



BPCL-KIAL Fuel Farm Private Limited

Reg. Office : C/o Kannur International Airport Ltd, Karappravoor P.O., Mattannur
Dist. Kannur - 670702, Kerala. CIN: U23200KL2015PTC038467
GSTIN/UIN : 32AAGCB3129A1ZG

Ref: BKFFPL/AERA/2021-22/08

6th January 2022

The Chairman,
Airports Economic Regulatory Authority of India,
AERA Building, Safdarjung Airport,
New Delhi.

Dear Sir,

Sub: Response to Stakeholder comments on Consultation Paper No. 23/ 2021-22

We thank the Authority for issuance of the subject Consultation Paper.

We are enclosing herewith our responses to the comments received from certain stakeholders. We request the Authority to consider our responses favorably and issue the Order. This is imperative for the sustenance and operations of the Fuel Farm at Kannur International Airport.

We remain at your disposal to clarify any queries that you may have.

Thanking you,
Yours truly,

For M/S BPCL-KIAL FUEL FARM PRIVATE LIMITED

SANDEEP KUMAR
Company Secretary



Stakeholder Comments and Counter Comments w.r.t CP.No23/2021-22

Stakeholder Comments and Counter Comments w.r.t CP.No23/2021-22

Sr. No.	Particulars (Topics)	Stakeholder Name	Stakeholders Comments	Comments by BKFFPL
1	Abolishment of Royalty Charges	FIA	<p>Royalty is in the nature of market access fee, charged (by any name or description) by the service provider under various headings without any underlying services. These charges are mostly passed on to the airlines by the service provider. It may be pertinent to note that market access fee by any name or description is not practiced in most of the global economies, including European Union, Australia etc.</p> <p>In view of the above, FIA urge AERA to abolish such royalty/concession fee which may be included in any of the cost items.</p>	<p>No Comments. BKFFPL understands that FIA is commenting on the royalty charged by Airports.</p>
2	Fuel Infrastructure Charges (FIC) & Into Plane Charges (ITP)	FIA	<p>Airlines are now paying separately for FIC and ITP which was earlier part of ATF pricing. Such FIC and ITP along with GST thereon becomes part of ATF pricing and suffers from Excise Duty and Sales Tax. The additional burden of non-creditable taxes becomes sixty-four (64) % - seventy (70) % on the airlines.</p> <p>FIA would also like to urge the Authority to pass an order stating that FIC and ITP should be directly invoiced by BKFFPL or the services providers to the airlines to avoid circuitous billing and for the sake of 'Ease of doing businesses' and 'Transparency'. This will also help in avoiding unnecessary tax on tax to the tune of sixty-four (64) % - seventy (70) % sixty-seven (67) % to Airlines.</p> <p>FIA strongly urge AERA to undertake a thorough investigation retrospectively to determine the actual cost of efficient operations and revenues collected by BKFFPL till date. All excess recoveries to be passed on to the airlines and future tariff to be determined based on actual cost of efficient operations.</p>	<p>Services provided by BKFFPL are governed by appropriate agreements entered into with the Oil Marketing Companies. Accordingly, BKFFPL raises invoices on the customers to whom the services have been rendered.</p> <p>As the Supplier is the recipient of services at the fuel farm (and not the Airlines, who is the customer of the Supplier), BKFFPL does not invoice directly to Airlines. The above practice is being followed at all the airports.</p> <p>BKFFPL reiterates that the activities carried out with respect to Fuel Farm and Into Plane services and the cost of such operations are optimum and all steps are taken to ensure and maintain</p>



