Reference: AC/ AERA CP 03 – IOSPL KIAL
Date: 04th August 2026

To,

The Secretary / Director (P&S),
Airports Economic Regulatory Authority of India,
3rd Floor, Udaan Bhawan, Safdarjung Airport, New Delhi – 110003

Subject: **Submission of feedback in response to Consultation Paper No. 03/2026-27 dated 17.07.2026 regarding the determination of Fuel Infrastructure Charges (FIC) payable to IndianOil Skytanking Private Limited ("IOSPL") at Kempegowda International Airport ("KIA"), Bangalore for the Fourth Control Period FY 2026-27 to FY 2030-31.**

Dear Sir,

Auxesia Consulting is an independent advisory firm focused on aviation fuel infrastructure and its economic regulation at Indian airports.

We welcome the opportunity to comment on Consultation Paper No. 03/2026-27 ("CP-03") issued by the Airports Economic Regulatory Authority of India ("the Authority" / "AERA") on 17.07.2026, concerning the determination of Fuel Infrastructure Charges (FIC) payable to IndianOil Skytanking Private Limited ("IOSPL") at Kempegowda International Airport ("KIA"), Bangalore for the Fourth Control Period ("FoCP", FY 2026-27 to FY 2030-31).

Our observations and feedback is detailed in **Annexure – A** appended herewith.

Thanking you for this opportunity and we remain available for any further discussions, if deemed fit.

For, Auxesia Consulting

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ANNEXURE - A

1. Introduction and Scope of Comments

Auxesia Consulting is an independent advisory firm focused on aviation fuel infrastructure and its economic regulation at Indian airports. We welcome the opportunity to comment on Consultation Paper No. 03/2026-27 ("CP-03") issued by the Airports Economic Regulatory Authority of India ("the Authority" / "AERA") on 17.07.2026, concerning the determination of Fuel Infrastructure Charges (FIC) payable to IndianOil Skytanking Private Limited ("IOSPL") at Kempegowda International Airport ("KIA"), Bangalore for the Fourth Control Period ("FoCP", FY 2026-27 to FY 2030-31).

1.1. This submission examines CP-03 against

a) the Authority's own CGF Guidelines 2011 issued vide Direction No. 04/2010-11 dated 10.01.2011,
b) the Authority's own past Orders and Consultation Papers for IOSPL's Fuel Farm Services, and
c) comparable regulatory treatment adopted by the Authority for Fuel Farm/Fuel Infrastructure operators at other major open-access airports, principally Delhi (DIAL) and Mumbai (MIAL). Where relevant, we also comment on the broader question of whether continued cost-of-service regulation of FIC in India, as against the largely market-determined into-plane/fuel-facility charging regimes prevalent in several Western jurisdictions, remains appropriate, and what impact specific proposals in CP-03 will have on IOSPL's revenue recovery and on the long-term competitiveness of open-access fuelling infrastructure in India.

1.2. We have organised our comments chapter-wise, following the structure of CP-03, and have flagged, in each instance, whether the Authority's proposal is

a) consistent with the CGF Guidelines, 2011,
b) a permissible exercise of regulatory discretion under the Guidelines but without a disclosed methodology, or
c) a departure from the Guidelines that, in our view, requires reconsideration or, at minimum, fuller reasoning and consistent application across airports.

2. Overarching Comment: Regulated FIC in India vis-à-vis Market-Driven Fuel Infrastructure Charges Abroad

CP-03 (Chapter 2) correctly notes that Fuel Farm Services at KIA are "material" (MI at 12% against threshold of 5%) and "not competitive" (IOSPL being the sole provider), and on that basis proposes continuation of the Cost-Plus approach on a Single Till basis (Paras 2.1.3-2.2.1). It follows the CGF Guidelines mechanically and correctly.

We would, however, urge the Authority to note the structural difference between the Indian regulatory model and the practice in several mature aviation markets (North America and much of Western Europe), where into-plane fuelling infrastructure and hydrant systems are typically owned and operated by user-owned consortia or independent fuel-farm companies under commercially negotiated throughput agreements with airlines/oil marketing companies, rather than under a price-cap or cost-plus tariff set by an economic regulator. In those markets, tariff-setting risk is replaced by counterparty/commercial negotiation risk, and infrastructure operators bear limited regulatory lag but full commercial risk on utilisation and cost recovery timing.

The Indian cost-plus model, by contrast, is intended to give the ISP a reasonable assurance of cost recovery and a fair return, in exchange for accepting tariff regulation in a monopoly setting. This assurance is the quid pro quo for accepting regulated status.

Where the Authority, as in CP-03,

a) defers recognition of prudently-committed and substantially complete capital assets (Satellite Fuel Farm, one of three tanks) to a later, contingent date;

b) introduces a wholly new "**Incremental ARR Approach**" that defers RAB/return recognition for large projects without a corresponding financing/carrying-cost allowance; and

c) disallows, without a disclosed benchmark, a portion of a genuine third-party contractual cost (land rental) — the cumulative effect is to shift utilisation, financing and counterparty risk onto the ISP while still requiring it to operate as if fully regulated.

