meeting with all stakeholders.
- The presentation had detailed information on each of the projects - need for the project, the nature of work being proposed, associated benefits to the stakeholders.
- The list of recipients of MOM and the AUCC presentation were Airlines, MoCA, Govt of Karnataka, AERA and other stakeholders, totalling to more than 200 in number and this includes IATA also.
- Hence, to say that there has been no effort from BIAL to engage with airline community, that too 10 months after the MoM was circulated, is surprising.
- Authority has rationalised the capital expenditure in Group B projects in CP 10 vis a vis MYTP submissions. In parallel, BIAL has also re-looked at the MYTP submissions made in July 2020 and reduced the capital expenditure requirements to be in line with what is proposed in CP10 except that BIAL has added the 2 metro stations and the canopy of the Terminal metro station to the list of projects proposed in CP10.
- The need for this addition is because the Metro scheme to airport is going to be operationalised in June 2025 and the same has been confirmed through the statement made by the Chief Secretary, Government of Karnataka, who also happens to be the Chairman of BIAL Board, in the stakeholder meeting held on 9th July 2021. The 2 metro stations will be a part of RAB of BIAL and will be implemented by BIAL alone.
- Further AERA has confirmed to BMRCL that the cost of metro stations, when the same is commissioned and capitalised will be part of the addition to RAB

  "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.

BIAL's Comments

- Direction 5 defines the Consultation Protocol for projects and the stages of consultation. BIAL has accordingly complied with the requirement of AUCC consultation process. For essential Infrastructure such as Metro connectivity to the Airport, cost benefit analysis or return on Investment are not measured numerically but are qualitatively addressed.
- Detailed analysis of need identification, Option development analysis are shared as part the AUCC process. BIAL, as a policy, adopts competitive bidding basis for project implementation.

"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."

<u>BIAL's Comments</u>

- BIAL has submitted detailed response and justification for additional PMC cost as part of FY 22. The PMC has been engaged for overseeing and managing the project as per stringent safety and quality standards. BIAL had adopted a judicious mix of PMC staffing and own staffing to meet these safety, quality, time, and cost challenges.
- The PMC services are based on fixed duration and on a fixed cost basis. PMC services will be provided until the completion date and fee is based on deployment of resources at agreed rates as per the contract. The contracted scope of services includes pre-construction support, construction management and project closeout, handover, and operationalization primarily for NSPR & Terminal-2 projects and support for landside projects.
- The initial deployment by PMC was planned based on Project completion timeline for March'2021. However, due to Covid-19 pandemic from Jan'2020, the projects suffered various delays on account of material supplies, skilled workers and availability of required machinery on the job site. Also due to lockdown restrictions imposed by the Government, the projects have slowed down at various stages leading to extension of the planned completion timeline. Consequently, the project completion timeline got extended to March 2022 (as submitted in MYTP).
- Authority, vide letter dated 13th September 2018, has clarified that, in case there is delay in completion of project beyond March 2021, due to any reason beyond the control of BIAL or its contracting agency and is justified, the same would be considered by the Authority while truing up the actual cost at the time of determination of tariff for the Third Control Period in

respect of IDC and PMC. Hence, this clarification is intended only for time related delay in Project completion and not scope related.

- BIAL is requesting the additional PMC cost for only time delay in project completion.
- No additional capacities in Airside or Terminal capacities are planned in the third control period other than commissioning Terminal T-2
- BIAL's has submitted its comments on the matters detailed above and requests the Authority to review and consider the same.

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 INR 480 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."

BIAL's Comments

- No Pre-funding principle is applicable to BIAL. We do not understand what IATA is trying to ask.
- Metro stations are to be constructed by BIAL and will be a part of its RAB. This Terminal Metro station is intended for departing and arrival passengers who are using the airport terminals. BIAL is not authorised to construct and run metro services. Hence, it is required to build the Metro stations located within the airport boundary. The ticket revenues from running the metro scheme accrue to BMRCL which is the agency responsible for implementing and running the metro line. Non-aeronautical revenues that accrue from the commercial activities at the Metro stations are subsidised towards the Aeronautical charges as per applicable principles.
- On the observation that *"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., w*e find this bereft of logic. Airport operator is required to create adequate

infrastructure for passenger convenience. The reasons for increase in landside requirements have been captured in our earlier replies and response to CP 10.

