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Dear Mr. Ram Krishan,

IATA RESPONSE TO AERA'S CONSULTATION PAPER FOR THE DETERMINATION OF AERONAUTICAL TARIFF FOR KEMPEGOWDA INTERNATIONAL AIRPORT (BLR), FOR THE FOURTH CONTROL PERIOD

The International Air Transport Association (IATA) is the global trade association for the airline industry, representing some 370 airlines carrying over 85% of world air traffic. IATA members include the world's leading passenger and cargo airlines, including Indian scheduled carriers.

IATA appreciates the opportunity to provide comments on the Consultation Paper issued by the Airports Economic Regulatory Authority of India (AERA / the Authority) for determination of aeronautical tariff for Kempegowda International Airport, Bangalore (BLR), for the Fourth Control Period.

At the outset, IATA thanks the Authority for its detailed scrutiny of BIAL's Multi-Year Tariff Proposal and its efforts to rationalize the proposal in several material respects. This scrutiny is particularly important given the scale of claims submitted by BIAL, the continuing litigation on several regulatory issues, the substantial capital expenditure programme proposed for the Fourth Control Period, and the tariff structure now proposed by BIAL through its Annual Tariff Proposal (ATP).

1. Support for AERA's Approach on Sub-judice Matters

IATA strongly supports the Authority's position that, in public interest, the tariff determination exercise for BLR should continue based on the decisions taken in the Tariff Order for the Third Control Period, pending finality of the issues before the Ld. TDSAT and the Hon'ble Supreme Court.

The Consultation Paper records the Authority's view that public interest would be better served if decisions are taken on the basis of the final decision of the Hon'ble Supreme Court of India, and that presently the tariff determination exercise should continue consistent with the decisions taken in the Third Control Period Tariff Order.

IATA considers this approach prudent, balanced and necessary, and in line with the mandate of AERA. Inclusion of disputed values in the tariff base before legal finality would expose users to an asymmetric and potentially irreversible risk. Once tariffs are recovered from airlines and passengers, particularly through passenger-facing charges such as UDF, refunding excess collections later would be practically difficult, if not impossible. This is especially relevant where charges have been collected from a dispersed passenger base over multiple years.

IATA therefore requests the Authority to maintain its proposed approach and exclude all amounts that are presently sub-judice from the tariff base until the relevant legal proceedings attain finality. Any subsequent adjustment, if required after final judicial determination, should be considered transparently and only after stakeholders have had an opportunity to review its implications.



2. True-up of the Second Control Period

IATA supports the Authority's proposal to retain the true-up of the Second Control Period as previously determined in the Third Control Period Tariff Order. The Consultation Paper notes that, consistent with the approach adopted in Tariff Order No. 11/2021-22 for the Third Control Period, the Authority proposes to retain the true-up of the Second Control Period as previously determined, and that the true-up considered by the Authority in the Third Control Period Tariff Order continues to represent the Authority's position.

Based on our review, BIAL appears to have claimed a Second Control Period under-recovery of approximately ₹4,886.42 crore for FY2017–FY2021, with a significant drop in revenues during FY2020 and FY2021. The Authority's previously determined treatment appears to recognise a significantly lower amount, understood to be approximately ₹974.14 crore, pending the outcome of the legal matters.

IATA supports AERA maintaining the Third Control Period treatment for the Second Control Period true-up. This is particularly important because the true-up framework already demonstrates that traffic, revenue and demand risks are not borne solely by the airport operator. Where traffic or revenue underperforms relative to projections, recovery is sought from users in subsequent periods through the regulatory true-up mechanism. In such circumstances, it would be inappropriate to further expand the recoverable base by admitting amounts that remain subject to judicial review.

IATA therefore requests AERA to:

- retain the Second Control Period true-up treatment as determined in the Third Control Period Tariff Order;
- not admit additional disputed under-recovery claims before legal finality; and
- revisit the treatment only after final decisions have been made with all legal appeals and challenges exhausted.

3. True-up of the Third Control Period

IATA similarly supports the Authority maintaining the Third Control Period treatment for issues that remain under appeal. The same public interest rationale applies. Where matters are sub-judice, cost recovery should not be permitted on a provisional basis from airlines and passengers.

The fundamental concern is one of regulatory fairness. If disputed amounts are permitted into ARR now, users would bear the cost immediately. If those claims are later rejected or modified by the courts, reversal would be difficult in practice. Therefore, exclusion until legal finality is the more equitable and prudent regulatory approach.

IATA requests AERA to maintain the proposed approach for the Third Control Period true-up and ensure that disputed amounts do not enter the tariff base until the relevant appeals are finally resolved.

3.1 Traffic true-up and implications for risk allocation:

IATA notes that the Authority proposes to adopt actual traffic submitted by BIAL, validated against available sources such as AAI and other traffic data. Based on information presently available, IATA does not object to the use of actual traffic for true-up purposes, subject to the Authority's validation.

However, this treatment has a broader regulatory implication. Adoption of actual traffic for true-up confirms that traffic risk is materially mitigated through the regulatory framework. This should inform AERA's assessment of other building blocks, including fair rate of return, capex recovery and treatment of under-recoveries.

IATA therefore submits that while actual traffic may be used for true-up, the reduced risk profile arising from true-up mechanisms must also be reflected consistently in the Authority's broader assessment of BIAL's return and recovery claims.

3.2 CAPEX true-up:

IATA considers capex true-up to be one of the most important areas in this consultation. While aggregate capex appears broadly within the approved envelope, project-level overspends remain material and require careful regulatory scrutiny.

