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Marketing Division

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IndianOil

AV/RS/AERA

28th September, 2010

The Secretary,
Airports Economic Regulatory Authority of India
AERA Building,
Administrative Complex,
Safdarjung Airpot, New Delhi – 110 003

OSD-II

Sub : Revision of Fuel Throughput charges by Airport Operators with effect from 1st April, 2010

Dear Sir,

We thank you for your DO letter no. AERA/20015/FT/2010-11/894 dated 14th September, 2010 on the issue of revision in fuel throughput charges at major airports.

We had, vide our e-mail dated 15th September 2010 (copy enclosed for ready reference) earlier, submitted suggestions and comments on industry basis, on draft guidelines circulated by AERA vide its consultation paper No.05/2010-11.

It may please be noted that fuel throughput fees are charged by various airport operators from the oil marketing companies, who in turn recover the same from the airlines. The airlines have been protesting at the high throughput fees being charged by the oil companies, which, as may be appreciated, is actually a pass through item for the oil suppliers.

Prior to the year 2001, there used to be only license/ land lease rentals, which were payable by oil companies. Since, last few years, concept of fuel throughput charges, has been introduced by airport operators on the fuel supplied by Oil Companies. While the concept is in line with charges being levied at airports world over, however, land lease rentals also continue to be levied at high rates unlike the practice followed in foreign countries.

With respect to proposal made in para 5 of the consultation paper no. 06/2010-11, our comments are submitted as under :

a) **Airports with Common Access Fuel Farm Facilities:**

At such airports, throughput charges, as per our understanding, are levied, based on the return on investment for setting up the fuel facilities and to recover operating costs for such facilities. The airport operators / service providers recover investments through the mechanism of throughput fees, based on longer recovery periods.

b) **<u>Chennai and Kolkata</u> :**

The throughput charges at these locations were arrived at based on tender floated by AAI and are relatively lower compared to green field airports at Hyderabad and Bangalore where Open Access Fuel Farm were introduced for the first time. Area of concern at Chennai and Kolkata, however, is the high land lease rentals (Rs.1173 per sqm for Chennai and Rs.1196 per sqm for Kolkata), which the Oil Companies are forced to pay to AAI and which add to the fuel cost.

c) **<u>Ahmedabad, Guwahati & Jaipur:</u>**

At Ahmedabad, Guwahati, Jaipur and fourteen other airports (which are presently not under the purview of AERA), the throughput charges have been arrived at on single tender basis in response to AAI's tender floated in 2005 for setting up fuel facilities. Since, oil companies already existed at these airports and had created fuel farm infrastructure at their own cost, the oil companies had registered their protest with AAI and decided to abstain from the tender. AAI had however proceeded to award the tender on single tender basis to private players.

At upcountry locations, where throughput volumes are lower as compared to metro locations and, where Oil suppliers have already invested to set up own fuel farm facilities, levy of high / higher throughput charges by Airport Authorities, shall make existing individual Oil Companies' operations unviable which may lead to their facilities becoming redundant. Hence, there is a need for review of mechanism to finalize throughput fees by tender process, at existing locations.

On perusal of the consultation paper no. 06/2010-11, as per clause no. 2.5 AAI has sought approval for throughput charges of Rs. 112.10 per KL (for 2010-11) for Ahmedabad, Guwahati and Jaipur. However, it is understood the actual rates demanded by AAI from PSU Oil Companies for these locations is much higher. Hence, in our opinion, the rate of Rs.112.10 per KL indicated in para 5 of the consultation paper seems reasonable. It may also be noted that for other non-metro a irports (apart from Ahmedabad, Guwahati, Jaipur and fourteen other airports, for which throughput fees were decided on single tender basis) which are not under the purview of AERA, AAI had demanded throughput fees rate of Rs. 106.75 per KL for 2009-10 with 5% escalation per annum (resulting in Rs. 112.10 per KL for 2010-11). These rates for such non-metro airports were agreed to by PSU Oil marketing companies, considering the reasonableness of the same.

d) **<u>Trivandrum & Calicut:</u>**

The throughput rate is as per earlier commercial agreement between PSU Oil companies and AAI. The indicated rate with escalation of 5% appears reasonable.

e) **<u>CSIA Mumbai & IGIA, Delhi</u> :**

The throughput fees charged for 2010-11 is as per the escalation mechanism agreed to between MIAL/ DIAL and PSU Oil companies, for fifteen years w.e.f 2009-10, with minimum escalation of 5% and maximum escalation of 7%, linked to WPI, which is quite reasonable.

f) **Cochin :**

At Cochin Airport, the throughput fees have been decided between CIAL and BPCL, who are the fuel farm owners. 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 with an annual escalation to the tune of 20%, which is not in synchronization with the escalation proposed at other airports, though the throughput fees in itself is reasonable.

While on the subject, it may also be noted that based on AERA's communication dated 13th September, 2010 to various airport operators, Airlines have demanded refund /adjustment from the oil companies, for the amount towards throughput fees charged & recovered from them since April 2010. As it may be appreciated, such an action from the airlines would create financial difficulties and accounting complications for the Oil Companies.

In view of facts expressed above, following is suggested:

1. The final decision regarding approval of rate of fuel throughput charges proposed by various Airport operators for the year 2010-11 may please be expedited and till such time, status-quo may be maintained for the rates proposed by various airport operators. Suitable communication may be issued to IATA for advising the airlines for continuing with the charges intimated and not insist on refunds

2. In case any changes are contemplated in the rates proposed by Airport Operators, status-quo may be maintained for the rates proposed by the operators for 2010-11 till new charges contemplated by AERA are finalized. Changes, if any, may be fixed only on prospective basis so that correct amounts are realized from airlines.

3. At airports like Delhi, Bangalore and Hyderabad, where infrastructure has already been set up on Common Access Basis, throughput charges proposed, based on investments conceptualized earlier and on recovery periods of 15 to 20 years, need to be considered favorably.
4. Finalizing throughput fees through tendering process at existing locations needs to be reviewed since this could be counter –productive.

5. Lease rentals need to be rationalized since throughput fees on KL basis has already been introduced.

Submitted,

Thanking You.

for IndianOil Corporation Ltd.

(R Sareen)
Executive Director(Aviation)

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.

- 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 thruput 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.

- 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, Bhubuneswar, 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.

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.