- IATA has stated that *"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."*. Metro assets are 100% aero in nature.

- IATA has noted that "*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."* Adequate clarity has been provided in the above sections and as part of the AUCC meetings.

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."

BIAL's Comments

BIAL has submitted its comments on the matters detailed above and requests the Authority to review and consider the same.

"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."

BIAL's Comments

- The metro rail connectivity to KIAB will help air passengers and airport community who travel 30-40 kms by road from the city reach the airport faster with metro transit. This infrastructure also decongests access roads, landside roads and improves the overall level of service at the airport. With this objective, BIAL has proposed two metro stations inside the campus:

  i) located close to first roundabout / trumpet on west to serve both BIAL and other concessionaires' (primarily Cargo, Ground Handling, Fuel etc.) operating in the airport community.

  ii) located in terminal forecourt area inside the Multi Modal Transport Hub (MMTH) to serve mainly passengers, meters / greeters and employees working inside terminal

Major Users or Beneficiary of West Metro Station at KIAB

- The total airport wide employees working at KIAB (including BIAL and Concessionaires) are approximately 22,000 in year 2019. There will be a substantial requirement for skilled, semi-skilled personnel to helm the growth at KIAB. The same is given below:

Forecast	Total Users (including both BIAL and Concessionaires)	Total Cargo personnel	Total
FY 24-25	26,500	30,000	56,500
FY 29-30	41,000	46,000	87,000
FY 33-35	61,000	56,000	117,000

- Out of these users, 50% of them are working in and around terminal forecourt area and the remaining 50% are working with:
  - Cargo Terminal Operators
  - Cargo Warehouses
  - Ground Handling Agencies
  - IOCL Fuel Farm
  - LSG and Taj Stats Catering
  - CISF and Other Government Agencies
  - Retailers and Other Concessionaires at the Airport
  - BIAL and Airlines staff on landside and airside and other
  - BIAL staff working at Utility centers and other airport support facilities.
- All these buildings/ facilities are located around west metro station.

- As per AERA Act, Airport users means any person availing of passenger or cargo facilities at the airport. Hence, IATA cannot state that Cargo, Ground Handling and Fuel Farm are Aeronautical services while the personnel performing these functions are not related to the Aeronautical activity of the Airport.

- The users of this KIA West station are personnel attached to aeronautical service providers like Cargo Terminal operators, Ground handling agencies and Fuel Farm, besides "reserved activities" like CISF. IATA cannot deny that such facilities provided to aeronautical service providers will not form a part of RAB. To say that will negate the very definition of aeronautical services as defined in AERA Act.

- In case of KIA West Station not being constructed, the alternate choice of boarding/ alighting from the Terminal metro station will only increase the traffic movement in and around the terminal forecourt area and this will create congestion on landside roads due to provision of shuttle service to commute from terminal metro station to areas located on the west and vice versa. This will only result in additional costs (both on capex and opex fronts).

"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."

<u>BIAL's Comments</u>

- IATA has proposed changes to the AUCC protocols, which is not part of specific proposals in the Consultation Paper. BIAL desires broad based consultation with all stakeholders on these suggestions.
- On other comments relating to rationalising Capital Expenditure, Sustaining Capital Expenditure, Design / PMC costs etc as commented by IATA, BIAL has submitted its detailed response in addition to a revised project list, together with detailed justification and reasoning. We request the Authority to review the same and approve.

9.12. Regarding Operating Expenses

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.*

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.*

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*

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.*

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. "*

BIAL's Comments

- BIAL has demonstrated cost efficiencies in the past, by adopting practices relating to cost control, review, and monitoring. BIAL has, as part of the response to Consultation Paper, submitted the cost saving measures undertaken by it.
- BIAL has submitted detailed reasoning and basis for various Operating Expenses assumptions made by it and its responses to the proposals put up by the Authority as part of its comments to Consultation Paper. BIAL requests the Authority to review and accordingly approve the Operating Expenditure proposed by BIAL for the third control period.
- BIAL has noted the suggestions on cost optimisation measures made by IATA. Most of these have already been implemented by BIAL and a comparative analysis is enclosed in Annexure.

