

**Consultation Paper No. 08/2019-20**



**Airports Economic Regulatory Authority of India**

**TO CONSIDER THE ANNUAL TARIFF PROPOSAL FOR FY 2019-20 (FROM 24<sup>th</sup>MAY 2019 TO 31.03.2020) 4<sup>th</sup> TARIFF YEAR AND (FY 2020-21) 5<sup>th</sup> TARIFF YEAR OF THE SECOND CONTROL PERIOD IN RESPECT OF M/s BHARAT STARS SERVICES PRIVATE LIMITED (BSSPL) FOR PROVIDING INTO PLANE SERVICES AT KEMPEGOWDA INTERNATIONAL AIRPORT, BANGALORE.**

**New Delhi: 19<sup>th</sup> September, 2019**

**AERA Building  
Administrative Complex  
Safdarjung Airport  
New Delhi-110003**

## **1. Brief Background:**

- 1.1 M/s Bharat Stars Services Private Limited (BSSPL) is providing Into Plane services at Kempegowda International Airport, Bangalore since the commencement of the airport operations i.e. 2008. The Authority vide its Order No 01/2017-18 dated 17.04.2017 had decided to adopt 'light touch approach' for determined the Annual Tariffs for the 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> tariff year (upto 30.04.2018) of the 2<sup>nd</sup> control period (FY 2016-17 to FY 2020-21). The Authority further vide interim Order No 43/2017-18 dated 28.03.2018, allowed to continue levy of tariffs existing as on 31.03.2018 for a further period of six months w.e.f. 01.04.2018 or till determination of tariffs for the 2<sup>nd</sup> control period, whichever is earlier.
- 1.2 M/s BSSPL vide letter dated 27.06.2018 had informed that their existing contract for ITP Services at Bangalore Airport which was valid upto 24.05.2018 has been further extended by one more year by BIAL (w.e.f 24.05.2018 to 23.05.2019). Subsequently, the Authority vide Order No 23/2018-19 dated 05.10.2018 had determined the tariff for the 3<sup>rd</sup> tariff year (w.e.f 01.05.2018 to 31.03.2019) and 4<sup>th</sup> tariff year (w.e.f 01.04.2019 to 23.05.2019) of the 2<sup>nd</sup> Control Period.

## **2. Submissions made by M/s BSSPL.**

- 2.1.1 BSSPL vide letter no BSSPL/HO/2019-20/AERA dated 01.05.2019 submitted their Annual Tariff Proposal for determination of tariff of 4<sup>th</sup> tariff year (w.e.f 24.05.2019 to 31.03.2020) & 5<sup>th</sup> tariff year (FY 2020-21) of the 2<sup>nd</sup> Control Period for providing Into Plane Services at Kempegowda International Airport, Bangalore.
- 2.1.2 M/s BSSPL had sought an increase of 39.16% in 4<sup>th</sup> tariff year (From 24.05.2019 to 31.03.2020), and, 42.80% in 5<sup>th</sup> tariff year (FY 2020-21) over the 3<sup>rd</sup> tariff year (FY 2018-19) of the 2<sup>nd</sup> Control Period as per the tariff rate appended below:

<b>M/s Bharat Star Services Private Limited, Kempegowda International Airport, Bengaluru</b>					
<b>Tariff Card (All Amounts in INR per KL)</b>					
	Fueling of Aircraft	Defueling of Aircraft within 6 Hours	Defueling of Aircraft Beyond 6 Hours	Refueling of defueled product 6 Hours	Refueling of defueled product 6 Hours
Period 24.05.2019 to 31.03.2020	373.00	373.00	447.60	410.30	447.60
Period 01.04.2019 to 31.03.2021	382.77	382.77	459.33	421.04	459.33



2.2 M/s BSSPL in the aforesaid letter dated 01/05/2019 submitted the following information/justification for the proposed increase in tariff:

2.2.1 **Increase in Airport Operator Fees:** Currently, BSSPL is paying 5% of gross revenue as Airport Operator Fee (AOF) to BIAL but as per new Service Provider Right Holder (SPRH) Agreement, which is effective from 24.05.2019, BSSPL is now required to pay 23.6% of gross revenue to BIAL as Airport Operator Fees.

2.2.2 **Introduction of Land Rentals:** Earlier no rentals for office space and parking of hydrant dispensers and refuellers on the airside, were payable by BSSPL to BIAL. But now, as per new SPRH agreement, BSSPL is required to pay rentals as shown in the table below:

Type of space premises	Rate per Sq .m. per month	Space Occupied (in Sq. M.)
Airside Parking	Rs 171.05/ psmppm	1467.50sqm
Office Area in Into-Plane Buildings	Rs 1368.15/psmppm	399sqm

Furthermore, these rentals will escalate by 5% year on year. This will lead to a sharp rise in Operating Expenditure of Rs 95.63 lakhs in FY 2019-20 and Rs 100.00 lakhs in FY 2020-21.