Based on our review, the following values require close attention:

- actual capex is understood to be approximately ₹8,524.81 crore against approved capex of approximately ₹8,883.44 crore, i.e. around 4% lower at an aggregate level;
- aero allocation for T2 and T1 is understood to be approximately 85.34%;
- T2 allocation is understood to be approximately 87.1%;
- MMTH Phase 1 allocation is understood to be approximately 34.49%;
- aero capex true-up is understood to be approximately ₹7,098.63 crore; and
- BIAL appears to have submitted approximately ₹7,905.82 crore, while AERA has approved / proposed approximately ₹7,458.57 crore, around 6% lower than BIAL's submission.

IATA appreciates that AERA has undertaken a detailed review and has not accepted BIAL's submission at face value. We further submit that while independent consultant review can support the assessment process, such evaluation does not substitute the Authority's responsibility to apply its own independent prudence and efficiency tests. The final determination of admissibility of costs rests with AERA and should be based on a rigorous assessment of necessity, efficiency and alignment with approved scope, beyond reliance on consultant validation alone.

Moreover, aggregate underspend should not obscure material project-level overspends. Even where total capex is lower than the approved envelope, inefficient or unjustified costs under individual projects should not be cross-subsidized or masked by savings elsewhere. Each project must be tested on its own merits, with reference to approved scope, cost reasonableness, change control, user consultation and actual benefit delivered.

Based on our review, material overspends appear under the following heads:

- Terminal – Phase 1: approximately 5.54% overspend claimed; corrected by the authority to 4.15%
- South Runway – Phase 2: approximately 85.04% overspend claimed; corrected by authority to 77.55%
- MMHT Phase 1: 45.48% overspend claimed, AERA ultimately allowed 0% increase and capped recognition at the originally approved amount
- Unplanned existing runway / taxiway improvements: approximately ₹71.92 crore.

IATA requests AERA to continue applying a project-by-project prudence test and to ensure that only efficiently incurred and properly justified costs are admitted for recovery. This is consistent with the approach advocated by IATA in Delhi CP4, where IATA noted that users should not be burdened with the airport operator's inability to deliver committed works to cost, scope, quality and programme. IATA requests AERA to assess each material capex variance against:

- original approved scope;
- AUCC consultation record;
- evidence of efficient procurement;
- whether the project benefits aeronautical users;
- whether the claimed escalation was unavoidable;
- whether the asset is commissioned and available for use; and
- whether any part of the cost should properly be allocated to non-aeronautical or wider airport ecosystem users.

In this context, IATA also supports the Authority's approach of ensuring that only assets that are capitalised, commissioned and available for actual aeronautical use are admitted into the RAB and tariff base. Any inclusion of assets prior to their operational readiness or utilisation would result in premature recovery from users and would not be consistent with established regulatory principles. This is covered in greater detail later in this submission under the section on Incremental ARR.

3.3 COVID-related contractor claims and force majeure costs:

IATA notes, based on our review, that BIAL has referred to COVID-19-related escalation and contractor claims, including a contractor claim of approximately ₹180 crore, negotiated down to approximately ₹85.94 crore. While IATA appreciates that BIAL may have negotiated down the claim, this in itself cannot establish tariff admissibility. The relevant regulatory question is not whether the original contractor claim was reduced. The relevant question is whether the residual cost is efficient, unavoidable, properly allocated under the contract and directly required for provision of aeronautical services.

Where a force majeure clause was triggered, AERA should examine whether the contract already allocated such risks, whether escalation risk was built into the contract price, whether BIAL had mitigation options, and whether admitting the residual claim would transfer procurement and execution risk from BIAL to users.

IATA respectfully submits that negotiated contractor claims should not be automatically passed through to users. Only costs that are demonstrably efficient, unavoidable and directly linked to aeronautical service delivery should be allowed. IATA requests AERA to:

- examine whether the force majeure clause already allocated the relevant cost risk;
- review whether BIAL's contract terms adequately protected users;
- disallow any portion of the claim attributable to contractor risk, procurement inefficiency, avoidable delay or weak contract management; and
- ensure that users do not bear costs that should properly remain with BIAL or its contractors.

3.4 Disallowance of unrelated costs and expenditures:

IATA supports AERA's disallowance of welfare-related expenses where these are not mandatory or directly linked to the provision of aeronautical services. Based on our review, the amount appears to be approximately ₹1.78 crore. While employee welfare may be appropriate as part of BIAL's internal corporate policy, non-mandatory welfare expenditure should not automatically be passed through to airlines and passengers.

IATA also supports AERA's disallowance of approximately ₹50 crore in PMC-related costs where justification is insufficient or where such costs appear excessive. Users should not bear duplicated, inefficient or inadequately justified project management costs, particularly where substantial capex claims are already being made.

With respect to one-time royalty of approximately ₹7.57 crore payable to the Department of Mines & Geology, IATA does not object in principle if the amount is statutory, unavoidable and necessary for project execution. However, AERA should ensure that this does not include penalties, fines or avoidable compliance-related costs. Any fine or penalty arising from non-compliance should not be passed through to users.

4. MMTH / Multimodal Connectivity

IATA supports improvement of multimodal connectivity to Bangalore airport in principle. Efficient public transport access can improve passenger convenience, support sustainability and reduce road congestion. However, the regulatory treatment of MMTH / metro-related infrastructure must remain firmly anchored in cost-relatedness and user-pay principles. These assets do not serve only aeronautical users and will ultimately generate new non-aeronautical revenue streams either for the airport operator or transport operators. They may also benefit airport employees, visitors, cargo operators, MRO users, concessionaires, commercial tenants and wider city-side users.

