



**BKFF**  
Pvt Ltd.

## **BPCL-KIAL Fuel Farm Private Limited**

Site Office : C/o Kannur International Airport Ltd. Anjarakandy Road, Mattanur, Distt.  
Kannur – 670702, Kerala.

BKFFPL/AERA/2019-20/02

5<sup>th</sup> September 2019

To

The Chairman  
Airports Economic Regulatory Authority of India  
AERA Building  
Safdarjung Airport  
New Delhi

Dear Sir,

Sub: Consultation Paper 05/ 2019-20 dated 16<sup>th</sup> August 2019 – Issued regarding Fuel Farm and Into Plane Services  
Tariff at Kannur International Airport

We thank the Authority for approving the adhoc tariff for Fuel Farm Operations at Kannur International Airport vide Order 34/ 2018-19 for the period till 30<sup>th</sup> June 2019, which has been subsequently extended till the date of determination of tariff. We also thank the Authority for issuing the aforementioned Consultation Paper for comments of the Stakeholders.

We hereby submit our point-wise responses in the Annexure hereto, for your kind consideration.

As stated in the Consultation Paper, we are in the process of discussion and firming up the plans for Hydrant System at the said Airport. In this connection, as well as to discuss our response to the Consultation Paper, we seek your convenient time for a discussion on the above.

We remain at your disposal, to clarify any queries on the same.

Thank you,

For BPCL Kannur Fuel Farm Private Limited

Prashanth M Kamath  
Chief Executive Officer

Encl: a/a

Response to the Proposals issued by the Authority in Consultation Paper No. 05/ 2019-20 dated 16<sup>th</sup> August 2019.

CP Para Ref.	Proposal by Authority	Our Submission
4.1	M/s BKFFPL is the only firm operating the Fuel Farm at Kannur International Airport, so there is no competition, therefore, the Authority, has decided to adopt 'Price Cap Approach' for intrusive determination of tariffs for the period FY-2019-20 (From 01.10.2019 to 31.03.2020) to FY-2022-23 of 1st Control Period.	<p>In our MYTP submissions, we have evaluated the tariff framework in line with the Guidelines and Orders issued by the Authority. Based on the guidelines applicable as of date, the fuel farm volumes are not material and accordingly the tariff is to be determined under a Light Touch approach.</p> <p>We wish to bring to the kind notice of the Authority that the basic premise for an open access airport is to have a common fuel farm for ensuring optimal cost structure with level playing field for all users.</p> <p>We also wish to bring to Authority's notice that BKFFPL is entity whose majority Shareholding is held by Bharat Petroleum Corporation Limited (BPCL) a government PSU. Operations of the entity are governed by its Board of Directors. The tariff submissions have been made in a transparent way providing for all details of the Building Blocks, which are available for Authority's scrutiny. Having stated the above, it is our submission that the Regulatory Philosophy and Framework applicable to all, as per the pronounced Guidelines as of date should be applied to BKFFPL also, and determination of tariff be made on a "Light Touch" basis.</p>
3.5	... Here, the Authority feels that the formation of a Joint Venture Company did not translate into efficiency of operational costs, as BPCL on its own also could have provided the Fuel Farm and Into Plane Services, The Authority further notes that the O&M cost estimate proposed by BKFFPL seems to be high, however, full details and actual trends of the same will be available only after 1 to 2 years of operations. Accordingly, the Authority finds no merit in considering the aforesaid 16% margin in the operating expenditure.	<p>The JV formation at Kannur International Airport is to ensure transparent and fair services through an independent entity, to all suppliers at this open access airport. BPCL is also one of the supplier at this airport availing the services of BKFFPL on similar terms and conditions as applicable to all other suppliers.</p> <p>BPCL has been provided with the Contract to manage the Fuel Farm and Into-Plane services considering their experience in managing such ventures in other places and the economies.</p> <p>The 16% is a marginal loading for recovery of overheads that BPCL charges on the actual costs incurred, in line with operations being carried out at other open access airports e.g. New Delhi. It is humbly submitted that there could be overheads incurred by BKFFPL, should these operations be carried out by us also, directly.</p> <p>It is pertinent to mention that based on the requirement of related party transactions on arm's length basis, necessary approvals have been obtained for 16% margin. We would like to submit that the operations and maintenance cost estimates for FY 19-20 onwards, has been made keeping in mind the projected flight operations at Kannur International airport while meeting required Safety and Quality Control norms. Depending</p>



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		on the actual scale of operations the O&M cost may vary either way which can be trued up during the next assessment period.
4.2	To approve the "fuel infrastructure fee" (FIF) of Rs, 1735/- KL (including Aircraft Refueling) for the 2 <sup>nd</sup> tariff year FY 2019-20 (From 01.10.2019 to 31.03.2020) and 3 <sup>rd</sup> tariff year FY2020-21 of the first control period against the existing tariff of Rs. 1900/- KL, for its Fuel Farm and Into Plane services at Kannur International Airport. The proposed tariff card is attached at Annexure II.	<p>It can be observed that the actual ATF uplift volume is low compared to the projections provided by us in our initial submissions. It is worthwhile to mention that till date we have not achieved the projected volumes. In view of above, it is humbly requested to keep the rate at Rs. 1846/- per KL as proposed by BKFFPL for the period till 31<sup>st</sup> March 2021.</p> <p>We would like to meet the Authority to understand the basis of computations for Rs. 1735/- per KL proposed by the Authority as well as share your view point for substantiating the claim of Rs. 1846/-.</p> <p>All the regulatory blocks are only an estimate at this stage, as the operations are required to be stabilized, for any trends to emerge and be used as benchmark. Also, as stated by the Authority, BKFFPL has retained its initial volume estimation, even though the initial volumes till March 2019 are very low.</p>
4.4	Tariff for FY 2021-22 & 2022-23 of the 1 <sup>st</sup> Control Period will be determined based on review of the actual revenues, Opex, ARR etc., as well as status of the proposed construction of Hydrant System, and, also submission of the Annual Compliance Statement (ACS). M/s BKFFPL should submit all the above information well in advance for timely action by the Authority.	<p>Noted for compliance.</p> <p>We would like to meet and brief the Authority on the proposed Hydrant System and the cost outlay etc.</p>
4.5	The Authority observes that, no 'User Consultation Committee' meeting has been conducted by M/s BKFFPL, hence, it is directed that BKFFPL should conduct a User Consultation meeting and submit details to the Authority along with Stakeholder's/user's comments.	<p>Prior to the commencement of airport operations at Kannur, several round of meeting were organized with all eligible suppliers. Consequent to the determination of initial AERA tariff, suppliers agreements were signed with the interested parties for carrying out their business at the open access airport. Thus, based on discussions with the users, the agreement between BKFFPL and the Oil Marketing Companies (Suppliers) have been executed. Copy was submitted to AERA which is enclosed herewith for reference. Thus the user consensus was achieved.</p> <p>However, as directed we will conduct another round of user consultation meeting and the record of the same will be submitted to the authority.</p>