

Addendum : Consultation Paper No. 01/2017-18



Airports Economic Regulatory Authority of India

TO CONSIDER THE MULTI YEAR TARIFF PROPOSAL AND ANNUAL TARIFF PROPOSAL(T1 to T5) FOR THE SECOND CONTROL PERIOD IN RESPECT OF M/s INDIAN OIL SKYTANKING PRIVATE LIMITED (IOSL) FOR PROVIDING INTO PLANE SERVICES AT CSI AIRPORT, MUMBAI.

New Delhi: 09th October, 2017

**AERA Building
Administrative Complex
Safdarjung Airport
New Delhi-110003**

1. The Authority vide Consultation Paper No. 01/2017-18 dated 11.04.2017 proposed 10% increase in existing tariff for 2016-17 in respect of ITP service provided by M/s IOSL at CSI Airport, Mumbai. The Authority also proposed to continue the same rates for 2nd tariff year i.e. 2017-18.
2. The Authority conducted a stakeholders meeting on 09.05.2017 to solicit the comments of the stakeholders . The due date for submitting the written comments on the above Consultation Paper was 15.05.2017.
3. In response to the consultation paper M/s IOSL vide letter dated 12.05.2017 commented that the ITP Operations are manpower oriented and the manpower cost constitutes approximately 52% of the total operating cost. Hence, the return on average RAB based on capital employed seems inappropriate for ITP Business and needs re-consideration of the proposal.
4. IOSL further stated that they have sought an increase in tariff by 12% for 2016-17 and 35.6% for 2017-18 vide their letter dated 04.04.2017 due to:
 - a) Annual escalation in operating expenditure @ 5%
 - b) Additional manpower cost to meet DGCA requirement of using ‘Two Men’ operated Dispenser at Mumbai airport due to security concerns.
 - c) Increase in cost due to operation of IOSL from two locations since, MIAL has offered land at two different locations instead of single piece of land.
 - d) Increase in land rent by MIAL/MAFFFL from Rs.1500/sq mtr to Rs.8127/sq mtr from F Y 2015-16 with annual escalation of 7.5% pa.
 - e) Increase in cost due to office space & porta cabin required to be rented from MIAL, since ITP operators are not allowed to construct their ITP depot on the land provided by MIAL.

5. **Examination**

- 5.1 The Authority considered the justifications givens by IOSL vide letter dated 12.05.2017 and decided to reconsider the proposal in view of:
 - a) Additional manpower cost due to DGCA making requirement of two men operation of dispenser mandatory.
 - b) The proposed additional cost due to operation from two locations & as porta cabin is necessary for smooth operation.
 - c) M/s IOSL has to bear the cost of additional land requirement of 1000 sqmt. However, the Authority is of the view that MAFFFL has to provide the agreed land to IOSL as per the existing agreement and hence has not considered any increase in tariff on this account.
 - d) The Authority also analysed the revenue requirement of IOSL for 2017-18 and 2018-19 based on the submission of IOSL as given below.

Rs. In lakhs

	2017-18	2018-19 (New Rate)
Volume in KL	1106499	1128629
Existing Rate	198.00	265.72
Total Revenue	2190.87	2998.99
Operating Expenditure	1209.10	1293.74
Depreciation	616.42	669.94
Addl Land rent for 1000 sqmt	93.92	100.96
Cost of addl manpower	126.00	134.82
Addl cost for office space & porta cabin	282.22	303.39
Total Expenditure	2327.66	2502.85
Profit	-136.79	496.15
Opening RAB	2398.52	2546.43
CAPEX Addition	764.33	456.70
Dep + Disposal	616.42	669.94
Closing RAB	2546.43	2333.19
Average RAB	2472.48	2439.81
Return on Average RAB @ 14%	346.15	341.57
ARR	2673.81	2844.42
Short fall of 2017-18	-	282.11
Net Short Fall	482.94	127.54
% increase in tariff required	22%	
Required Rate	241.56	
Expected Revenue if new rate is applied from 01.11.2017	2391.70	
Expected shortfall in revenue	282.11	

5.2 The Authority observed that 22% increase in tariff is required to match the revenue requirement of IOSL for 2017-18 as against the 10% increase proposed by the Authority in Consultation Paper No. 01/2017-18 dated 11.04.2017. The total expected revenue of IOSL for 2017-18 and 2018-19 is Rs. 5390.69 lakhs against the revenue requirement of Rs. 5518.23 lakhs, if the required rate is applicable from 01.11.2017. Hence, the Authority decided to revise the proposal of Consultation Paper No. 01/2017-18 dated 11.04.2017 as given below and elicit views/comments of stakeholders before determining the tariff of M/s IOSL for ITP service at CSI Airport, Mumbai for 2nd control period.

6. Proposal

The Authority makes the following proposal for stakeholder consultation:

6.1 The Into Plane Service being provided by M/s Indian Oil Skytanking Private Limited (IOSL) at CSI Airport, Mumbai is “**Material but Competitive**”. Therefore the Authority proposes to adopt ‘**Light Touch Approach**’ for determination of tariffs for the 2nd control period w.e.f. 01.04.2016 to 31.03.2021 and accordingly issue the MYTO for the 2nd control period.

6.2 The Authority proposes to allow IOSL to continue the levy of tariffs existing as on 31.03.2016 for the First Tariff year (2016-17) of Second Control Period.

6.3 The Authority proposes 22% increase in existing tariff for 2017-18 and further 10% increase for 2018-19 to meet the revenue requirement of IOSL as stated in table at para 5.1.d. The proposed tariff card is attached as “Annexure I”. Further the Authority will review the Annual Compliance and decide the tariff for remaining period of the second control period later.

7. In accordance with the provisions of Section 13(4) of the AERA Act, the proposal contained in para 4 above is hereby put forth for stakeholder consultation. To assist the stakeholders in making their submissions in a meaningful and constructive manner, necessary documents are enclosed as annexures to the consultation paper. For removal of doubts, it is clarified that the contents of this Consultation Paper may not be construed as any Order or Direction of this Authority. The Authority shall pass an Order, in the matter, only after considering the submissions of the stakeholders in response hereto and by making such decision fully documented and explained in terms of the provisions of the Act.

The Authority welcomes written evidence-based feedback, comments and suggestions from stakeholders on the proposal made in para 6 above, latest by **23rd October, 2017** at the following address:

**Secretary,
Airports Economic Regulatory Authority of India,
AERA Building,
Administrative Complex,
Safdarjung Airport,
New Delhi- 110003**

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**(S. Machendranathan)
Chairperson**

M/s Indian Oil Skytanking Pvt. Limited
Chhatrapati Shivaji International Airport (CSIA), Mumbai
Tariff for the 2nd and 3rd tariff year (2017-18 and 2018-19) of 2nd control period

Tariff Year	Aircraft Refueling	Aircraft De-fueling		Refueling of Aircraft with defueled product	
		Within 6 hrs	Beyond 6 hrs	Within 6 hrs	Beyond 6 hrs
Tariff year 2 (2017-18)	241.56	244	305	244	305
Tariff year 3 (2018-19)	265.72	268.40	335.50	268.40	335.50