9.13. Regarding Non-Aeronautical Revenue

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.*

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).

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.

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.

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

BIAL's Comments

- BIAL has explained the current context with reference to Non-Aeronautical Revenues as part of its submissions in response to the Consultation Paper. Despite the aggressive estimates adopted by the Authority, BIAL has tries its best to align its revised projections on a similar basis and submitted its re-estimated Non-Aeronautical revenues based on the traffic estimates submitted by BIAL. BIAL requests the Authority to review and consider the same as part of its estimate in the MYTO.
- On certain other principles such as Interest Income, Notional revenues etc. BIAL has submitted its views and submissions as part of the response to the Consultation Paper. BIAL requests the Authority to review the same.

9.14. Regarding Taxation

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.

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."

BIAL's Comments

BIAL has submitted its response to the Consultation Paper and requests the Authority to consider the same.

9.15. Regarding Working Capital Interest

"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."

BIAL's Comments

- BIAL submits that there is no link between the Working Capital Interest and the Interest income.

- BIAL has submitted its response to the Consultation Paper and requests the Authority to consider the same.

9.16. Regarding Quality of Service

"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 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."

BIAL's Comments

- Concession agreement governs the requirements of quality of service and this needs to be complied by BIAL.
- ASQ Surveys are the Airport Council International's ('ACI') comprehensive initiative to improve the quality of service experienced by passengers with participation of over 321 airports in more than 50 countries. These surveys seek to measure passengers' overall satisfaction with an airport by ranking its performance against other airports in terms of various aspects of an airport's services. The survey is circulated to departing and arriving passengers and asks them to complete it based on their experience at the airport.
- The Concession Agreement mandates the maintenance of a minimum rating of 3.5 on a scale of 5. BIAL has been consistently scoring over 4.5, ensuring the quality standards/ service levels are maintained.
- Further, the Authority has considered that BIAL shall ensure that service quality at KIAB conforms to the performance standards as indicated in the Concession Agreement.
- IATA's comments travel beyond the jurisdiction of the Authority.

9.17. Regarding Aggregate Revenue Requirement

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 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."*

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."

BIAL's Comments

- The context referred to in TDSAT order related to considering one Airline as a Home carrier vis a vis other airline. No such concept that has been proposed in the ATP and VTP by BIAL for the third control period.
- BIAL submits that there are no discriminatory charges being applied between Indian and foreign airlines.
- All airlines within the same category are charged according to the same principles based on established global guidelines.
- The charges are based on type of operations (domestic or international). In the ATP submission for the third control period, BIAL has made efforts to gradually reduce the gap in landing charges between domestic and international operations from 2x to 1.2x by the year FY 2023. Also, International UDF rates are kept at 3 times the domestic rates for the years FY 2022, FY 2023, and FY 2024.

10. Federation of International Airlines (FIA)

10.1. Regarding True Up of Pre-Control Period

“FIA submits that AERA was established by the Central Government through its Notification dated 12.05.2009. Further, Chapter 3 of the Airports Economic Regulatory Authority of India Act, 2008, as amended (AERA Act) which stipulates the powers and functions vested in the AERA inter alia including determination of Aeronautical Tariff, was notified on 01.09.2009.

Accordingly, AERA cannot retrospectively determine the BIAL’s Aeronautical Tariff when the aeronautical tariff for the period prior to its formation was being determined by the Ministry of Civil Aviation (MoCA) on an ad hoc basis.

Without prejudice to the above, it is submitted that passengers/airlines travelling cannot be burdened unnecessarily on account of the losses suffered by the BIAL prior to the First Control Period. It is a settled position of law that (a) future consumers cannot be burdened with additional costs as there is no reason why they should bear the brunt; and (b) the regulatory Authority is required to take into consideration the efficient working of a utility as also the interests of the consumers while deciding the claims of the utilities. AERA being a creation of the statute is duty bound to balance the interest of all the stakeholders and consumers in terms of the AERA Act.

In view of the above, FIA requested AERA to kindly disregard/exclude claims of pre-control period losses claimed by BIAL.