2.2.3 **Increases in Overhead Cost:** For the last four years, BSSPL has been operating at the same tariff, however due to inflationary price increase, all Overhead costs namely salaries, outflow on account of PF, ESI, maintenance and operating cost have been increased.

2.2.4 **Subdued fuel uplift:** BSSPL expects that the Airport is likely to witness subdued fuel uplift due to:

- Lesser quantity of fuel uplift by the domestic flights.
- Closure of Jet Airways operations.
- Emergence of nearby regional airports such as Kannur and Hyderabad which charge lesser taxes on ATF that can potentially divert some ATF volume from Bangalore.

2.2.5 **Additional Capital & Operational Cost:** As per the terms & conditions of the SPRH agreement between BSSPL & BIAL, BSSPL is required to make capital investment, and, expect to incur additional Operational cost over the next few years for replacement/ purchase of additional mobile equipment.

2.3 **Revised ATP submission by M/s BSSPL:** M/s BSSPL vide letter no BSSPL/AERA/2019-20/03 dated 19.08.2019 submitted some additional

information and accordingly, revised their proposed tariff. In the revised tariff proposal following changes have been made by BSSPL:-

- 2.3.1 Volume growth:** In their earlier submission BSSPL had considered 2.59% negative growth in ITP volume in FY 2019-20 and 7% positive growth in FY 2020-21. However now, BSSPL has revised their ITP volume assumption to a positive growth of 13.28% in FY 2019-20 and a 7.72% positive growth in FY 2020-21. Revised volume data for FY 2019-20 and FY 2020-21 is shown in the table below:

F.Y.	2019-20	2020-21
Total sales quantity (KL)	312485 KL	336625 KL

- 2.3.2 Capital expenditure:** The security deposit of Rs 1.48 crores shown earlier as Capex for FY 2019-20 have been now excluded. This deposit was towards Refundable Security deposit of Rs 1 crores to BIAL as performance guarantee and Rs 48 lakhs as six months advance deposit of rentals.

- 2.3.3 Operational expenditure:** As the projected sales are increasing by 13.28% in FY 2019-20 and 7.72% in FY 2020-21, hence employees benefit expenses and repairs and maintenance expenditure are shown to increase proportionately. Revised Operative expenditure details have been submitted by the BSSPL.

- 2.3.4** Based on the above changes, BSSPL has submitted their revised proposal as shown in the table below:

<b>M/s Bharat Star Services Private Limited, Kempegowda International Airport, Bengaluru</b>					
<b>Tariff Card (All Amounts in INR per KL)</b>					
	Fueling of Aircraft	Defueling of Aircraft within 6 Hours	Defueling of Aircraft Beyond 6 Hours	Refueling of defueled product 6 Hours	Refueling of defueled product 6 Hours
Period 24.05.2019 to 31.03.2020	358.00	358.00	429.6	393.80	429.6
Period 01.04.2019 to 31.03.2021	367.38	367.38	440.85	404.11	440.85

- 2.4** M/s BSSPL has also submitted the Annual Compliance Statements (ACS) for FY 2016-17, FY 2017-18 and FY 2018-19 for 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> tariff year of the 2<sup>nd</sup> Control Period (Annexure-I).



