

Subject Revision of fuel throughput charges by airport operators w.e.f. 01.04.2010
 From RSITHARTHAN@indianoil.co.in
 Date Tuesday, September 28, 2010 3:11 pm
 To sandeep.prakash@aera.gov.in , sandeep.moca@nic.in , CV Deepak <cvdeep@gmail.com>
 Cc OSRKARTHA@INDIANOIL.CO.IN , RSAREEN@indianoil.co.in , DHARSHAILESH@indianoil.co.in

SM (AOS)

Dear Sir,

With reference to your DO letter ref.No.AERA/20015/FT/2010-11/894 dated 14th Sept.,2010, addressed to Shri R.Sareen, Executive Director(Aviation), the suggestions/views have been expressed in the letter attached. Alongwith this letter, the previous mail sent on 15th Sept.,2010 on Industry basis, is also forwarded for your kind reference.

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 30/9/10

सादर Regards

(आर. सिथार्थन R. Sitharthan)

उप महाप्रबंधक (विमानन) DGM (AVIATION)

मोबाईल : 9930851828 Mobile : 9930851828

----- Forwarded by R SITHARTHAN/HO/IOCL on 28-09-2010 14:39 -----

From: OSR KARTHA/HO/IOCL

To: sandeep.prakash@aera.gov.in, sandeep.moca@nic.in, CV Deepak <cvdeep@gmail.com>

Cc: R SAREEN/HO/IOCL@IOCL, bhattacharyasb@bharatpetroleum.in, rradhakrishnan@hpcl.co.in, NARAYANANR@iocl.co.in@IOCL, E UNNIKRISHNAN/HO/IOCL@IOCL, ssbramhe@hpcl.co.in <ssbramhe@hpcl.co.in>, jadhav ad <jadhavad@bharatpetroleum.in>, R SITHARTHAN/HO/IOCL@IOCL, SHAILESH DHAR/HO/IOCL@IOCL, PANKAJKUMAR/HO/IOCL@IOCL

Date: 15-09-2010 15:37

Subject: Economic Regulation of services provided for cargo facility,Ground Handling and supply of fuel to the aircraft.

Dear Sir(s),

Reference is made to your letter dated 2nd August, 2010 on the subject and subsequent meeting held at Delhi on 18th August, 2010.

We would like to thank the opportunity given to us for extension of time upto 15th Sep., 2010, for offering our comments and views on the consultation paper.

We, PSU oil companies(IOC,HPC &BPC) offer our views and comments on the subject and the same is attached below for your kind consideration.

Regards/ सादर,

O S R KARTHA/ ओ एस आर कर्ता
 General Manager (Aviation), Head Office
 महाप्रबंधक (एविेशन), प्रधान कार्यालय
 Indian Oil Corporation Limited (MD)
 इंडियन ऑयल कॉर्पोरेशन लिमिटेड (विप्र),

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**Comments & views of PSU Oil Industry on Draft Guidelines issued by AERA
vide order No.05/2010-11 dtd. 02.08.2010**

Background :-

Consequent to enactment of AERA Act 2008, the authority is to perform few functions related to determination of tariffs and monitoring performance standards in respect of aeronautical services for identified major Airports.

The following services come under the purview of the AERA Act, section-2(a) :-

- i. For ground handling services relating to aircraft, passengers and Cargo at an airport,
- ii. for the cargo facility at an airport and
- iii. for supplying fuel to the aircraft at an airport

As regard the PSU Oil Industry, comments in respect of applicability of the regulatory approach on the point No. (iii) are as submitted herein.

As per categorization of airports by AERA, the major airports have been grouped under two categories :

- a) Not Material or Material but Competitive
- b) Material and not Competitive

Current status :

PSU Oil companies supply fuel independently to their respective Airlines customers through their own facilities located at various Airports as per the contract existing with the airlines. Category-wise information and present status at various airports is submitted as under:

a) Not Material/ Material but Competitive:

- Airports falling under this category are Cochin, Ahmedabad, Trivandrum, Goa, Guwahati, Pune, Jaipur, Calicut.
- All of the above Airports, except Cochin are under the control of Airports Authority of India, (AAI) where the Fuel Farm Facility has been created by PSU Oil companies who are operating independently on the leased land from AAI/ Private Land, except at Cochin Airport.
- The Infrastructure of the Oil Companies has been set up by oil companies at own cost on the land allotted by Airport Authority of India on lease. In most of the Airports, they are operating since more than three to four decades.
- AAI charges lease rentals form each of the Oil Cos, which is finalized by AAI.

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- Apart from the above AAI is also charging Throughput Charges on per KL basis from the Oil Companies.
- Out of the 14 major airports brought under AERA guidelines, AAI has arrived the Throughput Charges on single Tender basis at Ahmedabad, Guwahati and Jaipur Airport in 2005. Since, the oil companies at these airports had created fuel farm infrastructure, at their own cost, the oil companies earlier had registered their protest and decided to abstain from tender floated by AAI for setting up fuel facilities in 2005. AAI, had however proceeded to award the tender on single tender basis. Whole process of finalising the thruptut charge on single tender basis may be reviewed as the Fuel Facility at these Airports have been created by individual Oil Cos.
- At Cochin Airport, the airport operator is Cochin International Airport Limited (CIAL) and single Fuel Farm is owned by BPCL. The PSU Oil Companies are using the facility under an agreement. CIAL has enhanced Throughput Charges to Rs. 70/- per K.L w.e.f 1ST April 2009. Although Throughput charges of CIAL is only Rs. 70/- per K.L, which is low as compared to charges demanded by AAI or other private Operators, the annual escalation to the tune of 20% has been introduced.
- Even though these Airports fall under Light Touch Approach with regard to Tariff order, AERA may review Throughput Charges and Lease Rentals at these Airports and suggest objective way to decide on the charges.