Without prejudice to the above, it may be noted that true up of pre-control, if considered by AERA, should be done on Single Till instead of 30% Shared till.”

BIAL's Comments

AERA has considered the same based on TDSAT order. Also, it has only partially implemented the TDSAT order as detailed by BIAL in response to the Consultation Paper. We request the Authority to consider our responses to Consultation Paper and factor the pre-AOD losses also in the computation of Pre-control period losses.

10.2. Regarding True Up of Second Control Period

“FIA submits that as per Table 46 of the Consultation Paper, it appears that in the Second Control Period, BIAL has made an over recovery of INR 1030.21 Cr., excluding pre control period shortfall. As mentioned by AERA, such over recovery is primarily due to delay in capitalisation of projects and higher aeronautical revenue of BIAL as compared to forecast in the Second Control Period.

In view of the above, FIA submits that AERA and airport operators should undertake appropriate measures to ensure that there are no/minimal cases of over recovery, which will assist in lowering the burden of tariff on airlines/passengers.

While FIA appreciates that independent studies have been conducted by AERA on efficient capital expansion, asset allocation, Operating Expenditure/O&M expenses, and Cost of Equity, FIA submits that the same may be undertaken prior to commencement of each 'Control Period' in order to minimise any large variations in projections and also ensuring suitable benchmarking of costs.

Further, FIA requests AERA to apply the cost rationalisation measures, as indicated in such studies, to be applied retrospectively from the First Control Period.

Further, the above submission is without prejudice to the right of FIA to challenge the Hon'ble TDSAT Order dated 16 December 2020 regarding BIAL's First Control Period and Second Control Period, on merits."

BIAL's Comments

The scope of work given by AERA to the independent consultant was to review and examine the O&M costs incurred by the airport (BIAL) for the previous control period (2nd control period – FY 2017 to FY 2021). Hence, it is not correct to extend any such cost rationalisation measures to the first control period.

10.3. Regarding Traffic Estimates

"FIA requests AERA to consider industry inputs/reports on traffic from agencies like IATA and ICAO and further conduct an independent study for traffic assessment, in accordance with the AERA Act."

BIAL's Comments

- BIAL has, in response to the Consultation Paper, provided detailed note on the current status and expected traffic trends and has also submitted the revised traffic estimates as part of the ATP submissions.
- BIAL requests the Authority to consider the well-reasoned explanations and justifications submitted on the traffic estimates by BIAL.

10.4. Regarding RAB & Capital Expenditure

"FIA appreciates that considering the reduced traffic owing to COVID-19, AERA has rationalised the capital expenditure and excluded certain proposed additions by BIAL to RAB.

FIA further acknowledges AERA's decision to reduce 1% of the project cost from ARR/Target Revenue, as re-adjustment, in case any capex project is not capitalized by BIAL as per approval in tariff order. This approach is in line with the decision of Hon'ble TDSAT judgement dated 16 December 2020 applicable for BIAL.

FIA submits that in the current scenario post COVID-19, all the non-essential capital expenditure should be put on hold or deferred, and only such capital expenditure deemed critical from a safety or security compliance perspective may be undertaken.

Further, as mentioned in para 5.2.80, FIA will await BIAL to complete the process of stakeholder consultation (by way of AUCC meetings) for capital expenditure projects for the Third Control Period. In case BIAL wants to undertake any capital expenditure, then it needs to be ensured *that no additional expense is borne by the airlines until the project is completed and put for use to the airlines/passengers.*

Further, FIA requests that independent study for allocation of assets in the Third Control Period is undertaken by AERA."

BIAL's Comments

- BIAL has, as detailed in its response to Consultation Paper, provided individual reasoning and justification for various projects.
- BIAL has also, as explained, rationalized the Capital Expenditure before MYTP submission, during the MYTP review process and also after the issue of CP submitted revised Capital Expenditure estimates.
- BIAL has also submitted its response on carrying out Stage III Consultation process which will be done once the MYTO is issued.

10.5. Depreciation

"FIA submits that AERA should consider the useful life of Building including Terminal Building as sixty (60) years as envisaged in AERA Order No. 35/2017-18 read with Schedule II of Companies Act 2013, as applicable, and revise the amount of depreciation accordingly.

