



Airports Economic Regulatory Authority of India

**TO CONSIDER THE ANNUAL TARIFF PROPOSAL(T4 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.**

19th February, 2019

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

1. Brief Background:

1.1 M/s Indian Oil Skytanking Private Limited (IOSL) is providing Into Plane services at CSI Airport, Mumbai w.e.f. 01.01.2015. The Authority vide its Order No 28/2017-18 dated 08.12.2017 decided to adopt 'light touch approach' for determination of tariff for the second Control Period (2016-17 to 2020-21) and determined the Annual Tariffs for (FY 2016-17 to FY 2018-19) first, second and third tariff year of 2nd control period.

2. Submissions made by IOSL

2.1.1 IOSL vide their letter no IOSL-Mumbai ITP/AERA dated 29.09.2018 submitted Annual Tariff Proposal for determination of tariffs for 4th and 5th tariff year (2019-20 and 2020-21) of the second control period for providing Into Plane Services at CSI Airport, Mumbai.

2.1.2 IOSL has sought an increase of 5% in 4th tariff year and further 5% increase in 5th tariff year of the 2nd control period. Details of the proposal are given below:

Tariff Year	Aircraft fuelling	Aircraft De-fueling		Refueling of Aircraft with defueled product	
		Within 6 hrs	Beyond 6 hrs	Within 6 hrs	Beyond 6 hrs
Tariff year 4 (2019-20)	279.00	281.82	352.28	281.82	352.28
Tariff year 5 (2020-21)	292.95	295.91	369.89	295.91	369.89

2.1.3 IOSL stated that, the above rates were proposed, considering the comments made by various stakeholders, which has been reckoned in the Authority order No 12/2018-19 dated 29th May, 2018 for M/s BSSPL, another into-plane Service provider operating at CSI Airport, Mumbai. As per IOSL, the Oil Marketing Companies, as stake holders had submitted that Into plane service fees should be same for the service providers at an airport, hence IOSL sought the same 5% increase in tariff year T4 (FY 2019-20) and T5 (FY 2020-21) on the rates applicable for T3 (FY 2018-19) at par with the rate applied for M/s BSSPL, Mumbai.

- 2.2 M/s IOSL in the aforesaid letters dated 29/09/2018 has submitted the following information/justification for the proposed increase in tariff:
- 2.2.1 M/s IOSL stated that ITP operations are predominantly manpower oriented and huge investment in attracting and retaining the manpower is required. Manpower cost is a major fixed cost, the manpower once deployed cannot be reduced even in cases where there is a drop-in sale during a particular month/period. In line with the industry norms, the salaries are being increased to the tune of 10% to 12% per annum.
- 2.2.2 The maintenances cost of the vehicles includes imported parts, which are to be changed at regular interval due to wear & tear of the parts. Since most of the components on hydrant dispensers are imported and the costs increase due to Rupee-Dollar fluctuations.
- 2.2.3 They are in the process of procuring additional Hydrant Dispenser & Refuelers (Capex) for Mumbai ITP operations to enable them to replace the old Dispensers. These equipment's need to be changed after eight years in order to meet pollution norms The orders have already been placed.
- 2.2.4 Cost other than manpower costs also increase yearly to the tune of approximately 10% to 15%.
- 2.3 IOSL has also submitted the Annual Compliance Statements (ACS) for FY 2016-17 and FY 2017-18 for 1st and 2nd tariff year of the second control period
- 2.4 M/s IOSL further submitted more information/justification vide mail dated 17/01/2019 and subsequent mail on 12/02/2018 for the proposed increase in tariff which are given below-
- i). In the April –December 2018 period, IOSL fuelled 88,319 flights out of which 3% of the flights had “no upliftment” of fuel which is informed to IOSL after placement of Hydrant Dispenser/Refueller. In these instances, though IOSL incurs costs but the same is not reimbursed as no fuel is uplifted.
- ii). In order to support the RCS/UDAN scheme of the Govt of India, IOSL also fuels many smaller ATR 72 and Q 400 aircraft which often uplift less than 1 KL of fuel. The revenue from these flights which are increasing in number is far below the revenue required to be profitable for these flights, however IOSL cannot refuse to refuel these” un-economical” flights under the current agreements. This leads to cross-subsidizing” of smaller flights with international and other flights which uplift more fuel.

