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Kempegowda INTERNATIONAL AIRPORT BENGALURU

20h July 2021

Ref: BIAL/AERA/2021/06

The Chairman,
Airports Economic Regulatory Authority of India,
AERA Building,
Administrative Complex,
Sadfarjung Airport,
New Delhi - 110003

Sub: Response to Consultation Paper No 10/2021-22

Ref: Consultation Paper No 10/2021-22 published by AERA for KIAB on 22nd June 2021

Dear Sir,

At the outset, we wish to express our sincere gratitude to the Authority for finalising the Consultation Paper for Kempegowda International Airport, Bengaluru (KIAB) in a timebound manner.

As a part of the stakeholder consultation process for the referenced consultation paper, please find enclosed our responses for your kind consideration.

Given the turbulent times and the uncertainty surrounding the recovery of aviation sector, we would request the Authority to conduct a limited mid-term review of the Tariffs at the end of March 2023.

The Authority will appreciate that this limited mid-term review will surely reduce the uncertainty faced by the airport operator and will go a long way in building confidence and resilience in the entire airport operator community.

It is requested that the Authority may arrive at the final Aggregate Revenue Requirement for the 3rd control period only after taking into consideration our responses to the Consultation Paper.

Thanking You.
Yours faithfully,

For Bangalore International Airport Limited

Bhaskar Anand Rao
CFO

Encl: Response Document to CP10 & Annexures

BANGALORE INTERNATIONAL AIRPORT LIMITED

Response to Airports Economic Regulatory Authority of India's (AERA) Consultation Paper No. 10/2021-22 dated 22nd June 2021

Determination of Aeronautical Tariff for Kempegowda International Airport, Bengaluru (BLR) for the Third Control Period (01.04.2021 - 31.03.2026)

Contents

Disclaimer

This document has been prepared/compiled by Bangalore International Airport Limited ('BIAL') in response to Airports Economic Regulatory Authority of India's ('AERA' or 'the Authority') Consultation Paper No. 10/ 2021-22 on Determination of tariffs for Aeronautical Services in respect of Kempegowda International Airport Bengaluru ('KIAB' or 'KIA'), for the Third Control Period (01.04.2021 to 31.03.2026) ('the Consultation Paper' or 'CP') dated 22.06.2021.

The primary purpose of this document is to provide a response of BIAL's views based solely on its business requirements and understanding on each of the decision/proposal put forward by the Authority in the CP and to enable the Authority to understand the views/business perspective of BIAL for the purposes of tariff determination of KIAB, and not to be referred to and/or relied upon by any person/party, in respect of KIAB for tariff determination for 3rd Control Period. The submissions of BIAL may not be reproduced or disseminated in whole or in part unless clarification is obtained from or specifically confirmed by BIAL in writing and except by the Authority.

The response set out below to the CP shall not be construed as an acceptance by BIAL of the various assumptions undertaken by the Authority in the CP.

The response is without prejudice to BIAL's rights, submissions, contentions available to it before various forums, including in proceedings already initiated/pending before the relevant authorities/courts and its right to appeal before appropriate legal forums.

1. Introduction

Airports Economic Regulatory Authority of India ('AERA' or 'the Authority') has released Consultation Paper No. 10 / 2021-22 on Aeronautical services in respect of Kempegowda International Airport Bengaluru ('KIAB' or 'KIA') for Third Control Period (01.04.2021 to 31.03.2026), on 22.06.2021.

A stakeholder consultation meeting was convened by the Authority on 9th July 2021 to elicit the views of all the stakeholders on the Consultation Paper. Further, the Authority solicited written, evidence-based feedback, comments and suggestions from stakeholders including BIAL on the proposals contained in the Consultation Paper.

We thank the Authority for the timely review and issue of Consultation Paper. Also, we thank the Authority for the objectivity brought in on various aspects including the studies on Cost of Equity, Studies on allocation of costs etc. which provide good guidance for future tariff determination activities.

BIAL requests the Authority to note that under Section 13(4) of the Act, the Authority is required to make all its decisions fully documented and explained. We further submit that BIAL has shared its financial model as a part of its MYTP submissions However, we note that Authority has made its own assumptions for publishing its proposals in the Consultation Paper. In the absence of the detailed workings relating to Authority's assumptions, BIAL is unable to reconcile the model at its end. The Authority will appreciate that any changes in the workings will have significant impact on BIAL's financials and consequently could also impact the perceptions of lenders and investors of BIAL. BIAL therefore once again requests Authority to share the financial model as this will ensure a fair and consultative tariff determination process.

We hereby present our observations, suggestions and request in respect of determination of Aeronautical Tariffs for KIAB for the Third Control Period.

References to similar issues made together

Certain matters of principle have been analyzed by the Authority both in the True up of Second Control period and also in Third Control period estimates. BIAL has, for the sake of ease and comprehensiveness, addressed the same together at one place.

BIAL requests that these submissions be considered as applicable for all control periods, where relevant, including from Pre-Control period. (For example - Lease rent, Opening Gross Block of RAB etc.)

2. Principles disputed by BIAL in the past

<u>Authority's Analysis</u>

1.4 Hon'ble TDSAT directions with regards to decisions taken by AERA

1.4.1 Pursuant to BIAL's appeal against Order No. 18/2018 – 19, Hon'ble TDSAT has issued its order on 16th December 2020 for BIAL. The matters for the first and the Second Control Period raised by BIAL under its appeal and the judgement passed by Hon'ble TDSAT with regards to the same is given below.

1.4.2 AERA has looked at Hon'ble TDSAT directions and have applied the directions as applicable under the various regulatory building blocks towards tariff determination for the Third Control Period.

1.4.3 The major decisions of Hon'ble TDSAT are described below:

a) The Dual/Hybrid Till model for Bangalore Airport is as per request made by BIAL and accepted by AERA on the basis of directives of MoCA. Demand of FIA for Single Till cannot be accepted because the directives are under Section 42 of the Act.

b) The claim of BIAL that there is additional land beyond the airport precincts and therefore, beyond the tariff determination power of the Authority cannot be accepted. Income from such land has been correctly treated as non-aeronautical revenue.

c) The claim for pre-Control Period losses as determined in various parts of Para 5 of the first tariff order and virtually reiterated in the next tariff order are set aside and the claim is remitted back to AERA for fresh consideration on its own merits and in accordance with law.

d) The claim of BIAL for 21.66% equity IRR is not found acceptable as it is not promised or guaranteed in terms of any agreement between the concerned parties.

e) The decision to impose 1% penalty by way of reduction of the value of the Terminal II Building from ARR is just, proper and within the jurisdiction of the Authority because the word 'penalty' has been used differently in a peculiar context.

f) The order that BIAL should offer explanation if the cost incurred exceeds 10% of the cost approved by the Consultant suffers from no error and is within the powers of the Regulator.

g) Grant of 10% as tax cost by way of estimate made subject to truing up does not require interference but the Authority has to be cautious that the availability of adequate cash flow also has to be kept in mind in a holistic manner.

h) Decision of the Authority in excluding Rs. 69.45 crores from the opening RAB of the First Control Period suffers from no error.

i) Challenge by BIAL to the decision of AERA to grant uniform exemption to all transit/transfer passengers transiting within 24 hours, from the payment of UDF does not merit acceptance.

j) The decisions of AERA in respect of allocation of assets as well as of expenses as aeronautical and non-aeronautical needs no interference.

k) The decision of the Authority to consider interest income as non-aeronautical revenue is correct and BIAL's claim to exclude such income altogether is not found acceptable.

l) The direction of the Authority in both the tariff orders requiring BIAL to ensure service quality at the Airport is in conformity with the performance standards as indicated in the Concession Agreement is within the jurisdiction of the Authority and requires no interference.

m) The decision of the Authority to not allow CSR expenditure as a cost of the Airport Operator is not proper and is set aside. The Authority shall pass consequential orders so as to prevent loss of or reduction in the determined fair return to the equity holders. Necessary truing-up exercise shall be done accordingly.

n) The treatment by the Authority in respect of Lease Rentals and Infrastructure Recovery is proper and requires no interference.

o) Issues raised by BIAL in respect of cost of debt do not require any interference with the impugned tariff orders.

p) The plea for light touch regulation has rightly not been accepted by AERA. A preliminary issue raised by BIAL as to maintainability of appeal by FIA is found to be without merits.

q) As held earlier, the plea of FIA for single Till approach cannot be accepted.

r) Due to delay in the first tariff order the recovery period got shrunk to 21 months causing unnecessary burden on the users. This needs to be avoided by AERA but for this reason the tariff order does not require any interference.

s) The grievances raised by FIA against the decisions in respect of initial RAB have no merits.

t) The decision of AERA to allow in the peculiar facts depreciation up to 100% of the value of the assets suffers from no error.

u) Allowing bad debts to be recovered as operating expenses is a bad precedent and should not be followed in future because users should not be put to penalty for no fault of theirs. However, for pragmatic reasons such decision for the First Control Period is not set aside.

v) The practice approved by AERA permitting different treatment to Airlines in respect of landing and taking-off charges and parking charges is discriminatory and impermissible. However, since it has not been carried on during the Second Control Period, hence again for practical reasons alone, the decision is not being reversed. But AERA is requested to be more cautious in such matters in the future.

BIAL's submissions

BIAL believes that its submissions and legal positions are tenable in law and reiterates the same. BIAL is exercising its right of appeal in respect of the Hon'ble TDSAT order dated 16th December 2020 and continues to pursue its legal remedies available under law.

For brevity, BIAL is not reiterating its earlier positions and contentions contained in its submissions to various consultation papers, memoranda of appeal, written submissions and requests that the same be read as a part of this submission. BIAL respectfully states that all its submissions in this response are without prejudice to whatever BIAL has contended earlier.

3. Pre-Control Period

Authority's proposal

Based on the material before it and its analysis, the Authority proposes:

- To consider the pre-control period from Airport opening date (24th May 2008) till the start of the First Control Period (31st March 2011).
- To undertake the changes proposed in Table 3 while computing the under/over recovery of the pre-control period.
- To carry forward the under/over recovery amount computed in Table 4 for the pre-control period to the Third control period.

3.1 Consideration of Pre-Airport Opening Date (AOD) Losses

Authority's Analysis

The Authority noted that BIAL has included an amount of INR 53.3 cr. for the period prior to the Airport Opening Date (AoD). The Authority proposes to not consider the pre-Airport Opening Date losses (i.e., INR 53.3 cr.) based on the following:

a) BIAL being a greenfield airport, the airport was under construction/ trial run prior to 24 May 2008. Thus, the investment/ expenditure in regulatory building blocks by BIAL were not available for utilization to users/ passengers. Therefore, the users/ passengers cannot be asked to pay before availing the services offered by the airport. Further, the operational losses prior to the airport becoming operational has no logic.

b) Schedule 6 of the Concession Agreement is given below:

"BIAL will be allowed to levy UDF, w.e.f Airport Opening Date, duly increased in the subsequent years with inflation index as set out hereunder, from embarking domestic and international passengers, for the provision of passenger amenities, services and facilities and the UDF will be used for the development, management, maintenance, operation and expansion of the facilities at the Airport."

The Authority has reviewed the Schedule 6 of the concession agreement which states that BIAL's UDF shall be applicable only from the airport opening date. Further, the Authority noted that the investment in the aeronautical RAB will get capitalized from the airport opening date and consequently, the users should start paying from that date onwards. Therefore, the Authority proposes that the determination of airport charges for the pre-control period shall be determined from the airport opening date. (para 2.1.11)

BIAL's Submission

TDSAT Judgement

- TDSAT, in its judgement dated 16 December 2020, had directed AERA to look into the entire pre-control period for consideration on merits and in accordance with law.

BIAL's Financial results Pre-AOD

Background

BIAL is a special purpose vehicle established for the purpose of developing an international airport at Bengaluru. MoCA and KSIIDC are shareholders holding 13% each and with directors on the board of BIAL.

All expenses have been incurred by BIAL for the sole purpose of creating airport infrastructure. As a matter of principle, all costs and expenses incurred for creating airport infrastructure have to be recouped and this inevitably, in any business concern, would have been recouped through costs of product/services. It is requested that the underlying principle that all costs and expenses incurred for creating airport infrastructure be applied irrespective of nomenclature.

- BIAL started operations on 24th May 2008, much before AERA came into existence. BIAL had suffered financial losses in the first year of operations, on account of inadequate tariff.

- Additionally, BIAL has also incurred losses of Rs. 53.3 crores upto the Financial year ending 31st March 2008. This was on account of non-capitalization of certain expenses due to the then prevailing accounting standards. Hence, these expenses had to be charged to the P&L statement and this resulted in loss on the opening date of the Airport.

- While the Authority has considered the losses incurred by BIAL in the 1st year of operations, it has not considered the losses (Rs. 53.3 crores mentioned above), which are prior to the Airport Opening Date.

Accounting Principles governing the Financial Reporting

- Expenses incurred upto FY 08 and debited in the P&L account up to the commencement of commercial operations of the Airport (AOD) include costs relating to Salaries, Legal / Professional Fees, Travel, Overheads etc. These expenses are reflected in the Audited Financial Statements of the respective years and the same was also submitted to the Authority for consideration.

- As per the then existing extant accounting requirements, all the expenditures incurred prior to the commencement of commercial operations of the Airport, which are directly related to the Projects are capitalized by specifically allocating the cost to the respective projects. Other incidental expenditures, which cannot be directly related to construction activity and mainly in the nature of administrative costs such as Payroll of administrative staffs, Legal & professional charges, Advertisement/Corporate expenses, Travelling etc. are recognized as expense as and when incurred and shown under Net Losses during the pre-AOD period.

- Relevant paragraphs from Accounting Standard 10 pronouncements relating to cost items that can be capitalized and those that cannot be capitalized are as given below:

  Elements of Cost

  The cost of an item of property, plant and equipment comprises:

(a) its purchase price, including import duties and non –refundable purchase taxes, after deducting trade discounts and rebates.

(b) ***any costs directly attributable to bringing the asset to the location and condition*** *necessary for it to be capable of operating in the manner intended by management.*

Examples of directly attributable costs are:

(a) costs of employee benefits (as defined in AS 15, Employee Benefits) arising directly from the construction or acquisition of the item of property, plant and equipment*;*

(b) costs of site preparation;

(c) initial delivery and handling costs;

(d) installation and assembly costs;

(e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and

(f) professional fees.

Examples of costs that are not costs of an item of property, plant and equipment are:

(a) costs of opening a new facility or business, such as, inauguration costs;

(b) costs of introducing a new product or service (including costs of advertising and promotional activities);

(c) costs of conducting business in a new location or with a new class of customer (including costs of staff training); and

(d) administration and other general overhead costs.

- The principle followed, in line with the above standards, is explained and disclosed under the Notes to accounts in the Financial Statement of FY 09. Financial statements have been submitted to the Authority as part of responses to queries raised. The relevant extracts from the submitted Financial statements are reproduced below.

(viii) Incidental Expenditure during Construction Period

Incidental expenditure during construction period (net of related income arising during that period) directly related to the project, incurred prior to commencement of commercial operations is carried forward and allocated to the extent identifiable with any particular fixed asset else it has been allocated to various fixed assets in proportion to their cost on commencement of commercial operations. Incidental expenditure not related to construction, and corporate expenses are recognised as expense when incurred.

SCHEDULE TO ACCOUNTS

17. NOTES ON ACCOUNTS

Rs.000

2. The expenses charged to the Profit and Loss Account up to the AOD, in accordance with the relevant accounting standards/ pronouncements relate to the following categories:

   (a) Expenses that do not meet the criteria for recognition of an intangible asset;
   (b) Incidental Expenditure not related to construction of the project; and
   (c) Expenditure incurred owing to the corporate status of the Company (i.e., Corporate expenses).

- BIAL notes that AERA has commented that Operational Expenses before Airport became operational has no logic. BIAL submits that these were actual costs incurred by BIAL at the time of setting up of the Airport facilities for the beneficial use of the Airport users in future, which could not be capitalized as per the extant accounting principles. Such costs are normally incurred at the time of setting of large Infrastructure facilities. Accounting treatment given to these costs were exactly in compliance to the applicable accounting standards as mandated under the Companies Act and hence the same cannot be construed as not being logical.

Recovery under regulatory principles

- Being a regulated entity, any loss / costs incurred can only be recouped through the tariff mechanism of the subsequent periods. Denial of this recouping mechanism is against principles of natural justice to BIAL, as the loss is on account of compliance to prevalent accounting standards and not otherwise. Also, AERA's principles of True up mechanism adequately provide for recovery of costs/ shortfalls of the past periods in the future tariff years.

- If these costs were not expensed off but added to the Asset Base, as per Authority's extant guidelines, the cost would have been recouped in the form of depreciation and also provided a Fair Rate of Return. On the contrary, BIAL has only requested for recoupment of the expenses incurred without any additional return on it, and hence BIAL requests the Authority to include this as a part of Pre-Control period losses.

- BIAL notes that the Authority has specified about the costs not benefitting the users/ passengers and that as per the Concession Agreement, the users have to pay only from the day the Airport is put to use. BIAL was incorporated only for the purpose of building and running the Kempegowda International Airport and hence the costs incurred are related to the said activity only. Due to prevalent accounting standards, substantial portion of costs were capitalized whereas a small portion of cost was charged off to the P&L. All these costs have been incurred towards construction of the airport facilities and such costs incurred by every Corporate Entity. This has also been explained in Direction 5 – Authority's guidelines, as given below.

- Direction 5 – Authority's guidelines itself provide the framework and recognizes that certain costs may be capitalized to Projects and certain other costs could be considered as part of the P&L (not capitalized). BIAL has exactly followed the same to comply with the extant accounting standards and guidelines applicable. The list below in Direction – 5 also includes different categories of costs viz Legal Fee, Consultancy charges etc., Personnel costs not capitalized to Projects etc., similar costs are considered by BIAL as a charge to its P&L statement.

(d) Payroll costs related to capital projects shall be submitted separately.

A5.5.5.3. Administration and general expenses - Airport Operator(s) shall submit, in specified Form F11(c), as under:

(a) all general administration and corporate costs, including break-up of all expenses related thereto:

(b) Provided that the said costs shall be further segregated as :

(i) Administration charges, including director's sitting fees, communication expenses, travelling and conveyance, advertisement, office maintenance, printing and stationery, other allocated overhead expenses.

(ii) Legal and Auditor's Fees

(iii) Consultancy and advisory expenses

(iv) Other charges including land lease rent, insurance costs, miscellaneous expenses

(c) Copy of Board approvals, consultancy, legal, and other contracts, insurance documents, rent agreements and other relevant documents shall be submitted as proof thereof.

(d) Costs related to capital projects proposed to be capitalized shall be submitted separately.

<u>MOCA's ad hoc tariff determination</u>

- BIAL is a Special Purpose Vehicle Company which was incorporated on 5th January 2001 for implementation of Greenfield airport at Devanahalli on a Build Own Operate and Transfer (BOOT) model under Public Private Participation (PPP) basis.

- All expenses incurred before the Airport Opening Date are only for the purpose mentioned above. The expenses in question are in the nature of pre-operative expenses. Substantial portion of this was capitalised into Project cost, while the remaining portion, on account of prevailing accounting Standards, was taken to the P&L account. As these expenses were charged to the P&L statement, this reflected as loss as on the opening date of the Airport. The nature of expenses has not changed and only treatment in the books has changed.

- Further, BIAL had also incorporated these Expenses charged to the P&L, while submitting the tariff proposals to MOCA. Based on these submissions, MOCA had granted ad-hoc tariff (domestic and International) to BIAL.

- The Authority has been directed by TDSAT to consider true up for the entire pre-control period. The Authority's interpretation of not considering pre-AOD period is incorrect and is against TDSAT Judgement.

Summary

- The Accounting standards form the bedrock of Financial statement reporting and is to be strictly followed by all companies established in India. These standards are mandated by the pronouncements of Ministry of Corporate Affairs.
- BIAL has followed the accounting treatment as per the applicable accounting standards.
- BIAL cannot be penalized for following the standards and the law of the land.
- These are real expenses incurred by BIAL for setting up the airport facilities and hence has to be reimbursed to BIAL.
- BIAL has no other means of recovery of these costs other than through true up of the ARR.

BIAL believes that the tariff period can be classified into the following blocks:

- Airport Opening Date – 24.05.2008 to 01.01.2009 (i.e. Notification of AERA Act)
- 01.01.2009 to12.05.2009 (i.e., establishment of AERA)
- 12.05.2009 to 01.09.2009 (i.e., notification of powers of AERA) (including Section 13)
- 01.09.2009 to 01.04.2011 (i.e., first tariff period commencement)

Accordingly, the Authority can consider, for the period prior to establishment and notification of powers under AERA Act (period prior to 01.09.2009), the reference basis for the Authority to be at the least, the provisions of the Concession Agreement. The concession agreement is a self-contained and detailed document, giving necessary and appropriate provisions for tariff determination.

BIAL had also submitted in the past, the basis of all expenditure (capital and operating) from the time its incorporation and considering that BIAL is a SPV incorporated only for the purposes of development of KIAB and BIAL did not undertake any other activity other than development related activities of KIAB. Hence, BIAL once again requests and pleads that this expenditure needs to be taken into consideration for the purposes of pre-control period shortfall.

3.2 Legal Remedy available to Stakeholders

Authority's Analysis

The Authority understands that some stakeholders may seek legal remedy against the proposal of the Authority related to pre-control period losses for BIAL. This proposal of AERA is thus subject to the outcome of any such litigation. (para 2.1.16)

BIAL's Submission

- BIAL has noted AERA's comments that certain stakeholders may seek legal remedy on Authority's proposals on Pre-control period losses. BIAL believes that this remark of Authority is avertable and renders no meaning for the purposes of Consultation paper.

- AERA is an independent regulator who determines tariff as per the applicable regulatory principles and its own analysis. The Authority has clearly included a section in the Consultation Paper regarding TDSAT order and the consequential action being proposed by the Authority.

- It is well within the knowledge of every stakeholder regarding legal remedies available under applicable law and BIAL believes that there is no reason to include such statements in the Consultation Paper.

- BIAL believes that the above referred AERA's statement may be construed as tacit encouragement to certain stakeholders to avail legal recourse against the stated Authority's proposal made in the Consultation Paper.

- We request the Authority to withdraw this paragraph from the Consultation Paper as this may be mis interpreted to colour the Authority's' intentions.

3.3 Adjustments made in computation of Pre-control Period shortfall

<u>Authority's Analysis</u>

To undertake the changes proposed in Table 3 while computing the under/ over-recovery of the pre control period. (para 2.2.2)

<u>BIAL's Submission</u>

- Table 3 of the Consultation Paper lists down the various aspects of the Building Block wherein the Authority has made adjustments based on its Principles. BIAL once again requests AERA to consider the principles based on submissions and explanations provided by BIAL on these based on the MYTP documents / submissions made in previous control periods.

- BIAL also submits that Authority has considered Notional lease rentals on Hotel from the Airport Opening date. BIAL wishes to inform that the hotel became operational only in September 2016 and we fail to understand how a notional lease rental can be prescribed for an asset which was not even in operation in the said period of time. BIAL's submissions on the same is detailed in the appropriate section on notional lease rentals. (Para 4.16)

- BIAL's submission on Treatment of 30% subsidization from Non-Aeronautical Revenues to be considered as Taxation is elaborated in Para 4.13

4. True Up for the Second Control Period

Authority's Proposal

- To consider the aeronautical RAB as per Table 15 for true-up of the Second Control Period.
- To consider depreciation as per Table 26 for true-up of the Second Control Period.
- To consider WACC as per Table 22 for true-up of the Second Control Period.
- To consider aeronautical operating expenditure as per Table 33 for true-up of the Second Control Period.
- To consider aeronautical taxation as per Table 36 for true-up of the Second Control Period.
- To consider non-aeronautical revenues as per Table 40 for true-up of the Second Control Period.
- To consider aeronautical revenues as per Table 42 for true-up of the Second Control Period.
- To consider the adjustment to the First Control Period true-up as per Table 43 for true-up of the Second Control Period.
- To carry forward the over-recovery amount of 2nd control period of INR 1030.21 cr. as on 31 March 2022 (excluding pre-control period shortfall) as per Table 46 to the Third Control Period.

Regarding Regulatory Asset Base (RAB)

4.1 Reduction of Rs. 38.93 crores for assets disposed

Authority's Analysis

Table 14 computes Aeronautical asset addition proposed by the Authority for Second control period. In this Rs. 38.93 crores have been adjusted as *Adj - Exclusion of written off - amount in FY20 as per IGAAP audited accounts (disposal of assets not accounted by BIAL) (C)*

BIAL's Submission

- During the process of review of MYTP, BIAL has submitted reconciliation between the Gross Block as per the Fixed Asset Register and the value of Assets as per the IGAAP Financial statements. In this reconciliation an asset line of Rs. 38.93 crores have been shown as an item of reconciliation where the item was removed from the Gross Block of assets as the item was disposed of.

- Summary of response provided during review of MYTP is as below:

Asset addition as per Business Plan	2046.16
Asset addition as per Asset Register	2007.23
Difference (Note 1)	38.93

Note 1 - There will be a difference of Rs 38 crores in the gross block between this version of FAR and that additions as per model. This is because, the current FAR is based on audited IGAAP financials. In the audited IGAAP accounts, two assets relating to canopy **with WDV of Re 1** but with gross block and accumulated depreciation of Rs. 38 crores were removed from the gross block itself. Hence, the difference in the gross block between the numbers as per business model and this FAR.

- It may be noted that in case of the above 2 assets, the Net Block (i.e., Asset Base) is Rs. 1 and the asset was fully depreciated. Hence, there is no adjustment required to be made to the Regulatory Asset Base, which essentially is the Net block of assets.
- AERA has incorrectly considered the Gross block value for reduction to RAB whereas the adjustment if any should be on the net block / written down value **(Re. 1)**
- Hence, BIAL requests the Authority to remove the incorrect reduction of Rs. 38.93 crores from the RAB estimate.

4.2 Pre-operative Expenses

Authority's Analysis

The Authority had decided in para 9.2.11 of the Second Control Period, that the pre-operative amount of Rs. 150 crores will be considered for the purpose of estimating the costs and capitalization for Second Control Period Order. The Authority had also decided that it would review and true-up the same after the projects are commissioned based on a study of the actual cost incurred and its reasonableness. (para 3.3.13)

The Authority further noted that the pre-operative expenses proposed to be capitalized in the Second Control Period is INR 77 cr. The Authority noted that the pre-operative expenses include the cost of employees involved in undertaking the capital expenditure in Second Control Period and other miscellaneous administrative expenses. The Authority has already accounted the design and PMC cost for the capital expenditure in the Second Control Period and is of the view that the pre-operative expenses are redundant cost. The Authority proposes to exclude the pre-operative expenses from the asset additions of the Second Control Period. (para 3.3.36)

The Authority has examined the submission of BIAL with respect to the pre-operative expenses. The Authority is of the view that the tasks of the BIAL's project team are generally part of the airport's scope of work and these costs should not be capitalized. Further, the Authority notes that the magnitude of the pre-operative expenses proposed by BIAL (INR 356 cr. exclusive of ORAT costs) is not justified given the additional costs proposed by BIAL for the design and project management consultants. Therefore, the Authority proposes to exclude the pre-operative expenses on the deferred projects of the Second Control Period from the RAB of Third Control Period. (para 5.2.46)

BIAL's Submission

AERA's position on Pre-Operative Expenses in the Second Control Period Order

- BIAL had submitted an estimated cost of approx. Rs. 281 crores towards Pre-Operative expenses as part of PAL-1 Project Capital Expenditure estimate in the Second Control period for Authority's consideration.

- Below Paragraphs from the Second Control Period Order detail the Authority's evaluation of Pre-Operative Expenses.

9.2.9 The Authority had noted that RITES had commented about the Pre-Operating Expenses submitted by BIAL, as follows:

"...An amount of Rs. 461 Crores has been included in the revised submissions towards preoperative costs which includes Rs. 180 Crores towards PMC. The cost towards PMC is already taken into consideration at Sl.no.14 above and hence to be excluded. AERA may therefore like to take a view on the balance amount of Rs.281 Crores claimed towards Pre-Operative expenses..."

9.2.10 Authority had obtained certificate from Chartered Accountant on the details of Pre-Operative expenses carried in books and sought confirmation that these costs were not considered as part of the expenditure debited to P&L account. Extract from the certificate of the Chartered Accountant is as below.

This is to certify that Bangalore International Airport Limited (BIAL) has incurred the below mentioned preoperative expenditures for various projects, during the FY 2016-17 and FY 2017-18 (Till Dec 2017).

Amount in INR

Particulars	FY 2016-17	FY 17-18 (Till Dec 17)
Opening Balance of Preoperative Expenses	**45,84,96,394**	**65,50,28,603**
Add: Expenses Incurred during the year :		
Payroll Costs	30,20,48,698	21,80,13,508
Professional & Technical Consultancy	3,96,77,225	17,15,417
Travelling and Conveyance	1,76,46,197	70,77,721
Other Project Costs	23,71,514	1,83,72,626
Less: Preoperative Expenses capitalized	**(16,52,11,424)**	**(5,03,79,160)**
Closing Balance of Preoperative Expenses	**65,50,28,603**	**81,13,63,283**
No. of Employees whose cost included above	**105**	**92**

Also confirm that these costs are part of Capital work-in-progress and not included in Operating Expenditure debited to P&L account.

9.2.11 The Authority had reviewed the certificate provided. The Authority also noted that certain costs relating to Pre-Operative Expenses were carried over from the year 2015-16 (and may be before too). The Authority also noted that BIAL had submitted details of the personnel deployed, cost of which would be debited to Pre-Operative Expenses. ***The Authority noted that there was a need to have an own Project Management Team when large scale Capital Expenditure Projects are being executed. The Authority urged BIAL to ensure that the costs relating to Pre-Operative Expenses be optimally managed based on the requirements of the stated projects only. As these costs were proposed to be incurred over the second control period, the Authority proposed to consider an amount of Rs. 150 crores towards the same, as against BIAL submission, for the purpose of***

estimating the costs and capitalization for MYTP. *The Authority would review and true up the same after the Projects are commissioned based on a study of the actual cost incurred and its reasonableness* ***(emphasis supplied).***

- From the above, it is evident that AERA has not only acknowledged the need for having an own Project Management team but has also provided for the estimated addition to RAB at Rs. 156 crores (incl. GST addition Rs. 6 crore), against BIAL's estimate of Rs. 281 crores. AERA had also noted clearly that this would be reviewed and trued up based on a study and the reasonableness of the costs.

- Having rightly noted the need for own Project Management team and its associated costs in Second Control period Order, AERA cannot now adopt an inconsistent approach which is in reversal of the approvals given for incurring such costs and subsequently branding the same as "redundant", considering the fact that BIAL has relied on AERA's MYTO of the second control period and factored such costs at the time of Financial closure.

- This proposal does not have basis because of the principles of Promissory Estoppel. It was on the basis of the second tariff order that BIAL incurred such expenses.

- It is the legitimate expectation of BIAL that treatment that has been accorded to other airports should also be accorded to BIAL. BIAL also has the right of "Equivalent Treatment" under the Concession Agreement.

- The Hon'ble Supreme Court has in multiple instances applied the principles of promissory estoppel, legitimate expectations and the concept of level playing field.

- Even otherwise, the statement of objects and reasons of AERA Act specifically sets out that one of the objectives of AERA is to "*create a level playing field and foster healthy competition amongst all major airports".* Not allowing for pre-operative expenses (for BIAL) not only fails to create a level playing field but also creates a distinct disadvantage to BIAL as compared to other airports where pre-operative expenses have been considered

- Therefore, BIAL requests AERA to consider pre-operative expenses as incurred by BIAL.

- No detailed explanation/ justification has been provided by the Authority for the change of mind/ thought and no rational reasoning has been provided for the exclusion of the entire cost head – Pre-Operating expenditure (incurred and to be incurred).

- Authority's revised stand is in contravention to their own MYTO of the second control period, will result in incorrect determination of the RAB addition on capitalization of the expansion projects and this disallowance will severely impact the cash flows of BIAL.

<u>AERA's position and consideration of Pre-Operative Expenses as part of Capital Expenditure in other Airports</u>

- AERA has also considered the same as part of the Project at the time of review of additions to RAB – For example in DIAL/ MIAL and even in case of T1 Expansion Project of BIAL. Certain references are included below

MIAL - Table 34: List on New Projects considered by the Authority for the 2nd Control period.

In Rs. Crores	***FY 14-15***	***FY 15-16***	***FY 16-17***	***FY 17-18***	***FY 18-19***	***Total***
Taxiway 'M' (Only Slum Rehab cost)	-	34.93	37.69	40.66	43.88	157.15
Air India Code 'C' Hangar	-	53.10	-	-	-	53.10
South-East Pier (between Grid RE29 – PE 12)	90.00	318.50	-	-	-	408.50
Meteorological Farm	-	12.67	-	-	-	12.67
Sub Total	90.00	419.20	37.69	40.66	43.88	631.43
Soft Cost (IDC & Preoperative)	-	80.05	10.00	13.98	18.25	122.29
Total cost of new Projects as above	90.00	499.25	47.69	54.65	62.12	753.72

MIAL First Control Period Order

Description	***Revised Cost II (Oct 2011) in Rs Crore***	***Cost disallowed in Rs Crore***	***Cost not presently included in Rs Crore***	***Project cost being considered in Rs Crore***
T1 Projects	453	54.00		399.00
T2 Projects	5,083	0.60		5,082.40
Runway, Taxiway & Apron	1,545		32.34	1,512.66
Landside Projects	41	1.00		40.00
Miscellaneous projects	562	52	25	485.00
Technical services & consultancies	834	48.00		786.00
Capital expenditure for operations	118			118.00
Pre-operative expenses	684			684.00
Capitalized interest	1,410			1,410.00
Upfront fee paid to AAI	154	153.85		-
ATC Equipment cost & Technical block in NAD colony	310		200.00	110.00
Contribution to MMRDA for Sahar elevated road	166			166.00
WHSS-Shivaji Smarak/Memorial	25		25.00	-
Mithi river realignment	150			150.00
RET N5 & E2	51	0.75		50.25
Enabling cost for taking over of carved out assets (NAD colony)	110		110.00	-
Cost of settlement of land	30		30.00	-
Project cost	11,750			11,017.46
Escalation & Claims	450			450.00
Contingency	180			180.00
Total Project cost	12,380	310.20	422.34	11,647.46

Extracts from Consultation Paper (02/2011-12) of DIAL on DF
5.3 The Summary of Project Cost (Rs. In crores) recommended by EIL is as below:

Description	***Initial cost as per DIAL***	***Final cost as per DIAL***	***Allowable cost as per EIL***
T1, T2 & Initial CWIP	*762*	*754*	*754*
Runway/Taxiway/Apron/Lighting	*1,765*	*2,634*	*2,610.18*
Terminal-3 and Associated buildings	*4,669*	*6,836*	*6,373.50*
Airport services building & Airport connection building	*-*	*160*	*160*
Preliminary, Preoperative & IDC	*1,279*	*1,320*	*1,320*
Metro	*350*	*350*	*350*
Upfront fee paid to AAI	*150*	*150*	*-*
Rehabilitation of Runway 10-28	*-*	*110*	*90*
Delhi Jal Board Infrastructure Funding	*-*	*54*	*54*
New ATC Tower with Equipment	*-*	*350*	*-*
Security Capex	*-*	*139*	*139*
Total Project Cost	***8,975***	***12,857***	***11,850.68***

- This concept has been accepted and approved by AERA and with this background only, AERA has approved Pre-Operative Expenses in the second control period Order of BIAL.

- Expansion projects undertaken by BIAL is no different from those undertaken by DIAL/ MIAL/ HIAL etc. Hence, AERA cannot treat BIAL in a discriminatory manner as proposed in the Consultation Paper.

- Authority has not conducted any study on reasonableness of the Pre-Operative expenses submitted by BIAL. Considering that the Project construction is still ongoing, AERA has proposed to not consider the cost in entirety. This is contradicting AERA's position in second control period Order wherein it proposed to review and true up once the projects are commissioned.

- To summarily reject a major cost head (that was already approved by the Authority, and which is directly connected with Project implementation) is unjust and discriminatory.

- We further wish to submit that in the Consultation Paper No. 11/ 2021-22 issued by the Authority in case of HIAL, within a week after BIAL Consultation Paper was issued, AERA has proposed consideration of Pre-Operative expenses to be added to the RAB. Such discriminatory treatment is neither explained nor is fair to BIAL.

- References to consideration of Pre-Operative Expenses to RAB, from Hyderabad Consultation Paper is reproduced below:

  6.2.3 Soft Cost
  (e) Preliminaries, Insurance & Permits
  As per HIAL's submission, an amount of Rs. 120.10 Crores is also provisioned towards preliminaries, insurance & permits in the capital cost proposal at approx. 2.39% of the proposed capital hard cost of works (i.e., Rs. 5030.19 Crores). The breakup of Rs. 26.50 Crores includes the building permission fee (Rs.

*7.968 Crores). The various insurances and **preoperative expenses** are expected to be incurred and Rs. 93.60 Crores is estimated as the lump sum basis for future expenses.*

After the review of preliminaries by RITES, insurance & permits cost was restricted to Rs. 98.35 crores as against Rs. 120.10 Crores submitted by HIAL.

RITES Report
5.2.8.1. PRELIMINARIES, INSURANCES AND PERMITS
An amount of Rs. 348.99 Crores is provisioned in the capital cost proposal towards preliminaries @ 16.308% of the Basic cost of works excluding Cess & GST etc. This amount of preliminaries refers to Expansion works awarded to L & T for PTB (266.906 Crores), Apron & Taxiway (72.338 Crores) and GSE Tunnel (9.747), whereas the cost of awarded work for these three is 3063.99 Crores. The amount is said to be catered Mainly for Site overheads and running cost(65.156Cr.) ,Head office overheads(62.25Cr.) ,provision of contractor's insurance Professional indemnity in respect of Contractor's design obligations(6.508Cr.), temporary Barricading(11.634Cr), Establishment, Operation, Maintenance and removal of Contractor's labor camp, Contractors equipment, Fabrication yard ,store stock yard ,test labs and other facilities as required for execution of Expansion work(32.071Cr) ,Deployment of consultant (Design services 63.50 Cr.), plant and tools like Tower cranes (8.258 Cr.) and other preliminaries and general requirement (6.030Cr). For Phase 2 part 82.96 Cr. is catered Lump sum basis.
Similarly, Preliminaries are included in Airport System work awarded to Megawide (80.301 Crores excluding GST).
*However, an amount of Rs. 120.10 Crores is also provisioned towards preliminaries, insurance & permits in the capital cost proposal @ approx. 2.39% of the Proposed Capital hard cost of works (i.e.,5030.19 Crores). The breakup of 26.50 Crores are Building permission fee (7.968 cr.) and various insurances and **preoperative expenses** are incurred and 93.60 Crores is estimated lump sum basis for future expenses.*

- From the above, it is very evident that the Authority had accepted and approved Pre-Operative Expenses as a legitimate item of Capital Expenditure, in other major airports. Authority should apply the same basis for BIAL also. In other words, equals cannot be treated unequally.

Details and Justification of the Project team deployed their work scope and responsibilities

- Notwithstanding anything said above, BIAL would like to explain the need, roles, responsibilities of its Project Team in the implementation of the expansion projects.

- In response to a query during MYTP evaluation, BIAL has submitted details of the activities performed by BIAL Projects team, comparison and contrast with the functions performed by the PMC etc.

- BIAL is again submitting herewith the details of functions performed by the Projects Team, how this is not in overlap with the Operational functions of running and managing an Airport, together with the details of work division between PMC and Projects team as Annexure 1

- Authority has noted that "The Authority is of the view that the tasks of BIAL's project team are generally a part of the airport's scope of work and these costs should not be capitalized".

- As per clause 2.1 of the Concession Agreement (CA), the scope of work of BIAL is split into 3 distinct areas, as given below:

  The scope of the Project (the Scope of the Project.) shall mean:
  2.1.1 the development and construction of the Airport on the Site in accordance with the provisions of this Agreement
  2.1.2 the operation and maintenance of the Airport and performance of the Airport Activities and Non-Airport Activities in accordance with the provisions of this Agreement; and
  2.1.3 the performance and fulfilment of all other obligations of BIAL in accordance with the provisions of this Agreement

- The definition of the term "Airport" as explained in the Definition section of the CA is *"Airport means the greenfield international airport comprising of the Initial Phase, to be constructed and operated by BIAL at Devanahalli, near Bangalore in the State of Karnataka and includes all its buildings, equipment, facilities and systems and* ***including, where the circumstances so require, any Expansion thereof, as per the master plan****".*

- Further. The term "Expansion" is also defined in the CA and it means the expansion of the facilities at the Airport from time to time as per the master plan. Further, clause 7.2 talks specifically about Expansion of the Airport.

- As can be seen from the above background, there is a clear distinction between normal operations and maintenance of the Airport (as per 2.1.2) and Expansion of Airport facilities (as per definition section and as per 7.2). Hence, the parties to the CA have clearly bought out the 2 aspects – normal operations and future expansion, as distinct activities, as 2 different activities to be performed by BIAL.

- The Authority cannot now say that any expansion of the airport is a part of a routine activity of the airport's scope of work. If that were so, there was no need for the parties to specifically carve out these 2 activities separately as scope of work for BIAL to perform under the CA.

- Authority has also commented that the magnitude of Pre-Operative Expenses is not justified given the additional cost for Design and PMC. BIAL submits that when AERA approved the Capital Expenditure in the Second Control Period order, the approved cost had all the 3 elements viz. Design, PMC and Pre-Operative expenses. Design/ PMC costs were benchmarked against AAI Projects while an adhoc amount of Pre-Operative Expenses was approved by the Authority. Each element of cost is unique and increase in one cost element cannot be the reason for denial in another cost element. All these 3 costs are needed for completing the project.

- Also, the Authority had, during the Second control period order also noted that AERA would do an evaluation of the costs and reasonableness of all the above 3 elements of cost independently. BIAL has submitted detailed reasons for cost increase and also provided break-up details and justification of the Pre-Operative expenses incurred. Authority cannot create linkages between these 3 cost elements and interpret that increase in one element would be compensated by another.

Salary and Overhead costs being capitalized recognized in Direction 5

- Pre-Operative Expenses estimated submitted by BIAL includes costs relating to Salary of Personnel deployed from Projects Team, Project Office Running expenditure, Travel, Insurance and other Overheads.

- Direction 5 – The Guidelines issued by the Authority itself takes cognizance of certain costs relating to Personnel and Other expense being capitalized to projects. Relevant extracts are given herein.

(d) Payroll costs related to capital projects shall be submitted separately.

A5.5.5.3. Administration and general expenses - Airport Operator(s) shall submit, in specified Form F11(c), as under:

(a) all general administration and corporate costs, including break-up of all expenses related thereto:

(b) Provided that the said costs shall be further segregated as :

(i) Administration charges, including director's sitting fees, communication expenses, travelling and conveyance, advertisement, office maintenance, printing and stationery, other allocated overhead expenses.

(ii) Legal and Auditor's Fees

(iii) Consultancy and advisory expenses

(iv) Other charges including land lease rent, insurance costs, miscellaneous expenses

(c) Copy of Board approvals, consultancy, legal, and other contracts, insurance documents, rent agreements and other relevant documents shall be submitted as proof thereof.

(d) Costs related to capital projects proposed to be capitalized shall be submitted separately.

- Hence, Authority observation that these costs should be a part of Operating Expenses and not capitalized, is not in line with its own regulations and also not in accordance with the accounting principles and standards.

Accounting Treatment for Pre-Operative Expenses

- It is established accounting principle that any costs that are directly attributable to the commissioning of an asset should be capitalized as part of the asset cost. Accordingly, it is justified that such Pre-Operative expenses are accounted as part of Capital Expenditure. Authority's noting that such costs should be part of Operating Expenses is not in line with extant accounting principles.

Certification from Auditors

- Expert opinion on the subject issued by the auditor is enclosed herewith as Annexure 2

Contradictory noting on Pre-Operative Expenses by the Authority

- AERA has, in different paragraphs of the Consultation Paper, accorded different views on the Pre-Operating Expenses as follows:

  - Rs. 150 crores of costs estimated for capitalization in Second Control Period Order being considered as "Redundant" in the current Control period as Design and PMC costs are already accounted for.
  - Magnitude of Pre-Operative expenses is not justified given additional costs proposed by BIAL for design and PMC.
  - Costs needing to be considered as part of Operating Expenditure and should not be capitalized.

- From the reading of the above, if AERA feels that the magnitude of Pre-Operative expenses submitted by BIAL are not justified, it can commission an Independent study to review the reasonableness of the cost and BIAL should be given an opportunity to present its views on the findings of such study.

- BIAL has also obtained an auditors' certificate listing the value of Pre-Operative Expenses capitalized and lying in CWIP. This is enclosed as Annexure - 3

- Until the conclusion of such a study, BIAL's estimate of Pre-operative expenses may be considered in the RAB by the Authority and true up be done in the fourth control period.

Summary

We request the Authority to:

- Honor Authority's own guidelines and principles
- Give effect to decisions and process detailed in the past tariff orders
- Avoid discrimination between airports
- Respect extant accounting principles and Expert certification in this manner

Accordingly, BIAL requests that Pre-Operative expenses not be summarily rejected but the expected cost at completion as submitted by BIAL needs to be considered as part of addition to Regulatory Asset Base.

BIAL is agreeable to subject itself to any independent evaluation/ review of reasonableness of such costs.

4.3 Asset Allocation ratios

4.3.1 Allocation of Opening RAB

<u>Authority's Analysis</u>

The Authority had decided to consider the allocation between Aeronautical Area and Non-Aeronautical Area of Opening RAB as per Authority's analysis detailed in FCP order, considering 88.52% of Opening RAB and 87.70% of Terminal Area Expansion works as aeronautical. (para 3.3.20)

<u>BIAL's Submission</u>

- Following is the extract of Authority's Order of the First Control Period

8.26 With respect to Terminal 1 Expansion area (T1A), the Authority noted that according to BIAL, the additional Aeronautical Area constructed for Terminal 1 Expansion was 54810 sq. m whereas the additional Non-Aero area constructed was 7684 sq. m and additional common area was 22436 sq. m totaling to additional constructed area of 84,930 sq. m. This resulted in a ratio of 87.70%:12.30% for Terminal 1A Area between Aeronautical and Non-Aeronautical areas. The Authority proposed to consider this ratio in allocation of T1A cost between Aeronautical Assets and Non-Aeronautical Assets, for the present, for consideration under additions to RAB ***. The Authority noted that BIAL shall provide year-wise audited space allocation with the details of allotment for concessionaires and accordingly the asset allocation for Aeronautical RAB is likely to vary. The Authority proposed that this will be trued up at the time of determination of Aeronautical Tariffs for the next control period.***

- Decision 4 of the MYTO of First control period contained the following on asset allocation:

Decision No. 4. Allocation of assets and Operation and Maintenance Expenditure between Aeronautical and Non-aeronautical services
a. The Authority decides:
i. To consider the allocation of Opening RAB as of 1st April 2011 between Aeronautical and Non-Aeronautical Assets as determined by the Authority and detailed in Table 15.
ii. To consider the allocation of assets relating to Terminal 1 expansion between Aeronautical Assets and Non-Aeronautical Assets as detailed in Para 8.26 above.
iii. To consider the allocation of Operation and Maintenance Expenditure between Aeronautical and Non-Aeronautical services as submitted by BIAL as per Table 13 for computation of ARR for the current control period.
iv. To commission an independent study to assess the reasonableness of the asset allocation considered in Para i and Para ii above (Refer Para 8.70.1 above).

- The Authority had noted the following in the Second control period Order

8.6.4 The Authority had also included a proposal to carry out study of allocation of area between Aeronautical and Non-Aeronautical area and consider the same appropriately at the time of true up of ARR for the second control period.

- The Authority, vide decision 5 in the Second Period Order had noted the following:

5 (a) (ii) 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 next control period.

- Hence, from the above it is clear that the Opening RAB allocation and further allocation considered by the Authority in the First Control period was subject to an independent study to be conducted. This was also noted in the MYTO of the Second Control Period.

- Also, Para 70 of the TDSAT Order noted that AERA has commissioned a study for allocation of assets as given below:

  At this stage, it would not be proper to interfere with the allocation made by the Authority when admittedly a study has already commenced. AERA has taken the stand that allocation as per the outcome of study will hopefully be implemented in the Third Control Period. Hence, AERA is directed to take suitable and required steps to ensure that the study is completed at the earliest and put to use as indicated.

- The Authority, in the Consultation Paper for the Third Control Period has proposed to adopt the closing RAB of the First Control Period as such, as the Opening RAB of 1st April 2016 without carrying out an Independent evaluation of the assets of the Airport from Airport Opening date.

- We request the Authority to true up the Opening RAB as of First Control period be trued up based on a full-fledged allocation study being carried out and appropriately the same may be trued up from the Pre-control period onwards.

- Also, we request the Authority to provide adequate guidelines on the manner of classification of various assets and areas into Aeronautical/ Non-Aeronautical and Common and the manner of division of the common assets, so that there is clarity on the same for future periods for all Airports.

4.3.2 Ratio of Allocation of assets capitalized during second control period between Aeronautical and Non-Aeronautical

<u>Authority's Analysis</u>

The Authority has considered the opening RAB of FY17, capital addition and corresponding depreciation based on the results of the study on asset allocation (refer Annexure I for summary of the report and Appendix II for the report) (para 3.3.37)

The asset allocation study reviewed the various asset categories and developed a basis for segregation of various assets into aeronautical, non-aeronautical and common. Based on the same, the Authority has reclassified some portion of assets. (para 3.3.38)

BIAL's Submission

- BIAL requests the Authority to consider the following submissions and change the asset allocation accordingly.

Asset Details	Allocation by BIAL	Allocation by AERA in Consultation Paper 10	Adjustment (Rs. Cr.)	Explanations / Reasoning for BIAL allocation
Electrical and Powerhouse Equipment (S # 1)	Aeronautical	Common	(4.69)	• Power is a necessary utility that is required to be provided by the Airport Operator. All Electrical and Powerhouse Equipment are for core Airport usage. • Also, AERA adjusts the Utility cost recovery charges received from Concessionaires from Operating expenses and considers the entire cost as Aeronautical. • Accordingly, all Electrical and Powerhouse Equipment costs are to be considered Aeronautical.
Car Park related Assets (S # 4)	Aeronautical	Non-Aeronautical	(0.17)	• Assets listed in the study report are signages adjacent to Main access road and Parking display. • These are not car parking area related assets but signages and displays needed for passenger convenience and guidance • According the same may be treated as Aeronautical
Water Harvesting Assets (S # 5)	Aeronautical	Common	(13.29)	• Assets relating to water harvesting – Mainly the ponds and other pipelines are considered as Common by AERA. • These assets are part of the Utility infrastructure being created by BIAL as part of its Environment and Sustainability initiatives. • As submitted earlier, the Utility assets which are for core Airport Operations should be treated as Aeronautical

Asset Details	Allocation by BIAL	Allocation by AERA in Consultation Paper 10	Adjustment (Rs. Cr.)	Explanations / Reasoning for BIAL allocation
				• Also, any cost recoveries from these assets are adjusted from Operating Expenditure and the entire cost is treated as Aeronautical • Accordingly, we request the Authority to treat these Assets as Aeronautical

4.3.3 Allocation ratio considered for certain projects/common assets for FY 21 and for Third Control period

<u>Authority's Analysis</u>

Gross block ratio is a composite ratio and a weighted average of aero, common and non-aero assets. Hence, the Authority notes that the gross block ratio should be applied on entire capex addition irrespective of it being aero, common or non-aero instead of BIAL's approach of applying it selectively on common assets. Common assets have been segregated by BIAL in its asset register based on terminal area ratio and therefore, the Authority proposes to apply the same ratio (85.73%) for common assets. Based on the above, the Authority proposes to revise bifurcation ratio for FY21 capex of airport offices, ITI project and sustaining capex from 91% to terminal area ratio of 85.73%. (para 3.3.42 (e))

<u>BIAL's Submission</u>

- BIAL notes that the Authority has considered 85.73% to be considered as the Ratio for allocating certain projects viz Airport Offices, ITI Project and Sustaining Capital Expenditure proposed to be capitalized in 2021 noting that, in the Fixed Asset Register the common assets are segregated based on Terminal Ratio. Similar principle has been proposed to be used for the Capital Expenditure estimated for the Third Control Period also.

- For estimation purposes a Project is considered at its consolidated value. Similarly, a consolidated estimate / total value is considered for Sustaining Capital Expenditure. This is necessary, as during the overall estimation process (in this case from FY 21 to FY 26), it is not possible to break-down the total project value into individual asset line items.

- In any Project, there are:

    - Assets directly identifiable as Aeronautical (For example Baggage system related or Security related, in a Terminal Building or any Airside related capital expenditure)

  - Assets not directly identifiable as Aeronautical – indicated as Common (For example Computers which may have a mixed use)
  - Certain assets directly identifiable as Non-Aeronautical assets

- As the Project level Capital Expenditure estimate is likely to have all the 3 components, BIAL has taken the overall cost ratio (which is a representative value, as it is derived from the Overall existing asset register) and applied the same at 91% for these Projects/ Consolidated Capex line items such as Sustaining Capex, which would have a cross section of all categories.

- Also, based on BIAL's past estimate, the proportional of purely Aeronautical assets in certain of these Projects (For example ITI or Sustaining Capex) is expected to be more than 91%, but has been taken at 91% based on a representative number, for the purpose of estimation which can be trued up at Actuals.

- Hence, we request the Authority to consider the ratio for Projects/ combined capex costs which may have all elements, at 91% which would be trued up on review of individual line items on inclusion of the said line items in the Fixed Asset Register.

4.4 Design and PMC cost capitalized at 3% and not at 5%

Authority's Analysis

The Authority noted that while the Design and PMC cost of all projects approved in 2nd Control Period is estimated to be higher than 5% by BIAL, only a portion of this cost has been capitalized in 2nd control period. The Design and PMC cost as a percent of cost for the proposed capitalization in the Second Control Period (FY17 to FY21) is 3% which is less than the 5% approved by the Authority in the Second Control Period. The Authority proposes to consider the design and PMC cost proposed to be capitalized in the Second Control Period for true-up of the Second Control Period. The treatment of Design and PMC cost for other assets yet to be capitalized is provided in subsequent chapters. (para 3.3.35)

BIAL's Submission

- The Authority has considered the capitalized cost of Design and PMC and allowed the same for the addition to RAB in the 2nd control period.

- The PAL 1 projects are integrated, complex, mega-scale development projects involving 25 mmpa Terminal, NSPR and associated Airside works, MMTH and landside design, landscape design and PMC for managing and overseeing the entire project.

- BIAL has submitted the detailed break up of Design and PMC cost undertaken to complete this project. The projects capitalized in 2nd Control Period is largely the NSPR project and the Design and PMC cost relating to that project has been capitalized as per the accounting policies.

- The Design and PMC costs should be considered for the entire project cost at the time of completion of Capitalisation of the entire project in the Third Control Period.

4.5 Disallowance of Financing Allowance

Authority's Analysis

The Authority has noted that BIAL has funded the asset through debt and equity. However, the financing allowance has been computed by BIAL considering a return equivalent to cost of debt during the period in which the assets were still in CWIP irrespective of whether it was funded by equity or debt. This has led to addition of the financing allowance over and above the capitalized assets in the books of account of BIAL. The Authority noted that financing allowance is a notional allowance and different from the actual investment incurred by BIAL which includes only the interest during construction (IDC) among other things. Therefore, the Authority proposes that only the IDC that gets capitalized would be considered as part of RAB. (para 3.3.40)

The Authority has noted that BIAL has proposed to fund the asset through debt and equity. However, BIAL has computed the financing allowance on the entire project cost. The Authority noted that the financing allowance is a notional amount and while true-up of the Second Control Period the Authority has allowed the interest during construction instead of the financing allowance as per para 3.3.40. Accordingly, the Authority proposes to consider the interest during construction on the project cost for the Third Control Period. (para 5.2.48)

BIAL's Submission

Provisions as per Direction 5

- The Authority was established under the AERA Act 2008 for discharge of its functions of determination of tariff for aeronautical services, and to call for such information as may be necessary to determine tariff under the AERA Act. To ensure this AERA issued an Order No.13/2010-11 dated 12th January 2011 ("Airport Order") finalizing the Regulatory Philosophy and approach for economic regulation of Airport Operators. Further, the AERA issued the Direction No.5/2012-11 dt. 28th February 2011 providing the Terms and Conditions for determination of tariffs for Airport Operators) Guidelines, ("Airport Guidelines") 2011 under Section 15 of the AERA Act directing all Airport Operators to act in accordance with the Guidelines.

