

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

**Consultation Paper No. 05/ 2019-20**



**सत्यमेव जयते**

**Airports Economic Regulatory Authority of India**

**To consider the Multi Year Tariff Proposal and Annual Tariff Proposal of FY 2019-20 (From 01.10.2019 to 31.03.2020) to FY 2022-23 for the first Control Period (01.04.2018 – 31.03.2023) in respect BPCL Kannur Fuel Farm Private Limited (BKFFPL) providing Fuel Farm and Into Plane Services at Kannur International Airport (KIAL), Kannur.**

**New Delhi: 16 August, 2019.**

**AERA Building  
Administrative Complex  
Safdarjung Airport  
New Delhi – 110 003**

## **1. Brief Background:**

- 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 (Hydrant System to be built at a later stage) at both domestic and international terminals of Kannur International Airport for the supply of ATF on exclusive basis. Kannur International Airport Limited (KIAL) is a new Greenfield Airport and operation has commenced from 5<sup>th</sup> December, 2019.
- 1.2 BKFFPL plan 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. Infrastructure proposed is at a total capital cost outlay of Rs 16.05 crores for phase 1, with provision of two refuellers to be procured in 2020-21 at an estimated cost of Rs 2.64 crores. 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 refuelers. In Phase-2 of the plan, Hydrant lines may be laid and the fuel supply to Aircrafts will be through common Fuel Hydrant system as well as refuelers. Operations and Maintenance (O&M) of the Fuel Farm and Into-Plane services will be carried out by BPCL.

## **2. Submissions made by BKFFPL**

- 2.1 BKFFPL vide letter no. BKFFPL/AERA/2019-20/01 dated 29<sup>th</sup> April, 2019 had submitted its Multi Year Tariff Proposal and Annual Tariff Proposal for FY 2019-20 (from 01.07.2019 to 31.03.2021) and FY 2020-21 of the first Control Period (01.04.2018 – 31.03.2023) towards determination of tariff of Fuel Farm and Into Plane Services at Kannur International Airport (KIAL). BKFFPL further vide mail dated 16.07.2019 submitted Balance sheet, Profit & Loss Account for FY 2018-19 and User Agreement between Fuel Farm and the Oil Marketing Companies. Considering the Aggregate Revenue Requirement, and estimated traffic volumes, BKFFPL has proposed a tariff of Rs. 1846.00/- KL for the period from July 2019 to March 2021.
- 2.2 M/s BKFFPL in the aforesaid letters dated 29/04/2019 has submitted the following information towards justification for the proposed tariff :
  - 2.2.1 Rs. 16.05 crores has been incurred as Capital Cost. Additionally, two refuellers are planned to be procured in 2020-21 at an estimated cost of Rs. 2.64 crores.

- 2.2.2 BKFFPL has to construct the Hydrant System at Kannur International Airport. However, detailed estimation of the cost and timeline of the said Capital Expenditure Project is underway and has not been finalized and not included as part of the tariff proposal.
- 2.2.3 Debt to Equity ratio is considered at 50:50. Considering post tax cost of equity, including Reserves at 16% and the current loan interest and gearing, the fair rate of return is computed to be 12.92%.
- 2.2.4 BPCL carries out the O&M of Fuel Farm and Into-plane facilities. Refuellers for Into Plane activities would also be deployed by BPCL for which cost is being recovered from BKFFPL. An estimated cost payable to BPCL considering BPCL's cost for Staff and Maintenance activities and a reasonable margin has been included in estimating the costs.
- 2.2.5 Total sales in December 2018 to March 2019 is around 6617.19 KL,

FY Ending	December 2018	January 2018	February 2018	March 2018
Total Sales : Quantity in KL	904.809	1642.55	1509.027	2560.809

Considering the expected increase in sale of fuel, the volume of sale has been considered as follows for the future periods:

FY Ending	31-March 2020	31-March 2021	31-March 2022	31-March 2023
Expected Sales : Quantity in KL	55,640	59,534	63,702	68,161

- 2.2.6 BKFFPL has requested AERA to approve the proposed tariff under "Light Touch approach".