- iii) IOSL plans to implement a dispatch automations system for Mumbai ITP operations which will enable IOSL to monitor performance parameters and KPI's in line with AERA's requirement of monitoring of performance standards. While the final costs are under discussion, it is expected that this measure will involve a capex of INR 1.5 Crores for FY 2019-20.
- iv). With the increase in expenditure to the tune of 10% to 15%, the year increase of 5% is justified. However, the ITP operations also are at risk in case there is a decrease in volumes or if the increase in volumes does not commensurate the increase in cost. Also the justification given by AERA for increase in throughput cannot be considered, since any increase would amount to addition manpower & capital investments.
- v) The negative growth rate of projected tariff due to the closure of Mumbai Airport from 7 February, 2019 to 30 March, 2019 for repair between 11 am and 5 pm on Tuesday, Thursday and Saturday and Saturation in tariff and airport handling capacity at Mumbai Airport.

3 Examination of the proposal

- 3.1 The Authority vide order no order No.28/2017-18 dated 08.12.2017 has already decided to adopt "Light Touch Approach" for determination of tariff for second control period w.e.f 01.04.2016 to 31.03.2021 as the ITP service rendered by IOSL at CSI Airport, Mumbai was 'material and competitive' and has determined tariff for (FY 2016-17 to FY 2018-19) 1st, 2nd and 3rd tariff year.
- 3.2 In order to determine the tariff for 4th & 5th tariff year, the Authority, analysed the revenue, cost, yield per unit and return on average RAB based on Annual Compliance Statement submitted by M/s IOSL (ANNEXURE-I). Considering a 2% increase in fuel volume, the Authority, found that the return on RAB works out to 23.66% in FY 2016-17 and 38.87% in FY 2017-18 (based on ACS), and, the projected Return on average RAB for FY 2018-19, FY 2019-20 and FY 2020-21, to be 63.68%, 58.92% and 52.20% respectively. Further, the Authority observed that the Operating profit margin is 24% in FY 2016-17 and 32% in FY 2017-18 (based on actual ACS), and similarly the projected operating profit margin is 36% in FY 2018-19, 33% in FY 2019-20 and 28% in FY 2020-21.
- 3.3 The Authority further observed that volume of fuel off take of M/s IOSL has increased by 12.13% during the period FY 2016-17 to FY 2017-18. M/s IOSL in their earlier submission had taken 2% y-o-y increase in volumes. Now, in their revised submission, M/s IOSL has considered 2.41% y-o-y decrease in volumes, which is based on their long term commercial contracts signed between Airlines & Oil Suppliers, and, ITP Services to Airlines. However, the Authority, has considered a 2% increase in volumes y-o-y, as per its earlier decision taken vide Order No.

28/2017-18 dated 08.12.2017, and, also taking into consideration the ATM movements of Mumbai Airport (ANNEXURE-II).

- 3.4 The Authority, then analysed the above parameters to ascertain the implication on RAB and profit margin, on the basis of the proposal submitted by IOSL, seeking a 5% increase in tariff in the 4th & further 5% increase in 5th Tariff years. On doing so, the Authority, observed that, the return on average RAB will be 67.79% in FY 2019-20 and 71.35% in FY 2020-21 respectively. The operating profit margin will be 36% in FY 2019-20 and 35% in FY 2020-21.
- 3.5 The Authority, further observed that, if the fuel volume is reduced by 2% & the tariff is increased by 5%, as sought by IOSL, then also the return on average RAB will be 56.23% in FY 2019-20 and 50.22% in FY 2020-21 respectively. Further, the Operating Profit Margin will be 32% in FY 2019-20 and 27% in FY 2020-21. Considering all these financial data, the existing tariff rate at Mumbai Airport for FY 2018-19 @ Rs 265.72/KL is sufficient to meet the revenue requirement of IOSL for FY 2019-20 & FY 2020-21. Therefore, the Authority, feels that any further increase in the tariff rate will only lead to increase in return on RAB and similar increase in profit margin of IOSL.
- 3.6 In view of the above, Authority is of the opinion that, the negative growth rate of fuel volume are not of permanent nature, the volume share is dynamic among the ITP service providers at an airport and volume may increase or decrease.
- 3.7 M/s IOSL has not submitted the proof of stakeholder consultation meeting.