- Direction 5 allowed Airport operators to be eligible for Financing Allowance (which is basically a return on the value invested in construction phase of an asset including Equity invested), before the Asset is put into use. This is a legitimate expectation of investors.

- The concept of Financing Allowance and how the Work in Progress Asset includes the Financing Allowance is detailed out in Paragraph 5.2.7 of the Direction No.05-2010-11 as below:

"5.2.7. Work In Progress assets (a) Work in Progress Assets (WIPA) are such assets as have not been commissioned during a Tariff Year or Control period, as the case may be. Work in Progress assets shall be accounted for as:
WIPAt = WIPAt-1 + Capital expenditure + Financing allowance – Capital receipts of the nature of contributions from stakeholders (SC) - Commissioned Assets (CA)

Where:
WIPAt = Work in progress Assets at the end of Tariff Year t
WIPAt-1 = Work in progress Assets at the end of the Tariff Year t-1
Capital Expenditure= Expenditure on capital projects and capital items made during Tariff Year t.

The Financing allowance shall be calculated as follows:

$$\text{Financing Allowance} = R_d \times \left(WIPA_{t-1} + \frac{\text{Capex} - SC - CA}{2}\right)$$

Where
Rd is the cost of debt determined by the Authority according to Clause 5.1.4.
SC are capital receipts of the nature of contribution from stakeholders (including capital grants and subsidies) pertaining to the capital expenditure incurred in Tariff year t.
CA are Commissioned Assets which pertain to the accumulated value of the WIPA attributable to all assets that have been put into effective operation during Tariff Year t.

- The Authority has further provided an Illustration on Page 28 of the working. The extract of the illustration is as under:

Illustration 7: The following example illustrates this approach for calculation of Work in progress assets, financing allowance and commissioned assets. The numbers in the illustration have been rounded to the nearest integers.

Forecast Work in Progress Assets

		2010-11	Tariff Year 1	Tariff Year 2	Tariff Year 3	Tariff Year 4	Tariff Year 5
Opening WIP: $WIPA_{t-1}$	OW	-	-	-	558	638	-
Capital Expenditure	CE	-	833	521	-	-	-
Financing Allowance	FA = R_d x (OW+(CE-CA-SC)/2)	-	-	37	80	43	
Capital Receipts	SC	-	200	-	-	-	-
Commissioned Assets	CA	-	633	-	-	681	-
Closing WIP: $WIPA_t$	CW = OW + CE + FA - SC – CA	-	-	558	638	-	-

- *The cost of debt, R_d, used for calculation of financing allowance, is the cost of debt determined by the Authority under Clause 5.1.4.*
- *The example illustrates that those assets, which have been acquired or commissioned within the same Tariff Year (i.e. Tariff Year 1), have been included both in Capital Expenditure and Commissioned Assets.*
- *The value of commissioned assets, as calculated, shall be used for forecasting RAB for the Control Period.*

- Further, Para 5.2.5 of the same Direction No. 05 details the forecasting of RAB wherein the commissioned assets (including the Financing Allowance on the assets, when it was in Work in Progress stage) has been added to RAB and forms part of the closing and average RAB workings. The Illustration 4 in Page 23 is given below:

Forecast RAB

		2010-11	Tariff Year 1	Tariff Year 2	Tariff Year 3	Tariff Year 4	Tariff Year 5
Opening RAB_{t-1}	OR	22,750	20,500	18,826	16,462	13,998	12,277
Commissioned Assets	CA	-	633	-	-	681	-
Depreciation	DR	2,250	2,307	2,364	2,364	2,402	731
Disposals	Di	-	-	-	100	-	-
Incentive Adjustments	IA	-	-	-	-	-	-
Closing RAB_t	CR=OR+CA-DR-Di+IA	20,500	18,826	16,462	13,098	12,277	11,547
RAB for calculating ARR	RA=(OR+CR)/2		19,663	17,644	15,230	13,138	11,912

- The Clause (d) of Para 5.2.6 defines Commissioned Assets as below:

  "Commissioned Assets: Represents investments brought into use during Tariff Year t, consistent with Clause 5.2.7 herein below."

- Thus, form the above clauses it is clear that the Financing Allowance is computed on the Work in Progress balance based on Capital Expenditure incurred irrespective of it being funded by debt/Equity/Internal accruals and is capitalized as part of Commissioned assets for RAB Computation.

<u>Clarification and affirmation of Direction 5 provided to BIAL by AERA.</u>

- BIAL had vide its letter dated 27th August 2012 sought clarification from AERA on Financing Allowance, (the letter is being produced in Annexure 4) requesting AERA to confirm its understanding on the above clauses of Financing Allowance and its application in the Business Plan.

- The Authority vide its email dated 22nd October 2012 has clarified the following.

"i) BIAL's understanding that the Financing Allowance is computed on the total Work in Progress balance (whether funded through debt/ equity/ internal accruals) and is capitalized as a part of commissioned assets for RAB computation is correct vis-à-vis Authority's Guidelines.

ii) As regards the clarifications on the computation of the financing allowance assuming there is no contribution on account of Capital receipts, the formula for Financing Allowance would be: Rd x (Opening WIP + (Capital Expenditure – Commissioned Assets)/2), where Rd is the Cost of Debt. "

The letter is provided as Annexure 5

- Thus, Direction 5 provides an explicit, detailed elaboration of Financing allowance. Manner and formulae of computation and addition of the "commissioned assets" into RAB including the Financing allowance are elucidated in detail with examples. Also, this has been positively re-affirmed by AERA in the clarificatory letters provided.

<u>Past Tariff Orders of BIAL</u>

- The regulatory principles laid down by the Authority and based on which the tariff orders are determined provide a fundamental foundation of the regulatory clarity to the stakeholders on the manner in which different components of costs and revenues are treated.

- Based on the regulatory philosophy and the confirmation/clarification given by the Authority, BIAL filed its MYTP submission for 1st and 2nd Control period providing for Financing Allowance and the same was approved by the Authority for both the Control periods.

- In the MYTO of both the control periods, the Authority has taken cognizance that the Financing allowance (on total capital expenditure) which will be added to RAB will be different from the Interest during Construction (which is on the Loan borrowed) which will be capitalized in the financial statements.

- Following is the extract of Table 27 of the MYTO issued for BIAL for the second control period. The table clearly denotes that the **estimated addition to RAB is the Cost incurred plus Financing allowance** whereas the same table shows estimate of **addition to the Financial statements** as being **Cost incurred plus IDC**.

Extract from Table 27 - Additions to RAB for 2nd Control period as per MYTO

Project	Capitalisn	Infra cost	Financing allowance	IDC	Total Addition to RAB	Total addition to Fixed Assets - books
		A	B	C	A+B	A+C
Site preparation & Earthworks to Runway 2, Taxiway & Apron	2018	696.47	105.98	65.32	802.45	761.79

Project	Capitalisn	Infra cost	Financing allowance	IDC	Total Addition to RAB	Total addition to Fixed Assets - books
Runway 2, Taxiway & Apron - Phase Ia	2020	1286.92	194.33	164.29	1481.25	1451.21
Others						
-						
-						
Expansion projects capitalized		**9306.63**	**896.08**	**1035.77**	**10202.71**	**10342.40**

- In the example highlighted above, Total addition to RAB is Rs. 1286.92 crores of cost plus Financing allowance Rs. 194.33 crores which is Rs. 1481.25 crores whereas the total capitalization in books is Rs. 1286.92 crores cost plus IDC Rs. 164.29 crores which is Rs. 1451.21 crores. This clearly shows that Financing allowance is not the same as IDC.

- Workings of Financing allowance and IDC for the highlighted Project is detailed below:

Financing Allowance estimation computations (From MYTO Model of SCP)

Runway 2, Taxiway & Apron - Phase Ia							
Particulars		**FY 16**	**FY 17**	**FY 18**	**FY 19**	**FY 20**	**Total**
Opening Work in progress		0.00	6.75	197.94	470.35	1288.35	
Spend projected		6.75	181.22	239.83	732.26	126.87	1286.92
Applicable rate of Interest		10.25%	10.25%	10.25%	10.25%	10.25%	
Computed Financing allowance		0.00	9.98	32.58	85.74	66.03	194.33
Capitalization		0.00	0.00	0.00	0.00	1481.25	
Closing Work in progress		6.75	197.94	470.35	1288.35	0.00	
For the same asset Loan draw down and IDC computations are as below (From MYTO Model of SCP)							
Runway 2, Taxiway & Apron - Phase Ia							
Particulars		**FY 16**	**FY 17**	**FY 18**	**FY 19**	**FY 20**	**Total**
Opening Loan balance		0.00	0.00	112.28	123.79	701.60	
Additional Loan taken		0.00	101.84	0.00	512.58	101.50	
Interest during Construction		0	10.44	11.51	65.23	77.12	164.29
Capitalized		0.00	0.00	0.00	0.00	880.21	

- Following is the extract of Para 10.14 and Table 23 of MYTO issued for BIAL for the first control period. The Table clearly notes the term Financing allowance as being added to the costs and charges.

  10.14 The Authority's approach of treating capital work in progress is to give financing allowance at the cost of debt for the capital work in progress assets.

Table 1: Assets decided to be considered as part of addition to RAB for the First control period - Rs. Crores

Project	*Date of Capitalization*	*Basic Cost and charges*	*Financing allowance - Projects*	*Total Cost to be added to RAB*
Apron Expansion	*February-14*	*121.15*	*23.12*	*144.27*
Terminal 1 Expansion	*February-14*	*1342.30*	*168.63*	*1510.94*
Other Projects i.e., Miscellaneous	*February-14*	*16.39*		*16.39*
Terminal 1 Expansion - Additional	*March-15*	*80.22*		*80.22*
Other Projects	*March-15*	*98.32*		*98.32*
Expansion Projects Capitalized (A)				***1850.13***
Maintenance Capex Projects	*31st March 2012*	*15.43*		*15.43*
	31st March 2013	*22.52*		*22.52*
	31st March 2014	*0.00*		*0.00*
	31st March 2015	*264.50*		*264.50*
	31st March 2016	*61.66*		*61.66*
Maintenance Capital Expenditure (B)				***364.11***
Total Capitalization				***2214.24***
Maintenance capital expenditure for 2011-12 and 2012-13 given net of disposals				

- Workings of Financing allowance and IDC (though not included as part of the MYTO) for the highlighted Project is detailed below:

Apron Expansion							
Particulars	**FY 11**	**FY 12**	**FY 13**	**FY 14**	**FY 15**	**FY 16**	**Total**
Opening Work in progress	0.00	36.02	68.06	117.79	0.00	0.00	
Spend projected	34.20	26.15	40.46	20.34	0.00	0.00	121.15
Applicable rate of Interest	12.00%	12.00%	10.50%	11.00%	12.50%	12.50%	
Financing allowance	1.82	5.89	9.27	6.14	0.00	0.00	23.12
Capitalization	0.00	0.00	0.00	144.27	0.00	0.00	
Closing Work in progress	34.20	68.06	117.79	0.00	0.00	0.00	

For the same asset Loan draw down and IDC computations are as below (From MYTO Model of FCP)

Apron Expansion								
Particulars		**FY 11**	**FY 12**	**FY 13**	**FY 14**	**FY 15**	**FY 16**	**Total**
Opening Loan balance		0.00	0.00	42.36	0.00	0.00	0.00	
Additional Loan taken		0.00	40.25	11.25	0.00	0.00	0.00	
Interest during Construction		0.00	2.11	5.28	0.00	0.00	0.00	7.39
Loan for Capitalised asset		0.00	0.00	58.89	0.00	0.00	0.00	
Closing loan balance		0.00	42.36	0.00	0.00	0.00	0.00	

<u>Summary</u>:

- IDC cost is not taken for RAB Addition, but financing allowance is considered for RAB addition.
- Computation of Financing allowance is on total capital expenditure and not on debt drawals.
- Formula of Financing Allowance considers cost of debt rate for entire expenditure in work in progress.
- As per Authority's principles both equity and debt get return during the construction phase.

<u>Current Position</u>

- Financial closure for Expansion project was based on the applicability of Financing Allowance and both shareholders and lenders have invested their share based on the tariff orders approved by AERA in the 2nd Control Period.

- Accordingly, BIAL has provided a CA certificate as required during MYTP evaluation process explaining the detailed project wise computations of Financing allowance in line with Direction 5 and the amount to be additionally added to RAB. The certificate is enclosed as Annexure 6. In BIAL's estimate, due to upfront investment of huge value of Equity, approx. Rs. 200 crores are the additional inclusion to be made in RAB.

- In the Consultation Paper for the 3rd Control period, the Authority has stated that BIAL has computed financing allowance irrespective of whether it was funded by equity or debt and that this has led to additional capitalization in the books of account of BIAL and that it is notional and hence will not be considered both for true up of Second control period and the estimation for third control period. In effect, the Authority is treating the funds deployed by the airport operator during construction phase at zero cost. This is incorrect and not in line with its own Tariff Philosophy and the conceptual framework.

- BIAL wishes to submit that it has deployed 93% of its internal accruals for expansion in the airport since AOD in creation of assets like Terminal T1A expansion, NSPR, Terminal T2, Aprons etc., all managed with a prudent mix of internal accruals and debt funding. Any investment made in creation of an asset has to be accorded a return.

- This has also been deliberated by TDSAT in the DIAL Order for the 1st Control Period in the context of Authority's decision of considering RSD at zero cost debt wherein the TDSAT states *"Conceptually, the cost of investment can never be zero since that would imply an infinite return {by general definition, return on investment = (gains from investment – cost of investment)/cost of investment)}. Thus, it is obvious that if this fund has been used as an investment, there is a cost attached to it which cannot be obviated by saying that it is a zero cost debt."* Hence, the concept that any investment towards construction of an asset has to be accorded a return has been recognized in the above TDSAT order.

- Further, BIAL wishes to submit the Tariff Philosophy for Airport operators provides for a Fair Rate of Return on the Regulatory Asset Base only after the asset is commissioned and put to use. The assets used in the airport are capital intensive and have long gestation period for commissioning, during which phase the Financing allowance rightly provides for a return on the long-term assets (including Equity invested therein) which take time to commission. Moreover, the Direction No.05 allows for only a return at the cost of debt and thus no unjust enrichment is accorded to the airport operator on the equity funds invested at the time of creating the assets for the airport.

- Abrupt changes to Regulatory principles, in contravention to Authority's own Guidelines and one which had been followed in the past tariff orders, creates doubts regarding consistency of the Regulator's approach while adding to the doubts in the minds of Investors. Such an approach by the Authority will harm the interest of the Investors who have already invested in the airport.

- Changes to a set regulatory approach which has been laid down by the Authority itself and consistently followed in the past orders and one which has been extended to the applicable other airport operators also, as a hindsight, creates confusions and doubts on the Regulatory Approach as well as doubts in the minds of the Stakeholders and investors of the airport project. Such an approach by the Authority will harm the interest of the investors who have invested in the airport. On one hand the Airport operator is required to continuously invest in the airport to enhance capacity and provide world class amenities to passengers while on the other hand it has to forego any form of return on its investment during the construction phase which vitiates the environment for further investment in the sector due to regulatory uncertainty.

- Non consideration of Financing allowance is unjust, violating AERA's own guidelines and inconsistent with the approach followed in the previous Orders.

<u>Summary</u>

- The AERA Act requires the Authority to consider *"timely investment in improvement of airport facilities";* and *"economic and viable operation of major airports".* The statement of objects and reasons of the AERA Act requires Authority to encourage investment in airport facilities, create a level playing field and foster healthy competition. The Airports Infrastructure Policy of 1997 and NCAP 2016 also emphasise the need to provide a commercial orientation and encourage private sector participation in the airport sector.

- The principles of promissory estoppel and legitimate expectation demand that if investment is approved in a given regulatory matrix, **after** the investment has been made, the regulatory matrix cannot be changed.

- BIAL has tied up the financial closure and funded from Internal accruals upfront for PAL-1 projects based on the applicable Regulatory Principles and the precedence set in the past control periods.

- Financing allowance computation is fully in compliance with Direction 5, affirmed by Authority to BIAL in its communications and has also been considered by AERA in the past orders.

- What was accorded to BIAL in MYTO of SCP was a Promissory estoppel. A principle enshrined in AERA Regulations of 2011 and followed consistently in the previous 2 control orders cannot be withdrawn or amended.

- Based on extant AERA regulations and the principles applied in the Previous control period orders, BIAL has submitted CA certificates on the calculations of Financing allowance. We request the Authority to consider the same and update the Regulatory Asset Base accordingly.

4.6 Eastern Connectivity Tunnel (ECT)

Authority's Analysis

Enabling works capex of Eastern connectivity tunnel (INR 80 cr.) – Excluded as per 2nd control period order for BIAL. (para 3.3.42 (b))

BIAL's Submission

Background

- KIA currently has external access through the Trumpet on NH 44 (earlier NH 7) and the South Access Road. As this was of a serious security concern, the BIAL Management explored alternate access points to the airport and evaluated options which were discussed with Government of Karnataka (GoK) / Infrastructure Development Department (IDD). Also, the construction works on the South-Western connectivity has commenced and is planned for operationalization by March 2018. An Eastern Connectivity Road providing connection to the Eastern development pocket (not connected to the airport west areas and the terminals) is under construction by the PWD department.

- Request for the access to Eastern side of the airport was made by Additional Commissioner Traffic and by ACS Home, in 2016 which has necessitated the project. Relevant letters are enclosed as Annexure 7.

- The access to the Airport through the Trumpet on NH 44 through SW Connectivity road is the only external access available between airport terminal and Bangalore city. The expansion on NH 44 is not possible due to congestion at Hebbal flyover and due to land acquisition constraints. As per

Bengaluru Metropolitan Region Development Authority (BMRDA) Structure Plan 2031, intense development is planned around east of Bangalore urban clusters / nodes. Significant other developments in the area ex. commercial developments at Doddaballapura and Chikballapura, business parks, IT and hardware parks, KIADB aerospace parks etc. is expected to lead to additional traffic.

- BIAL has conducted a feasibility study to evaluate options for an alternate access and based on the study it was proposed that the Eastern Tunnel Access road would be feasible and make the airport more easily accessible for the eastern part of Bengaluru city.

- BIAL undertook construction of the Eastern Tunnel works involving Phase 1- Early Works which includes construction of Tunnel below cross field taxiway (approximately 300m, only civil works) and the same has been capitalized in FY 21.

- The criticality of the Eastern Connectivity Tunnel is that it had to be built below the cross taxiway and thus it had to be taken up at the time of construction of NSPR. If it was not done now, it would be prohibitively expensive to undertake it once the NSPR is operational and it will also result in shut down of NSPR for the construction period of around 9 months.

- The ECT was done after getting requisite permissions/ approvals from BCAS, CISF etc. BIAL has also got the approval to open the ECT (ready for use) below the cross taxiway and currently this is being used to transport the construction materials and labour, in view of the operationalization of the NSPR vide Minutes of Meeting dt. 14th January 2020 and the tunnel has been put to use.

- BIAL would thus request AERA to consider the capitalization of the ECT and not exclude it from the RAB of Second Control Period.

- The Eastern Connectivity Tunnel (ECT) comes below the cross-field taxiway which is under the boundary of the NSPR. This cross-field taxiway is the only connecting taxiway between North and South Runway and to the Terminal buildings. The ECT has been constructed along with NSPR to avoid any future disruptions to the air traffic operations, once the cross-field taxiway becomes operational. The tunnel has 5.5m clear height with 4 traffic lanes divided by a central section for walkway and tunnel utilities and drains and additional utility trench on either of the traffic lanes etc.

1. **Operational difficulties BIAL will face if it were to construct this ECT under an operating environment i.e., under a "live taxiway".**

- The Cross-field taxiway has to be closed, if the ECT were to be constructed in an operating environment. Closure of this important taxiway to enable construction of Eastern Connectivity Tunnel will have the following impact:

- The Eastern Crossfield Taxiway will have to be closed in the future, if the ECT were to be constructed in an operating environment. Closure of this important taxiway to enable construction of Eastern Connectivity Tunnel will have the following impacts:

a. Reduction in overall air traffic movements (capacity) at BLR Airport, as one runway needs to be closed in the absence of the Eastern Crossfield Taxiway connection (the only North-South connection on the Airfield). Closure of the South Runway will adversely impact (i) hourly airfield capacity, causing significant imbalance between airside, terminal and landside capacity leading to changes to airline schedules; (ii) reduced low visibility operations, resulting in aircraft diversion and delays since this is the only CAT III equipped runway at BIAL.; and (iii) Elimination of Code F aircraft operations at BLR Airport during this
b. As per compliance, such construction will be categorised under the “taxiway over a bridge” category, which will result in additional cost and thus was avoided. Taxiway over the bridge has stringent regulatory requirements to ensure sufficient strength to hold the weight of the heaviest aircraft as well as requisite security requirements for such operations (per Section 2 below).
c. Design stability is better when constructed with integration rather than stand alone. Considering the requirement of deep excavation to construct tunnel under the taxiway, it is also expected to have rock blasting / piling etc. These activities will adversely affect the strength of adjoining paved surfaces of runway & taxiway.
d. While the existing surface is required to be removed and re-laid to construct the ECT, the joining of new and old surfaces will have difference in evenness, which may lead to compliance issues with regard to slope corrections and water ponding. In addition, all the new surfaces are expected to settle down during its stabilization period and any such settling of surface between the tunnel and taxiway will result in surface deterioration and cracking.
e. The natural topography of the airport is in a north-western direction, and the drainages are laid out accordingly. Any disruption in the drainage path may lead to flooding of South Runway and associated areas. Also, while executing any excavation work in operational areas, all the AGL circuits & other cables need to be protected, which will be impracticable in this case.
f. The existing AGL circuits originates from both the CCRs located at either end of the runway and panning out towards the North Side. Any disruption to these cables will affect the existing AGL in areas which are to be used for operating North Runway. To relocate these circuits and integrating with the CCRs of North Runway requires huge expansion of facilities at CCRs of North Runway.
g. During the construction of such magnitude, it is expected to have several heavy pieces of machinery to excavate and move earth and building materials along with a significant manpower. These vehicles and manpower are expected to move through the aircraft operational areas (i.e., airside areas), which will add to the hazards affecting aircraft operations and need appropriate regulatory and security compliance and clearance (see Section 2 below).
h. Re-approval from appropriate regulatory Authority would be required, which requires demonstration of strength.

2. Challenges that BIAL would face, from a BCAS perspective, if it were to construct this ECT in an operating environment.

a. Airside & Landside mix during construction endangering airport security.
b. Access for manpower and equipment to airside for construction activities.

c. Re-approval from appropriate regulatory Authority.
d. Safeguarding the area with increased manpower.

3. Other aspects of Airport Operations

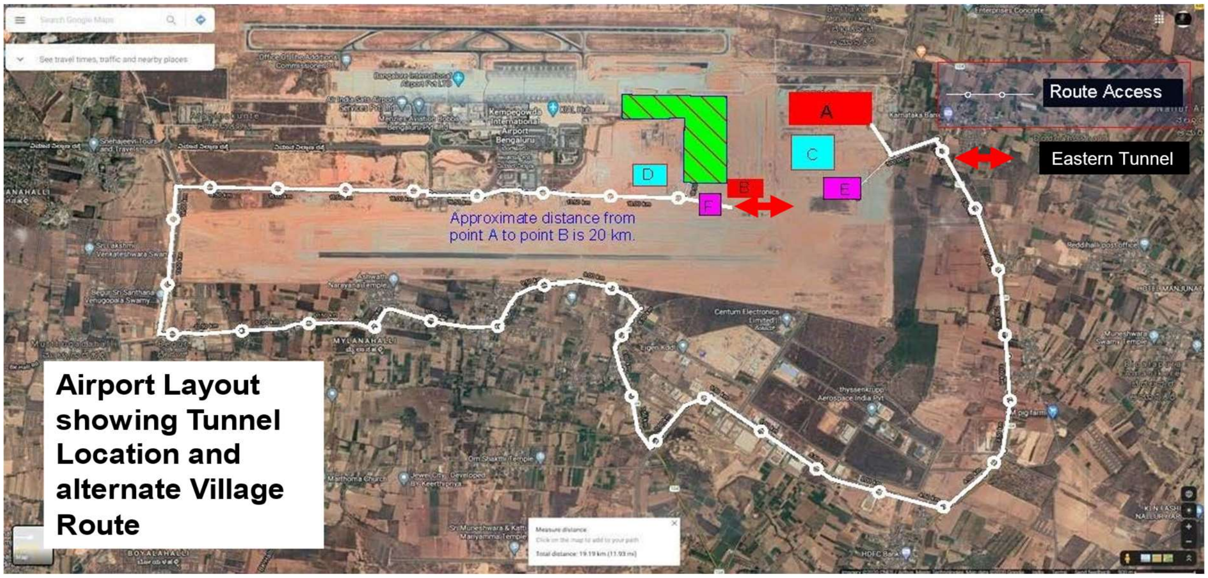
The construction of South runway and Crossfield taxiway connection to north runway has essentially split the airport property into two parts – east and west. All the airport management offices are in the west, with very little development in the east. The tunnel is the sole access from west to east within the airport property. Alternate route around the south runway and village roads is 20km long.

a) The tunnel is being used by the BIAL landside security team for regular patrolling of the airside perimeter wall and undertaking regular safety checks on both sides of the Crossfield taxiway.

b) BIAL security team undertakes patrolling along the perimeter road during day as well as night and also has posts on the eastern side of the tunnel and attends to all the exigencies. With sizeable number of guard posts on the eastern side and the area to be covered is extensively large, any occurrence of untoward incident requiring intervention of law and order / security agencies will necessitate the use of the tunnel as there is no alternate access other than taking the village road which increases the distance by 20 kms and reaction time by almost an hour. Another point to be noted is that these village roads are not accessible 24x7.

c) Due to undulating terrain and soil pile up on account of construction activities (happening outside the operational area), during rainy season, slush pile up happens near the perimeter wall of the operational area. This slush has to be cleared using heavy machinery to avoid wall collapse. These heavy machinery like bull dozers, dumpers, excavators have to necessarily move via the Eastern Tunnel to do perform these activities as they cannot move thru the village roads.

d) BASHM team has to carry out regular habitat monitoring for effective WHMP (Wildlife Hazard Management Program). This is in accordance with the requirements stated in ICAO 9981 Part 3, Para 6.3.1 and ICAO 9137 5th Edition Chapter 9. As part to this, the critical habitat around the airports is assessed and recorded for regular monitoring. The prominent habitat areas, near the airport vicinity, are located on the southeast side of runway 27 L9 (Forest belt) and North of 27 R (Bettakotte lake). These are the two prominent locations for bird/wildlife hazard which could pose concurrent threat to the airport operations. BASHM team has to monitor this area for bird habituation to identify the species so that we can alter their habitat and also for keeping the birds less attracted to airside. Apart from this, the team also has to move into these areas for bird scaring to keep away the flocking birds from the lakebed. Since the water birds and bigger in size having huge plumage their maneuverability from aircraft movement path in minimal and often leads to bird strike incidents. Hence it is imperative to keep these attended whenever they are available on lakebed. All these activities are currently carried out taking the circuitous route of 20 kms which often leads to increased lead time in reaching to these locations. A quick access to the east area through this Eastern Tunnel is critical in BASHM activities.



To address all the above-mentioned issues and obtain maximum operational efficiency, the Eastern Connectivity Tunnel is undeniably necessary. This will practically eliminate all the operationally related constraints making the tunnel a valued infrastructure to secure airport operations with better efficiency in handling any contingencies as well as better time utilization.

4. Financial Impact of implementing ECT in FY2026 under an Operating environment

- BIAL had carried out an evaluation to ascertain the cost benefit analysis of carrying out this activity currently instead of being done in FY 26. Considering the Design, PMC and Contingency costs at 5% and 3% as applied by AERA the estimated cost of the project in FY 26 is Rs. 176.37 crores, excluding IDC. Additionally, operational difficulties and challenges have to be considered.

Estimate of Eastern Connectivity Tunnel in Year 2026			
Sl. Nr.	Item	Amount	Amount
1	Award Cost of Construction in Year 2019	78,00,00,000	
2	Inflation adj @ 4.9% for 7 years	1.398	
3	**Estimated base Construction Cost in Year 2026**	**1,09,02,42,280**	
4	Airside Allowance due to lesser Productivity	21,80,48,456	Assumed 20% as the access need to be through Airside
5	Dismantling of Taxiway for 300 m	2,25,00,000	Provisional Sum
6	Re-doing of Taxiway in Year 2026	30,00,00,000	Assumed 20,000 / m2 including any rectifications needed
7	**Estimated Construction Cost in Year 2026**	**1,63,07,90,736**	
8	Design & PMC Fee@5%	8,15,39,537	
9	Contingency@3%	5,13,69,908	
10	**Estimated Project Cost in Year 2026**	**1,76,37,00,181**	

- As can be seen from the above, it is beneficial to implement ECT works along with NSPR implementation and not during FY2026 under an operating environment.

- BIAL submits that considering the cost savings as detailed above and prudence employed in developing the Eastern Connectivity Tunnel and the fact that the Eastern Connectivity Tunnel is already in use for various airport activities, this expenditure needs to be considered under Section 13 of the Act., in particular, Section 13(1)(a)(iii) and 13(1)(a)(iv).

- BIAL strongly believes that this capital expenditure is necessary at this stage of the project so as to avoid a higher capital expenditure at a later stage and also avoid operational disruptions to Airlines and Air Traffic movement at KIAB. BIAL is being penalized (rather than being rewarded) for its capital efficiency and advance planning.

- As elaborated above, the Eastern Connectivity Tunnel has already been put to use and capitalized. Eastern Connectivity Tunnel is currently used by for performing various Airport activities such as vehicular movements and Security and safety related patrolling, BASHM etc. and it establishes vital connectivity with the other side of the Airport. As the tunnel was created due to a specific need and request, and has been successfully, constructed, commissioned and put to use for various Airport activities as stated above, BIAL requests the Authority to consider the Eastern Connectivity Tunnel as part of RAB.

Regarding Fair Rate of Return (FRoR)

4.7 Exclusion of investments on projects other than airports from equity

<u>Authority's Analysis</u>

The Authority had decided to exclude "net investment" made by BIAL on Projects other than airport as a reduction from equity deployed for airport project, for computing gearing (used to calculate the Fair Rate of Return). This includes the net invested value in BAHL after adjusting the deposits received from Hotel and the investments proposed in other non-aeronautical subsidiaries. (para 3.5.5)

<u>BIAL's Submission</u>

- The Authority has treated hotel as a non-aeronautical activity but ring-fenced / excluded equity investments into the hotel while computing Equity for FRoR. Further, the Authority has considered a notional lease rental from hotel and treated the same as non-aeronautical revenues.
- Having considered the revenues as non-aeronautical, it must be followed up that the investments also should be considered as non-aeronautical and not excluded while computing equity for FROR.
- BIAL request the Authority to reconsider its proposal and not have an inconsistent approach and not make any reduction in Equity for FRoR purposes.
- Additionally, BIAL is not aware of the computations made for excluding the Investment. From a reading of the Consultation Paper, BIAL notes that the values considered are not the average values of advances outstanding from BAHL, which we request the Authority to take cognizance of.

Regarding Depreciation

4.8 Rates of depreciation and allocation

<u>Authority's Analysis</u>

Asset Class – Plant and Machinery (Aerobridges, Airport Communication, Baggage Handling, Escalators/ Elevators, HVAC Equipment, Other Airport Equipment and Security/ Safety Equipment) - The Authority has examined the below submission of BIAL in its letter to AERA dated 25 April 2018 on considering a lower useful life of 7.5 years for certain airport specific assets falling within Plant and Machinery due to extra shift operations. (para 3.6.6 (a))

Asset Class – Buildings – The Authority has noted that BIAL has considered a lower useful life for assets under Canopy, New Project Office building, and Nursery Unit under Building category. The Authority notes that all these assets are part of the building. AERA's Order no. 35/ 2017-18 does not provide for reducing the life of assets under Asset Class Buildings. (para 3.6.6 (b))

Asset Class – Runway and Taxiway– The Authority has noted that BIAL has considered a lower useful life of 20 years for assets under Runway and Taxiway and a useful life of 5 years for runway top layer of the New South Parallel Runway (NSPR). The Authority has noted that BIAL has not given the rationale for lower useful life in its technical justification for these assets. Since the Authority has allowed the upgradation of runway to be amortized over the balance period of the useful life of the original runway, which addresses the requirement of upgrades required for the runway, the Authority proposes to not consider the shorter useful life for runway, taxiway and runway top layer. (para 3.6.6 (c))

Other asset classes – The Authority proposes to revise the useful life of the other asset classes (IT equipment, furniture and fixtures, other roads, etc.) based on the useful life given in the Order no. 35/2017-18. (para 3.6.6 (d))

Additionally, the Authority proposes to undertake the following changes to the submission of BIAL relating to depreciation:

- *The Authority had considered a useful life of 50 years for land development capital expenditure in its 2nd control period order based on the available lease period. BIAL has commissioned the land development capex in FY20 and therefore has considered the useful life as 48.5 years based on the available lease period. However, while projecting the depreciation for FY21, BIAL has considered the useful life of land development capex as 30 years. Based on the useful life in FY20, the Authority proposes to consider the same useful life of 48.5 years for land development capex in FY21.*

- *Adjustment of depreciation of the assets excluded as per EIL study*
- *Adjustment of depreciation on the pre-operative expenses excluded from the RAB (para 3.6.7)*

The Authority proposes to consider the below useful life from 1 April 2018 onwards for the true-up of the Second Control Period. (para 3.6.8)

The Authority noted the one-time depreciation charge submitted by BIAL for FY19 is on account of the note no. 2 of the Order no. 35/ 2017-18 wherein it is stated that the book value of the asset as on 1 April 2018, after retaining the residual value, shall be recognized in the opening balance of the retained earnings where the remaining useful life of an asset is nil. For the assets with nil remaining life as on 1 April 2018 as per the Order no. 35/ 2017-18, BIAL has computed the one-time depreciation amount of INR 148.7 cr. Based on the *changes to the useful life for canopy, airport communication and other airport equipment proposed by the Authority in para 3.6.6, the revised one-time depreciation amount proposed by the Authority is given in the table below. (para 3.6.9)*

The Authority had conducted an independent study on the asset allocation of the Second Control Period for BIAL (refer Annexure I for summary of the report and Appendix II for the report). The Authority proposes to apply the proportion of the aeronautical assets as per the study on total depreciation, recomputed based on the revised useful life of assets, to determine the depreciation on aeronautical assets. The Authority noted that the proportion of the aeronautical assets is varying from year -on- year basis since BIAL has undertaken expansion of the airport facilities. Therefore, the Authority proposes to apply the proportion of the aeronautical assets of a particular year to the depreciation amount of the respective year. (para 3.6.10)

BIAL's Submission

From a reading of the aforementioned paragraphs of Authority's analysis, following issues emerge on the manner of Depreciation computation.

1. BIAL's useful life of 7.5 years, based on triple shift operation for items of Plant & Machinery not considered, 15 years proposed by AERA as useful life.
2. Different useful life for Canopy, New Project office and Nursery estimated by BIAL based on Technical evaluation not considered, useful life treated similar to Buildings.
3. 20 years' useful life not considered for initial Runway; useful life estimated at 30 years
4. Useful life of Runway Top Layer considered at 5 years not considered by the Authority, useful life considered as 30 years
5. Useful life for Earthworks considered at 48.5 years
6. Adjustments to depreciation due to reduction to RAB as per EIL study report
7. Adjustment to depreciation due to Pre-Operative expenses not considered as part of RAB additions
8. Revision to One time depreciation due to certain changes in Sl. # 1 and 2
9. Aeronautical proportion of RAB of a respective year used for computation of depreciation of depreciation for reimbursement.

BIAL's comments on each of the above are detailed below. Our responses to the Consultation Paper are subject to any further findings that may arise on completion of reconciliation exercise of the models. BIAL requests the Authority to give effect to any changes/ findings that may arise out of the above reconciliation, in the MYTO to be issued.

4.9.1 BIAL's useful life of 7.5 years, based on triple shift operation for items of Plant & Machinery not considered, 15 years proposed by AERA as useful life.

- The Authority had issued Consultation Paper No. 9/ 2017-18 dated 19th June 2017 on Determination of Useful life of Airport Assets. Further to the receipt of comments from various stakeholders and consideration of the same, the Authority had issued its Order No. 35/ 2017-18 on 12th January 2018 on the same.

- Para 3.5.2 and 3.5.5 of the said Order with respect to a Stakeholders' comments on changes to certain classifications under Plant & Machinery and on Extra Shift depreciation and Authority's observations on the same are as detailed below:

3.5.2 MIAL has commented as follows:
"Authority has mentioned in the remark column "As per Companies Act", but it has not taken into account the following provisions of the Schedule 11 of the Companies Act, 2013:
(i) Schedule II has two distinct categories as Plant & Machinery (Item No. IV) and Electrical Installations and Equipment (Item No. XIV) - Schedule-II provides a usefuI life of 15 years for general category of Plant and Machinery with a provision for Extra shift depreciation while for Electrical Installation and Equipment it provides for a useful life of 10 years. Authority has clubbed items like Generators and Power Equipments etc. (such as transformers, sub-stations, AT and LT Panels, switch gears and distribution system etc.) which are part of Electrical Installations and Equipments with other items of Plant & Machinery. Since there is a specific category for Electrical Installations and Equipment these items should not be clubbed with general category of Plant and Machinery. We therefore request the Authority to move items such as Generators and Power Equipment etc. (such as transformers, sub-stations, TIT and LT panels, switch gears and distribution system etc.) from general category of Plant & Machinery to Electrical Fittings (Item No. 17) and change the nomenclature of Item No. 17 to Electrical Installations and Equipments in line with the Schedule IT of the Companies Act, 2013.
*(ii) Note 6 to the Schedule IT provides for extra shift depreciation for all items of Plant & Machinery, other than continuous process plant, covered under (IV)(i)(a) of the Schedule depending upon whether asset is used for double or triple shift. We request Authority to provide for extra shift depreciation, as prescribed under the Companies Act, for the airports which are required to be operated on 24*7 basis for 365 days in a year.*
It may be pertinent to note that MIAL has already provided depreciation in its books of accounts as detailed above under point (i) and (ii) and on the same basis tariff for 2nd control period were determined by the Authority."

3.5.5 Authority has reviewed MIAL's comments. The Authority notes that the assets would need to be classified as provided under the Companies Act under Plant & Machinery under Item IV or Electrical Installation under Item XIV. Nomenclature and classification will be made in line with Companies Act 2013. ***There will be no extra shift depreciation as the rates considered by the Authority are based on the operation of the assets at the Airport****.*

- Post issue of the said Order, the Authority has issued Amendment No. 01/ 2018-19 to the said Order on … April 2018. Certain Paragraphs on the matter on Extra shift depreciation on which the Authority has formed a different opinion than the earlier Order are reproduced below:

2. Consideration of Extra Shift Depreciation on certain items of Plant & Machinery
2.1 Authority notes that Note 6 of Schedule II to Companies Act provides as follows:
"6. The useful lives of assets working on shift basis have been specified in the Schedule based on their single shift working. Except for assets in respect of which no extra shift depreciation is permitted (indicated by NESD in Part C above), ***if an asset is used for any time during the year for double shift,***

the depreciation will increase by 50% for that period and in case of the triple shift the depreciation shall be calculated on the basis of 100% for that period."

2.2 The Authority also notes relevant sections of Accounting Standard AS 10 dealing with Property Plant & Equipment which also details about the depreciation.

2.3 The Authority has also noted the relevant sections of the Guidance Note on Accounting for depreciation in Companies Act in context of Schedule II to the Companies Act (Guidance Note) issued by the Institute of Chartered Accountants of India. These are reproduced in Annexure II:

2.4 From a combined reading of the Companies Act and accounting pronouncements, the Authority notes that:

2.4.1 Accounting Standard makes it imperative for an entity to determine useful life of assets considering various factors specified.

2.4.2 There are clear guidances on whether the Asset is to be classified as a Continuous Processing Plant and manner of considering extra shift depreciation to assets.

2.4.3 Should the useful life determined by the entity considering the above factors, be different from the prescribed rates as per Companies Act, appropriate disclosures should be made.

2.4.4 Technical justifications are needed to back the decisions of the Management.

2.5 ***The Authority notes that certain Plant & Machinery in certain very large Airports / Airports with higher volume of operations would need to be running continuously or run extra shifts. Accordingly, appropriate considerations as detailed in aforementioned pronouncements should be factored and given effect to***.

2.6 ***The Authority's intent, in case of plant and machinery detailed in the Annexure to the order was to align with the pronouncements of the Companies Act. Accordingly, the Authority notes that other allied provisions and conditions should also be considered and complied with.***

2.7 Hence, the Authority accordingly clarifies its decision on manner of considering useful lives for Plant & Machinery items as follows:

2.7.1 Useful lives of Plant & Machinery are determined as 15 years. In case the airport operator wants the useful life to be lower due to extra shift operations, it will be considered based on the technical justification to the satisfaction of the Authority.

2.7.2 Considerations of extra shift depreciation and other applicable requirements of law, if allowed by the Authority as above shall be computed as per the prescriptions of the Companies Act and the Guidance Note of ICAI.

- From a combined reading of the aforementioned paragraphs:

  - Authority has, taking cognizance of the Stakeholder comments acknowledged that large airports would have equipment that need to be running continuously or run extra shifts.

  - Authority has noted the intent to align with the pronouncements of Companies Act wherein the Extra shift depreciation is mentioned.

  - Authority would need to be provided with a technical justification in the airport operator wants the useful life to be lower due to extra shift operations.

- **Provision for Extra shift deprecation was one of the key reasons for issuance of Amendment to Order 35 on Useful life of Airport Assets.**

- Accordingly, BIAL had submitted Technical Justification from Mr. Shashikant Muddapur, a Chartered Engineer in the Second Control period and Authority had taken cognizance of the same in the Second Control Period Order and allowed Extra shift depreciation at the time of issue of MYTO for Second control period.

- The Technical justification which was provided to the Authority in the Second Control Period and taken full cognizance in the MYTO of the second control period has not been found adequate by the Authority in the Third Control Period. Such action taken by AERA, without according any detailed reasoning and justification leads to regulatory uncertainty.

- In the current consultation paper, the Authority had noted that "*The useful life prescribed in AERA's order has considered the typical usage of these assets for an airport and there appears to be no reason for the usage of these assets to vary from the typical usage for BIAL".* This is contrary to the Authority's own evaluation and note in Amendment No. 1 of Order 35/ 2017-18 that certain assets would need to be used on triple shift and that may need depreciation at higher rate and the pronouncements of Companies Act need to be respected.

- BIAL has also, in addition to the earlier Technical evaluation submitted, obtained another Technical Evaluation on the useful lives of these assets which is enclosed as Annexure 8.

- Hence, BIAL requests that the useful life based on Technical evaluation submitted by BIAL, in full compliance of Order 35 and Amendment No. 1 to Order 35 be considered by the Authority and the depreciation be computed based on such useful lives adopted.

- AERA in its Orders on Depreciation has stated that an asset would need to be classified as provided under the Companies Act, 2013 in the category of Plants and Machineries under Item IV or electrical installations under Item XIV and on the other hand, has chosen to disregard the Note 6 to Schedule II of the Companies Act, 2013. Note 6 to the Schedule II to the Companies Act, 2013 provides ' for extra shift depreciation for all items of Plant & Machinery, other than continuous process plant, covered under (IV)(i)(a) of the Schedule depending upon whether asset is used for double or triple shift.

- AERA has now proposed that there would be no extra shift depreciation as the rates considered are based on operation of the assets at the airport. Such selective application of the provisions of the Act is arbitrary, unreasonable and against settled principles of law.

- ICAl in para 5.2 of its Report dated 10.04.2017, while analysing the assets classified as Airport assets has mentioned that specific review for the category of plant and machinery, X-Ray machines, baggage scanning/handling systems and security equipment may be required on the basis of usage pattern at the airport, which is nothing but reference to usage from a single shift to double/triple shift. However, AERA in the consultation paper, while determining the useful life of the assets for the above category, has failed to consider the extra shift depreciation for the assets at BIAL that are functional round the clock.

- Extra Shift Depreciation is intended to compensate for the extra wear and tear on account of usage of an asset in more than one shift. It is pertinent to point out that in the present case, the operations at the airport are conducted round the clock, thereby leading to a greater wear and tear of equipment as compared to an airport handling single shift or limited operations.

- AERA has adopted a pick and choose approach, which is inconsistent and unreasonable and has been implemented to the detriment of BIAL.

4.9.2 Different useful life for Canopy, New Project Office and Nursery estimated by BIAL based on Technical evaluation not considered, useful life treated similar to Buildings.

- Authority has noted in the Preamble to the Consultation Paper No. 9/2017-18 and Order No. 35/2017-18 *that it would be preferable to have as far as practicable, a broad year to year consistency in what Depreciation is charged by the companies as certified by the relevant statutory auditors and what the Authority would take into account in its process of tariff determination. Issue of a notification will ensure this objective"*

- In Order 35, Authority had laid down the prescribed useful lives for various Airport assets after receipt of comments from the Stakeholders on the Consultation Paper issued for the same.

- In the said Order 35, the Authority had also noted at follows for Airport Assets for which useful lives were not prescribed.

  Note 7: Specific assets, other than those listed above, could be created in different airports, based on the specific requirements. Such specific assets would have to be individually evaluated technically for its useful life and depreciated for which technical justification should be submitted to the Authority.

- Based on the above Regulatory Principle and guideline issued, BIAL had carried out a Technical evaluation of certain assets which are not part of the Airport asset list for which useful lives were prescribed by the Authority. Technical justification obtained for the said assets were also submitted to the Authority for consideration during Second Control Period Order and also in response to query during evaluation of the MYTP for the Third Control Period.

- The Authority has noted that these assets are part of the building and AERA's Order no. 35/ 2017-18 does not provide for reducing the life of assets under Asset Class Buildings. The Authority has noted that BIAL has not given the rationale for lower useful life in its technical justification for these assets. Useful life adopted by BIAL on these assets are based on the Technical evaluation carried out by a Chartered Engineer as submitted to the Authority wherein the specifications of these assets have been detailed with the assessment of the useful lives. These assets cannot just be categorized under the main category Buildings.

- Companies Act requires componentization of assets where any significant component of an asset has a different useful life.

- This has been taken note of by the Authority in Order 35, as noted in Para 3.11.6 as follows:

  3.11.6 The Authority notes MIAL's submission on the Companies Act requirement for key components of the asset to be evaluated differently for the significant value components of the asset. Authority notes that this is to be complied with by the Airport Operators.

- Hence, BIAL requests that the useful life based on Technical evaluation submitted by BIAL, in full compliance of Order 35 and Amendment No. 1 to Order 35 be considered by the Authority and the depreciation be computed based on such useful lives adopted.

4.9.3 20 years' useful life not considered for Runway; useful life estimated at 30 years

- The Authority had issued Consultation Paper No. 9/ 2017-18 dated 19th June 2017 on Determination of Useful life of Airport Assets. This was based on a study conducted by ICAI. In the said Consultation Paper, the useful lives of Runway, Taxiway was estimated to be 30 years. Extract of the Annexure to the Consultation Paper is detailed below:

Asset Category (Airport Specific)	Useful Life (In Yrs)	Depreciation Rate (%)
Runway Taxiway Apron	30 Yrs (most of the operators have estimated life as 30 yrs)	3.33
Hanger	30/60	3.33/1.67

- Further to the receipt of comments from various stakeholders and consideration of the same, the Authority had issued its Order No. 35/ 2017-18 on 12th January 2018 on the same. Comments on Runway/ Taxiway as submitted by MIAL and BIAL noted that the useful lives of such assets are 20 years. Extract of the comments is reproduced below:

  3.2.3 BIAL has commented as follows:

  "We would like to draw attention to ICAI's presentation in Annexure 2 with regard to "Analysis of Individual assets - Runway, Taxiway and Apron" wherein ICAI has rightfully noted that BIAL concession

agreement has design and life specified as 20 years for Runway and Taxiway. We believe that design and cost of Runway and Taxiway has been done to cater to the life in line with the Concession Agreement and accordingly BIAL has been following the same life till now. The proposal now considers the life of Runway and Taxiway as 30 years. We believe that when the Concession Agreement specify the life as 20 years, changing the life of the asset to 30 years for the purpose of streamlining across all airports will be unjust. We request the Authorities to consider the life of Runway and Taxiway as 20 years specifically for BIAL in line with the Concession Agreement."

3.2.4 MIAL has submitted as follows:

Runway, Taxiway and Aprons - Authority in Part II of Annexure 5 has suggested useful life of 30 years for Runway, Taxiway and Aprons. MIAL has considered useful life of 20 years for Runways due to the following reasons:

M1AL assumed operations and development of CSIA from 3rd May 2006 and took control of AAl's existing assets including Runways. Since Runways were originally constructed by AAI and MIAL has only done the strengthening and substantial restoration works of these runways, it has considered useful life of 20 years.

Besides above, various reports and data relied upon by ICAI as mentioned below, also justify useful life of Runways (even new Runways) as 20 years only instead of 30 years proposed by the Authority since Runways are considered as Flexible Pavements against Apron which are considered as Rigid Pavements (concrete)

1. ICAO Airports Economic Manual (2013 edition) has suggested useful life of Runways and Taxiways in the range of 15-30 years. ii.UK government - CAA in "A guide to Airfield Pavement design and evaluation - Design and Maintenance Guide (February 2011)" recommends that structural design life be 20-30 years. The upper end of this range being for concrete pavements and the lower end for flexible pavements. iii. US Department of Federal Aviation Administration in its Advisory circular AC No. 150/53206E has stated that Pavement and other facilities built to FAA standards are designed to last at least 20 years. iv FAA Airport Compliance Manual - Order 5190 B - 2009 also states that Pavement and other facilities built to FAA standard are designed to last at least 20 years. Aerodrome Design Manual Part 3 (2003 edition) states that pavement designed in accordance to these standards are intended to provide a structural life of 20 years. VI. Concession Agreement of BIAL also states that design life of flexible pavement is 20 years. vii. ICAI itself in para 6.2.18 of its Report mentioned that useful life of 20 years can be considered for Flexible Pavements (Runway and Taxiway) and 30 years for Rigid Pavements (Apron)

viii. Authority has also mentioned in para 2.2.5 (B) (i) that in view of the international prescriptions on standards of design life, the practice followed by certain airports in Asia and other parts of the world, useful life of 10·15 years for Runways and Taxiways surfaces and 30 years for Runways and Taxiways bases can be prescribed which means Authority should provide useful life for Runways and Taxiways either as average of 10 to 30 years or provide different useful lives for bases and surfaces but providing useful life of 30 years for both i.e., bases and surfaces would be incorrect and inappropriate.

- Based on the comments received from Stakeholders, the Authority had noted as follows:

3.2.6 Authority notes that the useful life of the Airfield pavements viz Runway, Taxiway and Apron are dependent ***on various factors including design intent etc.*** *The rate provided by the Authority was a normative rate considering the various factors.*

3.2.7 On reviewing the comments from certain stakeholders, the Authority decides that while the rate prescribed will remain as given in the Consultation Paper, if there is a different rate adopted by the Airport Operator, between 20 to 30 years, the same should be justified and backed up by suitable technical certification which will be critically examined by the Authority and a view taken on the same.

- In order to give effect to the above note, the Authority had included a note in the Order as follows:

  6. Runway/ Taxiway - If there is a different rate adopted by the Airport Operator, between 20 to 30 years, the same should be justified and backed up by suitable technical certification which will be critically examined by the Authority and a view taken on the same.

- As submitted by BIAL as part of its comments to the Consultation Paper on the useful lives of assets, BIAL's concession agreement had specified the design intent as 20 years for the original Runway and Taxiway constructed. Relevant extracts from the Concession Agreement (which were referred in the ICAI study report) are given below:

1.1.10 RUNWAY

The runway is designed to accept B 747 aircraft and the ICAO aerodrome reference code is 4E.

The characteristics of the runway specification are:

□□*Runway length - 4000m*
□□*Runway width - 45m*
□□*width of runway plus light paved shoulders - 60m*
□□*pavement type - flexible*
□□*Pavement classification number - 80*
□□*Runway strip width - 300m*
□□*Stop-ways at each threshold - 60m x60m*
□□*Runway orientation - 09/27*
□□*Usability factor - >95%*
□□*Turning circle at 09end.*

The longitudinal and transverse profile, slope changes, sight distance, distance between slope changes, pavement markings, signage and surface accuracy are designed in accordance with the Standards and Recommended practices stipulated in ICAO Annex 14. ***The design life for the flexible pavement is 20 years.***

1.1.11 TAXIWAYS

The characteristics of the taxiway specification are:

□□*width - 25m (code F)*

> □□*Width of taxiway plus shoulder - 45m*
> □□*Separation distance between the centre line of runway and taxiway - 190m*
> □□*taxiway centre line to taxiway centre line - 97.50m*
> □□*pavement type - flexible*
> □□*PCN - 80*
> *The longitudinal and transverse profile, slope changes, sight distance, distance between slope changes, pavement markings, signage and surface accuracy shall be in accordance with the Standards and Recommended Practices stipulated in ICAO Annex 14.* ***The design life for the flexible pavement is 20 years.***

- Hence, the basis and design intent (which was in line with the Concession Agreement) based on which the Original Runway and Taxiway were constructed cannot be changed by AERA and that too after the useful life for these assets being considered at 20 years for the past periods from the year 2008.

- Authority had commented that the useful life for Runway was changed from April 2018 to 30 years in the second control period order. Basis of this change is as explained below:

  - In the Second Consultation Paper model. depreciation rates were estimated block wise
  - Land development cost, Existing Runway and New South Parallel Runway (NSPR) were all together in one block as "Runways"
  - Useful life for this block was considered at 3.34% from April 2018 in order to compute an average depreciation rate including Land development cost which was to be depreciated at 50 years, the existing Runway / Taxiway to be depreciated at 20 years and NSPR at 30 years.

- Accordingly, BIAL requests that the prescriptions in the Concession Agreement be respected and the depreciation on the original Runway and Taxiway be allowed considering a useful life of 20 years. It may be noted that the design life of the new runway is 30 years and accordingly based on the design intent, BIAL has adopted a useful life of 30 years for the new runway asset capitalized. This was also discussed and deliberated during the Second control period, which has also been considered by the Authority at the time of issue of MYTO for second control period.

- BIAL's design intent for new Runway has been adequately detailed in the Stage III Stakeholder consultation held by BIAL, extract of which is provided below:

Pavement Design

Runway and Taxiway Pavement

- Airfield Pavement is designed based on ICAO and FAA standards for the Aircraft Traffic from Master Plan.
- Runways and taxiways are designed for flexible (asphalt) pavement, Runway Holding Positions are designed for rigid(concrete) pavement.
- Shoulders and blast pads designed for flexible (asphalt)
- Design Life
  - Asphalt Pavement (flexible): 30 Years

4.9.4 Useful life of Runway Top Layer considered at 5 years not considered by the Authority, useful life considered as 30 years

- In S # 14 of Annexure 1 to Order 35, the Authority had noted that

  "Resurfacing & Runway: The cost of resurfacing & runway leading to restoration of original PCN value would be amortized over 05 years for the purpose of Tariff computations"

- **Companies Act requires componentization of assets where any significant component of an asset has a different useful life.**

  Schedule II – Note 4

  "Useful life specified in Part C of the Schedule is for whole of the asset. Where cost of a part of the asset is significant to total cost of the asset and useful life of that part is different from the useful life of the remaining asset, useful life of that significant part shall be determined separately."

- Detailed guidance on the same is also prescribed in the ***Guidance Note on Accounting for Companies in the Context of Schedule II to the Companies Act, 2013.***

- This has been taken note of by the Authority in Order 35, as noted in Para 3.11.6 as follows:

  3.11.6 The Authority notes MIAL's submission on the Companies Act requirement for key components of the asset to be evaluated differently for the significant value components of the asset. Authority notes that this is to be complied with by the Airport Operators.

- Hence, when the New South Parallel Runway was being capitalized, in compliance with the applicable Companies Act requirement of componentization and as per Authority's principles, it was necessary to identify different components of Runway which could have a different useful life and accordingly note the useful life for the same.

- As the useful life of resurfacing the runway was considered by the Authority itself at 5 years, which is aligned with the actual need for resurfacing the Runway also, the top layer of the Runway has been identified to have a useful life of 5 years.

