

**Consultation Paper No. 06/2019-20**



**Airports Economic Regulatory Authority of India**

**TO CONSIDER THE ANNUAL TARIFF PROPOSAL FOR FY 2019-20 (FROM 24<sup>th</sup> MAY 2019 TO 31.03.2020) 4<sup>th</sup> TARIFF YEAR AND (FY 2020-21) 5<sup>th</sup> TARIFF YEAR OF THE SECOND CONTROL PERIOD IN RESPECT OF M/s INDIAN OIL SKYTANKING PRIVATE LIMITED (IOSL) FOR PROVIDING INTO PLANE SERVICES AT KEMPEGOWDA INTERNATIONAL AIRPORT, BANGALORE.**

**New Delhi: 13<sup>th</sup> September, 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 Kempegowda International Airport, Bangalore since the commencement of the airport operations i.e. 2008. The Authority vide its Order No 05/2017-18 dated 12.06.2017 had decided to adopt 'light touch approach' for determined the Annual Tariffs for the 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> tariff year (upto 23.05.2018) of the 2<sup>nd</sup> control period (FY 2016-17 to FY 2020-21) as their concession agreement with BIAL was expiring on 24.05.2018 .
- 1.2 M/s IOSL vide letter dated 28.05.2018 has further informed that their existing contract for ITP Services at Bangalore Airport which was valid upto 24.05.2018 has been further extended by one more year by BIAL w.e.f (24.05.2018 to 23.05.2019). Subsequently the Authority vide order No 24/2018-19 dated 10.10.2018 had determined the tariff for the remaining period of 3<sup>rd</sup> tariff year (from 24.05.2018 to 31.03.2019) and 4<sup>th</sup> tariff year (from 01.04.2019 to 23.05.2019) of the second control period.

**2. Submissions made by IOSL**

- 2.1.1 IOSL vide letter no BLR/ITP/AERA/MYTP dated 27.04.2019 submitted Annual Tariff Proposal for determine the tariff of 4<sup>th</sup> tariff year (From 24.05.2019 to 31.03.2020) & 5<sup>th</sup> tariff year ( FY 2020-21) of the second control period and for another period (From FY 2021-22 to FY 2023-24) for providing Into Plane Services at Kempegowda International Airport, Bangalore.
- 2.1.2 M/s IOSL has sought an increase of 33.48% in 4<sup>th</sup> tariff year (From 24.05.2019 to 31.03.2020), and, 40.15% in 5<sup>th</sup> tariff year (FY 2020-21) over the 3<sup>rd</sup> tariff year (FY 2018-19) of the second control period. M/s IOSL has also sought an increase for the period FY 2021-22 to FY 2023-24 as per the tariff card appended below:

<b>M/s Indian Oil Skytanking Private Limited, Kempegowda International Airport, Bengaluru</b>					
<b>Tariff Card (All Amounts in INR per KL)</b>					
	Fueling of Aircraft	Defueling of Aircraft within 6 Hours	Defueling of Aircraft Beyond 6 Hours	Refueling of defueled product 6 Hours	Refueling of defueled product 6 Hours
Period 24.05.2019 to 31.03.2020	357.78	357.78	429.33	393.56	429.33
Period 01.04.2019 to 31.03.2021	375.67	375.67	450.80	413.23	450.80

Period 01.04.2021 to 31.03.2022	417.79	417.79	501.35	459.57	501.35
Period 01.04.2022 to 31.03.2023	423.86	423.86	508.63	466.24	508.63
Period 01.04.2023 to 31.03.2024	472.73	472.73	567.28	520	567.28

2.2 M/s IOSL in the aforesaid letters dated 27/04/2019 submitted the following information/justification for the proposed increase in tariff:

2.2.1 **Increase in Airport Operator Fees:** Currently, IOSL is paying 5% of gross revenue as Airport Operator Fee (AOF) to BIAL but as per new Service Provider Right Holder (SPRH) Agreement, which is effective from 24.05.2019 IOSL is now required to pay 23.6% of gross revenue to BIAL as Airport Operator Fees. This will lead to a sharp increase in working capital costs for BIAL.