### 3. Authority Examination

- 3.1 The Authority vide Order No. 34/ 2018-19 dated 4<sup>th</sup> December 2018 had decided that the evaluation be done on "Light touch approach" and ad hoc rates be approved to facilitate commencement of operations. The Authority had also decided that Fuel Farm operations at Kannur Airport are not material, and BKFFPL would only operate the Fuel Farm at Kannur International Airport, so there is no competition, hence, the Authority may evaluate submissions on a



“Price-Cap” approach to deter charging of high rate and this will be decided by the Authority during regular tariff determination. The Authority vide above order approved ad-hoc tariff of Rs. 1900/- per KL as Fuel Infrastructure Cost including Aircraft refueling and also approved separate charges for defueling and refueling at Kannur International Airport. Rates approved as per the tariff order was effective till 30<sup>th</sup> June 2019. To avoid any regulatory vacuum the Authority vide order No 6/2019-20 dated 21<sup>st</sup> June, 2019 had allowed M/s BKFFPL to continue levy of existing tariff as on 30.06.2019 up to 30.09.2019 or till the date of determination of tariff by AERA whichever is earlier.

- 3.2 M/s BKFFPL was required to submit updated proposal considering actual traffic and actual cost of operations before March 2019. BKFFPL sought time till April 2019 to submit the tariff proposals. Updated MYTP was submitted by BKFFPL on 1<sup>st</sup> May 2019.
- 3.3 The Authority notes that the actual traffic in the 4 months of operation till March 2019 has been low and accordingly the sale of fuel at the beginning i.e. Dec,2018 was 904 KL reaching up to 2561 KL per month in March 2019. Month on month sale is increasing approximately at the rate of 60%. The traffic has not stabilized still and actual trends and growth of traffic will be known in the next 1 to 2 years. The Authority further notes that BKFFPL has retained its original estimate of traffic for the 4 years in the control period (Average monthly volume in current year at approx. 4600 KL), anticipating growth in volumes in future. The Authority proposes to consider the traffic estimates provided by BKFFPL.
- 3.4 The Authority notes that the actual Capital Expenditure incurred is around Rs. 16.06 crores and two additional refuellers of Rs 2.64 crores are proposed to be bought in 2020-21. The Authority expects BKFFPL to exercise appropriate diligence in such procurement by assessing the traffic volumes, growth in volumes and need for the vehicles.
- 3.5 The Authority has analyzed the details of Operating Expenditure proposed by BKFFPL. The Authority notes that BPCL recovers its operational costs by taking a 16% margin on the same except for power bills, water consumption bills, & land lease bills. 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.

- 3.6 The Authority further, analyzed the Revenue, Fuel Throughput growth, and, FRoR, based on the unaudited Balance sheet, P&L Account of FY 2018-19 submitted by M/s BKFFPL (Annexure-I).

Based on above submissions, the Authority found that the fuel infrastructure fee” (FIF) works out to Rs. 1735/ KL. Hence, the fuel infrastructure fee” (FIF) of Rs. 1846/KL as sought by M/s BKFFPL cannot be considered for FY 2019-20 & FY 2020-21 (from 01.10.2019 to 31.03.2021) of the first Control Period.

The Authority also notes that while the rate is higher than the rate prevailing at other airports, the same can be attributed to the new Infrastructure set up, and the cost of capital outlay, together with the low traffic, as compared to the other Airports.

- 3.7 M/s BKFFPL has not conducted any ‘user consultation committee’ meeting on the proposed tariff. In support, BKFFPL has submitted that the Agreement between the Fuel Farm Operator and the Oil Marketing Companies (Suppliers) has been executed after a discussion with the Users.