This is a departure from the underlying compact of Cost-Plus regulation, and, if repeated across Control Periods, risks discouraging timely and adequately-sized capital investment by ISPs at Indian airports precisely at a time when several airports (including KIA) are undertaking major capacity expansions that depend on ISPs investing ahead of certified demand.

Feedback 1: The Authority, while retaining the Cost-Plus framework should restore full symmetry between the assurance of cost recovery it extends to ISPs and the obligations it places on them — particularly with regard to financing costs incurred during construction of Authority-endorsed capacity (see Section 4.2 below).

3. True-Up of the Third Control Period (Chapter 3 of CP-03)

3.1. Treatment of "Other Income" (Para 3.16.1-3.16.2)

CP-03 records that IOSPL excluded Interest Income (₹3.67 crore over FY 2021-22 to FY 2024-25) from its true-up computation, relying on the TDSAT rulings in DIAL v. AERA (21.07.2023) and GHIAL v. AERA (14.02.2024), both of which held that interest/dividend income unrelated to the regulated service cannot be treated as revenue for cross-subsidisation. The Authority, noting that it has appealed these rulings to the Supreme Court under Section 31 of the AERA Act and that the matter is sub judice, has nonetheless proposed to continue including Other Income in the true-up ARR "consistent with past practice" (Para 3.16.2), resulting in a ₹0.42-1.44 crore per annum reduction in allowed ARR and contributing to the increase in computed over-recovery from ₹0.74 crore (IOSPL's figure) to ₹20.59 crore (PV terms, Authority's figure) — refer Table 19 versus Table 20.

This as a material point of legal and financial uncertainty for IOSPL rather than a settled matter, because the tribunal of first appellate jurisdiction (TDSAT) has twice ruled against the Authority's position on materially identical facts, and reversal is only pending before the Supreme Court.

Feedback 2: The Authority should

a) **explicitly record in the eventual Tariff Order that the treatment of Other Income for the Third Control Period true-up is subject to the outcome of the pending Civil Appeals, and**

b) **commit to a corresponding adjustment (refund/true-up) to IOSPL at the time of tariff determination for the Fifth Control Period, or earlier, should the Supreme Court affirm the TDSAT position.**

c) **silence on this contingency in the final Order would leave IOSPL bearing the entire downside of an unresolved legal question without a corresponding upside contingency being documented**.

3.2. Basis for Y-o-Y Rationalisation of O&M True-Up Costs (Paras 3.12.1(a)-(f))

The Authority has accepted several one-time cost items claimed by IOSPL (stamp duty on sub-lease registration, tank painting, internal road repair, wage-code-related payroll increase) but has, in each case, additionally capped the underlying Y-o-Y escalation at a lower rate than claimed by IOSPL (Payroll: 6% vs IOSPL's implicit rate; Administrative & General: 5%; Repairs & Maintenance: 6%; Utility: 5%) — refer Table 16. Clause 9.4.2 of the CGF Guidelines permits the Authority to assess "efficiency improvement" based on "trends in operating costs, productivity improvements, cost drivers as may be identified, and other factors as may be considered appropriate", but does not itself prescribe a specific percentage cap methodology.

The Authority is entitled to apply an efficiency/prudency filter under Clause 9.4.2. However, for a stakeholder to meaningfully test the reasonableness of a specific numerical cap (6% vs 8%, 5% vs 8%, etc.), the underlying benchmark — whether it is a wage inflation index, a Consumer Price Index-linked escalation, a peer-airport comparator, or an internal efficiency target — should be disclosed in the Consultation Paper or the eventual Order.

Feedback 3: The Authority should publish the empirical basis for each escalation rate used in Table 16, both in fairness to IOSPL and to allow consistent application to other ISPs in future proceedings.

3.3. CAPEX True-Up — Non-Execution of Approved Capex

Regarding Authority's decision (Para 3.4.7) not to apply the 1% readjustment for non-executed Capex specified in Order No. 30/2021-22, given IOSPL's justification citing Covid-19 disruption and demand-linked deferment of airport-side works.

Feedback 4: It is a reasonable and guideline-consistent exercise of discretion, since Clause 9.4.2(a) of the CGF Guidelines contemplates review of variance "with respect to underlying factors impacting variance", which squarely covers exogenous shocks of this nature.