2.2.2 **Introduction of Land Rentals:** No rentals for office space and parking of hydrant dispensers and refuellers on the airside, are payable by IOSL to BIAL but now, as per new SPRH agreement IOSL is now required to pay the rent as shown in the table below:

Type of space premises	Rate per Sq .m. per month	Space Occupied (in Sq. M.)
Airside Parking	Rs 171.05/ psmpm	1467.50 sqm
Office Area in Into-Plane Buildings	Rs 1368.15/psmpm	399 sqm

Furthermore, these rentals will escalate by 5% year on year. This will lead to a sharp rise in operating expenditure of Rs 95.63 lakhs in FY 2019-20 and Rs 100.00 lakhs in FY 2020-21.

2.2.3 **Incremental Manpower Cost:** M/s IOSL is expecting that passengers, ATM, and numbers of fuelling are likely to grow in double digit in the next three years. To cater to this increased demand, IOSL is adding 4 new Hydrant Dispensers, 2 new Refuellers, and, one more shift/apron vehicle in the short term with more additions planned in the future. Furthermore, as per new SPRH agreement the ITP operator is required to place its manpower on a 24x7x365 basis at the Airport Operation Control Centre (AOCC). To cater to the entire requirement, M/s IOSL needs to provide more manpower in FY 2019-20 and FY 2020-21.

2.2.4 **Incremental repairs & Maintenance costs:** Due to the increased intensity of operations, IOSL is required to add more equipment's to refuel increased

number of flights. This additional equipment along with existing equipment would lead to increased cost of Repairs and Maintenance.

**2.2.5 Geotagging of refuelling Equipment:** As per the condition of the new SPRH Agreement signed by IOSL, all equipments must be geotagged. This is likely to result into a capital cost of Rs 1 Crore approx and an annual cost of Rs 13.5 lakhs thereon.

**2.2.6 Additional Capital Investment:** As per the terms & conditions of the SPRH agreement between IOSL and BIAL, IOSL is required to make capital investment of Rs 22.35 crores over the next few years for replacement/purchase of additional mobile equipments.

**Additional submission in ATP by M/s IOSL**

**2.3** M/s IOSL vide letter no AV/AERA/BLR-ITP/MYTP dated 22.07.2019 has submitted their revised tariff proposal. In the revised tariff proposal following changes have been made by IOSL –

**2.3.1 Volume growth:** In their earlier submission IOSL had considered 2% growth in ITP volume y-o-y basis However now on the basis of 4 months actual ITP volume data for FY 2019-20, which shows 13% negative ITP growth rate, IOSL have revised their ITP volume assumption to a negative growth of 2% in FY 2019-20 and a 2% positive growth in FY 2020-21. Four months actual data for FY 2018-19 and FY 2019-20 is shown in the table below:

<b>FY 2018-19 and FY 2019-20 (April to July) actual ITP volume</b>					
	<b>Apr-19</b>	<b>19-May</b>	<b>19-Jun</b>	<b>19-Jul</b>	<b>Total 4 month</b>
	40744	41464	40401	43533	166142
	Apr-18	May-18	Jun-18	Jul-18	
	46589	47138	48689	47734	190150
Volume variance	-13%	-12%	-17%	-9%	-13%

**2.3.2 Operational expenses:** Travelling & Conveyance expenses, Repair & Maintenance expenses, Consumption of Stores and office expense estimate have been revised.

2.3.3 **Depreciation:** Estimation of depreciation has been revised with depreciation rate now considered as per the Authority's Order No 35/2017-18 dated 12/01/2018 for determining the useful life and depreciation rate.

2.3.4 Based on the above changes, the revised tariff card is appended below:

<b>M/s Indian Oil Skytanking Private Limited, Kempegowda International Airport, Bengaluru</b>					
<b>Tariff Card (All Amounts in INR per KL)</b>					
	Fueling of Aircraft	Defueling of Aircraft within 6 Hours	Defueling of Aircraft Beyond 6 Hours	Refueling of defueled product 6 Hours	Refueling of defueled product 6 Hours
Period 24.05.2019 to 31.03.2020	353.07	353.07	423.68	388.37	423.68
Period 01.04.2019 to 31.03.2021	370.72	370.72	444.80	407.79	444.86
Period 01.04.2021 to 31.03.2022	407.01	407.01	488.40	447.71	488.41
Period 01.04.2022 to 31.03.2023	412.54	412.54	495.04	453.79	495.04
Period 01.04.2023 to 31.03.2024	454.21	454.21	545.06	499.64	545.06

2.4 M/s IOSL has also submitted the Annual Compliance Statements (ACS) for FY 2016-17, FY 2017-18 and FY 2018-19 for 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> tariff year of the 2<sup>nd</sup> Control Period (Annexure-I).