4 Proposal

The Authority, after careful consideration of the Annual tariff proposal for the 4thtariff year FY 2019-20 and 5th tariff year FY 2020-21 of second control period, makes the following proposal for Stakeholder Consultation:

4.1 Keeping in view the facts as stated at para 3 above, the 5% increase in tariff in the 4th tariff year (2019-20) and further 5% increase in 5th tariff year (2020-21) of Second Control Period as sought by M/s IOSL does not appears to be justified. Also no stakeholder consultation has been done by M/s IOSL. Final decision on tariff increase or alternately continuation of same tariff existing as on 31.03.2019 for the 4th & 5th tariff year (FY 2019-20 and FY 2020-21) of the second control period, will be taken after due process of consultation.

- 5 In accordance with the provisions of Section 13(4) of the AERA Act, the proposal contained in para 5 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 5 above, latest by **12th March, 2019** at the following address:

**Airports Economic Regulatory Authority of India,
AERA Building,
Administrative Complex,
Safdarjung Airport,
New Delhi- 110003
Email: chairperson@aera.gov.in
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**(S. Machendranathan)
Chairperson**

INTERNATIONAL AIRCRAFT MOVEMENTS

SL. NO.	AIRPORT	AIRCRAFT MOVEMENTS (IN NOS.)					
		For the month			For the period		
		DEC 2018	DEC 2017	% Change	April to December 2018-19	2017-18	% Change
(A) 20 INTERNATIONAL AIRPORTS							
1	CHENNAI	3358	3269	2.7	29611	28120	5.3
2	KOLKATA	2042	1922	6.2	17108	16516	3.6
3	AHMEDABAD	1352	1084	24.7	10753	9936	8.2
4	GOA	571	640	-10.8	2864	3095	-7.5
5	JAIPUR	347	380	-8.7	3134	3130	0.1
6	LUCKNOW	432	409	5.6	4229	3819	10.7
7	GUWAHATI	39	37	5.4	488	389	25.4
8	TRIVANDRUM	1618	1731	-6.5	14483	14257	1.6
9	BHUBANESWAR	60	80	-25.0	501	365	37.3
10	CALICUT	1584	1748	-9.4	14163	15762	-10.1
11	SRINAGAR	0	0	-	126	84	50.0
12	COIMBATORE	163	200	-18.5	1414	1046	35.2
13	AMRITSAR	563	415	35.7	3930	3204	22.7
14	MANGALORE	346	445	-22.2	3804	4003	-5.0
15	VARANASI	184	132	39.4	1160	949	22.2
16	PORTBLAIR	2	0	-	14	4	250.0
17	TRICHY	821	913	-10.1	6774	7610	-11.0
18	IMPHAL	0	0	-	1	0	-
19	VIJAYAWADA	16	0	-	16	0	-
20	TIRUPATI	0	0	-	0	0	-
TOTAL (A) 20 INTERNATIONAL AIRPORTS		13498	13405	0.7	114573	112289	2.0
(B) 7 JV INTERNATIONAL AIRPORTS							
21	DELHI (DIAL)	10198	9597	6.3	86381	81060	6.6
22	MUMBAI (MIAL)	7921	7560	4.8	66723	64450	3.5
23	BANGALORE (BIAL)	2749	2266	21.3	21663	19363	11.9
24	HYDERABAD (GHIAL)	2211	2299	-3.8	19650	18126	8.4
25	COCHIN(CIAL)	2532	2588	-2.2	21617	23031	-6.1
26	NAGPUR (MIPL)	140	122	14.8	1013	1026	-1.3
27	KANNUR(KIAL)	92	0	-	92	0	-
TOTAL (B) 7 JV INTERNATIONAL AIRPORTS		25843	24432	5.8	217139	207056	4.9
(C) 08 CUSTOM AIRPORTS							
28	PUNE	250	190	31.6	1662	1740	-4.5
29	PATNA	0	0	-	0	2	-
30	VISAKHAPATNAM	158	159	-0.6	1340	1263	6.1
31	BAGDOGRA	40	34	17.6	330	352	-6.3
32	CHANDIGARH	55	98	-43.9	714	772	-7.5
33	MADURAI	248	259	-4.2	2172	1893	14.7
34	AURANGABAD	0	0	-	17	28	-39.3
35	GAYA	322	252	27.8	881	834	5.6
TOTAL (C) 08 CUSTOM AIRPORTS		1073	992	8.2	7116	6884	3.4
TOTAL (D) 60 DOMESTIC AIRPORTS		40	9	344.4	144	122	18.0
TOTAL (E) 7 ST GOVT./ PVT AIRPORTS		0	0	-	9	0	-
TOTAL (F) OTHER AIRPORTS		0	0	-	0	0	-
GRAND TOTAL (A+B+C+D+E+F)		40454	38838	4.2	338981	326351	3.9