4. Capital Expenditure, Depreciation and RAB (Chapter 5 of CP-03)

4.1. Exclusion of 1 of 3 Satellite Fuel Farm Storage Tanks (Paras 5.2.5(iii)-(vi), Table 25)

CP-03 proposes to exclude from RAB the financial implication (Depreciation and Return) of one of the three 6,540 KL storage tanks comprising the new Satellite Fuel Farm, valuing the excluded capacity at approximately ₹99.73 crore of Capex (derived from the difference between IOSPL's ₹318.16 crore submission and the Authority's ₹199.45 crore allowance in Table 25), on the ground that projected fuel throughput growth to FY 2030-31 requires only a 42% capacity augmentation (i.e., roughly two of the three new tanks), and citing IATA's concern (raised in the Users' Consultation Meeting of 05.03.2026) about the pace and phasing of the investment (Paras 1.3.9, 5.2.5(v)).

Our observations on this proposal are as under:

a) The underlying capacity calculation in Para 5.2.5(iv) is a linear extrapolation of the ratio between existing storage capacity and current-year throughput, projected onto FY 2030-31 throughput. This is a reasonable approximation but does not account for peak-day/peak-hour storage requirements, minimum safety/dead-stock buffers, or the lead time needed to procure and construct additional tankage once utilisation approaches capacity — **all of which are relevant to prudent capacity planning for a safety-critical hazardous-material facility**.

b) From a regulatory-principle standpoint, the CGF Guidelines do not contain a provision permitting the Authority to exclude a substantially complete, commissioned, and prudently-committed asset from RAB purely on a utilisation forecast. Clause 9.2.6(c) of the Guidelines provides for "Incentive Adjustments" only to encourage timely investment (e.g., rewarding early commissioning), not to penalise investment that the Authority itself agrees is directionally necessary (Para 5.2.5(iii): "the Authority agrees with the ISPs' submission that aviation fuel demand is projected to rise significantly"). The Work-in-Progress mechanism at Clause 9.2.7 governs assets "not commissioned" during a Tariff Year; it does not contemplate excluding a commissioned, in-service asset from RAB on a prospective utilisation test.

c) The proposed remedy — reconsideration only "in case the airport witnesses exceptional spike in aircraft traffic" at the time of the Fifth Control Period true-up (Para 5.2.5(vi)) — places the entire burden of demonstrating a contingency on IOSPL, with no defined threshold, timeline, or process for that reconsideration. This creates open-ended regulatory uncertainty for a capital-intensive, long-lived, safety-critical asset.

Feedback 5: The Authority should adopt a more structured and transparent capacity-phasing methodology going forward — for instance, defining upfront (in the Tariff Order rather than at a later, unspecified true-up) an explicit throughput or capacity-utilisation trigger at which the third tank enters RAB, together with a pre-agreed truing-up mechanism (including recognition of the carrying cost on the excluded capacity, see Section 4.2 below) rather than an open-ended "exceptional spike" standard. This would materially reduce IOSPL's compliance and investment-planning risk while retaining the Authority's stated objective of protecting users from premature tariff burden for under capacity-utilised assets.

4.2. **The "Incremental ARR Approach" (Paras 5.2.12-5.2.24, 9.3, Table 49)**

CP-03 introduces, for the first time in this proceeding, an "**Incremental ARR Approach**" (Paras 5.2.12 onward), under which the Capex, RAB, Depreciation, Return and Taxation impact of the 40-Stands Hydrant Refuelling System (HRS) Extension project (estimated cost ₹153.47 crore including IDC, ₹153.96 crore as used in Table 49) is entirely excluded from the Baseline ARR for the Fourth Control Period (Table 48) and instead recognised only from the year of the project's tentative commissioning (FY 2030-31, per Table 49), with tariffs to be revised at that time based on the incremental Yield impact.

This is a materially significant new regulatory construct, and we set out below why we believe it warrants closer scrutiny before being adopted as a general mechanism:

a) **Absence in the CGF Guidelines, 2011**:

The Incremental ARR Approach, in this specific form, does not appear anywhere in the CGF Guidelines, 2011, nor has it previously been applied by the Authority in any tariff determinations. The Authority's own reasoning in Paras 5.2.12-5.2.19 is framed as new policy rationale rather than an application of an existing Guideline clause. Section 13(1)(a) read with Section 15 of the AERA Act gives the Authority broad power to determine tariff methodology. However, a mechanism of this consequence (it defers recognition of roughly 25% of total FoCP Capex) ought, in fairness to all ISPs regulated by the Authority. , to be consulted upon as a standalone cross-airport policy paper, rather than introduced project-specifically within a single ISP's tariff order, so that its parameters (which projects qualify, what "later part of the Control Period" means, how carrying costs are treated) are settled once, transparently, and applied consistently.

b) **No Financing Allowance during the deferral period**:

The CGF Guidelines already contain a mechanism — the Work-in-Progress Assets (WIPA) methodology at Clause 9.2.7 — designed precisely for the situation where an asset is under construction but not yet commissioned: the Guidelines compensate the Service Provider for the cost of funds locked up in construction through a "Financing Allowance" (calculated at the cost of debt on the average WIP balance), which then rolls into RAB once the asset is commissioned. CP-03's Incremental ARR computation in Table 49, however, shows Opening RAB, Additions and Average RAB as "0.00" for FY 2026-27 through FY 2029-30, with the entire ₹153.96 crore appearing only in FY 2030-31 — i.e., no Financing Allowance (or economically equivalent carrying-cost compensation) is recognised for the capital IOSPL will in fact deploy from the point work orders are issued through to commissioning. Under the Authority's own stated reasoning, IOSPL has already agreed "in-principle" to this project's necessity (Para 5.2.21). If IOSPL is nonetheless required to fund its construction (whether through debt or equity) for several years before receiving any return or depreciation recognition, this amounts to an uncompensated cost of capital that would not arise if the project were treated instead under the existing WIPA/Financing Allowance mechanism. **This is the most consequential gap.**

c) **Indicative revenue impact**: Applying the Authority's own FRoR of 11.33% (Table 35) to the average capital deployed over an assumed 3-4-year construction period preceding FY 2030-31 commissioning suggests a foregone/uncompensated return in the broad range of ₹40-60 crore over the FoCP — a materially larger sum than the ₹10.67 crore PV of incremental ARR shown for FY 2030-31 alone in Table 49. The Authority must quantify this gap explicitly and either –

(i) apply the existing Clause 9.2.7 Financing Allowance to the WIP balance of the 40-Stands project throughout its construction period (consistent with the Guidelines), while still deferring the RAB/Depreciation/O&M recognition to the commissioning date, or

(ii) if the Authority wishes to retain a wholly deferred-recognition model, explicitly gross up the eventual Incremental ARR to compensate for the time value of capital foregone during construction.

d) **Interaction with the Satellite Fuel Farm exclusion**:

Authority has, within the same Consultation Paper, applied two different treatments to prudently-committed, Authority-endorsed capacity wherein the Satellite Fuel Farm's third tank is excluded from RAB indefinitely and without any carrying-cost recognition (Section 4.1 above), while the 40-Stands HRS project is deferred but with an explicit (if unfunded) date of eventual recognition. We recommend the Authority adopt one consistent framework — ideally the existing WIPA/Financing Allowance mechanism under Clause 9.2.7 — for all cases where committed capacity outpaces near-term utilisation, rather than applying two different bespoke treatments within a single Tariff Order.

Feedback 6: A standalone cross-airport policy may be introduced consequent to the outcome through a consultative process, so that its parameters (which projects qualify, what "later part of the Control Period" means, how carrying costs are treated) are settled once, transparently, and applied consistently. <u>This concept and its consequential impact should not be applied in this CP for tariff determination.</u>

5. Fair Rate of Return (Chapter 6 of CP-03)

The Authority's re-computation of FRoR using weighted-average gearing and weighted-average cost of debt (Table 35), correcting IOSPL's submission of yearly gearing and yearly FRoR (Table 34), is, a correct and Guideline-consistent application of Clause 9.1.7, which explicitly requires a weighted-average approach for the Control Period rather than a year-by-year calculation.

However, it is noted that Clause 9.1.3 of the CGF Guidelines requires the Authority to estimate Cost of Equity "by using the Capital Asset Pricing Model (CAPM)", subject to such other factors as the Authority may deem fit. CP-03 (Table 35) simply carries forward a Cost of Equity of 15.05%, without setting out the risk-free rate, equity beta, or equity risk premium used to arrive at this figure, either for the true-up of the Third Control Period (where a reduced Cost of Equity of 14% is applied instead, Para 3.10.2) or for the Fourth Control Period.

Feedback 7: The Tariff Order disclose the CAPM inputs and computation underlying the Cost of Equity figure(s) used, both for transparency and to allow stakeholders to verify consistency with the treatment applied to other regulated entities.

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6. O & M Expenditure for the Fourth Control Period (Chapter 7 of CP-03)

6.1. Y-o-Y Escalation Caps

As with the Third Control Period true-up (Section 3.2 above), the Authority has capped Payroll growth at 6% (against IOSPL's 10%), Administrative & General at 5% (against 8%), Repairs & Maintenance at 5% (against 8%), and Utility & Outsourcing at 5% (against 8%) — Tables 38, 40, 41, 42.

Feedback 8: The empirical basis for these specific caps be disclosed.

6.2. Operating Fee / Margin: IOSPL's Claim vis-à-vis DIAL and MIAL Precedents (Para 7.2.16)

CP-03 rejects IOSPL's claim to a 10% Operating Fee/Margin on Operating Costs (claimed under Clause 12.3 of the Operating Agreement between BIAL and IOSPL dated 30.06.2025), on the ground that IOSPL is itself both the owner and the operator of the Fuel Farm facility, and that no third-party operator has been engaged, such that the O&M expenditure already fully compensates IOSPL for its operating role (Para 7.2.16). This differs materially from the ownership/operating structures at Delhi and Mumbai, where the fuel farm infrastructure is held by dedicated special-purpose companies (DIAL Aviation Fuel Facility Private Limited-type structures at Delhi, and the Mumbai Aviation Fuel Farm Facility Private Limited at Mumbai) that engage a distinct operating entity: at Delhi, the operator earns a management fee reported to be of the order of 16% of operating cost; at Mumbai, the operator's compensation is embedded within a unit operating charge per KL rather than levied as a percentage margin.

