To,
Director (P&S, Tariff)
Airports Economic Regulatory Authority of India (AERA),
3rd Floor, Udaan Bhawan,
Safdarjung Airports,
New Delhi – 110003

Subject: Response to Kempegowda International Airport, Bengaluru (BLR) consultation paper

Reference: Consultation Paper no 01 /2026-27 dated 12th Jun'2026

Dear Sir,

This is with reference to the above-mentioned consultation paper for Kempegowda International Airport, Bengaluru (BLR) for Fourth control period. We have following comments on the consultation paper for your consideration:

1. **Incremental ARR Approach on User Pay Principle for identified High-Capex Projects:** We respectfully submit that the proposed Incremental ARR approach based on the User Pay Principle is inconsistent with the established regulatory framework, airport infrastructure economics, and international regulatory practice.

   The current Multi-Year Tariff Framework adopted by AERA already achieves this objective through determination of Aggregate Revenue Requirement (ARR) and tariffs for the control period on a present value basis. This framework spreads recovery of capital costs across a larger passenger base over multiple years, thereby reducing tariff volatility and ensuring predictability for airlines and passengers.

   In contrast, the proposed Incremental ARR approach defers recovery until asset commissioning, resulting in concentration of depreciation and return on capital over a shorter period and a smaller passenger base, which may lead to higher per-passenger charges leading to a tariff shock for a small number of passengers. Such steep increase in tariffs would lead to charging high tariffs to small number of passengers availing services within the current control period.

   Deferring revenue recovery until asset commissioning creates a timing mismatch between expenditure and revenue realization, resulting in cash flow pressures during the construction period. This may necessitate additional financing, increase carrying costs, and adversely affect the airport operator's credit profile, funding flexibility, and compliance with lender requirements. Ultimately, these additional financing costs are likely to be borne by airport users, which may be contrary to the objective of minimizing tariff impacts.

   Credit rating agencies place significant reliance on the certainty, predictability, and timing of cash flows when assessing an issuer's creditworthiness. Revenues that remain contingent on future events—such as asset commissioning, regulatory approvals, or traffic realization—may be discounted or excluded in the assessment of debt servicing capacity. As a result, key credit metrics, including Debt/EBITDA, Net Debt/EBITDA, DSCR, and Interest Coverage Ratios, may be assessed on a lower revenue base than that reflected in the business plan. A deterioration in these metrics could weaken the airport operator's credit profile, increase borrowing costs, restrict access to capital, and impose more stringent financing terms. Accordingly, delayed recovery of efficiently incurred investments may have consequences beyond business plan projections, affecting financial sustainability and increasing the long-term cost burden on users.

Therefore, permitting timely recovery of efficiently incurred capital investments would support financial stability, preserve access to competitively priced funding, and facilitate the sustainable development of airport infrastructure while protecting user interests.

The proposed Incremental ARR approach also departs from the AERA's Multi-Year Tariff Framework, which envisages determination of the Aggregate Revenue Requirement (ARR) and tariffs in advance for the entire Control Period.

"AERA 2.18. "Multi Year Tariff Framework means the framework enunciated in these Guidelines for economic regulation, and determination in advance, of tariffs over a period of time and includes the underlying principles covering inter alia determination of the Aggregate Revenue Requirement as described in Chapter II";

Concept of Yield Per Passenger (YPP)

Yield per Passenger (Y) represents: The average aeronautical revenue per passenger required over the Control Period to recover the Aggregate Revenue Requirement (ARR), on a present value basis.

Core Formula (Clause 6.2.1)

$$Y = \frac{\sum_{t=1}^{5} PV(ARR_t)}{\sum_{t=1}^{5} VE_t}$$

Clause 2.18 of the AERA Guidelines provides for tariff determination under a multi-year framework, ensuring regulatory certainty, predictability, and tariff stability.

The Authority is duly empowered under Clause 5.2.1(c) and (d) of the AERA Guidelines to consider the inclusion or exclusion of capital expenditure proposed for execution during the Control Period while determining the Regulated Asset Base (RAB). However, once a capex proposal is admitted and considered as part of the Aggregate Revenue Requirement (ARR), the Guidelines envisage its treatment within the tariff determination framework for the relevant Control Period. The Guidelines do not provide for deferring or postponing the recovery of approved capital expenditure through a separate tariff determination mechanism linked to future commissioning milestones. Accordingly, while the Authority may exercise discretion regarding the inclusion or exclusion of assets, deferment of approved capex solely for tariff computation purposes is not envisaged under the existing regulatory framework.

We further submit that airports function as integrated infrastructure systems, where benefits of expansion projects are shared across airlines and passengers over time through improved capacity, operational flexibility, and service quality. Therefore, attributing the benefits of specific projects only to users after commissioning may not appropriately reflect the nature of airport infrastructure development.

In addition, we are not aware of any established international precedent where a brownfield airport operating under a multi-year economic regulatory framework recovers the return on capital for major expansion projects only upon commissioning through a project-specific incremental ARR mechanism. Leading airport regulatory regimes generally rely on tariff smoothing, RAB-based regulation, and, where appropriate, pre-funding mechanisms to ensure stable tariffs and sustainable infrastructure financing.

If AERA proposes to continue with the above approach, we request tariffs to be determined upfront and provide visibility for airport operators on the expected tariff increase.

Accordingly, we respectfully submit that the existing AERA framework already provides adequate safeguards through technical review of capex, truing-up mechanisms, and control-period based tariff determination. Adoption of an Incremental ARR approach may lead to tariff volatility, higher financing costs, regulatory uncertainty, and unintended consequences for both airport operators and users. Therefore, the Authority may continue with the established control-period based ARR determination approach.

2. **Minimum Threshold for true up of NAR:** GHIAL respectfully submits that true-up of non-aeronautical revenue should be based on actual revenue earned during the Control Period, in line with the Hon'ble TDSAT judgements in the GGIAL and MIAL matters. It is important to note that, Non-aeronautical revenue is driven by several external factors, including passenger spending behavior, traffic mix, dwell time, macroeconomic conditions, consumer sentiment, retail market dynamics, passenger demographics and changes in airline networks, many of which are beyond the direct control of the airport operator.

   Further, Section 13(1)(a)(v) of the AERA Act requires consideration of revenue actually received from non-aeronautical services. Neither the AERA Act nor the AERA Tariff Guidelines provide for a minimum threshold of non-aeronautical revenue for the purpose of true-up. Moreover, a true-up mechanism that permits adjustment only when actual revenue exceeds the prescribed threshold, while denying a corresponding adjustment when actual revenue falls short, is inconsistent with the fundamental objective of a true-up exercise, which is intended to correct both over-estimation and under-estimation based on actual outcomes. Such an approach effectively transfers the risk of under-achievement of non-aeronautical revenue entirely to the airport operator, notwithstanding that such revenues are influenced by several external factors beyond its control.

   Accordingly, GHIAL respectfully requests the Authority to undertake true-up of non-aeronautical revenue based solely on audited actual revenue earned during the Control Period, without application of any minimum threshold, in line with the aforesaid TDSAT judgements.

Thanking you,
For GMR Airport Ltd.

K Narayana Rao
Authorized Signatory
Date: Jul 13th, 2026