### **3. Authority's Examination of the proposal**

3.1. The Authority vide order no Order No. 05/2017-18 dated 12.06.2017 had decided to adopt "Light Touch Approach" for determination of tariff for 2<sup>nd</sup> control period w.e.f 01.04.2016 to 31.03.2021 as the ITP service rendered by IOSL at Kempegowda International Airport, Bangalore was 'material and competitive'. In the aforesaid Order, the Authority, also determined the tariff for FY 2016-17 to FY 2018-19 (up to 24.05.2018) of 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> tariff year

(From 01.04.2018 to 23.05.2018) of the 2<sup>nd</sup> Control Period. Subsequently, the Authority, vide Order No. 24/2018-19 dated 10.10.2018 had determined the tariff for the remaining period of 3<sup>rd</sup> tariff year (from 24.05.2018 to 31.03.2019) and 4<sup>th</sup> tariff year (from 01.04.2019 to 23.05.2019) of the second control period. To avoid any regulatory vacuum the Authority vide order No 5/2019-20 dated 19<sup>th</sup> May, 2019 had allowed M/s IOSL to continue levy of existing tariff as on 23.05.2019 up to 30.09.2019 or till the date of determination of tariff by AERA whichever is earlier.

- 3.2. Based on the form F15 (Annual Compliance Statement) and F16 (Performance report for the tariff year) submitted by M/s IOSL, the Authority observe that IOSL is earning a high return on average RAB and also earning a good profit margin on sales with details as under:
- 3.2.1 The actual operating profit margin was 60% in FY 2016-17, 48% in FY 2017-18 & 40% in FY 2018-19.
- 3.2.2 Actual Return on Average RAB was 639% in FY 2016-17, 276% in FY 2017-18 & 63% in FY 2018-19.
- 3.2.3 The provisional profit margin will be 17% in FY 2019-20 and 9% will be in FY 2020-21 and provisional RAB will be 43% in FY 2019-20 and 16% will be in FY 2020-21 on the proposed rates.
- 3.3. In order to determine the tariff for (FY 2019-20) 4<sup>th</sup> tariff year & (FY 2020-21) 5<sup>th</sup> tariff year, the Authority analysed the revenue, cost, and yield per unit based on the Annual Compliance Statement (ACS) for FY 2016-17, FY 2017-18 & FY 2018-19 and further submissions made by M/s IOSL, the Authority worked out the tariff rate of Rs 303.04 for (FY 2019-20) 4<sup>th</sup> tariff year and Rs 365.75 for (FY 2020-21) 5<sup>th</sup> tariff year of the 2<sup>nd</sup> control period, considering 2% ITP volume decrease in FY 2019-20 & 2% increase in FY 2020-21, and, capping the return on average RAB @ 14%. The Authority observes that the Operating profit margin will be 7% for FY 2019-20 & 8% for FY 2020-21 on suggested rate. At the above rates, there is no shortfall in ARR, and the rate is sufficient to meet the revenue requirement of IOSL hence, we may consider Rs. 303.04/KL for the 4<sup>th</sup> tariff year and Rs. 365.75/ KL for 5<sup>th</sup> tariff year of the second control period.
- 3.4. The Authority observes that volume of fuel off take of M/s IOSL has increased by 6% during the period FY 2016-17 to FY 2017-18 and 4% during FY 2017-18 to FY 2018-19. M/s IOSL in their earlier submission had taken 2% y-o-y increase in volumes during the period FY 2018-19 to FY 2023-24. Now, in their revised submission, M/s IOSL has taken a 2% decrease in ITP volumes in FY 2019-20 based on (i) closure of Jet Airways; (ii) loss of business to competitor

(BSSPL); and, (iii) on the basis of actual ITP volumes of fuel off take for the period April 2019 to July 2019 . The Authority finds that the fuel off take has decreased 13% during the period April 2019 to July 2019 against April 2018 to July 2018 and the market share of IOSL has also reduced to 60% in FY2019- 20 against 74% in FY2016-17, therefore, the Authority, has considered a 2% decrease in volumes in FY 2019-20 but the Authority is of the opinion that, the negative growth rate in the fuel volumes are not of permanent nature, and, the volume share being dynamic among the ITP service providers at an airport, the same may increase or decrease during the period.