- BIAL has acted in full compliance to the extant accounting and legal requirements and in line with Authority's directions. Hence, BIAL submits that the useful life of Top layer, which will wither away faster, and which needs to be re-surfaced be considered as 5 years.

4.9.5 Useful life for Earthworks considered at 48.5 years

- BIAL, in its Fixed Asset Register had considered a useful life of 48.5 years for the Earthworks.

- Estimated depreciation for future years (Third Control Period) is done on a block estimate and the Earthworks together with Runways, Taxiways were all considered as part of 1 block "Buildings 2-

RW/TW" category. This block has assets with useful life of 48.5 years (Earthwork), 20 years (First Runway and Taxiway) and 30 years (New South Parallel Runway).

- For ease of computation, a common useful life of 30 years was used.
- BIAL agrees that the Earthworks be considered with a useful life of 48.5 years whereas the useful lives of existing Runways and Taxiways have to be considered at 20 years as per the submissions made above.

4.9.6 Adjustments to depreciation due to reduction to RAB as per EIL study report

- BIAL has made its arguments and submissions on why the reduction made to RAB based on EIL study is not correct and unjust. Hence, BIAL requests that the depreciation adjustment due to the reduction to RAB made based on EIL Report be reversed.

4.9.7 Adjustment to depreciation due to Pre-Operative expenses not considered as part of RAB additions

- BIAL has submitted in detail in the relevant section on why Pre-Operative expenses have to be considered as part of Capital Expenditure and hence as part of additions to RAB.
- BIAL accordingly requests the Authority to reverse the deduction made on account of reduction in depreciation due to Pre-Operative Expenses not being considered.

4.9.8 Revision to One time depreciation due to certain changes in 4.9.1 and 4.9.2 above

- The Authority has adjusted the 'One-time' depreciation due to change made by the Authority on useful lives of Canopy and Plant & Machinery.
- BIAL requests the Authority to reverse the adjustment made based on the submissions made by BIAL for S # 1 and S # 2 as above.

4.9.9 Aeronautical proportion of RAB of a respective year used for computation of depreciation for reimbursement

- The Authority has proposed that total depreciation for the year will be segregated between Aeronautical and Non-Aeronautical in the ratio of the assets – Aero: Total Assets and has accordingly computed the Aeronautical Depreciation to be considered for ARR computation.
- BIAL had computed the allocation ratio between Aeronautical and Non-aeronautical assets based on the segregation of depreciation at an individual asset level between Aeronautical and Non-Aeronautical asset. This is evident from the following table which shows the ratio of Aeronautical

assets for each year from 2016-17 to 2019-20 together with the ratio of Aeronautical deprecation for each of these years.

Particulars	FY 17	FY 18	FY 19	FY 20
Aero Gross Block of assets	90.80%	90.35%	90.04%	92.78%
Aero Depreciation for the year	92.44%	92.38%	88.75%	90.56%

- This is because different assets will have different useful lives and hence, the depreciation cannot be uniformly assigned based on the overall asset Gross block ratio.

- Only for estimation purposes for future years, a ratio of the total depreciation, which is made at a block estimate has been taken, which will be trued up in the next control period based on actual asset capitalization into different categories and based on depreciation computed by the accounting system.

- Hence, BIAL requests that the identification of depreciation to each asset done by BIAL to compute the total Aeronautical depreciation be considered by the Authority.

Regarding Operating Expenses

4.10 Operating expenditure Allocation as Aeronautical

<u>Authority's Analysis</u>

Revised segregation logic for O&M costs proposed to be considered by the Authority for the Second Control Period. (Table 32).

<u>BIAL's Submission</u>

- Following is the tabulation of Opex allocation ratios as proposed by BIAL versus Opex cost allocation as proposed by the Authority in Consultation Paper 10.

Exp Head	Proposed by BIAL					Proposed by Authority				
	FY 17	FY 18	FY 19	FY 20	FY 21	FY 17	FY 18	FY 19	FY 20	FY 21
Personnel	94%	94%	93%	92%	92%	90.44%	91.05%	89.71%	88.94%	88.94%
O&M	89%	89%	88%	89%	89%	83.62%	84.78%	82.66%	84.49%	89.65%
Lease Rent	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Utilities	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Insurance	91%	90%	90%	90%	90%	89.29%	88.87%	88.96%	91.98%	90.93%
R&T	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

Exp Head	Proposed by BIAL					Proposed by Authority				
Collection Cost	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Marketing & Advt.	95%	90%	88%	86%	86%	89.82%	83.60%	85.17%	84.80%	84.80%
Total G&A	99%	98%	95%	91%	91%	95.10%	91.27%	63.34%	59.03%	90.00%
CSR	100%	100%	100%	100%	100%					
Total Opex	89%	89%	88%	88%	91%	87.14%	87.14%	79.83%	79.62%	87.79%

- Of the total cost of Rs. 2290.57 crores for SCP as submitted by BIAL, Rs. 2033.48 Crores was estimated as Aeronautical Expenditure. As against this, as per the study, Rs. 2241.31 crores has been estimated as the cost, of which Rs. 1882.38 crores has been estimated as Aeronautical cost.

- Broad reconciliation of MYTP submission to the costs considered by AERA are given below

Particulars	**FY 17**	**FY 18**	**FY 19**	**FY 20**	**FY 21**	**Total**
Expenses as per MIS	***371.84***	***412.54***	***463.99***	***530.40***	***511.31***	***2290.07***
Adjustments						
Less: Collection costs reduced to arrive at IGAAP numbers (Contra)	(5.27)	(6.31)	(6.57)	(7.27)		25.40
Add: Exchange differences considered as Finance cost (Contra)	6.77	0.89	0.01			7.65
Less: Finance cost considered as Opex in MIS	(0.95)	(0.99)	(0.62)	(1.35)		(3.91)
Rounding off	(0.01)	(0.01)	(0.01)	(0.31)		(0.34)
Expenses as per IGAAP	***372.43***	***406.22***	***456.44***	***523.19***	***511.31***	***2269.59***
Add: Collection costs added (Contra)	5.27	6.31	6.57	7.27		25.42
Less: Exchange losses (Contra)	(6.77)	(0.87)	(0.01)			(7.65)
Less: 2020-21 adjustment based on estimate					(46.05)	(46.05)
As per Study	**370.93**	**411.66**	**463.00**	**530.46**	**465.26**	**2241.31**

- BIAL's submission on the items of costs not considered and reasoning for inclusion is as given below:

  - Finance costs that are considered as Operating Expenses in MIS relate to the assets taken on lease for ICT requirements. These are actual Operating costs and are to be reimbursed to BIAL.
  - Rounding off differences are various minor adjustments across various codes in Trial Balance and cannot be excluded by the Authority.

- BIAL requests these 2 items to be included as part of Operating Expense and provide for reimbursement of the same.

- For key costs – Personnel, O&M, General Admin and Marketing costs other than collection fee, AERA has segregated the same based on sub-cost centers as done by BIAL. However, certain cost centers considered as Aeronautical by BIAL have been treated as common/ Non-Aero by AERA.

- From Table 16 of Appendix III – Allocation study report, areas where there are differences in allocation are summarized below. BIAL's analysis of the same and reasoning for the basis considered by BIAL is as elaborated below:

No.	***Sub-cost center***	***Personnel***		***O&M***		***GA and M&A***		***Remarks***
		BIAL	***Study***	***BIAL***	***Study***	***BIAL***	***Study***	
2	*Quality Management*	*A*	*C*	*-*	*-*	*A*	*C*	*The Quality Management team works towards the overall improvement of the airport operations and hence taken as common. Similar treatment was considered by AERA for other airports.*
3	*Corporate Affairs*	*A*	*C*	*A*	*C*	*A*	*C*	*Corporate Affairs exist to support both Aeronautical and Non-Aeronautical activities and hence, considered as common. Similar treatment was considered by AERA for other airports.*
4	*Terminal Operations*	*A*	*C*	*A*	*A*	*A*	*C*	*Terminal operations cost includes costs related to maintenance, upkeep and running of the terminal. Since both aeronautical and non-aeronautical services are managed and provided within the terminal, hence expenses under this head are considered as common. Similar treatment was considered by AERA for other airports. Terminal operations is considered as aeronautical for O&M expenses with some cost items containing F&B, lounges (except VIP) being reclassified from aeronautical to non-aeronautical.*
12	*Ops Planning & Project Co-ordination*	*A*	*C*	*A*	*C*	*A*	*C*	*Involves planning and coordination of the entire airport which includes*

No.	Sub-cost center	Personnel		O&M		GA and M&A		Remarks
		BIAL	Study	BIAL	Study	BIAL	Study	
								aeronautical as well as non-aeronautical services.
14	*Innovation Lab*	*A*	*C*	*A*	*C*	*A*	*C*	*Aimed at innovation in the airport and its operations which caters to aeronautical as well as non-aeronautical services.*
22	*Real Estate Development*	*C*	*C*	*Non-Airport*	*N*	*Non-Airport*	*N*	*Considered as non-aero for O&M, GA and M&A. Considered common for personnel cost in accordance with the submission made by BIAL (real estate personnel are involved in filing the property tax managing contracts of cargo, ground handling, etc.,)*
27	*Landside Maintenance – Special Equipment*	*A*	*C*	*A*	*C*	*A*	*C*	*Includes central air conditioning unit of terminal and hence considered as common.*
28	*Utility – Water supply*	*A*	*C*	*A*	*C*	*A*	*C*	*Utility is provided to both aero and non-aero service users and hence taken as common.*
33	*Utility – Power Systems*	*A*	*C*	*A*	*C*	*A*	*C*	*Utility is provided to both aero and non-aero service users and hence taken common.*
47	*Corporate Communications*	*A*	*C*	*A*	*C*	*A*	*C*	*Corporate Communication exist to support both aero and non-aero activities and hence, considered as common. Similar treatment was considered by AERA for other airports.*
49	*Chief Operations Officer*	*A*	*C*	*A*	*C*	*A*	*C*	*COO is responsible for managing the operations of airport as a whole and hence its costs are taken as common. Similar treatment was considered by AERA for other airports.*
50	*Cust Engagement and Service Quality*	*A*	*C*	*A*	*C*	*A*	*C*	*Similar to ops planning and project coordination*
62	*President – Airport operations*	*A*	*C*	*A*	*C*	*A*	*C*	*Similar to Chief Operations Officer.*

- AERA has reclassified expenses based on the reasoning provided above. BIAL has given below the details of different teams and the nature and function of the roles performed by them. While certain functions have been considered as Common based on the reason that the service is for Overall Airport, following fundamental principle is brought to the attention of the Authority

- Certain departments of BIAL are engaged in managing Non-Aeronautical services. These are Commercial, Landside Traffic etc. Such departments and cost centers have been fully identified as Non-Aeronautical.
- While the Non-Aero concessionaires are provided with space within and in front of terminal building, BIAL has no role or involvement in managing any operations, planning, co-ordination activities of the Concessionaires.
- Apart from the dedicated teams handling Non-Aeronautical concessionaires, no other team is working on the any matters of the Non-Aeronautical concessionaries.

- BIAL is not aware of the Organization structure and Operations of other airports and hence, cannot comment on the manner of allocation at such airports. We request AERA to examine and take decision based on BIAL's cost centre, structure etc. and not decide based on practice adopted in other airports.
- Line by line explanation is as provided below

Cost Centre	**Reasoning by AERA**	**BIAL response**
Corporate Affairs	Corporate Affairs exist to support both Aeronautical and Non-Aeronautical activities and hence, considered as common. Similar treatment was considered by AERA for other airports.	Corporate Affairs team manages the affairs of BIAL only. They deal with all permissions required at GoI and GoK for the Airport. Corporate Affairs of Non-Aero concessionaires are not managed by BIAL. Hence this is considered fully aeronautical.
Terminal Operations	Terminal operations cost includes costs related to maintenance, upkeep and running of the terminal. Since both aeronautical and non-aeronautical services are managed and provided within the terminal, hence expenses under this head are considered as common. Similar treatment was considered by AERA for other airports.	Maintenance and upkeep of the Terminal is the responsibility of BIAL's E&M Team and operations of Terminal are supervised and managed by Terminal Operations team. For any specific areas leased to concessionaires, the upkeep, maintenance activities are managed by the respective concessionaires. Also, BIAL is not responsible for managing any other operations of the Non-Aero concessionaires. This team ensures that passenger and baggage processing & information flows are facilitated in a timely manner and coordinate with regulatory and other service providing agencies to ensure best levels of services at all times. Hence this cost is to be treated as Aeronautical.

Cost Centre	Reasoning by AERA	BIAL response
	Terminal operations is considered as aeronautical for O&M expenses with some cost items containing F&B, lounges (except VIP) being reclassified from aeronautical to non-aeronautical.	BIAL does not have details of the certain costs considered by AERA as Non-Aeronautical, which is requested from the Authority. To clarify, Lounges and F&B Area are not managed by BIAL and are part of the concessionaire responsibilities.
Ops Planning and Project Co-ordination Customer Engagement and Service Quality Quality Management	Involves planning and coordination of the entire airport which includes aeronautical as well as non-aeronautical services.	AERA has mentioned that this involves planning and coordination of the entire airport. BIAL submits that the BIAL team does not carry out any Operations planning and coordination for the Concessionaires. Service Quality Team is responsible for evaluating and maintaining the ASQ of the Airport, which is mandated by the Concession Agreement. While AERA notes that the team works for overall quality management, the quality management initiatives taken are for only the Operations carried out by BIAL and not that of the concessionaires. Hence this is fully Aeronautical. These activities are part of the responsibilities of BIAL as per the requirements of the Concession agreement. Hence to be considered as Aeronautical.
Landside Maintenance Special Equipment	Includes central air conditioning unit of terminal and hence considered as common.	Central air-conditioning is the necessary facility to be provided by BIAL as per the terms of the concession agreement. This is also an Aeronautical asset. Hence to be treated as 100% Aeronautical This team is responsible for asset management in Terminal - Special systems like BHS, PBB, VHT, HVAC Electricals, Civil, Mechanicals, Infra ICT & Services from Trumpet to Terminal and hence considered fully as Aeronautical.
Utility – Water Supply Utility – Power Systems	Utility are provided to both aero and non-aero service users and hence taken as common.	Utilities are basic facilities to be provided to the users of the Airport. Hence, these are 100% Aeronautical. Utility cost recoveries are netted off and 100% considered as Aeronautical by the Authority. This team ensures that Utility services are seamlessly provided for Airport functioning and also develops strategic goals for Energy, Environment and waste management. Also,

Cost Centre	Reasoning by AERA	BIAL response
		they are the company custodian for all ISO standards, Noise and Air quality management.
Chief Operations Officer	COO is responsible for managing the operations of airport as a whole and hence its costs are taken as common. Similar treatment was considered by AERA for other airports.	As the name implies, these are designations only working on core airport operations management etc. Hence, to be considered as 100% Aeronautical.

<u>Adjustments made to Allocation of G&A, M&A, Utilities and Insurance</u>

- AERA has made certain adjustments relating to G&A costs. BIAL understands from Appendix-III that costs relating to Donation and Provision for Doubtful debts have been adjusted. Basis of allocation %s for 2018-19 and 2019-20 being 63.34% and 59.03% is not known to BIAL.

    - Donations of Rs. 3.08 Crores in FY 19-20 and Rs. 2.60 crores in FY 18-19 have been made to the Chief Minister Relief Funds for various humanitarian activities included Flood relief etc. These are to be considered as Aeronautical cost and reimbursed to BIAL.
    - BIAL has submitted earlier its responses on Waiver/ Bad debts to be allowed as Operating Costs, we request the Authority to consider the same.

- AERA has considered adjustments to Marketing & Advertisement costs for 2018-19 and 2019-20. From Appendix- III, Table 46, BIAL understands that the M&A costs have been allowed only based on passenger growth rate and Inflation increase. Detailed computations relating to the same are not available with BIAL.

Items (Rs. Cr)	**FY 17**	**FY 18**	**FY 19**	**FY 20**
Publishing in Soveniers etc.	0.28	0.64	0.35	0.72
Enhanced Digital Platform for apps and website	-	-	-	2.95
Regular audio, video , photos for main event at airport	0.10	0.07	0.17	0.39
T2 video journey	-	-	0.60	2.33
Cargo shows, Cargo data subscription, etc	0.10	-0.03	0.40	0.34
Advertising for New route launch - KLM, etc	-	0.00	0.04	0.69
BIAL - Vision, Mission related spends	-	-	0.35	0.04
Digital marketing, Social Media spend, Retainer fee	-	-	0.35	1.64
Various minor initiatives - BIAL Newsletter, Exibition stalls, Signages, Concessionaire Training, ASQ survey, General advertising etc.	0.48	0.60	0.40	0.30
One time cost for 10 year celebration	-	-	3.17	-
Events like Yoga day, tree Plantation, employee initiatives, 100 Mn pax	0.01	0.23	0.76	0.48

Items (Rs. Cr)	**FY 17**	**FY 18**	**FY 19**	**FY 20**
Pinnacle awards	0.99	0.42	1.41	2.24
Republic Day celebration, Sports Celebrations, Dasara Celebrations	0.17	0.24	0.40	0.67
Season of Smiles	0.83	1.12	1.51	1.35
Various sponsorship - IATA, GES Expo, etc	-	-	-	0.46
Total Marketing & Advertisement (A)+(B)	**2.97**	**3.29**	**9.91**	**14.59**
Table 46 of Consultation Paper	2.93	3.24	9.80	14.56
Diff	0.04	0.05	0.11	0.03

- AERA has noted that BIAL has not submitted justification for the Marketing & Advertisement costs for 2019-20. BIAL has submitted all details sought by AERA during MYTP evaluation process. BIAL is ready any further details that the Authority seeks on this account.
- Costs reported are actual costs incurred for various activities undertaken by BIAL.

- Certain one-time costs were incurred by BIAL, and details of Events carried out etc. were submitted to the Authority. Break-up details of such costs are given below. One Time costs incurred in 2019-20 similar to the costs incurred in 2018-19 and considered by the Authority should be considered for reimbursement. One off costs such as T2 Video journey cost (not capitalizable) but essential from a perspective of retaining organizational knowledge for future developments should be considered by AERA.

- *Enhanced digital platform is to redesign, develop and maintain airport website, to assess and enhance airport mobile app, provide ready to use API architecture and build on existing BIAL Enterprise and system APIs as well as provide campaign management solutions.*

- *Terminal T2 video is series of initiatives to cover the journey of T2 right from concepts, construction, updates and final completion. It will have videos to cover various activities in Terminal T2 journey including a detailed video, construction update video, Electronic Press Kit, Social Media video, Coffee table Book design, repository of photographs etc in a comprehensive manner.*

- AERA has adopted a new methodology of recomputing the actual M&A costs to be allowed based on passenger growth rate and inflation. This basis of benchmarking is incorrect and AERA should review the details of the actual costs incurred and consider such costs for reimbursement.

- AERA has made certain adjustments to Utility cost and Insurance, with significant value adjustments in FY 20, details of which are not available with BIAL. BIAL requests the Authority to provide details for reconciliation and submission of comments.

- On completion of reconciliation of model, BIAL will submit changes if any to be made in the computations.

4.11 True Up of CSR Expenses

Authority's Analysis

CSR expense has been considered as operational expenditure as per the directions of the Hon'ble TDSAT judgement dated 16 Dec 2020. These are categorized as common and aero CSR expense is computed based on the minimum of actual CSR expense and CSR expense based on aeronautical PBT. (para 3.11.1)

BIAL's Submission

- Based on the computations detailed in Table 43, Authority has estimated Rs. 1.16 crores to be the Aeronautical CSR Expenses for the first control period (year 2016). Accordingly, the True up has been re-calculated by the Authority. The details of such computation are still awaited from the Authority for reconciliation.
- BIAL notes that the basis and methodology of computation of CSR costs that are to be considered as Aeronautical is fair and reasonable.
- On completion of reconciliation of model, BIAL will submit changes if any to be made in the computations.

4.12 Regarding True Up estimation from First Control Period

Authority's Analysis

AERA has not revised/ revisited any of the building blocks of the First control period except for the CSR expenses as indicated in the Consultation Paper.

BIAL's Submission

- BIAL notes that the Authority has not reassessed any of the Building Blocks with respect to First Control Period. BIAL requests the Authority to re-consider the First Control Period true up considering all matters which are disputed by BIAL as listed in Section 2 above

Regarding Taxation

4.13 30% cross subsidization of Non-Aeronautical Revenues not considered for taxation

Authority's Analysis

The Authority noted that BIAL has considered the 30% of non-aeronautical revenues to compute the aeronautical tax. The fact that a part of non-aeronautical revenues is used for cross-subsidization as per the hybrid till mechanism does not change the nature of such revenues to aeronautical. Cross-subsidization as per hybrid till mechanism is done in order to reduce tariff pressure on passengers and to incentivize the airport operator to make effective investments in non-aeronautical revenue generating sources. (para 3.8.6)

The consideration of 30% non-aeronautical revenues for computation of aeronautical tax will increase tax reimbursement beyond the requirement pertaining to aeronautical services leading to an artificial tax benefit. The same could lead to the effective cross subsidy benefit being passed on to the airport user being less than 30% to the extent of the artificial tax benefit the airport operator receives in the event of considering 30% non-aeronautical revenues as part of revenue from aeronautical services. (para 3.8.7)

Therefore, the Authority is of the view that:

a) 30% non-aeronautical revenues should not be treated as a subsidy for the airport operator as the airport operator has already earned it from non-aeronautical services and is meant as a cross subsidy to the airport user.
b) Consideration of 30% non-aeronautical revenues as part of revenues from aeronautical services would result in undeserved enrichment to the airport operator effectively reducing the cross-subsidy benefit to the airport user from the present 30% of non-aeronautical revenues.
c) Further, this issue has been decided by the Authority and the details may be seen in Chapter 8 of DIAL Tariff Order No. 57/2020-21 dated 30 December 2020 for the Third Control Period. (para 3.8.8)

The Authority, in line with its decision for other airports, proposes to not consider 30% of nonaeronautical revenues while computing aeronautical taxation for the true-up of the Second Control Period. (para 3.8.9)

BIAL's Submission

- BIAL has submitted an Expert opinion on the said matter, which appears to have not been evaluated by the Authority. BIAL requests the Authority to review and evaluate the same.

- Direction-5 notes the following on Tax Payments

  5.5.1 Taxation represents payments by the Airport Operator in respect of corporate tax on income from assets/ amenities/ facilities/ services taken into consideration for determination of Aggregate Revenue Requirement.

- Since Direction 5 states that taxation on income from services taken into consideration for determination of Aggregate Revenue Requirement should be considered for taxation, as 30% of the Non-Aeronautical Revenues have been taken as part of the Aggregate Revenue Requirement, tax estimate on the same should also be considered for reimbursement.

- Since the cross subsidy is part of aeronautical revenue, it has to be considered while drawing aeronautical P&L, from Pre-control period.

4.14 MAT rate considered for estimation of Aeronautical Tax

Authority's Analysis

As per the Second Control Period order, the Authority proposes to allow actual aeronautical MAT as passthrough for true-up of the Second Control Period. The Authority noted that BIAL has paid MAT at effective tax rate of 19.10%, 19.19%, 19.40% and 16.94% from FY17, FY18, FY19 and FY20 respectively by dividing MAT payment by the Profit before Tax (PBT) for the respective years. Tax forecasted for FY21 is nil due to negative PBT. (para 3.8.10)

BIAL's Submission

- From a reading of Para 3.8.10, the Authority notes that BIAL has estimated MAT rate for FY 20 at 16.94% which is much lower than the actual MAT rates applicable during the year. (Applicable MAT rate for FY 20 is 17.47% including applicable surcharge / CESS)

- The tax rates applied by the Authority will be reconciled with the model and we will submit our observations, if any on the same.

4.15 Adjustment of One-Time Depreciation from Aeronautical Profits

Authority's Analysis

The Authority has noted that BIAL has not considered the one-time depreciation charge in the P&L while computing aeronautical taxation. BIAL, in its response to queries, has submitted that the one-time depreciation charge would have been charged to P&L account and since there is a regulatory override in Note no. 2 of Order no. 35, the same is adjusted in retained earnings. Since, one-time depreciation is allowed in the computation of the ARR, the Authority proposes to consider the one-time depreciation charge while computing the aeronautical Profit Before Tax (PBT). (para 3.8.11)

BIAL's Submission

- As per principles of Direction-5, Taxation represents payments by the Airport Operator. As noted by the Authority, BIAL has paid Minimum Alternate Tax (MAT) during the years in the second control period.

- BIAL is required to comply with the relevant prescriptions of the Income Tax Act and the directions for computation of MAT. MAT computation is largely based on book profits. Accordingly, inclusions/ exclusions to Book profits are also guided and mandated based on extant rules and principles prescribed under the Income Tax Act.

- As the One-time deprecation was not charged to P&L account (in full compliance to and as mandated by the Authority's prescriptions in Order 35 this was adjusted from Retained earnings). Note from Order 35 mandating the same is as given below

  Note 2: From the date this schedule comes into effect, the book value of assets as on that date (a) shall be depreciated over the remaining useful life as per this schedule; (b) after retaining the residual value, *shall be recognized in the opening balance of retained earnings where the remaining useful life of an asset is NIL.*

- This adjustment of One-time depreciation to Retained Earnings was not allowed by the Income Tax Authorities, as a deduction or an expenditure for estimating Book Profit for MAT calculation and payment by BIAL.

- Hence, as BIAL has paid MAT based on Book profits without considering the One-Time depreciation as a charge to P&L/ Adjustment to book profits, the same cannot be notionally adjusted to increase the cost and arrive at a lower profit for arriving at profit % estimation.

- BIAL has, as part of MYTP evaluation and queries, submitted the Income Tax Returns and all back-up computations.

- In taxation matters, the primacy of Income Tax Act will prevail and has to be respected.

- Also, BIAL notes that the Authority has carried out this adjustment of One-Time depreciation to arrive at Aeronautical Profits only but not to compute the Total Profits to compute the ratio of tax to profits.

- We request the Authority to correct this error in computation of Aeronautical Taxation.

Regarding Non-Aeronautical Revenues

4.16 Lease rentals from BAHL

Authority's Analysis

The Authority had noted in the Second Control Period order that there was no agreement between Bangalore Intl. Airport Ltd. and BAHL for the land leased for the hotel project. The Authority had assumed a notional annual lease rental of INR 9.26 cr. For the hotel project and assumed it as non-aeronautical revenue for the Second Control Period. Bangalore Intl. Airport Ltd. has entered into an agreement with BAHL from 1 April 2019. As per the agreement between BAHL and Bangalore Intl. Airport Ltd., annual lease rent of INR 2.48 cr. With an escalation of 10% every 3 years is payable by BAHL. Accordingly, it is proposed to consider a notional lease rent of INR 9.26 cr. From FY17 to FY19 due to lack of an agreement during this period followed by the actual lease rent received by Bangalore Intl. Airport Ltd. from BAHL in FY20 and FY21 as non-aeronautical revenue. (para 3.9.10)

BIAL's Submission

- BIAL's approach towards Concessionaires has been to provide land and allow for moratorium period for construction after which only the agreed lease rentals / revenue share would commence.

- L&T Bangalore Airport Hotel Limited (L&T BAHL) was incorporated to implement the Hotel Project. Based on the agreement executed, BIAL handed over land admeasuring 4.19 acres for a 30 years sub-lease to L&T BAHL to construct a hotel consisting of 321 rooms with a proposed height of 45 meters.

- AAI had approved a height of only 30.36 meters for the hotel building as against the envisaged height of 45 Meters and hence, L&T BAHL had to restrict the number of rooms to 154 within the allotted land. In view of the above restrictions & changes, the construction of hotel with limited rooms became an unviable project to L & T BAHL. As a result, the hotel construction was delayed and went into arbitration.

- Thereafter L&T and BAHL initiated arbitration proceedings for terminating the Agreement and claimed compensation for the partial construction of the Airport Hotel. Subsequently, based on the settlement agreement, BIAL agreed to purchase 100% of the shares of L&T BAHL for a consideration of Rs. 2 Crore. Thus, BAHL became 100% subsidiary of BIAL and BIAL undertook completion of the balance portion of the Hotel.

- BAHL commenced operations on 30th September 2016 and hence, no notional lease rentals can be applied prior to this date.

- For Assets which are under construction, it is not a commercial practice to charge rentals during the construction period.

- The decision of the Authority in the Second Control Period Order to go back and apply these Notional Lease Rentals from AOD (even through the 30% subsidisation effect was given from the start of the first control period), which has been further confirmed in the third consultation paper, is unfair and unjust.

- BAHL continued to incur operating cash losses due to restriction on the Hotel height to 154 rooms and hence BIAL could not charge any lease rentals for the land provided. As the operations picked up and the rooms were fully occupied, BIAL decided to charge lease rentals for the land provided on sub lease to BAHL based on market assessment and on arm's length basis and accordingly a sub-lease deed was executed with lease rentals of Rs. 2.48 Cr per annum in FY 20.

- Even if a notional lease rental is to be made applicable, it can be applied only from 30th September 2016 (Hotel commercial operations start date) and not before that.

- Even though Direction 5 / AERA Act do not envisage any "Notional" revenue / cost, Authority has decided to apply the same and BIAL is not in agreement with the same. Without prejudice, as BIAL has already discovered a market price for this land, BIAL requests the Authority to consider the rate of Rs. 2.48 crores per annum and not Rs. 9.26 crores from 30th September 2016.

- We request the Authority to objectively assess the issue with rationality.

4.17 Notional Lease rentals from AAI

Authority's Analysis

The Authority is of the view that BIAL cannot have differential treatment of rental arrangement among various stakeholders at the airport. Further, the Authority notes that due to NIL lease rentals from AAI, the non-aeronautical revenues proposed by BIAL for the Second Control Period are lower which leads to reduction in the cross-subsidization of the aeronautical revenues. Therefore, the Authority proposes to consider a notional lease rental for the office space leased to AAI for the Second Control Period. (para 3.9.14)

BIAL's Submission

- The Airport Authority of India is a statutory body and is governed by the AAI Act 1994 and is responsible for providing services of Communication Navigation & Surveillance (CNS) and Air Traffic Services (ATS) services in all airports in India.

- BIAL and AAI entered into CNS/ATM Agreement dt. 6th April 2005 and Clause 7.4, of the Agreement states "***AAI shall pay a rental fee to BIAL in consideration for providing the facility and office space and the rental rate shall be calculated on cost recovery basis …***".

- Based on the above Agreement, AAI has paid lease rentals and based on the valuation exercise conducted by AAI, as the cost recovery has been completed, there are no further lease rentals payable by them. Relevant correspondences are enclosed as Annexure - 9.

- Further, as per the Greenfield Airports Policy issued by the Government of India, Air traffic services (ATS) would be provided on a cost recovery basis and AAI would publish a standard agreement for this purpose. The Airport Company would also provide the required infrastructure to AAI free of cost for provision of ATS. Extract of the Green field Policy, highlighted for this reference is enclosed as Annexure 10.

- BIAL wishes to submit that AAI is a statutory body and for carrying out the function of CNS/ATM, BIAL has charged lease rentals to AAI as per the Agreement with AAI. In line with the Greenfield Airports Policy, BIAL is not charging lease rentals for the additional space provided to them.

- AERA has stated above that there cannot be differential treatment among various stakeholders at the airport and proposed notional lease rentals from AAI to the extent of Rs. 39.09 cr. in 2nd Control Period and Rs. 80.13 cr. in 3rd Control period.

- BIAL submits that the stand of AERA in respect of AAI is contradictory to the Greenfield Policy of Government of India and considering a notional lease rent for AAI office space is not correct.

- The Authority has erroneously considered notional rentals and BIAL request the Authority to remove the same at the time of finalization of the tariff Order.

4.18 Revenue from Interest earned

Authority's Analysis

In the Second Control Period order, the Authority had decided to consider revenue from interest income as non-aeronautical revenue as per the AERA Act. Accordingly, the Authority proposes to consider the interest income as non-aeronautical revenue for true-up of the Second Control Period. Hon'ble TDSAT judgement dated 16th December 2020 has also agreed to the stand of the Authority. (para 3.9.15)

BIAL's Submission

Refer Section 2 above

4.19 Utility Revenue

Authority's Analysis

In the Second Control Period order, the Authority had decided to consider revenue from aeronautical concessionaires as recoveries and reduced from utility cost (operating expenditure) and consider net costs of utilities as aeronautical. Accordingly, only the utility charges recoveries from non-aeronautical concessionaires is considered as non-aeronautical revenues. Accordingly, the Authority proposes to consider only the utility charges recoveries from non-aeronautical concessionaires as non-aeronautical revenues for the true-up of the Second Control Period. Hon'ble TDSAT judgement dated 16th December 2020 has also agreed to the stand of the Authority. (para 3.9.16)

BIAL's Submission

Refer Section 2 above

4.20 Revenue from CGF, ICT and CIC

Authority's Analysis

In the Second Control Period order, the Authority had considered revenue from CGF, ICT, aerobridge, fuel throughput and Common Infrastructure Charges (CIC) as aeronautical revenues as per the AERA Act, 2008, AERA guidelines and the concession agreement of BIAL. Accordingly, the Authority in line with the approach followed in the Second Control Period order proposes to consider the revenue from CGF, ICT, aerobridge, fuel throughput and CIC as aeronautical revenues for true-up of the Second Control Period as per the AERA Act, 2008, AERA guidelines, the concession agreement of BIAL and Hon'ble TDSAT judgement dated 16th December 2020. (para 3.9.7)

BIAL's Submission

Refer Section 2 above

4.21 Revenue from Real Estate

Authority's Analysis

In the Second Control Period order, the Authority had considered revenue from real estate as non–aeronautical revenue as per the AERA Act. Accordingly, the Authority in line with the approach followed in the Second Control Period order proposes to consider the revenue from real estate as non-aeronautical revenues based on the AERA Act, 2008, AERA guidelines, concession agreement of BIAL and Hon'ble TDSAT judgement dated 16th December 2020. (para 3.9.9)

BIAL's Submission

Refer Section 2 above

Regarding Aeronautical Revenues

4.22 Aeronautical Revenues

Authority's Analysis

The Authority sought the information of the discounts offered by BIAL on the Authority approved tariff card during the Second Control Period. BIAL submitted that it has given the discount of INR 4.29 cr. in FY21 towards waiver of parking and housing fee during lockdown and INR 0.32 cr. in FY21 towards international recovery linked airline support scheme. The Authority proposes to consider these discounts as aeronautical revenues for the purposes of true-up of the Second Control Period. (para 3.10.5)

BIAL's Submission

- The Central Government vide notification dt. 23rd Mar 2020 ceased all domestic/ International flight operations (except cargo) from 24th Mar 2020 to 24th May 2020 in the wake of the threat from the Covid-19 pandemic.

- The Federation of Airlines (FIA) wrote to MoCA requesting for waiver of airport charges. The Etihad Airways wrote to the Authority vide it letter 16th July 2020 requesting for 100% waiver for Landing charges at Mumbai, Del, Blr, Chennai, Cochin & Hyd. The request made by Etihad Airways was forwarded by Authority to MoCA, who in turn wrote to the concerned airports including BIAL for reciprocal support to the airlines for recommencement of operations.

- In view of the above requests, BIAL had waived the parking and housing charges during the lockdown period of Rs. 4.26 cr. in FY 21 and 0.32 in FY INR 0.32 cr. in FY 21 towards international recovery linked airline support scheme as a support to the Aviation fraternity.

- The airport is a regulated entity and has suffered severely in the Covid-19 situation and despite that had accommodated the request of Airlines/ MOCA as being part of the integrated aviation ecosystem and offered discount genuinely to help Airlines who were grounded due to lockdown situation.

- The Authority was aware of the request from the Airlines and the fact that MOCA has made a request to the airports for extending support. Despite that, the Authority has taken a stand of disallowing the discount and adding it to BIAL aeronautical revenue. This stand-by the Authority is detrimental to the aviation sector and BIAL request the Authority to take a more holistic approach and allow the same as a one-time waiver, given the adverse impact of Covid-19 pandemic.

5. Traffic for the Third Control Period

Authority's Proposal

- *To consider the passenger traffic, ATM traffic and cargo traffic as per Table 51, Table 53 and Table 54 respectively which shall be trued up based on actuals.*

- *The forecast for passenger traffic for the Third Control Period is based on the following: Passenger traffic for FY21 is based on actuals (source: AAI traffic news)*

- *The Authority projects the domestic passenger traffic to recover to pre-covid levels by FY23. Post recovery, the domestic passenger traffic is expected to grow at 17.4% (FY15-FY20 CAGR)*

- *The Authority estimates the international passenger traffic to recover to pre-covid levels by FY24 largely due to the restrictions imposed by the various countries and reduced demand considering increased risk of picking up the infection. Post recovery, the international passenger traffic is expected to grow at 9.3% (FY15-FY20 CAGR).*

- *Based on the above analysis, the forecasted passenger traffic proposed by the Authority for the Third Control Period is given in the Table 51 works out to 195.52 million. (para 4.2.4)*

BIAL's Submission

- BIAL acknowledges that, under the prevailing circumstances, neither BIAL nor the Authority or any aviation agency has a proven framework which can be utilized to forecast the aviation sector's recovery with a high degree of certainty, as Covid-19 has had impacts at hitherto unseen levels in the history of global travel / transport and particularly, aviation.

- The Authority's proposal that

  - BIAL's domestic passenger numbers would grow from 27.78 million annually in FY2020 (pre-covid) to 48.55 million annually in FY2026, implying a 1.75X growth in 5 years and
  - International passenger traffic will return to FY2020 (pre-covid 19) levels by FY 24, appears to be highly over-optimistic and will certainly ensure that BIAL would be faced with an under recovery of ARR during the 3rd Control period which needs to be trued up in the subsequent control period.

- Any under recovery of ARR would result in BIAL defaulting on its loan covenants that need to be maintained under the Financing Agreements executed with project lenders for the Expansion Project. This may also result in downgrading of BIAL's credit rating and result in the increase in the cost of debt that BIAL has been able to negotiate with the banks.

- It appears that the Authority has significantly underestimated the impact of the 2nd wave of Covid-19 while forecasting the Traffic projections for BIAL. In direct contrast to the approach adopted for BIAL, Authority has considered the impact of 2nd wave of Covid-19 while forecasting the traffic projections of Hyderabad Airport, whose Consultation Paper was published by AERA on 2nd July 2021 (10 days after BIAL's Consultation Paper was published).

- Given the above background, BIAL strongly believes that more realistic assumptions need to be used for projecting Traffic for the 3rd Control Period. We believe that the passenger traffic across 3rd Control Period at BIAL may vary between 162.5 to 175 million pax (i.e., projections shared along with MYTP submission as well as part of the Annual tariff submission). Our realistic case still continues to be the traffic submitted in the MYTP document (i.e. 162.5 million pax), while our high case is 175 million pax as submitted in the ATP submissions. Even though recovery is likely to take significantly longer than being estimated by aviation stakeholders, we are sharing our high case passenger traffic projection for AERA's consideration as we understand the potential impact on airlines / passengers of a higher tariff. The projection considers the impact of the 2nd wave as well as views adopted by AERA while forecasting traffic for other PPP airports.

- Further, given the resilience of Cargo operations during the pandemic, BIAL's accepts the cargo traffic forecast proposed by AERA.

<u>Actual Traffic for Q1 FY2022 @ BIAL:</u>

- BIAL's Q1 FY2022 traffic has been adversely impacted by the rapid rise in Covid-19 cases during the second Covid-19 wave and continuing impact of lockdowns in Karnataka and India. BIAL's daily average domestic pax traffic plummeted from ~51,000 in Feb'21 to ~12,000 pax in May'21. The domestic traffic mildly recovered to ~16,700 daily pax in Jun'21. During Q1 FY2022, BIAL achieved a domestic pax traffic of 1.95 mn. which is only 28% recovery compared to the FY2020 traffic.

- International pax traffic remained subdued constituting only a 10% recovery to FY2020 levels due to continued suspension of scheduled international operations in India and various travel restrictions announced by different countries in view of rising Covid-19 cases in India in Q1.

Details	**Q1 FY2021-22**	**% recovery to FY2020 levels**
Pax in Millions		
Domestic	1.95	28%
International	0.12	10%
Total	2.07	
Total ATM ('000)		
Domestic	22.53	45%
International	3.19	49%
Total	25.71	

<u>BIAL's Updated Traffic Projections:</u>

Background:

Domestic passenger traffic:

- When BIAL had submitted its traffic projections as part of MYTP in July 2020, the drivers that underpinned our submissions (Paragraphs 8.1.9 to 8.1.11 of the MYTP) were:
  a) Traffic would be impacted for an indeterminate period with most agencies suggesting 3-4 years for recovery of aviation to pre-covid levels
  b) The steep increase in passenger traffic for FY2022 & FY2023, were based on the assumptions that (i) there will be no lockdown or disruptions to scheduled air travel in this period; (ii) there would be rapid Covid-19 vaccinations; or (iii) a cure would be available in the medium-term, which would enable travelers to resume flying at pre-covid levels.
  c) FY2020 traffic levels would be reached in FY2024 and post FY2024, traffic would grow at high historically high growth rates as witnessed by BIAL during FY15-20.

- These projections were also based on the assumption that there would be no impact of subsequent waves of Covid-19 infection in the country which would enable steady recovery in traffic.

- While domestic traffic recovery did recover briefly during the period Nov’20 – Feb’21, the enormity of the 2nd Covid-19 wave in India saw passenger traffic in May’21 dip to levels last seen in May’20 and Jun’20. The high case load and fatalities in the second Covid-19 wave across India and particularly in Karnataka and Bengaluru, resulted in:
  a) Government of India / DGCA capping aircraft movements to 50% from the previous 80% enacted in January 2021
  b) Government of Karnataka placing stringent curbs on movement of people to curtail the spread of the 2nd wave

- Beyond government action, passenger / consumer confidence has taken a sharp hit and continues to be soft, based on repeated warnings from the Government of India and expert task forces about an impending 3rd Covid-19 wave as well as due to reduction in disposable income levels as a result of the economic fallout of the Covid-19 pandemic.

- The economic growth forecast for India for FY22 has also been revised downward with SBI lowering its growth forecast for FY2022 from 11% to 7.9%, Reserve Bank of India lowering its forecast to 9.5%, while the World Bank has lowered the forecast to 8.3%. Apart from the worsening macro-economic environment, recovery in business traffic continues to be soft and with corporates adopting a hybrid work culture, business air travel is expected to be a laggard. Historically, BLR Airport’s domestic traffic has been driven by corporate / business travel (almost ~78% of traffic between FY 2016-19) and this is the sector that has been most affected by the Covid Pandemic. As a result, we expect to see some permanent erosion of demand in the short to medium-term.

- A survey by EY and ICF in September 2020 suggested that business travel going forward would be limited to business development activities only. The latest survey of EY (done in Jun’21) canvassed the attitudes to existing work practices, with employee respondents broadly positive about the impact of remote working. 76% of employees prefer flexibility in where they work and want to be able to work from home for 2-3 days in a week. Based on recent reports by ICRA, CRISIL and CAPA released in Q1 FY2022, the second Covid-19 wave is expected to delay the traffic recovery in India.

- With this backdrop and based on traffic seen in Q1 of FY2022 and projected recovery rates (as observed after the first wave, as you are aware was milder in terms of impact), BIAL expects FY2022 domestic passenger traffic would probably be closer to 14.3 million (as against 18 million projected in MYTP submissions), i.e., ~51% of FY 20 levels.

- As part of our update of the Traffic projections, BIAL has also reviewed the stance adopted by the Authority for other major PPP airports viz., DIAL and MIAL. We note that AERA felt it appropriate on 30th December 2020 and 27th February 2021 to consider that both airports will witness a 100% recovery in domestic traffic in FY 23.

- Given the crushing impact of Covid-19 2nd wave (which manifested itself post the publication of the tariff orders for DIAL & MIAL), it is only logical to assume that traffic recovery projections for India nationally, would need to be calibrated downward.

- We have also perused the latest guidance published by ACI, IATA and leading aviation consultants ICF on recovery of aviation sector. Their views are as under:

    - ACI – In their report published December 2020, ACI estimated that domestic traffic may recover by Calendar Year 2023 (which translates to FY 24)

    - IATA: In their economic report dated 26th May, IATA suggests that aviation sector may recover to 88% levels of Calendar Year 2019 by Calendar Year 2022. Since Indian aviation sector uses the fiscal year, the periods can be mapped to 88% recovery of FY 20 levels by FY 23.

    - ICF: In their latest publication dated June 2021, ICF expects Asia pacific geographies (excluding China) to reach pre-Covid-19 levels in 3 years 5 months (which would translate to mid FY 24).

- We would request the Authority to adopt an approach similar to what has been laid down in DIAL and MIAL tariff orders with 100% domestic traffic recovery in FY 23 for BIAL, followed by historical CAGR for the balance tenure of the 3rd control period.

- It is to be noted that the choice of historical CAGR by BIAL is built on the assumption that after a 3-year recovery period, the industry and the Indian economy would be primed for rapid aviation growth and should not be used in isolation while ignoring the 'base effect'.

Domestic ATM traffic:

- Further, the Authority has stated that airlines shall deploy higher capacities in expectation of demand which has resulted in lower Pax/ ATM assumption in the proposed traffic. However, there is a need to review this assumption based on following:

1) Indian airlines are expected to register second consecutive year of losses in FY 22 given the impact of 2nd Covid-19 wave. The adverse stress on the cashflows due to lower traffic is expected to severely impact the ability of Indian airlines to add significant new capacity.
2) Most of the recent aircraft deliveries by Indian airlines are for replacing the fleet of their older aircrafts instead of adding incremental capacity.
3) Further, most of the new capacity addition by Indian airlines is expected to be deployed to the international sector, post recovery in future.

As such, while supply is expected to lead demand till recovery to pre-covid level (i.e., FY 23 as assumed by AERA), there is no reason to believe that the airlines will continue to add capacity in domestic sector if Pax/ATM levels don't rise to pre-covid levels. We expect that Dom Pax/ATM shall reach the pre-covid levels (Average of 137 during FY 18 to FY 20) faster and the same has been factored in our revised assessment.

International passenger traffic:

- The international passenger traffic recovery journey is expected to be more complicated and dependent largely on border control protocols and harmonized and mutually acceptable travel protocols across regions – something that remains elusive as on date.

- Prior to the 2nd Covid-19 wave, GoI had managed to establish 'travel-bubble' arrangements with 21 countries. Post the 2nd wave, the number of countries permitting entry of Indian travelers has dropped from the already truncated list. Even though the number of Covid-19 cases in India has dropped significantly from the peak reached in May 2021, the daily case numbers are still amongst the highest in the world and may prove to be a deterrent to expeditious reinstatement of international travel bubbles or scheduled operations.

- Our review of guidance published by aviation experts points to a slow recovery:
  - Review of ICAO's latest publication dated 22nd June 2021 suggests that International recovery will remain muted across Asia Pacific with traffic expected to be down ~86% - 89% in Calendar Year 2021 vis a vis Calendar Year 2019.
  - ICF in their publication dated June 2021 also suggests that international traffic recovery in Asia Pacific region (excluding China) could take close to 4.8 years
  - ACI in their December 2020 publication expect international passenger traffic recovery by 24 (FY 25).

- On account of the losses incurred, we expect most international carriers (who are network carriers such as BA, EK, LH, AF etc.), to emerge smaller than they were pre-Covid-19. Further network reinstatements are expected to be slow and will be prioritized towards regions and routes which offer enough base load both ways. This is particularly important, as airlines don't depend on point-to-point traffic, except in a very limited number of markets and the reinstation of the whole network is key to get volumes up again, even from a supply side (i.e., bringing aircraft back from storage).

- Further, international travel in the current scenario is largely constrained with various obstacles like travel restrictions, quarantine and multiple Covid-19 test requirements. These obstacles are expected to continue in short to medium terms given that different countries and regions have different pace of vaccination Covid-19 caseloads, recovery rates and fatality rates and there is a lack of visibility on the acceptability of digital vaccination certificates between different countries. The scheduled international operations continue to remain suspended in India with no clear visibility or roadmap on resumption of the same in FY 22.

- Hence, BIAL expects international passenger traffic in FY 22 to be closer to 0.9 million (as against 2.63 million projected in MYTP submissions which was in itself based on assumption of resumption of scheduled international operations in FY 22), which is about 20% of FY 20 levels. As mentioned earlier, the 0.9 million international pax projection is inherently optimistic and does not factor in the potential downside on account of subsequent Covid-19 waves or continued travel restrictions from other countries. In fact, we believe that international traffic in FY 22 is more likely to be closer to 0.5 million (similar to the levels achieved in FY 21).

- We are also hopeful that GoI will achieve its target of 100% vaccination of the adult Indian population by Q4 of FY 22 and this pent-up demand would drive a strong recovery in international aviation traffic beginning FY 23. That said, a full recovery in international traffic may take as long as FY 25. This is broadly in line with latest projections put out by most aviation experts and consultants, which suggests that international traffic recovery in the Asia Pacific region (excluding China) could take close to 4.8 years.

- Given all of the above, we project the passenger traffic for 3rd Control period as given below:

Details	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	Total
Pax in Millions							
Domestic	27.78	14.30	27.80	32.50	38.00	44.50	157.10
International	4.58	0.90	3.40	4.10	4.50	4.90	17.80
Total	32.36	15.20	31.20	36.60	42.50	49.40	174.90
Pax ATM ('000)							
Domestic		115.50	213.70	246.20	283.80	320.10	1,179.30
International		5.60	18.30	21.90	24.30	26.60	96.80
% Pax recovery to FY2020 levels							
Domestic		51%	100%	117%	137%	160%	
International		20%	74%	90%	98%	107%	
Total		47%	96%	113%	131%	153%	

Comparison across other Airports – AERA's Order/ Consultation Papers

Authority has considered very steep, unreasoned traffic estimates for BIAL. Authority has adopted varied approaches across different airports and has not considered the impact of 2nd wave on BIAL whereas the same seems to have been considered in case of HIAL.

The following table provides the comparison of differing approaches adopted by AERA for traffic estimation across various airports.

Pre-Covid Second wave

in Mio Nos	FY20	FY21	FY22	FY23	FY24
DIAL					
Domestic	49.5	15.1	30.3	49.5	52.8
International	17.8	3.3	11.2	17.8	19.8
Total	67.3	18.4	41.5	67.3	72.6
Growth over FY20					
Domestic		31%	61%	100%	107%
International		18%	63%	100%	111%
Total		27%	62%	100%	108%

in Mio Nos	FY20	FY21	FY22	FY23	FY24
MIAL					
Domestic	33.6	9.3	20.59	33.5	36.3
International	12.3	1.2	7.75	12.4	13.6
Total	45.9	10.50	28.3	45.9	49.9
Growth over FY20					
Domestic		28%	61%	100%	108%
International		10%	63%	101%	111%
Total		23%	62%	100%	109%

in Mio Nos	FY20	FY21	FY22	FY23	FY24	FY25	FY26
BIAL							
Domestic	27.8	10.5	18.6	30.0	35.2	41.4	48.6
International	4.6	0.5	2.6	4.1	4.6	5.0	5.5
Total	32.4	10.9	21.2	34.1	39.8	46.4	54.00
Growth over FY20							
Domestic		38%	67%	108%	127%	149%	175%
International		10%	57%	89%	100%	109%	119%
Total		34%	66%	105%	123%	143%	167%

in Mio Nos	FY20	FY21	FY22	FY23	FY24	FY25	FY26
HIAL							
Domestic	17.73	7.47	12.41	17.73	19.15	20.92	21.99
International	3.85	0.58	1.93	2.89	3.85	4.16	4.47
Total	21.6	8.1	14.3	20.6	23.0	25.1	26.5
Growth over FY20							
Domestic		42%	70%	100%	108%	118%	124%
International		15%	50%	75%	100%	108%	116%
Total		37%	66%	96%	107%	116%	123%

- BIAL has, historically had a ratio of traffic as compared to HIAL (1.5 times in the recent past). If this ratio is considered on HIAL traffic estimates BIAL's traffic estimate is around 165 Mn.

- Also, incorporating the traffic assumptions proposed by the Authority in the HIAL Consultation Paper, the total passenger traffic estimate works out to 165 Mn as given below:

Growth rate applied for HIAL by AERA vide HIAL Consultation Paper

Pax. Traffic	FY 22	FY 23	FY 24	FY 25	FY 26
Domestic	70%	100%	108%	118%	124%
International	50%	75%	100%	108%	116%

BIAL traffic - computed basis HIAL growth rates

Pax. Traffic	FY 22	FY 23	FY 24	FY 25	FY 26	Total
Domestic	19.4	27.8	30.0	32.8	34.5	144.5
International	2.3	3.4	4.6	4.9	5.3	20.6
Total	21.7	31.2	34.6	37.7	39.8	165.0

- The above estimates are almost identical to the realistic estimate of total passenger numbers of 163 Mn submitted as part of MYTP submissions. However, based on a detailed evaluation done, BIAL has assumed the most optimistic scenario as a target for traffic (at 175 Mn) as submitted as part of ATP.

- Hence, we request the Authority to consider BIAL's well-reasoned, updated traffic projections of 175 Mn passengers for the third control period.

6. Regulatory Asset Base and Depreciation for the Third Control Period

Authority's Proposal

- To consider the interest during construction upto FY22 and also waive the adjustment of 1% on delay in operationalization of Terminal 2 - Phase 1 till 31 March 2022.
- To exclude the additional PMC costs estimated by BIAL for Terminal 2 for FY22.
- To levy the reduction (adjustment) of 1% in the project cost of Terminal 2 in case BIAL fails to
- commission and capitalize Terminal 2 Phase 1 by 31 March 2022. It is clarified that in case there is delay in completion of project beyond March 2022, due to any reason beyond the control of BIAL or its contracting agency and is properly justified, the same would be considered by the Authority while truing up the actual cost at the time of determination of tariff for the 4th control period in respect of IDC and PMC. However, there will be no waiver of reduction (adjustment) in case Phase 1 of Terminal 2 project is delayed beyond 31 March 2022 under any circumstances.
- To consider the increase in the cost of T2 Apron Phase 2 due to RWH ponds upto 22.50 cr. and exclude the estimated additional cost of INR 20.5 cr. in T2 Apron Phase 2 from RAB due to the delay in the commissioning of the ECT.
- To bifurcate the MMTH cost into aeronautical and non-aeronautical components based on the floor wise area usage for aeronautical and non-aeronautical activities.
- To capitalize the enabling works for metro station and the baggage sorting area in the year of metro commissioning, that is, FY26.
- To consider 5% of the project cost for Design and PMC costs for the capital expenditure deferred from Second Control Period and the capital expenditure proposed in the Third Control Period.
- To include the ORAT expenses as part of the operational expenditure and exclude it from the RAB of the Third Control Period.
- To exclude the pre-operative expenses on the deferred projects of the Second Control Period from the RAB of Third Control Period and the capital expenditure proposed in the Third Control Period.
- To consider the interest during construction on the project cost in RAB for the Third Control Period.
- To consider INR 50 cr. (excl. design, PMC, contingency and IDC cost) for the T1 optimization project in the Third Control Period. To true-up the actual T1 optimization project cost during the next control period based on the evaluation of its reasonableness.
- To exclude the cost for MMTH Phase 2 and Airport terminal metro station project from the Third
- Control Period. In case BIAL capitalizes these assets in the Third Control Period, the Authority
- proposes to true-up the actual cost of these assets during the next control period.
- To consider a reduced cost of INR 22.40 cr. (excluding design, PMC, contingency and IDC) for the CISF barrack expansion and access road project in the Third Control Period.
- To exclude the capital expenditure of city side metro station from the RAB of BIAL.
- To exclude the Landscape works and Alpha 4 project cost from the Third Control Period.
- To consider the contingency cost as 3% of the Third Control Period project cost.
- To exclude the proposal for CISF permanent housing project from the Third Control Period and consider it during the fourth control period.

