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**Government of Karnataka**

Ref.No. DD 109 DIA 2026/

Karnataka Government Secretariat,
Vikasa Soudha,
Dr. B.R Ambedkar Veedhi,
Bengaluru, Dated:08.07.2026.

From,
The Secretary to Government,
Infrastructure Development, Ports and
Inland Water Transport Department,
Vikasa Soudha,
Bengaluru-560 001.

09/07/26
Secretary, AERA / Dir (I & II), Tariff
copy to: Member I / Member II
9/7/26
JGM (Rh)

To,
Shri S G K Rahate,
The Chairman,
Airports Economic Regulatory Authority of India,
AERA Building, Administrative Complex,
Safdarjung Airport,
New Delhi -110 003.

भारतीय विमानपत्तन आर्थिक विनियामक प्राधिकरण
सफदरजंग एयरपोर्ट, नई दिल्ली-110003
प्राप्त
डायरी न. 20928
तारीख 9/07/026

Respected Sir,

**Sub:** Response to Consultation Paper issued by AERA for 4th Control Period.

**Ref:** Consultation Paper No 01/2026-27 published by AERA on 12th June 2026.

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This has reference to the Consultation Paper No. 01/2026-27 published by the Airport Economic Regulatory Authority (AERA) for the 4th Control Period for Kempegowda International Airport Bengaluru (KIAB) on 12th June 2026.

KIAB is the 3rd busiest airport in India (in terms of passengers & air freight handled) and earlier this year, KIAB has displaced Mumbai's Chatrapati Shivaji Airport as the 2nd busiest domestic airport. During FY 2025–26, KIAB handled 44.50 million passengers, and the airport is projected to cater to over 70 million passengers by FY 2031, supported by the development of Phase-2 of Terminal 2 and associated airside and landside infrastructure.

The key driver for the growth of the airport has been the city's talent, innovation and infrastructure which are attracting global business and creating jobs and real estate. Long regarded as the Silicon Valley of India, Bengaluru has been named as the highest number of Global Capability Centres (GCC) in the world in 2026 with nearly 900 GCCs as well as the Startup capital of Inda. These startups and GCCs not only generate thousands of high skilled jobs in the city, they also help in making Bengaluru one of the world's leading business and innovation hubs.

Given the above background, Government of Karnataka is not just a 13% shareholder but a key stakeholder in the development/expansion of the Kempegowda Airport both as the host state. The airport drives the region's economy by providing



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infrastructure and contributing to the growth of the region. It is our endeavour to support BIAL in creating world class infrastructure for the city of Bengaluru and the state of Karnataka. While the Government of Karnataka has initiated plans for development of a 2nd greenfield airport, the same is expected to be operational only around 2033 and hence it is essential that all decisions that impact KIAB's passenger handling capacity, should enable KIAB to handle the growth of civil aviation in the state of Karnataka.

The Government of Karnataka has and continues to undertake a series of infrastructure works that have aided and benefitted the growth of passenger and air freight traffic and also eased the passengers commute to the airport. Some of the key contributions of the State which has resulted in the growth of KIAB are enumerated below:

**1. Fiscal Support to KIAB**

Government of Karnataka has provided state support of Rs 335 crs for the initial phase of the development of the airport in 2008. The said state support is in the form of an interest free loan and was repayable in 10 years from the 11th year from the date of start of airport operations. This soft loan had resulted in a lower Fair Rate of Return (FRoR) on average the RAB for the airport operator and hence had cushioned the impact of UDF on the passengers. This state support loan was tenure was extended in 2018 by another 10 years. In effect, for 20 years from the AoD, passengers will be benefitting from a lower FRoR which is used in determination of aeronautical tariffs.

2) Fiscal Support for development of Aerospace and Other industries complementary to the Growth of Civil Aviation sector : Government of Karnataka through its Infrastructure and Industrial development corporation has worked with leading Indian airline companies, global OEMs, global chip manufacturers to incentivize development of air frame MROs at KIAB, setting up of chip fabrication and Iphone manufacturing units around the airport which will all provide a direct boost to the air freight handled by the airport.

**2. Connectivity Support**

a. The State has undertaken and successfully completed an ambitious program to decongest Hebbal, a key junction and entry point to NH – 44 , the only access road to the airport as on date.The works carried out have helped reduce traffic jams considerably. GoK is also investing in developing tunnels around Hebbal which should help keep pace with the growing passenger demand at the airport.

**b. Development of State Highway (SH 104)**

The State Highway 104 (SH 104) is a vital 50-kilometer corridor connecting Central Bangalore to Nandi Hills via Nagavara, Thanisandra, Bagalur, and Devanahalli. Widely known as the Thanisandra-Bagalur Road, this toll-free route serves a vital feeder and alternate access road to the Airport from Bengaluru's eastern sectors. This road bypasses the heavy traffic of the main Hebbal/NH 44 route, making it an increasingly preferred 50-minute commute from East and North Bangalore.

