



BPCL - KIAL Fuel Farm Private Limited

Reg. Office: C/o Kannur International Airport, Karaperavoor (P.O.) Mattannur
Dist. Kannur - 670702, Kerala. CIN : U23200KL2015PTC038487
GSTIN / UIN : 32AAGCB3129A1ZG

Ref: BKFFPL/AERA/2026-27/02

13/04/2026.

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

Dear Sir,

SUB: SUBMISSION OF RESPONSE AGAINST CONSULTATION PAPER ISSUED AGAINST DETERMINATION OF TARIFF FOR SECOND CONTROL PERIOD - M/S BPCL-KIAL FUEL FARM PRIVATE LIMITED (BKFFPL)

Ref: Consultation Paper 09/2025-26 dated 24th March 2026

With reference to the Consultation Paper dated 24th March 2026 issued in connection with the determination of tariff for the second control period for M/s BPCL-KIAL Fuel Farm Private Limited (BKFFPL), we hereby submit our detailed response for your kind consideration.

We request you to kindly consider the submissions and points outlined in the enclosed response document favourably.

Thank you for your attention to this matter.

Yours truly,

For M/S BPCL-KIAL FUEL FARM PRIVATE LIMITED

**MARTIN JOSE EMMANUEL
CHIEF FINANCIAL OFFICER**





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BKFFPL Response against Consultation Paper.

1. Fair Rate of Return: Gearing Ratio of 48:52

It is observed that the Consultation Paper proposes adoption of a normative debt-equity mix of 48:52 for computation of the Fair Rate of Return for the Second Control Period. In this context, BKFFPL respectfully submits that the proposed normative gearing may not appropriately reflect the financing profile of BKFFPL's fuel farm and into-plane operations at Kannur.

(i) Inapplicability of Normative Gearing Ratio (48:52)

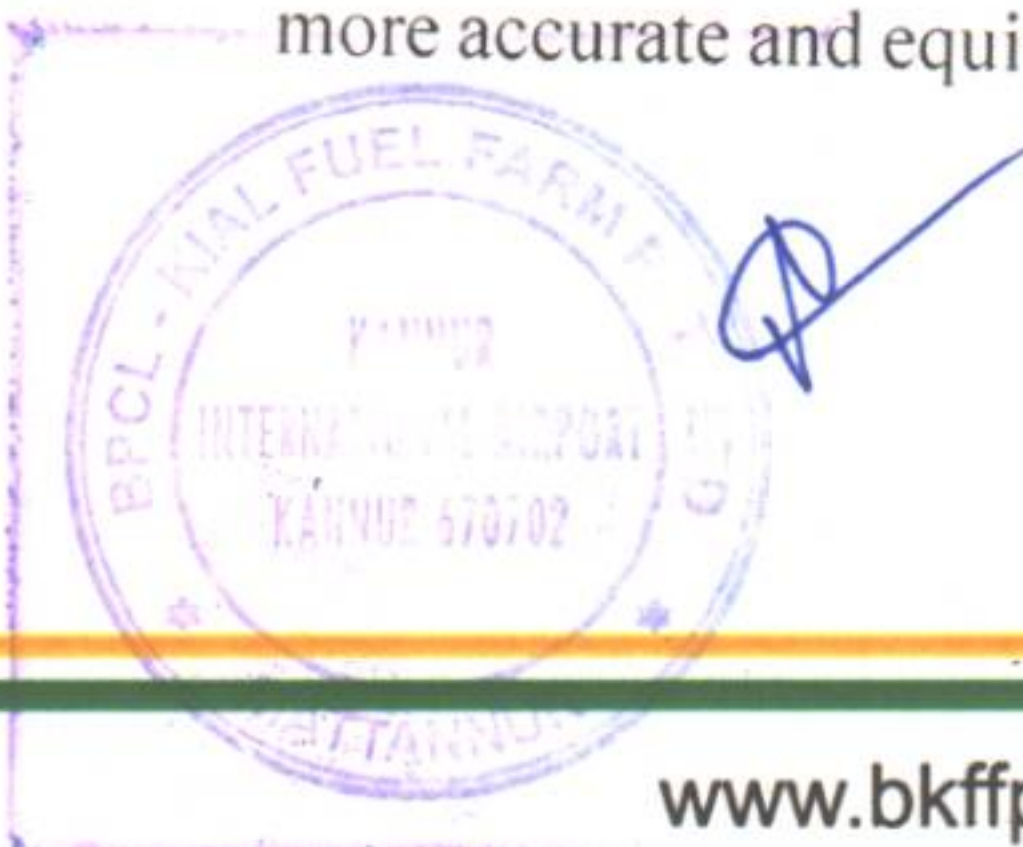
The proposed ratio appears to have been drawn from benchmarking studies undertaken for significantly larger airport operators and infrastructure-intensive entities notably Bangalore International Airport Limited (BIAL) and Cochin International Airport Limited (CIAL) etc. The studies referenced benchmarks from foreign airports considered comparable to BIAL and CIAL, in addition to infrastructure companies operating in capital-intensive sectors, in order to arrive at the normative gearing. However, such comparables may not be suitable in the present case, given the limited scale of asset additions, operating profile, and absence of major debt-funded expansion requirements in BKFFPL's case. The capital structure of the Operator has evolved based on the specific funding needs of the Kannur project and therefore differs materially from these large airports.