It is pertinent to note that useful life of assets at various international airports like London Heathrow, Sydney airport and Amsterdam airport indicated that terminal buildings have useful life of as long as sixty (60) years and aprons have it for as long as ninety nine (99) years. FIA submits that the useful life of terminal building for Kannur and Cochin airports have been considered sixty (60) years by AERA. AERA should prescribe sixty (60) years for the Building including Terminal Building as is practiced by some of the developed aviation ecosystem.

Further, AERA to ensure that depreciation upto 100% of the value of the asset (based on the assumption that no compensation will be received towards the value of the Net Block of assets upon the transfer of airport on completion of the term), is not considered. It is humbly submitted that such approach will be contravention of Para 5.3.3 of AERA (Terms and Conditions for Determination of Tariff) Guidelines, 2011 (AERA Guidelines) which provides that depreciation is to be calculated to the extent of 90% of the assets. AERA may note that depreciation upto 100% value would result in an artificial increase in depreciation thereby having an adverse impact on the Aeronautical Tariff.

In view of the above, we request the above recommendations are taken into account for all Control Periods at BIAL."

BIAL's Comments

- AERA had, as per the Consultation Paper issued on Useful lives of Assets CP 09/2017-18, in proposal 1(f) noted that

  1.f. As the residual value of most of the Airport Specific Asset is often insignificant, it is proposed to allow 100 % depreciation on the Asset over the useful life of the Asset.

- Hence, BIAL has accordingly depreciated the asset upto 100% of the value of asset.

- Order 35 also carried a note on the useful lives of buildings as follows:

3	Terminal Building (including VIP Terminal, Bus Terminal, Haj Terminal)	30/ 60	3.33/ 1.67	Either 30 years or 60 years as evaluated by the Airport Operator

- Accordingly, in BIAL's estimation, the useful life was considered to be 30 years and the same has been applied consistently and considered by the Authority.

10.6. Regarding FRoR

"FIA appreciates that the AERA has considered a lower Weighted Average Cost of Capital of 11.59 % for the Third Control Period, including an independent study on Cost of Equity. However, FIA submits that fixed/ assured return favours the airport operators, and creates an imbalance against the airline, which are already suffering from huge losses and bear the adverse financial impact through higher tariffs.

Further, due to such fixed / assured returns, service providers like BIAL have no incentive to look for the productivity improvement or ways of increasing efficiencies or take steps to drastically reduce costs as they are fully covered for all the costs plus their returns. Such a scenario may result in inefficiencies and higher costs, which are ultimately borne by the airlines. In the present scenario any assured return on investment (i.e., return on investment after the income tax), in excess of three (3) %, i.e., being at par with bank fixed deposits, will be onerous for the airlines.

In view of the above, AERA is requested to immediately review WACC/FRoR by capping the returns to a maximum of three (3) %."

BIAL's Comments

- FIA's above comment does not merit a reply. It has become fashionable for FIA to suggest such irrational and illogical proposals regarding airport operators' business.
- Airport operators cannot be held responsible for the performance of the airlines sector, which is totally an unregulated market.
- If Airlines are unable to raise adequate revenues in their business, it cannot be a corollary that airport operators too should not make revenues for the asset created solely for the purpose of passengers and airlines.
- The airport charges (payable for use of Indian and International airports)) that an airline pays is in the range of 8-10% of its total costs, based on the study of last 3 years annual reports of major Indian airlines such as Indigo, Spicejet, GoAir, Vistara and Air Asia. Hence, the Airports' contribution to the Airline cost structure is very limited and does not deserve such comments.

10.7. Regarding Operating Expenses

"While FIA appreciates that AERA has undertaken an independent study for Operating Expenditure/ Operations & Maintenance expenses has been done for the Second Control Period, AERA may undertake similar independent study for the Third Control Period.