- To reduce 1% of the project cost from the ARR/ Target Revenue as re-adjustment in case any particular capital project is not completed/ capitalized as per the capitalization schedule as per the approval in tariff order.
- To bifurcate the Terminal 2 asset into aeronautical and non-aeronautical based on the floor area ratio of Terminal 2 of 87.7%.
- To segregate the common assets based on terminal area ratio of 85.73% based on Terminal 1 area for common assets capitalized in FY22 and apply weighted average terminal area ratio of 86.85% from FY23 to FY26.
- To consider refurbishment of existing cargo terminals and new cargo terminals as aeronautical assets.
- To bifurcate the RWH ponds into aeronautical and non-aeronautical based on the average terminal area ratio.
- To bifurcate the MMTH Phase 1 cost based on 68% to 32% as bifurcation ratio between non-aeronautical to aeronautical assets as given in Table 64.
- To consider the total asset addition and aeronautical asset addition given in Table 75 and Table 76 respectively for the Third Control Period.
- To true-up the total asset addition and the aeronautical asset addition for the Third Control Period based on the actual asset addition undertaken in the next control period and subject to its reasonableness.
- To true-up the asset allocation of the assets capitalized in the Third Control Period based on the actual asset addition in the next control period.
- To consider the aeronautical depreciation given in Table 78 for the Third Control Period.
- To true-up the depreciation of the Third Control Period based on the actual asset additions and the actual date of capitalization.
- To consider the aeronautical RAB given in Table 79 for the Third Control Period.

Regarding Regulatory Asset Base (RAB)

6.1 PMC Cost for FY22

Authority's Analysis

BIAL has submitted that the Project Management Costs for the Terminal 2 have been estimated to increase by INR 50 cr. on account of the extended period of construction till FY22. The Authority is of the view that the scope of work of PMC consultant for the Terminal 2 has remained the same despite the increase in the time period for execution of the project. Therefore, the Authority is of the view that the increase in the PMC costs is not justified, and it cannot be passed on to the passengers. The Authority proposes to exclude the additional PMC costs estimated by BIAL for Terminal 2 for FY22. (para 5.2.17)

BIAL 's submission

- BIAL has undertaken an integrated large-scale Airside and Terminal development program with associated road and other infrastructure facilities comprising of more than 80 sub-projects. The PMC has been engaged for overseeing and managing the project as per stringent safety and quality standards. BIAL had adopted a judicious mix of PMC staffing and own staffing to meet these safety, quality, time and cost challenges.

- The PMC services are based on fixed duration and on a fixed cost basis. PMC services will be provided until the completion date and fee is based on deployment of resources at agreed rates as per the contract. The contracted scope of services includes pre-construction support, construction management and project closeout, handover and operationalization primarily for NSPR & Terminal-2 projects and support for landside projects.
- The initial deployment by PMC was planned based on Project completion timeline for March'2021.
- However, due to Covid-19 pandemic from Jan'2020, the projects suffered various delays on account of material supplies, skilled workers and availability of required machinery on the job site. Also due to lockdown restrictions imposed by the Government, the projects have slowed down at various stages leading to extension of the planned completion timeline. Consequently, the project completion timeline got extended to March 2022 (as submitted in MYTP).
- This Covid-19 induced delay in Project completion, necessitated the extension of duration of services by the PMC to support project completion, which has a direct impact on the PMC cost. The number of man-months to complete the scope of services is revised to 2,787 with deployment extended until June 2022 to cover project closeout phase which is a 22% increase as summarized below.

	Planned	**Revised**	**Increase**
Project Completion	March-2021	March-2022	12 months
Duration of deployment	48 months	55 months	7 months
Man-months deployed	2291	2787	22%

- Project Management Contracts are typically based on man months (time related). Hence, any change in the completion date would automatically result in increase in the man months needed for completing the Project and hence an increase in the PMC cost.
- Given the Covid-19 situation, BIAL has negotiated with the PMC to reduce cost by removal of escalation clause, changes in deployment plan etc. to optimize the use of PMC on the project.
- Authority, vide letter dated 13th September 2018, has clarified that, in case there is delay in completion of project beyond March 2021, due to any reason beyond the control of BIAL or its contracting agency and is justified, the same would be considered by the Authority while truing up the actual cost at the time of determination of tariff for the Third Control Period in respect of IDC and PMC. Hence, this clarification is intended only for time related delay in Project completion and not scope related.
- BIAL is requesting the additional cost for only time delay in project completion.

- Based on the above clarificatory letter, BIAL has gone ahead and executed contracts and achieved Financial closure.

- Having specifically clarified that the IDC and PMC cost would be considered if it is justified, the Authority has not allowed the additional PMC cost for the additional time period required to complete the project. This is despite the Authority acknowledging the fact that the Covid-19 pandemic has created genuine issues for completion of the project in Mar 2021. Hence the Authority cannot pick and choose from its own clarificatory letter.

- BIAL also notes that Authority has, in Paras 5.2.17 and 5.2.18 contradicted its stated position regarding additional PMC for extended period. From a reading of these two paragraphs, it is BIAL's understanding that while AERA may not currently approve the additional PMC cost to be added to RAB, the Authority will true up the same at the time of determination of tariff during fourth control period.

- BIAL wishes to submit that given the current circumstances, it is not possible to let go of the PMC abruptly and put the entire T2 and associated projects at risk and hence request the Authority to consider these costs towards PMC and true up the same at the time of next control period.

- Covid-19 pandemic is an undeniable global reality. There is no denying the fact that work was brought to a halt or rendered sluggish by the pandemic. In these circumstances, it is just, fair and necessary that additional PMC expenses be considered.

6.2 Multi-Modal Transport Hub

Authority's Analysis

Regarding the development of the multi-modal transport hub, the Authority noted that it had approved multi-level car park in the SCP order. BIAL has proposed to convert the multi-level car park into a multi-modal transport hub which integrates bus station, car park, metro station, premium car park, baggage sorting area as well as taxi/ cabs and also includes retail area as part of MMTH. The Authority notes that the MMTH has both aeronautical and non-aeronautical components. The Authority proposes to bifurcate the MMTH cost into aeronautical and non-aeronautical components based on the floor wise area usage for aeronautical and non-aeronautical activities. (para 5.2.25)

The Authority noted that the majority of the increase in MMTH cost (68% is non-aero as per the table above) can be attributed to the non-aeronautical activities. (para 5.2.26)

BIAL's Submission

- One of the important determinants of tariff determination is the segregation of assets into aero and non-aero assets. The bifurcation is based on number of factors such as usage of the assets, location of the assets, revenue generation from the assets etc. The MMTH is an integrated structure that has bus station, metro station, car park, baggage sorting, forecourt, kerbside and retail areas. The Authority has bifurcated the areas into aero and non-aero as per Table 64. The Authority has considered the baggage sorting, bus station and Level 1 of passenger circulation and landscape as Aero areas.

- Having established that the MMTH concept as envisaged by BIAL is a Common asset having both aero and non-aero services, the treatment of the MMTH is to be done similar to that of Terminal building which has both aero and non-aero services. A Terminal building AERA is divided into aero, non-aero and Common area. On similar lines, BIAL had submitted the detailed area working for MMTH showing the level wise floor plans with the areas clearly demarcated as aero, non-aero and common areas.

- Each floor includes common areas like elevators/staircase, MEPF, Toilets etc. Based on the area allocation into aero, non-aero and common areas, BIAL submits the allocation as below:

Area description	Usage	Area	Allocn – Consultation Paper	Allocn - BIAL	Remarks
MULTI LEVEL CAR PARKING AREA DESCRIPTION		**174592**			
BASMENT 3 OVER ALL AREA	**Baggage**	**6555**			
Baggage sort and Conveyor		5137	Aero	Aero	
Staircase, Lift		328	Aero	Aero	
MEPF (Service Zones)		1090	Aero	Aero	
BASMENT 2 OVER ALL AREA	**Parking**	**35722**			
Staircase, Lift, Escalator		1226	Non-Aero	Aero	Staircases, Lifts and escalators serves the passenger to come to Terminal and hence considered as Aero facility
Lift and Staircase Public Lobby		943	Non-Aero	Common	Lift Lobbies and Staircases serve the passengers arriving and departing terminal 2, this area is a common area
Public Toilets		198	Non-Aero	Aero	Toilets are serving the passengers arriving and departing to Terminal 2 hence this has to be considered as part of Aero
Car Parking		15947	Non-Aero	Non-Aero	
6M wide driveway		14537	Non-Aero	Non-Aero	

Area description	Usage	Area	Allocn – Consultation Paper	Allocn - BIAL	Remarks
Ramps		625	Non-Aero	Non-Aero	
MEPF (Service Zones)		2246	Non-Aero	Aero	These MEPF service zones are designed to ventilated the underground basement providing adequate lighting and services. Fan rooms and electrical rooms with sprinklers and water curtain systems during emergency. These are as part National Building code requirements meeting the fire standards. Considered as Aero
BASMENT 1.5 OVER ALL AREA	**Bus Bay**	**14791**			
Bus Kerb Area		3537	Aero	Aero	
Bus Driveway and Bus Parking for 18 buses		7440	Aero	Aero	
Loading Dock, Garbage service zone		1132	Aero	Aero	
Staircase, Lift, Escalator		517	Aero	Aero	Staircases, Lifts and escalators serves as common travel cores connecting all the basements. Facilitating passenger movement to the car park and pick up and drop off kerb. This has to be considered Aero.
MEPF (Service Zones)		1783	Aero	Aero	These MEPF service zones are designed to ventilate the underground basement providing adequate lighting and services. Fan rooms and electrical rooms with sprinklers and water curtain systems during emergency. These are as part National Building code requirements meeting the fire standards. Considered as Aero
Public Toilets		179	Aero	Aero	Toilets are serving the passengers arriving and departing to Terminal 2 hence this has to be considered as part of Aero
Metro Service Zone		203	Aero	Aero	Metro Service zone is used for facilitating the services of Metro as MMTH is an integrated structure this has to be considered Aero

Area description	Usage	Area	Allocn – Consultation Paper	Allocn - BIAL	Remarks
BASEMENT 1 OVER ALL AREA	**Parking**	**36419**			
Pick up and drop off road		5063	Non-Aero	Aero	Terminal 2 Arrivals pick up is designed within MMTH Basement 1 at the extreme East end all along the length of Terminal 2 forecourt. This is only kerb serving Terminal 2 passenger arriving and part of the integral road network. Hence this has to be considered Aero.
Pick up and drop off kerb		5160	Non-Aero	Aero	Terminal 2 Arrivals pick up is designed within MMTH Basement 1 at the extreme East end all along the length of Terminal 2 forecourt. This is only kerb serving Terminal 2 passenger arriving. Hence this has to be considered Aero.
Landscape		1013	Non-Aero	Aero	There is landscape at the pickup and drop area which is accessible to passengers arriving at the pick up and drop off kerb and hence considered as Aero.
Medians and Walkways		2234	Non-Aero	Aero	Medians all along the length of the pick-up and drop off kerb which has total 2+2 Lanes has medians dividing the roads, which has considered as part of aero.
Public Toilets		200	Non-Aero	Aero	Toilets are serving the passengers arriving and departing to Terminal 2 hence this has to be considered as part of Aero
Misc. Area		551	Non-Aero	Common	
MEPF (Service Zones)		4680	Non-Aero	Aero	These MEPF service zones are designed to ventilate the underground basement providing adequate lighting and services. Fan rooms and electrical rooms with sprinklers and water curtain systems during emergency. These are as part National Building code requirements meeting the fire standards. Considered as Aero
Staircase, Lift, Escalator		1194	Non-Aero	Aero	Staircases, Lifts and escalators serves as common travel cores connecting all the basements. Facilitating passenger movement to the car park and pick up and

Area description	Usage	Area	Allocn – Consultation Paper	Allocn - BIAL	Remarks
					drop off kerb. This has to be considered Aero.
Central Lift Lobby		1071	Non-Aero	Aero	Staircases, Lifts and escalators serves as common travel cores connecting all the basements. Facilitating passenger movement to the car park and pick up and drop off kerb. This has to be considered Aero.
Car Parking 336 slots		6052	Non-Aero	Non-Aero	
Driveway incl. Entry and exit points		9201	Non-Aero	Non-Aero	
LEVEL 0 OVER ALL AREA	**Terminal, Metro, Taxi, Retail**	**47401**			
Terminal 2 Metro connection zone		10572	Non-Aero	Aero	Metro Connection zone has to be considered Aero, as this zone facilitates the passenger access from Terminal 2 to Metro Station.
Public Toilets		1040	Non-Aero	Aero	Toilets are serving the passengers arriving and departing to Terminal 2 hence this has to be considered as part of Aero
Landscape		4268	Non-Aero	Aero	This is the Landscape designed for the passengers arriving and departing to Terminal 2, this is the main space across MMTH connecting from the Metro Station to the Terminal 2. This has to be considered as Aero
Utilities		721	Non-Aero	Aero	These MEPF service zones are designed to ventilate the underground basement providing adequate lighting and services. Fan rooms and electrical rooms with sprinklers and water curtain systems during emergency. These are as part National Building code requirements meeting the fire standards. Considered as Aero
Staircase, Lift, Escalator		1916	Non-Aero	Aero	Staircases, Lifts and escalators serves as common travel cores connecting all the basements. Facilitating passenger movement to the car park and pick up and

Area description	Usage	Area	Allocn – Consultation Paper	Allocn - BIAL	Remarks
					drop off kerb. This has to be considered Aero.
Premium car park zone		4237	Non-Aero	Non-Aero	
App taxi kerb area		6734	Non-Aero	Non-Aero	
Driveway		13048	Non-Aero	Non-Aero	
Retail		4000	Non-Aero	Non-Aero	
Retail circulation zone		865	Non-Aero	Non-Aero	
LEVEL 1 OVER ALL AREA	**Landscape and circulation**	**33704**	Aero	Aero	
Aero Area %			**31.53%**	**56.53%**	

BIAL submits that based on the above allocation, the aero area is 57% as against 32% as taken by the Authority. We request the Authority to consider this allocation.

6.3 Metro Enabling Works

Authority's Analysis

Further, Phase 1 of MMTH which is proposed to be commissioned in FY22 does not include the metro station but only the enabling works for metro station and the baggage sorting area. BIAL has submitted that these assets will be capitalized in FY22. The Authority noted that the enabling works for metro station and the baggage sorting area will be put to use at the time metro commissioning its operations, that is, in FY26. The Authority is of the view that the passengers cannot be charged for the assets not available for their use and therefore, proposes to capitalize the enabling works for metro station and the baggage sorting area in the year of metro commissioning, that is, FY26.

BIAL's Submission

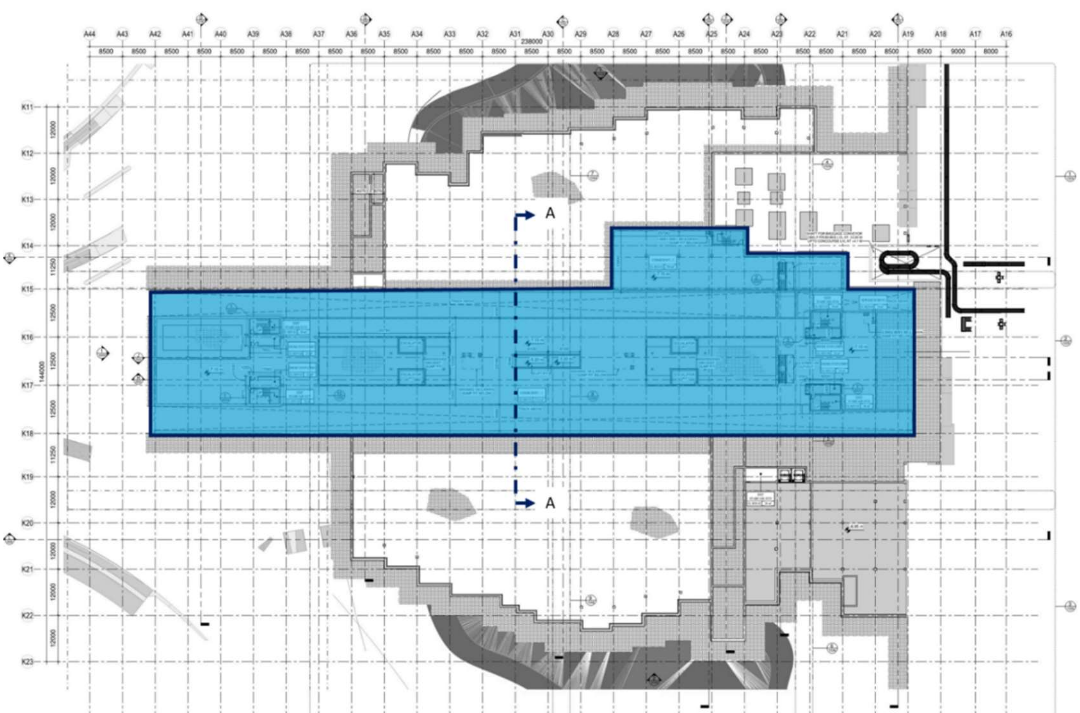
- Metro Enabling work is an integral part of the MMTH structure. The metro enabling works included in Phase 1 of MMTH which is proposed to be commissioned in FY22 includes the following works:
    1. Earth works on Main Access Road (MAR), vertical level alignment related enabling works inside airport premises.
    2. Drains/Utilities relocation, addition being done along the route for Metro on MAR.
    3. The architectural design & engineering costs of the metro stations, so that there is architectural integration of the metro stations with the theme of the new terminal & other surrounding buildings.

4. Design of Airport Terminal Metro Station Concourse has a concrete foundation raft at minus 8 meters with retaining walls on either side and interior columns to support the Concourse Level.

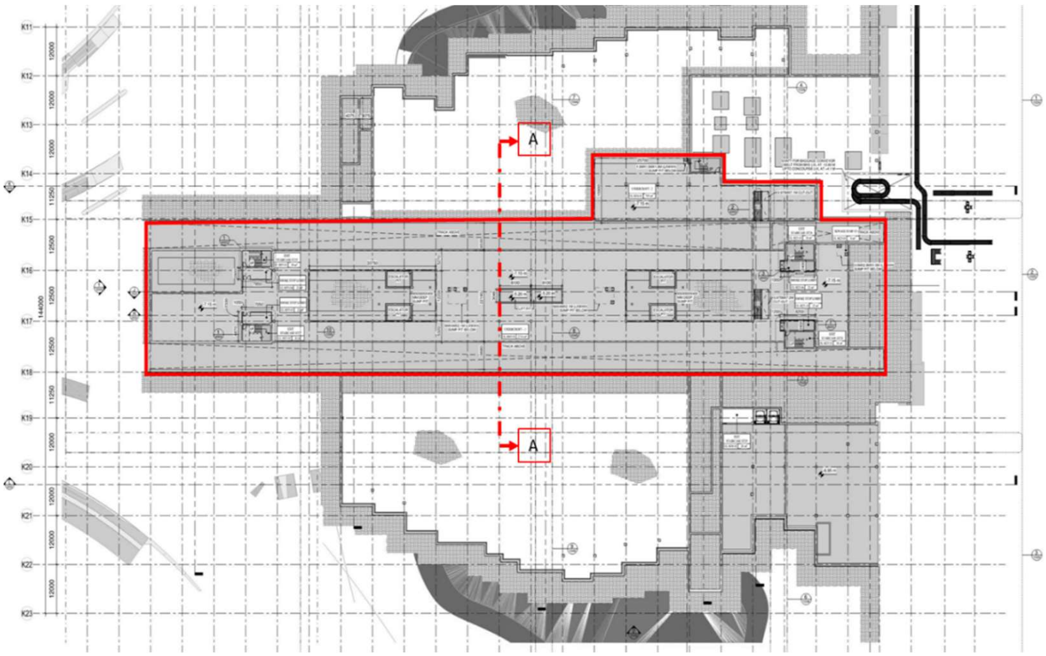
- Due to the depth of the foundations and the close proximity to other facilities required to open Terminal 2 (the Main Access Road, Lagoons and MLCP) it is necessary to excavate the Metro Station and construct the associated concrete structures along with the other heavy construction in the T2 Forecourt.

- The resulting structure will allow the Metro and the majority of the Station to be constructed in an enclosed and protected area while isolating this work from the operating Terminal T2 and related passenger movement.

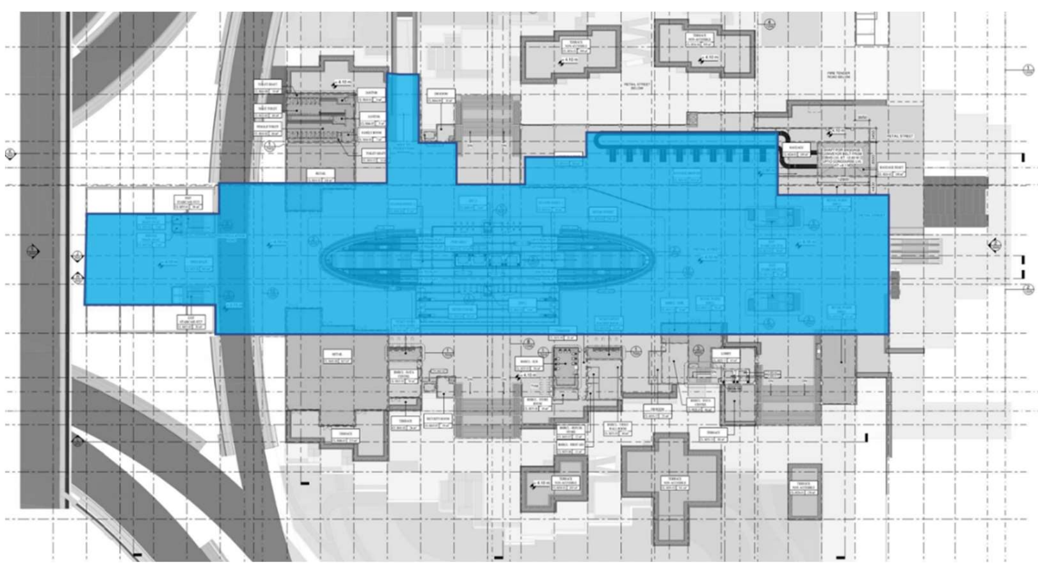
- The diagrams below depict the location of the enabling works and the nature of works carried out as below:



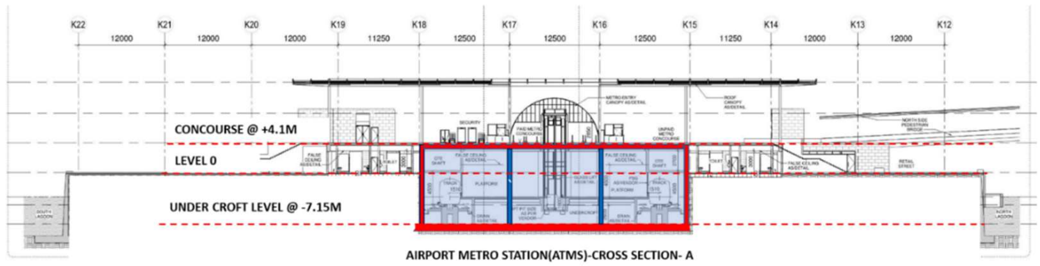
1. Area considered in blue above - Under croft level Foundation raft @ -8M from Level 0



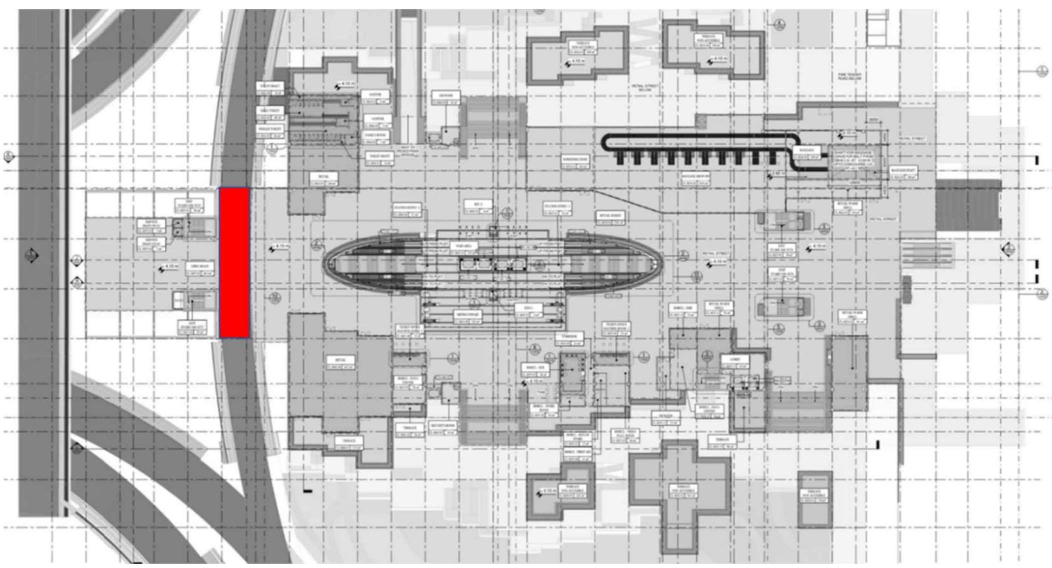
2. Extent of retaining wall considered in red above: Trackside retaining walls from Under croft level (@-8M) to Concourse level (@ +4.1M from Level 0) total height of 12M.



3. Extent of concourse slab considered in blue above



4. Above Cross section shows the extent of retaining wall and foundation slabs & columns only.



5. The area highlighted red which forms part of the recirculation road falls in the foot print of the Metro area hence needs to be completed, so that the full recirculation road is functional.

- From the above it is seen that the deign framework is integrated in such a manner that the recirculation of the road forms a part of the Metro area and it needs to be completed at the time of commissioning of the MMTH and it will be utilized as part of MMTH road access. Any delay in construction will have the following risks:

    - The Concourse and retaining walls are heavy construction requiring mass excavation, concrete works, cranes and a large construction crew and movement of heavy vehicles. Such construction is dirty, noisy and impacts adjacent areas.

    - Carrying on such works in the middle of the forecourt of a major operating airport will seriously impact passenger safety and passenger experience. Besides dirt and noise, there will be delays for both arriving and departing passengers.

    - Currently the area is a heavy construction zone and if the works are done now will not impact the passengers using Terminal 1.

- Concourse construction will require laydown areas within the T2 Forecourt, which is already congested. There will also be worker movement across heavily trafficked roads, impacting Airport operations should work be done after Terminal 2 is operational.

- Constructing the Concourse and other heavy works now will allow BMRCL to do all their work by accessing the work area from the Metro right of way, thereby avoiding construction traffic in the Terminal forecourts.

- The construction the Metro Station itself will need to commence by 2nd quarter 2022 to complete to support the completion and commissioning of the BMRCL works by 2025. Doing this Concourse work early will support both the station construction schedule and the rail and traction works which BMRCL needs to start as soon as the Concourse is complete.

- Construction cost will be less if built now as opposed building later in front of an operational Terminal 2.

- Thus, delaying the Metro Concourse work will seriously impact the passenger experience and safety at the airport, will cost more and has the potential to delay the completion of the BMRCL project to link the airport with the City.

- BIAL request the Authority to consider the capitalization of the Metro enabling works as proposed by BIAL together with Forecourt/ MMTH.

- Also, BIAL notes from the details provided in the Consultation Paper that the 'Metro Enabling Works' have not been added to RAB, even in FY 26

6.4 Terminal Metro Station

Authority's Analysis

BIAL has submitted in its MYTP submission that the MMTH Phase 2 and airport terminal metro station will be commissioned in FY26. The Authority noted that these projects can be commissioned only after the commissioning of the entire airport metro line. The Authority is of the view that the commissioning of the airport metro line might be delayed beyond FY26.

5.2.60 Therefore, the Authority proposes to exclude the cost for MMTH Phase 2 and Airport terminal metro station project from the Third Control Period. In case BIAL capitalizes the asset in the Third Control Period, the Authority proposes to true-up the actual cost of these assets during the next control period. (para 5.2.29)

BIAL's Submission

Airport Metro line commissioning by FY 26

Background**:**

- The Bangalore Metro Rail Corporation Limited (BMRCL) is a Joint venture of Government of India and Government of Karnataka and is a special Purpose Vehicle entrusted with the responsibility of implementation of Bangalore Metro Rail Project.

- GoK has given Cabinet approval to the Airport Metro Line and the Union Government has also approved the Metro scheme.

- BIAL entered into an MOU with BMRCL wherein BIAL agreed that it will develop the two (2) metro stations that will be located within the Airport boundary ("Metro station").

- The arrangement between BIAL and BMRCL is based on the understanding that the cost of designing and constructing the metro stations shall be borne by BIAL and necessary approvals required from AERA for such capital expenditure, would also be obtained by BIAL. Thus, BIAL did a detailed estimate of the cost and included the same in the MYTP submission.

- Further, the Chief Secretary, Govt. of Karnataka reiterated in the Stakeholder meeting the importance of Airport Metro line. GoK has completed major part of land acquisition and utility relocation and ready to commence work. GoK has set a deadline of June 2025 to complete phases 2A and 2B of the metro rail project.

<u>Progress of the Airport Metro Line</u>

- The Tenders for Construction for the Phase 2B – KR Puram to BIAL has been floated and the bidders have submitted their bids. The completion period for construction of via ducts and stations is estimated as 27 months.

- BIAL wishes to submit that the Airport Metro Line is a critical project for the connectivity of the airport and has received clearance from the Government of India and Government of Karnataka and is progressing well to achieve the deadlines of commissioning in June 2025.

- BIAL also has to adhere to the deadline set of June 2025 by GoK and has in turn initiated the works required such as Metro Enabling works, detailed design for Metro Stations etc. so as to complete of these stations in the 3rd Control period.

- Being a priority project for GoK and considering the importance of connectivity to the Airport, BIAL request the Authority to consider the cost of the Airport Metro Station.

6.5 KIA West Metro Station

<u>Authority's Analysis</u>

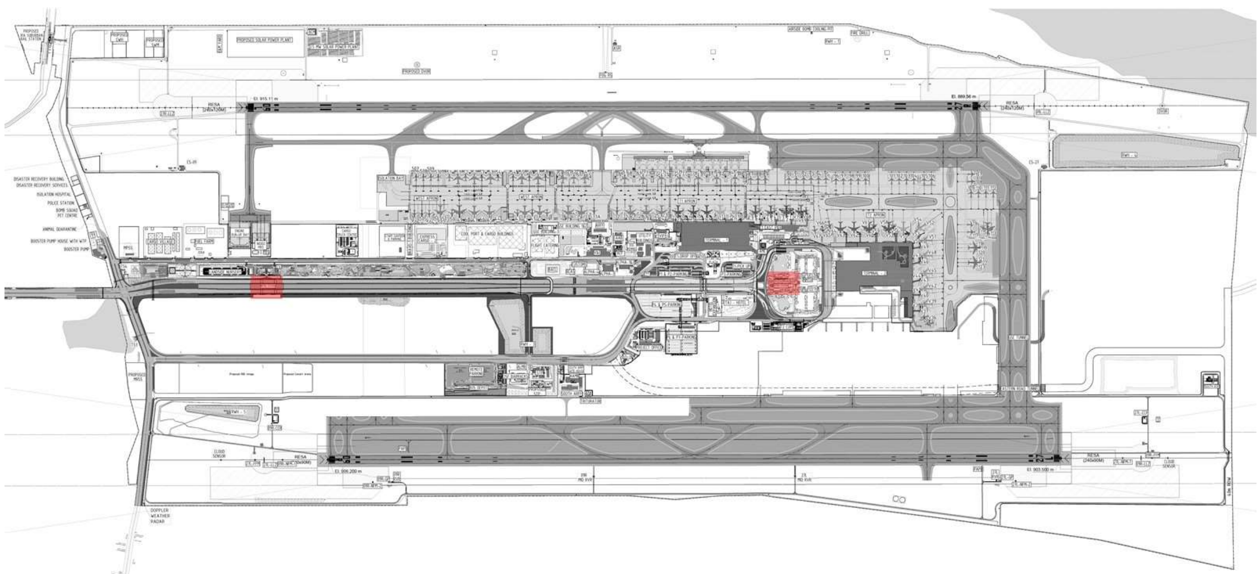
BIAL has submitted the capital expenditure proposal of city side metro station, which serves the airport employees and airport metro station, which serves the airport passengers. However, the Authority is of the view that the city side metro station is constructed by BIAL for its employees and does not serve the airport passengers. The Authority is of the view that in principle the airport operator cannot charge the airport users for the facility which is not used by them. Therefore, the Authority proposes to exclude the capital expenditure of city side metro station from the RAB of BIAL. (para 5.2.61)

BIAL's Submission

- **The metro rail connectivity to KIAB will help air passengers and airport community** who travel 35 kms by road from the city reach the airport faster with metro transit. This infrastructure also decongests access roads, landside roads and improves the overall level of service at the airport. With this objective, BIAL has proposed two metro stations inside the campus:

  i) located close to first roundabout / trumpet on west to serve both BIAL and other concessionaire employees working in airport community. This includes both landside and airside employees.

  ii) located in terminal forecourt area inside the Multi Modal Transport Hub (MMTH) to serve mainly passengers, meeter / greeters and employees working inside terminal as shown below.



Major Users or Beneficiary of West Metro Station at KIAB

- The total airport wide employees working at KIAB (including BIAL and Concessionaires) are approximately 22,000 in year 2019.

- There will be a substantial requirement for skilled, semi-skilled personnel to helm the growth at KIAB. Hence, a potential increase is expected in aviation related employment at the airport and **approximately 117000 employees are expected by the end of the final /ultimate development phase of BIAL i.e. by FY 33-35**.

- The forecast details are shown in the table below.

Forecast	Total Users (including both BIAL and Concessionaires)	Total Cargo personnel	Total
FY 24-25	26500	30000	56500
FY 29-30	41000	46000	87000
FY 33-35	61000	56000	117000

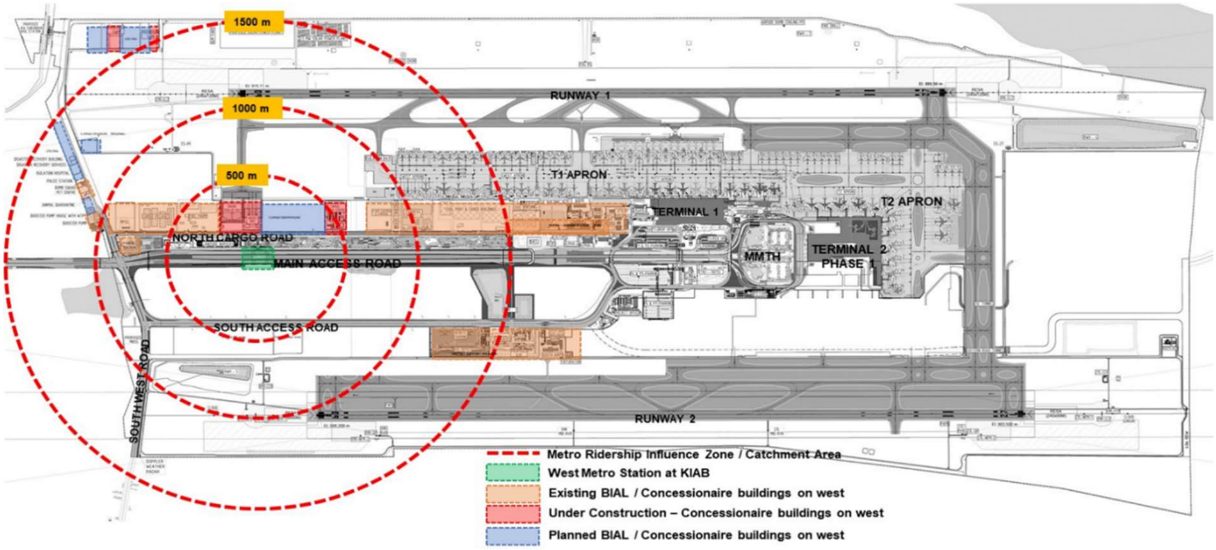
- Out of these employees, 50% of them are working in and around terminal forecourt area and the remaining 50% are working with:
    - Cargo Terminal Operators
    - Cargo Warehouses
    - Ground Handling Agencies
    - IOCL Fuel Farm
    - LSG and Taj Stats Catering
    - CISF and Other Government Agencies
    - Retailers and Other Concessionaires at the Airport
    - BIAL and Airlines staff on landside and airside and other
    - BIAL staff working at Utility centers and other airport support facilities.

- All these buildings/ facilities are located around west metro station as shown in the layout below.
- Currently 70% of the employees are commuting by public transport or the transport provided by the concessionaire/ airport operator.
- In future, when metro is available, a significant shift in mode of transport is expected as it reduces the travel cost, travel time and provides great convenience to the Airport Community including Aeronautical and Non-Aeronautical Concessionaires who have to commute long distances through the congested roads to reach the airport and back from airport to their place of work / residence etc.

- These users are expected to use west metro station to commute as their workplaces are located within the transit influence zone / or catchment area as shown in the layout below.

- The alternate choice of boarding/ alighting from the Terminal metro station will only increase the traffic movement in and around the terminal forecourt area and this will create congestion on landside roads due to provision of shuttle service to commute from terminal metro station to areas located on the west and vice versa.

- Also, additional infrastructure needs to be provided to meet this increased ridership in MMTH which would impact the current sizing of MMTH and ongoing construction of T2, roads, car park and the rainwater harvesting water body planned in the T2 forecourt area.



- From the above diagram, it can be seen that as there is 2-3 kms distance between the 2 stations, and to decongest the area near Terminal Metro station, the KIA West metro station is required.

- BIAL requests the Authority to consider the KIA West Station as an addition to RAB.

6.6 Baggage Sorting Area

<u>Authority's Analysis</u>

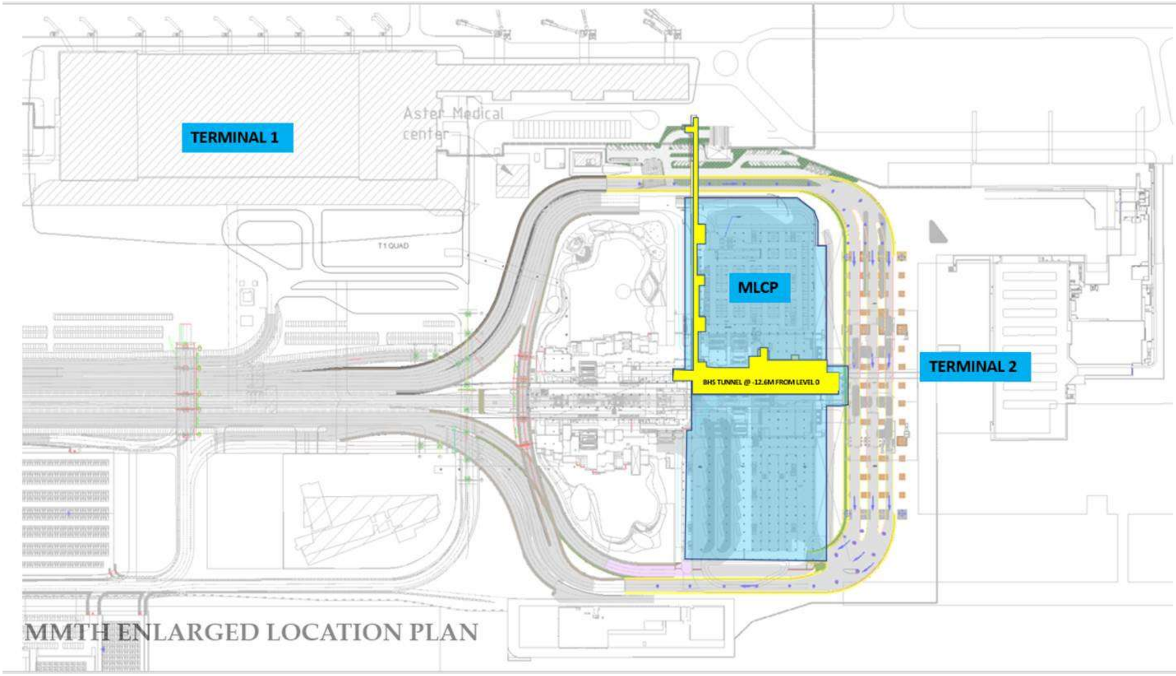
Further, Phase 1 of MMTH which is proposed to be commissioned in FY22 does not include the metro station but only the enabling works for metro station and the baggage sorting area. BIAL has submitted that these assets will be capitalized in FY22. The Authority noted that the enabling works for metro station and the baggage sorting area will be put to use at the time metro commissioning its operations, that is, in FY26. The Authority is of the view that the passengers cannot be charged for the assets not available for their use and therefore, proposes to capitalize the enabling works for metro station and the baggage sorting area in the year of metro commissioning, that is, FY26.

<u>BIAL's submission</u>

- BHS (Baggage Handling system) Sorting area which is located in Basement 3 of MMTH (@ -12.6M From Level 0) is part of the basic foundation works and retaining walls of MMTH.

- Without constructing and completing the civil works of Basement 3, it is not possible to construct the other Basements which are just above the Basement 3.

- Civil works for BHS Tunnel to Terminal 1 and 2 and BHS sorting area at the central zone of MMTH has to be completed in full to complete the Basements and roads above of MMTH. Below diagram gives the details of location of Basement 3 within MMTH.



- As detailed above, the Baggage Handling system is an integral part of the MMTH and hence will be capitalized and commissioned along with MMTH. Hence we request the Authority to consider the same as addition to RAB together with MMTH.

- BIAL notes from the details provided in the Consultation Paper, that the Baggage Sorting works have not been added to RAB, even in FY 26 contrary to Authority's proposals.

6.7 Rainwater harvesting (RWH) ponds – Allocation Ratio

Authority's Analysis

The Authority had asked BIAL to submit the details of the water cost savings due to the additional rainwater harvesting (RWH) ponds. BIAL had submitted that 50% of the potable water requirement from FY23 onwards will be sourced from these RWH ponds and accordingly, the cost of procuring water from external sources will decrease. The Authority has noted the cost benefit of the RWH ponds and proposes to consider the increase in the cost of T2 Apron Phase 2 due to RWH ponds upto 22.50 cr. The Authority proposes to consider the actual cost of the RWH ponds during true-up for the next control period. Based on the asset allocation study (refer Annexure I for summary of the report and Appendix II for the report), the Authority proposes to bifurcate the RWH ponds into aeronautical and non-aeronautical based on the average terminal area ratio. (para 5.2.33)

BIAL's Submission

- Assets relating to water harvesting – Mainly the ponds and other pipelines are considered as Common by AERA.

- These assets are part of the Utility infrastructure being created by BIAL as part of its Environment and Sustainability initiatives.
- As submitted earlier, the Utility assets which are for core Airport Operations should be treated as Aeronautical
- Also, any cost recoveries from these assets are adjusted from Operating Expenditure and the entire cost is treated as Aeronautical
- Accordingly, we request the Authority to treat these Assets as Aeronautical

6.8 Disallowance of Rs. 20 Cr. on account of long lead

Authority's Analysis

In the response to the Authority's query, BIAL had mentioned that the ECT had been constructed in November 2019, however, it was not utilized due to pending BCAS approval. The Authority notes that the construction activities were limited from March 2020 onwards due to Covid-19 and BIAL has received the BCAS approval for operations in September 2020. As a result, the Authority is of the view that BIAL's claim of increase in cost of INR 20.50 cr. is not reasonable. The Authority proposes to exclude the estimated additional cost of T2 Apron Phase 2 from RAB due to the delay in the commissioning of the ECT. (para 5.2.34)

BIAL's Submission

- The T2 Apron is located on the western side of the ECT tunnel and the earth stockpiles are on the eastern side of the ECT.

- Upon commissioning of the NSPR facility in Dec 2019, works were in full swing for the earthworks for the T2 Aprons. The ECT which was completed in November 2019 could not be used till Sep 2020 as BCAS Approval was given only in Sep 2020.

- Even though the other construction activities had slowed down, earthworks activity for T2 aprons was in full swing.

- Please find below the details of material shifted using the village road due to closure of ECT between 5th December 2019 and 18th April 2020 and 16th June 2020 and 15th October 2020.

Material Shifting through village route					
Sl.no.	**Month**	**Item description**	**Unit**	**Quantity**	**Remark**
1	Dec'2019	Msand/fill sand/dust	MT	9004.5	From source to project site using additional lead from village road
		GSB	MT	6692.57	
		CTB	Cum	1096	from east side plant to SP-03 construction site from village road
		Reinforcement	MT	43.8	East side stockyard to SP-03 project side from village road
2	Jan'2020	Msand/fill sand/dust	MT	11216.5	From source to project site using additional lead from village road
		GSB	MT	20619	
		Msand/fill sand/dust	MT	4460	From East side stockyard to project site using additional lead from village road
		CTB	Cum	1380	from east side plant to SP-03 construction site from village road
		Reinforcement	MT	38	East side stockyard to SP-03 project side from village road
3	Feb'2020	Msand/fill sand/dust	MT	15676.5	From source to project site using additional lead from village road
		GSB	MT	5030	
		Msand/fill sand/dust	MT	8595.5	From East side stockyard to project site using additional lead from village road
		CTB	CUM	834	From east side plant to SP-03 construction site from village road
		WMM	MT	3111.5	
		Reinforcement	MT	29.2	East side stockyard to SP-03 project side from village road
4	Mar'2020	Msand	MT	10130.9	From source to project site using additional lead from village road
		GSB	MT	2883.3	
		CTB	Cum	433	from east side plant to SP-03 construction site from village road
		Msand/fill sand/dust	MT	5605.5	using additional lead from village road
		WMM	MT	1932	from east side plant to SP-03 construction site from village road
		Asphalt	MT	1991	
		Reinforcement	MT	22	East side stockyard to SP-03 project side from village road
5	April'2020	Msand/fill sand/dust	Cum	6121	From east stock pile to west construction area
		Unsuitable soil	Cum	5488	Excavated surplus soil shifted from SP-03 construction site to stockpile at east of cross field taxiway
7	Jun'2020	Msand/fill sand/dust	Cum	40759	From east stock pile to west construction area
		Unsuitable soil	Cum	29834	Excavated surplus soil shifted from SP-03 construction site to stockpile at east of cross field taxiway
8	July'2020	Msand/fill sand/dust	Cum	37120	From east stock pile to west construction area
		Unsuitable soil	Cum	28574	Excavated surplus soil shifted from SP-03 construction site to stockpile at east of cross field taxiway
9	Aug'2020	Msand/fill sand/dust	Cum	5097	From east stock pile to west construction area

- There was no additional space available for stockpiling of the T2 excavated earth on the western side, and hence shifting of the soil was carried out through the longer route passing through the villages.

- As soon as the unlocking approvals in Jun 2020 were provided by the Government, maximum efforts were carried out by BIAL to ensure works resumed at the earliest in lines with the lockdown guidelines.

- Work activities which were mechanized, and where labor requirement and interactions were minimum was given topmost priority. The shifting of the earth involved basically lifting of the soil by excavator and loading the soil to the dumpers which was driven and soil unloaded at the designated location on the eastern side. There was minimal interaction between the excavator operator and the dumper driver. Works were carried out to the maximum extent possible during this period.

- Even after BCAS gave the approval for ECT in Sep 2020, there has been tremendous amount of checking for the dumpers/tippers passing through the tunnel. This lowered the productivity of the dumpers usage significantly. Also, it may be noted that the BCAS approval had also mentioned that usage of ECT was also based on the CISF assessment at site. Hence during such closure times as decided by CISF, the dumpers were forced to use the village road and take the longer leads.

- Hence, BIAL requests AERA to allow the justified cost increases that was necessitated due to non-availability of ECT on account delay in getting approval from the Statutory Regulator – BCAS, as part of addition to RAB.

6.9 1% penalty for delay in commissioning of Terminal 2

Authority's Analysis

The Authority proposes to levy the reduction (adjustment) of 1% in the project cost of Terminal 2 in case BIAL fails to commission and capitalize Terminal 2 Phase 1 by 31 March 2022. It is clarified that in case there is delay in completion of project beyond March 2022, due to any reason beyond the control of BIAL or its contracting agency and is properly justified, the same would be considered by the Authority while truing up the actual cost at the time of determination of tariff for the 4th control period in respect of IDC and PMC. However, there will be no waiver of penalty in case Phase 1 of Terminal 2 project is delayed beyond 31 March 2022 under any circumstances. (para 5.2.18)

BIAL's Submission

- The Authority in the Second Control Period order decided to impose a penalty/ adjustment of 1% of the cost of Terminal-2 Phase 1, if BIAL fails to commission and capitalize Terminal 2 Phase 1 by March 2021. However, on account of 1st wave of Covid-19, this date was revised to 31st March 2022 and AERA has accepted the same and decided not to apply the 1% penalty on BIAL.

- However, it has laid a condition that if the completion of Terminal T2 is delayed beyond 31st Mar 2022 date, it will apply 1% penalty, under any circumstances.

- Due to the crushing impact of 2nd wave of Covid-19 which has resulted in lockdowns in Karnataka and the strong likelihood of further Covid-19 waves, construction activities at site have been severely impacted and there is steady migration of labor back to their native places, resulting in further delays in completion of Terminal T2.

- If the delay is for Covid-19 reasons or for similar events (which are beyond the control of BIAL), it would be wholly wrong to impose such a penalty.

- Per TDSAT, AERA had agreed to examine the levy of 1% penalty on its own merits and stated that it if a convincing case is made out by BIAL for any delay, AERA may vary or waive the penalty, but only for good reasons. The current proposal is against its own stated intent in TDSAT.

- BIAL notes that AERA has also proposed as follows:

  5.3.18 To reduce 1% of the project cost from the ARR/ Target Revenue as re-adjustment, in case any particular capital project is not completed/ capitalized as per the capitalization schedule as per the approval in tariff order.

- We request the Authority to not levy any penalty in case any projects are not completed due to circumstances that may be beyond the control of the Airport.

- Based on the feedback given by AERA during the Stakeholder consultation meeting, considering the impact of the second wave of Covid-19 pandemic (not factored during the MYTP submissions) and the forecasted potential third wave, BIAL has re-evaluated the Project Progress and the balance activities required to complete and commission the same. Based on this re-evaluation, BIAL proposes the date of completion to be 31st December 2022. BIAL also requests the Authority to true up any consequential cost increases due to shifting the date from 31st March 2022 to 31st December 2022 as part of the True up in the fourth control period.

- BIAL requests the Authority to accordingly consider this as the completion date of the Project.

6.10 Design and PMC cost

<u>Authority's Analysis</u>

The Authority has decided to allow 5% of the project cost for Design and PMC costs based on the independent study undertaken by RITES Limited in the Second Control Period order. The Authority proposes to consider 5% of the project cost for Design and PMC costs for the capital expenditure deferred from Second Control Period. The Authority proposes to review and true-up the design and PMC costs after the project is commissioned and subject to its reasonableness. (para 5.2.41)

<u>BIAL's Submission</u>

- BIAL has submitted detailed write up of Design and PMC cost together with justifications for the same. BIAL requests the Authority to consider the above at the time of true up of 4th Control Period.

6.11 ORAT

<u>Authority's Analysis</u>

The Authority has noted that BIAL has submitted INR 46 cr. as Operational Readiness and Airport Transfer (ORAT) expenses as part of the pre-operative expenses to operationalize the Terminal 2. BIAL has submitted that it is undertaking the ORAT program with its own employees. Since ORAT expenses are part of the airport operations, the Authority is of the view that these costs should be part of the operational expenditure.

The Authority proposes to include the ORAT expenses as part of the operational expenditure and exclude it from the RAB of the Third Control Period. (para 5.2.43)

BIAL's Submission

BIAL has estimated the same as part of Capital Expenditure as per applicable accounting principles and guidelines. Same treatment was also accorded by the Authority earlier in case of DIAL wherein ORAT was considered together with the Pre-Operative Expenses. BIAL requests the Authority to consider the same as Capital Expenditure.

6.12 Pre-operative expenses

Authority's Analysis

The Authority has examined the submission of BIAL with respect to the pre-operative expenses. The Authority is of the view that the tasks of the BIAL's project team are generally part of the airport's scope of work and these costs should not be capitalized. Further, the Authority notes that the magnitude of the pre-operative expenses proposed by BIAL (INR 356 cr. exclusive of ORAT costs) is not justified given the additional costs proposed by BIAL for the design and project management consultants. Therefore, the Authority proposes to exclude the pre-operative expenses on the deferred projects of the Second Control Period from the RAB of Third Control Period. (para 5.2.46)

BIAL's Submission

We request the Authority to refer to the detailed explanations provided in comments to the Second Control Period True up.

6.13 Financing Allowance

Authority's Analysis

The Authority has noted that BIAL has proposed to fund the asset through debt and equity. However, BIAL has computed the financing allowance on the entire project cost. The Authority noted that the financing allowance is a notional amount and while true-up of the Second Control Period the Authority has allowed the interest during construction instead of the financing allowance as per para 3.3.40. Accordingly, the Authority proposes to consider the interest during construction on the project cost for the Third Control Period. (para 5.2.48)

BIAL's Submission

We request the Authority to refer to the detailed explanations provided in comments to the Second Control Period True up.

6.14 T1 Optimization project

Authority's Analysis

The Authority has noted that BIAL has undertaken the Interim Terminal Improvement (ITI) works during the Second Control Period as part of the sustaining capital expenditure or special repairs. The Authority is of the view that the majority of works proposed under T1 optimization project are similar to the interim terminal improvement works. Therefore, the Authority proposes to reduce the scope of the T1 optimization project such that it includes only the one-time project cost other than the proposed sustaining capital expenditure. (para 5.2.56)

Accordingly, the Authority proposes to consider INR 50 cr. (excl. design, PMC, contingency and IDC cost) for the T1 optimization project in the Third Control Period. The Authority proposes to true-up the actual T1 optimization project cost during the next control period based on the evaluation of its reasonableness. (para 5.2.57)

BIAL' Submission

- The sustaining capex includes repairs and maintenance, minor projects, special repairs and facility augmentation to cater to the growth in traffic. BIAL also does regulatory, digital initiatives and safety compliance related capex which are mandated from BCAS, DGCA, MOEF etc. which form part of sustaining capex. Most of the sustaining capex are carried out with limited interruptions to existing operations. Therefore, T1 Optimization Project is not the same as projects undertaken under Sustaining Capex.

- The Interim Terminal Improvements were undertaken with an objective of managing the increased demand for airport facilities to cater to the high growth in passengers being witnessed in KIAB. This was done by increasing the facilities like Check in counter, additional reclamation belt, additional bus gates, security lanes, additional kerb area without major civil construction of expanding the Terminal building. These measures resulted in increasing the capacity of the existing Terminal from existing 20 mmpa to 26.5 mmpa. Some of the projects undertaken included:

  - **Security Hold Area (SHA) Swing Gate:** Involves a swing partition for 2 international gates at SHA and an additional gate counter. This is for facilitating handling of domestic passengers in swing conditions during domestic peak.
  - **Baggage Reclaim Belt No 10:** One more additional international baggage reclaim belt in the existing available space to increase the capacity of baggage reclaims for international arrivals. Project is completed and put to use.
  - **West Bus Gates**: Addition of 3 bus gates and seating capacity of 375 at West side of the existing terminal to facilitate passenger seating and allow for increased operations.
  - **Additional Check-in Counters/ BHS:** Additional 16 check-in counters added to handle additional passenger traffic. A Baggage Handling System (BHS)to handle the check-in baggage is also added.
  - **Domestic PESC:** Involves addition of 4 rows domestic security lanes.

- **Immigration and Customs modification at Level 2**: Involved relocation of four existing immigration counters to accommodate additional two hand baggage screening units for Customs. Project completed.
- **Utility Augmentation**: To enhance the existing chiller plant capacity in T1A, a 500 TR chiller unit and all associated systems are added.
- **3rd Kerbside Departure:** A third departure kerb was to be added to decongest the existing drop off points. The works involved demolition of current parking lanes and construction works to increase width of existing kerb from 1.5m to 5m, creating pedestrian crossing, construction of canopy, signages and streetlights.

- As can be seen from the above, Interim Terminal Improvement projects completed in the second control period is not at all connected to the T1 Optimisation project proposed in the third control period.

- T1 Optimization is a list of interrelated and connected projects which are in the nature of major overhaul of the Terminal T1 and is proposed to be carried out in optimum time and efficient manner once T2 Phase 1 becomes operational. Most of the existing system in Terminal T1 are being replaced on account of end of life of the asset, replaced for reliability augmentation and redundancy creation, improving operational efficiency, mandatory capex etc. The Projects include:

  - **End of Life replacement** - BHS related upgradation, PTB fire hydrant and MS pipeline network replacement, Escalator/Elevator replacement, Automatic doors- Landside & Airside replacement, Arrival/Departure carousel replacement.

  - **Operational efficiency** – Wastewater discharge lines, Solid waste Management upgradation, Plumbing system upgradation, Additional Terminal Exit gates etc.

  - **Mandatory-** Addition of staircase form level 1 to level 0 to access west bus boarding gates; Compliance to GOI/PMO office initiative of "Sugamya bharat abhiyan", Reconfiguration of International area to fit domestic requirement to achieve service target levels.

- Details of the projects and the cost estimates were shared with the Authority.