- 3.5. The Authority opines that at Bangalore Airport, the Service providers IOSL & BSSPL are promoted by two Oil Marketing Companies viz. IOC and BPCL, and, the two companies mainly cater to their own clients, hence, in real terms, there is no competition as ITP Service providers. However, the Authority, vide its Order No. 05/2017-18 dated 12.06.2017 has already decided to determine the tariff under “light touch approach” for the 2nd Control Period. **Therefore, the Authority, has decided to determine the tariff of the remaining period of the 2nd Control Period under ‘light touch approach’. The Authority’s considered view is that since there is no competition in real term between the two ISP’s, hence, from 2nd Control Period onwards the Authority is inclined to determine the tariff of Into Plane (ITP) service provider under “price cap approach.”**
- 3.6. M/s IOSL has submitted the proof of User Consultant Committee meeting. The meeting was conducted by M/s IOSL on 09.05.2019 and none of the Stakeholders have raised any objection for the proposed tariff.

#### **4. Proposal**

The Authority, after careful consideration of the Annual Tariff Proposal for the 4<sup>th</sup>tariff year FY 2019-20 & 5<sup>th</sup> tariff year FY 2020-21 of 2nd Control Period, makes the following proposal for Stakeholders’ Consultation:

- 4.1. Keeping in view the facts as stated at para 3 above, the Authority proposes to allow M/s IOSL to charge the Into Plane (ITP) service tariff at Bangalore Airport for the FY 2019-20 (4<sup>th</sup> tariff year) & (FY 2020-21) 5<sup>th</sup> tariff year of the 2<sup>nd</sup> Control Period as per tariff card attached at Annexure- II.
- 4.2. The Authority also proposes to allow M/s IOSL to charge the existing Into Plane Service tariff of Rs.268.03/-KL as approved by the Authority vide Order No. 5/2019-20 dated 19<sup>th</sup> May, 2019 from 24.05.2019 to till the date of issue of this tariff by AERA.

5. 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 decisions fully documented and explained in terms of the provisions of the Act.
6. The Authority welcomes written evidence-based feedback, comments and suggestions from stakeholders on the proposal made in para 4 above, latest by **04<sup>th</sup> October, 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](mailto:chairperson@aera.gov.in)  
[gita.sahu@aera.gov.in](mailto:gita.sahu@aera.gov.in)  
Tel: 011-24695042  
Fax: 011-24695039**

**Chairperson**



IndianOil Skytanking Private Limited  
Bangalore - Into Plane Services

Figs in Rs.

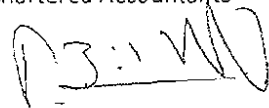
Form F16 Performance Report for the Tariff Year (ref:Section A1.9 of Appendix I)

	Actual Tariff Year 2016-17
Total Revenue from Regulated Services(1)	1374,96,139
Total Revenue from Services other than Regulated Services(2)	
Operating Expenditure(3)	528,14,893
Depreciation(4)	28,43,472
Total Expenditure (3)+(4)=(5)	556,58,366
Regulatory Operating Profit(1)-(2)-(5)=(6)	818,37,773
Capital Expenditure(7)	184,25,956
Opening RAB (8)	54,28,479
Disposals/Transfers(9)	8,39,321
Closing RAB(8)+(7)-(9)=(10)	201,71,642
Average RAB (8)+(10) /2=(11)	128,00,060
Return on Average RAB (6) / (11)	6.39
Total Volume (Cargo/Fuel throughput /ATM) (12)	5,12,724.000
Actual Yield per unit (12/1)	268.17

#Fields in italics are only required for Service Provider deemed "Material" and "Non-Competitive".

We have verified the above details and found the same to be in order

For B.R.V. Goud & Co.  
Chartered Accountants



A.B. Shiva Subramanyam  
Partner

Place: Bangalore  
Date: 26-10-2017



For IndianOil Skytanking Private Limited



T. S. Dupare  
CEO



Shantanu Saxena  
CEO  
SHANTANU SAXENA  
Chief Financial Officer  
IndianOil Skytanking Pvt. Ltd.  
Bangalore International Airport  
Bangalore

IndianOil Skytanking Private Limited  
Bangalore - Into Plane Services

Figs in Rs.

