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Mr. Ram Krishan
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Dear Mr. Ram Krishan,

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

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

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

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

While we support the continued development of HYD, any tariff determination must strike an appropriate balance between:

- Airport financial sustainability;
- Efficient and prudent infrastructure development;
- Affordability for passengers; and
- Sustainable long-term traffic growth.

The present determination is particularly important for HYD because the Fourth Control Period combines the true-up of a major expansion period with a further large forward-looking capital programme, including terminal, airside, landside and support infrastructure that will materially shape airport charges over this and subsequent control periods.

Given that airport charges are ultimately borne by airlines and passengers, IATA supports AERA's continued application of user-pay principles, efficiency incentives, and rigorous scrutiny of capital and operating expenditure.

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

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

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

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

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

2. True Up of Pre-control Period Entitlement (PCE), First Control Period and Second Control Period

IATA supports AERA's proposal to maintain the treatment established in the Third Control Period until the Supreme Court has reached final determinations on the issues under appeal. IATA considers this approach appropriate because legacy-period entitlements, particularly where disputed or under judicial consideration, should not be converted into immediate tariff burden for current and future users before legal finality. The recovery of such amounts through UDF or other airport charges would be difficult to reverse in practice once collected from a dispersed passenger base over multiple years.

IATA therefore requests AERA to retain the treatment adopted in the Third Control Period and avoid admitting any additional disputed legacy claims until all related appeals and legal challenges are finally resolved.

3. True Up of Third Control Period

3.1 Traffic

IATA notes that actual passenger traffic during the Third Control Period reached 118.1 million passengers, exceeding AERA's forecast by approximately 5%. Given that airport costs are largely fixed, the higher-than-forecast passenger volumes should result in a lower per-passenger cost burden. Airlines therefore expect the benefits of stronger traffic performance to be reflected fully in the true-up process and ultimately in lower charges for airport users.

This outcome is also relevant for the Fourth Control Period because it demonstrates the importance of ensuring that forecast risk is not treated asymmetrically. Where actual traffic exceeds forecast, users should receive the benefit through lower unit costs and appropriate true-up. Conversely, where traffic or cost assumptions underperform, the regulatory framework already provides mechanisms through which efficient variances may be addressed. This confirms that airport users are exposed to a meaningful share of demand and revenue risk through the regulatory model – and reinforces the need for corresponding discipline in the treatment of WACC, O&M escalation and future capital recovery.

3.2 Capital Expenditure, Depreciation and RAB

IATA supports AERA's prudent review of the airport's capital expenditure and agrees that airport users should only bear the costs of investments that are efficient, necessary, and appropriately scoped. While airlines recognize the importance of the capacity enhancements delivered during the Third Control Period, cost overruns arising from scope changes, project delays, procurement decisions, or other commercial factors should not automatically be transferred to airlines and passengers.

In assessing these cost increases, the key issue is the allocation of risk. AERA should clearly determine which cost escalations are attributable to factors that should be borne by the airport operator, which may justifiably be recovered from users, and whether any costs should be shared. For example, in relation to the claims raised by Megawide and Beumer, it would be important to understand what contractual protections and risk-allocation mechanisms were established to safeguard airport users from the impacts of price escalation, contractor claims, and project delays. Absent such protections, airport users should not be expected to bear the full financial consequences of risks that are fundamentally within the airport's sphere of control.

IATA requests AERA to assess each material cost variance against the original approved scope; evidence of user consultation; procurement method and contractual risk allocation; whether the claimed escalation was unavoidable; whether the relevant asset has been commissioned and is available for aeronautical use; and whether any portion of the cost should properly be allocated to non-aeronautical or wider airport ecosystem users.

It should also be recognized that cost escalations do not only affect current-period expenditure but can permanently inflate the Regulatory Asset Base over the life of the assets. This results in higher depreciation and return-on-capital allowances, thereby increasing airport charges over many years beyond the level originally envisaged.

IATA supports the statement by AERA, "The metro stations cater only to the airport. To clarify, metro stations for city side, aero city or any non-aeronautical services will not be considered as part of RAB". Further, we request AERA to apply greater scrutiny of the associated enablement costs of the facility that should rightfully be funded by the party that will receive the revenues generated from the Metro services, and not to be recovered from the airport users through the ARR determination.

Overall, it is disconcerting that GHIAL is claiming a higher capex spend vs the approved amount (₹7,177 crore vs ₹6,090 crore, approximately 18% higher), despite some planned and approved capex items not being pursued. While we acknowledge AERA's high-level validation of the additional expenditure, airport users were not adequately consulted on the scope changes and cost increases that have been subsequently accepted. AERA's acceptance appears to rely largely on explanations relating to unforeseen circumstances, including force majeure events and the pandemic, together with assurances that expenditures remain within normative cost benchmarks. However, this approach risks shifting a significant portion of airport business risk to users, even though such risks would ordinarily be expected to be borne, at least in part, by the airport operator.

This issue is particularly relevant in the determination of the Weighted Average Cost of Capital (WACC). The current regulatory framework provides considerable protection to airport operators through mechanisms such as ex-post cost true-ups and the recovery of approved investments through the RAB. These arrangements substantially reduce the residual risks faced by the airport. Accordingly, AERA should consider whether the allowed rate of return appropriately reflects the actual risk exposure of the operator and should assess whether a lower WACC is justified to reflect the significant risk mitigation embedded within the regulatory regime.

