

**AIRPORTS ECONOMIC REGULATORY AUTHORITY OF INDIA
MINUTES OF THE STAKE HOLDERS CONSULTATION MEETING
HELD ON 28.02.2017 AT 11:00 AM**

**CONSULTATION PAPER NO. 04/2016-17 DATED 16.02.2017 TO
CONSIDER THE MULTI YEAR TARIFF PROPOSAL AND ANNUAL
TARIFF PROPOSAL FOR THE SECOND CONTROL PERIOD IN RESPECT
OF M/S BHARAT STAR SERVICES PRIVATE LIMITED FOR PROVIDING
INTO PLANE SERVICES (SUPPLY OF FUEL TO AIRCRAFT) AT
KEMPEGOWDA INTERNATIONAL AIRPORT, BANGALORE.**

A Stakeholder Consultation meeting was convened by the Authority on 28.02.2017 at 11.00 AM in the Conference Room, first floor, AERA Building, Administrative Complex, Safdarjung Airport, New Delhi to elicit the views of the stakeholders on the Consultation Paper no. 04/2016-17 dated 16.02.2017 issued by the Authority to consider the Multi-year Tariff Proposal and the Annual Tariff Proposal for the 2nd control period (FY.2016-17 to FY.2020-21) in respect of M/s Bharat Star Services Private Limited for providing Into Plane services (supply of fuel to aircraft) at Kempegowda International Airport, Bangalore. The list of participants is enclosed at **Annexure-I**.

2. Secretary-AERA welcomed the participants to the meeting and briefed them on the subject Consultation Paper. Further, the Chairman advised the stakeholders to give their written comments on or before Friday, the 3rd March, 2017.

The comments of various stakeholders are as follows:

M/s Bharat Star Services Private Limited

3.1 Shri Akash Tiwari, CEO, BSSPL thanked the Authority for taking up their proposal and expediting the determination process. Shri Akash Tiwari further stated as follows:

- a) BSSPL is a 50:50 Joint Venture of Bharat Petroleum Corporation Limited (BPCL) and St-Airport Services Pte Ltd. (STARS), Singapore, incorporated in September, 2007 and started its first commercial operation in May, 2008.
- b) Into Plane Service (ITP) is an important activity at an airport and involves safety, security and hard work in operations to deliver the prescribed standards. Hence, safety and efficiency is paramount at BSSPL.
- c) As per the ITP agreement, BSSPL is supposed to get a 5% increase year on year in the ITP fee.
- d) With the increase in manpower, operational and maintenance cost and the ageing fleet, it has become difficult for BSSPL to sustain their operations with the existing tariffs. The manpower cost constitute 10-12% of the expenses and higher wages are to be paid to retain experienced manpower, as the job involves working in hard conditions due to which attrition rate is high.
- e) Shri Tiwari concluded by saying that they would be grateful if the AERA accepts their request for a nominal increase of 5% in the tariffs, year on year during the Second Control Period.

3.2 Member, AERA queried whether there is a real competition in the ITP sector. Shri Tiwari responded by saying that ITP operators work on behalf of oil companies which compete for getting the fuel supply contract from the airlines. With the changing scenario, the airlines are also demanding services from a particular ITP operator, based on the service parameters. As on date, BSSPL has ITP business from 4 oil companies, whereas IOSL, the competitor, is doing only for one oil company viz. Indian Oil Corporation Ltd (IOCL). However, in the competitive environment, the scenario may change as oil companies compete to get business from airlines, and in turn, the ITP operators compete to get business from oil companies which in turn depend on the demands of the airlines for a particular ITP operator, based on the services parameters.

3.3 Chairman, AERA wanted to know why the rates are more in Bengaluru as compared to Delhi and Mumbai? Shri Tiwari replied that the rate depends on the volume of fuel handled at the airport. The volumes handled at Delhi and Mumbai are much higher than the volume handled at Bengaluru. Though, volumes are less, the fixed cost remain constant. ITP cost of operation is hardly 0.02% of the ATF cost.

3.4 Member, AERA inquired about items under the Revenue Head “Other Than Regulated Services”. Shri Manish Chandak, SM (F&A), BSSPL, replied that the interest income reflected in the aforementioned head comes from investment of surplus funds. The return on RAB has been worked out after taking into account the revenue from services other than regulated services. The return would have been much lower, if this component is not included in calculation.