Unlike core terminal or airside infrastructure, MMTH and metro-related infrastructure serves a significantly broader user base and is not exclusively linked to aeronautical activity. While terminal infrastructure principally supports airline and passenger operations, MMTH facilities may provide benefits to airport employees, commercial establishments, public transport users, visitors and other non-aeronautical stakeholders. The resulting allocation question is therefore materially different from traditional airport infrastructure and requires careful consideration of both the beneficiary groups and the appropriate allocation of associated costs.



Based on airline feedback during AUCC deliberations, the MMTH / metro component, including the approximately ₹400 crore cost highlighted by airline stakeholders, has been one of the most contentious issues. Airline Operators Committee at BLR expressed concern that the cost of Metro / MMTH infrastructure would materially affect tariffs and ultimately be borne by airlines and passengers. IATA and airline members also raised concerns around the need for cost rationalisation, demand validation and appropriate allocation. The November 2025 AUCC summary records that stakeholders raised consistent concerns around the scale, timing and cost efficiency of capex, particularly the MMTH / metro component and the overall tariff impact.

The position here should not be understood as opposition to metro connectivity. Rather, the concern is that aeronautical users should not cross-subsidise public transport, city-side mobility or non-aeronautical revenue-generating assets, particularly for activities generating revenues that fall outside the regulatory purview of AERA. This is consistent with IATA's position in Navi Mumbai, where IATA argued that site-wide enabling works and infrastructure supporting both aeronautical and non-aeronautical activities should not be disproportionately loaded onto aeronautical users, particularly where benefits extend beyond current users or future phases.

IATA further submits that the assessment should not be limited solely to cost allocation. The Authority should also consider whether MMTH and metro-related infrastructure may generate direct or indirect non-aeronautical value, including through commercial development opportunities, concession activities, retail operations, access-related arrangements, parking substitution effects and any revenue-sharing arrangements associated with metro operations. To the extent airport-funded infrastructure supports such revenues or commercial benefits, those benefits should be appropriately recognised within the regulatory framework and reflected in the assessment of both cost allocation and non-aeronautical revenue assumptions.

IATA further submits that MMTH and metro-related infrastructure should be assessed on a net-benefit basis, taking into account both the costs proposed to be recovered from users and the direct and indirect commercial benefits that such infrastructure may generate. As these facilities serve a wider group of beneficiaries than traditional aeronautical infrastructure and may support additional non-aeronautical revenue streams, the Authority should ensure that both costs and benefits are appropriately recognised within the regulatory framework.

Future metro connectivity should also be reflected in the demand assumptions supporting associated landside infrastructure. The availability of a direct metro connection may affect future demand for parking, kerbside and surface access facilities. Accordingly, investment decisions and asset sizing assumptions should reflect the impact that metro connectivity may have on future utilisation levels. To the extent that metro services reduce future demand for parking, surface access and related infrastructure, such impacts should be reflected in project sizing, investment decisions and future capital expenditure requirements.

Consistent with the principles discussed elsewhere in this submission regarding asset availability and recovery timing, airport users should not be required to fund MMTH or metro-related infrastructure before the relevant facilities are operational and capable of delivering demonstrable aeronautical benefit.

IATA therefore requests AERA to ensure that:

- only clearly identifiable aeronautical components of MMTH / metro integration are admitted into the aeronautical RAB
- non-aeronautical and city-side components are excluded or appropriately allocated;
- car parking, commercial, retail or independent revenue-generating components are not loaded onto aeronautical users;
- any revenues or commercial benefits supported by MMTH and metro-related infrastructure are appropriately recognised within the regulatory framework and reflected in non-aeronautical revenue assessments, so that airport users receive the benefit of such revenues through the operation of the hybrid till framework;



- baggage-related or passenger-processing components are capitalised only when the metro is operational and the relevant facility is available for actual aeronautical use; and
- costs relating to the enablement of metro services are not allocated to aeronautical users unless a clear, direct and proportionate aeronautical benefit can be demonstrated.

In this context, and in specific regard to KIA West, we agree with the Authority's proposal not to consider the capital expenditure associated with the KIA West Metro Station for the purpose of tariff determination for the 4th Control Period. Other options to fund the same through non-aeronautical / commercial arrangements can be considered; or through recovery from the specific users; or through government funding – as has been done for the overall Metro Project and for other Metro Stations in different parts of the city.

5. Fourth Control Period

5.1 Traffic Forecast and Demand Assumptions:

IATA welcomes the reassessment of the traffic forecast by CAPA for the Fourth Control Period, with traffic projections revised downwards from the previous forecast prepared by NACO. However, the revised forecast does not appear to fully take into consideration recent developments affecting the aviation sector, including disruptions arising from the Middle East regional conflict, ongoing aircraft supply chain constraints and the resulting cost pressures on airlines and passengers. These developments may affect both the timing and scale of traffic recovery, particularly during FY2027 and FY2028, and warrant further consideration in the final determination.

This is especially relevant for international traffic, given Bangalore Airport's significant connectivity through Middle East hubs. The growth projections for both domestic and international traffic in FY2028 appear relatively strong and could be impacted by current market conditions, both in terms of the quantum of traffic ultimately materialising and the timing of that growth. In this regard, IATA would encourage the Authority to consider the use of a scenario-based forecasting approach (Baseline, Upper and Lower scenarios), which is widely regarded as industry best practice for accounting for macroeconomic uncertainty, supply-side constraints and external shock events.