- From the above it can be seen that the T1 optimization programs are not similar to regular sustaining capex or Interim Terminal Measures and needs to be undertaken as a program with dedicated focus and minimal disruptions to passenger.

- While BIAL has adequately demonstrated the need and the cost estimates submitted as part of MYTP, considering the current situation, in the interest of all stakeholders, BIAL proposes to implement Terminal 1 Optimisation in a staggered manner. This will be planned based on the evolving Traffic conditions and the anticipated increase in Terminal utilization.

6.15 Four lane access road

Authority's Analysis

The Authority noted that BIAL has proposed a four-lane access road for the access to the new CISF barrack. The Authority is of the view that a four-lane access road will exceed the actual traffic demand and the lanes can be reduced based on the estimated traffic to optimize the cost. (para 5.2.63)

BIAL's Submission

- As per Table 69, the Authority has shown the Projected Capex of BIAL wherein the cost for CISF Barrack Expansion and Access Road is shown as Rs. 44.79 crore.

- BIAL had, in the MYTP submission, combined 2 cost items – CISF Barrack expansion and Access roads and projected a value of Rs 44.79 crores. As per page 8 of the Cost Plan report submitted along with the MYTP submissions, the breakup of the same is Rs 15.42 crores towards Access Roads and Rs 29.37 crores towards CISF Barrack Expansion. The Authority has proposed reducing the combined cost of Rs 44.79 crores by 50% erroneously. The reduction of 50% must be applied only on the Access Road cost component and not on the entire sum.

- Accordingly, BIAL requests the Authority to make the necessary changes as explained above.

6.16 Landscape works and Alpha 4 project

Authority's Analysis

On the backdrop of the impact on air traffic and the entire aviation industry due to Covid-19, the Authority is of the view that there is a need to postpone the capital expenditure which is not urgent or not ongoing from the Third Control Period. This would reduce the tariff burden on the airport users. (para 5.2.68)

In its MYTP, BIAL has submitted that the Alpha 4 is proposed in the later part of the Third Control Period due to the impact of Covid-19 on air traffic and its current staff are accommodated at different locations across the airport on the short-term basis. The Authority noted that BIAL has already accommodated its employees and BIAL has also acknowledged the impact of Covid-19 on the capital expenditure plans of the airport. Therefore, the Authority is of the view that Alpha 4 is not an urgent requirement of the airport and it can be postponed to the next control period. (para 5.2.69)

Similarly, the Authority noted that the landscape works are also proposed to be capitalized in the last year of the Third Control Period, that is, FY26. BIAL has proposed these landscape works through sustainable drainage along with a network of footpaths and cycle paths for sustainable transport. The Authority is of the view that these capital expenditure projects are not urgent for the airport and can be postponed to the next control period. (para 5.2.70)

BIAL's Submission

BIAL has evaluated the requirement of Alpha 4 and Landscape works and in view of the current situation and disruption in traffic, is agreeable to defer these projects for the 4th Control Period.

6.17 CISF Housing

Authority's Analysis

The Authority noted that BIAL has submitted the Detailed Project Report on the CISF housing project based on the requirements submitted by CISF. The Authority noted that BIAL has not undertaken its own detailed due diligence of the project requirement which includes, among other things, evaluation of the projections of the CISF staff at the airport based on the traffic forecast/ expansion at the airport and diligence of the proposed housing facilities. (para 5.2.77)

BIAL's Submission

- Security is one of the important functions in the airport and is handled by CISF and falls under the "reserved activities" as defined in the Concession Agreement. CISF has repeatedly approached BIAL to provide a permanent CISF Township and hence BIAL proposed to develop a housing facility near the airport so that the operational and emergency needs can be met.

- The staffing of CISF personnel at the Airport is decided by CISF alone based on established standards and procedures of CISF.

- The request for housing had come based on a request from CISF quoting CISF Rules 2001. The requirements of Bachelors/married accommodation etc. were specific to CISF and cannot be subjected to BIAL scrutiny.

- In view of the request coming from a Statutory Agency like CISF, BIAL had to include the same in its Capital Expenditure program, subject to AERA approval. BIAL did the required due diligence for estimating cost for the requirement projected by CISF. It is to be noted that there is no permanent housing provided since the last 12 years of operations.

- BIAL concurs with the Authority's views to not consider this project for the current control period.

- BIAL also requests the Authority to provide suitable guidance on matters relating to such CISF related Capital Expenditure to all Airport Operators.

6.18 Stakeholder meeting – Stage III

Authority's Analysis

The Authority noted that BIAL has submitted the stage II Stakeholder Consultation and has not submitted the stage III stakeholder consultation (cost approval). BIAL has submitted that it is undertaking the detailed design for the Third Control Period projects and will submit the stage III of the AUCC once it is completed.

The Authority directs BIAL to undertake the stakeholder consultation process as per the AERA guidelines for the projects proposed in the Third Control Period. (para 5.2.80)

BIAL's Submission

- BIAL had carried out the planning activities for PAL-2 projects and based on the plans, convened the Stakeholder meeting for Stage I and Stage II review and approvals.

- Considering the evolving Covid-19 pandemic situation, BIAL has continually re-evaluated the Capital expenditure needs, including options for re-sizing/ deferment of projects etc. Accordingly, BIAL had, during the process of review of MYTP by AERA submitted that BIAL would like to drop/ defer/ re-size certain projects and had accordingly revised the PAL-2 Capex estimates for Third Control Period downwards.

- On issue of MYTO by the Authority, based on the projects proposed to be carried out in Third Control period, BIAL will prepare the detailed design/ cost estimates and conduct Stage III stakeholder consultations, well in time before commencement of any activities relating to the said projects.

6.19 Fixed Asset Register

Authority's Analysis

The Authority has noted that the study on the asset allocation (refer Annexure I for summary of the report and Appendix II for the report) has made the following suggestion to BIAL: "The fixed asset register does not provide the project-wise total capital expenditure. Therefore, it is difficult to compare the projected capital expenditure approved by AERA in its order for a particular project with the actual capital expenditure incurred by BIAL for it. BIAL should include the same terminology used by it during the submission to AERA for the asset capitalized in the fixed asset register." The Authority directs BIAL to maintain its fixed asset register as per the above suggestion. (para 5.2.81)

BIAL's Submission

- BIAL's Fixed Asset Register has been maintained in accordance with the Accounting prescriptions and guidelines.

- Authority's directions are noted and will be implemented from 2021-22.

6.20 Capex proposed by the Authority for TCP Submission

Authority's Analysis

Based on the above revisions the capital expenditure proposed by the Authority for the Third Control Period other than the sustaining capex and deferred projects of Second Control Period is given in the table below: (para 5.2.82)

Fresh capital expenditure proposed by the Authority for the Third Control Period (Table 70)

BIAL's Submission

- BIAL has reviewed its capital expenditure plan, it has further revised the capital expenditure for the Group B projects as given below:

Cost Code	Program		Amount (in Crores)
A	Airfield Works		22.55
B	Passenger Terminal		50.00
C	Landside Access and Parking		400.85
D	Support Facilities		307.21
E	**SUB TOTAL - CONSTRUCTION COST (GST & Indexation)**		**780.61**
F	Design & PMC Fee	5.00%	39.03
G	Pre-Operative Expenses	2.00%	15.61
H	**SUB TOTAL - SOFT COST**		**54.64**
I	**TOTAL**		**835.25**
J	Contingency (with high level of concept design)	3.00%	25.06
K	**GRAND TOTAL**		**860.31**

- The break-up of the above Construction Cost (defined as "E" in above table) is given below:

Sl. Nr.	Cost Code	Program / Projects	Cost including taxes and indexation
1	**A**	**Airfield Works**	**22,54,75,233**
1.01	A-12	Airside Security wall	3,96,29,202
1.02	A-13	Airside perimeter Road	18,58,46,031
2	**B**	**Passenger Terminal**	**50,00,00,000**
2.01	B-03	T1 Optimisation	50,00,00,000
3	**C**	**Landside Access and Parking**	**4,00,85,34,857**
3.01	C-14	Cycle Track along SAR / SWR / NCR plus docking stations	-
3.02	C-2	Canopy fo rTerminal Metro Station	80,90,62,470
3.03	C-2A	Terminal Metro Station	1,65,30,19,685
3.04	C-2B	KIA West Station	1,03,06,92,325
3.05	C-7	North west road expansion	43,43,24,528
3.06	C-5	CISF Barrack Expansion - Access Road	8,14,35,849
4		**Support Facilities**	**2,94,02,61,796**
4.01	C-13	BIAL Campus parking and Canteen	-
4.02	K5	CISF Barrack Expansion	31,01,68,030
4.03	K8	Animal Quarantine facility	3,85,35,847
4.04	D01	New cargo domestic terminal	55,26,81,651
4.05	D02	Additional Cool Port Building	49,10,17,849
4.06	D03	Refurbishment of existing cargo terminals - Menzies Aviation Bobba	53,90,70,856
4.07	D04	Refurbishment of existing cargo terminals - Air India SATS	60,61,35,386
4.08	D05	Refurbishment of existing cargo terminals - Air India SATS Cool Port	6,95,05,842
4.09	D06	Refurbishment of catering buildings - TAJ SATS	16,61,62,195
4.10	D07	Refurbishment of catering buildings - LSG Skychef	9,74,78,299
4.11	U59	Water Treatment Plant	6,95,05,842
4.12	TR-LA	Landscape Works	-
4.13	S38	Alpha 4	-
4.14	S71	Landside Maintenance Building	13,18,43,213
		-	**7,80,61,15,099**

<u>Comparison with AERA's proposed costs in the Consultation Paper:</u>

- AERA has proposed Rs 438 cr. as the capital expenditure for the Group B projects and the breakup of the same is Rs 405 cr. for Hard cost ad Rs 33 cr. towards Design, PMC and contingency costs. No Pre-operative expenses have been considered.

- BIAL had submitted the Cost plan report as a part of MYTP submission in July 2020, wherein earlier inflation rates were considered. The Authority has proposed 4.9% as the inflation factor in the Consultation Paper, based on 69th round of survey of professional forecasters. We request Authority to consider 4.9% as inflation factor for capex in the Group B projects. The impact of this change is factored in the above revised table.

- BIAL has considered costs pertaining to Terminal Metro Station & its canopy and the KIA West Station in our revised capital expenditure table for Group B projects. AERA has opined that the Metro Scheme may not be ready by end of FY26 and hence had not considered the same in its Table 70. BIAL has executed a binding MOU with BMRCL in regard to Metro scheme. Govt of Karnataka has set a deadline of June 2025 for commencement of Airport metro line and BIAL also has to adhere to this timeline. In the Stakeholder meeting for the 3rd Control Period held in 9th Jul 21, GoK has also requested the Authority to consider Metro stations' capitalization in FY25 in line with Karnataka government target date & provide BIAL with adequate cashflows to undertake the Metro stations' works. We request AERA to consider the same.

- BIAL needs a project team to implement these projects and it cannot be made zero as proposed by the Authority, as elaborated in the previous sections. These manpower costs are not duplicated in the operations side also. Authority has considered Rs 98 crores against a Hard Cost of Rs. 5030 crores amounting to 2% for Pre-operative Expenses in the case of Consultation Paper issued for GHIAL for the 3rd control period. We request Authority to consider the same 2% for BIAL as an interim solution and approve the pre-operative expenses for the Group B projects.

- We also request AERA to true up the Design, PMC and Pre-operative costs based on actuals and subject to reasonableness and proper justification.

- BIAL also notes from the Table detailing the proposed Third Control addition that the Interest During Construction is estimated at Rs. 3 crores which prima facie appears very less. BIAL requests the Authority to look into the computations of the IDC estimates.

- We are not aware of the funding pattern estimated by the Authority while calculating the RAB. BIAL requests the Authority to re-estimate the funding pattern.

6.21 Sustaining Capex

<u>Authority's Analysis</u>

The Authority had allowed a sustaining capex to BIAL of INR 200 cr. per year from FY19 to FY21 in the Second Control Period order based on average of the sustaining capex in FY17 and FY18. The Authority has noted that the average sustaining capex is INR 197.45 cr. per year for the Second Control Period based on the actuals from FY17 to FY20 and forecast for FY21. (para 5.2.86)

Accordingly, the Authority proposes to consider the sustaining capex of INR 197.45 cr. per year in the Third Control Period for Bangalore Intl. Airport Ltd. (para 5.2.87)

The Authority proposes to consider only the sustaining capex works proposed by BIAL in the Third Control Period (refer Annexure 5) during the true-up of the next control period, that is, the Authority will not consider new sustaining capex works during the true-up of the next control period. The Authority directs BIAL to submit a work-item wise comparison between the sustaining capex submitted by BIAL as part of the Third Control Period (refer Annexure 5) and the actual sustaining capex incurred by BIAL in the Third Control Period in its MYTP submission of the next control period. (para 5.2.88)

BIAL's Submission

- Average Sustaining Capital Expenditure incurred in the Second Control Period is predominantly for one Terminal and One Runway and related infrastructure. Additional facilities such as the Second Runway and the Terminal 2-Phase 1, Forecourts and the landside infrastructure will be in use for most period in the 5-year timeline of the Third Control Period.

- With considerable increase in the overall Infrastructure and facilities in the Third Control Period, once domestic traffic recovers to pre-covid levels, the estimated cost of Rs. 197.45 crores per annum is insufficient and not sustainable from the point of maintaining the required service quality standards.

- Considering that the Authority has drastically cut the Capital Expenditure projects and has allowed a paltry sum of Rs. 50 crores towards Terminal-1 Optimization (which is more than 13 years old and had been sweated fully beyond its rated capacity in the past and cannot bear any more load) it may not be sustainable to keep the estimated Sustainable capital expenditure spend restricted at Rs 197.45 crores per annum. Majority of the Capital Expenditure in T-1 Optimization is for refurbishing End of Life assets which have been confirmed by the respective OEMs and the same has been shared with the Authority also. Authority has also overridden such OEM recommendations while determining the amount of spend to be allowed. Neither is the Original Capital Expenditure proposed for various projects allowed nor is sufficient Sustaining Capex provided by the Authority.

- We request the Authority to approve the estimate that BIAL has submitted as part of MYTP as the same is made based on realistic estimation of the actual activities that need to be incurred.

- Also,
  - Table 12 of the Consultation Paper indicates that AERA has considered the revised Sustaining Capex estimates submitted by BIAL for FY 21 wherein BIAL has requested the unspent amount to be carried to the next year FY 22. It is noted that AERA has not considered the same.
  - Estimate of Rs. 197.45 crores considered by AERA for the Third control period is based on the average spend in the Second control period, without considering any inflation. BIAL requests the Authority to correct this error.

- On Authority's comment on Para 5.2.88 that only the works proposed by BIAL has to be incurred, we submit that the estimates made currently are based on the need and requirements that have been assessed currently. In the dynamic business environment, the need has to be constantly updated based on changes to the business, traffic estimates, changes/ fresh advisories issued on account of Security reasons and any other Government directions. Also, Authority has approved a total block estimated cost per annum and has not listed the approved cost against individual line items submitted by BIAL. Hence, BIAL should be given the flexibility (depending upon the factors mentioned above) to incur the Sustaining Capex costs.

- BIAL will provide a break-up of the Sustaining Capital Expenditure line items at the time of MYTP submission for the next control period.

6.22 Common Asset Allocation ratio

<u>Authority's Analysis</u>

BIAL has bifurcated the Terminal 2 assets based on the aero to non-aero floor area ratio of 88% to 12% as per Second Control Period order. The Authority has noted from the submission by BIAL on the area break-up for Terminal 2 that the proposed aero to non-aero floor area ratio is 87.7%. The Authority proposes to consider the bifurcate the Terminal 2 asset into aeronautical and non-aeronautical based on the floor area ratio of Terminal 2 of 87.7%. (para 5.2.91)

BIAL has classified the broader categories of capex addition into aeronautical, non-aeronautical, Terminal 2 and common assets. BIAL has bifurcated the common assets based on average of FY19 and FY20 gross block ratio which is also 91% to 9%. The Authority notes that the gross block ratio is a composite ratio and a weighted average of aero, common and non-aero assets. Hence, the Authority notes that the gross block ratio should be applied on entire capex addition irrespective of it being aero, common or non-aero instead of BIAL's approach of applying it selectively on common assets. Common assets have been segregated by BIAL in its asset register based on terminal area ratio and therefore, the Authority proposes to apply the same ratio (85.73% based on Terminal 1 area) for common assets capitalized in FY22. Terminal 2 is proposed to be capitalized in FY22. The Authority proposes to apply weighted average terminal area ratio of 86.85% from FY23 to FY26. Based on the above, the Authority proposes to revise bifurcation ratio for common assets of the Third Control Period. (para 5.2.92)

<u>BIAL's Submission</u>

- BIAL has, in response to the allocation ratios applied by the Authority for Assets in Second Control period elaborated the reasoning for considering 91% as the basis, which is the overall Gross Block Ratio. As the same principle is applicable for the Project proposed to be commissioned in the Third Control Period also, BIAL requests the Authority to consider the same and allocate the projects that are assigned based on Terminal Ratio to be changed to the overall asset Ratio.

- Based on the actual list of additions in the Fixed Asset Register at the end of the control period (Including Terminal-2 Phase 1), these can be trued up after the direct Aeronautical, Non-Aeronautical and common asset items are identified and trued up

6.23 Authority's note on deferral of Projects

Authority's Analysis

5.2.3 The Authority noted that ~63% of the total asset additions are brought forward from the previous Control Periods. The Authority noted that BIAL has been estimating capex but not executing the said projects, in the First Control Period and Second Control Period too.

5.2.4 The Authority has noted that BIAL had a trend of proposing capex in one control period and postponing the same to future control periods without execution. This leads to services not being available to passengers who have paid up. This trend does not further instill any confidence in the Authority that large projects which were proposed in earlier Control Periods nor the large new projects proposed by BIAL would be completed on time. In order to discourage this trend, the Authority shall reduce 1% of the project cost from ARR/Target Revenue as re-adjustment in case any particular project is not capitalized as per approval in tariff order.

BIAL's submission

Projects deferred in 1st Control period

- The Authority has incorrectly shown non-execution of projects for 1st Control period to the extent of Rs. 491 crores. However, in the 2nd Control Order No. 18/2018-19 in Table 22, AERA has shown the comparison of Additions to RAB of the 1st Control period Tariff Order vis-à-vis the actuals and the difference on account of unspent maintenance capex is shown as Rs. 447 crores, as per table given below.

Table 22: Comparison of Additions to RAB - As considered in MYTO-CP1 and actuals (Rs. Crores)

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16	Total
Addition as per MYTO-CP1	15.43	22.52	1,671.60	443.04	61.66	2,214.25
Actuals as per BIAL Submissions	15.36	23.84	1,637.49	60.21	30.07	1,766.97
Difference (unspent mainly from Maintenance Capex)	0.07	-1.32	34.11	382.83	31.59	447.28

- As can be seen from the table (which is self-explanatory), the difference is mainly on account of unspent amount in maintenance capex. The below table compares the AERA approved traffic for the 1st control period vis-à-vis the actual traffic handled at KIAB for the same period.

Details in Millions	FY 12	FY 13	FY 14	FY 15	FY 16
As per MYTO 1					
Domestic	10.33	9.49	10.23	11.40	12.66
International	2.38	2.50	2.63	2.97	3.34
Actual Traffic					
Domestic	10.33	9.49	10.23	12.47	15.61
International	2.38	2.50	2.63	2.93	3.37
Actual Growth Rate					
Domestic	10.38%	-8.14%	7.85%	21.83%	25.15%
International	4.60%	5.26%	5.19%	11.31%	14.78%

- BIAL wishes to further submit that the 2 years – FY15 & FY16 were the years wherein BIAL saw a huge increase in traffic and witnessed ~22-25% growth rates and any project undertaken or deferred needs to be assessed in the context of high traffic and hence projects that would hamper or inconvenience passengers were deferred to a later date in view of the situation.

- The Authority had taken cognizance of this fact at the time of true up in the Second Control Period Order.

Projects deferred in 2nd Control period

- The 2nd control period has seen Projects getting delayed on account of Covid-19 and certain projects getting deferred. The Authority has erroneously classified all the projects that did not get completed in 2nd control period as deferred projects. The main reason for not completing the projects is on account of 1st wave of Covid-19.

- BIAL had deferred some projects on account of Covid-19 (1st wave) in order to conserve cash, considering that the traffic had collapsed completely on account of the government-imposed lockdown for 2 months and that recovery in traffic was uncertain. These deferred projects amounted to Rs 278 cr., *as referred to Table 6 of the Consultation Paper*, which amounts to 2.79% of the total capex approved by the Authority in the 2nd control period. The details of the projects deferred and the specific reasons for the same has been explained in section 7.3.7 of the MYTP submission.

- With regards to the sustaining capex, BIAL had made a submission for need to construct a 220KVA substation within the Airport to cater to the required demand of 33 MVA due to KERC regulations which stated that any demand above 20 MVA, shall be provided by the Power distribution company at 220 KV level only. BIAL had multiple discussions with Karnataka Power Transmission Company Limited which has agreed to establish a 100 MVA additional transformer on lease basis and deliver the required 33 MVA power from their 220/ 66 KV substation till BIAL establishes 220 KV substation for a maximum demand of 33 MVA. This project has now been deferred to 4th control period. Hence, this deferment was on the basis of BIAL successfully convincing the state utility to accept an interim solution and not burdening the passengers with this capex in the 2nd control period.

- The major project that has got delayed in 2nd Control period is the Terminal T2 and associated landside infrastructure projects. The delay has been on account of Covid-19 which impacted procurement of material due to supply chain issues, drastic reduction of availability of manpower and the Authority has itself acknowledged this fact in para 5.2.14 as given below:

  "5.2.14 The Authority has noted that Covid-19 has affected the Indian infrastructure projects and has led to delay in the projects. The Authority is of the view that the reasons provided by BIAL with the data on labour shortages and supply chain seems reasonable to justify that the project will get delayed beyond 31 March 2021."

- The Authority is convinced of the genuineness of the reasons of delay in completion of Terminal T2 & its spill over to the next control Period on account of the Covid-19 Pandemic. The Authority is also cognizant of the fact that the delay has not resulted in passenger inconvenience due to lack of timely capacity augmentation, as mentioned in Para 5.2.15.

- BIAL undertakes capex project after required due diligence, Board approvals and transparent procurement process. BIAL has always adopted a modular approach in construction and does not believe in saddling the passengers/ airlines with high capital costs. There is detailed deliberation for assessment of infrastructure and wherever it was possible to defer the costs, the same has been done.

- The Authority has not taken into consideration the real reasons for this deferment and genuine delay in construction activities on account of Covid-19 and has painted an image that BIAL has not kept its commitment in terms of capex and thereby leading to services not being available to the passengers, which is totally incorrect and unfair to BIAL.

- This type of conclusion, besides contradicting AERA's observations elsewhere in the consultation paper, is entirely wrong and unjust. We request AERA not to make such unjustified references and remove the same from the Consultation Paper.

Regarding Depreciation

6.24 Aero depreciation computation

Authority's Analysis

Additionally, the Authority proposes to undertake the following changes to the submission of BIAL relating to depreciation:

a) BIAL has commissioned the land development capex in FY20 and therefore has considered the useful life as 48.5 years based on the available lease period. However, while projecting the depreciation for Third Control Period, BIAL has considered the useful life of land development capex as 30 years. Based on the useful life in FY20, the Authority proposes to consider the same useful life of 48.5 years for land development capex in the Third Control Period.

b) Adjustment of depreciation of the assets excluded as per EIL study

c) Adjustment of depreciation on the pre-operative expenses excluded from the RAB (para 5.2.100)

The Authority has recomputed the total depreciation based on the revised useful life of assets and revised asset addition. The Authority proposes to apply the proportion of the aeronautical assets on total depreciation to determine the depreciation on aeronautical assets. The Authority noted that the proportion of the aeronautical assets is varying from year-on-year basis since BIAL has undertaken expansion of the airport facilities. Therefore, the Authority proposes to apply the proportion of the aeronautical assets of a particular year to the depreciation amount of the respective year. (para 5.2.102)

BIAL's Submission

- BIAL has submitted its detailed responses on various aspects of Depreciation as part of comments on the True up of Second control period.
- BIAL requests the Authority to consider the same for the Third Control period.
- BIAL submits that while the Authority has proposed to Aeronautical Depreciation estimate for a year based on the Aeronautical Asset Ratio of the year, BIAL requests that the same be trued up based on actual asset wise identification of Aeronautical and Non-Aeronautical, based on the explanations submitted by BIAL in its response above.

7. Weighted Average Cost of Capital for the Third Control Period

<u>Authority's Proposal</u>

- To consider the cost of equity at 15.05% as per the outcome of the independent study.
- To consider the notional debt to equity (gearing) ratio of 48%:52% as suggested by the independent study.
- To consider 7.85% as cost of debt for the Third Control Period.
- To true-up the cost of debt of BIAL for the Third Control Period based on actuals.
- To consider the WACC of 11.59% for the Third Control Period based on above mentioned cost of equity, cost of debt and considering the notional gearing ratio as suggested by the independent study.

7.1 Cost of Equity

<u>Authority's Analysis</u>

The independent study has drawn from the international experience of airports having comparability to BIAL in terms of hybrid till, ownership structure and scale of operations and has also studied the regulatory framework of other regulators for the study. (para 6.2.2)

The independent study has computed the Cost of Equity at 15.05% by using Capital Asset Pricing Model and using a notional Debt : Equity ratio of 48%:52%. While the study has used a nominal debt rate of 10.05% for illustrative purpose to arrive at the Weighted Average Cost of Capital, the Authority proposes to use the actual cost of debt for the purpose of calculation of WACC for tariff determination. (para 6.2.3)

<u>BIAL's Submission</u>

- We appreciate the decision of the Authority to do study on Cost of Equity from an acknowledged expert body.

- While we appreciate Authority's view of conducting a scientific study for the determination of Cost of Equity for Indian airports, we would also like to highlight the inadequacies in the Cost of Equity study by IIM Bangalore as below:

1) Incorrect use of asset beta of airports in developed economies as comparable for Indian airports

- It must also be noted that most of the airports considered for asset beta estimation by IIM B Study are operating in a developed economy, wherein passenger's air travel pattern is very different from developing countries and there are only two airport entities which are considered by the Authority in its review, which operates in developing economies, i.e., MAHB and AoT. Referring to such companies from developed economies for the beta computation will result in an inaccurate estimate.

a) Wide variance between asset beta of developed and developing economies

- Asset beta of airports in the developing countries is consistently higher than the asset beta of airports in developed economies. This can be demonstrated by the data provided by IIM B also, at table 3.1 of the study the derived asset beta for Sydney airport is 0.40 whereas that for AoT is 0.86. This shows the quantum of variation in risk perception between developed and developing countries. Similar differential was also highlighted in the CRISIL report on BIAL's Cost of Equity.

Table 6: Asset Beta comparison of Developed and Developing Countries

Asset Beta	Developing Countries	Developed Countries	All Countries
Average Asset Beta	0.75	0.47	0.60

Source: CRIS Analysis

b) Incorrect assessment of risks faced by Indian airport operators

- The Study by IIM B states that asset beta of airports in developed economies may be an appropriate comparable to Indian context given that there is limited demand risk and Indian airports get "generous" true-ups.

- The IIM B Study states that only real risk is the demand risk, i.e., the airport's exposure to the macroeconomic conditions. It measures the sensitivity of growth in passenger volumes to market returns through regression analysis and concludes that demand risk is low given very low regression coefficient (~0.3). The R squared value of this regression analysis is very low (0.0379), i.e., the stock market movement explains only 3.79% of the demand growth at BIAL. As such it is incorrect to conclude that demand risk is low.

- Under efficient market assumptions, stock market index should be reflective of the economic condition of the country. However, this is not true in real world where there is little co-relation in the stock market movement with the economic growth of the country, especially in India in recent years. Further, most of the traffic forecasting studies estimate long term demand based on economic growth in terms of GDP / GDP per capita and not based on stock market movement.

- In addition to the economic conditions which affect demand, the aviation demand in India is highly price-sensitive to air fare which may result in higher traffic volatility. Further Indian airports face significant Counterparty Risk. It's a known fact that India has witnessed failures of two major Indian airlines in the past decade. Further, majority of the airlines in India have made continued losses even when traffic was increasing at double digit growth rate and maintained weak balance sheets. There are concerns of these airlines being considered as a going concern and represent a significant counterparty risk for the airports.

- Further, Covid-19 pandemic has already highlighted the risk that the aviation industry faces from demand and supply perspective (Even though the stock market is at an all-time high).

- With respect to the true-ups, while the traffic is trued up there is no true up mechanism available to the airport operators in India of the potential loss in non-aeronautical revenues due to the demand risk under the existing regulatory regime. While true-up reduces a part of the risk to the extent of aeronautical revenues, the airport operator is exposed to the demand risks associated with non-aeronautical revenues.

- Hence, we disagree with the assessment that demand risk to BIAL can be considered low and it can be compared to an airport in developed market.

2) Impact of outlier bias and flawed proximity score on derived asset beta

a) Selection of sample comparable airports seems inadequate

- The IIM B Study mentions that it has considered airports under different jurisdiction to determine the comparable airports.
- However, the Study has excluded majority of the airports from developing economies. While excluding airports of Canada and US is understandable given these are Government / Municipality owned, the Study excludes airports from Brazil citing recent privatization while completing ignoring the airports from Mexico. The airports from China are excluded based on argument that no credible data is available without providing any basis or evidence.
- Further, the Study has considered six airport companies out of which only four have data on share prices movement, i.e. Sydney Airport Limited, Malaysia Airports Holdings Berhad (MAHB), Airports of Thailand Public Company Limited (AoT) and Auckland International Airport Limited and the other two do not have any share price data.
- While the Study has ignored Brazil by providing a reason that privatization is a recent activity, it has also not considered any of the listed airports in the developed economies of Europe where the private airport operations have been an established practice (e.g. Copenhagen Airport, Zurich Airport, Fraport, Aéroports de Paris (ADP), Aeroporti di Roma, etc.)

b) Comparable airports with wide range of Asset Beta exposes the analysis to outlier bias

- The IIM B Study has considered a set of comparable airports with wide range of asset beta which exposes the analysis to be biased due to the outlier values. Two airports (Sydney and AoT) have asset beta which are beyond the ± 1.5 standard deviation from the mean and should ideally be excluded as outliers. The outlier has significant impact on the derived asset beta which is further highlighted by use of proximity score for determining weighted average.

c) Selection of parameters for determination of Proximity Score are inadequate and not justified

- The IIM B Study has selected parameters of Regulatory till, Ownership structure and Size of operations for determining the Proximity Score and derive weighted average. The Study does not provide any reference to literature or similar practices adopted for other international airports or infrastructure sector to support its selection of these parameters. While impact of Regulatory Till on the risk assessment of an airport is understandable, the Study does not provide any clarity on:

1) How do Ownership structure and Size of operations impact Asset Beta?
2) Why are only these three parameters considered sufficient to determine comparable airports?
3) Why should not the operations in developed / developing economy be considered as a parameter for determining comparability?

- The IIM B Study classifies airports into three categories: (1) 100% Government owned, (2) Govt/ private owned/funded, not being PPP and (3) PPP. However, it doesn't clarify the reasons for segregating PPP and non-PPP airports and its impact on Asset Beta even though they have similar ownership structure comprising of a mix of government and private shareholders.

- Further, it is not substantiated in the Study as to how the size of operations impacts the asset beta. For instance, London Heathrow (LHR) airport and Gatwick airport operate in same country under the same regulatory till and have similar ownership structure. The size of operations of LHR is almost twice that of Gatwick, yet their Asset Beta is nearly same.

- Just by changing the parameters and the scale of scoring, a totally different set of values for Proximity Score can be derived for the same set of comparable airports used in IIM B study.

d) Incorrect use of Proximity Score as weights for deriving average Asset Beta

- As per the outcome of the IIM B study, Cochin and Hyderabad airports whose operations are smaller than Bangalore airport as well as Delhi and Mumbai airports whose operations are bigger than Bangalore airport have higher Asset Beta as compared to Bangalore airport. This clearly indicates that as per the IIM B Study the Asset beta is not correlated with the size of the operations but rather is influenced by the proximity score with respect to the airport with outlier asset beta (i.e. Sydney airport with asset beta of 0.40 as compared to sample mean value of 0.62 and median value of 0.58).

- Again, just by eliminating the outliers (Sydney and AoT) from the selected sample, the values of derived asset beta shall change.

- Given that all airports in India are exposed to same set of regulatory regime and market risks, it is incorrect to consider that the proximity score to a sample airport with outlier asset beta value is the main driver of the economic risk that the shareholders of airport operators undertake.

- As per the proximity score calculated in IIM B study, Bangalore Airport is closer to Sydney Airport, an outlier, which reduces its weighted average asset beta. This clearly showcases the impact of bias in the selection of the sample and the non-removal of outliers on the end output of the study.

- Hence, we disagree with the methodology of considering airports with wide range of asset beta thus exposing the analysis to outlier bias and incorrect assessment of Proximity Score which is used as weights for deriving weighted average Asset Beta, which further highlights the impact of outlier bias in case of BIAL.

- Cost of Equity is a major driver of the returns to the stakeholders of the airport operator. We would request the Authority to finalize the Cost of Equity for the airports only after conducting a thorough review of the IIM B study based on the comments provided by BIAL and other airport stakeholders.

- Hence, we request the Authority to not consider Sydney Airport and re-assess the Cost of Equity.

7.2 Cost of Debt

<u>Authority's Analysis</u>

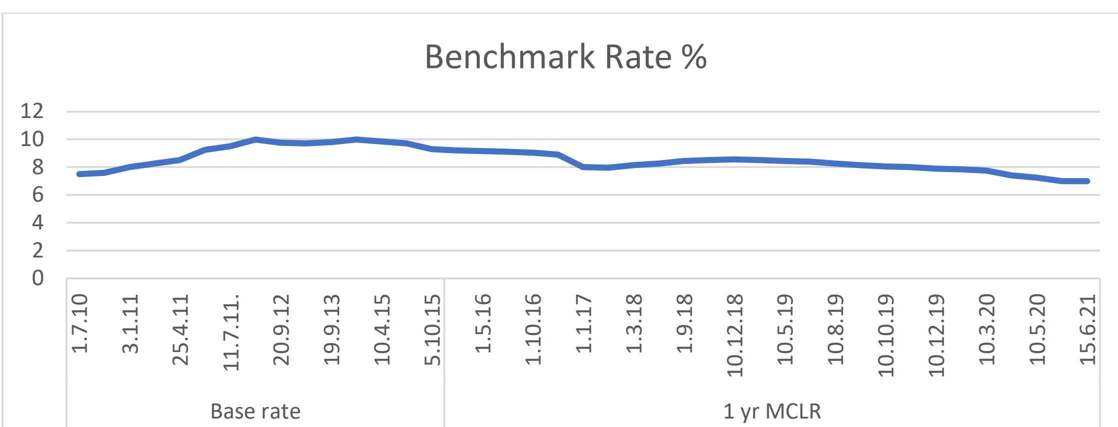
The Authority proposes to consider the prevailing interest rate of 7.85% as cost of debt for the Third Control Period. (para 6.2.8)

<u>BIAL's submissions</u>

- BIAL has negotiated with the lenders to arrive at the lowest possible debt rates, including at the time of finalizing the terms for the expansion loan of Rs.10,206 Cr.. The interest rate on the loan is presently at 7.85% p.a., linked to the 1-year MCLR rate. Thus, this is a floating rate loan, with annual reset clause, linked to MCLR levels prevailing at the time of reset.

- Therefore, to keep the cost of debt to 7.85% for entire 5 years of Third Control Period is very over optimistic assumption taken by the Authority. The Authority is aware about the historical annual fluctuations in the interest rates and has determined the actual cost of debt for Second Control period as 9.11%. Hence, the Authority cannot consider the current year interest rate, which happens to be at the lowest point as the basis for the entire 5 years of Third Control Period.

- The benchmark lending rate such as MCLR is at record low currently. Please see the below trend of benchmark lending rates of SBI in the last 10 years:



(Source of data: SBI website)

- In the second control period, SBI 1-year MCLR has ranged between 7%-9.20%. In the first six months of calendar year 2020, it has fallen from 7.90% to 7%. In a rising interest rate scenario also, we may see such rapid rate increases as well. It may be noted that the transmission of interest rate reduction by private sector banks has not been to the same extent as SBI or other public sector banks. BIAL also has a private sector bank (Axis Bank) in its fold and the MCLR of this bank will also be a determinant of interest rate on BIAL's expansion loan.

- BIAL's loan for Expansion is based on SBI 1-year MCLR with a spread of 50 basis points or Axis Bank 1-year MCLR with a spread of 30 basis points, <u>whichever may be higher</u>, subject to the effective lending rate of any lender not being less than the MCLR of that lender.

- Historical MCLR Rates movement for SBI & Axis Bank is given below.

Average 1-year MCLR %	FY 17	FY 18	FY 19	FY 20	FY 21
Axis Bank	9.01	8.28	8.69	8.42	7.57
SBI	8.81	8.00	8.39	8.14	7.05

Average 1-year MCLR %	For 4 years (excluding Covid year of FY 21)
Axis Bank	8.60
SBI	8.33

- Adding the spreads as described above, the interest rates work out to 8.8-8.9% and hence the Authority has to take cognizance of this trend and not consider the rock bottom interest rates that is currently applicable for BIAL.

<u>Macro-Economic Situation:</u>

- Currently, the monetary policy is in an accommodative mode across the world. The rate of interest is at their lowest in advanced economies and trending south in emerging market economies. Central banks have maintained low rate to support the growth post Covid-19. However, global landscape is changing in favour of hardening rates. In the Indian context, given the huge borrowings indicated by the Government of India as well as by various states and the rising inflation due to high fuel costs and commodity prices, there will be pressure on yield, and this would lead to increase in benchmark rates as well.

- The economic growth forecast for India for FY22 has also been revised downward with RBI lowering its forecast to 9.50% while World Bank has lowered the forecast to 8.3%. S&P Global Ratings has also cut India's growth forecast for the current fiscal to 9.50%, from 11.00% earlier, and warned of risk to the outlook from further waves of the Covid-19 pandemic. S&P has said RBI has no room to cut interest rates with inflation above 6.00 % the upper end of the central bank target range. Therefore, interest rates are only expected to rise and not stay at the current levels.

- The long-term interest rate forecast by the Organisation for Economic Co-operation and Development (OECD) indicates interest rates in India going up from Q1 2022, with an increase of 50 bps during the year.

- Economists in India expect the 10-year G-Sec rates to gradually go up from around 6% presently to about 7.5% over a five-year period.

Summary

- With the past track record of BIAL as a borrower and other factors, and also owing to the present credit rating levels, the airport has been able to keep the spread over the benchmark rates at very fine levels. The credit rating presently has a negative outlook owing to the Covid-19 impact on the sector as a whole. The airport's ability to meet its debt servicing requirement and achieve the financial covenants under the financing agreements is also a key determinant of the credit rating. Inability to adhere to these requirements could also lead to credit rating downgrade with attendant consequences including increase of spread over the benchmark interest rates. Therefore, it is essential to ensure that the airport has adequate cashflows to meet its debt obligations.

- Given these inputs, the interest rate allowed to BIAL over the third control period should be adequate to take care of the indicated increase in the benchmark rate.

- Clearly, the Authority has to consider this apparent reality while arriving at the cost of debt for the airport operator.

- Considering the Axis Bank average MCLR rate and the spread the Interest rate works out to approx. 8.9%

- Thus, we would request the Authority to consider the likely increase of 1.50% in the interest rates in the 3rd control period and allow the same over the prevailing rate of 7.85%, leading to an effective cost of debt at 9.35%. It is to be noted that the interest at these levels is payable monthly. The cost of debt at 9.35% can be considered for entire Third Control Period.

- The Authority also should take note of the fact this cost of debt @ 9.35% is also considerably lesser compared to the cost of debt allowed to other airport operators having a similar credit profile. Further, as proposed by the Authority, the cost of debt for the Third Control Period can be trued up based on actuals.

8. Operating Expenses for the Third Control Period

Authority's Proposal

- To consider total operating expenditure as set out in Table 112 for the Third Control Period.
- To consider allocation ratio as set out in Table 113 for the Third Control Period.
- To consider aeronautical operating expenditure as set out in Table 114 for the Third Control Period.
- To consider ORAT as part of operating expenditure as given in Table 111 for the Third Control Period.
- To true up the operating expenditure for the current control period based on actuals, at the time of determination of tariff for the next control period.

Operating Expenditure assumptions

AERA has considered the following basis and rationale for estimation for Operating Expenditure for the Third Control Period.

Operating Expenses Assumptions

1. Personnel Expenses

FY 21 revised cost has been considered as the base upon which

a. 10% increase in FY23 & FY25 is considered on employee strength
b. 5.8% YoY growth considered on cost per employee (5.8% being the 8-year CAGR of cost per emp from FY13 to FY20)

2. O&M Expenses

a. To correct the incorrectly added O&M-Landside cost in O&M-ICT expenses & the incorrectly linked asset addition to revise BIAL submitted O&M costs.
b. Newer assets generally require less O&M costs as % of Gross Block as compared to the older assets. Also, BIAL is provided with sustaining capex to special repairs additionally.
c. To consider the existing O&M costs of FY21 as base to forecast the O&M costs for assets capitalized till FY20 & consider only the additions from FY21 onwards to forecast O&M costs of TCP.
d. To forecast O&M cost to increase by inflation in line with growth rate proposed for General Admin. Cost & unit cost of utility
e. To consider allocation ratio of O&M cost based on asset allocation ratio of assets for TCP Submission
f. To consider cost savings as submitted by BIAL in O&M - other costs.

3. Lease Rent

a. Land leased to BACL has been removed from the total area considered, citing it as Non-aeronautical.
b. The aero allocation ratio has been revised considering the adjustment made on above grounds.

4. Utilities

a. To consider NIL increase in power demand charges from FY22 levels.
b. To increase power & water unit charges by inflation YoY.
c. To consider 50% as the total power cost recovery rate.
d. To adjust the aero utility recoveries based on aero utility costs from aero concessionaires.
e. To factor in 50% water requirement met by rain water harvesting.

5. Insurance

a. The rate of premium has been revised to 0.07%, based on the average of FY17-21.
b. Aero Gross block ratio has been considered for aero portion allocation.

6. Rates & Taxes

a. One time increase of 40% has been considered in FY24 due to expansion of area.
b. 4.9% inflationary growth is adopted from FY21 as base.
c. Allocation ratio as adopted for lease rent allocation is considered.

7. Marketing & Advertising

a. Collection charges were calculated based on revised traffic and were considered 100% aeronautical.
b. 10% YoY increase has been considered as FY21 figure as base.
c. A one-off expense of 5 cr. for marketing of T2 has been allowed in FY22.
d. Allocation ratio of sales & marketing as proposed for FY20 in true up, has been adopted for all TCP years.

8. CSR

Computed on the basis of revised PBT figures after true up.

9. Admin. & General Expenses

a. To consider FY21 levels as base for all the heads of admin. & general expenses.
b. To increase the consultancy & legal cost by inflation % (4.9%)
c. To increase the office costs by inflation, except for FY23, wherein they shall be moderated to increase by 30%, to accommodate security costs as proposed by BIAL
d. Travel costs to reach pre-covid levels by FY25
e. To consider 90% as allocation ratio

10. Concession Fee

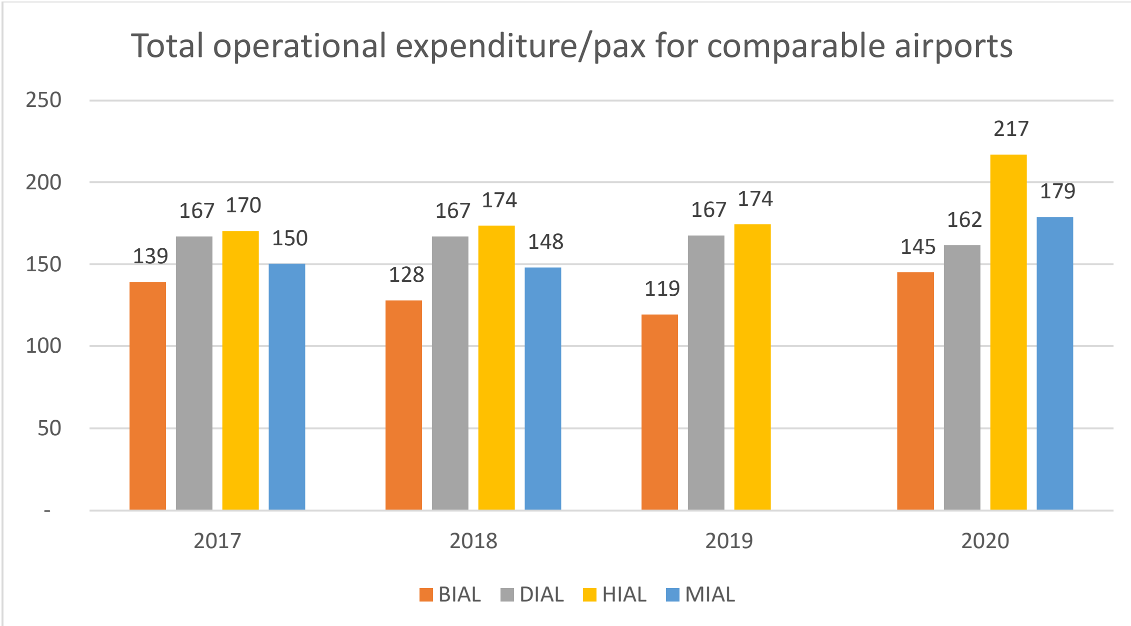
Computed at 4% on the revised figures of revenue.

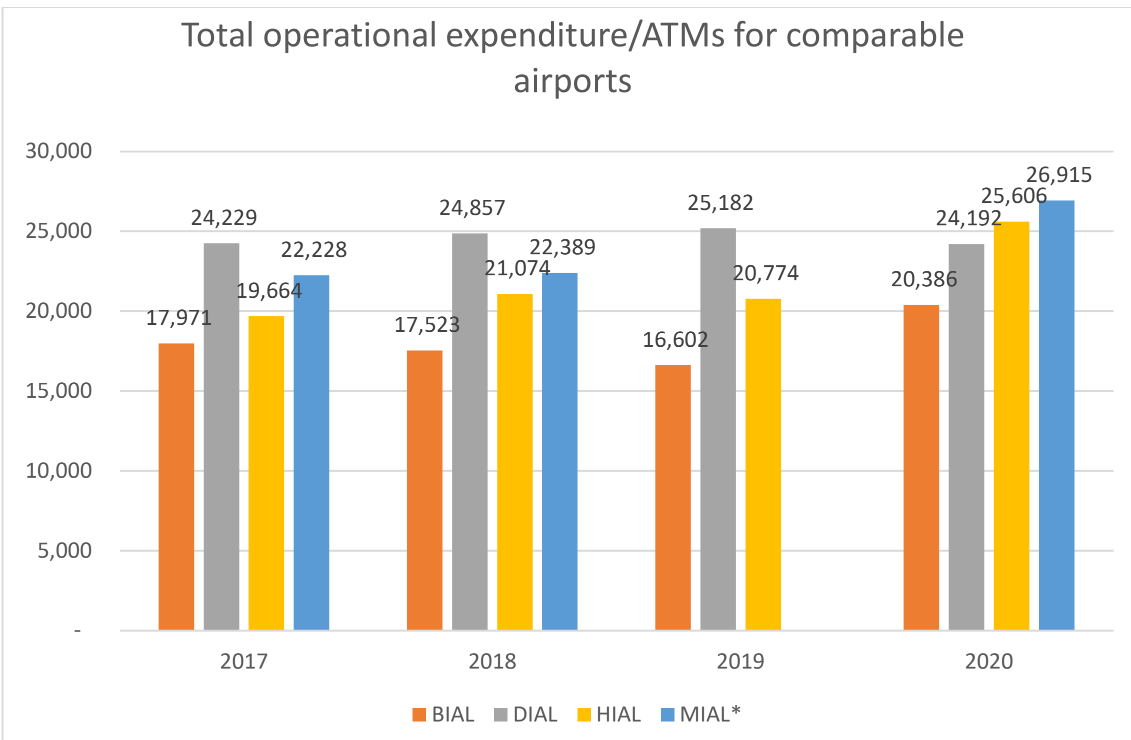
11. ORAT

Since it is an expense related to airport operations, it should be part of opex as against part of capex, as submitted by BIAL.

8.1 Context and basis for forecasting costs for Third Control Period

- BIAL has always managed its costs very efficiently with stringent measures of Budgeting, controlling and reviews together with staggering and postponements of costs wherever possible, at the same time maintaining service quality standards. These are demonstrated by BIAL's costs being benchmarked as one of the lowest as per the study report being published as part of the Consultation Paper (Appendix III) and the ASQ ratings consistently maintained by BIAL and the various awards conferred upon BIAL. Below graphs demonstrate BIAL's efficiency of Operating Expenses which has been duly noted and recognized by AERA.





- BIAL is in the midst of implementing a large-scale expansion project during unprecedented times, when the entire Industry is grappling with the Covid-19 pandemic situation. In addition to running efficient Airport Operations as confirmed in the study report, in order to adequately plan and be ready for facing this unprecedented challenging situation, BIAL has embarked upon cost savings initiatives as has been explained in the MYTP submissions and elaborated during the Stakeholder consultations. Some of the actions taken are reproduced below. These cost optimization measure have resulted in significant savings in FY 21:

- Optimum utilisation of machinery/assets/services in line with traffic (X ray machine, DFMD, HVAC, shutdown of areas in terminal, Shuttle bus service, employee transportation, pool vehicle, trolleys in circulation etc).

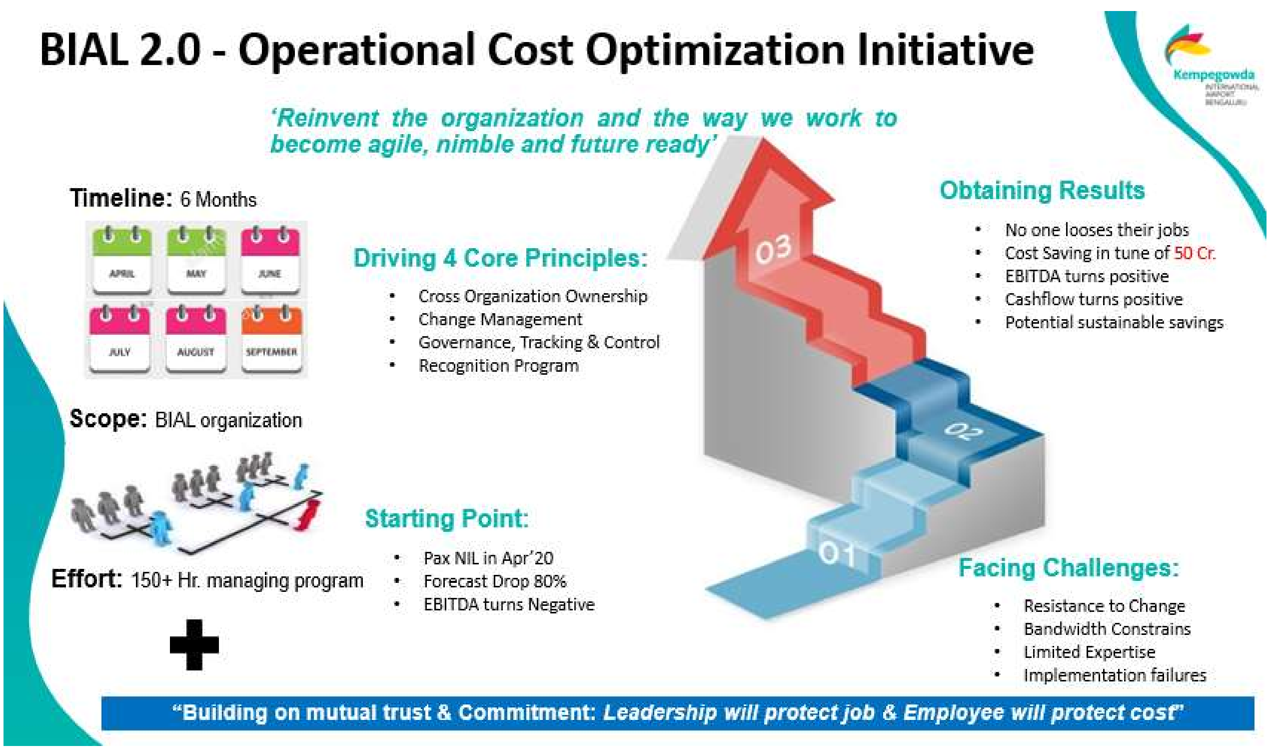
- Reduction in YOY escalation for all AMC/CAMC contracts and negotiated for onetime special discounts from vendor partners.

- Optimisation of outsourced manpower in line with business requirement and improvement in efficiency (Land side traffic, Security, Housekeeping, Safety, Trolley management etc)

- Concerted efforts towards lower consumables and spares spend

- Headcount and Personnel costs
    - Freeze on all new hires for FY 21 (only mandatory replacements hired); no increments given in FY 20.
    - Only rolled out committed new appointments made in Feb - Mar 2020

- Other Measures
    - Travel costs reduced with foreign travel reduced to nil
    - Most external consultancy contracts cancelled except for required ones - legal, AERA, tax, audit etc.
    - Events like stakeholders' events, employee events, etc. being conducted on digital platform
    - All discretionary spends are cancelled



- FY 21 cannot be considered as a base year as it is not a typical year due to drastic fall in traffic and certain austerity measures which were taken in this year on this account. These austerity measures cannot be continued during the coming years when the Traffic and Operations are expected to return to normalcy. BIAL had considered FY 20 as the basis for making all projections and the same should be adopted by the Authority for estimating the third control period costs. This is also the practice followed by the Authority in case of other airports such as Chandigarh, Mumbai, Delhi etc. as 2020-21 is not a representative year. The base year for traffic and the base year for cost cannot be different.

- BIAL has carried out a detailed bottom up estimation process for various expenses and based on the detailed analysis, estimated costs for the Third Control Period was submitted by BIAL. Certain assumptions made by the Authority do not appear reasonable and fair, given the past cost averages and bottom up estimation being the basis for BIAL's submissions. BIAL is giving below the detailed analysis and reasoning which BIAL requests the Authority to consider and update the same in the MYTO.

- In view of the large scale expansion project being carried out and all Internal accruals being already deployed for Capital Expenditure planned, it is imperative that the right level of Operating Expenditure is assessed and provided to BIAL, rather than a True up mechanism being available to re-coup the costs, which will lead to cash flow issues for BIAL in the Third control period.

Responses on Head-wise estimates by BIAL

8.2 Personnel Cost

<u>Authority's Analysis</u>

The Authority noted that the manpower increase was largely attributed to the commissioning of Terminal 2 Phase 1. The Authority noted that the BIAL has already added 171 and 175 employees in FY19 and FY20 respectively before the impact of Covid-19 on traffic in FY21. The Authority notes that the employee addition during FY19 and FY20 will be for the new south parallel runway operations and the new facilities proposed to be commissioned in FY21 which is now expected to commission in FY22. Further, the Authority noted from the traffic forecast that the proposed Terminal 2 will not operate at peak capacity till the end of the Third Control Period and the usage of Terminal 2 can be optimized to cater to the limited traffic. Therefore, the Authority is of the view that the manpower addition proposed by BIAL is not in proportion to the increase in traffic at the airport and also the manpower requirement can be met by the manpower addition already undertaken by BIAL in FY19, FY20 and FY21. Therefore, the Authority proposes to consider 10% increase in manpower in FY23 and FY25 during the Third Control Period. (para 7.2.5)

Trends in personnel cost/employee (Table 92)

The Authority noted that BIAL had projected the personnel cost/employee at a higher growth rate for the Third Control Period. The Authority proposes to revise the growth rate of personnel cost/ employee for the Third Control Period to 5.8% (8-year CAGR for the period FY12-FY20) and accordingly proposes to recalculate the personnel cost for BIAL. (para 7.2.7)

The Authority proposes to consider the allocation ratio of FY20 as the allocation ratio for the Third Control Period. (para 7.2.8)

<u>BIAL's Submission</u>

- BIAL has managed the personnel cost efficiently in the past by ensuring optimal sizing of personnel, staggering the headcount increases wherever possible to be deployed to a later point in time, deferring replacement of open positions during Covid-19.

<u>Headcount Increase</u>

- BIAL has submitted the following head count increase estimate for the third control period.

