



6 October 2017

**WITHOUT PREJUDICE**

Secretary  
Airports Economic Regulatory Authority of India (AERA)  
AERA Building, Administrative Complex  
Safdarjung Airport, New Delhi 110 003  
Email: puja.jindal@nic.in

Dear Madam Jindal,

**IATA'S RESPONSE TO THREE CONSULTATION PAPERS RELATING TO DETERMINATION OF FUEL INFRASTRUCTURE CHARGES AT DEL, BOM and BLR**

This has reference to the three Consultation Papers issued by AERA on determination of Fuel Infrastructure Charges (FIC) at DEL, BOM and BLR as follows:

1. CP 27/2017-18 dated 20 September 2017 in the matter of Determination of Fuel Infrastructure Charges in respect of Delhi Aviation Fuel Facility Private Limited (DAFFPL) at IGI Airport, Delhi (DEL).
2. CP 28/2017-18 dated 20 September 2017 in the matter of Determination of Fuel Infrastructure Charges in respect of Mumbai Aviation Fuel Farm Facility Private Limited (MAFFFPL) at CSI Airport, Mumbai (BOM).
3. CP 29/2017-18 dated 20 September 2017 in the matter of Determination of Fuel Infrastructure Charges in respect of Indian Oil Skytanking Limited (IOSL) at KIA Airport, Bengaluru (BLR).

As the global trade association representing the world's leading airlines many of which operate to Indian airports, the International Air Transport Association (IATA) appreciates the opportunity given by AERA to provide its comments on these three Consultation Papers collectively.

Overall, with regards to regulation of fuel infrastructure providers, IATA is in full agreement with AERA's assessment that the three fuel infrastructure providers DAFFPL, MAFFFPL and IOSL, should be regulated on the basis of a price cap approach. Separate comments on the determination of FIC for each of these providers are provided hereon.

**DAFFPL**

- IATA agrees with AERA's proposal that deadstock be treated as non-depreciable capital asset and its impact on tariffs is to be considered at the time of disposal of the deadstock.
- IATA agrees with AERA's revision to the asset depreciation rates which are more in line with the useful lives of the assets.
- On Fair Rate of Return, it is noted that DAFFPL projects to progressively reduce its gearing ratio from an already low 28% in FY16-17 to 7.1% in FY20-21. According to AERA's consultation paper on normative approach to building blocks in economic regulation of major airports issued in June 2014 (CP No. 05/2014-15), the authority had proposed to follow a normative debt to equity ratio of 70:30 for the purposes of calculation of Weighted Average Cost of Capital with 30% equity regarded as ceiling.



The Central Electricity Regulatory Commission (CERC) already practices this approach. There is no good reason to allow an inefficient financing structure to become even more inefficient. IATA proposes that for gearing ratio beyond FY16-17, the existing value of 28% should be at least maintained and DAFFPL should be required to work towards utilizing a more efficient financing structure by raising its gearing ratio to an optimal level.

- On Operation and Maintenance Expenditure, IATA disagrees with the proposal by the Authority to provide DAFFPL with higher operating cost and lease rent than what it had asked for from FY17-18 onwards on the basis that the audited figures for one year (FY16-17) are higher than earlier projection. IATA proposes that the operator's original proposal for operating cost and lease rent for FY17-18 onwards be used instead.
- IATA also does not agree that Operating and Maintenance Expenditure should be trued up in the third control period as it runs contrary to incentivizing operational efficiency and fiscal discipline.

### **MAFFFPL**

Similar to the comments for DAFFPL,

- IATA agrees with AERA's proposal that deadstock be treated as non-depreciable capital asset
- IATA agrees with the revision to the asset depreciation rates.
- IATA does not agree that Operating and Maintenance Expenditure should be trued up in the third control period as it runs contrary to incentivizing operational efficiency and fiscal discipline.

### **IOSL**

Similar to the comments for DAFFPL,

- IATA agrees with AERA's proposal that deadstock be treated as non-depreciable capital asset
- IATA agrees with the revision to the asset depreciation rates.
- IATA does not agree that Operating and Maintenance Expenditure should be trued up in the third control period as it runs contrary to incentivizing operational efficiency and fiscal discipline

Additionally, in the case of treatment of the Airport Operator Fee (AOF), IATA does not agree that the AOF of 1067 INR/KL at BLR should be included in the assessment of the FIC. The AOF is fully passed through to the suppliers and then to the airlines – it is in effect not an expense item for IOSL. It should be excluded from the tariff determination process like in the cases of DAFFPL and MAFFFPL.

### **Airport Operator Fee**

- A comparison of the AOF and the FIC at each of the three airports puts into perspective how unrealistically high the AOF is. The AOF has no cost basis as it is a concession fee levied by the airport. The FIC has a cost basis. And yet, the AOF is higher than the FIC currently at BOM and BLR, and if the downward revision of the FIC at DEL takes place as proposed, the AOF at DEL will also be higher than the FIC there.
- This gap is set to increase further and indefinitely if the annual escalation of the AOF on the pretext of inflation continues to be allowed by AERA unchecked. It is an unsustainable situation.
- IATA has stressed in past submissions to AERA that the AOF has no cost basis and an inflationary index applied to it does not make any sense. The airport should not be allowed to charge a concession fee to operators/service providers for the right to do



aeronautical-related business at the airport. This is consistent with practices in Europe where ground handling concession fees are illegal under the EU Ground Handling Directive.

- IATA looks forward to AERA issuing a suitable order from its consultation paper on capping the percentage of Royalty/Revenue Share payable to the Airport Operator (CP No. 8/2016-17). If AOF is not removed totally, at the very least it should be capped at a small percentage (e.g. 5%) of the FIC and once this rate has been established the first time, the AOF should not be allowed to rise above it going forward. It should be noted that even if the AOF does not change, the fuel concession revenue to the airport would still increase because of increasing fuel throughput as traffic grows.

IATA seeks AERA's kind consideration of its inputs in this submission.

Thank you.

Sincerely,

A handwritten signature in blue ink, appearing to read "Malvyn Tan", is written over a faint blue line.

Malvyn Tan  
Head, Commercial Fuel Services

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