In relation to transfer traffic, IATA welcomes the Government's designation of Bangalore as one of India's transfer airports and supports efforts to strengthen hub connectivity. However, airport infrastructure alone is unlikely to be sufficient to deliver the transfer traffic growth assumed in the forecast. Efficient transfer operations are also dependent on supporting facilitation measures, including streamlined security processes, immigration arrangements and transfer passenger handling procedures. The pace at which these enabling measures are implemented should therefore be reflected in the transfer traffic assumptions adopted for the Fourth Control Period.

IATA also notes that some of the projected traffic growth appears difficult to reconcile with the infrastructure being delivered during the period. For example, while 13 additional Code C stands are expected to be delivered in 2028, these are understood to replace 12 existing stands that will be removed to facilitate taxiway development. This results in a net gain of only one stand during that period. Unless significant growth occurs outside peak periods, or stand utilisation improves materially, this may constrain the airport's ability to accommodate the level of traffic growth currently forecast.

Accordingly, IATA encourages the Authority to continue testing the forecast against evolving market conditions, infrastructure delivery timelines and operational constraints to ensure that the traffic assumptions adopted for the Fourth Control Period remain prudent, realistic and aligned with likely demand outcomes.

5.2 Capital Expenditure Review:

IATA notes that a number of projects proposed within the Fourth Control Period have already progressed into detailed design and construction prior to completion of the regulatory review process. While the Authority's independent review provides an important safeguard, once major projects have commenced the regulator's ability to assess the need, scale and timing of an investment becomes significantly reduced. In many cases, the assessment is limited to reviewing the efficiency of capital expenditure already incurred rather than whether the underlying project remains justified. Ideally, major investments should be subject to regulatory scrutiny before contracts are awarded and substantial expenditure is committed.

IATA also notes that several projects involve significant increases in stand, terminal and supporting infrastructure capacity being delivered in single steps. While capacity expansion may be necessary to support long-term growth, the scale, timing and sequencing of these investments should remain aligned with forecast demand. Infrastructure should be delivered progressively where practical and projects that are operationally dependent upon related infrastructure should only be considered available when airport users can derive meaningful benefit from the complete infrastructure solution.

Furthermore, the Authority should continue to ensure that only efficient expenditure providing a direct and demonstrable benefit to airport users is admitted into the RAB. This is particularly important where infrastructure serves broader commercial, surface access, campus development or other non-aeronautical purposes. Equally, asset lives, depreciation assumptions and treatment of replaced assets should remain consistent with actual engineering standards and user benefit. In this context, IATA offers the following observations.

5.2.1 Need, Timing and Phasing of Capacity -

IATA supports investment in infrastructure required to meet forecast demand. However, capacity additions should remain aligned with demonstrated demand growth and operational readiness.

<i>Reference</i>	<i>IATA Comments</i>
Clause 5.3.125	IATA supports only those components necessary for operational continuity, passenger facilitation, safety, compliance and transfer efficiency being included within the project scope.
Table 139	IATA supports the reduction of the proposed costs allowed to enter the RAB versus the costs submitted by BIAL. As this project is currently under construction, the Authority and its independent consultant should continue to assess whether the proposed operational date remains achievable and adjust delivery assumptions where necessary.
Table 149	In relation to the area per PHP of 37 sqm/PHP being considered, IATA submits that this should ideally be lower and aligned with IATA norms. Table 146 indicates an area per PHP of 34.08 sqm/PHP for Terminal 2 Phase 1 Expansion, which appears to represent a more efficient benchmark that could be replicated in future terminal developments.
Table 150	IATA supports the reduction of the proposed costs allowed to enter the RAB versus the costs submitted by BIAL. However, similar considerations apply regarding terminal planning efficiency and the assumed sqm/PHP ratio.
Table 153	While this project is proposed to be delivered in March 2027, Taxiway B9 and associated enabling works required for access will not be completed until September 2027. The project is therefore unlikely to provide meaningful operational benefit until the supporting taxiway infrastructure is available and the delivery date should be assessed accordingly.
Table 160	IATA supports the Authority's approach of allowing only those project elements required to serve users during the Fourth Control Period, with remaining elements deferred until justified by demand.

Clause 5.3.261	IATA supports exclusion where there has been insufficient demonstration of need to serve projected demand.
Table 182	IATA requests the Authority to verify the placement of T2 Phase 2 expenditure, as there appears to be a possible inconsistency between FY2030 and FY2031 allocations.