Form F-6 Performance Report for the Tariff Year (ref: Section A1.9 of Appendix I)

	Actual Tariff Year 2017-18
Total Revenue from Regulated Services(1)	14,50,45,678
Total Revenue from Services other than Regulated Services(2)	
Operating Expenditure(3)	7,12,66,356
Depreciation(4)	48,79,562
Total Expenditure (3)+(4)=(5)	7,61,45,918
Regulatory Operating Profit(1)-(2)-(5)=(6)	6,88,99,760
Capital Expenditure(7)	1,44,72,687
Opening RAB (8)	2,01,71,642
Disposals/Transfers(9)	-
Closing RAB(8)+(7)-(9)=(10)	2,97,64,767
Average RAB (8)+(10) /2=(11)	2,49,68,205
Return on Average RAB (6) /(11)	2.76
Total Volume (Cargo/Fuel throughput /ATM) (12)	5,41,055.639
Actual Yield per unit (12/1)	268.08

#Fields in italics are only required for Service Provider deemed "Material" and "Non-Competitive".

We have verified the above details and found the same to be in order

For B.R.V. Goud & Co.  
Chartered Accountants

A.B. Shiva Subramanyam  
Partner



For IndianOil Skytanking Private Limited

T. S Dupare  
CEO

Shantanu Saxena  
CFO

Place: Bangalore  
Date: 03-05-2018

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IndianOil Skytanking Private Limited  
Bangalore-Fuel Farm Services

Figs in Rs

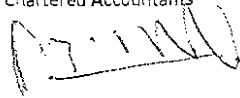
Form F.16 Performance Report for the Tariff Year (ref:Section A1.9 of Appendix I)

	Actual Tariff Year 2018-19
Total Revenue from Regulated Services(1)	1,42,28,42,950
Total Revenue from Services other than Regulated Services(2)	
Operating Expenditure(3)	97,56,76,883
Depreciation(4)	7,85,91,160
Total Expenditure (3)+(4)=(5)	1,05,42,68,043
Regulatory Operating Profit(1)-(2)-(5)=(6)	36,85,74,907
Capital Expenditure(7)	10,69,62,523
Opening RAB (8)	72,70,62,937
Disposals/Transfers(9)	-
Closing RAB(8)+(7)-(9)=(10)	75,54,34,299
Average RAB (8)+(10) /2=(11)	74,12,48,618
Return on Average RAB (6) / (11)	0.50
Total Volume (Cargo/Fuel throughput /ATM) (12)	8,36,966.441
Actual Yield per unit (12/1)	1,700.00

Finance Charges for the period incurred for Bangalore Fuel Farm are Rs 0 only  
#Fields in italics are only required for Service Provider deemed "Material" and "Non-Competitive".

We have verified the above details and found the same to be in order

For B.R.V. Goud & Co.  
Chartered Accountants



A.B. Shiva Subramanyam  
Partner

M.No: -201108

Place: Bangalore

Date: 16-05-2019



For IndianOil Skytanking Private Limited



T. S Dupare  
CEO



Shantanu Saxena  
CFO

**Annexure-II**

**M/s Indian Oil Skytanking Private Limited (IOSL)  
Annual Tariff Proposal for the (FY 2019-20) 4<sup>th</sup> tariff year &  
(FY 2020-21) 5<sup>th</sup> tariff year.**

<b>M/s Indian Oil Skytanking Private Limited, Kempegowda International Airport, Bengaluru</b>					
<b>Tariff Card (All Amounts in INR per KL)</b>					
	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>
	Fueling of Aircraft	Defueling of Aircraft within 6 Hours	Defueling of Aircraft Beyond 6 Hours	Refueling of defueled product within 6 Hours	Refueling of defueled product beyond 6 Hours
4 <sup>th</sup> tariff year (From the date of issue of the order to 31.03.2020)	303.04	303.04	363.61	333.31	363.61
5 <sup>th</sup> tariff year (From 01.04.2020 to 31.03.2021)	365.75	365.75	438.82	402.25	438.82

**Note:**

1. Rates of fueling of Aircraft in Column 'A' above only have been determined by AERA.
2. The other charges of Defueling/Refueling/refuelling of defueled product (within/ beyond 6 hours) as column 'B' to 'E' above are as proportionate basis as per submission of IOSL.