APAO response to Consultation Paper No. 01/2026-27 issued by AERA for the 4th Control Period for Kempegowda International Airport Bengaluru (KIAB)

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Director (P&S)
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Respected Sir,

Subject: Response to Consultation Paper issued by AERA for 4th Control Period
Reference: Consultation Paper No 01/2026-27 published by AERA on 12th June 2026

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

APAO would like to appreciate all the efforts put in by the Authority prior to issuance of the aforesaid Consultation Paper and also thank the Authority for providing APAO the opportunity to submit its comments and suggestions on the proposed positions taken by AERA in each matter.

APAO believes that the tariff determination for the 4th Control Period for KIAB assumes significant importance and should be an enabler for the airport in achieving its vision of developing KIAB as a “Hub Airport” both for passengers and air cargo.

Given the above background, some of the proposals in the Consultation Paper, which if implemented in the final tariff order, are likely to adversely impact the implementation of the expansion program that is currently underway to cater to the projected passenger traffic growth at KIAB.

Issues of Concern in the Consultation Paper

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

The Eastern Connectivity Tunnel (ECT) project to be developed by BIAL is an integral part of the Expansion program and it aims to provide direct terminal access to travelling passengers from the State Highway 104 thereby reducing the dependence on the highly congested NH-44 which is currently the only connecting road to and from the airport.

As per BIAL's estimates, around 25-30% of traffic is from East Bengaluru area, and they will be using this ECT to reach the airport. This translates to at least 15 million passengers approx. in FY2031 (based on 72.4 million total traffic as per the Consultation Paper).

It is pertinent to mention that passengers from East Bengaluru will be significantly benefited because of saving around 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 minimum of Rs 200 per trip at current taxi fares.

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.

From a technical perspective, ECT will be housed below the Terminal 2 Phase 2 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, if this window of opportunity is not utilised, then it will be lost forever which will not be in public interest.

In the previous 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.

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 approximately being Rs 200 per trip (translating to Rs 300 crs every year), **APAO kindky requests AERA to consider the ECT Project as a part of RAB and not link it to any financial support from the Government of Karnataka.**

2. Airport West Metro Station

The KIAB West Metro station 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.

APAO requests the Authority to treat the Airport West Metro station as an asset integral to development of the Airport and consider at least 50% of the project as part of the Regulated Asset Base.

3. Determination of O&M costs for 4th control period

The assumptions on O&M costs for new asset additions do not appear realistic. The assets that are getting added to the Regulated Asset Base are new but as the Authority is aware, the nature of O&M in the airport sector is characterized by the heavy "fixed" nature of O&M costs. New assets added during the period would have costs including AMC, general maintenance, housekeeping, consumables etc. This critical input has not been considered by the Authority.

We therefore kindly request the Authority to apply reasonable norms for estimating the O&M cost for new assets and follow the principles followed in true

up of O&M costs for the 3rd control period.

4. Minimum Threshold Non-Aeronautical Revenues (NAR) for True up

AERA has proposed a minimum threshold of Non-Aeronautical Revenues of Rs 9,856.17 crores for the 4th control period and will undertake true-up only if the actual revenues exceed the minimum threshold. This proposal would have an adverse effect upon economic and viable operations of the airport.

As per Section 13(1)(a)(v) of the AERA Act, 2008, AERA must consider the revenues "received" instead of any minimum threshold revenues.

This approach of minimum threshold effectively results in indirect regulation of NAR services, since the Airport Operator bears the entire downside risk where actual NAR falls below the projected levels, while any surplus revenue is subjected to true-down adjustment. Such an approach disturbs the intended allocation of commercial risks and undermines the market-driven nature of non-aeronautical activities. Non-Aeronautical Revenue at a major international airport is an inherently variable commercial quantity driven by passenger volumes, consumer spending patterns, the composition of airline services, and global macroeconomic conditions, none of which are within the control of the Airport Operator.

We humbly submit that the Authority should not propose something that is ultra vires to the AERA Act, 2008 and should therefore allow true up of Non-Aeronautical Revenues based on actuals in the subsequent control period.

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

In previous control periods (for KIAB and all other major airports), the Aggregate Revenue Requirement (ARR) 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 spikes for airlines and passengers.

The Authority's proposal to migrate to a "user pays principle" while noteworthy, does not provide any practical solution to determine which passenger or airline has used which specific asset, in what proportion, and at what point in time. **The benefit of airport infrastructure is therefore holistic, not asset-specific or passenger-specific or time-specific.**

Beyond the administrative complexity, it is necessary to highlight that any downward revision in tariffs is glossed over and any increase in tariffs attract higher levels of publicity– without due consideration that airport infrastructure is built keeping the 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. **It is also important for the Authority to ensure that there is no adverse effect on the cash flows of the Airport Operator especially during the critical construction phase.**

Since airport assets are built over a 3-5 years horizon, the cash outflow of the airport developer begins from day one of the project conceptualization. Linking the date of recovery to the date of asset capitalization effectively means that the operator will need to re-calibrate its cash flows requirements, increase the working capital requirements and raise more funds to fulfill the debt obligation. This will ultimately be reflected in the lower credit rating and higher cost for raising capital. All this will ultimately be passed on to passengers along with the weighted average cost of capital. Passengers will lose more in this revised approach than the judicious approach followed till date by the Authority.

APAO respectfully submits that AERA should not apply this principle as the existing approach of levelised tariff through the control period is not just consistent with user fairness, it is also the most appropriate way because passengers and airlines use the airport as an integrated service.

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

Thanking you.

Yours faithfully,

Satyan Nayar
Secretary General

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