### **3. Authority's Examination of the Proposal.**

- 3.1. The Authority vide its Order No 01/2017-18 dated 17.04.2017 had decided to adopt 'light touch approach' for determined the Annual Tariffs for the 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> tariff year (upto 30.04.2018) of the 2<sup>nd</sup> control period (FY 2016-2021). M/s BSSPL vide letter dated 27.06.2018 informed that their existing contract for ITP Services at Bangalore Airport which was valid upto 24.05.2018 has been further extended by one more year by BIAL w.e.f (24.05.2018 to 23.05.2019). Subsequently the Authority vide order No 23/2018-19 dated 05.10.2018 had determined the tariff for the 3<sup>rd</sup> tariff year (from 01.05.2018 to 31.03.2019) and 4<sup>th</sup> tariff year (from 01.04.2019 to 23.05.2019) of the second control period. To avoid any regulatory vacuum the Authority vide order No 5/2019-20 dated 19<sup>th</sup> May, 2019 had allowed M/s BSSPL to continue levy of existing tariff as on 23.05.2019 up to 30.09.2019 or till the date of determination of tariff by AERA whichever is earlier.
- 3.2. Based on the BSSPL submission of Operating profit and Return on average RAB(actual and forecasted), the Authority observe that BSSPL is earning a good return on average RAB and also earning a good profit margin on sales. Details are as shown below:
- 3.2.1. The actual Operating profit margin was 43% in FY 2016-17, 39% in FY 2017-18 & 22% in FY 2018-19.
- 3.2.2. Actual Return on Average RAB was 72% in FY 2016-17, 64% in FY 2017-18 & 46% in FY 2018-19.
- 3.2.3. The provisional profit margin will be 23% in FY 2019-20 and 16% will be in FY 2020-21 and provisional RAB will be 45% in FY 2019-20 and 18% will be in FY 2020-21 on the proposed rate.
- 3.3 In order to determine the tariff for (FY 2019-20) 4<sup>th</sup> tariff year & (FY 2020-21) 5<sup>th</sup> tariff year, the Authority analysed the revenue, cost, and yield per unit, based on the Annual Compliance Statement (ACS) for FY 2016-17, FY 2017-18 & FY 2018-19 and further submission made by the BSSPL, the Authority has worked out tariff rate of Rs 300.72 for (FY 2019-20) 4<sup>th</sup> tariff year and Rs 363.34 for (FY 2020-21) 5<sup>th</sup> tariff year of the 2<sup>nd</sup> control period. The Authority observes that at the above rates, the Operating profit margin will be 9% for FY 2019-20 & 13% for FY 2020-21, considering a return on RAB @14%. Also, there is no shortfall in ARR, and the rate is sufficient to meet the revenue requirement of BSSPL hence, the Authority proposes to consider Rs. 300.72/KL for the 4<sup>th</sup> tariff year and Rs. 363.34/ KL for 5<sup>th</sup> tariff year of the second control period.



- 3.4 The Authority further observes that volume of fuel off take of M/s BSSPL has increased by 20% during the period FY 2016-17 to FY 2017-18 and 27% during FY 2017-18 to FY 2018-19. M/s BSSPL in their earlier submission had taken 2.59% negative growth in ITP volumes in FY 2019-20 and 7% increase in FY 2020-21. Also, in their revised submission, M/s BSSPL has taken a 13.28% increase in ITP volumes in FY 2019-20 and a 7.72% increase in FY 2020-21. The Authority also finds that the market share of BSSPL has increased from 22% to 32% in last ten years. Here, the Authority is of the general opinion that, the growth rate in the fuel volumes are not of a permanent nature, and, the volume share being dynamic among the ITP service providers at an airport, the same may increase or decrease during a given period.
- 3.5 The Authority opines that at Bangalore Airport, the Service providers IOSL & BSSPL are promoted by two Oil Marketing Companies viz. IOC and BPCL, and, the two companies mainly cater to their own clients, hence, in real terms, there is no competition as ITP Service providers. However, the Authority, vide its Order No. 01/2017-18 dated 17.04.2017 has already decided to determine the tariff under “light touch approach” for the 2nd Control Period. **Therefore, the Authority, has decided to determine the tariff of the remaining period of the 2nd Control Period under ‘light touch approach’.** Notwithstanding the above, the Authority’s considered view is that **since there is no competition in real term between the two ISP’s, hence, from 2nd Control Period onwards the Authority should be inclined to determine the tariff of Into Plane (ITP) service provider under “price cap approach.”**
- 3.6 M/s BSSPL has submitted the proof of User Consultation Committee meeting. The meeting was conducted by M/s BSSPL on 09.05.2019. The Authority notes that none of the Stakeholders have raised any objections to the tariff proposed by BSSPL.

#### **4. Proposal**

The Authority, after careful consideration of the Annual Tariff Proposal for the 4<sup>th</sup> tariff year FY 2019-20 & 5<sup>th</sup> tariff year FY 2020-21 of 2<sup>nd</sup> Control Period, makes the following proposal for Stakeholders’ Consultation:

- 4.1. Keeping in view the facts as stated at para 3 above, the Authority proposes to allow M/s BSSPL to charge the Into Plane (ITP) service tariff at Bangalore Airport for the FY 2019-20 (4<sup>th</sup> tariff year) & (FY 2020-21) 5<sup>th</sup> tariff year of the 2<sup>nd</sup> Control Period as per tariff card attached at Annexure- II.
- 4.2. The Authority also proposes to allow M/s BSSPL to charge the existing Into Plane Service tariff of Rs.268.03/-KL as approved by the Authority vide Order

No.5/2019-20 dated 19<sup>th</sup> May, 2019 from 24.05.2019 to till the date of issue of this tariff by AERA.