**c. Extending Metro Rail connectivity to Airport**

As on date, Bengaluru currently does not have direct metro connectivity to Kempegowda International Airport (BLR). A 39 km metro line jointly funded by the Centre, Government of Karnataka, Japan International Cooperation Agency (JICA) and the Asian Development Bank (ADB) costing nearly Rs 10,584 crores is under construction.

As can be seen from the above, KIAB is a priority project for the state of Karnataka and the state has supported the Airport's growth by bringing the connecting infrastructure to the airport boundary so that BIAL can connect their internal roads (airside and landside) to these main arterial roads.

We are therefore concerned with certain proposals contained in the Consultation Paper 01/2026-27 published by AERA on 12th June 2026. The proposals if included in the final tariff order, could negatively impact the overall capital expansion that is crucial to address the projected traffic growth at KIAB and its impact on the region's economy.

This shall also significantly impact the confidence of the Investors who have committed to investments in Bengaluru and in the state of Karnataka.

**<u>Issues of Concern in the Consultation Paper</u>**

**1. Non consideration of Eastern Connectivity Tunnel (ECT) Project**

Originally, the ECT project was recommended in the Master Plan 2019 along with projects planned for implementation in the 3rd control period (FY2022-FY2026). In line with the above, BIAL had proceeded with the implementation of the 300 m enabling tunnel works in the 2nd control period as this enabling tunnel was to be located under the Eastern Cross taxiway which was being implemented along with the New South Parallel Runway. AERA, had however, not considered the same with an observation that the enabling works will be recognized only when the entire ECT project is completed.

In the 3rd control period, BIAL, on account of Covid 19, did not pursue this project considering the uncertainty in traffic and the need to rationalize the capital expenditure for 3rd control period.

With recovery and consolidation of traffic growth, BIAL has now embarked on the implementation of its capital expenditure program aimed at increasing the airport's passenger handling capacity to 80 million passengers per annum. The Eastern Connectivity Tunnel (ECT) is an integral part of this program which aims to provide direct terminal access from State Highway 104 while reducing the dependence on the highly congested NH-44 corridor.

**Passengers originating / reaching to East Bengaluru (like Whitefield) will be saving around 12-15 kms distance wise and around 30-45 minutes of travel time apart from reduction in vehicular emissions This savings in distance will reduce the taxi charges payable by passengers to the extent of Rs 200-250 per trip at current prices. As per BIAL's estimates, around 25-30% of traffic is from East Bengaluru area and this translates to a minimum of 15 million passengers in FY2031 (based on 72.4 million total traffic as per the Consultation Paper).**

Based on the above, the passenger community will be saving Rs 300 crs every year on travel costs to and from the airport besides the reduced travel time and pollution levels in the city. The reduced cost of travel to the airport are direct benefits to passengers and should be considered by the Authority.

KIAB, presently depends entirely on a single arterial access route via National Highway 44 and the Hebbal trumpet interchange for the movement of passengers, airport personnel, cargo operators, and emergency services. This dependency on a single corridor



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poses a significant operational and systemic risk to the airport, as any disruption arising from congestion, accidents, infrastructure failures or natural events can severely impact flight operations, staff mobility, cargo logistics, and emergency response capabilities. Traffic congestion in the northern corridor of Bengaluru has been rising rapidly, with new real estate developments around NH44. This combination of constraints leaves the airport vulnerable to delays, disruptions, and safety risks. This aspect of business continuity should be duly considered by the Authority.

From a technical feasibility perspective, the ECT is proposed to be developed under aircraft apron. Since the apron will have embedded fuel hydrants and utilities, it may not be feasible to develop ECT through tunnel boring at a later stage. Hence the window of opportunity is now failing which it will be lost forever.

In the past tariff orders, AERA has not imposed any condition for recognition of this Project into RAB barring completion. However, in the Consultation Paper for the 4th control period, AERA has stipulated a condition that the ECT Project will be considered as a part of RAB subject to Government of Karnataka providing total funding for the project. The above condition imposed by AERA is not in consonance with the provisions of the Concession Agreement (CA) executed between BIAL and Government of India and the State Support Agreement (SSA) executed between BIAL and Government of Karnataka.

The Airport Activities as detailed out in Schedule 2 Part 1 of the SSA, clearly states that landside and airside access roads are to be provided by BIAL. The proposal by the Authority in the consultation paper puts additional obligations on the state of Karnataka and revises the State Support Agreement that had been executed by the Hon'ble Governor of Karnataka acting through Infrastructure Development Department, Government of Karnataka.

Considering the essential nature of the ECT Project which will directly benefit the Passengers in the form of reduced travel cost to and from the airport with the reduction being Rs 200-250 per trip, Government of Karnataka requests AERA to consider the ECT Project as a part of RAB and not link it to any financial support from the state of Karnataka.