Therefore, applying the same gearing ratio to the Operator lacks parity and does not reflect the financial realities or prudent financing practices adopted by the Operator. As such, the adoption of a 48:52 gearing ratio in the present case would be neither reasonable nor equitable.

(ii) Precedents of Actual Gearing Considered for Similar Entities

It is further relevant that, in tariff determinations concerning other Independent Service Providers, the Authority has considered the actual capital mix including cases where the asset base was substantially equity funded. For instance, AERA considered an actual gearing of 0:100 for the Fuel Farm operator (IOSPL) at BIAL during the final two years of the Third Control Period (refer Table 34 of Order No. 30/2021-22). This demonstrates an established regulatory practice of aligning the return framework with the underlying commercial reality of the regulated entity.

In view of the above, the Operator respectfully requests that the actual gearing ratio of BKFFPL be considered for FRoR computation for the Second Control Period, as this would present a more accurate and equitable reflection of the financing cost attributable to the regulated service.



2. **Security Deposit: Return @5%**

With regard to the Consultation Paper allowing a 5% return on the Security Deposit placed with KIAL, the Operator respectfully submits that such treatment does not adequately capture the economic cost associated with this blocked fund.

(i) **Nature and Treatment of Security Deposit**

The Security Deposit was a mandatory contractual requirement for securing the concession rights for fuel farm operations at Kannur Airport. As the amount remains locked for the tenure of the arrangement and is not deployable for either operational requirements or capital investment, it effectively represents capital employed in the regulated business.

From an economic standpoint, this locked amount carries a clear opportunity cost. Had the same funds remained available to the Operator, they could either have been utilised toward capital expenditure earning the approved return under the tariff framework or alternatively invested in generating market-linked returns. Accordingly, limiting the return to a flat 5% understates the actual financing burden borne by the Operator.

(ii) **Precedent in Other AERA Tariff Orders**

The Authority's own precedents in airport tariff matters, including treatment of refundable security deposits in cases such as DIAL and CIAL, support the principle that such deposits should be accorded a return linked to the cost of debt or equivalent financing benchmark, particularly where the funds remain unavailable to the regulated entity, in alignment with the judgment of the Telecom Disputes Settlement and Appellate Tribunal (TDSAT) in the case of Delhi International Airport Limited (DIAL).

Relevant excerpts from past Orders are as follows:

• **DIAL – Third Control Period (Order No. 57/2020-21)**

Para 1.3.1 (vii):

“Refundable Security Deposit (RSD) raised by the airport operator to fund the Project cannot be a zero-cost debt. Its cost needs to be ascertained and made available to the airport operator through appropriate fiscal exercise at the time of next tariff redetermination.”

Para 3.3.12:

“Authority proposed to consider return on RSD as equivalent to the cost of debt... consistent with the proposal... regarding true-up of WACC for the First Control Period...”

Para 3.3.18:

“Authority... is of the view that the airport users benefitted from zero-cost financing that DIAL was able to raise from Non-Transfer Assets... Accordingly, the Authority has decided to consider the cost of RSD as equivalent to the actual cost of debt at 9.28% for the Second Control Period...”



- **CIAL – Third Control Period (Order No. 08/2021-22)**

Para 7.2.7:

“Since the RSD of INR 150 crores deposited by the fuel farm operator was utilised by CIAL for the creation of assets, the Authority proposed to provide a return on RSD at the cost of debt in line with the judgment of TDSAT in the case of DIAL.”

Para 7.2.8:

“As refundable security deposits are treated as debt, they were effectively included in the notional gearing ratio of 48% and hence did not require any separate treatment.”

- These precedents affirm the principle that Security Deposits, when locked and not available for use by the operator, warrant a return commensurate with the cost of debt.

Accordingly, the Operator respectfully requests that the return on the Security Deposit be aligned to the prevailing cost of debt benchmark, specifically the SBI one-year MCLR, consistent with the Authority’s established regulatory practice in other tariff orders for computing the notional cost of debt.