5.2.2 RAB Discipline and User Benefit -

<i>Reference</i>	<i>IATA Comments</i>
Tables 135 & 136	IATA supports the reduction of the proposed costs allowed to enter the RAB versus the costs submitted by BIAL.
Tables 141 & 142	IATA supports the Authority's proposed reductions. In particular, IATA supports exclusion of the perimeter road and fence under Table 141.
Table 143	IATA supports the Authority's proposed reduction and supports removal of duct cleaning from CAPEX and its treatment as OPEX, given its operational nature.
Table 145	IATA supports the reduction of the proposed costs allowed to enter the RAB versus the costs submitted by BIAL.
Clause 5.3.162	IATA supports GA terminal infrastructure being funded outside the aeronautical RAB and cautions against funding utilities, aprons and taxiways associated with GA activities through aeronautical charges.
Table 152	In assessing the scale of parking facilities, the Authority should consider the impact of future metro connectivity. If metro access reduces parking demand, this should be reflected in facility sizing.
Clause 5.3.203	IATA supports the Authority's efforts to protect airport users from funding projects that primarily support regional road connectivity rather than airport users.
Clause 5.3.217	IATA supports exclusion of projects that principally serve commercial and wider campus activities rather than airport-user needs.
Clause 5.3.230	Should this project be reconsidered in future determinations, only those elements directly benefiting airport users should be permitted to enter the RAB.
Clause 5.3.240	In addition to supporting exclusion of the temporary parking facility, IATA submits that metro impacts should be reflected in future parking and kerbside demand assessments.
Clause 5.3.266	Future project consideration should remain subject to a clear airport-user benefit test.
Tables 157, 158, 162, 163 & 164	IATA supports the Authority's proposed reductions. In the case of Table 162, IATA also supports exclusion of elements that do not have sufficient supporting information.
Table 173	IATA supports the Authority's assessment of sustaining CAPEX against historical delivery and expenditure levels.

5.2.3 Asset Replacement and Stranded Assets -

<i>Reference</i>	<i>IATA Comments</i>
Clause 5.3.61	The replacement of existing stands to facilitate taxiway development raises the question of how any remaining value associated with the retired stands will be treated. Users should not continue to remunerate assets that are no longer usable.
Table 154	Similar considerations apply to the existing control tower if it is replaced and no longer operational. Any remaining capital value should be reviewed before continuing to attract recovery through the RAB.

5.2.4 Cost Escalation, Capital Efficiency and Aeronautical Allocation -

<i>Reference</i>	<i>IATA Comments</i>
Clause 5.3.306	It is generally accepted practice to apply construction cost indexation to the midpoint of construction, reflecting the stage at which most major contracts have been finalised. IATA suggests that indexation should follow this approach to better reflect actual construction cost exposure.
Table 181	In relation to the proposed aeronautical allocation percentages for T2 Enhancement, T2 Phase 2 and T1/T2 Connectivity, IATA notes that these projects have a greater area per PHP than the T1 Upgrade project. This suggests a potentially higher proportion of commercial space and may justify a lower aeronautical allocation, at least aligned with the T1 Upgrade benchmark of 85.38%.

5.3 Depreciation and Useful Life:

IATA submits that depreciation assumptions should reflect the actual useful life of airport infrastructure and the period over which users derive benefit from the asset. Asset lives that are materially shorter than recognised engineering standards accelerate cost recovery and may result in airport users funding investments more rapidly than justified by the underlying utilisation of those assets. Given the significant impact depreciation has on the Aggregate Revenue Requirement and aeronautical tariffs, depreciation periods should remain aligned with engineering design standards, operational experience and the expected service life of the infrastructure concerned. In this regard:

<i>Reference</i>	<i>IATA Comments</i>
Clause 5.3.50	The Consultation Paper states that the pavement has been designed for a 40-year design life in line with FAA standards. It would therefore follow that the asset life adopted for depreciation should similarly be 40 years, rather than the 30 years currently reflected in Table 185.
Clause 5.3.62	As this project also relates to a major concrete pavement area designed in accordance with FAA standards, IATA submits that the associated depreciation life should similarly be aligned with the underlying 40-year design life.
Table 183	The proposed asset life of five years for roads, boundary walls and security fencing appears materially shorter than normal engineering practice. Roads should have a significantly longer useful life, and boundary walls and similar civil assets should be depreciated over a period that more accurately reflects their operational life. Similarly, road pavement civil works should be depreciated consistent with their underlying design standard and expected useful life.

By aligning depreciation assumptions with actual asset life and engineering standards, the Authority can help ensure that users pay for infrastructure over the period in which benefits are received, while avoiding unnecessary acceleration of cost recovery through tariffs.

6. Incremental ARR, Asset Availability and User-Pay Principles

IATA supports the Authority's approach of aligning tariff recovery with the commissioning, capitalisation and availability of airport infrastructure. As airports undertake increasingly large and complex capital investment programmes, it is important that the timing of cost recovery remains linked to the point at which users are able to derive actual benefit from the infrastructure being funded.

The fundamental regulatory principle is that airport users should pay for infrastructure when it is available for use and providing aeronautical service, rather than during the construction phase. Recovery of capital costs ahead of commissioning would require current airlines and passengers to fund assets that are not yet operational and whose benefits may accrue primarily to future users. Such an approach would be inconsistent with the principles of cost-relatedness, user benefit and equitable cost allocation that underpin sound airport economic regulation.

- IATA understands the airport operator view that deferring ARR recognition until assets become operational may create financing and cash-flow timing implications for the airport. However, these timing effects do not in themselves justify accelerating tariff recovery from users. Efficient financing costs incurred during construction are not ignored under regulatory frameworks and can be recognised through mechanisms such as capitalisation of prudent expenditure, inclusion within the Regulatory Asset Base (RAB), and the application of an appropriate return on capital once the asset enters service. The existence of a temporary financing requirement should not require users to pay a return on assets that are not yet available for use.
- The Authority's approach is also broadly consistent with international airport regulatory practice. Under the United Kingdom's Regulatory Asset Base (RAB) framework, airports are permitted to recover prudent investment and earn a reasonable return on efficiently incurred capital expenditure. However, the recovery of costs is generally linked to the point at which assets enter service and provide operational benefit to users. Similarly, across a number of European airport regulatory regimes, the prevailing philosophy is that users should begin paying for infrastructure when it becomes operational and capable of delivering service, rather than funding capacity years before it is available.
- While airport operators may legitimately incur financing costs during construction, regulators typically address these concerns through capitalisation policies, financeability assessments, allowed returns and other regulatory mechanisms, rather than requiring current users to pre-fund future infrastructure. For example, during major airport expansion programmes such as new terminals, runways or supporting infrastructure, regulators generally seek to ensure that investors receive recovery of prudent expenditure and an appropriate return, while avoiding the transfer of construction risk and timing risk to current users. The objective is to strike an appropriate balance between airport financing and user protection.

