

IndianOil Skytanking

ISO 9001:2008, ISO 14001:2004 Certified

Ref. IOSL-CO/DELITP-CP09/2018-19

Date : 24st August 2018

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

Subject : Annual Tariff proposals for the Third, Fourth and Fifth tariff year of the Second Control Period in respect of M/s IndianOil Skytanking Private Limited (IOSL) for providing into-plane services at IGI Airport, New Delhi

Dear Madam,

In response to the stake holder's submission in regards to Consultation Paper NO. 09/2018-19 dated 20th July 2018 on the subject, we submit our comments as under :

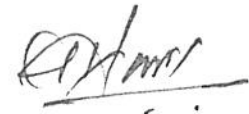
1. Both Hindustan Petroleum Corporation Limited (HPCL) and Indian Oil Corporation Limited (IOCL) have submitted that the order of revision should be on prospective basis.

Comments : The Authority has been approving the tariff orders on prospective despite the delay in finalisation of tariff against timely submission of tariff proposals.

In the Consultation Paper No.04 / 2017-18 dated 27th April 2017 against the MYTP submitted vide our letter AV/AERA/DLI-ITP/MYTP 2016-17 to 2020-21 dated 08th March 2016, the Authority upon examination had proposed for 5% annual escalation in the ITP Fee to decide the Annual Tariff Proposal for the tariff period T1(2016-17) and T2 (2017-18) as per the tariff card given below :

(Rs./KL)

| Tariff Year | Aircraft Refuelling | Aircraft Defuelling | | Aircraft Refuelling of Defuelled product | |
|--------------|---------------------|---------------------|---------------|--|---------------|
| | | Within 6 hrs | Beyond 6 hrs. | Within 6 hrs | Beyond 6 hrs. |
| T1 (2016-17) | 199.67 | 199.67 | 299.51 | 249.59 | 299.51 |
| T2 (2017-18) | 199.67 | 199.67 | 299.51 | 249.59 | 299.51 |



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Though our proposal for 5% annual escalation for T1 and T2 was approved by the Authority vide Order 04 / 2017-18 dated 12th June 2017, it came into force effective 15th June 2017. There was a delay of 14.5 months in the tariff determination despite our submissions as per the guideline. **This delay has deprived the Company of escalated tariff which was due effective 01st April 2016.**

2. HPCL has submitted that they are in agreement with the Authority's proposal to continue the existing tariff as on 31.03.2018 for 3rd, 4th and 5th tariff year of the Second Control Period. Whereas, IOCL has offered no comments to offer on the rate proposed by the Authority.

Comments :

For the Suppliers IOCL and HPCL, the ITP service fees is not a cost to them but a non-burden "Pass Through" cost element, which does not affect them directly or indirectly and in our opinion they have chosen to comment in that particular fashion. It may be seen from the past that they had agreed for the earlier escalation which ratifies our above viewpoint. Further ITP service fees is miniscule part of price of the fuel (less than 1% of the fuel cost), which does not affect the price of the fuel to the airlines.

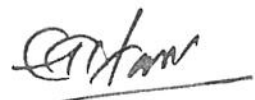
It is noted that other stake holder's like IATA/ FIA representing the airlines or other interested stake holders have refrained from submitting any comments, presumably because they do not consider this fee as a major impacting factor in their overall cost on account of fuel being procured by them from the Oil Marketing Companies.

3. We vide our letter of even reference dated 13th August 2018 had submitted our views on the tariff proposed by the Authority and restate the same in the following paragraphs to emphasize on our challenges and constraints.
 - a. In an independent into-plane service, growth in volume and revenue are highly dynamic as they are a function of commercial arrangements between the airlines and the Oil Marketing Companies with whom we have user agreements. The down side risk of volume reduction and consequential revenue reduction is assumed by us, as the trained manpower and its associated costs for the most critical activity on an aircraft at ground, continues even when the volume decreases. With increase in volume due to increase in air traffic movements, the resource requirement increases, which continue to remain deployed, even when the volume decreases. Hence, examination of our submissions to arrive



at a conclusion only on the Annual Compliance Statement data is deprived of a holistic approach to the entire spectrum of the service provided by us.

