

**AIRPORTS ECONOMIC REGULATORY AUTHORITY OF INDIA**

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**Minutes of the Stakeholders Consultation Meeting held on  
4<sup>th</sup> October, 2017 at 11:00 AM**

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1. **CONSULTATION PAPER NO. 27/2017-18 dated 20.09.2017 in the matter of Determination of Fuel Infrastructure Charges in respect of Delhi Aviation Fuel Facility Private Limited at IGI Airport, New Delhi (01-04-2016 - 31-03-2021).**
2. **CONSULTATION PAPER NO. 28/2017-18 dated 20.09.2017 in the matter of Determination of Fuel Infrastructure Charges in respect of Mumbai Aviation Fuel Farm Facility Private Limited at CSI Airport, Mumbai (01.04.2016 – 31.03.2021).**
3. **CONSULTATION PAPER NO. 29/2017-18 dated 20.09.2017 in the matter of Determination of Fuel Infrastructure Charges in respect of Indian Oil Skytanking Limited at KIA airport, Bengaluru (01.04.2016 – 31.03.2021).**

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The Stakeholder Consultation Meeting was convened by the Authority on 04.10.2017 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 Papers no. 27/2017-18, 28/2017-18 and 29/2017-18 dated 20.09.2017 issued by the Authority to determine fuel infrastructure charges for the period FY 2016-17 to FY 2020-21 in respect of fuel farm facilities for Delhi Aviation Fuel Facility Private Limited, Delhi Airport, Mumbai Aviation Fuel Farm Facility Private Limited, Mumbai Airport and Indian Oil Sky tanking Limited, Bangalore Airport respectively. The list of participants is enclosed at **Annexure-I**.

2. Secretary, AERA welcomed all the stakeholders and requested them to give their views and also submit written comments/ views on or before 9<sup>th</sup> October 2017.

**DELHI AVIATION FUEL FACILITY PRIVATE LIMITED (DAFFPL) AT IGI AIRPORT, NEW DELHI**

3. Mr. B.K. Singh, CEO, DAFFPL gave a presentation covering the following key areas:-

- DAFFPL is the operator of the fuel farm facility located at Shahabad Mohammadpur, Delhi and hydrant refueling station at Terminal 2 and Terminal 3, DIAL. DAFFPL, through the Concessionaire agreement awarded by DIAL has been granted the right to design, develop, construct, manage, maintain, upgrade and operate the fuel facility and infrastructure;
- It is the largest fuel farm facility in India, currently operating 27% of the all-India volume. It is spread over an area of about 10 acres, and has a storage capacity of 42000 KL. DAFFPL has planned to construct 2 more tanks, to



ensure a total capacity of 60000 KL. The annual throughput is currently around 1.56 million KL. There are some proposed items of work like automation of the facility, rehabilitation of the store room, construction of new control room, tanker parking area, and new administrative building, which shall be taken up at a later stage.

- DAFFPL has Independent quality control lab operating 24X7 as per the requirement for Terminal 2, Terminal 3 and the Cargo Facility (But not for Terminal 1).
- No incidents have been reported so far related to quality failure.
- DAFFPL has proposed additional Capex requirement for modernization of the fuel farm by upgradation of existing facility and automation system to meet the current requirement and bringing it at par with the international system. The proposed capex is around Rs 44.27 crores to modernize the facility as per MB LAL Committee's recommendations. The DIAL Master Plan has been approved, and DAFFPL has conducted a feasibility report for connecting Terminal 1 to the fuel farm facility. In this regard, a Capex of Rs 140 crores has been proposed to extend hydrant line from fuel farm to T1. Currently, the fuel services to Terminal 1 is provided by the oil companies directly.

Mr. B.K Singh, CEO, DAFFPL, deliberated over switching to Price Cap Approach (proposed by the Authority) from Light Touch Approach. Also, regarding the fuel charges, DAFFPL in its submissions had proposed for a rate of Rs 755/KL which the Authority has reduced to Rs 605/KL in the Consultation Paper dated 20.09.2017 issued by it. DAFFPL is not in agreement with the Authority on this as this reduction would affect the Company's financial health and the cash flows drastically, considering the Capex requirement and future growth.

Mr. Acharya, Vice President, IOSL requested that the escalation rate of operating cost be increased from 8% p.a. to 12% p.a. as the Manpower cost increases each year between 8%-10%.