IATA recognizes the need for investors to earn a reasonable return on efficiently incurred investments. However, as the Regulatory Asset Base continues to increase significantly, financing costs are becoming an increasingly important driver of airport charges. It is therefore essential that AERA continues to apply rigorous scrutiny to capital investment decisions and financing arrangements, ensuring that only efficiently incurred and efficiently financed investments are included in the regulatory framework and recovered from airport users.

3.3 WACC

IATA believes there is a clear need for AERA to reassess the proposed WACC to ensure that the allowed rate of return accurately reflects the actual risks borne by the airport operator. There appears to be an upward bias in the current approach as a significant portion of project, regulatory and demand-related risks are effectively transferred from the airport operator to airport users through the prevailing regulatory framework.

As noted above, airport users are often required to bear the consequences of capital cost overruns, scope changes, delays, and other unforeseen expenditure through inclusion in the RAB and subsequent cost recovery mechanisms. In addition, the true-up process further reduces the airport operator's exposure to forecasting errors and other business risks by providing opportunities to recover costs that exceed original assumptions. These regulatory protections materially lower the risks faced by investors compared to those of a fully commercial enterprise.

3.4 Aeronautical O&M Expenses

IATA notes that the actual manpower hire expense is around 68.6% higher than the level approved by AERA. While GHIAL attributes the increase largely to statutory minimum wage revisions, this explanation appears insufficient on its own.

The increase in statutory minimum wages would only directly affect personnel at or near the minimum wage threshold. It is therefore unclear why such revisions would result in a substantial increase across the entire manpower hire portfolio. Furthermore, when approving the Third Control Period, AERA had already considered the airport's traffic forecasts, terminal expansion programme and the associated increase in operational staffing requirements. Consequently, airlines would expect a significant portion of the growth in manpower requirements to have been anticipated in the original allowance.

IATA therefore requests AERA to undertake further scrutiny of:

- The composition of outsourced manpower and wage bands affected by minimum wage increases
- The extent to which the increase relates to additional headcount versus wage inflation
- Productivity improvements achieved following terminal expansion and digitalization initiatives
- Benchmarking against comparable Indian airports.

Absent stronger evidence, airlines remain concerned that the magnitude of the increase may reflect inefficiencies that should not be passed through to users.

IATA notes the inclusion of 16 personnel deployed for general capex monitoring at an annual cost of approximately INR 5.4 crore. While effective project oversight is important, it is unclear

- whether these personnel were engaged on a temporary basis solely for the expansion programme
- whether their functions overlap with those already performed by the Project Management Consultant (PMC)
- whether these costs will continue into the Fourth Control Period operating cost base.

Given that a PMC was already engaged for the capital programme, airlines request clarification on the distinct role performed by these additional personnel and whether these costs are genuinely incremental. If their role is temporary and tied to a specific group of projects, such costs should not become a permanent addition to future O&M allowances. Truing these costs for the third control period would unnecessarily inflate the O&M baseline going into the fourth control period. The concern is not limited to the Third Control Period true-up; if these costs are accepted without adequate normalization, they risk becoming embedded in the Fourth Control Period O&M baseline, upon which future escalation and expansion-related adjustments will be applied.

IATA also supports AERA's proposed treatment of legal expenses claimed by GHIAL and agrees that such expenses should not be automatically included in the aeronautical cost base. It is concerning that GHIAL has declined to provide the information necessary for AERA, as the economic regulator, to properly assess the nature and legitimacy of these costs, citing confidentiality concerns. At a minimum, GHIAL should be able to provide a summary schedule identifying the legal matters involved, their purpose, and the associated costs, without disclosing privileged information. Such transparency is essential to determine whether the expenses are related to the provision of aeronautical services and are therefore recoverable by airport users.

In the absence of sufficient supporting information, airlines are unable to assess the prudence and relevance of these costs. Accordingly, IATA recommends that AERA disallow all legal expenses for regulatory purposes unless and until GHIAL provides adequate evidence demonstrating that the expenditure is directly related to aeronautical activities and is both necessary and reasonable. This approach would be consistent with the principle that the burden of proof rests with the airport operator and would best protect the interests of airport users from bearing costs that have not been adequately justified.

Overall, airlines support AERA's enhanced scrutiny of O&M costs, enforcing the cost allocation methodology and rejecting expenses that should not be borne by airport users such as CSR and the new Strategic, Management and Technical Service Fees related expenses. Airlines encourage AERA to continue applying a robust prudence review to ensure that only efficient and necessary costs are recovered through airport charges.

4. Fourth Control Period

4.1 Chapter 6: <u>Traffic Projections for the Fourth Control Period</u>

IATA notes that Table 154 presents the traffic proposed to be considered by the Authority for the Fourth Control Period. While the passenger traffic volumes proposed by the Authority are identical to the revised volumes submitted by GHIAL, the FY27 YoY growth percentages shown under the Authority's proposal differ from those submitted by the Operator. For example, Domestic passenger traffic for FY27 is shown as 28.7 Mn under both the Operator's submission and the Authority's proposal; however, the corresponding FY27 YoY growth is shown as 11.20% for the Operator and 14.70% for the Authority. Similarly, International passenger traffic remains 6.3 Mn under both proposals, while the FY27 YoY growth changes from 10.50% to 15.30%; and Total passenger traffic remains 35.0 Mn, while the FY27 YoY growth changes from 11.10% to 14.80%.