3. **Fuel Throughput – Revision of Projections for the Second Control Period**

The Operator submits that the actual fuel throughput achieved in FY 2025-26 was **46,861 KL**, as against the projected volume of **50,347 KL** considered in the Consultation Paper based on the response to the Authority’s queries dated 11th November 2025. The shortfall is primarily attributable to a reduction in flight movements during the winter schedule, coupled with the adverse impact of the ongoing geopolitical conflict involving Iran during March 2026, which affected flight operations and fuel uplift at the airport. The Operator further submits that the impact of the said conflict is expected to continue during the current and ensuing month and therefore may continue to moderate throughput in the near term.

Further, while the Authority has considered an 8% year-on-year escalation in fuel throughput for FY 2026-27 and FY 2027-28, the Operator has adopted a more conservative 5% escalation for the balance years of the Second Control Period. This is considered more appropriate since fuel throughput is not directly proportional to aircraft movement or traffic growth. The actual fuel uplift decisions of airlines are driven by the overall landed cost competitiveness of fuel at Kannur, including transportation and logistics cost, supply-chain economics, and comparison with nearby or source airports from where aircraft may alternatively uplift fuel. These commercial factors materially influence airline tankering and uplift decisions and therefore may limit the extent to which traffic growth translates into equivalent fuel throughput growth.

Also, it is worthwhile to mention that since the Ministry of Civil Aviation is not permitting foreign carriers to operate from Kannur Airport, this scenario has resulted in limiting the growth potential of the airport as well as the Fuel Farm to recover its CAPEX and operating costs due to lower volumes.

Further, owing to capacity constraints, Indian carriers are prioritizing operations in Tier I cities, thereby limiting their presence in airports such as Kannur. At present, only IndiGo and Air India Express operate from Kannur Airport, while other domestic carriers have not commenced operations. This has further restricted the growth of the Fuel Farm in terms of fuel uplift.



As such lower tariff in airports with lower volumes do not justify the recoverability of costs compared to other airports with higher volumes and lower tariff.

Accordingly, since the actual performance for FY 2025-26 now provides a firmer basis for forecasting the balance years of the Second Control Period, the Operator has revisited the throughput estimates for FY 2026-27 and FY 2027-28 as set out below:

Particulars (in KL)	FY 24	FY 25	FY 26	FY 27	FY 28
As per Consultation Paper	35,839	47,532	50,347	54,375	58,725
Based on Actuals up to FY 2025-26	35,839	47,532	46,861	49,204	51,664

These revised projections are considered more representative of the prevailing traffic outlook and the practical fuel uplift behaviour of airlines at Kannur and therefore provide a more reliable basis for determination of the per-KL tariff.

In view of the above, the Operator respectfully requests the Authority to adopt the revised throughput estimates set out above for the balance years of the Second Control Period, so that the final tariff is based on realistic and sustainable volume assumptions.

4. True-up of First Tariff Year, i.e. FY 2018-19, of the First Control Period

It is observed that the Authority has not considered the true-up of the first tariff year, i.e. FY 2018-19, while determining the shortfall proposed to be carried forward from the First Control Period. The Consultation Paper also does not set out the specific basis for excluding the said year from the true-up exercise.

In this regard, the Operator respectfully requests that the Authority consider the true-up for FY 2018-19 as part of the tariff determination for the Second Control Period, particularly in view of the submissions already made by BKFFPL in paragraph 3.1.2 of the MYTP, which are reproduced below for ease of reference:

- BKFFPL commenced Fuel Farm and Into Plane services at KIAL from the first week of December 2018 and accordingly submitted the MYTP to the Authority in October 2018.
- The Authority in its Order No. 34/2018-19 dated 4th December 2018 had allowed BKFFPL to levy Rs. 1,900 per KL as Fuel Infrastructure Fee on Ad-hoc basis. In the same Order, The Authority also decided to consider the tariff determination under the "Price Cap" Methodology and to consider the actual traffic and actual cost of Operation before 31st March 2019 to determine the tariff post 30th June 2019.
- Relevant extracts of Order No. 34/2018-19 are given below.

"3.2 The Authority notes that only BKFFPL would operate the Fuel Farm at Kannur International Airport and would supply fuel into-plane currently with refuellers and later on from a Hydrant system. The Authority notes that while operations are not material, in view of no competition, the Authority may evaluate submissions on a "Price-cap"



approach to deter charging high rate and this will be decided by the Authority during regular tariff determination,”

“3.5 As the Airport is stipulated to commence operation effective 1st week of December, 2018 and it will not be possible for the agency to provide service without any approved rate, The Authority is unable to finalise any rate in absence of any reliable tariff data, and estimated required capital expenditure for Hydrant system. Accordingly, the Authority hereby decides to **approve Ad-hoc tariff of Rs. 1900/KL** for Fuel Farm operation until June, 2019 to make the airport operational as proposed by BKFFPL or determination of tariff whichever is earlier. The Authority also decides to approve defueling charges and refueling of defueled fuel charges on Ad-hoc basis up to 30.06.2019 as proposed by BKFFPL. M/s BKFFPL should submit updated proposal considering the actual traffic and actual cost of Operations before March, 2019.