3.5 Chairman, AERA queried about the performance levels/ standards and its measurement, the level of competition etc. Chairman also stated that AERA is there to regulate tariff and also to regulate the service as a whole. Shri Akash Tiwari, CEO replied that as far as technical standards are concerned, BSSPL is governed by the JIG Guidelines. They go through a lot of audits at each airport. Shri Akash Tiwari explained that BSSPL has monthly meetings with the suppliers wherein the various service quality parameters like timely delivery of fuel, safety standards, etc., are reviewed. There are approx. 32 – 40 audits conducted by DGCA airlines and other agencies on service and safety standards. Further, as per the instructions from Government’s Regional Transport Office (RTO), BSSPL has to replace its fleet of hydrant dispenser vehicles with Euro-IV standards and subsequently, they have to switch over to Euro – VI standards which will involve a huge amount of capital expenditure.

3.6 Shri N. Shankar, Member, AERA, asked about profit margin on revenue by BSSPL during their 1st Control Period which appears to be on a higher side in spite of increase in manpower and other costs. So, in the given scenario, how long BSSPL will continue to escalate the tariff @5% year on year? Shri Chandak replied that it is wrong to state that their profit margin is 30%, whereas in fact, the profit after tax for the financial year 2015-16 for the company as a whole is in the range of 10-12%. The issues related to revenue, profitability, capacity utilization and return on RAB were deliberated and the Chairman stated that how can one justify the 5% increase year on year if the return on RAB is fairly good around 40% during the first control period.

3.7 On the issue of investments made from surplus funds, BSSPL clarified that they had surplus funds because when the company was formed, more equity was funded in the expectation that in addition to Bengaluru, BSSPL will also get tenders for Mumbai, Delhi and other airports. However, Delhi airport, in their tender, put a

condition that there should be a separate independent company to participate in the ITP tendering process at Delhi and thus BSSPL had to float a 100% subsidiary company as BSSDPL. However, later the surplus funds were utilized when BSSPL got the ITP fuelling concession at CSI Airport, Mumbai. Chairman further queried as to why the Bombay rates for ITP fueling services are higher than Delhi rates. SM (F&A) informed that the rates have been high due to increase in land lease rentals proposed to be levied by MIAL at Mumbai airport. It was also stated that BPCL inspects and ensures that BSSPL maintains good service standards so that the best services are provided to the airline operators. It was also highlighted that in spite of rendering good services and maintaining good market share, there is always a fear of losing business to the other operator due to competitive pricing of the ATF done by oil companies. Shri Acharya from IOSL stated that the real competition is on the basis of service standards because now, the airlines, while engaging the oil companies, have also started dictating that who should be their ITP service provider. Shri Acharya further stated that with their ageing fleet of hydrant dispensers, the manpower and operation & maintenance costs are increasing day by day as ITP operator has to meet the stringent audits being done by airlines regarding safety of ITP operations. The costs are increasing @10-12% every year, whereas the increase sought is only @5%. Further, the land lease rentals payable to the airport operators are also going up @7.5% year on year during the concession period. Also, the ITP operators pay 5% on gross turnover as royalty to the airport operator. Further, with the new fleet of fuel efficient aircrafts, volume of fuel uplifting has not increased in proportion to the growth in the air traffic movements.

M/s Bharat Petroleum Corporation Limited(BPCL)

4. Representative of BPCL requested that the increase, if granted, must be from a prospective date only.

IATA

5. Representative of IATA requested that a deeper scrutiny of BSSPL's financial performance should be done and it should also be checked whether there is a real competition or not. Further, IATA suggested that price cap regulation should be applied for determination of tariffs.

Shell MRPL Aviation Fuels and Services

6. Representative of Shell also requested that the increase, if granted, must be from a prospective date only.

M/s Indian Oil Skytanking Limited(IOSL)

7. IOSL representative endorsed the BSSPL proposal for 5% increase in ITP tariffs, which according to them is very much required to meet the increase in O&M cost, salary and other incidental costs.

The Meeting ended with a vote of thanks to the chair.

(Puja Jindal)
(Secretary)

List of Participants:-

Airports Economic Regulatory Authority Of India

1. Shri. S. Machendranathan, Chairperson- in Chair
2. Shri. N. Shankar, Member
3. Shri S. Samanta, Member
4. Ms. Puja Jindal, Secretary
5. Shri P.C Jain, AGM (F)
6. Shri. Rajesh Khanna, AGM (F)
7. Shri. Mohit Kaushish, Manager (F)
8. Shri. Jaimon Sakaria, Manager (F)
9. Shri K. Narasimaha, Sr. Suptd.(F)

BPCL

10. Shri Praveen Gangaur, SM-Marketing

BSSPL

11. Shri Akash Tiwari, CEO.
12. Shri Manish Chandak, SM(F&A)

IOSL

13. Shri A. P. Acharya, VP
14. Shri Sanjeev Negi, SM(F)

DIAL

15. Shri Harsh Gulati

HPCL

16. Shri J. S. Khanduja