This principle is often described as a "used and useful" approach, whereby infrastructure attracts full economic recovery when it is capable of providing service and delivering benefit to users. Although the precise regulatory mechanisms vary across jurisdictions, the underlying principle remains consistent: recovery should be aligned with asset availability and realised user benefit, rather than future construction activity.

- IATA also notes that India's historical experience with introduction of an Airport Development Fee (ADF) highlights many of the challenges associated with pre-funding of infrastructure. While the legal and regulatory circumstances were different, the underlying policy issue remains relevant. ADF effectively required current passengers to contribute towards future airport development before the related infrastructure was available for use. This generated significant concern among airlines because it weakened



the link between charges collected and services received. By contrast, recovery linked to commissioned assets is more closely aligned with the principles of user-pay, cost-relatedness and transparency, because charges are associated with infrastructure that users can actually access and utilise.

- Phasing: IATA has consistently advocated for airport capacity expansion to be 'phased' in line with traffic growth and demand. AERA's incremental ARR approach is fully consistent with this principle, aligning cost recovery with the commissioning and availability of infrastructure capacity, rather than requiring users to (pre) fund infrastructure before it becomes operational.

IATA acknowledges that airports require a stable and predictable regulatory framework to support long-term investment. An Incremental ARR methodology does not deny recovery of prudent investment. Rather, it aligns the commencement of recovery with asset commissioning and operational availability, while allowing efficient financing costs to be recognised through established regulatory mechanisms. In this respect, it provides an appropriate balance between supporting infrastructure development and protecting airport users from paying for assets that are not yet available for use.

Accordingly, IATA supports the Authority's continued focus on ensuring that tariff recovery remains linked to assets that are capitalised, commissioned and available for aeronautical use. While efficient and prudent investment should be fully recoverable, the commencement of recovery should remain aligned with actual service delivery and realised user benefit. Such an approach is consistent with international regulatory practice, promotes efficient investment signals and proposer phasing of capex, protects users from premature cost recovery and reinforces the principles of transparency, affordability and cost-relatedness that underpin airport charging regulation.

7. WACC

IATA appreciates AERA's approach to determining the Weighted Average Cost of Capital (WACC) for the Fourth Control Period and its continued reliance on a structured regulatory framework supported by independent validation. However, IATA considers that the proposed WACC of approximately 12% remains above efficient market levels, particularly in view of BLR's established and mature traffic base, strong credit profile (including its AAA rating), and significant diversification through non-aeronautical revenues.

In this context, IATA is concerned that the cost of equity of 15.05% does not adequately reflect current market conditions or the reduced risk profile of the airport. The cost of equity should be recalibrated using an updated CAPM approach, with inputs reflecting prevailing market evidence. Specifically, the risk-free rate should be based on current Government of India bond yields, the asset beta should be derived from a relevant peer group of mature airports and comparable regulated infrastructure and further adjusted downward given the application of the true up mechanism, and the equity risk premium should reflect current forward-looking market benchmarks.

Similarly, risks arising from demand uncertainty, traffic variability, or operational factors are routinely addressed through forecasting assumptions, pricing frameworks, regulatory consultation processes, and capital structure decisions. More extreme or tail risks may also be managed through balance sheet resilience, insurance, or staged investment planning. These mechanisms are more appropriate tools for addressing such risks than embedding them directly into the asset beta.

Accordingly, IATA submits that a lower, forward-looking cost of equity, aligned with that applied to comparable regulated infrastructure assets, would more accurately reflect efficient financing costs. This would be consistent with AERA's statutory mandate to ensure economically efficient and viable airport operations, safeguard user interests, and allow investors a fair, but not excessive, return.

8. Inflation Indexation

IATA acknowledges AERA's proposal to adopt inflation assumptions based on independent and forward-looking macroeconomic indicators. The use of an objective forecasting framework provides an appropriate starting point for projecting future costs and supports greater transparency in the regulatory process.

However, IATA submits that inflation should not be applied mechanistically across broad categories of expenditure without regard to the underlying cost drivers. Not all airport costs are equally exposed to inflationary pressures and airports retain both the ability and the obligation to improve productivity, enhance procurement practices and achieve operational efficiencies over time. Applying a uniform inflation uplift across major expenditure categories risks overstating future costs and weakening incentives for efficiency improvement.

This concern is particularly relevant where inflation may already be reflected elsewhere within the regulatory framework. Capital expenditure projections typically incorporate inflation through procurement pricing, escalation provisions and contingency allowances. Similarly, returns calculated using a nominal WACC inherently include assumptions relating to inflation and market expectations. Applying additional inflation uplifts across multiple regulatory building blocks may therefore result in the same inflationary effect being recognised more than once.

In addition, many operating cost categories already incorporate expected inflation within contractual arrangements, labour agreements and financial forecasts. Applying a further regulatory inflation adjustment on top of these assumptions may create a risk of over-indexation and automatic cost pass-through irrespective of actual efficiency outcomes achieved by the airport operator.