IATA understands that this difference may arise because the Authority has recalculated the FY27 YoY growth percentages with reference to the actual FY26 traffic base, rather than the earlier projected FY26 base used by the Operator. This interpretation appears to broadly reconcile with the revised FY26 actual traffic figures shown in Table 11, where FY26 passenger traffic is recorded as 25.02 Mn Domestic, 5.46 Mn International and 30.48 Mn Total. When the FY27 volumes in Table 154 are compared against these actual FY26 figures, the resulting growth rates broadly align with the Authority's FY27 percentages, subject to rounding.

However, the presentation in Table 154 remains unclear because the table describes the figures as "proposed by Authority", while the forecast volumes for FY27–FY31 remain unchanged from the Operator's revised submission. This creates ambiguity on whether the Authority has merely restated the FY27 growth percentages against the actual FY26 base, or whether it has independently revised the traffic forecast using actual FY26 as the base. If the latter was intended, the annual traffic volumes and corresponding control-period totals should also be recalculated.

Given that the total passenger traffic of 218.30 Mn from Table 154 is subsequently used for yield computation in the ARR/YPP tables, including Table 324, IATA requests the Authority to clarify the precise basis of Table 154. Specifically, the Authority may kindly confirm whether the traffic volumes proposed for the Fourth Control Period are intended to remain identical to GHIAL's revised forecast, with only the FY27 YoY growth percentages recalculated against the actual FY26 base; or whether any corrected annual traffic volumes are required to reflect the Authority's proposed forecasting methodology.

4.2 Capex and Depreciation for RAB

IATA recognises that Hyderabad Airport will require continued investment to accommodate future growth and maintain operational resilience. However, the key regulatory question is not whether investment is required, but whether the timing, scale, sequencing and scope of the proposed investments are appropriately aligned with demonstrated demand and efficient asset utilization.

IATA encourages the Authority to assess not only the cost efficiency of individual projects, but also whether the proposed capacity additions are being introduced at the appropriate time and at an appropriate scale. Where existing infrastructure can be further optimized, or where capacity can be introduced progressively through phased development, such options should be considered before significant additions are incorporated into the Regulatory Asset Base.

Accordingly, IATA supports continued scrutiny of project scope, phasing, allocation methodologies, useful lives and delivery assumptions in addition to cost moderation measures already proposed by the Authority. Some specific observations have been mentioned herewith:

Reference	**Observation**
Table 156 Existing Southern Terminal Capacity	The PIF indicated that the enhanced southern terminal could achieve approximately 46–47 MPPA, whereas Table 156 appears to indicate a post-enhancement capacity of approximately 40 MPPA. <u>Clarification is requested regarding the reduction in achievable capacity, particularly where project costs appear broadly unchanged. If the higher capacity remains achievable, consideration should be given to delaying subsequent capacity expansion and associated CAPEX.</u>
Clause 7.3.35 Stand 53 MARS Conversion	Further justification is requested regarding the proposed pavement works associated with conversion of Stand 53 to a MARS stand. The existing stand geometry appears capable of accommodating Code E aircraft operations, and it is unclear whether pavement strengthening requirements have been demonstrated through engineering assessment.
Table 178	IATA supports the Authority's proposed moderation of costs entering the RAB. However, a reduction in proposed costs alone does not address concerns where the project may deliver less capacity than previously presented during the PIF process.
Table 191 Soft Costs	While IATA acknowledges the Authority's moderation of soft costs, the proposed allowance of approximately 10% remains towards the higher end of typical benchmark ranges. Given the scale of the project, economies of scale would be expected to result in lower proportional soft costs.
Table 192 – Northern Development Scope and Timing	In addition to assessing cost efficiency, the Authority should consider whether all elements of the proposed development are required within the currently proposed timeline. Capacity expansion could potentially be delivered in stages, reducing capital intensity and better aligning investment with realised demand. IATA reiterates comments previously submitted during the PIF process regarding the timing and scale of the northern development.
Runway Development Strategy	The Authority should assess whether all reasonable opportunities for operational optimization of the existing runway system have been explored before significant new runway capacity is introduced. Consideration should also be given to whether elements of the proposed runway development, including associated taxiways, rapid exit taxiways and supporting infrastructure, could be delivered progressively rather than upfront. • The construction of a new runway with all associated taxiways and equipment increases airfield capacity far more than what is required in the medium term. This is a large complex project with high capital value and ongoing operational and maintenance costs. It would therefore appear premature to construct this infrastructure in the medium term. The airport states on pg. 11 that the maximum capacity of the current runway is 46-47 ATMs per hour. This would appear to be conservative – given that HYD has 2 existing runways though with dependent operations. Gatwick airport can currently handle 55 ATMs per hour (sustained over several hours) off one runway. Is it not possible for HYD to develop this efficiency too with the correct CONOPS and facilities? Mumbai operates at 52