Without prejudice to the above:

1. *AERA may advise BIAL to rationalize/re-negotiate all the cost/expenditure items or heads including 'Employee expenses', as deemed fit. Further, no escalations should be permitted under these items or heads."*

BIAL's Comments

- BIAL has embarked upon cost savings initiatives as has been explained in the MYTP submissions and elaborated during the Stakeholder consultations.
- Some of the actions taken are reproduced below. These cost optimization measure have resulted in significant savings in FY 21:
  - Optimum utilisation of machinery/assets/services in line with traffic (X ray machine, DFMD, HVAC, shutdown of areas in terminal, Shuttle bus service, employee transportation, pool vehicle, trolleys in circulation etc).
  - Reduction in YOY escalation for all AMC/CAMC contracts and negotiated for onetime special discounts from vendor partners.
  - Optimisation of outsourced manpower in line with business requirement and improvement in efficiency (Land side traffic, Security, Housekeeping, Safety, Trolley management etc)
  - Concerted efforts towards lower consumables and spares spend
  - Headcount and Personnel costs
    - Freeze on all new hires for FY 21 (only mandatory replacements hired); no increments given in FY 20.
    - Only rolled out committed new appointments made in Feb - Mar 2020
    - Other Measures
      - Travel costs reduced with foreign travel reduced to nil
      - Most external consultancy contracts cancelled except for required ones.
      - Events like stakeholders' events, employee events, etc. being conducted on digital platform
      - All discretionary spends are cancelled

2. *Expenses on account of CSR may be excluded in line with previous decisions by AERA.*

BIAL's Comments

Authority's proposals are based on TDSAT order dated 16th Dec 2020. Hence, FIA is requested to accept TDSAT orders. FIA was also a party to the TDSAT process.

10.8. Regarding Non-Aeronautical Revenue

"FIA submits AERA to conduct an independent study on the Non-Aeronautical Revenues, in accordance with AERA Act.

Without prejudice to the above, FIA submits that:

1. *Increase in non-aeronautical revenue is a function of passenger traffic growth, inflationary increase, and real increase/escalations in contract rates. AERA to ensure no adjustments are proposed to non-aeronautical revenue which is not dependent on traffic but are derived from agreements with concessionaires; and*
2. *'Royalty' is in the nature of market access fee, charged (by any name or description) by the services providers under various headings.*

These charges are passed on to the airlines by the service providers. The rate of royalty at BIAL is upto approx. 30%. It may be pertinent to note that market access fee by any name or description is not practiced in most of the global economies, including European Union, Australia etc. In view of the above, we urge AERA to abolish such royalty which may be included in any of the cost items - aeronautical and non -aeronautical."

BIAL's Comments

- In so far as Fuel Farm operations are concerned, there is no "royalty" or concession fee or revenue share payable by the ISP to BIAL.
- For Cargo, Ground Handling and Into Plane services. revenues accruing to BIAL are based on agreements with these concessionaires. AERA determines the tariff for these service providers and all expenses are approved by AERA based on existing principles. Hence, BIAL has no role to play in the same.
- We are not able to understand FIA's comment on revenue share or concession fee from Non-aero concessionaires. If the same were to be removed, then the cross subsidization would be only to the extent of lease rentals received for the space let out by BIAL.

10.9. Regarding Working Capital Interest

"AERA to clarify whether any detailed assessment on working capital facility interest has been conducted to allow an interest of INR 29.44 crores on account of working capital interest.

The above is required in relation to Para 5.4.3 of the AERA Guidelines which states that 'the Authority shall review and assess the levels of projected working capital requirements and shall consider cost of working capital loans as deemed appropriate'.

FIA submits that an allowance of working capital interest would result in an artificial increase in the total operating expenditure and thereby have an adverse impact of increasing the tariff. Accordingly, AERA is requested to undertake a detailed assessment for allowing such interest."

BIAL's Comments

Working Capital estimates have been submitted by BIAL as part of the Business Plan and MYTP submissions. BIAL has requested the same to be trued up based on actuals at the end of the Control Period.

10.10. Regarding Methodology for Tariff Determination

"FIA submits that in the Consultation Paper, it is stated that the AERA shall determine tariffs for using the 30/40% Shared Till model including for true ups as applicable.

It is to be noted that FIA from time to time has advocated the application of a Single Till model across the airports in India. FIA submits that AERA should adopt Single Till basis across all Control Periods, including by way of true up, in view of the following legal framework:

In the Single Till Order, AERA has strongly made a case in favor of the determination of tariff on the basis of 'Single Till'. It is noteworthy that the AERA has, inter alia, in its Single Till Order:

(i)Comprehensively evaluated the economic model and realities of the airport – both capital and revenue elements.