Taken together, these effects risk increasing the Aggregate Revenue Requirement beyond what is necessary to recover efficient costs and may ultimately result in higher tariffs for airport users. Inflation assumptions should therefore be applied in a targeted and proportionate manner that reflects the actual exposure of individual cost categories rather than through broad aggregate escalation.

Accordingly, IATA submits that AERA should adopt a more disaggregated approach to inflation indexation, whereby:

- inflation adjustments are limited to clearly identifiable uncontrollable cost elements;
- indexation is linked, where appropriate, to specific external cost drivers and verifiable indices;
- controllable costs remain subject to efficiency expectations and productivity improvements rather than automatic escalation; and
- forecast assumptions are supported by robust true-up mechanisms to ensure alignment between projected and actual outcomes.

Such an approach would better balance the need to recognise genuine inflationary pressures while preserving incentives for efficiency, avoiding over-recovery from users and ensuring that tariffs remain cost-reflective and consistent with regulatory best practice.

9. Operating Expenditure (OPEX)

IATA acknowledges the Authority's efforts to review BIAL's operating expenditure forecasts and appreciates the application of regulatory scrutiny to the proposed expenditure base. However, given the direct impact of OPEX on aeronautical tariffs, it is important that future allowances reflect efficient and necessary costs rather than a simple extrapolation of historical expenditure trends.

The proposed methodology appears largely reliant on historical expenditure levels escalated through inflation assumptions. While historical expenditure may provide a useful starting point, past expenditure should not automatically be assumed to represent an efficient benchmark for future operations. Without explicit efficiency



adjustments, there is a risk that historical inefficiencies become embedded within future tariffs and are ultimately borne by airport users.

IATA is particularly concerned that the current approach does not sufficiently distinguish between controllable and uncontrollable cost elements. Airports retain significant influence over a substantial proportion of their operating cost base through procurement practices, productivity improvements, technology adoption and efficient resource planning. Applying broad escalation assumptions across aggregate operating expenditure may weaken incentives for cost discipline and create a risk of automatic cost pass-through to users.

This concern is especially relevant for controllable expenditure categories such as personnel costs, administration expenses, contracted services and other operating activities where efficiency improvements should reasonably be expected over time. While certain costs may be genuinely exposed to external inflationary pressures, these should be assessed separately and supported by objective evidence rather than being incorporated through a general uplift across the entire OPEX base.

IATA also notes that robust benchmarking against comparable airports and infrastructure operators can provide an important tool for assessing efficiency. Such benchmarking can help identify areas where productivity improvements may be achievable and provide greater confidence that operating expenditure allowances reflect efficient airport operations.

Accordingly, IATA submits that AERA should continue to apply a targeted and evidence-based approach to operating expenditure determination, including:

- applying explicit efficiency expectations to controllable cost categories;
- distinguishing between controllable and uncontrollable expenditure drivers;
- limiting automatic escalation mechanisms to costs demonstrably exposed to external price pressures; and
- strengthening the use of benchmarking and efficiency assessments in determining future allowances.

Such an approach would help ensure that OPEX allowances remain cost-reflective, efficient and consistent with regulatory best practice, while maintaining appropriate incentives for productivity improvement and protecting airport users from unnecessary cost escalation.

10. Non-Aeronautical Revenue (NAR)

Non-aeronautical revenue represents a critical offset to the Aggregate Revenue Requirement (ARR) and plays an important role in moderating the level of aeronautical charges borne by airlines and passengers. Given the hybrid till framework applicable in India, it is important that the Authority ensures that non-aeronautical revenue projections appropriately reflect the commercial potential of the airport over the Fourth Control Period.

BLR has developed a diversified non-aeronautical revenue base supported by commercial concessions, retail activities, food and beverage outlets, advertising, real estate and other passenger-driven revenue streams. These revenue sources have historically benefited from continued traffic growth, increasing passenger spend and contractual arrangements that incorporate periodic escalations. As a result, non-aeronautical revenue forecasts should remain robust, evidence-based and reflective of the airport's full commercial potential.

IATA also notes that several infrastructure investments proposed for the Fourth Control Period, including landside developments, commercial facilities and multimodal connectivity initiatives, may generate or support additional non-aeronautical revenue streams over time. Where airport users are being asked to fund infrastructure through the RAB, it is important that any associated non-aeronautical benefits are appropriately recognised within the regulatory framework and reflected in revenue projections.

At the same time, IATA supports the Authority's proposed treatment of revenues derived from cargo, ground handling, fuel and ICT-related services as aeronautical in nature. These services are directly linked to the provision of aviation services and their classification should remain consistent with established regulatory principles.

Accordingly, IATA submits that the Authority should ensure that:

- non-aeronautical revenue forecasts fully reflect the airport's commercial opportunities and expected growth over the Fourth Control Period;
- revenues associated with airport-funded commercial and landside infrastructure are appropriately recognised within the regulatory model;
- assumptions remain evidence-based and supported by historical performance and contractual arrangements; and
- aeronautical and non-aeronautical activities continue to be classified consistently with established regulatory principles.

A robust assessment of non-aeronautical revenue is essential to preserving the integrity of the hybrid till approach and ensuring that airport users receive the full benefit of the airport's commercial success through lower aeronautical charges.