Stakeholder Comments and Counter Comments w.r.t CP.No23/2021-22

Sr. No.	Particulars (Topics)	Stakeholder Name	Stakeholders Comments	Comments by BKFFPL
				<p>efficiency. Tariff is being determined by the Authority based on its regulatory framework. AERA regulatory model takes into consideration all the building blocks and consider efficient cost of operations while determining Fuel Infrastructure Charges.</p>
3	Fair Rate of Return	FIA	<p>Presently, the Authority provides a Fair Rate of Return (FRoR) to BKFFPL towards their investment. While such fixed/ assured return favours the service provider, it creates an imbalance against the airlines, which are already suffering from huge losses and bear the adverse financial impact through higher tariffs. However, due to such fixed/assured returns, service providers like BKFFPL have no incentive to look for productivity improvement or ways of increasing efficiencies, take steps to reduce costs as they are fully covered for all costs plus their hefty returns. Such a scenario breeds inefficiencies and higher costs, which are ultimately borne by airlines.</p> <p>In the present scenario any assured return on investment to any services providers like BKFFPL, in excess of three (3) % (including those on past orders), i.e., being at par with bank fixed deposits, will be onerous for the airlines (Refer 6.2 of the CP).</p> <p>Without prejudice to the above, in case the Authority is unable to accept FIA recommendation mentioned above, the Authority is requested to conduct an independent study for determination of FRoR to be provided in favour of BKFFPL. Such independent study can be exercised by the Authority in terms of powers conferred under the Airports Economic Regulatory Authority of India Act, 2008, as amended, and in line with studies being conducted by Authority in case of</p>	<p>BKFFPL would like to submit that it would be difficult to attract any future investment in form of Debt or Equity if the FROR is capped at 3%. Risk free returns available in the market at government bonds is close to 6-7% and considering the airport sector is the most sensitive sector, and majorly impacted sector as its revenue is directly affected due to change in any stimulus impacting the economy.</p> <p>BKFFPL has submitted its detailed responses on the Cost of Equity as part of its response to Consultation Paper. Accordingly, BKFFPL requests the Authority to consider the cost of equity at 16% as per the MYTP submission made by it.</p>



Stakeholder Comments and Counter Comments w.r.t CP.No23/2021-22

Sr. No.	Particulars (Topics)	Stakeholder Name	Stakeholders Comments	Comments by BKFFPL
			certain major airport operators.	
4	Operating Expenses	FIA	<p>We are unaware as to whether BKFFPL has taken cost cutting measures including re-negotiations of all the cost items on its profit and loss account. It may be noted that cost incurred by BKFFPL impacts the airlines, as such cost is passed through or borne by the airlines. Further, in view of above, FIA request Authority should:</p> <p>(a) Put on hold any increase in operational expenditure by BKFFPL;</p> <p>(b) Advise BKFFPL to review its spending on operational expenditure and re-negotiate all the operational expenditure costs in a significant manner and address any increase in fees sought by BKFFPL. It may be noted that across various industries, instead of cost escalations, all the costs have been renegotiated downwards substantially. Accordingly, BKFFPL needs to significantly reduce all such costs in a very aggressive manner. BKFFPL may be advised to reduce its cost by at least 35% and no escalation should be permitted; and</p> <p>(c) In view of the above, BKFFPL should be directed to pass on cost benefits to the airlines.</p> <p>(d) In particular, FIA submit that:</p> <p>(i) The O&M CAGR considered by AERA, under para 7.4 of the Consultation Paper, appears to be largely at the</p>	<p>BKFFPL would like to submit that wherever possible, BKFFPL has undertaken cost cutting measures including renegotiations of all the cost items without compromising the quality of service and safety of operations.</p> <p>BKFFPL would like to submit its endeavor to minimize employee expense/ Operator Expenses. Wherever possible, the expenses have been reduced in order to cope up with current impact of COVID on the business activity. The minimal % of hike in employee cost is required to retain good and talent resources, which are required in the fuel industry, as the same is categorized as a hazardous industry, due to highly inflammable nature of the product which is handled by these people on daily basis.</p> <p>BKFFPL re-affirms that the costs incurred are optimal and that costs are carefully reviewed at each stage of</p>



