

Summary of AERA's order on the determination of aeronautical tariffs in respect of KIA, Bengaluru for the second control period

The Airport Economic Regulatory Authority (AERA), the regulator of the airports in India had released a Consultation Paper (CP) in May 2018 to seek stakeholders comments in the matter of determination of aeronautical tariff in respect of Kempegowda International Airport Limited (KIAL). KIAL conducted a stakeholder consultation meet in the month of June, 2018 and B.PAC made a representation to the Authority during the meet.

Following the consultation meet, the various identified stakeholders submitted their observations and comments to the Authority. The submissions made by the stakeholders and the updates and clarifications provided by KIAL have been thoroughly reviewed by the AERA and the order was passed subsequently on 31st August, 2018. The submission made by different stakeholders and the decision by the AERA on each of the proposals have been summarized below –

Represented by	Stakeholders	Issues highlighted in brief
Government	Government of Karnataka	<ol style="list-style-type: none"> 1. Capital Expenditure 2. Criticality of capacity expansion at BIAL and the proposition of revenue capitalization
Airlines and Associations	<ul style="list-style-type: none"> • International Air Transport Association (IATA) • Airline Operators Committee, Bangalore (AOC) • Business Aircraft Operators Association (BAOA) 	<ol style="list-style-type: none"> 1. Regulatory Till and Principles of Determination of tariff 2. Pre-control period 3. Truing up of First Control Period Aggregate Revenue Requirement (ARR) 4. Traffic Projections 5. Capital Expenditure 6. Allocation of assets (Aero and non aero) 7. Depreciation 8. Regulatory Asset Base for the second control period 9. Operating Expenditure 10. Non Aeronautical Revenue (NAR) 11. Cost of Equity, Cost of Debt and Fair Rate of Return (FRoR) 12. Working Capital Interest 13. Aggregate Revenue Requirement 14. Criticality of capacity expansion at BIAL and the

		<p>proposition of revenue equalization</p> <p>15. Treatment of CGF Services and standardizing fuel throughput costs</p>
Airports and Associations	<ul style="list-style-type: none"> • GMR Hyderabad International Airport Limited (HIAL) • Cochin International Airport Limited (CIAL) • Association of Private Airport Operators (APAO) 	<ol style="list-style-type: none"> 1. Pre-control period 2. Treatment of non-airport activities (land development) 3. Treatment of CGF Revenues/ICT and CIC revenues 4. Treatment of notional income from non-aeronautical security deposits 5. Treatment of Interest Income 6. Revenues/Lease rentals earned from concessionaries providing aeronautical service 7. Treatment of CSR costs 8. Regulatory Till for true up 9. Cap on true of project expansion cost 10. Treatment of BIAL's equity investment in the hotel for the purpose of FRoR determination 11. Reduction in Opening RAB
Aviation Service Providers	<ul style="list-style-type: none"> • Air India SATS Airport Services Private Limited (AISATS) • Bharat Petroleum Corporation Limited (BPCL) • Bharat Stars Services Private Limited (BSSPL) • Globe Ground India (Globe Ground) • Indian Oil Corporation Limited (IOCL) • Indian Oil Skytanking Private Ltd (IOSL) • Celebi Airport Services India Pvt Limited (Celebi) 	<ol style="list-style-type: none"> 1. Criticality of capacity expansion at KIAB 2. Treatment of revenues from CGF and rentals from leasing space 3. Capital Expenditure 4. Tariff determination to support financial viability of airport and enable future capacity expansion 5. Fuel Thrupghput Cost 6. Cash flow and future expansion of KIAL