Particulars	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26
Manpower proposed by BIAL	1227	1247	1258	1624	1663	1878	1904
Manpower additions towards business growth			11	26	39	26	26
Manpower additions towards T2 Phase 1			0	340	0	189	0

- Business Growth additions were necessitated due to the following reasons:
  - Vacancies on account of resignations in FY 21 could not be filled due to Covid-19 and hence recruitments were deferred to the extent possible.
  - Additional headcount for NSPR and other increased areas of operations in which the recruitments were staggered and deferred to future years.

- During FY 21 only the already offered employments were honoured (38 head count) and only 4 other critical positions were filled. This demonstrates BIAL's austerity and caution in hiring manpower and committing to additional costs.

- Manpower additions towards T2 Phase 1, Forecourts and allied functions were planned considering the need to ensure optimal and critical manpower are deployed in FY 23 and further additions are proposed in FY 25 once the traffic and operations starts growing post reaching Pre-Covid levels.

<u>Headcount increase in proportion to Infrastructure</u>

- Scale of Operations are expected to grow manifold with large scale Infrastructure being added as detailed below:

Infrastructure	**Existing/ Second Control period**	**Third Control Period**
Airside facility	One Runway	Two Runway - CAT IIIB
	66 Aprons	147 Aprons
Terminal	Expanded Terminal – 1.5 lakh sq. m	Two Terminals – Total 4.0 lakh sq. m
Terminal Capacity	27 mppa	52 mppa
Landside connectivity	Main Access Road South Access Road	Main Access Road South Access Road

Infrastructure	**Existing/ Second Control period**	**Third Control Period**
		Southwest Connectivity Secondary South Access Road
Landside access	Open Car Park, Bus bay	Multi modal Transport Hub

- A comparison of the existing Manpower strength and the incremental additions proposed (as submitted in the MYTP forms) indicate that even though the Infrastructure capacity is being increased by over 200% as above table, the manpower addition is not proposed in the same proportion.

Form F11 (a): Employee Strength

S.No.	Particulars - with detailed breakup	Last available audited year	Financial Year before Tariff Year 1	Tariff Year 1	Tariff Year 2	Tariff Year 3	Tariff Year 4	Tariff Year 5
		2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
	Department-wise Full-Time Employees							
1	Support Services	133	139	148	163	166	174	175
	MD & CEO	4	4	4	4	4	5	5
	Finance*	60	64	68	75	77	80	81
	Human Resources	18	20	21	24	25	25	25
	Administration	9	9	9	9	9	9	9
	Legal	9	9	9	11	11	15	15
	CMO Office	2	2	3	3	3	3	3
	Marketing	17	17	18	20	20	20	20
	Corporate Communications	3	3	5	6	6	6	6
	Corporate Affairs	6	6	6	6	6	6	6
	Corporate Social Value	5	5	5	5	5	5	5
2	Commercial	45	46	46	101	117	117	121
	VP - Commercial Office	4	4	4	10	13	13	13
	F & B and Retail	13	13	13	20	20	20	22
	Landside Traffic(Commercial)	22	23	23	59	72	72	74
	Advertising	6	6	6	12	12	12	12
3	Operations	771	791	793	1,001	1,021	1,211	1,232
	Director-Operations Office	3	3	3	3	3	4	4
	Aviation Stakeholder & Quality Management		-	-	-	-	-	-
	Customer Engagement and Service Quality	3	3	3	6	6	6	6
	Terminal Operations	138	148	148	264	264	264	264
	Airside Operations	98	100	100	106	106	137	144
	Landside Technical	19	19	19	27	27	27	27
	Aviation Safety	19	19	19	19	19	23	23
	Bird AirStrike Hazard Management	9	9	9	10	11	14	14
	Enterprise Risk & Corporate Resilience	6	6	6	6	6	7	7
	Security	38	38	38	38	38	70	70
	Security Screening	141	143	143	197	212	277	287
	ARFF	265	265	265	265	265	281	281
	ICT	32	38	40	60	64	101	105
4	Corporate Strategy & Development	41	43	43	61	61	61	61
	Corporate Strategy & Development	2	2	2	3	3	3	3
	Forecasting and Slots	5	5	5	8	8	8	8
	Centre of Excellence	10	10	10	15	15	15	15
	Corporate Strategy and Business Development	3	3	3	4	4	4	4
	Aviation Business	10	12	12	14	14	14	14
	Ops Planning & Project Co-ordination	4	4	4	4	4	4	4
	Innovation Lab	7	7	7	13	13	13	13
5	Engineering & Maintenance	221	228	228	298	298	315	315
	Technical & Engineering	20	21	21	26	26	26	26
	Landside Maintenance	71	73	73	124	124	126	126
	Environment, Landscaping & Utilities	56	58	58	70	70	78	78
	Airfield Maintenance	74	76	76	78	78	85	85
6	Grand Total	1,211	1,247	1,258	1,624	1,663	1,878	1,904

- As can be seen from the above table, manpower additions are happening only in critical departments such as Terminal Operations, Security and Safety and E&M.

- Despite a 200% increase in Terminal capacities, increase in manpower for Operations is only from 1019 numbers to 1527 numbers, less than 50%
- BIAL has planned to effectively utilise the Engineering & Maintenance teams to manage the additional facilities and only a bare minimum increase in head count has been considered.
- Certain additions for Airside Operations have been deferred towards the last of the control period considering that usage of Airside facilities will be increased during that time, hence these additions were deferred from FY 23 to FY 25.

- This demonstrates that BIAL has, wherever possible, synergized and managed efficiencies in planning the head count increases across the 5 years in the control period.

Headcount Per pax ratio

- When a new infrastructure is added, the employee : passenger ratio tends to go up in the initial years reaching an optimal level as the infrastructure usage increases over a period of time. BIAL has submitted the following analysis during the discussions with the Authority on the manpower estimation. It is evident from the below table that with the headcount increase proposed by BIAL, and with traffic of 175 Mn as per the revised Traffic estimate submitted by BIAL during ATP, the employees to pax ratio is at its optimal levels. From the below, it is evident that the manpower deployment at BIAL is at its optimal levels and will be better than the past efficiency benchmarks set.

1st Control Period

Particulars	FY 12	FY 13	FY 14	FY 15	FY 16
Passenger (in million)	12.71	11.99	12.87	15.40	18.97
Employee (in Nos)	734	759	784	780	814
Employees per million pax (Nos)	58	63	61	51	43

2nd Control Period

Particulars	FY 17	FY 18	FY 19	FY 20	FY 21
Passenger (in million)	22.88	26.91	33.31	32.36	10.91
Employee (in Nos)	811	820	1,052	1,227	1,181
Employees per million pax (Nos)	35	30	32	38	108

3rd Control Period

Particulars	FY 22	FY 23	FY 24	FY 25	FY 26
Passenger (in million)	15.20	31.20	36.60	42.50	49.40
Employee (in Nos)	1,258	1,624	1,663	1,878	1,904
Employees per million pax (Nos)	83	52	45	44	39

- The headcount after commissioning of T2 Phase 1 translates to approx. 52 employees per million pax and is expected to progressively reduce to 39 employees per million pax by FY 26
- A similar trend was noted after commissioning of T1A, wherein 61 employees per million pax in FY 14 came down to 38 employees per million pax in FY 20 just before Covid-19 outbreak
- By FY 26, considering the employee strength submitted by BIAL in its MYTP of 1,904 handling a passenger through put of 49.40 Mn pax (as per BIAL traffic submission for ATP) will end up at 39 employees per million pax which is almost in line with pre-covid numbers of 38 employees per million pax

- Authority has noted the following in the Consultation Paper

7.2.5 The Authority noted that the manpower increase was largely attributed to the commissioning of Terminal 2 Phase 1. The Authority noted that the BIAL has already added 171 and 175 employees in FY19 and FY20 respectively before the impact of Covid-19 on traffic in FY21. The Authority notes that the employee addition during FY19 and FY20 will be for the new south parallel runway operations and the new facilities proposed to be commissioned in FY21 which is now expected to commission in FY22. Further, the Authority noted from the traffic forecast that the proposed Terminal 2 will not operate at peak capacity till the end of the Third Control Period and the usage of Terminal 2 can be optimized to cater to the limited traffic. Therefore, the Authority is of the view that the manpower addition proposed by BIAL is not in proportion to the increase in traffic at the airport and also the manpower requirement can be met by the manpower addition already undertaken by BIAL in FY19, FY20 and FY21. Therefore, the Authority proposes to consider 10% increase in manpower in FY23 and FY25 during the Third Control Period.

- BIAL submits that the key Headcounts additions in FY 19 and FY 20 have happened across the below mentioned departments.

Department	Addition in FY 2018-19	Addition in FY 2019-20	Remarks
ARFF	129	3	Mandatory Requirement – NSPR
Security Screening	21	31	Mandatory Requirement – Terminal 1 Operations
Terminal Operations	11	22	For Managing increase in passenger growth in Terminal 1
Airside Operations	9	26	For Managing airside and passenger growth in Terminal 1
Engineering and Maintenance	11	37	For managing NSPR and other facilities

- It is evident from the above table that key additions have happened in ARFF/ Security Screening Airside operations etc. which were necessary to manage the increase in traffic and for the new airside infrastructure facilities.

- **No headcounts have been added for facilities such as Terminal 2, Forecourt, MMTH and other Landside facilities that are under construction.**

- **Hence, the Authority cannot consider the above headcount additions in FY 19 and FY 20 towards the manpower requirement for the yet to be commissioned assets.**

- Authority has noted that Terminal 2 will not operate at its peak capacity till the end of Third Control Period and usage can be optimized to cater to limited traffic.

    - As per Authority's projections of traffic or even considering BIAL's revised estimate, Terminal operations will be at 80% of capacity for 3 out of the 5 years. Therefore, to assume that the Terminals will not operate at peak capacity is incorrect.

    - While the Operating Costs and manpower head count cannot be planned fully linear in line with traffic and are largely driven by the need to run and maintain the facilities created, it is with this very purpose in mind that BIAL had proposed a staggered increase in manpower as submitted above, which, as explained achieves efficiencies and maintains optimal balance of team to ensure that service quality levels as required are maintained.

- While staggered head count additions have been implemented for Terminal Operations, Security, Safety and E&M in case of Terminal 1, Terminal 2 is an entirely new terminal and needs adequate staffing levels to handle the operations and meet the service quality standards committed in the Concession Agreement. BIAL has embarked on a staggered headcount addition approach for Terminal 2 and other areas, with an objective to keep the costs efficient.

- We request the Authority to take note of this approach as is evident from the proposed increase in headcount over the third control period and allow the headcount increases submitted by BIAL.

- Authority's headcount increase assumption of 10% does not have any rationale and is woefully short of the actual requirement needed to operate and maintain such a large terminal and the allied infrastructure.

- BIAL submits that the estimations made are at granular level, considering the necessities of the airport, keeping in mind the need to balance and rationalize costs to the extent possible while at the same time maintaining service quality level standards already set by BIAL, always striving to improve efficiencies. Manning Airport at the levels proposed by the Authority, at the time of such large facilities being created pose a serious threat of slippages in service quality level benchmarks set by up. Hence, BIAL request the Authority to approve the estimates of head count increase proposed by BIAL which can be trued up based on actuals.

Personnel cost per employee/ Escalation in Employee cost

- BIAL has submitted that the past trends of cost escalations are in the range of 10% with a 2% cost correction, every 3 years.

- Following analysis has been detailed by the Consultation Paper on the evaluation of past trends of CAGR of cost per employee

Table 92: Trends in personnel cost/employee

Operating expenses	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Personnel cost/employee (INR lakhs)	10.17	11.37	11.93	13.31	13.89	14.64	13.77	14.56	15.97
% change		11.79%	4.89%	11.55%	4.34%	5.43%	-5.96%	5.77%	9.70%
5-year CAGR						7.55%	3.89%	4.06%	3.72%
8-year CAGR (FY12-FY20)									**5.80%**

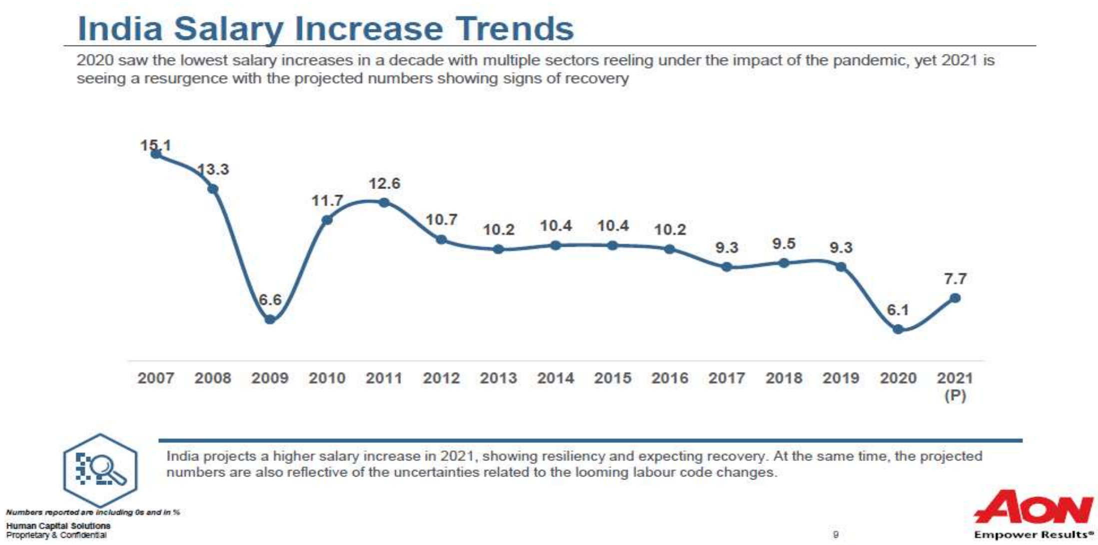
7.2.7 The Authority noted that BIAL had projected the personnel cost/employee at a higher growth rate for the Third Control Period. The Authority proposes to revise the growth rate of personnel cost/ employee for the Third Control Period to 5.8% (8-year CAGR for the period FY12-FY20) and accordingly proposes to recalculate the personnel cost for BIAL.

- BIAL would like to bring the following inconsistencies in this analysis for the consideration of the Authority
  a. The computation has a fundamental flaw in the workings that the cost per employee is arrived at by dividing the total cost by number of employees. The workings do not factor varying changes in headcounts of employees joining / leaving in the middle of the year which is common for any organization.
  b. Changes in headcounts and costs across various grades over the years is not considered.
  c. The above table indicates a negative trend in FY 18. BIAL has never had a case of negative cost increase (i.e. decline in cost) as increments are given in line with Industry benchmarks
  d. The CAGR arrived at considers the reduction in one year and hence the same is not realistic as explained above
  e. The 5 year CAGR as shown by the Authority indicates volatility, which does not reflect the realistic situation.
  f. Authority has provided for a standard increase at other Airports but has adopted a different approach for BIAL.
- Following challenges are faced by BIAL:

  a. Airport Industry is a niche area where Talent pool availability is limited, necessitating need to match salary expectations in line with industry standards.

b. With Privatisation and new airports coming up, there is a need to incentivize employees and ensuring talent retention is of key importance.
c. KIA is located in Bangalore, an IT hub where in the salary expectations are generally higher and talent retention in an airport which is situated far from the airport requires maintaining industry standard costs.

- BIAL reproduces below one of the recent surveys carried out by AON on trends of salary increases. The average of salary increases across India in the last 10 years before Covid-19 is ranging from 11.7% to 9.3%.



- While the Industry average salary increase for FY 20 was 6.1% in spite of Covid-19 pandemic, BIAL took immediate cost rationalization measures in the interest of stakeholder and no increase was given to employees. Also, for FY 21, BIAL's Board approved salary increase levels – 7% is below the Industry average of 7.7%. While BIAL has taken cost rationalization measures, in the coming years, appropriate increase is needed so as to be in line with market norms and to motivate and retain the required talent.

- The above table indicates that increases is in the range of 9.3% to 11.7% which is in line with BIAL MYTP submission. Hence, we request the Authority to consider the 10% salary increases together with a 2% correction once in 3 years which are required to acquire and retain talent. The same may be trued up by the Authority based on actuals at the end of the control period.

8.3 Operations & Maintenance Costs

Authority's Analysis

The Authority proposes to calculate the O&M costs based on the percentage of gross block. However, the Authority noted that BIAL has considered higher percentages for the maintenance of the newer assets based on past trends. The Authority is of the view that comparison with the historical O&M costs as a % of gross block will not provide the right benchmark for forecasting the future O&M costs as BIAL's facilities were operating at peak capacity till FY20 and the Authority has noted from the proposed traffic forecast that the new terminal building, new apron and new south parallel runway would not operate at their peak capacity till the end of the Third Control Period. (para 7.2.15)

Further, the Authority is of the view that the newer assets generally require less O&M costs as a percentage of their gross block compared to older assets. (para 7.2.16)

The Authority has also noted that it is providing BIAL with the sustaining capital expenditure to undertake the special repairs in addition to the O&M costs. (para 7.2.17)

Considering the above factors, the Authority proposes to consider the following percentages of the respective gross block to forecast the O&M costs for the Third Control Period: (para 7.2.18)

Year	O&M – Infrastructure (Landside, airfield and utilities)	O&M-ICT
Year 1 (year of capitalization)	0.00%	0.00%
Year 2	0.50%	5.00%
Year 3	0.60%	5.00%
Year 4	0.75%	5.00%
Year 5	1.00%	5.00%

The Authority noted that BIAL has considered the FY20 capital expenditure as new asset addition to forecast the O&M costs for the Third Control Period instead of considering it as part of the existing O&M costs of FY21. The Authority proposes to consider the existing O&M costs of FY21 as base to forecast the O&M costs for assets capitalized till FY20 and consider only the additions from FY21 onwards to forecast the O&M costs of Third Control Period (note that the O&M costs for capitalized assets of FY21 in year 1 is 0 and therefore, it has to be considered in FY22). (para 7.2.19)

The Authority noted that BIAL had forecasted the O&M costs to increase by 10% year on year. The Authority proposes to forecast the O&M costs to increase by inflation in line with the growth rate proposed for general admin cost and unit cost of utility. (para 7.2.20)

The Authority proposes to consider allocation ratio of O&M cost for the Third Control Period based on the allocation ratio of assets for the Third Control Period. (para 7.2.21)

BIAL's Submission

Not considering past costs as basis

- BIAL notes that *"The Authority is of the view that comparison with the historical O&M costs as a % of gross block will not provide the right benchmark for forecasting the future O&M costs as BIAL's facilities* *were operating at peak capacity till FY20 and the Authority has noted from the proposed traffic forecast that the new terminal building, new apron and new south parallel runway would not operate at their peak capacity till the end of the Third Control Period."*

- Details of Capacity Utilization in 3rd Control period is as given below

Details	Terminal Capacity (MPA)	Total Traffic as per AERA Consultation Paper	Total Traffic as per BIAL	Capacity utilization as per Consultation Paper	Capacity utilization as per BIAL Traffic
FY 22	26.5	21.24	15.24	80%	58%
FY 23	32.75*	34.09	31.16	104%	95%
FY 24	52.5	39.81	36.55	76%	70%
FY 25	52.5	46.36	42.53	88%	81%
FY 26	52.5	54.02	49.41	103%	94%
Sub total		195.22	174.89		

**assumed T1 plus 3 months of T2 availability*

- From the above table, it clearly evident that in 3 out of the 5 years of the 3rd control period, BIAL is operating at peak capacity levels of more than 80% and hence it is incorrect to disregard the use of historical basis of O&M costs. Authority has also evaluated and confirmed that the O&M cost as part of overall Operating & Maintenance cost is reasonable and efficient.

- Not considering the efficient O&M Cost report as the basis is inconsistent with Authority's approach adopted in other airports, wherein past trends were used as the basis for projecting future costs.

- Detailed workings for the basis of arriving at the individual % of cost estimates as a % of the asset block and additional details as sought for by AERA during the MYTP evaluation have been duly submitted by BIAL including analysis of assets and its related costs segregated into O&M – Infrastructure (further segregated into Airside, Landside and utilities), O&M – ICT and other costs, in order to facilitate a proper comparison and analysis. The Authority has not commented on the same; BIAL assumes that the % of Gross Block have been found to be acceptable by the Authority.

<u>Using FY 21 costs as basis to project future cost estimates for existing assets</u>

- AERA has proposed to consider the cost base of FY 21 for forecasting the O&M cost for the existing assets for future years. As explained by BIAL, FY 21 was an extra-ordinary year and where the traffic has plummeted to a new low. Certain one-time cost saving / austerity measures taken considering the reduction in traffic and the pandemic conditions cannot be extended in the long run, when traffic is expected to return to normalcy.

<u>Principle of considering 0% as the cost in the year of asset capitalization</u>

- When an asset is put to use, either for full year or a part, there are associated O&M costs that has to be incurred and Authority cannot deny such valid operating costs. BIAL would like to bring to

Authority's notice that even in the first year of commencement of Operations at BIAL there was cost towards O&M as detailed in table below. Hence, considering 0% O&M cost as a principle has no basis.

- Authority has noted that the assets capitalized in a year do not have a cost associated with it. In BIAL's business plan, most of the assets have been estimated to be capitalized at the end of the Financial year and were expected to have very limited operations in the year of capitalization and hence, these have not been considered. However, the Authority has not linked its proposal to this logic but has rather laid this as a principle. Hence, if there are assets proposed to be capitalized during the year, 0% cannot be applied for such assets but proportionate costs have to be estimated and provided for.

Different %s for assets, based on year of commissioning

- The Authority has proposed different %s for different years, post asset capitalization. Rationale / basis of these estimates have not been provided by the Authority including the references/ details used to derive such %s. Authority has not given any reference of any major airport in India which has such O&M costs %s.

- In both the categories – Infrastructure and ICT, the Authority has proposed estimates much lower than the % of assets proposed by BIAL. Reduction in estimates without any rationale/ basis leads to under provisioning of the costs that BIAL is expected to incur for the next 5 years period.

- Historical Trends: In the 13 years of Airport operations, BIAL has not witnessed the spend %s to be as low in the initial years as those envisaged by the Authority. It is not clear to BIAL on what basis and data, AERA has proposed such %s of 0.5%, 0.6%, 0.75% and 1% in the 2nd, 3rd 4th and 5th year of asset commissioning.

- Following Table summarizes O&M costs as a % to Gross Block of assets across different airports. Table below does not reflect any O&M costs to be in the ratio as indicated by AERA in any of the last 10 years in the consultation paper.

Airport	FY 09	FY 10	FY 11	FY 12	FY 13	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21
BIAL	1.59%	1.58%	1.63%	1.97%	2.53%	2.35%	1.54%	1.59%	2.47%	2.74%	2.65%	3.02%	2.02%
DIAL				2.85%	2.04%	2.33%	2.21%	2.23%	2.32%	2.76%	2.90%	2.91%	2.74%
MIAL							1.77%	2.01%	2.16%	2.32%	2.57%	2.41%	2.37%
HIAL									2.47%	2.77%	3.06%	2.66%	2.07%
AAI-MAA				2.26%	2.86%	1.37%	2.79%	2.34%	4.26%	4.12%	4.23%	4.58%	4.51%

Source: AERA Orders detailing the actuals / estimated O&M costs and the Aeronautical RAB

- **<u>To Summarize</u>:**
  - None of the above Airports have had, at any point of time in the last 10 years, the O&M cost %s as low as 0.5% to 1% as has been proposed by AERA.
  - Authority has not given any rationale for the arbitrary percentages proposed by it.

  - Such levels of costs are not practically possible to achieve without comprising on regular maintenance of key systems

<u>Minimum costs to be incurred for regular operations and upkeep (Not linked to traffic)</u>

- BIAL's O&M cost head includes both Operations and Repairs & Maintenance costs.

- It is to be noted that besides the Maintenance of Assets relating to Civil, Electro-Mechanical, Vehicles & Equipment and Utilities, there are various other expenses (as given in next paragraph) which are not directly related to the maintenance of Assets but are required to be spent for the running of the Airport Operations.

- Apart from maintenance expenses (AMC/CMC), there are other applicable expenses such as Housekeeping, facility maintenance, Vehicle running costs including fuel expenses, Wildlife management, Solid Waste Management, Consumables etc. which cannot be avoided and is considered as part of total O&M expenses.

- In addition to the above, BIAL also needs to take up certain one-time maintenance activities on periodical basis (once in 5 years) such as building waterproofing, trumpet flyover repairs, underground sump painting & waterproofing, etc. The same is not factored separately by BIAL in its submissions and have been considered to be managed within the overall O&M cost submitted. With AERA reducing O&M costs to 0%, 0.5%, 0.6%, 0.7% & 1% for year 1, year 2, year3, year 4 & year 5 respectively and 5% for ICT, such one-time maintenance activities cannot be carried out. Operations of the Airport and its facilities cannot be managed to meet the required Equipment and Service maintenance standards.

<u>AMC costs (OEM contracts) to be incurred post commissioning</u>

- Maintenance of the asset starts from the date of its commissioning and hence AMCs are required to be entered into for various upkeep and maintenance activities right from the commissioning of assets.

- As part of O&M cost evaluation, BIAL has carried out evaluation of individual contracts to be executed for different categories of Equipment and infrastructure.

- AMC contracts are executed for certain key equipment as follows from Day 1 of Operations:

  - Baggage Handling System (Electro mechanical and Control System)
  - Passenger Boarding Bridges
  - Elevators & Escalators
  - All Equipment in the screening system – In line, Standalone, ETD etc.
  - Central Heating Ventilation and Air Conditioning system
  - Electrical System
  - Fire Alarm System and Fire Safety System

- Fire Fighting System
- PHE System

- If AMC Contracts are not recognized immediately from the day of capitalization, BIAL would not be compliant with OEM recommendations for Operation & Maintenance of the respective assets. This will prove detrimental in case of any break-down / non-functioning of such assets and there will be no vendor support.

- In addition, cost of spares, consumables etc. which are required for normal operations and not covered under the AMC, are required to be incurred by BIAL. Further, not ensuring adequate maintenance of assets increases the Insurable risk leading to higher Insurance premiums.

- To summarize, there is a need to incur Operation & Maintenance expenses, from Day 1 of commissioning/ capitalization, and Authority has to recognize all these costs.

<u>Inflation factor considered</u>

- AERA has proposed to consider the escalation of costs to be based on Inflation rates. Past trends indicate that the costs have increased at over 10% as key elements of the costs are linked to increase in Minimum wages rate etc. in addition to Inflation etc. Hence, considering only inflationary increase would not be a right basis for estimation the future costs. BIAL requests Authority to consider the proposed 10% increase, to be trued up based on actuals at the end of the control period.

<u>Sustaining Capex link to O&M Costs</u>

- AERA has noted that BIAL is provided with adequate sustaining capital expenditure to carry out special repairs in addition to O&M costs. BIAL submits that its sustaining capital expenditure estimates relate primarily to minor capital expenditure and certain costs for replacement of assets etc. which are as per OEM recommendations. These costs are Capital in nature and not part of Operational costs. These have been identified and a list has been submitted by BIAL. Hence, this list is totally different and should not be compared with the O&M cost estimates. Also, AERA has proposed to reduce the Sustaining capex estimates submitted by BIAL by approximately 33%

<u>Summary</u>

- As noted by the Authority, BIAL has demonstrated diligence and caution in all its cost spends and has been found to have one of the lowest O&M costs per pax/ ATM and the costs spent have been found to be efficient. BIAL will continue to evaluate all costs before spend by applying due process of budgeting, controlling and monitoring.

- There is no 0% O&M cost principle applicable across any airport. Also, the graded range of increase proposed by AERA is not reflected in any past trends across airports.

- Past cost benchmarks and the costs across other airports are higher than the rates considered by BIAL for estimating O&M costs as a % of assets. Basis and rates proposed by the Authority have no reasoning or rationale.

- BIAL's estimates have been made diligently on a bottoms up basis and these cost estimates are necessary to be provided to ensure adequate operations and maintenance of equipments and operations of the airport to ensure meeting the service quality benchmarks.

- Hence, BIAL requests the Authority to consider the cost estimates provided by BIAL, subject to correction of error in formula as detailed in Para 7.2.14 and the same may be trued up based on actuals.

- In view of the large scale expansion project being carried out and all Internal accruals being already deployed for Capital Expenditure planned, it is imperative that the right level of Operating Expenditure is assessed and provided to BIAL, rather than a True up mechanism being available to re-coup the costs, which will lead to cash flow shortages for BIAL in the Third control period.

Allocation of O&M costs

- BIAL notes that the Authority proposes to consider allocation ratio of O&M cost for the Third Control Period based on the allocation ratio of assets for the Third Control Period.

- BIAL notes that AERA has carried out allocation of O&M costs in the Second Control Period based on the costs segregated into different cost centres. Accordingly, BIAL requests Authority to consider the ratio arrived on this basis for FY 21 for the Third Control period, in line with the basis considered for allocation of Personnel costs in the Third control period.

8.4 Lease Rent

Authority's Analysis

The Authority noted from the land lease deed that a total of 4009 acres of land has been allocated to BIAL. The Authority also notes that BIAL through its subsidiary BACL shall be monetizing land for non-aero activities in the Third Control Period. Accordingly, the Authority proposes to consider land usage by BACL as non – aeronautical and revise the allocation ratio accordingly. (para 7.2.28)

BIAL's Submission

- AERA has proposed to consider the same as cost after adjusting the Lease Rent relating to area given on lease to BACL. This is in line with BIAL's own submission in the MYTP submitted in July 2020.

- Further, after submission of MYTP, GoK has revised the lease rentals, as summarized below. Relevant document is enclosed as Annexure 11.

Particulars		FY 22	FY 23	FY 24	FY 25	FY 26
Lease rent payable	Rs. Crore	15.11	21.26	22.87	23.55	24.26

8.5 Utility Charges

Authority's Analysis

The Authority noted that BIAL has proposed to increase the demand charges by 5% per annum in the Third Control Period. The Authority noted from the previous years that the CAGR of demand charges is 1.5% from 2009 to 2021 and therefore, proposes to consider nil increase in the demand charges for the Third Control Period. (para 7.2.33)

The Authority noted that BIAL had proposed to increase the power and water unit charges by 7% per annum. The Authority proposes to increase the power and water unit charges by inflation during the Third Control Period. (para 7.2.34)

The Authority noted that BIAL has proposed a recovery % as ~35% of the total power costs. The Authority noted from the previous years that the recovery % has been ~50% of the power costs. The Authority proposes to consider the recovery % as ~50% of the total power costs for the Third Control Period. (para 7.2.35)

The Authority understood from the submission that BIAL has taken utility costs (net of recovery) as aeronautical. The Authority noted that BIAL had considered the utility recoveries from aeronautical concessionaires such as cargo, ground handling, fuel farm and CUTE/ CUSS as non-aeronautical revenues. Based on the Authority's decision in the Second Control Period, the Authority proposes to adjust these aeronautical utility recoveries from the aeronautical utility cost. The utility (net of recovery) cost has been considered as 100% aeronautical. Hon'ble TDSAT judgement dated 16th December 2020 has also agreed to the stand of the Authority. (para 7.2.37)

BIAL's Submission

- AERA has noted that the CAGR of the demand charges is 1.5% and had proposed to not consider any increase in demand charges for the Third Control period. While the details of computation of CAGR is not available with the Authority, BIAL assumes this is based on the details provided by it in the business plan.

- Considering the CAGR of past years from beginning may not be appropriate as, BIAL has witnessed increases in demand charges in 2015, 2016, 2018 and 2019. Relevant details are reproduced below.

Particulars	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22 proposed
Demand Charges	190	200	220	220	230	240	260
% increase		**5.3%**	**10.0%**	**0.0%**	**4.5%**	**4.3%**	**8.3%**

- Hence, BIAL requests that the increase in demand charges as proposed by BIAL, which is in line with the recent trends be accepted by the Authority. These statutory costs can be trued up at actuals at the end of the control period.

- AERA has proposed to increase power and water charges by inflation instead of 7% proposed by BIAL. BIAL would endeavor to keep power charges increase in line with inflation rate of 4.9%. However, in case of water charges, considering that BIAL has already estimated part usage from the various rainwater harvesting ponds, BIAL requests for increase in cost to be based on the estimates provided by BIAL.

- Recovery of costs from Concessionaires has been proposed at 35% by BIAL which is aligned with past trends. The increase in space is more in Terminal Building areas wherein the renting out of space to concessionaires for lease is expected to take more time considering the pandemic situation. Also, the exiting recoveries are more from concessionaires occupying larger spaces viz Cargo, Ground handlers etc. outside Terminal, which is not expected to increase in the Third Control Period. While BIAL expects that the recovery ratio would indeed come down below 35% proposed, BIAL requests the Authority to consider the same at 35% as proposed and not increase the same to 50%

8.6 Insurance

Authority's Analysis

The Authority noted the submissions of BIAL relating to insurance. The Authority noted that BIAL had considered a higher premium rate for the Third Control Period while historical trends reveal a comparatively lower premium rate. The Authority accordingly proposes to:

• Revise the premium rate as 0.07%, based on the average premium rate for the period FY17-FY21, to forecast insurance cost for the Third Control Period.

• Consider the aeronautical gross block ratio for allocation of insurance cost for the Third Control Period. (para 7.2.41)

BIAL's Submission

- AERA has proposed to use the average premium rate of Second control period to forecast the cost for third control period.
- In view of the Covid-19 impact, the insurance premiums have risen on account of:
    - GIC Re, the national reinsurer, increasing its premiums for the property insurance segment for all occupancies since the year 2020,
    - IRDA coming down heavily on undercutting of costs and increasing cost of re-insurance, hardening of rates in the overseas reinsurance markets for liability lines as well as

- a shrinkage of the aviation reinsurance market on account of huge losses in the past few years,

- BIAL has submitted the rationale for increase in cost of insurance in the recent years. Considering Covid-19 risks, the Insurance costs are expected to rise higher.

- Accordingly, BIAL requests AERA to consider the current rate of insurance premium as estimated by BIAL and accordingly estimate the cost of Insurance which is in line with the current market trends

8.7 Rates and Taxes

<u>BIAL's submissions</u>

- AERA has allocated the Rates & Taxes based on land usage. The estimates submitted by BIAL only relate to the costs proposed to be incurred by BIAL and not related to any of BACL activities, which is to be paid by BACL. Hence, BIAL requests AERA to consider the costs as fully Aeronautical.

8.8 Marketing & Advertising

<u>Authority's Analysis</u>

• The Authority proposes to forecast the collection cost based on the revised domestic and international traffic numbers projected by the Authority.
• To consider collection cost as 100% aeronautical (para 7.2.48)
To consider allocation ratio of sales and marketing expenses of FY20 to forecast the aeronautical sales and marketing for the Third Control Period (para 7.2.50)

<u>BIAL's Submission</u>

- In response to the Operating Expenditure proposed to be considered by the Authority for the second control period, BIAL has submitted its response on why the actual cost incurred should be considered and not consider the estimation based on passenger and inflation increase.
- Accordingly, BIAL request the Authority to benchmark the costs at 2020 rates and provide for 10% increase.
- Aeronautical collection cost to be adjusted based on the revised traffic numbers

8.9 General Admin. Costs

<u>Authority's Analysis</u>

• The Authority proposes to calculate the general admin costs as below:
• The Authority proposes to increase in consultancy & legal by inflation year on year.
• The Authority proposes to increase of inflation for office costs with the exception of FY23, where the office costs have been moderated to increase by 30% to account for the increase in the number of employees
• The Authority proposes to consider the increase in travel costs to reach pre-covid levels by FY25.

• The Authority noted that consultancy and legal and office expenses are costs of fixed nature and therefore, proposes to consider their costs of FY21 as base value for Third Control Period forecast.
• To consider allocation ratio of general admin expenses as 90%, that is, the allocation ratio for FY21. (para 7.2.57)

BIAL's Submission

- On account of COVID, BIAL had delayed a number of initiatives including tenders for selection of new concessionaires for Terminal-2. With the situation expected to normalize by FY 23/ FY 24, BIAL needs to tie up with various concessionaires to achieve the best commercial terms. Considering this, BIAL requests the Authority to estimate increase in Consultancy and Legal based on the increment rates submitted by BIAL at 10% which is in line with the actual trends of the past years.

- Office costs are proposed to be increased mainly due to increase in security charges to be manned for the New infrastructure like T2, MMTH, new road network. Also, basis the past trends the normal annual increase in various other office costs are increase @ 10% & the same needs to be allowed. Hence, BIAL requests the Authority to allow the Office costs submitted by BIAL

- Travel costs are considered to reach pre-covid levels by FY 25. In Authority's considered view, passenger traffic will resume to more than pre-covid levels in FY 23. Hence, the travel costs are also to be revised to pre-covid levels by FY 23 and increased at 10% thereafter, considering that BIAL has to work hard to revive International traffic and bring in quality concessionaires for Terminal-2.

- Authority has proposed to consider Legal and office expenses at FY 21 levels for future. As explained by BIAL, Authority is requested to consider FY 20 levels as base for estimation. BIAL requests the Authority to consider the increase in rates as submitted by BIAL which is based on the past trends.

8.10 Concession Fee

Authority's Analysis

The Authority noted that BIAL has computed the concession fee on the net aggregate revenue requirement instead of the forecasted aeronautical revenues. The Authority proposes to consider the concession fee on the forecasted aeronautical revenues. (para 7.2.61)

BIAL's Submission

- BIAL has estimated Concession fee based on ARR as the estimates of Aviation Revenues each year would depend on the ATP and the distribution of actual revenues. Accordingly, in BIAL's model, Concession Fee was estimated based on the ARR, which will be trued up in the next control period based on actual revenues and the 4% cost on the same.

- From Table 109, BIAL notes that the Authority has not grossed up the Concession Fee (i.e. Revenue * 4%/ (100%-4%)) but has estimated the same at 4% of the Revenues. BIAL requests the Authority to revise the same.

8.11 CSR

- BIAL request the same to be estimated based on the revenues and revised P&L, to be arrived at after making changes based on BIAL's submission and Authority's evaluation of the same.

8.12 ORAT

Authority's Analysis

The Authority noted the submissions of BIAL on ORAT. BIAL has submitted ORAT as a part of capital expenditure for the Third Control Period. However, the Authority is of the view that since this is an expense related to airport operations, it should be a part of operational expenditure and hence, proposes to consider it as part of opex for the Third Control Period.

BIAL's Submissions

- BIAL has estimated the same as part of Capital Expenditure as per applicable accounting principles and guidelines. Same treatment was also accorded by the Authority earlier in case of DIAL wherein ORAT was considered together with the Pre-Operative Expenses. BIAL requests the Authority to consider the same as Capital Expenditure.

Summary

- BIAL has always managed its costs very efficiently with stringent measures of Budgeting, controlling and reviews together with staggering and postponements of costs wherever possible, at the same time maintaining service quality standards. These are demonstrated by BIAL's costs being benchmarked as one of the lowest as per the study report being published as part of the Consultation Paper (Appendix III) and the ASQ ratings consistently maintained by BIAL and the various awards conferred upon BIAL.

- BIAL has embarked upon cost savings initiatives as has been explained in the MYTP submissions and elaborated during the Stakeholder consultations.

- As elaborated in the individual sections, BIAL has carried out a detailed bottom-up estimation process for various expenses and based on the detailed analysis, estimated costs for the Third Control Period was submitted by BIAL.

- Certain assumptions made by the Authority do not appear reasonable and fair, given the past cost averages and bottom-up estimation being the basis for BIAL's submissions as have been explained and justified above.

- BIAL accordingly requests that the Authority consider the estimates as provided by BIAL for the purpose of estimating the Operating & Maintenance cost in the Third Control period. In view of the large-scale expansion project being carried out and all Internal accruals being already deployed for

Capital Expenditure planned, it is imperative that the right level of Operating Expenditure is assessed and provided to BIAL, rather than a True up mechanism being available to re-coup the costs, which will lead to cash flow shortages for BIAL in the Third control period.

- BIAL has submitted its responses to the allocation ratios used to determine the Aeronautical Operating Expenses as part of the responses to True up of Second control period. BIAL requests the Authority to consider the same for the allocation of expenses for the Third Control Period also.

9. Non-Aeronautical Revenue for the Third Control Period

Authority's Proposal

- To consider non-aeronautical revenue as set out in Table 130 for the Third Control Period.
- To consider notional lease rental for AAI office space as non-aeronautical revenues in the Third Control Period as per Table 122.
- To treat real estate revenue as non-aeronautical revenues as stated in Table 128 above.
- To treat interest income as non-aeronautical revenues as stated in Table 129 above.
- To true up non-aeronautical revenues for the current control period, at the time of determination of tariff for the next control period.

9.1 Context and basis for forecasting costs for Third Control Period

- The Authority understands the impact COVID has had on the wider aviation sector. In the context of Non aeronautical revenues, COVID impact is expected to be much greater on account of the following:

- Third Control period is a period for BIAL where:

  - Covid-19 pandemic has shaken the foundation of the euphoric traffic growth estimates and has re-set the Industry's growth by 13 years. The levels of traffic witnessed in FY 21 are those that were seen in India 13 years ago.

  - In the immediate short term and medium term, profile of travelers is expected to be very different from the profile and mix of the passengers before Covid-19 scenario. The long term passenger profile is also expected to evolve differently than those observed in the past.

  - Change in Business dynamics and the shrinking of disposable incomes pose a threat to even the assured base level revenue per passenger estimates considered earlier.

  - BIAL's earlier passenger traffic profile was that of Corporate travellers from IT/BPO, Business travellers and professionals with higher disposable income, resulting in higher commercial revenues. With the Pandemic necessitating virtual meetings, the travel of passengers from this segment will take longer time to return and will accordingly impact the commercial revenues.

  - Passenger sentiments have undergone a sea change and there is very little predictability and trend available to project the passenger behaviour and spend estimates in the future.

  - Non-Aeronautical revenues are more influenced by International traffic. However, with uncertainty on International traffic, commercial revenues and spend per passenger are estimated to be severely impacted.

- Concessionaires at BIAL are required to incur Capital Expenditure to create multiple Infrastructure facilities. Hence, they are expected to negotiate for lower revenues / revenue share to be provided to BIAL unlike the past period.

- Until there is a critical mass of passenger traffic, Brands are not enthused to spend on Advertising and this severely impacts BIAL's estimate of Advertisement Revenues.

- Estimate of Non-Aeronautical revenues submitted by BIAL as part of MYTP submissions were made a year ago and did not factor the following key changes.

  - There was an expectation of immediate resumption of International flights, which have not begun for over a year now and there is no clear visibility on the same, as yet.

  - Second wave of Covid-19 pandemic and the possible Third Wave of Pandemic has further affected the already severely impacted traffic and Non-Aero assumptions as above.

  - Delayed availability of vaccine has also impacted passenger travel and sentiments of spend in the airport while travelling.

- Despite the Industry situation and the challenges mentioned above, in line with the most optimistic traffic projections considered in Section 5, BIAL proposes to submit the revised Non-Aeronautical Revenues, considering the Income Per Pax (IPP) to be largely aligned to the estimates proposed by the Authority.

- Hence, BIAL requests AERA to take cognizance of this and consider BIAL's revised submissions as below.

9.2 Revised Non-Aeronautical Revenue estimate

	Revenue Per Passenger Proposed by Authority						**Revenue Per Passenger Considered by BIAL**				
Particulars	**FY 22**	**FY 23**	**FY 24**	**FY 25**	**FY 26**		**FY 22**	**FY 23**	**FY 24**	**FY 25**	**FY 26**
Parking	15.4	16.1	16.9	17.8	18.7		15.4	16.1	16.9	17.8	18.7
Taxi service	31.1	32.9	40.4	42.4	44.5		31.1	32.9	40.4	42.4	44.5
Limousine	2.6	2.8	2.9	3.0	3.2		2.6	2.8	2.9	3.0	3.2
Retail - Domestic	13.0	15.1	17.6	20.4	23.7		13.0	15.1	17.6	20.4	23.7
Retail - Int	314.1	461.8	484.9	509.1	531.0		314.1	461.8	484.9	509.1	531.0
Retail - Others	2.7	3.6	4.0	4.2	4.6		2.7	3.6	4.0	4.2	4.6
Retail - Forex	41.6	53.1	55.8	58.6	61.5		41.6	53.1	55.8	58.6	61.5

	Revenue Per Passenger Proposed by Authority						**Revenue Per Passenger Considered by BIAL**				
Particulars	**FY 22**	**FY 23**	**FY 24**	**FY 25**	**FY 26**		**FY 22**	**FY 23**	**FY 24**	**FY 25**	**FY 26**
F&B - Domestic	16.4	18.2	20.7	21.7	22.8		16.4	18.2	20.7	21.7	22.8
F&B - Int	21.0	27.3	31.2	32.7	34.4		21.0	27.3	31.2	32.7	34.4
F&B - Others	14.5	15.7	17.8	18.7	19.6		14.5	15.7	17.8	18.7	19.6
Advertising	25.6	27.1	28.4	29.9	31.4		25.6	27.1	28.4	29.9	31.4
Lounge - Domestic	11.7	12.9	14.6	16.7	18.9		11.7	12.9	14.6	16.7	18.9
Lounge - Int	36.3	55.9	63.7	72.6	82.8		36.3	55.9	63.7	72.6	82.8
Lounge - Day hotel	0.3	0.3	0.3	0.3	0.3		0.3	0.3	0.3	0.3	0.3

- Revenue estimates considering the above assumptions are summarized as below

	Revised Revenue Projection (Cr,)							
Particulars	**FY 20**	**FY 21**	**FY 22**	**FY 23**	**FY 24**	**FY 25**	**FY 26**	**Total**
Parking	26.7	8.0	11.7	25.1	31.0	37.8	46.1	151.7
Taxi service	57.9	16.2	23.6	51.3	73.9	90.1	110.0	348.9
Limousine	5.6	1.4	2.0	4.3	5.3	6.5	7.9	26.0
Retail - Domestic	27.9	6.5	9.3	21.0	28.5	38.8	52.8	150.3
Retail - Int	103.9	6.9	14.1	78.5	99.4	114.6	130.1	436.7
Retail - Others	5.8	1.4	2.0	5.7	7.4	9.0	11.2	35.3
Retail - Forex	23.3	0.9	1.9	9.0	11.4	13.2	15.1	50.6
F&B - Domestic	27.6	8.1	11.7	25.3	33.6	41.2	50.7	162.6
F&B - Int	6.9	0.5	0.9	4.6	6.4	7.4	8.4	27.8
F&B - Others	34.6	7.5	11.0	24.5	32.6	39.7	48.4	156.2
Advertising	75.2	27.2	38.8	84.5	104.1	126.9	154.9	509.3
Lounge - Domestic	23.4	5.8	8.4	17.9	23.8	31.6	42.1	123.8
Lounge - Int	15.2	0.8	1.6	9.5	13.1	16.3	20.3	60.8
Lounge - Day hotel	0.1	0.1	0.2	0.4	0.5	0.6	0.8	2.6
Total	**434.3**	**91.3**	**137.3**	**361.7**	**470.9**	**573.6**	**698.9**	**2242.5**

	Authority's Proposal						BIAL's Revised Proposal					
Particulars	**FY 22**	**FY 23**	**FY 24**	**FY 25**	**FY 26**	**Total**	**FY 22**	**FY 23**	**FY 24**	**FY 25**	**FY 26**	**Total**
Car park	52.1	88.2	119.8	146.6	179.3	586.0	37.3	80.7	110.2	134.4	164.0	526.6
Retail	61.6	134.0	162.7	194.0	231.9	784.3	27.3	114.2	146.7	175.5	209.2	672.9
Food & Beverage	33.4	59.7	79.0	96.4	117.7	386.1	23.7	54.5	72.5	88.3	107.6	346.5
Advertising & Promotions	54.3	92.4	113.2	138.5	169.4	567.7	38.8	84.5	104.1	126.9	154.9	509.3
Lounge Revenues	15.9	31.2	40.9	53.3	69.5	210.8	10.2	27.8	37.4	48.6	63.2	187.2
Total Revenue (Cr)	**217.3**	**405.5**	**515.7**	**628.7**	**767.8**	**2,535.0**	**137.3**	**361.7**	**470.9**	**573.6**	**698.9**	**2,242.5**
Revenue Per Pax	**205**	**238**	**259**	**271**	**284**	**259**	**181**	**232**	**257**	**270**	**283**	**256**

9.3 BIAL's submission on other Non-Aero Revenues considered by the Authority

9.3.1 Interest Income

- BIAL does not agree with the interpretation that Interest Income should be part of Non-Aeronautical Income.
- Even assuming that AERA were to consider Interest Income as Non-Aeronautical Revenues, in the uncertain times of Covid-19 pandemic when there are huge uncertainties over the Traffic estimates and considering the need to have adequate cash flows, BIAL requests that AERA may reckon the interest income only at the time of true up of the Revenues of the third control period during the fourth control period as has been done by the Authority in case of other Airports.

9.3.2 Notional Lease rentals from AAI

- AERA has considered a notional lease rental from AAI.

- BIAL has submitted its explanations and justifications on why this should not be considered in Para 4.17. BIAL requests the Authority to accordingly exclude the same from the estimation of Non-Aeronautical Revenues.

9.4 <u>Summary</u>

BIAL requests the Authority to

- Take cognizance of the Ground realties and challenges faced by BIAL in managing the various streams of Non-Aeronautical Revenues.

- Accord a just and fair treatment and estimate projected revenues realistically.
- Consider BIAL's current re-estimated Non-Aeronautical projections which have been estimated afresh in light of ongoing business circumstances and the passenger traffic forecasts proposed by BIAL.
- Not consider Notional Revenue for place leased to AAI.
- As the Terminal-2 commissioning is proposed to be shifted to FY 23, we request the Authority to accordingly consider the changes to Lease Rental Revenues also.
- Consider Interest Income only at the time of True up during Fourth control period.

10. Taxation for the Third Control Period

Authority's Proposal

- To consider tax outflow estimate as set out in Table 132 for the Third Control Period.
- To true-up the aeronautical tax estimates based on actual tax outflow at the end of the current control period.

BIAL's Submission

- BIAL requests the Authority to re-compute tax based on changes to all building blocks at the applicable MAT rate.

- BIAL will submit further comments if any, on reconciliation of the model.

11. Working Capital Interest for the Third Control Period

Authority's Proposal

- To consider working capital interest / fee as detailed in Table 134 for the Third Control Period.
- To true up the working capital interest/ fee projections based on actuals, at the end of the control period, in computation of tariff for the next control period

Authority's Analysis

The Authority proposes to compute working capital interest at 8.85% for the Third Control Period. (para 10.2.2) (Table 134)

BIAL's Submission

- BIAL notes Authority's analysis and requests that the same be trued up based on actuals at the end of the control period.

12. Inflation for the Third Control Period

Authority's Proposal

- To consider the inflation of 4.9% for the Third Control Period based on the mean WPI inflation forecast for FY 22 given in the 69th round of survey professional forecasters on macroeconomic indicators of RBI.

BIAL's Submission

- We concur with Authority's estimates

13. Quality of Service for Third Control Period

Authority's Proposal

- The Authority proposes that BIAL shall ensure that service quality at Kempegowda International Airport conforms to the performance standards as indicated in the Concession Agreement over the Third Control Period.
- The Authority proposes not to levy any penalties / rebates against BIAL for the Second Control Period.

BIAL's Submission

- BIAL notes Authority's analysis and will ensure compliance to Service Quality standards as set forth in the Concession Agreements.

14. Aggregate Revenue Requirement for the Third Control Period

Authority's Proposal

- To consider Aggregate Revenue Requirement (ARR) as detailed in Table 139 above as the eligible ARR for the Third Control Period for BIAL.
- To direct BIAL to submit the Annual Tariff Proposals within 7 days from issue of this Consultation Paper which will be reviewed and put up for stakeholder consultations.

BIAL's Submission

- BIAL requests the Authority to re-estimate the ARR based on BIAL's submissions on various building blocks and Authority's analysis on the same.

- BIAL requests that all Building blocks as applicable be trued up at the end of the Third Control Period based on actuals.

- BIAL will submit the audited Financial statements for the year ended March 2021 and requests the Authority to consider the same at the time of MYTO.

- Authority has listed the break-up of estimated revenues for Aviation Concessions and Aviation Revenues as part of the Consultation Paper in Table 109. BIAL has sought for the details of the estimate from AERA which AERA has provided. From the details provided by the Authority BIAL is not clear on how certain revenue values have been considered by AERA. BIAL will submit its responses on the same on reconciliation of the model.

- On the manner of application of the Discounting Rate, BIAL notes that the Authority has changed its methodology vis-a-vis the previous control periods. BIAL requests the Authority to change the same in line with the past methodology followed.

- BIAL has, as part of the Annual Tariff Plan submission submitted the rate card proposed by it considering its Traffic estimate of 175 Mn Passengers in the Third Control Period. These traffic estimates are based on a high case scenario, while the estimation based on assumptions used in HIAL Consultation Paper would result in a traffic of around 165 Mn only. This is identical to the realistic scenario submitted by BIAL in the MYTP document. BIAL requests the Authority to consider traffic on the most optimistic basis submitted by BIAL and approve the ATP submitted on the same basis.

- BIAL has also submitted a Variable Tariff Proposal along with the ATP with BIAL requests the Authority to approve as this will go a long way in increasing the potential traffic for Bangalore which will benefit all the stakeholders. Certain minor amendments have been made to the VTP submitted by BIAL as part of the ATP, as enclosed in Annexure 12. BIAL requests the Authority to consider and approve the same.

- BIAL requests the Authority to accord a fair treatment in determination of tariff and conduct a limited mid-term review of the tariff at the end of FY 23, given the turbulent times and the uncertainties surrounding the recovery of the Aviation sector.

- BIAL requests the Authority to share the Financial model to complete the reconciliation exercise so that the objective of having the same model at both ends is accomplished. Hence our responses to the Consultation Paper are subject to any further findings that may arise on completion of reconciliation exercise of both the models. BIAL requests the Authority to give effect to any changes/ findings that may arise out of the above reconciliation, in the MYTO to be issued.

15. List of Annexures

Sl. No.	Annexure
1.	Detailed note on BIAL Projects team
2.	Auditor's Opinion on Pre-Operative expenses
3.	Auditor's Certificate on Pre-Operative expenses
4.	BIAL's letter to AERA seeking clarification on Financing Allowance
5.	Response letter from AERA on Financing Allowance
6.	CA certificate submitted by BIAL with project wise computations of Financing Allowance
7.	Letters on Request to access from Eastern side of the Airport (Eastern Connectivity Tunnel)
8.	Addendum to certificate on Technical evaluation on useful life of assets
9.	Lease rentals – Correspondences with AAI
10.	Green field policy document – Facilities for AAI
11.	Government of Karnataka letter – increase in Lease Rental
12.	Variable Tariff Plan (Updated)

Annexure 1 to CP 10 Response

Note on Project Team related Costs in Pre-Operative Costs

BIAL currently is executing 30 major projects identified under PAL-1 masterplan. To successfully execute these projects, BIAL had to employ specialised personnel, various contractors, and vendors to manage the projects, in addition to the EPC contractors employed for major projects of Terminal 2 and South runway works. BIAL is handling/handled over 900 contract packages from small value item-rate contracts to large volume EPC contracts across all the 30 major projects & other minor projects as listed in Table1 below.

Cost Head	Projects
Terminal 2 - Phase I	• Terminal 2 - Phase I

Forecourt, roadways & landside development	• Forecourt Development
	• MMTH
	• P5 parking
	• P4 parking
	• T1 Elevated Pedestrian Access Walkway
	• Remote Taxi Parking
	• Main access roadway
	    ○ Trumpet Connector till 1st Roundabout
	    ○ Grade Separation @ 1st Roundabout & ROB's
	    ○ MAR Entry & Exit Road
	    ○ VUP @ 2nd Roundabout
	• North secondary access roadway (Cargo Road)
	• South secondary access roadway
	• Southwest Connecting Roadway
	• Trumpet Interchange

Aircraft Maintenance & Airport Maintenance Facilities	• Central Warehouse
Utilities	• Water storage tank and pumphouse • Sewerage treatment plant (3MLD) • Electrical substation - SS3 (66kV) • Water Pipe Network Package • IT Network Duct Package • Electrical Network Package
T2 - Apron	• NSPR – SP3 • Rainwater harvesting ponds
South Parallel Runway – Phase 2	• NSPR – SP4 • Existing Runway & Taxiway Improvements
Sustaining Capex Projects	• West Bus Bay Gates at Level 0 • Popup Retail Plaza • East Domestic Departure Gates • T1 Contact Stand • Express Cargo

As shown above, there is a large landside component which involves a major grade separator, expansion of ROB over a live national highway & railway line, two village underpasses, three bridges in the forecourt and 1.5km of elevated road. This requires complex coordination with statutory agencies including NHAI, Indian Railways and BMRCL, in addition to the other central & state government approvals normally required for airports (DGCA, BCAS, AAI, CEA, KSPCB, KSFES, BIAAPA, Gram Panchayat etc.). Apart from this, the interconnection of the new facilities with live existing operational areas also needs to be carried out without disrupting the current operations at any given point in time as KIA is the only Indian airport with a major Crossfield taxiway connecting the two runways.