	ATM per hour maximum and achieved this through operational and infrastructure efficiency. Gatwick in their proposal for a similar scenario they are developing are projecting a maximum ATMs of 70 per hour, Dubai currently manages 65 with a large portion of widebody aircraft. If HYD could achieve a similar result that would provide enough runway capacity until 2033 and defer the need for this large capital expenditure and increase in operational and maintenance costs. Is this something that the airport has looked at as a possibility to defer the construction of the new runway? • It would also reduce operational and maintenance costs.
Stand Development Programme	The proposed addition of significant contact and remote stand capacity should be reviewed to determine whether all stands are required concurrently. Phased stand delivery may provide a more efficient alignment between infrastructure provision and demand growth.
ARFF Facilities	Additional information is requested regarding the need for the proposed ARFF facilities and whether alternative station locations or deployment strategies were assessed. Opportunities to minimize long-term operating costs while maintaining required response performance should be explored.
Clause 7.3.86 Northern Terminal Capacity Addition	If the southern terminal can achieve the capacity levels previously identified during the PIF process, the timing of northern terminal commissioning and associated capitalization assumptions may require reassessment. The Authority should consider whether future terminal capacity could be delivered in stages rather than through a significant step increase in capacity.
Table 202 Soft Costs	IATA notes that the Authority has reduced the proposed soft cost allowance from 14% to 10%; however, this remains towards the higher end of typical benchmark ranges. Given the scale of the project and the opportunity to leverage programme-wide management and delivery structures, economies of scale would ordinarily be expected to result in lower proportional soft costs. Accordingly, IATA encourages the Authority to further assess whether the proposed 10% allowance appropriately reflects these efficiencies before inclusion in the RAB.
Table 206 CAPEX Profiling	Significant expenditure is concentrated in the first two years of the Control Period, with materially lower expenditure proposed thereafter. The basis for this expenditure profile is not clearly explained and should be reviewed against expected project delivery schedules.
Tables 221 & 222 Asset Classification	IATA supports the Authority's proposal to classify these assets as Common rather than fully Aeronautical.
Table 224	Given the Authority's proposed treatment of External Utilities as Common assets, clarification is requested regarding the allocation percentages used. It would appear appropriate to apply the same allocation basis used for terminal assets.
Table 225	Given the proposed treatment of External Utilities and Landside Roads as Common assets, the allocation methodology should be reviewed to ensure consistency with the terminal aero/non-aero allocation approach.

Table 227	The aero/non-aero allocation percentages used appear inconsistent with the terminal allocation methodology and should be reviewed for consistency.
Table 228 Programme Deliverability	Given the volume of terminal, runway, utility, landside and road works proposed for delivery by FY30, the Authority should consider assessing the practical feasibility of delivery, including construction market capacity, supply chain availability and programme execution risks. Where project delivery assumptions are uncertain or dependent on multiple parallel workstreams, the timing of regulatory recognition should remain conservative. Users should not bear tariff recovery based on commissioning dates that may not be achievable in practice.
Table 232 Useful Lives	The Authority may wish to reassess the useful lives applied to certain asset classes. Concrete apron pavements are typically designed for long-term service lives and roads would ordinarily be expected to exceed the lives currently reflected in the Consultation Paper. Consideration may also be given to introducing separate asset classes for security fencing and boundary wall infrastructure where appropriate.

4.3 Incremental ARR, Asset Availability and User-Pay Principles

IATA supports the Authority's proposal to adopt an Incremental ARR approach for identified high-value capital projects at HYD. The Fourth Control Period includes a significant capital programme across terminal, airside, stand, utility and landside infrastructure. While IATA recognises that such investments may be required to support HYD's long-term growth, tariff recovery should remain aligned with the point at which the relevant assets are commissioned, operationally available and capable of providing a tangible aeronautical benefit.

The approach is particularly relevant in HYD given the uncertainty around the effective capacity of the enhanced Southern Terminal and the scale of future capacity proposed through the Northern Development Programme. During the PIF process, stakeholders understood that the enhanced Southern Terminal could accommodate approximately 46–47 MPPA, while the Consultation Paper appears to reflect a lower capacity assumption of around 40 MPPA. If the higher capacity remains achievable, the timing and necessity of additional terminal capacity may require reassessment.

IATA emphasizes that the Incremental ARR approach does not deny recovery of prudent investment. Rather, it aligns the commencement of recovery with asset commissioning, operational availability and user benefit. This protects airlines and passengers from paying prematurely for infrastructure that is not yet in service or not yet required, while preserving the airport operator's ability to recover efficiently incurred investment through established regulatory mechanisms.

- IATA understands the airport operator's view that deferring ARR recognition until assets become operational may create financing and cash-flow timing implications for the airport. However, these timing effects do not in themselves justify accelerating tariff recovery from users. Efficient financing costs incurred during construction are not ignored under regulatory frameworks and can be recognised through mechanisms such as capitalisation of prudent expenditure, inclusion within the Regulatory Asset Base (RAB), and the application of an appropriate return on capital once the asset enters service. The existence of a temporary financing requirement should not require users to pay a return on assets that are not yet available for use.

- The Authority's approach is also broadly consistent with international airport regulatory practice. Under the United Kingdom's Regulatory Asset Base (RAB) framework, airports are permitted to recover prudent investment and earn a reasonable return on efficiently incurred capital expenditure. However, the recovery of costs is generally linked to the point at which assets enter service and provide operational benefit to users. Similarly, across a number of European airport regulatory regimes, the prevailing philosophy is that users should begin paying for infrastructure when it becomes operational and capable of delivering service, rather than funding capacity years before it is available.