(ii)Taken into account the legislative intent behind Section 13(1)(a)(v) of the AERA Act.

(iii)Concluded that the Single Till is the most appropriate for the economic regulation of major airports in India.

(iv) The criteria for determining tariff after taking into account standards followed by several international airports (United Kingdom, Australia, Ireland, and South Africa) and prescribed by ICAO.

Further, AERA in its AERA Guidelines (Clause 4.3) has followed the Single Till approach while laying down the procedure for determination of ARR for Regulated Services.

The fundamental reasoning behind 'Single Till' approach is that if the consumers/passengers are offered cheaper airfares on account of lower airport charges, the volume of passengers is bound to increase leading to more footfall and probability of higher non-aeronautical revenue. The benefit of such non aeronautical revenue should be passed on to consumers/passengers and that can be assured only by way of lower aeronautical charges. It is a productive chain reaction which needs to be taken into account by the AERA."

BIAL's Comments

TDSAT has clearly stated in its 16th Dec 2020 order that the plea of FIA for single Till approach cannot be accepted. Hence the issue of Till is a settled matter and FIA is requested not to continue to raise this in this forum. Also National Civil Aviation Policy has suggested Hybrid Till mechanism based on which Order 14/ 206-17 was issued by the Authority.

11. Annexure

BIAL comments to IATA's suggested cost saving measures

Personnel Cost:

Suggested Measure by IATA	Action Taken by BIAL
Regular evaluation of which functions can be outsourced and the cost/benefit	This is an ongoing process and most of the non-core activities have been outsourced
Early retirement and departure packages	Currently, there are no such plans at BIAL.
Government wage subsidy, part-time work and unemployment schemes	Not Applicable to BIAL
Repurposing of staff across functions	This happens on a continuous basis
Wage reductions (Temporary or permanent)	Directives have been issued by the Government to protect the wages of employees.
Hiring freezes and non-renewals	Freeze on all new hires in FY21. Only rolled out new appointments are being on-boarded
Cut performance bonuses and executive salaries	Increments have not been given for FY 2020 performance.
Review benefits packages (as opposed to salaries)	Increments have not been given for FY 2020 performance.
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	Dismissal is a disciplinary action and generally imposed by the management against an employee on account of certain established misconduct. For evaluation of cost-benefit, dismissal is not a right mode. Further, no Government benefit schemes available to BIAL and hence this is not applicable to BIAL
Change from defined benefit to defined contribution pension systems	BIAL follows the statutory requirement as mandated by laws of India

Contracted Services

<table>
<tr><th>Suggested Measure by IATA</th><th>Action Taken by BIAL</th></tr>
<tr><td>Re-evaluation of the business case for outsourcing where relevant</td><td rowspan="4">Post Covid-19 pandemic, for FY 21, the following actions have been initiated
a) All O&M, AMC and CMC contracts have been renegotiated for reducing the contracted cost and minimising escalations
b) Post pandemic, for manpower outsourced contracts, service charges have been brought down from 10-15% to average 5%
c) For specific contracts like VHT, Screening machines, BHS, SBD contracts: we have re-negotiated with the respective vendors for reduction in AMC/CMC scope due to idle machineries, optimised monthly AMC/CMC cost and escalation rates
d) Invoked partial suspension of certain AMC/CMC contracts for a short duration while they are not operating to reduce the O&M / CMC cost of respective packages (like SBD, Smiths – X ray screening machines)
e) Special discounts: HVAC package vendor M/s Mitsubishi has waived off the billing for one quarter as a special case after negotiations
f) Contracted Manpower / Resources: Based on a detailed review with the respective user department, contracted manpower deployment has been reduced by 15-20% on average
g) Merging of contracts to optimize the manpower deployment. For eg – traffic management of landside security and Parking areas have been clubbed for better optimization. This has happened in Terminal also - Digibuddy and SBD contracts were merged to optimise the manpower deployment and utilisation factor</td></tr>
<tr><td>Review of force majeure clauses permitting prices and quantities to be modified</td></tr>
<tr><td>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</td></tr>
<tr><td>Eliminate redundancies (are multiple consultants used to produce reports for the same projects?)</td></tr>
</table>