The activities explained above needs a dedicated Project team with specialized skillset specific to the nature of each of these projects and these skillsets are not comparable to the expertise required from the Airport operations team.

Role and Structure of BIAL Operations Team:

Name of Department	Description
Customer Excellence & Operations	Daily Operations & Customer Experience consists of five Departments: • Terminal Operations • Customer Experience • Airport Operations Control Centre • Airside Operations. • Stakeholder Management
Information Technology	Information Technology consists of six Departments: • IT Architecture • IT Project Management • IT Project Delivery • IT Governance & Security • IT Service Management • IT Operations
Engineering & Maintenance	E&M consists of four Departments: • Terminal and landside maintenance • Airside maintenance • Utilities and environment • Facilities
Security	• Airport Security Administration consists of four Verticals: • Inline baggage screening • Pass Office & Training • Aviation Compliance • Security - Landside
ERM & Corporate Resilience	Enterprise Risk & Corporate Resilience consists of three Verticals: • Aerodrome Emergency Management • Continuity and Corporate Resilience • Enterprise Risk Management
Group Safety	Group Safety consists of four Departments: • Aviation Safety • Aircraft Rescue & Fire Fighting (ARFF) • Bird/Wildlife Aircraft Strike Hazard Management (BASHM)

	• Occupational Health and Safety (OHS)

As can be seen from the above table, BIAL’s Airport operations team is singularly focused on operating and maintaining the existing infrastructure and is not involved in the creation of new facilities under the Expansion Project approved by AERA in the 2nd control period.

Unlike AAI/other large airport operators, who develop & operate more than one airport, and have a central/shared project department services to support various project developments, BIAL, being a SPV, had to deploy a dedicated Projects team to perform this function along with the support from specialised project management consultants based on required duration of the role. The roles & responsibilities of BIAL Project team and that of the appointed project management consultants is summarised in Table below.

Scope Responsibility Matrix

	Broad list of the Functions & roles	BIAL	PMC	BIAL	PMC	BIAL	PMC	BIAL	PMC	BIAL	PMC
	Legend: ***P - Primary responsibility*** ***S - Secondary responsibility***	**Terminal 2**		**NSPR**		**Landside Road Projects**		**Other PAL1 Projects**		**Sustaining Capex Projects**	
I	Cost Management										
a	Project Cost Estimates review	S	P	P	S	P		P		P	
b	Developing and managing Project Cost Budgets & cashflows	P	S	P	S	P		P		P	
c	Developing and managing Fund Management Plan	P	S	P	S	P		P		P	
d	Monitoring and controlling cost Progress & Variances	P	S	P	S	P		P		P	
e	Review and certify payment applications- pre audits for construction, safety and quality	S	P	S	P	P	S	P	S	P	
f	Distribute, manage, and final certification of payment applications	P		P		P		P		P	
II	Schedule Management										
a	Developing Project W.B.S.	S	P	S	P	P	S	P	S	P	
b	Developing Project schedules	S	P	S	P	P	S	P	S	P	
c	Developing and managing Project Schedules	S	P	S	P	P	S	P	S	P	
d	Developing and managing Integrated Program schedule	S	P	S	P	P		P		P	
e	Monitoring and controlling project Progress & Variances	S	P	S	P	P		P		P	
III	Design Management (up to GFC)										
a	Developing Design Management Plan	P		P		P		P		P	
b	Technical and BOQ Review	P	S	P	S	P		P		P	
c	Design Review/Validation/Approvals	P	S	P	S	P		P		P	
d	Managing Design interfaces and clashes	P		P		P		P		P	
e	Monitoring and controlling Design progress and performance	P		P		P		P		P	
f	Value Engineering	S	P	S	P	P		P		P	

	Broad list of the Functions & roles	BIAL	PMC	BIAL	PMC	BIAL	PMC	BIAL	PMC	BIAL	PMC
	Legend: ***P - Primary responsibility*** ***S - Secondary responsibility***	**Terminal 2**		**NSPR**		**Landside Road Projects**		**Other PAL1 Projects**		**Sustaining Capex Projects**	
g	Managing LEED efforts	P	S	P	S	P		P		P	
IV	Design Assurance										
a	Review and Approve submittals (shop drawings, coordination drawings, product data, etc.)	P	S	P	S	P		P		P	
b	Process RFI's	S	P	S	P	P		P		P	
V	Procurement Management										
a	Propose Procurement Strategy for the program	P	S	P	S	P		P		P	
b	Develop procurement packaging strategy for the projects	P	S	P	S	P		P		P	
c	Manage complete Tendering Process	P	S	P	S	P		P		P	
d	Value Engineering	P	S	P	S	P		P		P	
e	Bid and Award Support	P	S	P	S	P		P		P	
VI	Construction Management										
a	Kick Off meeting	S	P	S	P	P	S	P	S	P	
b	Constructability Reviews	S	P	S	P	P	S	P	S	P	
c	Developing plan for the monitoring and review system of the construction activities, Site Coordination, Inspection, etc.,	S	P	S	P	P	S	P	S	P	
d	Interdisciplinary Interface Management	S	P	S	P	P	S	P	S	P	
e	Review and validate site Investigation surveys reports	S	P	S	P	P	S	P	S	P	
f	Identifying constraints & Interfaces	S	P	S	P	P	S	P	S	P	
g	Identifying and planning the enabling works required to carry out permanent works.	S	P	S	P	P	S	P	S	P	
h	Reviewing and validating work Method statements for the construction, installation, testing and commissioning activities at site.	S	P	S	P	P	S	P	S	P	

	Broad list of the Functions & roles	BIAL	PMC	BIAL	PMC	BIAL	PMC	BIAL	PMC	BIAL	PMC
	Legend: ***P - Primary responsibility*** ***S - Secondary responsibility***	**Terminal 2**		**NSPR**		**Landside Road Projects**		**Other PAL1 Projects**		**Sustaining Capex Projects**	
i	Develop/review plan for Logistics and material management	S	P	S	P	P	S	P	S	P	
j	Review/approve Mock-up & Benchmarks	S	P	S	P	P		P		P	
k	Conduct and report Periodic Performance Review of projects	S	P	S	P	P		P		P	
VII	Testing & Commissioning Management										
a	Developing and Managing T&C Master Plan for the Projects	S	P	S	P	P		P		P	
b	Review/Validate ITP's, Test Scripts etc	S	P	S	P	P		P		P	
c	Witness and validate T&C test results	S	P	S	P	P		P		P	
d	Validate Performance Testing of All systems	S	P	S	P	P		P		P	
e	ORAT / Handing Over	P	S	P	S	P		P		P	
VIII	Quality Management										
a	Developing Quality Management System for the projects	S	P	S	P	S	P	S	P	P	
b	Review and Validate QA/QC plans of contractors	S	P	S	P	S	P	S	P	P	
c	Managing NCR's & FDR's	S	P	S	P	S	P	S	P	P	
d	Conduct Quality audits	S	P	S	P	S	P	S	P	P	
IX	HSE Management										
a	Developing Plan for Health, Safety & Environment Management	S	P	S	P	S	P	S	P	P	
b	Review and Validate HSE plans of contractors	S	P	S	P	S	P	S	P	P	
c	Managing NCR's & FDR's	S	P	S	P	S	P	S	P	P	
d	Conduct HSE audits	S	P	S	P	S	P	S	P	P	
X	Stakeholder Management										
a	Development of Stakeholder Management Plan	P	S	P	S	P		P		P	
b	Monitoring & controlling of stakeholder engagement & expectation	P	S	P	S	P		P		P	

	Broad list of the Functions & roles	BIAL	PMC	BIAL	PMC	BIAL	PMC	BIAL	PMC	BIAL	PMC
	Legend: *P - Primary responsibility* *S - Secondary responsibility*	**Terminal 2**		**NSPR**		**Landside Road Projects**		**Other PAL1 Projects**		**Sustaining Capex Projects**	
XI	Information Management										
a	Developing Project Information management plan	S	P	S	P	P		P		P	
b	Proposing tools, medium, technology, templates, and formats.	S	P	S	P	P	S	P	S	P	
c	Managing the flow of project Information	S	P	S	P	P		P		P	
d	Identifying the requirements of reports, generating and managing accurate project dashboards and reports for various stakeholders	S	P	S	P	P		P		P	
e	Developing and managing Project documentation Centre & System	S	P	S	P	P		P		P	
f	Defining and managing MIS and DSS	S	P	S	P	P		P		P	
XII	Risk Management										
a	Developing Project Risk Management System	S	P	S	P	P		P		P	
b	Monitoring and controlling Project Risk Management System	S	P	S	P	P		P		P	
c	Identify and assess Risks for Projects	S	P	S	P	P		P		P	
d	Propose contingency plans	S	P	S	P	P		P		P	
XIII	Contracts Management										
a	Defining contracting strategy	P	S	P	S	P		P		P	
b	Formation of contracts	P	S	P	S	P		P		P	
c	Contract Administration	P	S	P	S	P		P		P	
d	Contract closures	P	S	P	S	P		P		P	
XIV	Change Management										
a	Developing Project Change Management System	S	P	S	P	P		P		P	

	Broad list of the Functions & roles	BIAL	PMC	BIAL	PMC	BIAL	PMC	BIAL	PMC	BIAL	PMC
Legend: ***P - Primary responsibility*** ***S - Secondary responsibility***		**Terminal 2**		**NSPR**		**Landside Road Projects**		**Other PAL1 Projects**		**Sustaining Capex Projects**	
b	Monitoring and controlling Project Change management system	S	P	S	P	P		P		P	
XV	Compliances Management										
a	Identify applicable statutory regulations applicable for projects.	P	S	P	S	P		P		P	
b	liaison to obtain applicable statutory approvals	P	S	P	S	P		P		P	
c	Monitoring progress and managing related issues	P	S	P	S	P		P		P	
XVI	Transition Management										
a	Managing HOTO for projects	S	P	S	P	P		P		P	
b	Setting up processes for DLP handling	S	P	S	P	P	S	P	S	P	
c	Co-ordination with ORAT	P	S	P	S	P	S	P	S	P	
XVII	BIM Management										
a	Review and Approve contractor BIM Models	P	S	P	S	P		P		P	
b	Provide Construction Logistics Plan	S	P	S	P	P		P		P	
c	Create and update 4-D model	S	P	S	P	P		P		P	
d	Review and validate construction installation versus coordinated model	P	S	P	S	P		P		P	
e	Review and approve contractor facility maintenance model	P	S	P	S	P		P		P	

It is evident from the above that BIAL Project team plays a substantial role in managing these projects to meet the objectives and is supplemented by the PMC for specific specialized activities. There is no overlapping of the roles between BIAL & PMC and the cost incurred towards employing these personnel for carrying out dedicated project work cannot be treated as redundant cost.

Role of Design Team:

Past experience indicated that the airport developers who develop the designs till schematic design stage and transfer the risk to the contractors, faced increased costs of construction. Hence, BIAL adopted the approach to develop the design for major Projects such as Terminal 2 and South runway till detailed design stage where drawings were issued to the contractors which were ready for construction.

This minimised discrepancies in the scope and prevented scope creep. Further cost was optimised by having in-house design management team in lieu of extending the design consultant's involvement through construction phase. Comprehensive review of the designs completed by the contractor is required to ensure the requirements of the facility being developed are fully captured at every stage of the construction. Hence, a robust design review process is undertaken by the design team of BIAL.

Post award of the contracts, there are over 86,000 technical documents submitted by the contractors have been reviewed by BIAL Project team so far, for completeness. This is largely the duty of the design department along with the support from QA/QC and construction teams. This is a significant number of documents which need to be reviewed to ensure full compliance with what was tendered and to get them turned around within the contractual stipulated timelines of 14 days to keep work progressing forward on site.

Role of Procurement & Contract Administration Team:

These large multi-year projects necessitate a dedicated procurement team who have so far procured 900 packages across all the projects and handled on average of 4 to 5 vendors for each of these packages. The average time spent by the procurement team to procure these packages are detailed below in Table 3. Airport operations procurement is normally repetitive and has well established supply chain whereas the nature & scale of project procurement is quite different and is a one-time exercise specific for the project.

The role of the BIAL's Operations Procurement team is given below and it is totally different when compared to the Capital Procurement activities that is being carried out by the Project team.

Post award, the contracts needs be administered to ensure compliance with the agreed terms and conditions and a dedicated team is required for this. Apart from this the contracts team has the primary responsibility to correspond with the contractor through letters and have dealt with over 3000 contractual letters from the contractors and an additional 2,886 letters were written in response.

Summary of procurement packages

PAL-1 Projects	# Of packages procured until June-21	# Of vendors submitting bids per package	Time taken to prepare a package for tender	Time taken from receipt of bids to award of contract
NSPR, T2 Phase1, Airside, Roads, MMTH, Forecourt, Parking, Utilities & Facilities	900	4 to 5	7 to 15 days	20 to 25 days

Summary of Invoices processed

Project	Invoices Processed
T2	46
NSPR	92
MMTH	12
Road Network, Express Cargo, Landside Utilities & Runway Upgradation	2,320
Total:	**2,470**

Role of Inspection, Safety & QA/QC team:

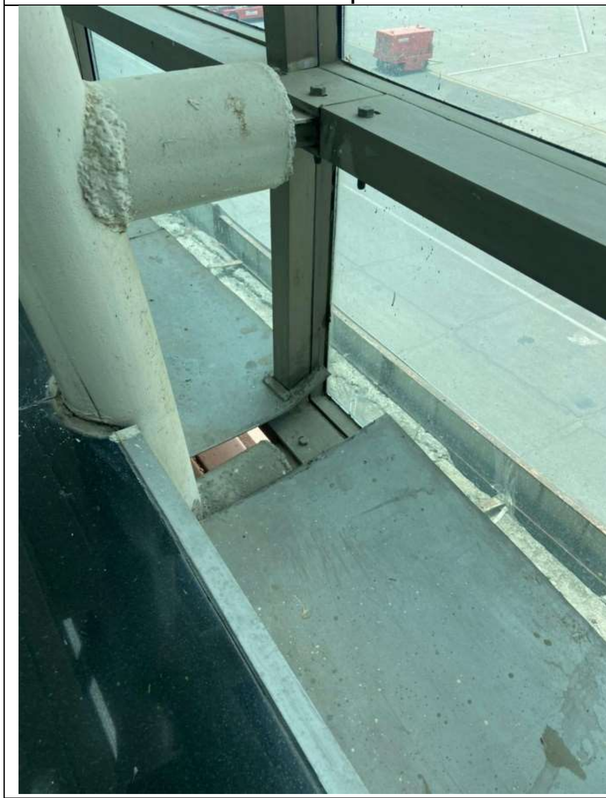
During construction phase, BIAL has enforced rigorous supervision by the integrated construction, safety and QA/QC teams (PMC + BIAL staff) to prevent the contractor from diluting the project requirements and to achieve required quality of the facility being constructed. Apart from the review of technical document submittals, there are Daily Activity Reports (DARs) prepared and reviewed by the project team. Terminal-2 project alone accounts for 15,000+ DARs which records and supports the contracts team to deal with contractual issues at any point.

In addition to the above, Inspection Requests (IRs) are raised by the contractor at every stage of work and is one of the major responsibilities of the construction and QA/QC teams to signoff. As of June,2021 there are over 51,000 IRs processed across all the projects. There are days in which the daily IRs or technical submittals crossed 200 which requires a significant amount of resources to thoroughly check and review safeguarding the investment made in the project.

At peak there were over 9,000 laborers on campus. From a construction, quality, and safety perspective it requires a sizeable team to ensure the standards required for a safe, high-quality, and timely project completion is significant. There are about 150 people deployed on site together from BIAL & PMC who have raised over 7600 safety & quality field observations, field deficiencies, and non-compliances recorded until June 2021. The results from this level of management and the standard of quality achieved is evident from the reference photographs below.

Photographs showing level of quality at Terminal 2

Other Airport	BIAL Terminal 2
	
	

Other Airport	BIAL Terminal 2
	
	

More details on the number of documents processed and handled for all the projects are summarized below:

Summary of documents until June 2021

Project (A)	Documents Reviewed (B)	IRs Processed (C)	Labour at Peak (D)	Safety and Quality Field Observations (E)	Safety and Quality Field Deficiency Reports (F)	Safety and Quality Non-Compliances (G)	Invoices Processed (H)	Letters Received (I)	Letters Issued (K)
T2	39,128	20,966	4,273	4,026	446	511	46	1,316	1,637
NSPR	35,412	28,487	4,400	1,635	66	275	92	711	728
MMTH	3,519	1,192	640	338	4	25	12	64	50
Road Network, Express Cargo, Landside Utilities & Runway Upgradation	8,630	757	3,597	86	44	164	2,320	960	471
Total:	**86,689**	**51,402**	**12,910**	**6,085**	**560**	**975**	**2,470**	**3,051**	**2,886**

Normally, projects of this scale and magnitude always have changes during every phase of the project for catering to the airport operational requirements. If there is no stringent change management process in place, it would have a substantial impact on the hard cost and eventually result in cost overruns. As part of the integrated estimation and costing team's prime responsibility, 192 changes have been processed (until June'2021) across all the projects.

Summary of changes processed until June 2021

Program	Number of Changes Processed
NSPR	47
T2 Apron	10
Terminal 2 - Phase I	49
Forecourt roadways & landside development	64
Aircraft Maintenance & Airport Maintenance	5
Airport Rescue and Fire Fighting Building	1
Utilities - Phase I	8
Existing Runways / Taxiway Improvements	8
TOTAL	**192**

From the above, it is evident that BIAL has discharged its primary responsibility in managing cost, time and scope deliverables for all the projects along with the support of design and PMC consultants appointed. All these would not have been possible by the airport operations team which had their regular airport operational duties to perform.

Therefore, BIAL had to deploy a dedicated Projects team to manage all these requirements and had to incur pre-operative costs which are not part of regular operations cost.

BRAHMAYYA & CO.,
CHARTERED ACCOUNTANTS

Annexure 2 to CP 10 Response

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Opinion on Capitalisation of Pre-Operative expenses

Bangalore International Airport Limited

1. Introduction:

M/s. Bangalore International Airport Limited (herein after referred as **BIAL/the Company**) is the first Greenfield Airport in India, established on a Public-Private Partnership airport. BIAL has been established for the development, design, financing, construction, completion, maintenance, operation and management of the Kempegowda International Airport.

The GOI signed a Concession agreement (CA) with BIAL on 5th July 2004. The CA defined the terms and conditions under which BIAL is entitled to build and run the airport. The term of the concession is for a period of 30 years from the Airport Opening Date, i.e., 24 May 2008, extendable by a further period of 30 years at the option of BIAL.

2. Brief of the facts:

2.1. BIAL is currently undertaking a series of large capital expenditure Projects for enhancing the capacity of the Airport to 55 million passengers per annum. The following projects are being undertaken as part of the expansion (Collectively referred as 'Projects'):

- Terminal 2 (Phase-I),
- Forecourts, roadways & landside development (Phase 1B),
- Aircraft maintenance & airport maintenance facilities,
- Utilities (Phase I),
- Terminal 2 (Apron – Phase 2),
- South Parallel Runway - Phase 2, etc.

2.2. In process of developing above Projects, BIAL had to incur expenses in the nature of Design, Project Management Consultancy (PMC) and Pre-Operative expenses which are as follows:

Design Works: Design works consists various costs i.e., concept design, schematic design, detailed designs for the Projects being developed by BIAL.

Projection Construction and Management works: For effective management of the various activities related to the Projects, BIAL adopted a strategy wherein the PMC (project management consultants) joined as the extended arm of BIAL for delivering the mega, complex and time bound projects with active participation of BIAL Project team.

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With this, BIAL ensured the right and competent staff allocation for the management of these large projects.

Pre-operative expenses: BIAL has an exclusive team for Planning, Design, Construction, Airport Systems, Quality, Procurement, Contract Administration, Project Control besides support services like Human Resource and Finance. This team is exclusively working for development of the Projects and also co-ordinate with specialist who are hired to support the existing project team. The salaries and related expenses of this team are termed as 'Pre-Operative Expenses'.

3. Query:

BIAL has sought the opinion from the undersigned, whether the Pre-Operative expenses being incurred by it for the Projects undertaken can be capitalized as per the Accounting Standard 10, Property Plant and Equipment and Generally Accepted Accounting Principles (GAAP).

3.1 Details of Pre-Operative expenses:

The Pre-operative expenses are predominantly relating to Employee Benefit Expenses and staff welfare expenses, Travelling and Conveyance, Training of Employees and also includes costs relating to Professional Consultancy, Project Insurance, Repairs and Maintenance and Advertisement expenditure.

Below are the roles of employees whose expenditure is capitalized as Pre-Operative expenses:

Role of Employees in Design Works:

Sl. No	Design Activities	Role of BIAL Project Team
1	Competent and Specialist Design Consultants appointed for providing the concept design, schematic design, detailed designs, cost estimates and technical tender documents.	o Identification of the potential consultants. o Preparation of the scope document for bidding purposes. o Ensuring the alignment of the individual scopes of consultants with the overall design of the project. o Technical clarifications to bidders o Evaluation and Review of the documents submitted by the bidders
2	Prior to commencement of the consultancy assignment detailed interactions between BIAL Project team	o Discussion on the scope, the list of deliverables. o Discuss and agree on the formats, standards, sequence, and timing of deliverables

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	and the consultant team on the expectations.	
3	Basis the input received; Consultant commences the work activities.	o Regular progress review meetings. o Provide inputs and decisions as required. o Raise delay alarms and work out mitigation measures
4	At each stage, the consultants submit their deliverables for review by BIAL. BIAL project head, BIAL design head, BIAL construction head along with the team members review and comment on the submissions. These comments and observations are on functionality specifications, constructability, costs, safety and quality related matters.	o In depth and detailed review of the submissions of the consultants. o The document is shared with other internal stakeholders (Operations, Maintenance team etc.) for their review and acceptance. o All observations are noted and communicated to the consultant for incorporation in the next submissions. Value engineering solutions are identified and communicated.
5	The consultant further modifies the submission based on the inputs provided in review and after an interactive process the submissions are closed.	o Ensure all comments are incorporated. o Regular follow up to meet the completion timelines.

Role of employees in Project and Construction Management works:

Sl. No	Department	Role of BIAL Project Team
1	Design	o Explained in detail in the above Design Works. o BIAL team primarily carries out the role of defining the scope of consultants, review and approve consultant work scope. o Apply value engineering measures o Incorporate latest requirements into the designs
2	Procurement & Contract Admin	o Procurement team is led by BIAL and completely managed by BIAL for both Mega Project and Large, Medium & Small Projects. o Preparation of commercial conditions for tender documents. o Carry out the procurement process in line with the procurement policy – EOI, RFQ, RFP etc. o Contract Administration for all Large, Medium & Small Project o Contractual correspondence

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		○ Raising and Closing Change Order & Change Notice ○ Contractually safeguarding BIAL interest with respect to awarded contracts.
3	Construction	○ Large, Medium & Small sized project directly managed by BIAL team ○ Construction methodology finalization ○ Co-ordination with various operations stakeholders as most of the works being carried out in operational areas ○ Day to day construction management ○ Construction supervision and co-ordination with designer ○ Site inspection, inspection reports etc. ○ Progress review and mitigation measures ○ Ensure safe working is being carried out. ○ Ensure quality of the works are being achieved. Clear material approval sample, material inspection report
4	Landscape	○ Complete landscape development execution activities are taken care by the landscape team for the Mega and Large, Medium & Small Projects ○ Working level drawings ○ Site works management -earth preparation, irrigation works, planting, coordination with stakeholders ○ Setup and maintenance of nursery for the plants
5	Support (Billing, Admin, finance, legal, etc.)	○ Administrative and other support services for Mega Projects and Large, Medium & Small Projects are carried out by BIAL team ○ Bill certification and processing ○ Budgetary controls ○ Document management ○ Legal inputs on various matters ○ Office management
6	Estimation and Costing	○ Estimation & Costing of Large, Medium & Small Projects is performed by BIAL team ○ Pre-feasibility estimates ○ New facility estimates. ○ Review of consultant cost estimates ○ Value engineering and cost optimization suggestions ○ Changes based on price negotiations and finalization
7	Project Controls	○ BIAL team places and monitors the project controls for Medium and Small sized projects ○ Establish project schedules ○ Track projects ○ Prepare Progress Report – daily weekly and monthly
8	Safety	○ Joint team by BIAL and PMC ensures the safety protocols and standards ○ Establish HSE manual ○ Ensure safety standards are met all project site.

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		○ Round the clock supervision
9	Quality	○ Joint team by BIAL and PMC set up and monitor the Quality Standards ○ Establish and implement Quality Systems. ○ Develop checklist to be in line with the QA plan ○ Review and Approve method statement ○ Site quality checks ○ Raise and close NCRs.

Breakup of Pre-operative expenses (major expenses) based on Nature of Expenses:

Sl. No	Classification	Details
1	Employee Benefit Expenses and Staff Welfare Expenses	○ Cost of the employees working exclusively for the Projects. ○ Staff welfare expenses relating to these employees. ○ 80 to 85% (approx.) of pre-operative cost is relating to employees benefit expenses.
2	Travelling and Conveyance, Transportation cost	○ Local Transportation cost relating to the Projects being executed by BIAL. ○ Travelling cost of the employees working on the Projects and their related expenditure. These costs are exclusively relating to the Projects execution.
3	Insurance	○ BIAL has taken Project Insurance such as Construction All Risk Insurance (CAR), Marine Insurance and ALOP Insurance, which are exclusively for the Projects to cover the various risks that are relating to executing the Projects by BIAL.
4	Consultancy	○ BIAL has incurred consultancy costs relating to technical, legal, and environmental advisory etc. which are incurred exclusively for the Projects.
5	Security and Maintenance Expenditure	○ BIAL has incurred these expenses for security of the Projects sites from initiation.
6	Advertisement Charges	○ Publishing cost relating to advertisements in various newspapers for multiple tenders regarding the Projects such as tenders for design or construction works.
7	IT Costs	○ Subscription cost for multiple application software such as Auto CAD, Primavera, Luminous etc exclusively used in design and management of the Projects. ○ Other misc. software cost
8	Miscellaneous Cost	○ Printing and Stationery costs for the expenses relating to the Projects. ○ Project related tender cost.

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		o Recruitment Expenses of the employees working on the Projects.

4. Analysis - Technical Information relied upon:

4.1 Extracts from the Accounting Standard 10, Property, Plant and Equipment and its Analysis:

4.1.1 In the present scenario to determine whether the cost of pre-operative expense can be capitalised as per AS 10 Property Plant and Equipment, following are the relevant para's and analysis of the same.

Relevant Extracts of Accounting Standard 10	Analysis/ Assessment
A) Elements of Cost: Para 17. The cost of an item of property, plant and equipment comprises: a) its purchase price, including import duties and non -refundable purchase taxes, after deducting trade discounts and rebates. b) *any costs directly attributable to bringing the asset to the location and condition necessary* for it to be capable of operating in the manner intended by management. c) the initial estimate of the costs of dismantling, removing the item and restoring the site on which it is located, referred to as decommissioning, restoration and similar liabilities', the obligation for which an enterprise incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.	In order to determine the Cost of an asset in accordance with the Accounting Standard 10, we need to consider the cost that are directly attributable to bringing the asset to the location and condition necessary.
B) What are directly attributable costs: Para 18. Examples of directly attributable costs are as follows: a) costs of employee benefits (as defined in AS 15, Employee Benefits) arising directly from the construction or acquisition of the item of property, plant and equipment; b) costs of site preparation; c) initial delivery and handling costs;	Any cost directly attributable to acquisition of an asset or inhouse construction of an assets including Employee Benefit expenses relating to the employees who are working exclusively for the purpose of such acquisition

d) installation and assembly costs; e) costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition (such as samples produced when testing equipment); and f) professional fees	need to be capitalised. Further the directly attributable expenses incurred can also include costs of site preparation, initial delivery and handling costs, installation and assembly costs as well.
C) <u>Guiding principle for calculation of Cost of Self-Constructed Assets</u> Para 23. The cost of a self-constructed asset is determined using the same principles as for an acquired asset. If an enterprise makes similar assets for sale in the normal course of business, the cost of the asset is usually the same as the cost of constructing an asset for sale (see AS 2). Therefore, any internal profits are eliminated in arriving at such costs. Similarly, the cost of abnormal amounts of wasted material, labour, or other resources incurred in self-constructing an asset is not included in the cost of the asset. AS 16, Borrowing Costs, establishes criteria for the recognition of interest as a component of the carrying amount of a self-constructed item of property, plant and equipment.	In accordance with the Para 23 of AS 10 the guiding principle for the calculation of the cost of the self-constructed asset is similar to the principles used for calculation of the cost of an acquired asset.

4.1.2 The above three Paragraphs of AS 10 provide the basic principle to be applied while capitalizing an item of Property Plant and Equipment i.e., cost incurred for the procurement of the material and services, costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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4.1.3 Further, Expert Advisory Committee (EAC) constituted by the Institute of Chartered Accountants of India, through their opinions for various Queries, has mentioned repeatedly that the important test to determine whether the pre-operative costs can be capitalized is test of direct attributable cost to the project.

Below is the compilation of the EAC opinions considered:

<table>
<tr><th>Opinion Reference</th><th>Section/Para Reference</th><th>Details</th></tr>
<tr><td rowspan="2">Query No. 8 Volume 30 (XXX) of EAC 11.05.2010</td><td>Background [Refer Para No. 2]</td><td>The Querist is engaged in the business of processing steel for auto component manufacturing units and the cost of the Project was 113.83 Crores. The Querist has also incurred following expenditure up to construction stage and are not specifically relating to any particular fixed asset:
<table>
<tr><th>Expense Head</th><th>Amount in Rs.</th></tr>
<tr><td>Financial Expense</td><td>29,244</td></tr>
<tr><td>Vehicle Running & Maintenance Cost</td><td>6,36,085</td></tr>
<tr><td>Travelling and Conveyance</td><td>47,44,645</td></tr>
<tr><td>Professional Expenses</td><td>7,74,439</td></tr>
<tr><td>Rent, Rates & Taxes</td><td>10,33,025</td></tr>
<tr><td>Communication Expenses</td><td>5,21,873</td></tr>
<tr><td>Salary & Wages – workers & staff</td><td>69,39,752</td></tr>
<tr><td>Working Directors Remuneration</td><td>51,09,346</td></tr>
<tr><td>Other Personnel expenses</td><td>15,10,539</td></tr>
<tr><td>General & Administrative Expenses</td><td>14,73,319</td></tr>
<tr><td>Total</td><td>2,27,72,267</td></tr>
</table></td></tr>
<tr><td>Query [Refer Para No. 4]</td><td>The Querist has sought the opinion of EAC for following queries on accounting treatment of the said administrative expenses i.e., Pre-Operative expenses:

Relevant Query No. (i): Whether the expenses incurred during the construction of the project can be capitalized with the cost of fixed assets?</td></tr>
</table>

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Opinion Reference	Section/Para Reference	Details
	Points considered by EAC (Refer Para 5 to Para 8)	*The EAC notes that the basic issue raised in the query relates to the accounting treatment of administration expenses/indirect expenses not specifically related to any particular fixed asset, incurred during the construction of the project up to the date of the commencement of commercial production.* *The committee notes that the accounting principles for determination of the cost of a self-constructed fixed asset, have been laid down, inter alia in paragraph 10.1 of AS 10, notified under the Companies (Accounting Standards) Rules, 2006, which provides as follows:* *Para 10.1: In arriving at the gross book value of self-constructed fixed assets, the same principles apply as those described in paragraphs 9.1 to 9.4. Included in the gross block value are costs of construction that relate directly to the specific asset and costs that are attributable to the construction activity in general and can be allocated to the specific cost. Any internal profits are eliminated in arriving at such costs.* *From the combined reading of the paragraphs 10, 9.1 to 9.4, the EAC is of the view that the basic principle to be applied while capitalizing an item of cost to a project/project under construction is that it should be directly attributable to the construction of the project/fixed asset for bringing it to its working conditions for its intended use.* *The costs that are directly attributable to the construction/acquisition of a fixed asset/project for bringing to its working condition are those costs that would have been avoided if the construction/acquisition has not been made and without incurrence of these expenses, the construction of project/asset could not have taken place and cannot bring the same to its working condition such as, site preparation cost, installation costs, salaries of engineers engaged in construction activities etc.,* *The above discussed principle of avoidance of costs as the basis of identifying directly attributable cost for the purpose of the capitalization is also supported by AS 16.* *In the extant case the committee is of the view that it should be seen that whether the expenses incurred are directly attributable to the construction as discussed above.*

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<table>
<tr><th>Opinion Reference</th><th>Section/Para Reference</th><th>Details</th></tr>
<tr><td></td><td>Opinion (Refer para no. 8)</td><td>On the basis of the above, in respect of the administrative expenses/ expenses which are not specifically related to any particular fixed asset, as given by the Querist, and subject to the considerations, committee is of the following opinion on Query No (i)

<u>The expenses incurred during the construction of the project should be capitalized provided the expenses are considered to be directly attributable to the construction of the project/fixed assets for the bringing them to their working condition for its intended use</u> as discussed in the Paragraph 6 of the opinion.</td></tr>
<tr><td>Query No. 10 dtd 09.04.2019</td><td>Background (For detailed information Refer Para 1 to Para 10)</td><td>Accounting treatment of expenditure relating to employee benefits expenses, rent expenses, travelling expenses and house-keeping expenses which are compulsorily required to be incurred for construction of the project.

The Querist is engaged in the business of development, operating and maintenance of Bullet Train being developed by the State of Maharashtra and State of Gujarat.

The Querist has also incurred following expenditure up to construction stage and are not specifically relating to any particular fixed asset.

During the financial year 2017-18, the company has spent Rs. 1964.44 lakh as employee benefit expenses and other expenses for corporate and project site office which are specifically related to the creation of the Project. Out of these, details for Rs. 1720.98 lakh, as given below, has been referred for the opinion of the Expert Advisory Committee of the Institute of Chartered Accountants of India (ICAI):

<table><tr><th>Expense Head</th><th>Rs.in Lakhs</th></tr><tr><td>Employee Benefit Expenses</td><td>999.52</td></tr><tr><td>Rent Expenses</td><td>332.27</td></tr><tr><td>Travelling Expenses</td><td>261.57</td></tr><tr><td>Housekeeping Expenses</td><td>127.62</td></tr><tr><td>Total</td><td>1,720.98</td></tr></table>The above expenditure is considered as part of CWIP by the Querist however, CAG has raised objection on capitalization of these items stating that these items are administrative and other general overhead costs.</td></tr>
<tr><td></td><td>Query</td><td>The Querist sought opinion of the EAC of the ICAI as to whether the accounting treatment of the said employee benefits expenses Rs. 999.52 lakhs, rent expenses Rs. 332.27 lakhs, travelling expenses Rs. 261.57 lakhs and</td></tr>
</table>

CONTINUATION SHEET ......

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Opinion Reference	Section/Para Reference	Details
	(Refer Para 11)	*house-keeping expenses Rs. 127.62 lakhs which are incurred for rail project, as disclosed by company, is correct. If not, what should be the treatment in the opinion of the Committee as per Ind AS 16, Property, Plant and Equipment and other applicable Indian Accounting Standards?*
	Points considered by EAC (Refer Para 12 to 20)	*The committee has noted Para 16, Para 17, Para 19 and Para 20 of Companies (Indian Accounting Standard) Rules, 2015 relating to the cost of an item of Property, Plant and Equipment and examples of directly attributable costs [Refer the table in 4.1.1 for the text of Ind AS for Para 16 & 17].* *From the above, the Committee notes* ***that the basic principle to be applied while capitalising an item of cost to a property, plant and equipment (PPE) is that it is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The Committee is of the view that 'directly attributable' costs are generally such costs which are necessary to enable the construction activity, i.e. these costs are directly related to the construction activity and without the incurrence of which the asset cannot be brought to the location and condition necessary for it to be capable of operating in the manner intended by management. Accordingly, the Committee is of the view that the expenditure on employee benefits, rent expenses, travelling expenses and house-keeping expenses incurred by the company can be capitalised only if these can be considered as directly attributable cost to bringing the bullet train project or the related asset(s) to the location and condition necessary for it (them) to be capable of operating in the manner intended by the management.*** *Administration and other general overhead costs are examples of the costs that are not costs of an item of property, plant and equipment. In this connection, the Committee wishes to point out that the contention of the querist relating to applicability of paragraph 19(d) of Ind AS 16 is not correct. Paragraph 19 (d) is applicable to all the entities irrespective of whether it is a new one or an existing one.* ***<u>Employee Benefit Expenses:</u>*** *With regard to employee benefit expenses, the Committee notes that paragraph 17 of Ind AS 16 gives examples of directly attributable costs and it includes costs of employee benefits (as defined in Ind AS 19, Employee Benefits) arising directly from the construction or acquisition of the item of property, plant and equipment. Therefore, the Committee is of the view that the employee benefit expenses arising directly from the construction or acquisition of the project should only be capitalised and rest should be charged to the statement of profit and loss as and when incurred.*

Opinion Reference	Section/Para Reference	Details
		In respect of employee benefit expenses of finance department, the Committee is of the view that normally the costs incurred by finance department are not directly attributable costs, but are considered as administration and general overheads and therefore, should not be capitalised. However, in certain rare/exceptional circumstances, where and to the extent, the finance department is engaged in the construction activities, the same may be considered as directly attributable costs and can accordingly be capitalised. ***Rental Expenses*** *The Committee notes that it includes rent of site offices (2 offices) and head office. The Committee is of the view that generally there is direct relation between the site office and the construction activity and thus the rent expense in relation to site offices may be considered as directly attributable cost and therefore, can be capitalised to CWIP till the time the item of property, plant and equipment is in the location and condition necessary for it to be capable of operating in the manner intended by the management. With regard to rent of head office, the Committee is of the view that head office is generally used for the overall supervision, strategic planning and other related activities which are not directly related to construction as such and therefore, the rent expense of head office should not be considered as cost of the project. However, if the project execution related activities are also being performed at head office resulting into "directly attributable costs" as discussed in paragraph 14 above, and these can be ascertained on a reasonable and reliable basis, then only to that extent, rent should be capitalised as the cost of the project.* ***Travelling Expenses:*** *the Committee is of the view that these are required to be examined keeping in view the nature and purpose of such expenses and the extent to which these expenses are directly attributable to the construction of the train project. For example, travel expenses of Managing Director, are normally for general and administration purposes and ordinarily, should not be capitalised, however in certain exceptional cases where it can be clearly demonstrated that these are directly attributable to construction, these can be capitalised.*
	Opinion (Refer Para 21)	***Employee Benefit Expenses:*** ***Employee benefit expenses in respect of project associated departments are apparently directly attributable costs (as discussed in paragraph 14 above) and can accordingly be capitalised with the cost of the project. In respect of employee benefit expenses of finance department, normally the costs incurred by finance department are not directly attributable costs, but are considered as administration and general overheads and therefore, should not be capitalised. However, in certain***

Opinion Reference	Section/Para Reference	Details
		rare/exceptional circumstances, where and to the extent, the finance department is engaged in the construction activities, the same may be considered as directly attributable cost and can accordingly be capitalised. *Similarly, employee benefit expenses of Managing Director are normally of the nature of administration and general overheads and should, ordinarily, not be capitalised with the item of PPE, however in certain exceptional cases where it can be clearly demonstrated that these are directly attributable to construction, these can be capitalised. Further, the employee benefit expenses of HR department and company law department cannot be considered as directly attributable costs.* ***Rent Expenses:*** ***The rent expense in relation to site offices may be considered as directly attributable cost and can be capitalised to CWIP till the time the item of property, plant and equipment is in the location and condition necessary for it to be capable of operating in the manner intended by the management, as discussed in paragraph 18 above.*** *The rent expense of head office should not be considered as cost of the project. However, if the project execution related activities are also being performed at head office resulting into "directly attributable costs" as discussed in paragraph 14 above, and these can be ascertained on a reasonable and reliable basis, then only to that extent, rent should be capitalised as the cost of the project.* ***Travelling and Conveyance expenditure:*** ***Travelling expenses are required to be examined keeping in view the nature and purpose of such expenses and the extent to which these expenses are directly attributable to the construction of the train project.*** ***Housekeeping Expenses:*** *Housekeeping expenses are purely in the nature of administration expenses as given in paragraph 19(d) of Ind AS 16, which cannot be considered as "directly attributable cost" of construction of the rail project and therefore, these cannot be capitalised as cost of an item of property, plant and equipment.*

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CONTINUATION SHEET ......

5. Analysis and Conclusion:

5.1 Analysis on each item represented by the Querist:

5.1.1 In the present scenario to determine whether the cost of pre-operative expense can be capitalised as per AS 10 Property Plant and Equipment, following are the relevant para's and analysis of the same.

Nature of expenses	Analysis
Employee Benefit Expenses	Approximately 80 - 85% of pre-operative expenses are employee benefit expenses. These expenses are capitalised as they are related to the BIAL Project team which is exclusively employed and involved in Design works, Procurement and Contract Administration, Construction, Landscape, Estimation and Costing, Project Controls, Safety and Quality of various project activities. Any mega project being constructed through EPC contracts, generally involves, the project team of the Order Issuing company and EPC contractors to work hand-in-hand for timely execution of the work and minimising the contract cost. Description of Project Team based on nature of work: • Designs - evaluating the designs and ensuring the compliance of the designs with the requirements of the various regulations including DGCA and BCAS; • Procurement & Contract Admin - Preparation of the commercial conditions for tender documents, carry out the procurement process in line with the procurement policy i.e., EOI, RFQ and RFP etc., contractual correspondences etc., • Construction administration such as project planning, progress tracking, co-ordinating with various departments for ease of construction by identifying peak hours, monitoring of the safety standards during the construction by the contractor, and various other activities; • Landscape - Working level drawings for landscape, co-ordination of landscape development and execution activities,

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Nature of expenses	Analysis
	• Estimation and costing such as pre-feasibility assessments, new facilities estimates and evaluation, value engineering and cost optimisation strategies and price negotiations. The nature of the expenses under this head "Employee Benefit expenses" are as follows: • Total Cost to the Company incurred towards the employees working for these Projects; • Staff welfare expenses incurred towards the employees working for these Projects in accordance with the BIAL's HR Policy. From the above, it can be inferred that these expenses are incurred towards the employees who are exclusively working for the Projects and are directly attributable to the self-construction of the Projects. Further, in accordance with the Accounting Standard 10, Para 18 (a), '*costs of employee benefits (as defined in AS 15, Employee Benefits) arising directly from the construction or acquisition of the item of property, plant and equipment*' are eligible for capitalisation. The cost incurred under this head are completely relating to the cost incurred in accordance with the AS 15. These costs can be capitalised as these are directly attributable to the construction of the Projects and these costs would not have been incurred but for the Projects.
Travelling and Conveyance, Transportation cost	The travelling and transport expenditure incurred under this head are for the employees and the consultants working exclusively for these Projects. Local transportation costs constitute cab hiring charges for the purpose of transportation to Project sites by employees and consultants. Based on the discussion and understanding given by the management of BIAL, we understood that these traveling, conveyance and local transportation expenses are directly relating to the employees and consultants working for Projects. These costs can be capitalised as these are directly attributable to construction of the Projects and these costs would not have been incurred but for the Projects.
Insurance	BIAL has taken Project Insurance such as Construction All Risk Insurance (CAR), Marine Delay Insurance, ALOP Insurance, Standalone Terrorism Policy for Projects and CGL insurance for

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Nature of expenses	Analysis
	misc. risks during the execution of Projects. These are exclusively for the Projects to cover the various risks while execution of the Projects by BIAL. These costs can be capitalised as these are directly attributable to construction of the Projects and these costs would not have been incurred but for the Projects.
Consultancy	The Consultancy costs are majorly relating to the following items, which are incurred exclusively for the Projects. • Consultancy services from experts for stone/tile quality inspection, MEP works and Environment Health. • Legal Consultancy such as preparation of contracts and finance agreements • Design and Artwork Consultancy • Audit and assurance services These costs can be capitalised as these are directly attributable to construction of the Projects and these costs would not have been incurred but for the Projects.
Security and Maintenance Expenditure	BIAL has incurred these expenses exclusively for security of the Projects sites and obtaining security gear and equipment for personnel working in the Project sites. These costs can be capitalised as these are directly attributable to construction of the Projects and these costs would not have been incurred but for the Projects.
Advertisement Charges	BIAL has incurred expenses to publish advertisements in various newspapers for multiple tenders regarding the Projects such as tenders for design or construction works. These costs can be capitalised as these are directly attributable to construction of the Projects and these costs would not have been incurred but for the Projects.
IT Costs	BIAL has subscribed for multiple application software such as Auto CAD, Primavera, Luminous etc exclusively used in design and management of the Projects. These costs can be capitalised as these are directly attributable to construction of the Projects and these costs would not have been incurred but for the Projects.

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Nature of expenses	Analysis
Miscellaneous Costs	The miscellaneous costs include Project related tender cost, printing and stationery cost, recruitment expenses of the employees working on the Projects, housekeeping expenses for the projects department etc. These costs can be capitalised as these are directly attributable to construction of the Projects and these costs would not have been incurred but for the Projects.

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5.1.2 Conclusion:

Based on the above analysis and Opinions from Expert Advisory Committee of ICAI, the expenditure incurred towards the pre-operative expenses for the Projects referred above are eligible to be capitalized to the Project costs as these costs are directly attributable to the construction of the Projects and further these costs would not have incurred but for the Projects and therefore should not be charged off to Profit and Loss account.

Further this analysis also holds good for the purpose of capitalization as per the Ind AS 16 – Property Plant and Equipment as identical paragraphs are also part of Ind AS 16 for elements of cost, cost of self-constructed asset, examples of directly attributable costs.

For Brahmayya & Co.,
Chartered Accountants
ICAI Firm Registration No.000515S

G. Srinivas
Partner
Membership No. 086761

Place: Bengaluru
Date: 19th July 2021

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6. Technical Guide Reference

- Accounting Standard 10, Property Plant and Equipment issued as per Companies (Accounting Standards) Rules, 2006 and amended up to date.
- Ind AS 16, Property Plant and Equipment issued as per Companies (Indian Accounting Standards) Rules, 2015 and amended up to date.
- Opinions of Expected Advisory Committee as follows:
  - Query No. 8 Volume 30 (XXXI) of EAC dated 11.05.2010
  - EAC opinion on Query No. 10 dated 09.04.2019

7. Disclaimer:

The conclusions reached, and views expressed in the memorandum are matters of opinion.

Our opinion is based on our understanding of the law and regulations prevailing as of the date of this memorandum and our experience. However, there can be no assurance that the government authorities or regulators may not take a position contrary to our views. This opinion covers only issues mentioned above and does not encompass issues, if any, arising under Direct / Indirect Taxes and any other regulations.

Our opinion is based on the information provided to us by Company and the representations made to us by the representatives of Company and is accordingly, given for a specific purpose. Our conclusions are based on the completeness and accuracy of the above stated facts and assumptions, which if not entirely complete or accurate, should be communicated to us immediately, as the inaccuracy or incompleteness could have a material impact on our conclusions.

In case of the relevant extracts of the Opinions of Expert Advisory Committee, we have considered only the relevant paragraphs without compromising on the essence of the respective opinions. However, the complete EAC opinions are enclosed as part of this Opinion for reference.

BRAHMAYYA & CO. Chartered Accountants BENGALURU

BRAHMAYYA & CO.,
CHARTERED ACCOUNTANTS

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BENGALURU - 560 001.

Annexure 3 to CP 10 Response

Report in connection with Agreed-upon procedures related to Capitalisation of Pre-operative Expenditure

We, M/s Brahmayya & Co., being Independent Auditors for Special Purpose Financial Statements of M/s Bangalore International Airport Limited (the Company) having its registered office at Alpha 2, Admin Block, Kempegowda International Airport, Devanahalli, Bengaluru 560300, have performed the procedures agreed with you vide Engagement Letter dated 05th July, 2021 with respect to Capitalisation of Pre-operative Expenses for the period from Feb'2014 to Mar'2021. Our engagement was undertaken in accordance with the Standard on Related Service (SRS) 4400 on "Engagements to Perform Agreed-upon Procedures regarding Financial Information", issued by the Institute of Chartered Accountants of India. The procedures were performed solely to assist you in evaluating the accuracy of the Capitalisation of Pre-Operative expenditure relating to the various projects being undertaken by the Company for Expansion of its airport operations.

The agreed upon procedures to be performed on the accuracy of the Capitalisation of Pre-Operative expenditure relating to the various projects being undertaken by the Company for Expansion of its airport operations for the period from Feb'2014 to Mar'2021 are as follows:

a. Obtain the ledger extracts and accounting records from the Company's ERP (Enterprise Resource Planning software – Currently, SAP) and verify whether the same are in agreement to the amount Capitalised as Pre-Operative Expenses (Capital Work-in-progress 'CWIP' or Capitalised to Projects) in the Financial Statements of the respective period from Feb'2014 to Mar'2021.

b. Verify whether the amount Capitalised as Pre-Operative expenses either forming part of CWIP or Capitalised to Projects can be capitalised as per the Accounting Standard 10, Property Plant and Equipment.

c. Verify whether the summary of the amount Capitalised as Pre-Operative expenses presented in the Annexure – I is in accordance to the item (a) and item (b).

We report our finding below:

i. With respect to item (a), we found that the data obtained from the ledger extracts and accounting records from the Company's ERP are in agreement to the Financial Statements for the respective Financial Years.

ii. With respect to item (b), we found that the amount Capitalised as Pre-Operative expenses are in accordance to the Accounting Standard 10, Property Plant and Equipment upon verification of the items on sample basis.

iii. With respect to item (c), we found that the summary presented in the Annexure – I, is in accordance to the item (a) and item (b) above.

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Since the procedures performed do not constitute either an audit or a review made in accordance with the generally accepted auditing standards in India, we do not express any assurance on the accuracy of the amount Capitalised as Pre-Operative expenses for the period from Feb'2014, to Mar'2021.

Our report is solely issued on the request of the Company for its submission to the Airports Economic Regulatory Authority of India (AERA) and is not to be used for any other purpose or to be distributed to any other parties.

For Brahmayya & Co.,
Chartered Accountants
ICAI Firm Registration no. 000515S

G. Srinivas
Partner
Membership No. 086761
UDIN No.: 21086761AAAACU9398

Place: Bengaluru
Date: July 19, 2021

BRAHMAYYA & CO. Chartered Accountants BENGALURU

Bangalore International Airport Limited

Appendix -I

Summary of Pre-Operative expenses capitalised and amount in Capital Work in Progress (From Feb'2014 to Mar'2021) as at March 31, 2021 is as follows:

Particulars	Rs. in Crores
Amount in Capital Work in progress (*)	157.88
Amount capitalised as Property Plant and Equipment	126.30
Total	**284.18**

* Amount in Capital Work in progress includes Rs. 5.85 Crores relating to Operational Readiness and Airport Transfer (ORAT) capitalised as part of Pre-Operative expenses.

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Annexure 4 to CP 10 Response

Bengaluru INTERNATIONAL AIRPORT

Bangalore International Airport Limited
Clarifications / Confirmations needed from AERA on Financing Allowance

Background

Bangalore International Airport (BIA) is in the process of updating the Business Financial Model for revised submission of MYTP to be in line with the Order 14/ Direction 5 and is detailing below the understanding on Financing Allowance and queries for clarification by AERA.

Extracts on Financing Allowance from Direction 5 - 2010-11 for Order No. 14 dated February 28, 2011.

Paragraph 5.2.7 of Direction 5 details the meaning of Work In Progress Assets and Financing Allowance as below:

5.2.7 Work In Progress assets:

(a) Work in Progress Assets (WIPA) are such assets as have not been commissioned during a Tariff Year or Control period, as the case may be. Work in Progress assets shall be accounted for as:

$WIPA_t$ = $WIPA_{t-1}$ + Capital expenditure + Financing allowance - Capital receipts of the nature of contributions from stakeholders (SC) - Commissioned assets (CA)

Where:
$WIPA_t$ = Work in Progress Assets at the end of Tariff Year t
$WIPA_{t-1}$ = Work in Progress Assets at the end of Tariff Year t-1
Capital Expenditure = Expenditure on capital projects and capital items made during Tariff Year t.

<u>The Financing Allowance</u> shall be calculated as follows

$$\text{Financing Allowance} = R_d \times \left(WIPA_{t-1} + \frac{Capex - SC - CA}{2}\right)$$

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Where

Rd = the cost of debt determined by the Authority according to Clause 5.1.4.

SC = are capital receipts of the nature of contribution from stakeholders (including capital grants and subsidies) pertaining to the capital expenditure incurred in Tariff year t.

CA = are Commissioned Assets which pertain to the accumulated value of the WIPA attributable to all assets that have been put into effective operation during Tariff Year t.

Extract of Illustration from Page 28

Illustration 7: The following example illustrates this approach for calculation of Work in progress assets, financing allowance and commissioned assets. The numbers in the illustration have been rounded to the nearest integers.

Forecast Work in Progress Assets

		2010 -11	Tariff Year 1	Tariff Year 2	Tariff Year 3	Tariff Year 4	Tariff Year 5
Opening WIP: $WIPA_{t-1}$	OW	-	-	-	558	638	-
Capital Expenditure	CE	-	833	521	-	-	-
Financing Allowance	$FA = R_d \times (OW + (CE - CA - SC)/2)$	-	-	37	80	43	
Capital Receipts	SC	-	200	-	-	-	-
Commissioned Assets	CA	-	633	-	-	681	-
Closing WIP: $WIPA_t$	$CW = OW + CE + FA - SC - CA$	-	-	558	638	-	-

- *The cost of debt, R_d, used for calculation of financing allowance, is the cost of debt determined by the Authority under Clause 5.1.4.*
- *The example illustrates that those assets, which have been acquired or commissioned within the same Tariff Year (i.e. Tariff Year 1), have been included both in Capital Expenditure and Commissioned Assets.*
- *The value of commissioned assets, as calculated, shall be used for forecasting RAB for the Control Period.*

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Extract from Para 5.2.5 - Forecasting the RAB

Para 5.2.5 details the process of forecasting the RAB wherein the commissioned assets (including the Financing allowance on the assets, when it was in Work in Progress stage) has been added to RAB and forms part of the closing and average RAB workings.

Extract from Illustration 4 from Page 23 is given below

Forecast RAB

		2010-11	Tariff Year 1	Tariff Year 2	Tariff Year 3	Tariff Year 4	Tariff Year 5
Opening RAB_{t-1}	OR	22,750	20,500	18,826	16,462	13,998	12,277
Commissioned Assets	CA	-	633	-	-	681	-
Depreciation	DR	2,250	2,307	2,364	2,364	2,402	731
Disposals	Di	-	-	-	100	-	-
Incentive Adjustments	IA	-	-	-	-	-	-
Closing RAB_t	CR=OR+CA-DR-Di+IA	20,500	18,826	16,462	13,998	12,277	11,547
RAB for calculating ARR	RA=(OR+CR)/2		19,663	17,644	15,230	13,138	11,912

Also clause (d) of Para 5.2.6 defines Commissioned Assets as below:

"Commissioned Assets: Represents investments brought into use during Tariff Year t, consistent with ***Clause 5.2.7*** herein below"

Hence, from the above it is clear that the Financing allowance is computed on the Work In progress balance (whether funded through Debt/ Equity/ Internal accruals) and is capitalized as a part of Commissioned Assets for RAB computation.

BIAL's understanding and its current presentation in the Business Financial Model

For the purposes of capitalization of assets as per AERA guidelines and identification of RAB for providing return:

- From 2011-12, Financing allowance has been provided on Work In Progress assets during the year as detailed above i.e - Opening WIP + (Capital Expenditure spend during the year - Commissioned Assets - Capital Receipts)/2 - In its model, BIAL has not assumed any Capital Receipts from Stakeholders which will be reduced from value of asset and hence, in effect the Financing allowance has been computed as Opening WIP + (Capital Expenditure - Commissioned Assets)/ 2.

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- This Financing allowance is computed on the total value of assets under construction - (Capital Work In Progress) whether funded by Equity/ Accruals or Debt.

