# GOVERNMENT OF KARNATAKA

NO.IDD 19 DIA 2014

Karnataka Government Secretariat,
Vikasa Soudha, Bangalore,
Dated 15/11/2016

From:
The Additional Chief Secretary to Government
Infrastructure Development Department
BANGALORE-560 001

TO:
The Chairman
Airports Economic Regulatory Authority of India
AERA Building, Administrative Complex
Safdarjung Airport
NEW DELHI-110 003
Fax No : 011 24695034

Sir,

Sub : Consultation Paper (CP) No.01/2016-17 dated 5th October, 2016.

Ref : 1) Letter No. F.No.AERA/20010/Civil Aviation Policy/2014-15/9362 from the AGM (F), AERA dated 06/10/2016.
2) Letter No. IDD 19 DIA 2014 dated 06/03/2014.

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Kindly refer to the D.O. letter from the chairman, AERA addressed to the Chief Secretary, Government of Karnataka cited at reference (1) above and the subsequent corrigendum to the CP, dated 10th October, 2016.

In this regard, we would like to inform that the Kempegowda International airport at Bangalore is one of the fastest growing airports in the country experiencing exponential growth for the past few years registering more than 20% growth in passenger traffic and the traffic growth reported by the BIAL is as follows:

| BIAL Traffic performance | First Control Period Actuals | | | | | Estimates |
|---|---|---|---|---|---|---|
| | FY 11-12 | FY 12-13 | FY 13-14 | FY 14-15 | FY 15-16 | FY 16-17 |
| Passenger Traffic | 12.71 | 11.99 | 12.87 | 15.4 | 18.9 | 22.1 |
| YoY Growth | 9% | -6% | 7% | 20% | 23% | 16% |

The growth in traffic fast tracked the expansion programs of BIAL and resulted in expansion of existing terminal and taking up of development of 2nd Runway, taxiway, 2nd Terminal & other allied projects, much ahead of scheduled expansion.

It is noted that the AERA has considered the NCAP 2016 and decided to adopt "Hybrid Till" regulatory regime for determination of tariffs at major airports in future, in line with the new policy. However, the true up for the first control period has been proposed on "Single Till" basis unless there is any direction from the Govt. of the India to the contrary. In this regard, Government of Karnataka supports the views of the Ministry of Civil Aviation in their letter to the AERA dated 24/09/2013 and the proposal of AERA in the Addendum CP No.22/2013/14 dated 24th January 2014 with regard to the Shared Revenue Till, considering their domain expertise.

Considering the above aspects, the Government of Karnataka would like to inform as under:

1) Government of Karnataka's stand/views cited at reference (2) above is hereby re-iterated (copy enclosed for ready reference).

2) Government of Karnataka supports the proposal of AERA in the CP No. 01/2016-17 dated 5th October, 2016, to adopt "Hybrid Till" regulatory regime for determination of tariffs at major airports in future in line with the new policy.

Yours faithfully,

13/11/2016

(P.I. SREEVIDYA)
Deputy Secretary to Government,
Infrastructure Development Department

Annexure

# GOVERNMENT OF KARNATAKA

No: IDD 19 DIA 2014

Karnataka Government Secretariat,
Vikasa Soudha,
Bangalore, dated: 06/03/2014

From:
The Principal Secretary to Government,
Infrastructure Development Department,
BANGALORE – 560 001.

To:
The Chairman,
Airports Economic Regulatory Authority of India,
AERA Building, Administrative Complex,
Safdarjung Airport,
New Delhi – 110003,
**Fax No: 011 24695034.**

Sir,

Sub: Consultation Paper (CP) No. 22/2013-14 dated 24th January 2014 issued by AERA in respect of Bangalore international Airport Ltd.

Ref: 1) CP No.14/2013-14 dated 26th June 2013 issued by AERA.

2) Record of discussions of the meeting held in the Ministry of Civil Aviation on 16th July 2013 to discuss issues arising from the CP referred at (1) above.

3) Letter No. IDD 79 DIA 2013 dated 26th August 2013 from GoK.

4) Letter AV.20036/19/2013-AD dated 24th September 2013 from the Ministry of Civil Aviation addressed to AERA.

5) D.O.NO. AERA/20010/MYTP/BIAL/2011-12/Vol.-I dated 24th October 2013 from the Chairman, AERA addressed to the Chief Secretary, GoK.