- While airport operators may legitimately incur financing costs during construction, regulators typically address these concerns through capitalization policies, financeability assessments, allowed returns and other regulatory mechanisms, rather than requiring current users to pre-fund future infrastructure. For example, during major airport expansion programmes such as new terminals, runways or supporting infrastructure, regulators generally seek to ensure that investors receive recovery of prudent expenditure and an appropriate return, while avoiding the transfer of construction risk and timing risk to current users. The objective is to strike an appropriate balance between airport financing and user protection.

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

- IATA also notes that India's historical experience with introduction of an Airport Development Fee (ADF) highlights many of the challenges associated with pre-funding of infrastructure. While the legal and regulatory circumstances were different, the underlying policy issue remains relevant. ADF effectively required current passengers to contribute towards future airport development before the related infrastructure was available for use. This generated significant concern among airlines because it weakened the link between charges collected and services received. By contrast, recovery linked to commissioned assets is more closely aligned with the principles of user-pay, cost-relatedness and transparency, because charges are associated with infrastructure that users can actually access and utilize.

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

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

IATA therefore supports AERA's use of Incremental ARR as an appropriate mechanism to balance airport development, investor certainty and user protection. The final tariff determination should ensure that project-specific ARR is reflected only when the relevant assets are available for use and delivering the capacity or service outcomes for which users are being charged.

4.4 Soft Costs

While IATA acknowledges the Authority's reduction of soft costs from 14% to 10%, the resulting allowance remains towards the upper end of benchmark ranges for a programme of this nature. This is particularly relevant given that, during the Third Control Period true-up, the Authority accepted the independent recommendation of RITES to restrict Design Development and PMC costs to 3% of hard costs. While airlines recognise that the Fourth Control Period programme differs in scope and complexity, the contrast between the two approaches suggests that further scrutiny may be warranted. Given the scale of the proposed programme and the opportunity to achieve economies of scale across multiple projects, IATA encourages the Authority to reassess whether a 10% allowance appropriately reflects efficient market practice and the benefits that should arise from programme-wide delivery efficiencies.

4.5 WACC

The determination of the WACC should appropriately reflect the actual level of risk borne by airport investors. The asset beta is intended to measure the systematic risk faced by investors and, therefore, should be calibrated to reflect the specific characteristics of the regulatory framework under which the airport operates. Where key business, investment and revenue risks are substantially mitigated through regulatory mechanisms and ultimately transferred to airport users, the appropriate asset beta should be lower than that observed for comparable firms operating in competitive markets. Failure to recognise this distinction would result in investors being compensated for risks that they do not materially bear, leading to an overstated cost of equity and an excessive WACC.

A key feature of the regulatory framework is the existence of ex-post true-up mechanisms, which materially reduce the downside risks faced by the airport operator. To the extent that efficient cost increases, traffic shortfalls, forecasting variances, and other revenue-related under-recoveries can be addressed through subsequent regulatory adjustments, the airport is insulated from risks that would ordinarily be borne by shareholders in a competitive market. These mechanisms provide a high degree of revenue and cash-flow certainty and significantly reduce exposure to forecasting and business-cycle risks. As a result, the systematic risk faced by investors is lowered and should be reflected in the estimation of the asset beta and allowed cost of equity.

Similarly, the RAB-based regulatory model provides investors with a significant degree of protection through the ability to recover efficiently incurred capital expenditure, together with an allowed return over the life of the asset. Combined with cost pass-through arrangements and true-up mechanisms, this substantially limits the airport operator's exposure to many of the risks associated with investment decisions, project delivery and demand fluctuations. In contrast, airport users are increasingly required to bear the consequences of cost overruns, changes in project scope, and other unforeseen expenditure through higher charges over time.

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

The continued growth of the Regulatory Asset Base further reinforces the need for careful calibration of the WACC. As the RAB expands, financing costs become an increasingly significant component of airport charges. Even a modest overstatement of the allowed rate of return can result in substantial additional costs being borne by airlines and passengers over many years. It is therefore essential that AERA adopts a conservative, evidence-based approach to the estimation of WACC parameters and gives appropriate weight to the risk-mitigating features embedded within the regulatory framework.

IATA therefore urges AERA to review the proposed asset beta and make an appropriate downward adjustment to reflect the reduced risk profile arising from RAB-based regulation, cost recovery mechanisms and ex-post true-up arrangements. The allowed return should be commensurate with the risks actually faced by investors, not the risks that have effectively been transferred to airport users. Such an approach would better align regulatory outcomes with established regulatory finance principles while promoting a fair balance between investor interests and the long-term interests of airlines and passengers.

4.6 Inflation

IATA acknowledges AERA's proposal, as outlined in Section 7 of the Consultation Paper, to base inflation assumptions for the Fourth Control Period on credible, forward-looking benchmarks such as the RBI Survey of Professional Forecasters. The use of an independent and forward-looking macroeconomic benchmark is appropriate and represents a sound starting point for regulatory forecasting.

However, IATA emphasizes that the application of inflation assumptions particularly as a uniform escalation factor for cost projections should be carefully calibrated. As currently proposed, inflation appears to be applied as a generalized growth parameter in projecting operating expenditure across the control period. If applied mechanistically at an aggregate level, this approach risks overstating costs and exerting undue upward pressure on tariffs.

Inflation does not impact all cost components equally. Airports, as regulated entities, retain both the ability and the obligation to manage a significant portion of their cost base through efficiency improvements, procurement strategies, and productivity gains. Applying a single inflation factor across operating expenditure effectively assumes homogeneous cost sensitivity and limits incentives for cost discipline.