There is a reasoned case for IOSPL's claim, for the Authority's consideration:

a) IOSPL's entitlement to an Operating Fee arises from a specific, negotiated contractual clause (Clause 12.3 of the Operating Agreement dated 30.06.2025) between IOSPL and BIAL, and is not a unilateral claim invented for this tariff proceeding.

b) Functionally, IOSPL performs two distinct roles at KIA — that of a capital-asset owner/concessionaire (BOOT structure under the 2008 Concession, now under the revised 2025 SPRH arrangement) and that of a round-the-clock operator of a hazardous, safety- and security-critical facility subject to PESO, DGCA and JIG standards, bearing operational and liability risk that is analogous to the risk a genuinely third-party operator would price into a management fee at Delhi or a unit-rate margin at Mumbai.

c) Denying any operator-risk compensation purely because IOSPL happens to be vertically integrated (rather than structured as an asset-owning SPV with a separately contracted operator, as at Delhi and Mumbai) could be seen as penalising a corporate-structure choice rather than assessing the economic substance of the operating function performed, and creates an inconsistency in regulatory treatment of functionally similar fuel-farm operations across major airports.

At the same time, the force of the Authority's counter-position: because IOSPL's shareholders already earn the full FRoR on RAB in their capacity as owner, and because IOSPL's O&M expenditure is considered fully as pass through cost, an additional percentage margin over and above fully-reimbursed costs — where owner and operator are the same legal person and no arm's-length, competitively-tested operating contract exists — risks compensating the same capital twice for the same activity, which is a legitimate regulatory concern not present at Delhi/Mumbai, where the operating fee is paid to a genuinely distinct counterparty.

Feedback 9: On a balanced approach, the Authority may consider a modest, cost-justified risk/complexity allowance — quantified by reference to demonstrable costs of operational risk-bearing (e.g., statutory liability insurance premia, third-party risk cover, safety-system redundancy costs specific to hazardous-material handling) rather than an unexplained 10% margin — should be recognised within O&M, to avoid an unexplained disparity in regulatory treatment between vertically-integrated ISPs (Bengaluru) and SPV-plus-contracted-operator structures (Delhi, Mumbai) performing functionally equivalent services.

6.3. Land Rental — the 25% Haircut (Paras 3.12.1(f), 7.2.13-7.2.15, Table 43)

Under the new Sub-Lease Deed executed between IOSPL and BIAL on 30.06.2025 (effective 01.04.2025), IOSPL is contractually required to pay land rental at ₹525/sqm/month (with 5% annual escalation) for the existing Fuel Farm and ₹579/sqm/month for the new Satellite Fuel Farm land — a very substantial increase from the nominal ₹1/sqm/month rental payable under the original 2006 SPRH Agreement (Para 7.2.14). The Authority characterises this increase as reflecting "exploitation of the dominant market position by the Airport Operator" and, on that basis, proposes to allow only 75% of the contracted rate as a pass-through cost (₹395/sqm/month in place of ₹525/sqm/month, with 5% escalation), for both the Third Control Period true-up (Para 3.12.1(f)) and the Fourth Control Period (Para 7.2.15, Table 43), resulting in a reduction of ₹57.48 crore over the FoCP alone (Table 43).

Our comments on this proposal are as under, as this is the single most consequential O&M issue in CP-03:

a) **Guideline basis and its limits**: Clause 9.4.4 of the CGF Guidelines does empower the Authority to "consider any payments made by the Service Provider(s) to the Airport Operator(s) with reference to the accounting treatment given to such payments... and as reviewed by the Authority" — so the Authority is not acting entirely outside its remit in scrutinising this cost. However, the Guidelines do not prescribe, and CP-03 does not disclose, any benchmark, comparator, or valuation methodology (such as an independent land-rate assessment, a DPE/State-Government circle-rate reference, or a comparison against rentals charged for equivalent land parcels at other airports) by which the specific figure of 75% (or ₹395/sqm/month) was derived. As drafted, the reduction reads as a round-number policy adjustment rather than a cost-based determination, which is a different exercise from the "accounting treatment" review contemplated by Clause 9.4.4.

b) **The land rental is a genuine, unavoidable, third-party cost that IOSPL does not control**: the land rental is a contractual liability owed to BIAL, a party independent of and not controlled by IOSPL (IOSPL being jointly owned by IOCL and Skytanking, with BIAL as an unrelated Airport Operator/lessor). IOSPL has no practical means of negotiating this rate downward, and a 25% disallowance in the ARR does not reduce IOSPL's actual cash outflow to BIAL by a single rupee — it simply transfers a permanent revenue shortfall onto IOSPL, which must nonetheless pay BIAL the full contracted rent. This is economically different from disallowing an internally-controlled and discretionary cost.