4.3 M/s BKFFPL should submit updated proposal **considering the actual traffic and actual cost of Operations before 31.03.2019** in order to assess the situation and determine the tariff post 30.06.2019.”

- Subsequently for the tariff determination for FY 2019-20 and FY 2020-21 (Order No. 14/2019-20 dated 28th October 2019), BKFFPL had submitted the workings for the entire First Control Period, i.e., from FY 2018-19 to FY 2022-23 and had requested for the fee to be revised to Rs. 1846 per KL, which was duly approved by the authority.
- Relevant extracts of Order No. 14/2019-20 are given below.

“2. BKFFPL vide letter no. BKFFPL/AERA/2019-20/01 dated 29th April, 2019 **submitted their Multi Year Tariff proposal (MYVP) from FY 2018-19 to FY 2022-23 and Annual Tariff Proposal (ATP) for FY 2019-20 (from 01.07.2019 to 31.03.2020) and FY 2020-21 of the first Control Period (01.04.2018—31.03.2023) towards determination of tariff for Fuel Farm and Into Plane Services at Kannur International Airport (KIAL). Considering the Aggregate Revenue Requirement, and estimated traffic volumes, BKFFPL proposed a tariff of Rs. 1846.00/- KL as Fuel Infrastructure Cost including Aircraft refueling for the period July 2019 to March 2021....**”

9. Upon careful consideration of material available on record, as well as submissions made by M/s BKFFPL, the Authority in exercise of powers conferred by Section 13(1) (a) of the AERA Act, 2008 hereby orders that:

(i) M/s BPCL Kannur Fuel Farm Private Limited (BKFFPL) is **allowed to charge the "fuel infrastructure fee" (FIF) of Rs. 1846/- KL (including Aircraft Refueling) for the 2nd tariff year FY 2019-20 and tariff year FY 2020-21 of the first control period, for its Fuel Farm and Into Plane services at Kannur International Airport as per the tariff card attached as "Annexure I". This rate will be effective from 1st November 2019.**”

- Further, since BKFFPL operates under a regulated tariff framework, any recovery of shortfall is possible only through the tariff approved by the Authority. Accordingly, the true-up should cover the entire First Control Period, including FY 2018-19, consistent with the approach adopted by the Authority in Order No. 14/2019-20, where the assessment was undertaken for the full control period.



In view of the above, the Operator respectfully requests that the Authority include the ARR true-up for FY 2018-19 while finalising the tariff for the Second Control Period, so that the cost recovery mechanism remains complete and reflective of the full regulated period.

5. FY 2025-26 Actuals

It is noted that the Authority has considered actual financial and operational figures up to FY 2024-25 in the Consultation Paper. However, since FY 2025-26 has now concluded, the Operator respectfully requests the Authority to also consider the actuals for FY 2025-26 while finalising the tariff for the Second Control Period. The relevant details in this regard are enclosed as Appendix 1.

Further, it is submitted that, against the CAPEX of ₹96 lakhs projected for FY 2025-26, only ₹13.87 lakhs has been capitalised during the year. The balance ₹82.12 lakhs is now expected to be capitalised in FY 2026-27. The Operator respectfully requests the Authority to consider this revised capitalisation timeline while finalising the tariff for the Second Control Period.

Particulars	FY 2025-26 (Rs. Crores)		Diff.	Remarks
	Actuals	As per AERA		
Revenue	12.28	13.19	-0.91	
Opex	6.96	7.25	-0.29	
Depreciation	1.99	1.05		Authority would estimate based on Order 35
Tax	1.03	1.26	-0.23	
Capex addition	0.27	0.96	-0.69	

6. Second Control Period True-up

The Operator respectfully requests that the Authority undertake a true-up of all building blocks for the Second Control Period based on actuals, at the time of tariff determination for the next Control Period. This would ensure that the tariff remains aligned with the principles of cost-reflective tariff determination and maintains consistency with the cost-plus approach adopted for BKFFPL's Fuel Farm and Into Plane services at Kannur Airport.

For M/s.BPCL-KIAL Fuel Farm Private Limited



Martin Jose Emmanuel
Chief Financial Officer