#### **4. Proposal:**

The Authority, after careful consideration of the Multi Year Tariff Proposal (MYTP) of 1st control period (01.04.2018 – 31.03.2023) and Annual Tariff Proposal (ATP) for the 2<sup>nd</sup> tariff year FY 2019-20 (From 01.07.2019 to 31.03.2020) & 3<sup>rd</sup> tariff year FY 2020-21, and, also keeping in view the facts as stated at para 3 above, the Authority proposes the following for Stakeholder Consultation:

- 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 1<sup>st</sup> Control 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 FY 2020-21 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.

- 4.3 M/s BKFFPL be allowed to charge the existing ad hoc tariff of Rs. 1900/- KL as approved by the Authority vide order No 34/ 2018-19 dated 4<sup>th</sup> December 2018 till the date of determination of regular tariff by AERA.
- 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.
- 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.
- 5 In accordance with the provisions of Section 13(4) of the AERA Act, the proposal contained in para 4 above is hereby put forth for stakeholder consultation process. To assist the stakeholders in making their submissions in a meaningful and constructive manner, necessary documents are enclosed as annexures to the consultation paper. For removal of doubts, it is clarified that the contents of this Consultation Paper may not be construed as any Order or Direction of this Authority. The Authority shall pass an Order, in the matter, only after considering the submissions of the stakeholders in response hereto and by making such decision fully documented and explained in terms of the provisions of the Act.

The Authority welcomes written evidence-based feedback, comments and suggestions from the stakeholders on the proposal made in para 4 above, latest by 06 September, 2019 at the following address:

**Airports Economic Regulatory Authority of India,  
AERA Building,  
Administrative Complex,  
Safdarjung Airport,  
New Delhi- 110003  
Email: [chairperson@aera.gov.in](mailto:chairperson@aera.gov.in)  
[gita.sahu@aera.gov.in](mailto:gita.sahu@aera.gov.in)**

**Tel: 011-24695033  
Fax: 011-24695039**

**Chairperson**



## BPCL KIAL FUEL FARM PRIVATE LIMITED

Regd Office:-C/o Kannur International Airport, Karaperavoor P.O, Mattannur-670702

CIN : U23200KL2015PTC038487

## BALANCE SHEET AS AT 31st MARCH, 2019

in lakhs

	Particulars	Note No.	As at 31st March 2019	As at 31st March 2018	Restated As at 1st April 2017
	<b>ASSETS</b>				
1	<b>Non - Current Assets</b>				
	(a) Property, Plant and Equipment	1	1,647.56	0.37	0.49
	(b) Capital Work -In-Progress		-	1,186.53	890.97
	(c) Intangible Assets	1	0.31	0.30	0.41
	(d) Other Non-Current Financial Assets	2	11.25	11.25	11.25
2	<b>Current Assets</b>				
	(a) Financial Assets				
	(i) Cash and Cash Equivalents	3	212.17	12.26	94.36
	(ii) Trade Receivables	4	48.80	-	-
	(b) Other Current Assets	5	49.62	16.00	7.12
	(b) Current Taxes (Net)	6	3.01	(0.09)	-
	<b>Total Assets</b>		<b>1,972.72</b>	<b>1,226.62</b>	<b>1,004.60</b>
	<b>EQUITY AND LIABILITIES</b>				
	<b>Equity</b>				
	(a) Equity Share Capital	SOCE	900.00	750.00	750.00
	(b) Other Equity				
	- Retained Earnings	SOCE	(177.58)	(57.71)	(43.26)
	<b>LIABILITIES</b>				
1	<b>Non - Current Liabilities</b>				
	(a) Deferred Tax Liabilities		13.27	-	-
	(b) Borrowings	7	899.37	444.38	-
2	<b>Current Liabilities</b>				
	(a) Financial Liabilities		-	-	-
	(b) Other Current Liabilities	8	174.81	89.70	291.00
	(c) Provisions	9	7.92	0.25	6.86
	(d) Trade Payables	10	154.93	-	-
	<b>Total Equity and Liabilities</b>		<b>1,972.72</b>	<b>1,226.62</b>	<b>1,004.60</b>