b) Material / Non-competitive:

- Airports falling under this category would be Mumbai, Delhi, Chennai, Bangalore, Kolkata, Hyderabad.
- Bangalore and Hyderabad are the Greenfield Airports being operated by Private Airport Operators with Open Access with regard to Fuel Facility. The charges finalised by individual Airports are being paid by the Suppliers (Oil Cos.) on per KL basis. We understand that throughput charges are calculated on the basis of reasonable rate of returns considering the contract period of 25-30 years.
- Delhi and Mumbai are the Brownfield Airports operated by Private Airport Operators.
- At Delhi recently the concessionaire (JV of IOCL/BPCL/DIAL) has taken over the operation of the existing Fuel Farm facility which is being operated on Open Access and Throughput / ITP Fees on per KL basis have been introduced.
- At Mumbai existing Oil Cos. are operating their Fuel Facility for which Lease rentals and negotiated Throughput Charges on per KL basis are paid to the Operator. In future a Single Fuel Farm (under JV of HPCL/IOCL/BPCL/MIAL) has been planned to be developed to cater to the requirement of the Airport on Open Access basis.

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- Chennai and Kolkata Airports are under AAI's control. The Fuel Facility has been created by the individual Oil Companies on the leased land for which rentals are being paid. AAI has enhanced the rentals for the land given to Oil PSUs. Over and above the land rentals, AAI is also charging Throughput Charges on per KL basis. These Throughput Charges which were arrived on the basis of Tender floated by AAI, are also considered high.
- Since these Airports would fall under Material/ Non-competitive Category, as such AERA may review these charges under Price Cap Approach.

Comments:

1. As may be seen, both the charges, pertaining to throughput charges and lease rentals, are pass-through elements for Suppliers for recovery from the airlines. However, eventually the customers (air-travellers) bear the cost of such charges.
2. In view of the above it is suggested that airport operators/ airport authorities are also included within the ambit of Service Providers, if not included already, and the charges towards land rentals and throughput fees charged by Airport Operators/ airport authorities should be reviewed by AERA.
3. The process of finalization of throughput fees by AAI on the basis of tendering, as has been done at some of the airports, may also be reviewed by AERA.
4. In addition to the major 14 airports, AERA may also consider reviewing the throughput charges (established on tender basis) and exorbitant land rentals being charged at other airports viz' Amritsar, Bhubaneswar, Hyderabad (Begumpet), Lucknow, Nagpur, Ranchi, Udaipur, Vadodara, Varanasi, Aurangabad, Gaya, Jabalpur, Madurai and Raipur .
5. High throughput charges is objected to by many international airlines as they are much higher compared to similar or better equipped Airports in the neighboring countries.

At the airports falling under AAI, land has been provided to oil companies for AFS/parking of refuellers. Assets required for storage or refuelling are constructed, owned, operated and maintained by the Oil companies. We have been paying to AAI for use of the land by way of fair market rates rents (which are regularly reviewed on market valuation basis). In addition to the land rentals, AAI also charges the "**Throughput Fee**" on per KL basis.

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6. Given below are the current charges at major Airports which are in the purview of AERA.

AIRPORT OPERATORS	THROUGHPUT/ FEE/KL	Infrastructure Fee/RENT
GHIAL at Hyderabad	- ` 2170/-	N/A
BIAL at Bangalore	- ` 1500/-	N/A
CIAL at Cochin	- ` 84/-	` 100/ SQM
DIAL at Delhi Airport	- ` 561/75	* ` 987.25/KL.
MIAL at Mumbai Airport	- ` 561/75	` 384/SQM
AAI at Chennai	- ` 1459/83	` 1733/SQM
AAI at Kolkata	- ` 1216/72	` 1196/SQM
AAI Ahmedabad	- ` 528.38	` 1135/SQM
AAI Calicut	- ` 112.10	` 350/SQM
AAI Pune	- ` 112.10	` 2525/SQM
AAI Goa	- ` 112.10	` 404 /SQM
AAI Trivandrum	- ` 139.80	` 170 /SQM
AAI Guwahati	- ` 344.60	` 170 /SQM
AAI Jaipur	- ` 291.00	` 715 /SQM

* At Delhi, DAFFPL /DIAL, has demanded Thruput fee and *Infrastructure fee and Opex Recovery Charge* of : ` 1549/KL.

Note :

- a. *Annual escalation of Throughput Fee and Rent at AAI airports is 5% and 7.5%, respectively.*
- b. *At MIAL, the rent is being increased at 10% annually.*
- c. *Throughput Fee at MIAL and DIAL is based on average annual increase in WPI and the minimum increase will be 5% per annum and maximum increase will be 7% of the average increase of all commodities over previous year.*

7. Fuel Throughput Fees charged by Airport Operators needs to be reviewed by AERA for the following key reasons :
- The lack of justification for charging Fuel Throughput Fees ;
 - Fuel Throughput Fees significantly increases the cost of refuelling services.

In view of the above, we submit and request AERA to consider our views which may be incorporated in the guidelines for fixation of Throughput Fee and land rent, both for major and other airports in India which is acceptable to all the stake holders.