- Financing allowance so computed has been capitalized with the asset value, at the time of commissioning of the assets and considered as a part of Regulatory Asset Base (RAB) for providing FRoR on the average RAB for the year and for depreciation purposes.

Clarifications sought from AERA

1. Please confirm if the understanding of Direction 5 and its application in the Business Financial model is in line with the provisions as per Direction 5.

2. There is a requirement to maintain different sets of books for Regulatory Purposes and Financial records, for various reasons as detailed below:

   a. Capitalised asset values being different - Due to financing allowance being capitalized with the asset as per the regulatory directions which include return at cost of Debt (R_d) on WIPA and only the Interest cost on debt funding actually incurred during the construction period being capitalized along with the asset for Financial books.

   b. Depreciation charged for the year will be different between Financial records and regulatory purposes due to:

      - Asset values considered for Depreciation being different
      - Depreciation provided for at 50% of the rate for the asset added during the year - whereas this could be on the actual number of days / months - for financials
      - Salvage value of 10% being considered and depreciation worked out only 90% of the value of asset capitalized, for the purpose of Regulatory building block whereas depreciation provided at the determined rates on 100% of the asset value as per financial records.

c. Possibility of RAB getting adjusted for Incentive Adjustment and Land value adjustment as defined in the Guidelines which will not be effected in the Fixed Assets as per the Financial books.

We request the authority to please confirm if our understanding is in line with the Directions and advise us. We will await your advice for us to incorporate the same in the revised Business Financial Model and MYTP submissions.

Thanking you,

Yours faithfully,
for Bangalore International Airport Limited,

(B.Bhaskar)
Director Finance

Date : 27Th AUGUST 2012

From: cv.deepak@aera.gov.in [mailto:cv.deepak@aera.gov.in]
Sent: Monday, October 22, 2012 11:39 AM
To: Bhaskar Bodapati
Cc: Radhika; Kapil Chaudhary; Anand Kumar P
Subject: Submission of requisite information for Multi Year Tariff Proposal for the First Control Period - Reg

Annexure 5 to CP 10 Response

F. No. AERA/20010/MYTP/BIAL/2011-12
Airports Economic Regulatory Authority of India

*****

AERA Building,
Administrative Complex,
Safdarjung Airport,
New Delhi – 110003

Dated 22nd October, 2012

To,

Shri B. Bhaskar,
Director (Finance),
Bangalore International Airport Limited,
Alpha 2,
Bengaluru International Airport,
Devanhalli,
Bangalore-560 300

Subject: Submission of requisite information for Multi Year Tariff Proposal for the First Control Period - Reg

Sir,

I am directed to refer to your email dated 29.08.2012 seeking clarifications on the Financing allowance as per the Authority's Guidelines - Direction No. 5-2010-11 for Order No.14 (dated 28.02.2011) – treatment of Financing allowance as contained in Direction No. 5 and to say as under:

i) BIAL's understanding that the Financing Allowance is computed on the total Work in Progress balance (whether funded through debt/ equity/ internal accruals) and is capitalized as a part of commissioned assets for RAB computation is correct vis-à-vis Authority's Guidelines.

ii) As regards the clarifications on the computation of the financing allowance assuming there is no contribution on account of Capital receipts, the formula for Financing Allowance would be: Rd x (Opening WIP + (Capital Expenditure – Commissioned Assets)/2), where Rd is the Cost of Debt.

iii) As regards BIAL's clarification that there would be requirement to maintain different sets of books for Regulatory Purposes and Financial Records for various reasons. BIAL's understanding is correct in this aspect, vis-à-vis Authority's Guidelines, as the RAB figures may not match the fixed asset values in the financial records for various reasons.

2. Further, during the presentation held on 21.08.2012, BIAL had pointed out that a number of issues required to be reviewed including Traffic Forecast, capital Expenditure, Means of financing of project and that the revised MYTP would be ready for submission by end of September'2012. Needless to say that any further delay in submission of the requisite information/ details/ certifications would only delay the determination of aeronautical charges for Bangalore International Airport and the impact due to such delay would be on account of such delayed submissions by BIAL. Hence, you are kindly requested to expedite and send the same by 31.10.2012.

Yours faithfully,

C.V.Deepak
OSD-II
Airports Economic Regulatory Authority of India,
IInd floor, AERA Building, Administrative Block, Safdarjung Airport, New Delhi - 110003 India
Tel: 91 11 24695043
Fax: 91 11 24695048
Email: cv.deepak@aera.gov.in
Alternative Email: cvdeep@gmail.com

Report on Agreed-upon procedures related to financing allowance

We, Sreedar Mohan and Associates, Chartered Accountants have performed agreed upon procedures to verify and certify Financing allowance with respect to M/s Bangalore International Airport Limited, a company registered under companies act 2013, having registered office at Administration Block, Devanahalli, Bangalore - 560 300 and have verified the enclosed statement showing computation of financing allowance to be considered for projects capitalized between 2016-17 and 2019-20, based on the books of accounts produced to us

Following are the procedures carried out by us:

1. Review and understand the basis of computation of financing allowance (detailed in Annexure 1) as provided in clause 5.2.7 of Airports Economic Regulatory Authority of India (Terms and Conditions for Determination of Tariff for Airport Operators) Guidelines, 2011 dated 28th Feb 2011
2. Review and confirm segregation of Work in Progress assets to the respective projects, based on the schedules for Work in Progress assets maintained by the Company
3. Validate the rate of cost of debt for the years, based on the computations maintained by the company/ certified by other Chartered accountants
4. Re-perform the calculations and confirm the computation of Financing allowance as per Direction 5.
5. Compute the differential additional cost to be considered in addition to the Interest capitalized in the books.

Based on the computation made inline with the guidelines provided, the additional financing allowance has been arrived at as Rs. 208.81 Crores for the Projects capitalized during 2016-17 to 2019-20 as per summary given below. (Detailed working provided in Annexure 2).

(Amount in Rs. Crores.)

Project	Interest	FA	Difference - Additional
Project: A- NSPR	6.62	91.27	84.65
Project: B - Earthwork	96.21	181.00	84.79
Project: C - Forecourt PAL 1	0.38	4.89	4.50
Project: D- Forecourt & Landscaping	0.00	5.16	5.16
Project: E - T1 Refurbishment	0.00	12.42	12.42
Project: F - ITI	0.00	12.72	12.72
Project: G - Southwest connectivity	0.00	1.92	1.92
Project: H - West Apron	0.00	0.08	0.08
Project: I - RET Improvements	0.00	1.03	1.03
Project: J - NPO Nursery Unit	0.00	1.54	1.54
TOTAL	**103.22**	**312.03**	**208.81**

SREEDAR MOHAN & ASSOCIATES * CHARTERED ACCOUNTANTS * BANGALORE

The engagement was executed in accordance with the Standard on Related Services (SRS) 4400, "Engagements to Perform Agreed-upon Procedures regarding Financial Information", issued by the Institute of Chartered Accountants of India.

The report is issued at the request of the management to submit to the Airports Economic Regulatory Authority of India ('AERA') and not to be distributed or used for any other purpose.

For Sreedar Mohan and Associates
Chartered Accountants
Firm registration number: 0127229

SREEDAR MOHAN & ASSOCIATES * BANGALORE * CHARTERED ACCOUNTANTS *

Srinath Koppu
Partner
Membership no: 226545

Place: Bangalore
Date: 31st May 2021

UDIN: 21226545AAAAGY1731

Annexure 1:

Calculation of Financing allowance

$$\text{Financing Allowance} = Rd \times \left(WIPA_{t-1} + \frac{(Capex - SC - CA)}{2}\right)$$

- WIPA stands for Work In progress Assets
- Rd stands for the cost of debt determined
- SC stands for capital receipts of the nature of contribution from stakeholders (including capital grants and subsidies) pertaining to the capital expenditure incurred in Tariff year
- CA stands for Commissioned Assets which pertain to the accumulated value of the WIPA attributable to all assets that have been put into effective operation during Tariff Year t.

Calculation of Closing Work in Progress

$$\text{Closing WIP} = \text{Opening WIP} + CE + FA - SC - CA$$

- CE Stands for Capital expenditure incurred during the year
- SC stands for capital receipts of the nature of contribution from stakeholders (including capital grants and subsidies) pertaining to the capital expenditure incurred in Tariff year
- CA stands for Commissioned Assets which pertain to the accumulated value of the WIPA attributable to all assets that have been put into effective operation during Tariff Year t.

SREEDAR MOHAN & ASSOCIATES BANGALORE CHARTERED ACCOUNTANTS

Annexure – 2

Project wise Computations relating to Financing allowance and additional cost to be added in addition to the Financing allowance

	Cost of Debt	11.25%	11.20%	11.23%	10.57%	9.42%	8.59%	8.96%
Project: A- NSPR	Year	2014	2015	2016	2017	2018	2019	2020
Opening WIP: WIPAt-1	OW	-	-	165,498,760	467,920,184	1,141,035,433	1,662,314,675	5,997,105,883
Capital Expenditure	CE		156,722,311	268,745,834	592,350,369	395,180,693	4,019,366,583	6,883,839,848
Financing allowance	FA = rd*(OW+(CE-CA-SC)/2)		8,776,449	33,675,589	80,764,880	126,098,548	315,424,625	347,961,861
Capital receipts	SC							
Commissioned Assets	CA							10,198,343,837
Commissioned Asset (FA)	CA							912,701,954
Closing WIP: WIPAt	CW = OW+CE+FA-SC-CA	-	165,498,760	467,920,184	1,141,035,433	1,662,314,675	5,997,105,883	2,117,861,800
Commissioned cost without FA/ Interest	A							10,198,343,837
Interest capitalised	B							66,242,853
Total capitalised in books	C = A+B							10,264,586,690
Capitalisation incl FA	D = A+CA							11,111,045,791
Difference to be added	E = D-C							846,459,101

	Cost of Debt	11.25%	11.20%	11.23%	10.57%	9.42%	8.59%	8.96%
Project: B - Earthwork	Year	2014	2015	2016	2017	2018	2019	2020
Opening WIP: WIPAt-1	OW	-	-	36,129,367	534,899,237	5,622,299,914	6,704,694,634	7,590,375,679
Capital Expenditure	CE		34,213,416	468,411,250	4,778,327,233	527,909,530	296,991,971	683,093,801
Financing allowance	FA = rd*(OW+(CE-CA-SC)/2)	-	1,915,951	30,358,620	309,073,444	554,485,191	588,689,074	325,467,870
Capital receipts	SC							
Commissioned Assets	CA				-	-	-	6,788,947,200
Commissioned Asset (FA)	CA							1,809,990,149
Closing WIP: WIPAt	CW = OW+CE+FA-SC-CA	-	36,129,367	534,899,237	5,622,299,914	6,704,694,634	7,590,375,679	-
Commissioned cost without FA/ Interest	A							6,788,947,200
Interest capitalised	B							962,103,315
Total capitalised in books	C = A+B							7,751,050,516
Capitalisation incl FA	D = A+CA							8,598,937,350
Difference to be added	E = D-C							847,886,834

SREEDAR MOHAN & ASSOCIATES * CHARTERED ACCOUNTANTS * BANGALORE

	Cost of Debt	11.25%	11.20%	11.23%	10.57%	9.42%	8.59%	8.96%
Project: C - Forecourt PAL 1	Year	2014	2015	2016	2017	2018	2019	2020
Opening WIP: WIPAt-1	OW	-	-	-	-	-	-	563,659,570
Capital Expenditure	CE						540,447,356	451,720,707
Financing allowance	FA = rd*(OW+(CE-CA-SC)/2)	-	-	-	-	-	23,212,214	25,662,813
Capital receipts	SC							
Commissioned Assets	CA				-	-	-	957,334,178
Commissioned Asset (FA)	CA							48,875,027
Closing WIP: WIPAt	CW = OW+CE+FA-SC-CA	-	-	-	-	-	563,659,570	34,833,885
Commissioned cost without FA/ Interest	A							957,334,178
Interest capitalised	B							3,837,425
Total capitalised in books	C = A+B							961,171,603
Capitalisation incl FA	D = A+CA							1,006,209,205
Difference to be added	E = D-C							45,037,602

	Cost of Debt	11.25%	11.20%	11.23%	10.57%	9.42%	8.59%	8.96%
Project: D- Forecourt & Landscaping	Year	2014	2015	2016	2017	2018	2019	2020
Opening WIP: WIPAt-1	OW	-	129,726,414	151,474,530	197,228,622	6,200,088	8,217,292	493,415
Capital Expenditure	CE	122,817,907	6,835,944	27,215,360	801,466,853	1,368,691	-308,076	-493,415
Financing allowance	FA = rd*(OW+(CE-CA-SC)/2)	6,908,507	14,912,171	18,538,732	10,211,528	648,514	358,718	21,157
Capital receipts	SC							
Commissioned Assets	CA				952,135,976		6,767,288	
Commissioned Asset (FA)	CA				50,570,939		1,007,232	21,157
Closing WIP: WIPAt	CW = OW+CE+FA-SC-CA	129,726,414	151,474,530	197,228,622	6,200,088	8,217,292	493,415	-0
Commissioned cost without FA/ Interest	A							958,903,264
Interest capitalised	B							-
Total capitalised in books	C = A+B							958,903,264
Capitalisation incl FA	D = A+CA							1,010,502,592
Difference to be added	E = D-C							51,599,327

SREEDAR MOHAN & ASSOCIATES * CHARTERED ACCOUNTANTS * BANGALORE

	Cost of Debt	11.25%	11.20%	11.23%	10.57%	9.42%	8.59%	8.96%
Project: E - T1 Refurbishment	Year	2014	2015	2016	2017	2018	2019	2020
Opening WIP: WIPAt-1	OW	-	17,480,938	382,967,707	757,622,448	28,074,207	7,772,574	-0
Capital Expenditure	CE	16,550,000	344,250,856	314,015,497	278,621,642	-1,802,440	78	
Financing allowance	FA = rd*(OW+(CE-CA-SC)/2)	930,938	21,235,913	60,639,244	39,439,681	1,612,438	320,084	-0
Capital receipts	SC							
Commissioned Assets	CA				925,363,789	18,499,193	7,772,652	
Commissioned Asset (FA)	CA				122,245,775	1,612,438	320,084	
Closing WIP: WIPAt	CW = OW+CE+FA-SC-CA	17,480,938	382,967,707	757,622,448	28,074,207	7,772,574	-0	-0
Commissioned cost without FA/ Interest	A							951,635,634
Interest capitalised	B							-
Total capitalised in books	C = A+B							951,635,634
Capitalisation incl FA	D = A+CA							1,075,813,931
Difference to be added	E = D-C							124,178,297

	Cost of Debt	11.25%	11.20%	11.23%	10.57%	9.42%	8.59%	8.96%
Project: F - ITI		2014	2015	2016	2017	2018	2019	2020
Opening WIP: WIPAt-1	OW	-	-	-	23,759,394	234,620,616	456,526,689	584,171,700
Capital Expenditure	CE			22,496,231	279,880,855	405,895,071	308,197,583	222,607,287
Financing allowance	FA = rd*(OW+(CE-CA-SC)/2)	-	-	1,263,163	12,969,923	31,088,758	42,857,276	39,065,706
Capital receipts	SC							
Commissioned Assets	CA				67,756,470	183,988,998	180,552,571	479,882,621
Commissioned Asset (FA)	CA				14,233,086	31,088,758	42,857,276	39,065,706
Closing WIP: WIPAt	CW = OW+CE+FA-SC-CA	-	-	23,759,394	234,620,616	456,526,689	584,171,700	326,896,366
Commissioned cost without FA/ Interest	A							912,180,660
Interest capitalised	B							
Total capitalised in books	C = A+B							912,180,660
Capitalisation incl FA	D = A+CA							1,039,425,486
Difference to be added	E = D-C							127,244,826

SREEDAR MOHAN & ASSOCIATES * CHARTERED ACCOUNTANTS * BANGALORE

	Cost of Debt	11.25%	11.20%	11.23%	10.57%	9.42%	8.59%	8.96%
Project: G - Southwest connectivity	Year	2014	2015	2016	2017	2018	2019	2020
Opening WIP: WIPAt-1	OW	-	-	-	-	-	203,644,129	5,770,237
Capital Expenditure	CE					194,483,936	11,527,399	25,623,986
Financing allowance	FA = rd*(OW+(CE-CA-SC)/2)	-	-	-	-	9,160,193	8,623,948	1,450,389
Capital receipts	SC							
Commissioned Assets	CA				-	-	200,241,098	3,339,328
Commissioned Asset (FA)	CA						17,784,142	1,450,389
Closing WIP: WIPAt	CW = OW+CE+FA-SC-CA	-	-	-	-	203,644,129	5,770,237	28,054,895
Commissioned cost without FA/ Interest	A							203,580,426
Interest capitalised	B							-
Total capitalised in books	C = A+B							203,580,426
Capitalisation incl FA	D = A+CA							222,814,956
Difference to be added	E = D-C							19,234,530

	Cost of Debt	11.25%	11.20%	11.23%	10.57%	9.42%	8.59%	8.96%
Project: H - West Apron	Year	2014	2015	2016	2017	2018	2019	2020
Opening WIP: WIPAt-1	OW	-	-	-	-	-	5,867,425	3,132,702
Capital Expenditure	CE					5,603,500	396,743,468	23,345,432
Financing allowance	FA = rd*(OW+(CE-CA-SC)/2)	-	-	-	-	263,925	370,637	134,327
Capital receipts	SC							
Commissioned Assets	CA				-	-	399,214,266	26,478,134
Commissioned Asset (FA)	CA						634,561	134,327
Closing WIP: WIPAt	CW = OW+CE+FA-SC-CA	-	-	-	-	5,867,425	3,132,702	0
Commissioned cost without FA/ Interest	A							425,692,400
Interest capitalised	B							-
Total capitalised in books	C = A+B							425,692,400
Capitalisation incl FA	D = A+CA							426,461,289
Difference to be added	E = D-C							768,889

SREEDAR MOHAN & ASSOCIATES * CHARTERED ACCOUNTANTS * BANGALORE

	Cost of Debt	11.25%	11.20%	11.23%	10.57%	9.42%	8.59%	8.96%
Project: I - RET Improvements	Year	2014	2015	2016	2017	2018	2019	2020
Opening WIP: WIPAt-1	OW	-	-	-	10,594,502	96,360,514	0	0
Capital Expenditure	CE			10,031,247	80,397,183	306,571,202	1,718,065	
Financing allowance	FA = rd*(OW+(CE-CA-SC)/2)	-	-	563,255	5,368,830	4,334,429		
Capital receipts	SC							
Commissioned Assets	CA					396,999,631	1,718,065	
Commissioned Asset (FA)	CA					10,266,513	-	
Closing WIP: WIPAt	CW = OW+CE+FA-SC-CA	-	-	10,594,502	96,360,514	0	0	0
WIP without FA		-	-	10,031,247	90,428,430	0	0	0
Commissioned cost without FA/ Interest	A							398,717,696
Interest capitalised	B							-
Total capitalised in books	C = A+B							398,717,696
Capitalisation incl FA	D = A+CA							408,984,209
Difference to be added	E = D-C							10,266,513

	Cost of Debt	11.25%	11.20%	11.23%	10.57%	9.42%	8.59%	8.96%
Project: J - NPO Nursery Unit	Year	2014	2015	2016	2017	2018	2019	2020
Opening WIP: WIPAt-1	OW	-	-	-	-	154,840,549	8,108,753	13,231
Capital Expenditure	CE				147,068,005	153,822,478	-2,921,497	2,925,716
Financing allowance	FA = rd*(OW+(CE-CA-SC)/2)	-	-	-	7,772,544	7,329,684	334,474	567
Capital receipts	SC							
Commissioned Assets	CA					292,781,730	5,174,025	2,938,947
Commissioned Asset (FA)	CA					15,102,228	334,474	567
Closing WIP: WIPAt	CW = OW+CE+FA-SC-CA	-	-	-	154,840,549	8,108,753	13,231	0
Commissioned cost without FA/ Interest	A							300,894,702
Interest capitalised	B							-
Total capitalised in books	C = A+B							300,894,702
Capitalisation incl FA	D = A+CA							316,331,971
Difference to be added	E = D-C							15,437,269

For SREEDAR MOHAN & ASSOCIATES
Firm Registration No: 012722S
31/04/2021
Chartered Accountants
(SRINATH KOPPU)
Partner
M.No: 226545

SREEDAR MOHAN & ASSOCIATES ★ CHARTERED ACCOUNTANTS ★ BANGALORE

Annexure 7 to CP 10 Response

(5)

ಸುಭಾಷ್ ಚಂದ್ರ, ಭಾ.ಆ.ಸೇ.,
ಸರ್ಕಾರದ ಅಪರ ಮುಖ್ಯ ಕಾರ್ಯದರ್ಶಿ
Subhash Chandra, IAS
Additional Chief Secretary to Government

ಕರ್ನಾಟಕ ಸರ್ಕಾರದ ಸಚಿವಾಲಯ
ಒಳಾಡಳಿತ ಇಲಾಖೆ
Karnataka Government Secretariat
Home Department

HD/ACS/36397/2016 **Date:26.8.2016**

1930
31/8/16

Dear Shri Prasad,

In order to address the traffic congestion on the current approach to the Kempegowda International Airport (KIA) through Bellary Road / NH 44, the Bengaluru City Police has identified an alternate approach. This approach will provide access to the KIA from the Eastern edge of BIAPPA's land from State Highway-104 which has been proposed as a KSRDCL Road (Cargo Road) with a 90 meters Right of Way (ROW). This road will skirt the Aerospace SEZ which has a 30 m road that connects to SH 104.

2. It is expected that this approach will take care of much of the traffic from East and South Bengaluru as the traffic can branch off at Outer Ring Road and travel on the Nagwara-Betta Kote village alignment on SH 104 without accessing NH 44. This would effectively cater to traffic from Electronic City, HSR, Marathhalli and Whitefield areas which otherwise traverses through the Central Business District (CBD) to access Bellary Road / NH 44. With the second runway coming up, there will a further increase in traffic to and from the KIA.

3. This approach will, however, require an underpass / tunnel across the proposed taxi way which will connect the second runway to the existing runway. While this in itself should not be a technical challenge, given the fact that such options have been successfully used elsewhere (Amsterdam, Geneva, New Delhi, e.g.), there may be a costing issue which should be explored at this stage itself.

4. As the proposed road is essentially for cargo purposes, a view on its width and approach to the cargo area can be reviewed now, in terms of road width, alignment etc.

Please discuss and settle the matter by month-end/

27/8/2016

US (Law)

ಕೊಠಡಿ ಸಂ. 222, ವಿಧಾನ ಸೌಧ, ಬೆಂಗಳೂರು – 560 001. Room No. 222, 2nd Floor, Vidhana Soudha, Bengaluru - 560 001
Phone (O) : 91-80-22258830 / 22033456, Fax: 22250225 (R) : 22251424 E-mail: prs-home@karnataka.gov.in

5. I would, therefore, request that this proposal (which Commissioner of Police, Bengaluru has already sent to KIA), may be discussed and considered with the concerned stakeholders as early as possible.

With regards,

Yours sincerely,

(Subhash Chandra)

Sri D.V.Prasad, IAS
Additional Chief Secretary to Govt.,
Infrastructure Development Dept

No.Others/356/Addl.CP(Tr)/2016

Office of the
Commissioner of Police,
Infantry Road, Bengaluru City,
Date: 23-08-2016.

Received by: .... On: 24/08/2016
To: HM → Ashutosh / Venkat
cc:
For action
For discussion
For feedback
For Info
For Record

To,

The President,
Airport Operations,
Kempegowda International Airport,
Bengaluru-560 300

Sir,

SUB:- Request to develop new roads to decongest traffic moving towards Kempegowda International Airport – reg.,

-----

As you are aware the National Highway – 44 is connecting Bengaluru & Hyderabad Cities. The traffic moving towards International Airport invariably uses the existing trumpet from this highway to KIA. Traffic leading to the Airport and leaving the Airport use this road, and hence leading to congestion on this road.

The road infrastructure available is insufficient to cater to the needs of growing demand of road users using this stretch of road. In this back ground need is felt to utilize the available road network surrounding KIAL to proper use to exploit the capacity fully. In this regard the following roads need to be given priority and should be developed.

1. Presently Cargo Terminus is being planned as indicated in the map. Access to this Cargo Terminus is being established linking the State Highway-104 near Betta Kote Village. It is suggested that the road leading to the Cargo Terminus be extended to passenger terminus thus enabling traffic originating from South and South-East of Bengaluru can gain access via SH-104 and reach the passenger terminus from Betta Kote Village side enabling the almost 50 percent of the traffic using NH44 to use SH104 and decongest the NH44.

2. Presently the traffic getting out of Kempegowda International Airport is accessing KIAL road joining to NH-44. However a down-ramp near Yarthiganohalli bridge be provided as an alternate route linking Yarthiganohalli road to ease the congestion on KIAL road. The traffic taking this route will avoid congestion on NH-44

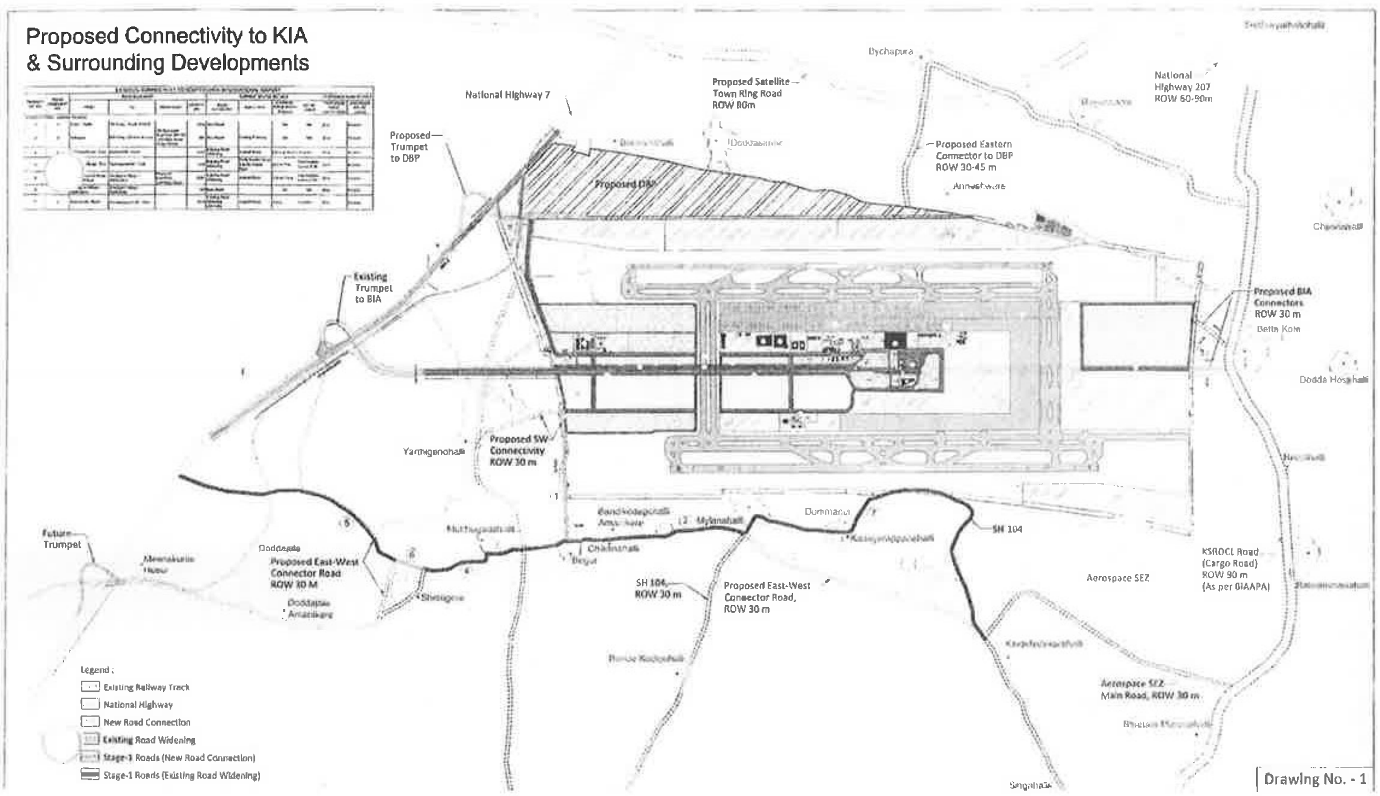
It is requested to take up the development of the above said roads on the above locations on top priority in the interest of general public. Proposed map is enclosed for ready reference.

Thanking you,

Yours faithfully,

23/8/18

(R. HITHENDRA)
Addl. Commissioner of Police,
Traffic, Bengaluru City.
(Ph: 080-2294-2276)



Proposed Connectivity to KIA
& Surrounding Developments
National Highway 7
Proposed Satellite Town Ring Road ROW 80m
National Highway 207 ROW 60-90m
Proposed Trumpet to DBP
Proposed Eastern Connector to DBP ROW 30-45 m
Proposed DBP
Existing Trumpet to BIA
Proposed BIA Connectors ROW 30 m
Dodda Hosahalli
Proposed SW Connectivity ROW 30 m
Yarthigenahalli
SH 104
Future Trumpet
Proposed East-West Connector Road ROW 30 M
SH 104, ROW 30 m
Proposed East-West Connector Road, ROW 30 m
Aerospace SEZ
KSRDCL Road (Cargo Road) ROW 90 m (As per BIAAPA)
Aerospace SEZ Main Road, ROW 30 m
Legend :
Existing Railway Track
National Highway
New Road Connection
Existing Road Widening
Stage-1 Roads (New Road Connection)
Stage-1 Roads (Existing Road Widening)
Drawing No. - 1

SHASHIKANT MUDDAPUR
BSc. BE. MBA. MIE. FIV.

Phone: 2333 2812
Mobile: 98450 63312
E-mail: smuddapur@yahoo.com

Annexure 8 to CP 10 Response

Chartered Engineer M 118314/6 DT. 30.7.99 | Valuer F-8681 | Surveyor/Loss Assessor SLA 69723

SM/TR-ADDM/115/18

15th JULY 2021

ADDENDUM TO TECHNICAL REPORT DATED 12.04.2018

This Addendum to Technical Report is prepared at the request of **M/s. Bangalore International Airport Limited, Bangalore.** The Airport Facility situated at Devanahalli, Bangalore North had been earlier visited by me on 14.03.2018 for the purpose of inspection/technical evaluation of Useful Life of Certain Assets installed at the Airport Facility and the details are furnished below:

Name of the Company:	**M/s. Bangalore International Airport Ltd.**, Alpha-2, Bengaluru International Airport, Devanahalli, Bangalore 560300.
Date of Technical First Evaluation:	12.04.2018
Date of Addendum to Tech Report:	15.07.2021
Purpose of Inspection:	Technical Evaluation in respect of Useful Life of Assets installed at the Airport Facility.
Members Interacted:	Mr. S. Chandrasekar– VP & Head Fin & Accts, - BIAL Mr. Govindrao Naik - DGM -F&A Mr Sasikumar P.V. – Sr. Maintenance Manager, BIAL Mr. S. Muddapur - Chartered Engineer & Valuer

Preamble:

BIAL presently follows depreciation rates based on useful lives estimated by the Management of the Company in line with rates prescribed under erstwhile Companies Act 1956. AERA (Airports Economic Regulatory Authority) has issued an Order No. 35/2017-18 dated 12.01.2018 and Amendment No. 1 dated 9th April 2018, taking cognizance of various factors in consultation with major Airports in India and prescribed the "Useful Life" of various assets installed in the Airports in Annexure-I of the said order.

- It is observed that in the said order issued by AERA, for many of the assets mentioned therein, useful lives prescribed by AERA are in line with the Companies Act, 2013.
- The Authority also stated that the Airport Operators can adopt useful lives different from what is prescribed for certain category of assets in the said order, supported by technical evaluation. This is also in line with the provisions under the Companies Act, 2013.

S. MUDDAPUR M118314/6 Dt. 30-7-99 CHARTERED ENGINEER

- In this connection, BIAL had earlier requisitioned the services of the undersigned for studying the matter and indicate the useful lives of assets. The undersigned prepared and issued a Technical Report dated 12.04.2018 based on certain facts observed during first inspection and discussion with Technical Personnel of BIAL.

- Taking cognizance of the contents of the Technical Report, BIAL had submitted a Letter dated 12th April 2018 to AERA. The Authority at the time of tariff determination for the 2nd control period (FY 2017-2021) VIDE Order No. 18/2018-19 dated 31st August 2018, had taken cognisance of the fact studied the report and noted that the useful life of assets related to Plant and Machinery is to be reckoned as **7.5 years** as against **15 years** given in AERA's Order No. 35/2017–18 in matter of determination of useful life of airport assets dated 12th January 2018 and amendment No.1 to the order dated 9th April 2018.

- In the Consultation Paper No. 10/2021-22 dated 22nd June 2021, AERA has proposed that the useful life prescribed in AERA's Order No. 35 and amendment 1 has considered the typical usage of these assets for an airport and there appears to be no reason for the usage of these assets to vary from the typical usage for BIAL. Further, the Authority has also noted that it provides BIAL with adequate maintenance expenditure to enable the airport to maintain the assets in good working conditions during the life of the assets. Therefore, the Authority has proposed <u>not to consider</u> the lower useful life submitted by BIAL for the Plant and Machinery assets.

- In this connection, the undersigned, has provided certain additional explanation as to why useful life of 7.5 years reckoned is justified.

<u>Item-wise explanation for having reckoned Useful Life of Equipments as 7.5 years is given below:</u>

1. <u>Baggage Handling System, Passenger Boarding Bridges, Escalators, Elevators , Travellators, HVAC etc</u>.
   Unlike other industries, these systems/equipments in a busy airport which works 24/7 get loaded/ unloaded continuously for 365 days. Also, these systems/equipments undergo very frequent ON-OFF cycles resulting in the reduction of useful life.

2. Baggage Handling System (BHS) are more than a simple mechanical system and are built along with a complex SCADA (Supervisory Control and Data Acquisition) system to move the passenger baggage/bags from check-in to aircraft baggage trolleys and during this process, pass through Screening System, Diverters, Position Sensors at multiple levels. A complex baggage system comprises of more than 100 smaller segments and many of the sections operate in different speed controlled through the SCADA system. As such, the life gets reduced compare to a conventional and more predictable manufacturing/process systems. Due to faster technology improvements/changes the SCADA operating system gets redundant sooner and needs to be upgraded/replaced due to global/local regulation changes. Reckoning the above factors, the baggage handling system can be qualified for lesser Useful Life and also supported by AERA amendment No. 1 to order number 35 clause 2.7.1

S. MUDDAPUR M118314/6 Dt. 30-7-99 CHARTERED ENGINEER

3. Equipments such as Passenger Boarding Bridges, during operation are extended, retracted, raised, lowered, swivelled to connect the bridge to various types of aircrafts and are also exposed to various open weather conditions.

4. Equipments such as Escalators, Elevators and Travellators are used continuously for 24 hours in busy airports. Hence serviceability and safety compliance requirements are very high since these are exclusively used by airport personnel/passengers.

5. VDGS (Visual Docking Guidance System) which helps safe docking of aircraft to stands are installed in "open to sky" environment. These systems are operating with Laser technology and in severe weather conditions, they deteriorate faster and as such with Electronic circuits playing a major role have a useful life of not greater than 7.5 years.

6. Automatic sliding doors: There are multiple automatic sliding doors installed at the Departure Entrance, Boarding gates and Arrival entry/exit. These doors operate continuously based on people movement and is subject to heavy number of ON-OFF cycles.

7. Unlike typical process/manufacturing industry, where shift operation is steady, the Electromechanical equipment that are used in the airports are subjected to multiple/numerous ON-OFF cycles, which deteriorates the normal design life of the equipment.

   Managements strategically assess the investment in capital expenditures for acquisitions, along with ancillary costs and the costs associated with the repair and maintenance requirements of those assets while they are in service. For this reason, determining accurate costs using an LCC (Life Cycle Costing) approach is critical. In the Airport's case, this is necessary to safely and cost-effectively accommodate the growing number of passengers with the efficiency that passengers expect. The airports must manage risk since the failure of older assets can pose a danger to travelers, airport personnel and visitors.

   It may also be noted that sometimes new technology is likely to render these running equipments obsolete much before the scheduled useful life as reckoned. Hence to avoid risks of spares availability and drop in efficiency, these equipments will need to replaced much earlier.

   In view of all the above and considering that the process of determining the useful life of the equipment is permitted to be reduced for 2/3 shift operation, it is recommended that, the useful life of Electromechanical equipment working in the airports to be determined at 7.5 years instead of 15 years.

8. As regards to buildings/items like Canopy, New Project Office, Nursery etc are not general buildings/ items. Apart from their design and sustenance to the required cause of operatable on temporary nature and constructed in areas meant for future development as per Master plan, the material used for construction also temporary in nature to reduce the cost of construction of these temporary structures.

S. MUDDAPUR M118314/6 Dt. 30-7-99 CHARTERED ENGINEER

Remarks:

This Addendum to Technical Report is for use only of the party to whom it is addressed and no responsibility is accepted to any third party for the whole or any part of its contents.

I hereby further certify that I have neither present nor prospective interest on the Assets appraised or values proposed.

This Addendum to Technical Report is issued without any prejudice and is based on the details furnished and personal evaluation carried out by me.

Shashikant Muddapur

SHASHIKANT MUDDAPUR
Chartered Engineer & Valuer

S. MUDDAPUR
CHARTERED ENGINEER
M118314/6 Dt. 30-7-99
478, 4th Main, 6th Cross,
2nd Block, R.T. Nagar,
BANGALORE - 560 032.

भारतीय विमानपत्तन प्राधिकरण
AIRPORTS AUTHORITY OF INDIA

Annexure 9 to CP 10 Response

12 11.11.2020

The CEO
Bangalore International Airport Limited
Bangalore.

(Kind Attention Mr. Hari Marar)

Subject: **Reconciliation of Recovery of costs and Rental in respect of BIAL Tower/Technical/Administrative Block**

Greetings from Airports Authority of India

Reference in invited to the CNS-ATM Agreement between AAI & BIAL executed on 6th April, 2005.

AAI has occupied space at BIAL in the Administrative Technical Block-Alpha 1, ARFA Building from 24-05-2008. The said agreement procured for BIAL to collect rental from AAI until the cost have been recovered.

The cost of the said assets, Control Tower et al is Rs.14,69,61,924/- as verified by EIL, an independent agency. The amount paid by AAI towards rentals for the technical block is Rs.14,69,39,338/ (excluding service tax), an amount confirmed by O/o RED, Southern Region.

As is evident, the difference between the cost of said assets and rental amount paid is Rs. 22,586 (Rs.14,69,61,924-14,69,39,338) which is an insignificant amount and is proposed to be waived off.

The recommendation may be accepted through a line of confirmation and BIAL may consider the matter as resolved and closed.

This issues with the approval of competent authority.

Best Regards,

S Swaminathan 20201112
(S. Swaminathan)
GM(ATM-ATS)
AAI CHQ

Cc:
1. Member (Planning)
2. Member (ANS)
3. Member (Finance)
4. ED (JVC)
5. RED (SR)
6. GM (Finance-ANS)

Bangalore International Airport Limited
Administration Block, Alpha 2
Kempegowda International Airport
Bengaluru - 560 300. India
T: + 91 80 6678 2050 F: +91 80 6678 3366
E: feedback@bialairport.com, www.bengaluruairport.com
CIN: U45203KA2001PLC028418

Kempegowda INTERNATIONAL AIRPORT BENGALURU

Annexure 9 to CP 10 Response

23 Nov 2020

To

Shri. S Swaminathan
GM (ATM- ATS)
Airport Authority of India
Rajiv Gandhi Bhavan
Safdarjung Airport
NEW DELHI – 110 003

Dear Sir,

Sub: Reconciliation of recovery of costs and Rental in respect of BIAL Tower /Technical/Administrative Block

Greetings from BIAL!!.

We are in receipt of your letter dated 12th Nov ,2020 on the above subject and the matter was discussed internally.

After a thorough examination of the matter, as the difference between the rental amount paid by AAI and the cost finally agreed and assessed for the space occupied by AAI at Alpha 1 Technical block is not significant, we have agreed to consider your recommendation for waive-off of the said difference.

Hence, with the same, we wish to confirm that the long pending issue of reconciliation of recovery of costs and rental in respect of Alpha 1 (BIAL Tower/Technical/Administrative Block), being the space occupied by AAI and KIA, be considered to be resolved and closed.

We thank you for all the supported extended to resolve the matter in a mutually amicable manner.

Trust the same would meet your requirements.

Thanking You

Yours faithfully,
For Bangalore International Airport Limited,

S. Chandrasekar

S. Chandrasekar
Vice President and
Head – Finance & Accounts.

Cc:
MD/CFO – BIAL
Member Planning -AAI
Member (ANS)
Member (Finance)
ED (JVC)
RED (SR)
GM (Finance-ANS)

Annexure 10 to CP 10 Response

GUIDELINES FOR SETTING UP OF GREENFIELD AIRPORTS

MINISTRY OF CIVIL AVIATION
GOVERNMENT OF INDIA

(a) Defence clearance: An applicant seeking a license would need prior clearance from the Ministry of Defence. Guidelines for this purpose would be issued by the Ministry of Defence from time to time.

(b) Air Traffic Services (ATS): Functions related to ATS are being discharged by AAI. The applicant will have to enter into a CNS/ATM Agreement with AAI for the provision of ATS services at the proposed airport. ATS would be provided on a cost recovery basis and AAI would publish a standard agreement for this purpose. The Airport Company would also provide the required infrastructure to AAI free of cost for provision of ATS.

(c) Security: The applicant will have to enter into an agreement for provision of security by the concerned authority. The cost of providing security will have to be borne by the Airport Company. Guidelines for this purpose would be issued by the Ministry of Civil Aviation from time to time.

(d) Customs: In case of an international airport, the applicant will obtain clearance from the Department of Revenue for provision of Custom services. The cost of providing these services will have to be borne by the Airport Company. Ministry of Finance would issue the necessary guidelines from time to time.

(e) MHA Clearance: The applicant seeking a license would need prior clearance from the Ministry of Home Affairs regarding location of the airport, acquisition and installation of security equipment and verification of credentials of the developers.

(f) Immigration: In case of an international airport, the applicant will procure clearance from the Ministry of Home Affairs for provision of immigration services. The cost of providing these services will have to be borne by the Airport Company. Ministry of Home Affairs would issue the necessary guidelines from time to time.

(g) BCAS Clearance: The applicant seeking a license would need prior clearance from BCAS regarding location of the airport and acquisition and installation of security equipment.

(h) Airport Meteorological Services: The applicant will have to enter into a CNS/ATN agreement with IMD for provision of meteorological services at the proposed airport to be provided by India Meteorological Department (IMD). The meteorological services would be provided on a cost recovery basis and IMD would publish a standard agreement for this purpose. The airport company would also provide the required infrastructure to IMD free of cost for provision of meteorological services.

6.2 A memorandum of understanding would be entered into between the Airport Company and each GOI agency/department providing the following Reserved Activities, setting out the terms and conditions on which the said services shall be provided by the relevant GOI agencies/departments:

PROCEEDINGS OF THE GOVERNMENT OF KARNATAKA

Sub: Extension of Concession of Term of the Concession Agreement With BIAL.

Read BIAL Letter No: BIAL/MD&CEO/2019-20, dated:17.09.2020

Preamble:

The Development, Construction, Operation and Maintenance of a Greenfield International Airport at Bengaluru was taken up under Public Private Partnership (PPP) and is governed by the Concession Agreement which has been entered into between Government of India (GoI), acting through Secretary, Ministry of Civil Aviation and Bangalore International Airport Limited (BIAL) on 05.07.2004. Bangalore International Airport Ltd., M/s BIAL has requested Government of India for extension of Concession of Term of the Concession Agreement and GoI has sought opinion of the GoK. As per Clause 13.7.1 of this Concession Agreement, the Validity of the Concession Agreement is for a period of 30 years from the Airport Opening Date whereupon the term of the Agreement shall at the option of Bangalore International Airport Ltd., M/s BIAL be extended for a further period of 30 years.

2. M/s Bangalore International Airport Ltd., vide its letter dated:17.09.2019 had requested Ministry of Civil Aviation (MoCA), Government of India (GoI), quoting that for the large expansion of airport and related infrastructure and significant investment required to meet the growing demand in the aviation sector and regional development, an extension in term of Concession Agreement in respect of BIAL be extended for a further period of 30 years. Thereafter MoCA, GoI vide its letter dated 28.10.2019 had informed that the request for extension of the term of the concession period will require the approval of the Union Cabinet

and thus sought the comments of Govt. of Karnataka (GoK) on the request of M/s Bangalore International Airport Ltd., M/s BIAL.

3. Bangalore International Airport Ltd., M/s BIAL has notified of its intention and decision to exercise its option of extending the term of the Concession Agreement for a further period of 30 years as provided for an Article No.13.7.1 of the Concession Agreement.

4. The Matter has been examined in Government in consultation with the Hon'ble Advocate General, Government of Karnataka and hence the order:

GOVERNMENT ORDER NO: IDD 121 DIA 2019, BENGALURU, DATED:16.10.2020

In the circumstances explained in the preamble, after careful examination of the proposal, sanction of the Government of Karnataka is accorded for the following:

a) The Site Cost to be increased from present Rs.211.78 crores to a maximum of Rs.302.15 crores by including the costs towards Interest paid on HUDCO Loan (capitalized till handing over of the land) & additional compensation as & when paid to the land owners / losers (to be included the payment is made) and made effective from 24.05.2022.

b) The rate of Annual Increment to the Lease Rental be fixed at 6% per annum in the Extended Concession Period which becomes operational w.e.f. 24.05.2038 (i.e., commencement of the 31st year of the Airport Opening Date of 24.05.2008).

c) To execute revised Land Lease Agreement for extending the period of concession for a further period of 30 years from 24.05.2038 and subject to (a) & (b), above.

d) To communicate to Ministry of Civil Aviation, Government of India about the concurrence of Government of Karnataka on the proposal to extend the term of Concession Agreement for a further period of 30 years from 24.05.2038 onwards .

2. This order is issued with the concurrence of Finance Department vide Note No.FD/135 EXP-1/2020, dated:11.09.2020 and Law Department Opinion dated:22.07.2020.

By Order and in the name of the
Governor of Karnataka,

(Chandrakala.S.N)
Under Secretary to Government (i/c),
Infrastructure Development, Ports
and Inland Water Transport Department.

16/10

To:
The Compiler Karnataka Gazette for publication in the next issue of Gazette and to supply 50 copies to this department.

Copy to:

1. The Principal Accountant General in Karnataka (A & E), Office of the Principal Accountant General in Karnataka, Bengaluru-01.
2. The Secretary, Ministry of Civil Aviation, Government of India, New Delhi-110001.
3. The CEO & MD, Bangalore International Airport Limited, Devanahalli, Bengaluru (Rural) District.
4. The Managing Director, KSIIDC, Khanija Bhavan, Bengaluru.
5. The Senior Director, PF & R Div, Planning Department, M.S. Building, II Stage, Bengaluru.
6. The Under Secretary (Exp-I), Finance Department, Vidhana Soudha, Bengaluru.

Copy to:

1. The P.S to Principal Secretary, Infrastructure Development, Ports & Inland Water Transports Department, Vikasa Soudha, Bengaluru.
2. The GPA to Additional Secretary, (Airports), Infrastructure Development, Ports & Inland Water Transports Department, Vikasa Soudha, Bengaluru.
3. The Director, PPP Cell, Infrastructure Development, Ports & Inland Water Transports Department, Vikasa Soudha, Bengaluru to update in the IDD website.
4. Section Guard File / Spare Copies

Annexure 12 to CP 10 Response

Variable Tariff Plan

Scheduled Domestic & International Passenger and Cargo Airlines

BIAL’s Proposal for development of passenger/cargo traffic and sustained operational excellence

3rd Control Period

Variable Tariff Plan:

BIAL proposes a Variable Tariff Plan (VTP), applicable to Scheduled Domestic & International Passenger and Cargo Airlines only.

VTP FOR SCHEDULED PASSENGER FLIGHTS

1. NEW ROUTES (FOR BLR AIRPORT) - INTERNATIONAL									
Years>>	Year 1			Year 2			Year 3		
Distance>>	>8000 km	5000-8000 km	<5000 km	>8000 km	5000-8000 km	<5000 km	>8000 km	5000-8000 km	<5000 km
Landing charges for Intl pax flights									
Rate per MTOW (for MTOW<=100)	-	0.00*RR	0.00*RR	-	0.25*RR	0.50*RR	-	-	-
Rate per MTOW (for MTOW>100)	0.00*RR	0.00*RR	0.00*RR	0.25*RR	0.25*RR	0.50*RR	0.25*RR	0.50*RR	0.70*RR

2. ADDITIONAL FREQUENCY / NEW AIRLINE ON AN EXISTING LONG-HAUL/ULTRA LONG-HAUL ROUTE – INTERNATIONAL	
	Year 1
	Routes>5000 km
Landing Charges for Intl pax flights	
Rate per MTOW (for MTOW>100)	0.50*RR

3. UP-GAUGING OF FLIGHT TO CODE E OR F - INTERNATIONAL	
	Year 1
Landing Charges for Intl pax flights	
Rate per MTOW (for MTOW>100)	0.50*RR

4. AIRLINE PARTNERSHIP PROGRAMME FOR INDIAN CARRIER			
Applicable as per the qualification criteria on incremental ATMs above defined base (of Feb'20)			
	Year 1 (FY 22)	**Year 2 (FY 23)**	**Year 3 (FY 24)**
Domestic pax flights - landing			
Rate per MTOW (for MTOW<=100)	0.50*RR	0.50*RR	0.75*RR
Rate per MTOW (for MTOW>100)	0.50*RR	0.50*RR	0.75*RR
Intl pax flights - landing			
Rate per MTOW (for MTOW<=100)	0.00*RR	0.25*RR	0.50*RR
Rate per MTOW (for MTOW>100)	0.00*RR	0.00*RR	0.25*RR
Parking			
Rate per MTOW (for MTOW<=100)	0.00*RR	0.50*RR	0.75*RR
Rate per MTOW (for MTOW>100)	0.00*RR	0.50*RR	0.75*RR
Housing			
Rate per MTOW (for MTOW<=100)	0.00*RR	0.50*RR	0.75*RR
Rate per MTOW (for MTOW>100)	0.00*RR	0.50*RR	0.75*RR

**RR indicates Rack Rate*

Definitions -

Definition of New Route –

- A flight to a new destination that is currently unserved from BLR Airport by any airline in the previous 2 IATA seasons – (Summer'20, Winter'20-21, Summer'21 excluded), including:
- Ultra Long-haul (ULH) Destinations>8000 km from BLR and having existing frequencies less than 14 departures/week, and/or;
- Long-haul (LH) Destinations between 5,000-8,000 km from BLR and having existing frequencies less than 7 departures/week.

Definition of Additional Frequency / New Airline on an existing long-haul/ultra long-haul route – INTERNATIONAL–

- Existing international long haul/ultra long-haul routes - Routes other than 'New Route' defined above
- New Airline/additional frequency on existing route, compared to the operations in previous 2 IATA seasons – (Summer'20, Winter'20-21, Summer'21 excluded), including:
    - Long-haul / Ultra long-haul Destinations beyond 5,000 kms from BLR, and
    - Weekly frequencies: >=14/week for >8000 kms, and/or
    - Weekly frequencies: >=7/week for 5000-8000 kms

Definition of Aircraft Upgauge (International) –

- An airline upgrading aircraft type on any of the weekly frequencies to Code E or F with no reduction in overall frequencies per week, compared to the aircraft and frequencies operated in the previous 2 IATA seasons – (Summer'20, Winter'20-21, Summer'21 excluded)

Qualification Criteria for Airline Partnership Programme –

Multiple factor increase compared to Feb'20 - DOMESTIC			
Monthly Targets	**Year 1 (FY 22)**	**Year 2 (FY 23)**	**Year 3 (FY 24)**
Pax Growth	2x	2.5x	3x
Departure ATM growth	2x	2.5x	3x
Dom routes	5x	6x	7x

Multiple factor increase compared to Feb'20 - INTERNATIONAL			
Monthly Targets	**Year 1 (FY 22)**	**Year 2 (FY 23)**	**Year 3 (FY 24)**
Pax Growth	2x	2.5x	3x
Departure ATM growth	2x	2.5x	3x
International routes	2x	2.5x (minimum 1 long haul destination)	3x (minimum 2 long haul destination)

****Long haul means destinations>5000 km range ex BLR***

- To be eligible for the proposed Airline Partnership Programme, the qualifying airline(s) must be a Scheduled Indian Carrier having operated minimum 10 daily scheduled departures from BLR Airport in the base month of Feb'20 (pre-Covid base).
- The qualification criteria are based on the incremental business compared to pre-covid levels (Feb'20)
- The qualifying airline(s) must meet both domestic and international monthly targets for the respective FY (compared to the pre-covid base of Feb'20 operations) to be eligible for availing the VTP under Airline Partnership Programme.
- Actual annual performance of the qualifying airline(s) shall also be considered as part of incentive eligibility criteria.
- "Airline Partnership Programme" VTP is not exclusive to any one airline. At a given period of time there can be more than one airline qualifying for the above.
- There will be a half yearly evaluation for continued eligibility.
- In the scenario of slow traffic recovery at airport level in FY22 (below 50% of FY20 levels) owing to Covid-19 and continued restrictions on domestic and international scheduled operations in FY 22, the period of proposed Airline Partnership Programme shall be extended to 4 years (until FY 25) instead of proposed 3 year period (until FY 24), with the same qualification criteria, as mentioned above.

Other general terms & conditions–

- The proposed VTP is applicable to airlines operating scheduled passenger flights and that have signed a formal Airline Operations Agreement (AOA) with BIAL to use the services provided at the Airport.
- No discount over and above the variable tariff plan shall be applicable.
- An airline should operate a minimum of 16 weeks of continuous scheduled operations to avail VTP.
- The payment of landing charges should be done in full without any deductions, as per the invoicing by BIAL. The discount shall be provided in the form of a 'Credit Note' at the end of a respective IATA season of operations.
- Airlines once enrolled in the incentive schemes will continue benefiting until the expiration of their respective scheme. Airlines already benefiting from a particular scheme cannot switch to the new VTP for same operation. For E.g.: If an Airline XY commences wide operations on a new International Route in Oct 2025, then the VTP applicable as of commencement date shall apply throughout the next 3 years. Any new VTP scheme launched subsequently will not apply to them.
- BIAL reserves the right to change any term or condition of this VTP, withdraw or replace any of the category, at any time at its absolute discretion, by way of prior notification through a channel as it deems fit.
- On a new international route, upgauge of aircraft in the first 2 years to Code E or F will be entitled for the 3rd year of incentives. For E.g. If an Airline XY commences operations with a narrow body aircraft on a new international route and upgauges the aircraft type before the end of 2nd year of operations, the airline will be entitled for the 3rd year of incentive as well.
- The aircraft categorization has been defined as per wingspan (Annex 14 ICAO)
- The unit of Kilometers refers to air kilometers for calculating the qualifying distance **as per great circle path**.

Variable Tariff Plan (VTP) FOR CARGO FLIGHTS:

Type	New Airline and or New Route		Additional Arrival Airline Frequency
	Year 1	Year 2	Year 1
Landing Charges for Domestic & International Flights			
Rate per MTOW (for MTOW <= 100)	0 x RR	0.25 x RR	0.50 x RR
Rate per MTOW (for MTOW > 100)	0 x RR	0.25 x RR	0.50 x RR

Other Applicable Points for Cargo Flights ONLY:

- RR refers to the rack rate for each individual year in the main tariff plan
- The VTP is for freighters and passenger to cargo (P2C) converted flights
- All benefits under New Airline and New Route shall be applicable only to Scheduled Airlines (i.e., they have signed a formal Airline Operations Agreement with BIAL)
- For purpose of this VTP plan airline frequency means the number of arrival services in a week that an airline may provide
- Scheduled Flights means flights of an airline that provides air transport service between the two or more places and operated according to a published timetable or with flights so regular or frequent that they constitute a recognisably systematic series, each flight being open to use by members of the public for their air cargo transportation needs.
- New Airline means a new airline operating into Kempegowda International Airport, Bengaluru with a freighter aircraft
- New Route means a route that is currently unserved by a freighter aircraft from Kempegowda International Airport, Bengaluru by any airline (unserved by the qualifying airline for the previous 6 months)