

F. No. AERA/20010/MYTP/BKFF/FF/Kannur/CP-II/2018-19

Order No. 34/ 2018-19



सत्यमेव जयते

Airports Economic Regulatory Authority of India

Adhoc Tariff Order

In the matter of Determination of Fuel Farm Tariff in respect of BPCL Kannur Fuel Farm Private Limited (BKFFPL) for the first Control Period

(01.04.2018 – 31.03.2023)

04th December, 2018

**AERA Building
Administrative Complex**

Safdarjung Airport

New Delhi – 110 003



1. BPCL Kannur Fuel Farm Private Limited (BKFFPL) – Introduction

1.1 BPCL KIAL Fuel Farm Private Limited (BKFFPL) is a Joint Venture Company of BPCL and KIAL with 74:26 equity shareholding respectively. The Company was formed to design, develop, construct, manage, maintain, upgrade and operate the Aviation Fuel farm with allied facilities and hydrant system (at a later stage) at both domestic and international terminals of Kannur International Airport for the supply of ATF on exclusive basis.

1.2 BPCL-KIAL Fuel Farm shall be an integral part of the KIAL Airport infrastructure and would be catering exclusively to the ATF demand at the airport. The Company proposes to develop the fuel farm in two phases wherein majority of the infrastructure would be set up under Phase I and additional tanks along with associated infrastructure would be set in Phase II in 3 acres (approx.) of land. Infrastructure as part of the Fuel Farm includes:

- 2 x 45 KL Underground Tank
- 2 x 450 KL Aboveground Tank
- 4 bays Tank Lorry decantation & Refueller Loading (Common) Gantry
- 2 Storey Admin Building
- MCC Room
- Product Pumps
- Associated pipelines

1.3 The Fuel-Farm has been set up to function under “Open Access” model for use by all eligible Oil Marketing Companies. In Phase 1 the Fuel will be supplied into plane with the help of refuellers. In Phase 2 of the plan, Hydrant lines may be laid and the fuel supply to Aircrafts will be through the Hydrant system as well as re-fuellers.

1.4 Operations and Maintenance (O&M) of the Fuel Farm and Into-plane services will be carried out by BPCL.



2. MYTP Submission

- 2.1 Kannur International Airport has been identified as one of the Major Airports and the Airports Economic Regulatory Authority (AERA/ Authority) has issued Tariff Order No. 26 dated 9th November 2018 for determination of Aeronautical Tariffs for the Airport.
- 2.2 BKFFPL has made its MYTP submissions to the Authority in October 2018. In its proposal, BKFFPL has submitted that the operations of the Fuel Farm at Kannur International Airport are not expected to be “material” as per the guidelines laid down by the Authority and accordingly, the tariff is to be determined under the “light touch” approach.
- 2.3 Key details considered by BKFFPL in determining tariff is as given below:
- 2.3.1 Total capex outlay of Rs. 17.13 crores in Phase 1. Details of “Hydrant system” has not yet been factored in the Capex.
- 2.3.2 Funding for operations estimated at a Debt:Equity ratio of 50:50. Fair Rate of Return considered at 12.90% considering a cost of debt at 8.5% and return on equity at 16%.
- 2.3.3 Operating Expenditure considers O&M cost payable to BPCL and other costs to be incurred by BKFFPL.
- 2.3.4 Fuel Throughput estimate considered at 52000 KL for the first year of operations (on a full year basis) and growing at 7% year on year thereafter.
- 2.4 Considering the above, the Aggregate Revenue Requirement and Tariff estimate provided by BKFFPL is as follows:

Rs. Crore

FY	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23
RAB	8.33	16.18	15.23	14.28	13.34
FROR	12.90%	12.90%	12.90%	12.90%	12.90%
RAB * FROR	1.07	2.09	1.97	1.84	1.72
Depreciation	0.47	0.95	0.95	0.95	0.95
Opex	2.20	7.65	8.63	9.49	10.27
Tax	0.07	0.27	0.32	0.43	0.60
Aggregate Revenue Requirement	3.83	10.96	11.87	12.72	13.54