Specifically, applying full inflation indexation to operating expenditure forecasts without distinguishing between controllable and uncontrollable cost elements would result in automatic cost pass-through. This would dilute the principle that only efficient costs should be recoverable and would weaken incentives for the airport operator to achieve productivity improvements over the control period.

IATA notes that, under AERA's current framework, inflation is primarily used to escalate operating expenditure projections, while capital expenditure already embeds inflation through procurement pricing, escalation clauses, and contingency provisions. In addition, returns are calculated using a nominal WACC, which inherently incorporates inflation expectations. In this context, a broad application of inflation to multiple building blocks risks compounding its effect within the regulatory model.

This creates a material risk of:

- Double counting, where inflation is embedded in capex and WACC while also being applied to cost projections; and
- Over-indexation, where inflation is applied to cost categories that are not genuinely exposed to inflationary pressures.

A similar concern arises with regard to operating expenditure, where many cost components such as labour contracts and service agreements already incorporate expected inflation within financial forecasts. Applying an additional regulatory inflation uplift on top of these embedded assumptions would result in inflation being recognised more than once, regardless of actual efficiency outcomes.

Taken together, these effects could lead to systematic over-recovery from users, contrary to AERA's statutory mandate to ensure efficient and cost-reflective tariffs.

Accordingly, IATA submits that inflation should not be applied as a uniform escalation factor across aggregate expenditure. Instead, AERA should adopt a selective and disaggregated approach, whereby:

- Inflation adjustments are limited to clearly identified uncontrollable cost elements;
- Where applied, inflation is linked to specific, verifiable external indices (e.g. energy, utilities); and
- Controllable costs are subject to efficiency assumptions, rather than automatic indexation.

This approach should be complemented by robust true-up mechanisms to reconcile forecast assumptions with actual outcomes over time that are deemed efficient. Such a framework would ensure that inflation is reflected in a manner that is proportionate, evidence-based and consistent with regulatory best practice. It would also safeguard against over-recovery, while preserving appropriate incentives for efficiency and cost discipline, thereby aligning with AERA's objectives of protecting user interests while allowing a fair and reasonable return to the airport operator.

4.7 Aeronautical Operation & Maintenance Expenses

IATA appreciates AERA's detailed review of the O&M expenditure proposed by GHIAL for the Fourth Control Period and supports the Authority's efforts to apply prudence, efficiency and cost-allocation principles to protect airport users from bearing unnecessary costs. Based on our review, we wish to raise the following concerns and recommendations.

4.7.1 Staff Costs:

While airlines acknowledge that some increase in staffing costs may be required to support airport growth and the future expansion of facilities, we are concerned by the magnitude of the projected increase in manpower-related expenses.

GHIAL has proposed significant growth in both direct staff costs and outsourced manpower costs despite ongoing investments in digitalization, automation, self-service facilities and process improvements. These investments should generate productivity gains and partially offset future workforce growth requirements. Airlines therefore support AERA's decision to moderate the staffing growth assumptions and encourage the Authority to continue applying efficiency targets throughout the Fourth Control Period. Any increase in headcount should be supported by clear operational requirements linked to actual commissioning of new facilities rather than forecast growth alone.

The Third Control Period true-up identified manpower hire expenses that significantly exceeded previously approved levels, with justification largely based on minimum wage escalation, Digi Yatra implementation and capex-monitoring activities. While wage inflation is a legitimate cost driver, we do not consider it sufficient to justify the overall increase observed. Not all outsourced personnel are paid at or near statutory minimum wage levels, and prior tariff determinations should already have incorporated expected growth arising from terminal expansion and increasing traffic volumes.

For the Fourth Control Period, IATA recommends that:

- Staffing projections be linked to actual commissioning dates and utilization levels of new facilities.
- Productivity improvements resulting from digitalization and automation be explicitly reflected in manpower forecasts.
- Airport-specific benchmarking be undertaken against comparable Indian airports.
- Any costs associated with temporary project-related activities be excluded from the ongoing O&M base.

4.7.2 Capex Monitoring Personnel:

Airlines note that GHIAL previously employed 16 personnel for general capex monitoring at an annual cost of approximately INR 5.4 crore, in addition to the Project Management Consultant (PMC). The rationale for maintaining such resources remains unclear. We request AERA to confirm:

- Whether these personnel remain temporary resources linked to specific projects
- Whether any overlap exists with PMC responsibilities
- Whether these costs have been embedded within future O&M forecasts

Project-related monitoring activities should not become a permanent burden on airport users once the underlying projects are completed.

4.7.3 Repairs & Maintenance (R&M):

Airlines recognise the need for adequate maintenance of airport infrastructure to ensure safe and efficient operations. However, as major assets are newly commissioned or recently expanded, airlines expect maintenance programmes to reflect asset life-cycle efficiencies. AERA should continue scrutinizing whether projected growth in R&M expenditure is proportionate to asset additions and ensure that costs arising from inefficient asset management or procurement practices are not passed through to users.

4.7.4 Professional and Consultancy Expenses
Airlines support AERA's cautious review of consultancy costs. Consultancy expenses should be recoverable only where they are directly associated with airport operations and provide demonstrable value to airport users. External advisory services that are strategic, shareholder-related, corporate, transactional or otherwise discretionary should not be included in the aeronautical cost base. The burden of proof should remain with GHIAL to demonstrate the necessity and benefit of each major consultancy engagement.