This has reference to the D.O. letter from the Chairman, AERA addressed to the Chief Secretary, Government of Karnataka cited at (5) above and the subsequent Addendum to the CP

N .14/2013-14 dated 26th June 2013 issued by AERA under reference CP No. 22/2013-14 dated 24th January 2014.

The Kempegowda International Airport at Bangalore is one of the fastest growing airports in the country. It is also envisioned to develop this airport as a hub for the Southern Region and South East Asia. This calls for expansion of the facilities at the airport from time to time in line with traffic growth and the Master Plan. Keeping this in mind, GoK has provided around 4008 acres of land to BIAL on lease basis to cater to the ultimate capacity of about 50 million passengers with the configuration of two parallel, simultaneously operatable runways and the corresponding airside and land side facilities. It may be clarified that no land has been provided exclusively or specifically for commercial or non-airport activities. However, as per the master plan approved by BIAL Board, about 720 acres is available for such activities. As mentioned in our earlier letter dated 26th August 2013, the guiding principles for utilization of land are contained in the Land Lease Deed, Concession Agreement and State Support Agreement.

The Consultation Paper recognizes projects proposed to be capitalized in the current control period and also future expansion projects viz. Terminal 2, Second Runway and other associated works that are proposed to be commenced and some costs incurred during the current control period, carried as work-in-progress at the end of the current control period and capitalized in the next control period. Based on the Debt-Equity gearing acceptable to the lenders, a sizable amount towards such capital expenditure would have to be brought-in as Company's own contribution. GoK has clarified in its letter dated 26th August 2013 that it is not inclined to infuse any fresh equity capital in to the Company.

The issues arising from the Consultation Paper were discussed in the meeting held under the Chairmanship of the Secretary to Govt. of India, Ministry of Civil Aviation on 16th July 2013. Based on these discussions, the Ministry of Civil Aviation has also addressed a letter to the AERA on 24th September 2013 (cited at 4 above).

Accordingly, the Addendum to CP No. 14 dated 26th June 2013 (CP No. 22 dated 24th January 2014) has proposed Aeronautical tariffs and UDF as per 40% Shared Revenue till. It is also proposed that the part of Non-Aeronautical Revenue which would remain in the hands of BIAL under 40% Shared Revenue till would be used by BIAL for Capital Expenditure needs towards Airport expansion.

With reference to the DO letter dated 24th October 2013 of AERA referred at (5) above, we have no issue with the stand taken by the Authority that whatever revenue the BIAL may generate from commercial exploitation of the 'excess' land should be entirely ploughed back in to the airport project. This is in consonance with our views (please refer our letter dated 26th August 2013) wherein we have stated that the passengers' interest is paramount. We feel that our passengers should enjoy world class facilities.

However, BIAL has represented that the proposed methodology of reducing the part of Non-Aeronautical Revenue which would remain in the hands of BIAL under 40% Shared Revenue till from the RAB at the end of the current control period tantamounts, in effect, to making it a Single Till. Further, deducting upfront market value of land used for commercial development from the RAB might result in skewed cash flows. It need not be emphasized that for large infrastructure projects, especially for an airport like BIA which is currently undergoing expansion, adequate and healthy cash flow is an indispensable requirement. Any measure that severely chokes the cash flow would be exposing the airport to enormous operational risks including the risk of plummeting standards of maintenance and inability to meet debt repayment covenants.

Considering all the above aspects, the Government of Karnataka would like to inform as under:

1. GoK supports the views of the Ministry of Civil Aviation in their letter to the AERA dated 24.09.2013 and the proposal of AERA in the Addendum CP No. 22/2013/14 dated 24th January 2014 with regard to the Shared Revenue Till, considering their domain expertise.

2. GoK requests AERA to consider the concerns expressed by BIAL with regard to the proposal of reducing the part of Non-Aeronautical Revenue which would remain in the hands of BIAL under 40% Shared Revenue Till and deducting upfront market value of land used for commercial development from the RAB.

3. As regards monitoring land transactions is concerned, AERA may commission an independent study from a professional agency (as has been proposed by AERA in respect of other aspects such as assessing reasonableness of asset allocation, reasonableness of capital costs incurred, etc.) and a copy of such study report may be made available to the GoK.

Yours faithfully,

Vandita Sharma

**(Vandita Sharma)**
Principal Secretary to Government,
Infrastructure Development Department.

**Copy to:**

1) JS, MoCA, GoI
2) MD, KSIIDC