	<ul style="list-style-type: none"> • Menzies Aviation Bobba Private Limited (Menzies) 	
Investors	<ul style="list-style-type: none"> • FAIRFAX Financial Holdings Limited (Fairfax) • Siemens Project Ventures GmbH (Siemens) 	<ol style="list-style-type: none"> 1. Treatment of pre-control period 2. Till application for first control period 3. Treatment of CGF 4. Allowing reasonable returns 5. Traiff determination to support financial viability of airport and enable future capacity expansion
Others	<ul style="list-style-type: none"> • Bangalore Political Action Committee (B.PAC) • Consumer Care Society (CCS) • Sanjeev V Dyamannavar 	<ol style="list-style-type: none"> 1. Adjustment of excess User Development Fees (UDF) collected by BIAL/Collection of UDF 2. Aeronautical revenues/reasonableness in determining charges other than LPH, PSF, UDF etc 3. Pre-control period 4. The growth in passenger traffic at KIAB, Traffic Projections and True up/Requirement of a survey to forecast traffic 5. Capital Expenditure 6. Non- aeronautical revenue 7. Redressal of grievances and quality of services 8. Capital mix used to fund future expansion 9. CSR cost 10. Consideration of Tariff based on 30 % Hybrid Till 11. Revenues from lounge and flight catering services 12. Allocation ratio for fixed assets 13. Depreciation 14. Aggregate Revenue requirements (ARR) 15. Commercial activities development at airport 16. Tenure for the interest free loan from GoK

		<p>17. The cost of connectivity to airport from city</p> <p>18. Design, cost and alternative connectivity to Eastern Tunnel project</p> <p>19. Treatment of CGF services</p> <p>20. Treatment of BAHL losses</p> <p>21. Payment of dividend to shareholders</p> <p>22. Allocation of operating expenditure</p>
--	--	--

Based on these issues raised by the stakeholders, the final decision by AERA on the aeronautical tariffs and other proposals are summarized as follows –

1) Regarding Regulatory Till ad Principles of tariff determination

- To compute ARR under 30 % Hybrid Till for the second control period
- To consider revenues from CGF services and rentals from leasing of space to agencies for providing core Aeronautical services as Aeronautical revenue.
- To consider revenues from property development activities akin to Non-Aeronautical activity and consider 30% of such revenues towards cross subsidisation of Airport charges

2) Regarding true up pre-control period losses

- To confine it's true up process to the first control period and to not to consider any pre-control period shortfall/ over recovery in computing the ARR for the second control period
- The Authority notes that the matter is sub-judices and the Authority would take a suitable view in accordance with the orders of Appellate Tribunal in this matter

3) Regarding true up of first control period

- To consider 30 % cross subsidisation from Non- Aeronautical revenues for determination of under/over recovery during the first control period
- To consider the Over recovery as detailed in the table attached for the purpose of computing ARR for the second control period

4) Regarding Traffic projections

- To true up the traffic of the second control period based on actuals, at the time of determination of tariff for the next control period.

5) Regarding Asset allocation between Aeronautical and Non-Aeronautical services

- To carry out a technical study on the area used between Aeronautical and Non Aeronautical in the existing and new terminal once the operations are commissioned and stabilized and result of the study will be used to true up during the next control period

6) Regarding Capital Expenditure

- To ask BIAL to submit detailed explanation and justifications should the cost incurred exceed 10% over the cost approved by the Consultant

- To review and true up the PMC after the project is commissioned based on a study of the actual cost incurred and it's reasonableness
- To true up the Capital Expenditure on actuals at the time of determination of tariff for the next control period

7) Regarding Operating Expenditure

- To consider Operating Expenditure under Hybrid Till for determination of tariff for the second control period
- To true up the OE for the current control period at the time of determination of tariff for the next control period
- To carry out a study for allocation of expenses between Aeronautical and Non Aeronautical services and consider the results of the study at the time of truing up

8) Taxation matters

- To consider tax outflow estimate(MAT) for computation of Aggregate Revenue Requirement.
- To true up the projections based on actuals, at the end of the control period, in computation of tariff for the next control period

9) Quality of service

- BIAL shall ensure that service quality at Kempegowda International Airport conforms to the performance standards as indicated in the Concession Agreement over the 2nd Control Period.
- Not to levy any penalties / rebates against SIAL for the 1st Control Period as BIAL has managed to ensure prescribed levels of service quality during the review period"

Table 1: User Development Fee (UDF) as per the order passed by AERA

Type of Passenger	For ticket issued on or after 16.09.2018	For ticket issued on or after 01.04.2019	For tickets issued on or after 01.04.2020
International embarking passenger	INR 400/pax	INR 558/pax	INR 716/pax
Domestic embarking passenger	INR 100/pax	INR 139/pax	INR 179/pax

Source: AERA's tariff order dated 31st August, 2018. Please find the detailed order [here](#).