c) **Disparity with Delhi and Mumbai**: We understand that at both Delhi and Mumbai, land rentals charged by the respective Airport Operators to DAFFFL/MAFFFPL for the fuel farm land are, in substance, recognised and passed through in the tariff determination for those entities, without an equivalent ad-hoc percentage haircut of the kind proposed here. If land rental treatment differs materially between Bengaluru on the one hand and Delhi/Mumbai on the other — despite all three being open-access fuel-farm structures regulated by the same Authority under the same CGF Guidelines — this creates an unexplained disparity in regulatory treatment across airports, and could be seen as inconsistent application of Clause 9.4.4.

d) **Previous year Tariffs**: In the previous tariff years, the FIC determined in respect to IOSPL’s operations at KIA was without any land rental charges and hence the FIC determined was lower in comparison to Delhi and Mumbai, where it was included.

e) **The more appropriate regulatory lever may lie elsewhere**: If the Authority's underlying concern is that BIAL, as a monopoly landlord, has used its market position to impose a supra-competitive land rent, the more direct and legally coherent remedy would be for the Authority to examine the reasonableness of BIAL's land-rent-setting practice within BIAL's own aeronautical tariff determination (over which the Authority has direct jurisdiction as economic regulator of BIAL), rather than achieving an equivalent economic outcome indirectly by disallowing a portion of IOSPL's pass-through cost. The latter approach leaves BIAL's rental income intact while making IOSPL — a different regulated entity that had no part in setting the rent — absorb the shortfall.

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Feedback 10: The Authority must allow full pass-through of the contracted land rental as an unavoidable third-party O&M cost under Clause 9.4.1, while separately examining the reasonableness of BIAL's rent-setting through BIAL's own tariff proceedings; or, at minimum,

7. ARR and Aeronautical Revenue (Chapters 9-10 of CP-03)

The cumulative effect of the issues raised above i.e the Satellite Fuel Farm capacity exclusion, the Incremental ARR deferral without Financing Allowance, the O&M escalation caps, the Operating Fee rejection, and the Land Rental haircut — is to reduce the Authority's computed Baseline ARR for the FoCP to ₹599.50 crore (Table 48) against IOSPL's submission of ₹955.68 crore (Table 47), a reduction of roughly 37%.

The proposed effective date of the revised tariff (01.09.2026, Para 10.2.3 and Table 53) itself embeds an approximately five-month period (01.04.2026 to 31.08.2026) during which IOSPL will continue to recover FIC at the existing ₹510/KL rate while its cost base (including the new land rental) has already increased from 01.04.2025 onward.

Feedback 11: While IOSPL's submission may not warrant acceptance in its entirety and several of the Authority's proposed adjustments—such as the methodology adopted for FRoR, the disallowance of the Operating Fee on the grounds discussed above, and the Prior Period over-recovery adjustment—appear to be well-founded, it is observed that a portion of the variance arises from certain regulatory mechanisms and adjustments (including the treatment of Incremental ARR without carrying cost, the land rental haircut without a disclosed methodology, and capacity exclusion without a defined trigger) that do not appear to have been expressly articulated in the CGF Guidelines or have not been transparently quantified in the Consultation Paper. These specific elements may therefore merit further examination and appropriate clarification along the lines discussed above before issuance of the final Tariff Order. Also the Authority must clarify how the interim shortfall between 01.04.2026-31.08.2026, if any, will be trued up since the proposed effective date of the revised tariff is 01.09.2026

8. Realistic Assessment of ATF Volume Demand for the Fourth Control Period, Having Regard to the Middle East Crisis

This section compares the Fuel Throughput (ATF volume) assumptions in IOSPL's submission (Table 21) and the Authority's proposal (Table 22) of CP-03 with actual traffic data published by the Airports Authority of India (AAI) for KIA and the continuing disruption to Indian aviation arising from the Iran-Israel-linked Middle East conflict during calendar year 2026. The objective is to assess whether these projections reflect current ground realities and to evaluate the sensitivity of the proposed tariff to the fuel throughput assumption ultimately adopted

8.1. Actual AAI Traffic Data for KIA, Bengaluru

AAI statistics for KIA for FY 2025-26 (April 2025–March 2026) recorded 4,44,70,035 total passengers (+6.2% YoY), including 72,27,399 international passengers (+23.9% YoY), and 2,79,971 Aircraft Traffic Movements (ATMs) (+4.5% YoY). Since both IOSPL's and the Authority's Fuel Throughput projections for the Fourth Control Period are based on projected ATM growth (Tables 21 and 22), this ATM figure provides the appropriate benchmark for assessing the CP-03 volume assumptions.