4.7.5 Corporate Cost Allocation:
Airlines continue to have concerns regarding corporate overhead allocations from the wider GMR group. Only costs directly attributable to the operation of Hyderabad Airport should be recoverable through airport charges. Corporate allocations should be supported by transparent methodologies, detailed supporting schedules and evidence that airport users receive a direct benefit from the services provided. Unsupported allocations should be excluded from the aeronautical cost base.

4.7.6 Digitalization Costs:
Airlines support investments that improve operational efficiency, passenger facilitation and airport resilience. However, digitalization initiatives should not be treated as an automatic justification for higher airport charges. Projects should be assessed individually, with a clear demonstration of operational benefits, measurable productivity improvements and avoidance of duplicate systems. Airlines support AERA's methodology of allocating only a portion of digitalization costs to aeronautical services and encourage continued scrutiny of these expenditures through future true-ups.

4.7.7 Bank Charges, Working Capital Costs and Financing-Related Expenses:
Airlines support AERA's continued scrutiny of these items as these expenses should only be recoverable where they are unavoidable, prudently incurred and directly linked to airport operations. Users should not bear financing inefficiencies or costs arising from management decisions that are within the airport operator's control.

4.7.8 Utility Costs:
Given the substantial investments in modern airport infrastructure and energy-efficient technologies, airlines expect the airport to demonstrate ongoing efforts to improve energy and water efficiency. AERA should require GHIAL to demonstrate:

- Consumption trends per passenger
- Efficiency improvements achieved
- Recovery of utility costs from commercial users and concessionaires
- Benefits arising from sustainability initiatives

Utility expenditure growth should be justified by actual operational requirements rather than passenger growth alone.

4.7.9 Concession Fee:
Airlines support AERA's proposal to continue calculating concession fees on the basis of revised aeronautical revenues and applying appropriate cost allocation principles. Given the material impact of concession fees on airport charges, AERA should continue ensuring that the calculation methodology is transparent, consistent and aligned with the regulatory framework.

4.7.10 Cargo, Ground Handling and Fuel Farm (CGF):
IATA supports AERA's approach of treating CGF services consistently with the definitions contained in the AERA Act and ensuring symmetry between cost and revenue treatment. Where costs are recognized as aeronautical, the corresponding revenues must also be included in the aeronautical revenue base to ensure airport users receive the full offsetting benefit.

4.7.11 Strategic, Management and Technical Service Fees:
Airlines strongly support AERA's rejection of attempts to recover shareholder-related strategic, management or technical service fees through airport charges. Such costs are fundamentally different from airport operating expenditure and should be borne by shareholders. Airport users should not fund shareholder returns through management fee arrangements.

IATA supports AERA's efforts to moderate O&M growth and believes further scrutiny remains warranted in relation to manpower costs, outsourced services, corporate allocations, consultancy expenses and project-related staffing. The airport should be required to demonstrate tangible efficiency improvements from its digitalization and expansion programmes, with resulting savings shared with airport users rather than allowing costs to rise in parallel with capacity expansion. Airlines therefore encourage AERA to maintain a rigorous prudence review and allow only efficient, justified and transparently supported expenditures into the aeronautical cost base.

4.8 Related Party Transactions
IATA notes that GHIAL engages in a substantial number of transactions with related parties across various activities, including corporate cost allocation, management services, manpower outsourcing, IT services, advertising, rental arrangements, concession agreements and other operational services. The consultation paper also notes that the Board has approved policies governing Related Party Transactions, that the Statutory Auditor has confirmed compliance with applicable requirements of the Companies Act and SEBI regulations, and that Government and AAI nominees are represented on the Board.

While IATA acknowledges these governance arrangements, compliance with corporate governance requirements alone should not automatically imply that all related party transaction costs are efficient, prudent and appropriate for recovery through regulated airport charges. Regulatory scrutiny serves a fundamentally different purpose from statutory compliance. The key consideration for airport users is whether costs arising from related party arrangements reflect arm's-length, market-based pricing, provide demonstrable value to airport operations, and are no greater than those that would have been incurred through a transparent and competitive procurement process – which is the area of focus for AERA. Absent such evidence, there is a legitimate concern that related party arrangements may be used to shift activities, their costs and revenues outside the direct scope of regulatory and user scrutiny, resulting in inflated charges and the extraction of additional returns by affiliated entities beyond what would be achievable under competitive market conditions.

Given the significant scale of the regulatory asset base, operating expenditure and future capital investment proposed for the Fourth Control Period, airlines are concerned that insufficient scrutiny of these arrangements could result in airport users funding costs that exceed efficient market benchmarks. This concern is particularly relevant in areas such as corporate allocations, management services, technical services, manpower outsourcing, rentals, consultancy services and other intra-group arrangements where the airport operator and service provider may have aligned commercial interests.

IATA therefore encourages AERA to continue applying a robust regulatory review of all material related party transactions and to require the airport operator to demonstrate that such arrangements are conducted on a genuine basis that deliver the required efficiency. Wherever possible, costs recovered through airport charges should be supported by independent benchmarking, competitive tender outcomes or other objective evidence demonstrating that the services have been procured at rates comparable to or better than those available in the open market.