Stakeholder Comments and Counter Comments w.r.t CP.No23/2021-22

Sr. No.	Particulars (Topics)	Stakeholder Name	Stakeholders Comments	Comments by BKFFPL
			<p>rate of 5%, save and except for land/lease rental at the rate of 9%, which appears to be on the higher side/levels considering the present environment of prolonged financial recovery for airlines.</p> <p>We appreciate that AERA in para 7.4.4 has noted ‘The Authority feels that efforts should be made to reduce the costs so that the Fuel Farm can be operated economically with reasonable tariff’ and has further sought further records on Operator Charges (i.e., being 61% of the total O&M Costs) for a detailed scrutiny. However, FIA request AERA to not consider any escalations, as such escalation will lead to higher tariffs creating an in the process of financial recovery of airlines.</p> <p>(ii) Payroll Cost (Refer 7.4 and Table No. 20):</p> <p>While the aviation sector, including airlines have incurred huge losses and are struggling to meet their operational costs, on the other hand BKFFPL seems to have paid/will pay incremental salaries which may not appear prudent considering the significant losses incurred by the aviation sector. It appears that BKFFPL wants to recover its full employee cost from the airlines, which are facing significant challenges to meet its operating expenses.</p> <p>There should not be any increase in manpower till the existing manpower is effectively utilized as it will take another two (2)- three (3) years to recover. Existing manpower can be reviewed and any additional costs due to contract manpower or otherwise should be reduced.</p> <p>Without prejudice to the above, BKFFPL needs to considerably restructure its employee benefit expenses and other expenses and hold any revisions for the next control period.</p>	<p>operation.</p> <p>Minimum level of members is required to support the Fuel Farm operations, which has been ensured by BKFFPL. The facility at Kannur faces lower volume demands, which has been worsened by the ongoing COVID-19 pandemic conditions.</p>



Stakeholder Comments and Counter Comments w.r.t CP.No23/2021-22

Sr. No.	Particulars (Topics)	Stakeholder Name	Stakeholders Comments	Comments by BKFFPL
5	Annual Tariff Proposal	Air India Limited	<p>1. Air India Ltd. submits that current charges at BPCL Kannur Fuel Farm Pvt. Ltd. are Rs. 1846/- KL till 31.3.21, which they want it to be hiked to Rs. 4996/-KL from 1.4.21 to 31.3.23.</p> <p>2. Any increase of FIF, will proportionately increase ATF rates also at Kannur and will affect all stakeholders including Air India.</p>	<p>No Comments</p> <p>The increase proposed by BKFFPL and that considered by AERA is based on well established framework of tariff determination.</p>
6	Fuel Throughput Volumes	Bharat Petroleum Corporation Ltd.	<p>BPCL submits that they have already witnessed the devastating impact of the second wave of Covid-19 and further wave is feared due to the newer variants of coronavirus emerging, hence the traffic is not likely to reach 100% of Pre-Covid numbers during FY 2022-23 as considered by AERA. BKFFPL's estimate of 75% of Pre-Covid volumes for FY 2022-23 thus looks to be reasonable as this is also in line with existing volume of 2800 kl per month at the Airport.</p>	<p>We agree with the views expressed by BPCL.</p> <p>BKFFPL has, as part of response to Consultation Paper, submitted detailed response on traffic and volumes which BKFFPL requests the Authority to consider.</p>
7	Aggregate Revenue Requirement	Bharat Petroleum Corporation Ltd.	<p>AERA has proposed to carry forward the recovery of Rs 386.67 lakhs ARR of this Control Period to the Next Control Period instead of considering it in Tariff calculation for the remaining part of the current Control Period. This will result in continuation of losses for BKFFPL for even the remaining part of the Current Control Period and making the operations unviable due to cash flow issues. Thus, this shortfall may be accounted for in the balance period of the Current Control period itself instead of carrying it forward to the next Control period.</p>	<p>We agree with the views of BPCL.</p> <p>Further BKFFPL has the large amounts of dues payable and outstanding as of date in its Financial Statement. Dues to BPCL/ KIAL have not been remitted on account of non-availability of cash flows.</p> <p>In BKFFPL's estimate, collections at reduced rates, even with the very high fuel intake forecasted by the Authority would entail continued negative cash flows only, leading to the sustenance of BKFFPL itself in question.</p>



Stakeholder Comments and Counter Comments w.r.t CP.No23/2021-22

Sr. No.	Particulars (Topics)	Stakeholder Name	Stakeholders Comments	Comments by BKFFPL
8	Operating Expenses	Bharat Petroleum Corporation Ltd.	The Operator Expenses payable to BPCL as operator by BKFFPL have been considered to be much less than actual for current year, that is AERA has considered Rs 303 lakhs as against Rs 350 lakhs submitted by BKFFPL. Since these are actual expenses it is requested that these may be considered as per actuals and 5% escalation over Rs 350 lakhs may be taken for FY 2022-23.	BKFFPL has submitted detailed response on the Operator expenses including details of the actual costs incurred. BKFFPL requests the Authority to consider the same in determination of tariff and issuance of the Order.