More recent monthly AAI data indicate a slowdown in traffic growth. Bengaluru's domestic passenger traffic in April 2026 was 31.79 lakh, reflecting a marginal 0.2% YoY decline. Although Bengaluru surpassed Mumbai in domestic passenger volumes, this was largely due to Mumbai's sharper 12.1% decline rather than Bengaluru's growth. This marks a significant moderation from the 6.2% full-year growth recorded in FY 2025-26 and is consistent with the broader national trend discussed below.

8.2. The Middle East Crisis and Its Demonstrated Impact on Indian Air Traffic

CP-03 was issued on 17.07.2026, by which time the Iran-Israel conflict (which escalated sharply in June 2025 and again from late February 2026) had already caused significant disruption to Indian and regional aviation, including:

a) Suspension and rerouting of flights by Indian and international carriers around conflict-zone airspace, increasing flight time, fuel burn and crew costs.

b) From 28 February 2026, Air India suspended 50 flights to the US, UK and Frankfurt, while 1,035 Mumbai-Gulf flights were cancelled between 28 February and 11 March 2026.

c) AAI data for March 2026 showed declines at major Indian airports: Mumbai recorded a 6.2% fall in total passengers, a 9.6% fall in international passengers and a 16.9% fall in international ATMs, while Delhi, Hyderabad, Chennai, Kochi and Goa also reported lower international traffic. GMR Airports reported an 8.9% YoY decline in international traffic in April 2026.

d) By May 2026, Air India had cancelled 27% of its international flights, Middle East carriers reported a 28.4% fall in RPK and a 23.9% reduction in capacity, and global air passenger demand declined by 2.2% YoY. Higher Indian ATF prices and longer rerouted sectors further affected route viability.

e) Domestically, rising ATF prices and a weakening rupee led Air India, Air India Express and IndiGo to withdraw a combined 250 daily flights over three months in 2026. ICRA projected sector-wide losses of ₹2,000-3,000 crore in FY 2025-26, prompting Government approval of budgetary support of up to ₹10,000 crore for ATF price stabilisation.

Taken together, these developments indicate that the growth assumptions underlying CP-03 for the first year of the Fourth Control Period are being tested by an ongoing geopolitical crisis. At the time of issuance, comparable Indian airports were recording declines in passenger traffic and ATMs, rather than the double-digit growth projected for KIA by IOSPL and the Authority.

8.3. Volume assumptions by IOSPL, AERA and level of independent testing

Table 21 (IOSPL) projects Total ATMs at KIA at 3,41,122 and Fuel Throughput at 14,40,453 KL in FY 2026-27, with annual growth of 9.72%, 7.05%, 4.92% and 11.44% over the succeeding four years. Table 22 (the Authority) projects higher Fuel Throughput volumes in every year; however, Para 4.2.4 of CP-03 confirms that the Authority has merely adopted IOSPL's proposed YoY growth rates and applied them to the actual FY 2025-26 throughput of 12,50,512 KL.

The Authority's projections are consistently 3.5% higher than IOSPL's across all years, solely because of the higher base-year throughput and not due to any independent assessment of the projected growth rates.

Particulars	FY -27	FY -28	FY 29	FY 30	FY -31	Total
IOSPL(Table 21)	14,40,453	15,80,492	16,91,934	17,75,250	19,78,300	84,66,429
Y-o-Y growth	-	9.72%	7.05%	4.92%	11.44%	-
AERA (Table 22)	14,90,631	16,35,548	17,50,872	18,37,090	20,47,214	87,61,355
Y-o-Y growth	19%*	10%	7%	5%	11%	-

Particulars	FY -27	FY -28	FY 29	FY 30	FY -31	Total
AERA vs IOSPL (KL)	+50,178	+55,056	+58,938	+61,840	+68,914	+2,94,926
AERA vs IOSPL (%)	+3.5%	+3.5%	+3.5%	+3.5%	+3.5%	+3.5%

This is a materially different posture from the rigour the Authority has applied elsewhere in CP-03. The Authority has prudently revised downward IOSPL's escalation assumptions for Payroll, Administrative & General, Repairs & Maintenance and Utility costs under Chapter 7 in accordance with Clause 9.4.2 of the CGF Guidelines.

Fuel Throughput—being the key tariff determinant as the denominator for converting Aggregate Revenue Requirement into per-KL Yield—has, **however, been accepted without any prudency check** despite CP-03 being issued on 17th July 2026, after the Middle East crisis had already caused documented declines in international passenger traffic and ATMs at comparable Indian airports

Further, KIA's actual ATM growth for FY 2025-26 was only 4.5%, moderating to near-flat domestic passenger growth by April 2026, significantly below the 19%/15-16% first-year Fuel Throughput growth assumed for FY 2026-27—the period when the geopolitical disruptions were most severe.