Member-II, AERA sought clarification about the Agreement between DIAL and DAFFPL with regard to supply of fuel to Terminal 1, as the existing Concession Agreement does not cater to Terminal 1. He further opined that the additional Capex of 140 crores shall be considered, at such time when the work is actually awarded to DAFFPL.

Chairman AERA suggested that DAFFPL may comment on the current proposal of AERA for the consideration of the Authority.

**MUMBAI AVIATION FUEL FARM FACILITY PRIVATE LIMITED AT CSI AIRPORT, MUMBAI**

4. Ms. Geeta Iyer, CFO, MAFFPL gave a brief presentation on the Multi Year Tariff Proposal submitted to AERA for determination of fuel charges. She gave an



overview of the facilities available at the fuel farm, traffic, capital expenditure and proposed charges at the airport-

- MAFFFPL is a joint venture company (JVC) comprising Indian Oil Corporation Limited (IOCL), Bharat Petroleum Corporation Limited (BPCL), Hindustan Petroleum Corporation Limited (HPCL) and Mumbai International Airport Private Limited (MIAL), each holding equal ownership;
- There are 4 facilities which are scattered- 3 in Santa Cruz (domestic operations) and 1 in Sahar (international operations). There are 5 tanks- with a total capacity of 47,500 tons. All the facilities will be newly constructed and the construction is in full swing with new connector pipelines to be connected to existing lines;
- Due to operational reasons, the Open Access facility is currently not available, and the Open Access model will be operational as and when the integrated fuel farm facility is commissioned;
- MAFFFPL in its proposal has requested that the FIC be fixed at Rs 882/KL. However, AERA vide Consultation Paper dated 20.09.2017 has proposed FIC at Rs 750/KL;
- IOSL and Bharat Stars Services Pvt. Ltd. are the ITP operators with a revenue share of 6% out of which MAFFFPL retains 1% and passes on 5% to MIAL.

Ms. Geeta Iyer, CFO further stated that the Authority has considered the total Capex cost of Rs.683 crores as proposed by MAFFFPL in its submissions. She requested the Authority to consider their proposal under "Light touch approach". She further stated that AERA has considered Financing Allowance of Rs 19 crores as against the amount of Rs 31 crores proposed by MAFFFPL. Ms. Geeta Iyer suggested that the Authority has excluded the general purpose borrowing costs. But due to Indian Accounting Standard, it is not an ancillary borrowing cost, and shall be treated differently from interest during construction. She stated that the interest for General purpose should be part of operational cost.

She further stated that loss on sale of Assets be considered under OPEX and the FRoR may be considered at 14%, as against the 11.87% suggested by the Authority in the CP, considering the risk in the Aviation sector, volatility of Aircraft movements, and risk of fuel storage/ handling in the Aviation Industry. She said that this higher risk profile mandates higher expected return on equity and moreover MAFFFPLs calculations were as per the formula provided by the Authority. Ms. Geeta Iyer, further intimated that a new airport at Navi Mumbai is likely to start in December 2019 and given the saturation of the Mumbai Airport there is no chance of increase in airline traffic, resulting into stagnation of business.

Ms. Geeta Iyer, CFO requested AERA that interest income, dividend and other income may not be considered entirely as aeronautical and consider 30% as non-aeronautical income.

Chairman clarified that entire income of fuel firm is aeronautical only and nothing is non aeronautical.

## INDIAN OIL SKYTANKING LIMITED (IOSL) AT KIA AIRPORT, BANGALORE

5. Shri T.S. Dupare, CEO, IOSL discussed about the Multi Year Tariff Proposal submitted to AERA for determination of fuel charges on the following issues:

- IOSL Bengaluru is operating since 2008 under the concession agreement which was signed in 2006 and has so far been levied tariff as per the said agreement.
- Regarding depreciation, he was of the view that there has to be some product in the pipelines and the tanks, which becomes the sunk cost. As per agreement these facilities have to be handed over to the Airport Operator at the end of the concession period at zero cost including dead stock. He requested that dead stock may be treated as part of Plant and Machinery and accordingly depreciation may be worked out.
- He further stated that the manpower cost escalation shall be 12% p.a., and not the 8% p.a. as proposed by the Authority in the CP. It will lead to problem in managing the facilities and also to manpower attrition. IOSL has considered manpower escalation as per inflation and as per industry.
- Regarding FRoR, he was of the view that it has been considered at 17.15% strictly as per the Model provided by AERA. IOSL requested AERA to consider the FROR as 17.15%.
- Also, in Table 18 of the CP, the annual FIC is computed at Rs 1,808 per KL, and an under-recovery of Rs 32 crores has been reflected for the same. Also, for the FY 17-18 full year, the rate of Rs 1,718/ KL has been considered and already six months have been elapsed, which isn't a reasonable assumption.
- IOSL agreed with the Price Cap approach considered by the Authority. Hence requested Authority to consider the FIC at Rs 1,808/ KL to take care of the under-recovery.