- b. The Authority's approach to consider our tariff based on the average RAB is grossly inappropriate, as the asset value decreases over the years and cost of maintaining these assets increases at a rate higher than at which it depreciates. Further, the service provided is primarily manpower driven and the employee cost increases each year. The rates at which our operating expenses increase each year has been provided in our submissions.
- c. The Authority in terms of powers conferred on it under section 15 of the AERA Act, has set in Guidelines for the purpose of discharging its functions under the Act and thus the Authority and the Service providers are to act in accordance to the guidelines. Thus, Authority's view that the Guidelines need not be followed in a routine manner is inapt. The Authority's selective approach to guidelines and that too when our tariff proposal falls under the light touch approach is inappropriate. Rather the process of Authority's examination is at par with price cap method. Thus the Guidelines set for discharging its functions is being defeated.
- d. The proposed 5% escalation sought would only increase the cost by 1 paise per litre of fuel delivered to the end consumer. Even with this increase, the ITP Service fee is only 0.3% of the current price of ATF at Delhi. Hence, the Authority's concern regarding the burden on the ultimate consumer due to extra ordinary profits accrued by service providers like us, is thus unsubstantiated and inappropriate. In reality, the ultimate consumer is burden by factors other than our services. But denial of this escalation results in decreased ability to plan growth, upgrade systems, processes, leverage IT and upgrade safety features at par with international standards on a long term basis. Delayed approvals and that too on prospective basis results in loss of revenue as well as deferring planned upgradation / replacement of equipment and systems. Further, the manpower recruited remains unproductive till he acquires the skill sets as per approval of DGCA which ranges anywhere between 4 to 6 months.
- e. It is felt that demonstrating efficiencies in our operation by being lean, proficient and optimisation of our processes is being punished rather than being rewarded. Thus it ushers in a discouraging environment for investor sentiments, particularly foreign investors which brings in international best practices and safety standards. This would also discourage any new player intending to enter into this segment thus defeating the purpose of lowering costs for the end consumer.



f. The Authority vide its Consultation Paper No. 10/2018-19 dated 01st August 2018 in respect to tariff proposal for the third, fourth and fifth tariff year of the Second Control Period in respect of M/s Bharat Star Service (Delhi) Private Limited for providing into-plane services at IGI Airport, New Delhi has proposed the current rate of Rs.199.67 per KL to continue until 31st March 2019 and then provide for 5% escalation on the rate for the T4 (FY 2019-20) and T5 (FY 2020-21 until 31.07.2020). This is against the basis on which, the Into-plane service providers are selected through a competitive bidding process and the ITP Fee must remain the same for both service providers at an airport.

In view of the above submissions, we once again request that our proposed tariff escalation of 5% year-on-year may please be considered as per the tariff card given below:

| Tariff Year | Aircraft Refuelling | (Rs./KL) | | | |
|--|---------------------|---------------------|---------------|--|---------------|
| | | Aircraft Defuelling | | Aircraft Refuelling of Defuelled product | |
| | | Within 6 hrs | Beyond 6 hrs. | Within 6 hrs | Beyond 6 hrs. |
| T3 (2018-19) | 209.65 | 209.65 | 315.19 | 261.72 | 315.19 |
| T4 (2019-20) | 220.13 | 220.13 | 330.95 | 274.81 | 330.95 |
| T5 (2020-21) 01 st Apr 2020 to 31 st July 2020 | 231.14 | 231.14 | 347.50 | 288.55 | 347.50 |

Thanking you.

For, IndianOil Skytanking Private Limited



Shantanu Saxena
Chief Financial Officer
SHANTANU SAXENA
Chief Financial Officer
IndianOil Skytanking Pvt. Ltd.
Bangalore International Airport
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