8.4. Sensitivity of the Proposed Tariff (FIC) to the Volume Assumption

Under the CGF Guidelines, Yield is determined by dividing the Present Value of the Aggregate Revenue Requirement (ARR) by the total Fuel Throughput for the Control Period. Based on Table 48, the Authority has computed a Yield of ₹542.33/KL, which translates to a first-year ceiling FIC of ₹691/KL after accounting for the delayed effective date (01.09.2026). Since most ARR components are fixed costs, any shortfall in actual throughput does not reduce IOSPL's cost recovery entitlement under the Cost-Plus framework; it merely results in a higher per-KL tariff or a deferred under-recovery (with FRoR-based compounding) to be recovered in the Fifth Control Period.

The sensitivity analysis below illustrates the impact of lower throughput assumptions:

Throughput Shortfall	Resulting Total FoCP Volume (KL)	Implied Yield (₹/KL)	Implied Ceiling FIC Rate (₹/KL)	Increase over Table 53 rate (₹691/KL)
Nil (AERA's assumption)	87,61,355	542.33	691	-
5% shortfall	83,23,287	570.90	~727	+5.3%
10% shortfall	78,85,220	602.60	~768	+11.1%
15% shortfall	74,47,152	638.00	~813	+17.6%
20% shortfall	70,09,084	677.90	~864	+25.0%

Even a 5-10% shortfall in actual throughput would increase the ceiling FIC to approximately ₹727-768/KL to recover the same ARR, while larger shortfalls comparable to those observed at Indian airports during the Middle East crisis would require materially higher tariffs.

This demonstrates that the proposed Yield and FIC are highly sensitive to the Fuel Throughput assumption, making it essential that the adopted volume projections are tested against contemporaneous traffic and geopolitical developments before the Tariff Order is finalized.

If the Middle East crisis continues to suppress KIA's traffic growth, the outcome under the Cost-Plus model will not be a lower FIC for users. Instead, it will either result in

(i) a higher FIC if the Authority revises the volume assumptions before issuing the Tariff Order, or

(j) a revenue shortfall for IOSPL that will be recovered from users, with FRoR-based compounding, during the Fifth Control Period. An overstated throughput assumption therefore does not shield users from future costs—it merely defers and potentially increases them.

More broadly, this highlights a structural feature of India's Cost-Plus tariff regime. Unlike market-driven pricing, where demand shocks reduce the operator's revenue, the guaranteed cost-recovery model effectively converts demand-side shocks into future tariff increases or deferred liabilities for airlines and OMCs. Accurate Fuel Throughput assumptions at the outset are therefore critical not only for tariff determination but also for protecting users from avoidable future cost burdens and preserving KIA's competitiveness.

Feedback 12:

a) **Authority should apply the same prudency-check methodology to Fuel Throughput projections as it has applied to O&M cost escalations, rather than adopting IOSPL's growth assumptions without independent scrutiny.**

b) **In view of the unusual volatility in the operating environment at the time of this tariff determination, build in an interim, light-touch review of the Fuel Throughput assumption (for instance, after FY 2027-28) rather than waiting until the Fifth Control Period true-up, so that any material divergence between assumed and actual volume is corrected within the Fourth Control Period itself rather than being allowed to compound over a full five-year cycle.**

9. Conclusion

It is observed that the Authority's continued adoption of the Cost-Plus, Single-Till approach for determining Fuel Infrastructure Charges for IOSPL's Fuel Farm Services at KIA is consistent with the established regulatory framework. Further, several of the Authority's proposed adjustments to IOSPL's submission, including the FRoR weighted-averaging methodology, the treatment of the Depreciation-Capex mismatch in the true-up exercise, and the decision not to penalise IOSPL for Covid-linked Capex deferment, appear to be reasonable and well-founded.

However, certain aspects of the Consultation Paper may merit further consideration and clarification prior to the issuance of the final Tariff Order. These include:

a) The introduction of an Incremental ARR Approach without a corresponding Financing Allowance for capital deployed during the construction period. This treatment does not appear to be aligned with the existing Work-in-Progress mechanism contemplated under Clause 9.2.7 of the CGF Guidelines and, based on indicative estimates, could result in uncompensated cost of capital in the range of ₹40–60 crore over the Fourth Control Period.

b) The open-ended and methodologically undisclosed exclusion of one-third of the Satellite Fuel Farm's storage capacity from the Regulatory Asset Base (RAB), without clearly defined regulatory criteria or triggers for such exclusion.

c) The rejection of IOSPL's Operating Fee claim without an accompanying cost-based counter-analysis, notwithstanding that comparable operating fee structures have been recognised for fuel farm operators at other major Indian airports.

d) The absence of a disclosed methodology supporting the 25% land-rental adjustment and the apparent inconsistency in its treatment across airports. In practical terms, this adjustment may require IOSPL to absorb a portion of an unavoidable third-party cost, rather than reflecting any reduction in the actual land rental expenditure incurred.

e) An effective assessment of Fuel Throughput for the FoCP considering the current circumstances.

The above matters appear to involve regulatory and methodological considerations that could benefit from greater transparency and further examination to ensure consistency with the CGF Guidelines and established tariff-setting principles.

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