The Authority stated that in Table 18 of the CP, for FY 17-18, the rate of Rs 1,718/ KL has only been considered for 6 months up to September 2017.

IOSL requested AERA to consider charge of Rs 1,808/ KL for which the Authority suggested IOSL to re-submit the proposal in the next 2-3 years for consideration of Authority.

## IATA

6. Shri Eric Antia, Campaign Manager, IATA agreed with AERA's stand for determination of Fuel Infrastructure Charges on a "Price Cap Approach". He expressed his agreement with AERA's view on treatment of dead stock as a non-depreciable asset for all the three fuel firms. He further agreed with AERA on the asset depreciation rates based on useful life of the assets.



Regarding DAFFPL, he proposed that the existing gearing ratio of 28% beyond FY 16-17 should be maintained and that DAFFPL should be required to work towards a more efficient financing structure, and bring its Gearing ratio to an optimum level;

For MAFFFPL and IOSL, he was not in agreement with AERA's proposal for truing up the operating expenditure in the next control period as it runs contrary to the objective of incentivizing the operational efficiency and fiscal discipline.

He further stated that airport operator fee of Rs 1,067/KL should not be included in the assessment for FIC in respect of IOSL, Bangalore which will be fully passed on to the suppliers/ Airlines. It is, in effect, not an expense item for the IOSL.

### **LUFTHANSA AIRLINE**

7. Shri Florian Hoser agreed with the submissions of IATA. He further stated that in Europe and many other countries, the Airport operator fee is considered illegal. As regards the concession fee, as it is without any proper cost base, there is no reason to index it to cost.

Chairman, AERA was of the view that in case of IOSL Bengaluru, the land for the entire fuel farm facility is available at a rent of Re 1 and such low rent results in high Airport operator fees.

### **BAOA**

8. Shri R.K. Bali was of view that whatever is not a part of the cost, should be thoroughly looked into. He stated that Fuel throughput Charges should be reasonable.

### **DIAL**

9. Shri Harsh Gulati, Head Regulatory, DIAL, stated that written submission shall be submitted by DIAL within the stipulated time.

### **BPCL**

10. Shri Rajneesh Saxena supported the price revision determined by AERA. He stated the revision should be on prospective basis.

Chairperson AERA thanked all the stakeholders for their participation and requested them to furnish their comments /views on the Consultation Paper within the stated timelines.

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

  
(Puja Jindal)  
Secretary

**List of Participants**

**AERA**

1. Shri S. Machendranathan, Chairperson
2. Shri N. Shankar, Member-I -
3. Shri S. Samantha, Member-II
4. Ms. Puja Jindal, Secretary
5. Shri Rajesh Khanna, AGM (Fin)
6. Shri Nirmal Kumar, Sr. Manager (Fin)
7. Shri Jaimon Skaria, Manager (Fin)
8. Shri Karri Narsimha, Sr. Supdt.

**DIAL**

9. Shri Harsh Gulati, Head Regulatory

**DAFFPL**

10. Shri B.K. Singh, CEO
11. Shri Tarun Sharma, Finance & Accounts

**MAFFPL**

12. Ms. Geeta Iyer, CFO
13. Shri Suranjan Pal, CEO
14. Shri Ravindra Mittal, COO

**IOSL**

15. Shri T.S. Dupare, CEO
16. Shri Shantanu Saxena, CFO
17. Shri A.P. Acharya, VP

**HPCL**

18. Shri A.S. Gaikwad, Ch. Mgr. Avn.

**BSSPL**

19. Shri Akash Tiwari, CEO

**BPCL**

20. Shri Rajnesh Saxena

**ATA**

21. Shri Yogendra Tomer, ED

**IATA**

22. Shri Eric Antia, Campaign Manager

**LUFTHANSA**

23. Shri Florian Hoser

**BAOA**

24. Shri R.K. Bali

**ERNST & YOUNG**

25. Shri Sorabh Kataria, Partner  
26. Shri Vikas Gangwal, Senior Manager  
27. Shri Sagar Gupta, Associate  
28. Shri Udayan Sharma, Analyst