

Reference No: IOSL/AERA CP/ BLR FF
Date: 27th September 2021

The Chairman,
Airports Economic Regulatory Authority (AERA),
AERA Building,
Administrative Complex.
Safdarjung Airport, New Delhi-110003

Subject: Reply to comments received from stakeholders on Consultation Paper No. 13/2021-22 dated 13.08.2021, in the matter of Determination of Fuel Infrastructure Charges for Indian Oil Skytanking Private Limited (IOSPL) at Kempegowda International Airport (KIA), Bangalore for the Third Control Period

Dear Sir,

Reference to comments received from Stakeholders, we would like to comment as follows:

1) Comments from Hindustan Petroleum Corporation Limited

IOSL's response: We agree with the comments made by Hindustan Petroleum Corporation Limited that the tariff should be determined on prospective basis.

2) Comments from Federation Of Indian Airlines (FIA)

IOSL's response:

Item 1: All fuel related infrastructure which is in the development phase stays on the Capital Works in Progress (CWIP) Account. Since it does not form part of the Regulated Asset Base (RAB), there is no return on RAB or Depreciation till the assets are commissioned. Therefore, there is no expense to the end users on account of facilities and infrastructure under construction.

The majority of the capex planned in the 2nd control period comprises of T2-1C hydrant expansion project, which is nearing physical completion. Due to the advanced stage of construction and due to contractual liabilities to Bangalore International Airport Limited (BIAL), this project cannot be deferred. Other balance capex in the 2nd control period is statutory / essential in nature and therefore cannot be deferred beyond the 2nd control period.

Item 2: Under the principles of open access, any airline in the role of a fuel supplier is able to get into a contract with IOSL for Fuel Farm services. IOSL in its capacity as the operator of the fuel farm at Bangalore Airport has not prohibited any airline from entering into contacts with us. The matters of taxation on Fuel and its associated services is beyond our control and therefore we have no comments on that subject.

Item 3: The operating costs of the fuel farm are largely fixed in nature and therefore the reduction in volumes does not lead to cost savings to the full extent of the volume reduction.

IOSL took various cost control measures during COVID times and as a result of the same, operating costs for FY21 were INR 7.99 Crores v/s INR 8.33 Crores in FY20 (Excluding Airport Operator Fees). This implies an operating cost reduction of -4%. IOSL believes in cost efficient, safe and delay free services for its end consumers and continues to improve upon these factors.

Item 4: IOSL conducts all major procurements through an e-tendering process followed by reverse auctions. This transparent method ensures optimum price discovery and ensures that all purchases are made in lowest available cost. Therefore, FIA's perception that "It is general perception that IOSPL has no incentive to reduce their expenses as any such increase will be passed on to the airlines through tariff determination mechanism process" is incorrect and not in line with the facts.

Item 5: At Bangalore Fuel Farm, no royalty fees of any sort is being paid by IOSL to the Airport Operator, therefore this comment by FIA is not applicable in our case.

Item 7(i): Developing Fuel Infrastructure is capital intensive wherein the recovery period is over long-term periods of time. A short contract term as suggested by FIA will not lead to full recovery of capital expenditure incurred by the Fuel Facility infrastructure developer. In case this entire capex is to be recovered in a short tenure as suggested by FIA, then it would lead to unusually high charges which will be detrimental to the interests of the end users.

Item 7(iii): The following statement made by FIA "It appears that the costs are exaggerated/inflated, and revenues suppressed in the projections, which leads to over recoveries" is incorrect. As stated In the Stakeholders Meeting Presentation and adequately documented in the Consultation paper stage, the T21C project could not be completed in the 2nd control period, due to COVID-19. Due to these over recoveries have accrued in the 2nd control period. However as per the true up mechanism, these over recoveries will be adjusted in the 3rd control period (with compounding / with interest), therefore there is no loss to the end users.

Item 7(iv): In Order 16 / 2021-22 and in Order 15 /2021-22, the authority has determined the Into Plane Volumes for both IOSL and BSSPL respectively. There are two Into Plane Agents at Bangalore Airport and the aggregate of the volumes of the two Into Plane Agents always equals to the fuel farm volumes. However, the authority has incorrectly determined the volumes for Bangalore Fuel Farm in CP 13/2021. This error can be seen as total of IOSL+ BSSPL volumes for FY22 is 4,13,011 KL, whereas the Fuel Farm Volume forecast for FY22 is 6,05,502 KL which is 47% higher than the sum total of ITP Volumes for both IOSL and BSSPL. Overall, for the 3rd control period, the volumes considered by the authority for Bangalore Fuel Farm are therefore erroneously 26% higher than the sum

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total of ITP Volumes for IOSL and BSSPL. This error in calculation by the authority is shown in the table below.

Since logically, fuel farm volumes cannot be higher than the sum total of volumes for the two ITP Operators, we request the authority to rectify this error and consider volumes for Bangalore Fuel Farm as per the highlighted portion of the table below. (i.e., 3rd row, 413011 KL in FY22, 682842 KL in FY23 and vice versa)

Volumes (in KL)	FY22	FY23	FY24	FY25	FY26
Volume for BLR ITP IOSL as per Order 16 /2021-22	2,81,000	4,14,000	5,15,000	5,58,000	5,95,000
Volume for BLR ITP BSSPL as per Order 15/2021-22	1,32,011	2,68,842	3,14,453	3,53,276	3,88,959
Total Airport / Fuel Farm Volume (Derived from IOSL + BSSPL ITP Volume)	4,13,011	6,82,842	8,29,453	9,11,276	9,83,959
BLR FF Volume Forecast as per AERA, CP13/2021-22	6,05,502	8,60,952	9,73,144	11,02,774	12,53,650
Difference	1,92,491	1,78,110	1,43,691	1,91,498	2,69,691

We request the authority to use Bangalore Fuel Farm's volumes derived from the ITP Volumes of the two service providers at Bangalore Airport and not as per the authority's determination as made in CP 13 /2021-22.

Submitted for the consideration of the Authority.

Thanking You.

For IndianOil Skytanking Private Limited.


(Bipin Wankhede)
Chief Financial Officer