11. Taxes

IATA supports the Authority's approach to ensuring that tax-related costs included within the Aggregate Revenue Requirement are assessed rigorously and allocated in a manner that is consistent with the principles of the hybrid till framework. Given the direct pass-through impact of tax allowances on airport charges, it is important that only taxes that are properly attributable to aeronautical activities and efficiently incurred are ultimately recovered from airport users.

In particular, IATA supports the Authority's proposal to reject the treatment advanced by BIAL whereby a portion of non-aeronautical revenue was effectively reclassified for tax recovery purposes. Such an approach would have the effect of transferring tax liabilities associated with non-aeronautical activities onto aeronautical users, thereby undermining the cost allocation principles that underpin the hybrid till regime.

IATA further submits that tax allowances should remain closely aligned with the underlying regulatory treatment of revenues and costs. Where an activity is recognised as non-aeronautical for regulatory purposes, the associated tax effects should likewise remain with the non-aeronautical segment. Any departure from this principle risks distorting tariff outcomes and reducing the benefit that airport users derive from non-aeronautical revenues.

More broadly, airport users should not be expected to bear tax-related costs arising from avoidable actions, inefficient structuring arrangements, compliance failures, penalties or matters that are not directly linked to the provision of aeronautical services. Tax allowances should therefore be limited to those obligations that are demonstrably necessary, properly attributable and consistent with accepted regulatory practice.

Accordingly, IATA supports the Authority's proposed approach and requests AERA to ensure that:

- tax costs recovered from airport users are directly attributable to aeronautical activities;
- tax treatment remains fully consistent with the hybrid till framework and the classification of underlying revenues;
- non-aeronautical tax liabilities are not transferred to aeronautical users through the ARR; and
- penalties, fines, non-compliance costs or other avoidable tax-related expenses are excluded from recovery through airport charges.

Such an approach would help preserve the integrity of the regulatory framework, ensure fair cost allocation between aeronautical and non-aeronautical activities and protect users from bearing costs that are not directly related to the provision of airport services.

12. Tariff Structure and Allocation of Risk

IATA notes that the Annual Tariff Proposal (ATP) proposes a tariff structure that differs materially from the traditional approach of recovering airport charges through a relatively stable and predictable mix of passenger and aircraft-related charges. While certain headline passenger-facing charges appear lower in some years, a review of the detailed tariff card suggests that the overall burden of recovery may be redistributed across users and across time rather than fundamentally reduced.

From a user perspective, transparency, predictability and cost-reflectiveness are important principles of tariff design. Airlines make long-term network, scheduling and fleet deployment decisions based on the expected cost of operating at an airport. Tariff structures that rely on significant future adjustments or uneven recovery profiles may create uncertainty and reduce the ability of users to plan effectively.

IATA is particularly concerned that elements of the proposed tariff card may result in the inter-temporal shifting of costs, whereby charges are moderated in certain years but recovered through higher charges in later periods. While tariff smoothing may have some merits, it should not obscure the underlying cost of airport operation nor defer recovery in a manner that creates disproportionate future financial exposure for airport users. Tariff levels should remain closely linked to efficient costs incurred and assets available for use during the relevant period.

The proposed structure also raises broader questions regarding allocation of risk between the airport operator and users. Throughout the consultation, a number of building blocks – including traffic forecasts, capital expenditure timing, operating expenditure projections and inflation assumptions – are based on forecasts that may differ from actual outcomes. Historically, the regulatory framework has provided mechanisms that allow airports to recover under-collections or adjust for differences between forecast and actual outcomes through subsequent true-ups. To the extent that these mechanisms already mitigate a significant portion of business risk, users should not also bear additional risk through tariff structures that defer recovery or embed assumptions that have not yet materialised.

IATA also notes potential concerns around differential pricing structures, USD-denominated passenger processing charges and variable tariff mechanisms. While each may have a rationale from the airport operator's perspective, the Authority should ensure that they remain transparent, non-discriminatory, proportionate and consistent with established regulatory principles. Tariff structures should not result in unintended cross-subsidisation between user groups or create distortions in airline operating costs.

More broadly, IATA submits that tariff design should reflect a clear regulatory objective of ensuring that charges remain predictable, cost-related and proportionate to the services and infrastructure actually being provided. Airport users should only be required to fund efficient expenditure that has been prudently incurred, appropriately allocated and made available for operational use. This principle becomes particularly important as BLR enters a period of significant infrastructure expansion and increasing tariff complexity.

Accordingly, IATA requests AERA to ensure that the final tariff structure:

- remains transparent, predictable and easily understood by users;
- reflects efficient costs and assets that are commissioned and available for use;
- avoids unnecessary inter-temporal shifting of recovery between control period years;
- does not transfer disproportionate business or forecasting risk to airport users;



- avoids cross-subsidisation between user groups and between aeronautical and non-aeronautical activities; and
- remains consistent with the broader principles of affordability, cost-relatedness and regulatory predictability.

By maintaining these principles, the Authority can help ensure that tariff outcomes remain balanced, support sustainable airport development and protect the long-term interests of both airport users and passengers.

In summary, IATA appreciates the Authority's continued approach to maintaining regulatory discipline and safeguarding user interest in this determination. At the same time, the overall framework, particularly in terms of cost allocation, timing of recovery and tariff structure, all require careful calibration to ensure that charges remain cost-related, transparent and predictable. It is essential that the final determination strikes an appropriate balance between enabling efficient infrastructure development and protecting airport users from undue financial burden, while preserving long-term affordability and supporting the sustainable growth of the aviation sector.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Amitabh Khosla", is written over a light blue horizontal line.

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