The accompanying notes are an integral part of these financial statements

For and on behalf of the Board of Directors

As per our Report of Even Date Attached

For M.A. Moideen &amp; Associates

Chartered Accountants

F.R. No. 002126S

Chairman & Director  
DIN: 06476857Director  
DIN:08246324Chief Executive Officer  
PAN:AACPK 2726MChief Financial Officer  
PAN:AGPPS 4585BCompany Secretary  
M.No.A42804Razee Moideen, B.Com, ACA  
Managing Partner  
M.No. 235281Place: Ernakulam  
Date:Place: Ernakulam  
Date:

**BPCL KIAL FUEL FARM PRIVATE LIMITED**

Regd Office:-C/o Kannur International Airport, Karaperavoor P.O, Mattannur-670702

CIN : U23200KL2015PTC038487

**STATEMENT OF PROFIT & LOSS FOR THE YEAR ENDED 31st MARCH 2019**

in lakhs

	Particulars	Note No.	Year ended 31st March 2019	Restated Year ended 31st March 2018
	<b>Income</b>			
I	Revenue From Operations	11	125.73	-
II	Other Income	12	1.09	0.80
III	<b>Total Income (I+II)</b>		<b>126.82</b>	<b>0.80</b>
	<b>Expenses</b>			
IV	Fuel Farm expenses	13	116.06	-
	Employee Benefit Expense	14	16.74	2.20
	Finance Cost	15	41.36	3.34
	Depreciation and Amortization Expenses	16	23.35	0.34
	Other Expenses	17	35.87	11.74
	<b>Total Expenses (IV)</b>		<b>233.38</b>	<b>17.62</b>
V	Profit/(loss) before Exceptional Items and tax (III-IV)		(106.56)	(16.82)
VI	Exceptional Item	18	-	2.54
VII	Profit/(loss) before tax (V+VI)		(106.56)	(14.28)
VIII	Tax Expense:			
	(1) Current tax		-	0.17
	(2) Prior tax		0.04	-
	(3) Deferred tax		13.27	-
IX	<b>Profit/(loss) for the year (VII-VIII)</b>		<b>(119.87)</b>	<b>(14.45)</b>
	<b>Other Comprehensive Income</b>			
	A (i) Items that will not be reclassified to		-	-
	(ii) Income tax relating to items that		-	-
	B (i) Items that will be reclassified to profit		-	-
	(ii) Income tax relating to items that will		-	-
X	<b>Other Comprehensive Income [A(i-ii)+B(i-ii)]</b>		<b>-</b>	<b>-</b>
XI	<b>Total Comprehensive Income for the year (IX+X)</b>		<b>(119.87)</b>	<b>(14.45)</b>
XII	Earnings per equity share			
	(1) Basic	20	(1.50)	(1.27)
	(2) Diluted	20	(1.49)	(1.27)

The accompanying notes are an integral part of these financial statements

For and on behalf of the Board of Directors

As per our Report of Even Date Attached

For M.A. Moideen &amp; Associates

Chartered Accountants

F.R. No. 002126S

Chairman & Director  
DIN: 06476857Director  
DIN:08246324Chief Executive Officer  
PAN:AACPK 2726MChief Financial Officer  
PAN:AGPPS 4585BCompany Secretary  
M.No. A42804Razee Moideen, B.Com, ACA  
Managing Partner  
M.No. 235281Place: Ernakulam  
Date:Place: Ernakulam  
Date:



**Annexure-II****BPCL Kannur Fuel Farm Private Limited (BKFFPL)  
Annual Tariff Proposal for FY 2019-20 & FY 2020-21**

Tariff period	Fuel Infrastructure Cost (including Aircraft Refueling)	Aircraft Defueling	Refueling of Aircraft with defueled product	
			Within 48 hours	Beyond 48 hours
From 01.10.2019 to 31.03.2020	Rs. 1735 per KL	Rs.300 per KL	Rs. 350 per KL	Rs. 400 per KL
From 01.04.2020 to 31.03.2021	Rs. 1735 per KL	Rs.300 per KL	Rs. 350 per K	Rs. 400 per K