Particulars		18-19	19-20	20-21	21-22	22-23	Total
Aggregate Revenue Requirement	Rs. Cr.	3.83	10.96	11.87	12.72	13.54	52.93
Discount Rate		1.00	0.89	0.78	0.69	0.62	
Present value of ARR	Rs. Cr.	3.83	9.71	9.31	8.84	8.33	40.02
Fuel Throughput estimated (considering Half year for the first year)	KL	17,333	55,640	59,534	63,702	68,161	
Revenue per KL	Rs.	1903.21	1903.21	1979.34	2058.51	2140.85	
Estimated Revenue	Rs. Cr.	3.30	10.59	11.78	13.11	14.59	53.38
Present value of estimated Revenue		3.30	9.38	9.24	9.11	8.98	40.01

- 2.5 BKFFPL has requested AERA to approve the proposed tariff considering the above, under Light Touch and allow for tariff to be re-determined for the next control periods considering the ARR and collections during the first control period, based on actual revenues and truing up of all elements of ARR.
- 2.6 BKFFPL has also submitted that in addition to the above, Fuel Throughput fee charged by the Airport Operator will be collected from the Oil Marketing Companies and paid to the Airport Operator by BKFFPL.
- 2.7 Considering the need to commence operations in December 2018, BKFFPL has requested AERA to approve tariff / adhoc tariff of Rs. 1900 per KL to be collected from date of commencement of operations till 31st March 2020 and based on the actual trend of volumes of business and clarity on Hydrant system proposed to be set up, BKFFPL will update and share updated workings and updated ATP for Authority's consideration well in time before the expiry of approved tariff.
- 2.8 Further to discussion with the Authority BKFFPL vide letter dated 27.11.2018 has requested AERA to approve adhoc tariff of Rs.1900 per KL till 30.06.2019 and based on actual traffic scenario/ ATF uplift, the updated proposal shall be submitted to AERA before June 2019 for the consideration of the Authority including true up the adhoc period. BKFFPL has also requested defueling charge of Rs.300 per KL and refueling of defueled fuel charge of Rs.350 per KL if refueled within 48 hrs and Rs.400 per KL if refueled beyond 48 hours.



3. Authority's evaluation of MYTP submission made by BKFFPL

- 3.1 Authority has carefully reviewed the MYTP submission together with the Annexures submitted by BKFFPL. The Authority notes BKFFPL's submission that the evaluation be done on "Light Touch" approach and adhoc rates be approved to facilitate commencement of operations.
- 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.
- 3.3 The Authority notes that the traffic at the Airport is estimated based on a study and the actual traffic and the volume of fuel uplift would be clear after the operations commence at the Airport and the plan of all the airlines become clear in next 3-4 months.
- 3.4 The Authority notes that the proposed rate is higher than the rate prevailing at other airports, this high rate is due to the new Infrastructure that has been set up and the cost of capital outlay together with the anticipated low traffic as compared to the other Airports.
- 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.



ORDER

- 4.1 In view of the above, to avoid any regulatory vacuum in respect of tariffs being levied by the regulated entities, the Authority, in exercise of powers conferred by Section 13(1) of The Airport Economic Regulatory Authority of India Act, 2008, hereby orders that:-
- 4.2 M/s BPCL-KIAL Fuel Farm Private Limited, for its Fuel Farm services provided at Kannur Airport, is allowed to charge the following charges on adhoc basis up to 30.06.2019 or till determination of tariff whichever is earlier:

Tariff period	Fuel Infrastructure Cost (including Aircraft Refueling)	Aircraft Defueling	Refueling of Aircraft with defueled product	
			Within 48 hours	Beyond 48 hours
From commencement of operations till 30.06.2019	Rs. 1900 per KL	Rs.300 per KL	Rs. 350 per KL	Rs. 400 per KL

- 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.

By the order of & in the
Name of the Authority

भा.वि.आ.वि.प्रा.
AERA

Puja Jindal
(Puja Jindal)
Secretary

To,

M/s BPCL-KIAL Fuel Farm Pvt Ltd.
Kannur International Airport Ltd
Kannur, Kerala
(Through: Sh. P M Kamath, CEO)