Materials, equipment, supplies

Suggested Measure by IATA	Action Taken by BIAL
Ensure there is appropriate inventory management to minimize stocks on hand	We are using SAP material management software to optimize our inventory levels. Also, we adopt the principle of minimum stock level, insurance spares, common spares across departments in practice. Further, we are in the process of implementing asset management system, which will have a holistic approach to maintain optimal/minimum inventory level without compromising safety and reliability.
Consider multifunctional equipment where appropriate (snow-clearing equipment that can perform other functions in the summer, etc.)	We use rubber removal machine for paint mark removal. Considering the small but essential maintenance requirement, we use "BOB cats" with multi-functional attachments like grading, excavating etc. For shift operation the vehicle used or tool van/ staff movement vehicle. In essence, common usage and minimalism is followed in equipment procured.

Communication, Utilities, energy and waste

Suggested Measure by IATA	Action Taken by BIAL
Consider lowering and raising temperatures of HVAC system, where relevant to conserve energy	We have implemented Demand flow controller, before the start of pandemic, which helps in reducing the energy consumption in HVAC primary system more than 20%. Further Air Handling Units (AHU) s are equipped with VFD to moderate the airflow based on requirement. We had also implemented Zone temperature monitoring, based on which optimize the usage of AHUs. As air conditioning consumes maximum power in any airport, we have a focused attention towards optimizing the energy consumption of HVAC
Building shut down, pier shut down and gate consolidation to save Energy	This aspect is very optimally implemented in the terminal in coordination with stake holders like, airlines, ground handlers, security, commercial and internal operation teams to conserve energy, washroom consumables, housekeeping activities, staff optimization etc
Review use of Airfield lighting within the constraint of regulation to turn of lighting, when not needed	We have provided intelligent Airfield lighting system at ATC with inbuilt aspects of lighting control aligning with regulation, which can control unnecessary burning of lights. Also, the control system facilitates dynamic control from the ATCOs. Further, all our airfield lighting is converted to LED, which reduces the

Suggested Measure by IATA	Action Taken by BIAL
	Energy consumption as well reduce frequent replacement of halogen lamps which used to be the case earlier. Further it reduces the substation capital investment due to lower power requirement. The transformer and the cable sizing is optimized and the CCR required for lighting control also optimized.
Consider whether parts of baggage handling system can be switched off or with reorganization, a small subset of baggage handling system can be used	This is also implemented. With reduced traffic, some departure lines as well use of arrival lines are optimized. This is dynamic and executed in close coordination with Airlines and Ground handlers.
Consider temporary substitution of ground transportation solutions by less costly solutions if volumes justify (busses vs. people movers or trains)	Not applicable to BIAL
Review agreements with telecommunication and IT providers to shut down unneeded services when not in use	O&M costs for non-utilised areas have been reduced. Eg – SBD, ATRS, Self-service kiosks. Further, we have also deferred the renewal of existing contracts and converted most of them in to AMCs

Insurance, claims, settlements

Suggested Measure by IATA	Action Taken by BIAL
Review contracts to see whether they can be volume based	We do not understand your comment. For the years 2020-21 and 2021-22, BIAL has managed to keep its insurance premium substantially lower than the rates quoted in the domestic market by placing the property insurance in the overseas reinsurance market.

General and Administrative Expenses

Suggested Measure by IATA	Action Taken by BIAL
Consider outsourcing the invoicing and collection of revenues	Wherever possible, we have outsourced the invoicing part. In the case of any proprietary software being used for billing, outsourcing of this function will not be effective.
Cut business travel, internal and external events, marketing spend	Initiatives have been taken to reduce transportation costs, incidental expenses, office consumables, positioning of printers, stopping shuttle service etc. All marketing events have been conducted online.
Implement better A/P and A/R management	Our A/P and A/R are integrated with SAP
Consider renting and leasing equipment in the COVID context rather than purchasing	Most of our operational purchases are on opex (rent or lease) mode only. Few examples are vehicles for staff transportation, printers and laptops (for employees)