Further, airlines support AERA's established approach of excluding costs that do not directly contribute to the provision of aeronautical services or that duplicate functions already performed within the airport organization. Corporate allocations, shareholder-related management fees and strategic service charges should continue to be subject to a high evidentiary threshold before being considered recoverable from airport users. Airport users should only bear costs that are necessary, efficient and directly attributable to airport operations.

IATA recommends that AERA enhance transparency around related party transactions by requiring GHIAL to disclose, for all material RPTs, the transaction value, allocation methodology, procurement process, benchmarking against third-party market rates, and justification for selecting a related party over an independent supplier. Periodic reporting of significant related party transactions and independent validation of key service agreements would provide greater assurance that airport users are not bearing costs that exceed efficient market levels. Increased transparency would improve stakeholder confidence and support AERA's objective of ensuring that only prudent and efficiently incurred costs are recovered through airport charges through such arrangements.

4.9 Non-aeronautical Revenue (NAR)

IATA supports AERA's prudent review of non-aeronautical revenues and encourages the Authority to continue applying a conservative approach to cost allowances while adopting realistic and commercially robust forecasts for non-aeronautical income. Airlines believe that all commercial opportunities available to GHIAL should be fully exploited before additional costs are transferred to airport users. Any uncertainty regarding commercial revenue forecasts, related-party transactions or concession performance should be resolved in a manner that protects passengers and airlines from unnecessary tariff increases.

4.10 Quality of Service

IATA supports continued development of HYD where it improves safety, passenger facilitation, operational efficiency and resilience. However, infrastructure investment should be accompanied by clear service-outcome commitments.

We have received following feedback from our member airlines operating at HIAL:

- Inadequate manning of Immigration counters which has resulted in long waiting hours
- Longer holding of aircraft before landing due to constrained arrival hall capacity
- Limited benefits reported by airlines from the Airport Predictive Operations Centre (APOC), a state-of-the-art "nerve center" developed by HIAL to integrate airside, landside, and terminal operations.

AERA may consider requiring GHIAL to demonstrate how the proposed projects will maintain or improve level-of-service outcomes across key passenger and operational processes, including check-in, security, immigration, baggage delivery, stand availability, gate seating, bussing operations and terminal processing.

IATA further requests that major construction and transition works be assessed for their impact on ongoing operations. Where capacity is temporarily constrained, where airline relocations are required, or where dependent infrastructure affects usability of completed assets, mitigation measures should be clearly identified. Users should not fund infrastructure disruption without transparent service-level protections and transition plans.

4.11 Aggregate Revenue Requirement (ARR)

IATA appreciates AERA's comprehensive assessment of the regulatory building blocks underpinning the proposed ARR for the Fourth Control Period. We recognize and support AERA's efforts to strike an appropriate balance between facilitating necessary infrastructure development at HYD and safeguarding airport users from unwarranted increases in airport charges. Nevertheless, despite the adjustments already proposed by the Authority, airlines remain concerned by the overall scale of the ARR and the resulting pressure this will place on aeronautical tariffs.

In this regard, IATA encourages AERA to maintain a robust prudence review of all capital and operating expenditure proposals and to give due consideration to the concerns and recommendations set out in this submission. In particular, further scrutiny should be applied to expenditure areas where the need, timing, efficiency, allocation methodology or underlying assumptions remain insufficiently justified. Airlines also strongly support measures that ensure future cost recovery is aligned with actual demand, actual project utilization, and demonstrated operational requirements.

Adopting these recommendations would help ensure that HYD remains financially sustainable while preserving its competitiveness and affordability for airlines and passengers. It would also reinforce the fundamental regulatory principle that only prudent, efficient and necessary costs should be recoverable through airport charges, with the benefits of commercial revenues, operational efficiencies and future true-ups shared appropriately and fairly with airport users.

4.12 Tariff Card and Allocation of Recovery

IATA notes that the ATP includes a Variable Tariff Plan (VTP) and Key Partnership Programme (KPP) intended to support route development. While IATA supports route development in principle, incentive mechanisms should be transparent, non-discriminatory, cost-related and should not result in unintended cross-subsidization between participating and non-participating airlines.

In particular, the proposed VTP for new international unserved routes over 4,000 km appears to provide zero UDF in Year 1 and a 50% UDF rate in Years 2 and 3, while landing charges may be nil for three years. This is a material incentive. The Authority should therefore require clarity on how the revenue foregone under such schemes is funded and whether any shortfall is recovered from other users through the ARR/tariff framework.

IATA requests AERA to ensure that any VTP/KPP incentive is funded transparently, does not dilute the limited benefits of the hybrid till framework, and does not result in non-participating airlines bearing higher charges to support commercial route-incentive arrangements entered into by GHIAL.

In summary, IATA appreciates the Authority's continued efforts to apply rigorous scrutiny to GHIAL's proposals and to balance the interests of airport users with the long-term development requirements of Hyderabad Airport. We support AERA's approach of ensuring that only prudent, efficient and appropriately scoped costs are recovered through airport charges, and welcome initiatives that strengthen the linkage between infrastructure delivery, asset utilization and cost recovery. At the same time, important questions remain regarding traffic assumptions, capacity requirements, project phasing, risk allocation and the treatment of future capital expenditure. The final determination should ensure that users pay for infrastructure when it is required and capable of delivering tangible operational benefit, while maintaining affordability, regulatory certainty and the sustainable growth of Hyderabad Airport and the wider aviation sector.

Yours sincerely,

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