**2. Airport West Metro Station**

The State is investing close to 10,584 crores to extend metro connectivity to the Airport. The metro will be used by passengers as well as employees and users of cargo terminal operators, ground handling agencies, fuel farm agency, CISF and other statutory agencies, airline staff, staff working in utility infrastructure and other airport support facilities, retailers and other concessionaires at the airport.

In such circumstances, Government of Karnataka requests the Authority to treat the Airport West station as an asset integral to development of the Airport and consider 50% of the project as part of the Regulated asset base

**3. Determination of O&M costs for airport operations**

KIAB has consistently been rated amongst the best airports in the world and has been acknowledged by airlines, passengers and aviation agencies for its efficiency and quality of infrastructure. It is not by mere chance that key Indian carriers have consistently chosen KIAB as their first base of operations in India or that KIAB has been amongst the fastest growing airports.

In the context of how the airport has performed as well as the fact that in a regulated environment where the adherence to the highest standards of safety and security is essential, we believe that due consideration should be extended by the Authority to the submissions made by BIAL towards requirement of personnel and operations costs through the period 1st April 2027 to 31st March 2031.

With respect to the observation that the airport is a public infrastructure and cost efficiency is essential, GoK on behalf of the Board assures the Authority that your inputs will be accorded the highest consideration. However, a balance needs to be struck between the submission made by BIAL versus the present proposal.

**4. Introduction of "Incremental ARR approach" in line with "User Pays Principle".**

In previous control periods (for KIAB and all other major airports where AERA has determined tariff), the approved revenue requirement was recovered through a levelized tariff structure over the five-year control period.

The existing levelized tariff methodology has served the sector well over successive control periods. It enables recovery of the approved revenue requirement over the five-year control period while ensuring tariff stability and avoiding sudden tariff shocks for airlines and passengers.

The Authority's proposal to migrate to a "user pay principle" while noteworthy maybe conceptually appropriate for standalone infrastructure such as toll roads or bridges, where the user consumes a specific asset. That said, an airport is fundamentally different. It is an integrated infrastructure ecosystem where passengers and airlines simultaneously use a common pool of interconnected assets — terminals, runways, taxiways and associated landside infrastructure. Often the sizing of different elements of an airport cannot be synchronized. E.g., a runway once commissioned can handle 40- 45 million passengers and over 250,000 aircraft movements annually. It cannot be built in phases. However, the terminal infrastructure and associated aircraft apron can be developed in phases – starting with an initial phase of 12 million terminal capacity which can be expanded in 2 or 3 phases to 20/35/45 million passengers annually.

Further, the user pay principle once established could theoretically be extended further as different passengers may consume different facilities e.g., a domestic passenger may use one terminal today and another facility in a later phase. An international passenger may use common infrastructure partly built in earlier periods and partly built in the current period. Airlines use airside and terminal infrastructure in ways that are interdependent and constantly changing based on schedule, stand allocation, passenger mix, operational constraints, and traffic flows.

It is therefore neither practical to determine which passenger or airline has used which specific asset, in what proportion, and at what point in time. Even assets not directly visible to passengers, such as taxiways, aprons, baggage systems, utilities, or airfield infrastructure, generate system-wide benefits by reducing congestion, improving safety, enhancing reliability, and enabling smoother operations. The benefit of airport infrastructure is therefore holistic and system-wide, not asset-specific.

Consequently, an incremental approach may require repeated tariff revisions during the last 2 years of a control period whenever new assets are capitalised. Beyond administrative complexity, on behalf of the state and the airport, we must highlight that any downward revision is glossed over and any increase scrutinized greatly – without due



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consideration that often the project- whether a terminal or runway is built keeping the medium to long term growth outlook.

It is also important to recognise that airport infrastructure is capital-intensive and must be developed ahead of demand. If tariff recovery is linked narrowly to the capitalisation of individual assets, it may discourage timely capacity creation and undermine the long-term planning required for a fast-growing airport such as Bengaluru.

The Government of Karnataka respectfully submits that the existing approach of levelised tariff through the control period is not just consistent with user fairness, it is the most appropriate way to apply fairness in an airport context, because passengers and airlines use the airport as an integrated service.

**Conclusion:**

The matters of concern mentioned above form an integral part of KIAB's tariff determination process. They not only directly impact the cash flows of the airport, these matters have a significant bearing on the passenger's ability to access the terminals, airport's ability to maintain quality of operations, ability to handle business continuity related risks and meeting financial covenants and debt obligations.

We request that our genuine and justified views expressed above be taken into kind consideration positively by the Authority at the time of issuing the final tariff order in the interest of equity and public interest.

Thanking you

Yours faithfully,

R 08/07/2026

**(Dr. Vishal R)**
Secretary to Government,
Infrastructure Development, Ports
and Inland Water Transport Department