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. 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 decisions fully documented and explained in terms of the provisions of the Act.
6. The Authority welcomes written evidence-based feedback, comments and suggestions from stakeholders on the proposal made in para 4 above, latest by 10<sup>th</sup>, October, 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: 011-24695042  
Fax: 011-24695039**

**Chairperson**





# Pankaj & Associates

Chartered Accountants

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Annexure - I

Ref: P&A/018/2018-19

## BHARAT STARS SERVICES PVT. LTD. (BANGALORE)

Rs. In Lakhs

Form F16: Performance Report for the Tariff Year 2016-17 (ref: Section 1.9 of Appendix 1)		
	Actual for the Tariff Year under consideration	Forecast as per the Multi Year Tariff Order
Total Revenue from Regulated Services (1)	484.00	430.40
Total Revenue from services other than Regulated Services (2)	0.11	0.00
Operating Expenditure (3)	257.78	248.06
Depreciation (4)	19.48	75.61
Total Expenditure (3) + (4) = (5)	277.26	323.67
Regulatory operating Profit (1) + (2) - (5) = (6)	206.85	106.73
Capital expenditure (7)	0.09	0.00
Opening RAB (8)	296.84	357.46
Disposals/ Transfers/Depreciation (9)	19.48	75.61
Closing RAB (8) + (7) - (9) = (10)	277.45	281.85
Average RAB (8) + (10) / 2 = (11)	287.14	319.66
Return on Average RAB (6) / (11)	72%	33%
Total Volume (Cargo/Fuel throughput/ ATM) (12)	180569	142433
Actual yield per unit (1/12)	268.04	302.18

### Certification

The above statement is true and correct as per books, records and other information provided to us for our verification.

For Pankaj & Associates  
Chartered Accountants  
FRN : 022500N

CA. Pankaj Jain  
Proprietor  
M.No. 505948





# Pankaj & Associates

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Ref: P&A/019/2018-19

## BHARAT STARS SERVICES PVT. LTD. (BANGALORE)

Rs. In Lakhs

### Form F16: Performance Report for the Tariff Year 2017-18 (ref: Section 1.9 of Appendix 1)

	Actual for the Tariff Year under consideration	Forecast as per the Multi Year Tariff Order
Total Revenue from Regulated Services (1)	581.64	499.19
Total Revenue from services other than Regulated Services (2)	1.48	0.00
Operating Expenditure (3)	329.56	271.47
Depreciation (4)	25.41	75.30
Total Expenditure (3) + (4) = (5)	354.98	346.77
Regulatory operating Profit (1) + (2) - (5) = (6)	228.15	152.42
Capital expenditure (7)	186.46	0.00
Opening RAB (8)	277.45	281.85
Disposals/ Transfers/Depreciation (9)	25.41	75.30
Closing RAB (8) + (7) - (9) = (10)	438.50	206.55
Average RAB (8) + (10) / 2 = (11)	357.97	244.20
Return on Average RAB (6) / (11)	64%	62%
Total Volume (Cargo/Fuel throughput/ ATM) (12)	216998	145282
Actual yield per unit (1/12)	268.04	343.60

#### Certification

The above statement is true and correct as per books, records and other information provided to us for our verification.

For Pankaj & Associates

Chartered Accountants

RN : 022500N

A. Pankaj Jain  
Proprietor  
1.No. 505948

Dated : 23.06.2018

Place : Delhi

# Pankaj & Associates

Chartered Accountants

2A/004/2019-20

## BHARAT STARS SERVICES PVT. LTD. (BANGALORE)

Rs. In Lakhs

Form F16: Performance Report for the Tariff Year 2018-19 (ref: Section 1.9 of Appendix 1)

	Actual for the Tariff Year under consideration	Forecast as per the Multi Year Tariff Order
Total Revenue from Regulated Services (1)	739.38	570.94
Total Revenue from services other than Regulated Services (2)	0.00	0.00
Operating Expenditure (3)	425.76	298.22
Depreciation/Impairment (4)	150.23	66.18
Total Expenditure (3) + (4) = (5)	576.00	364.40
Regulatory operating Profit (1) - (2) - (5) = (6)	163.39	206.54
Capital expenditure (7)	0.12	10.00
Opening RAB (8)	438.50	565.19
Disposals/ Transfers/Depreciation/Impairment (9)	168.78	66.18
Closing RAB (8) + (7) - (9) = (10)	269.84	509.01
Average RAB (8) + (10) / 2 = (11)	354.17	537.10
Return on Average RAB (6) / (11)	46%	38%
Total Volume (Cargo/Fuel throughput/ ATM) (12)	275833	148187
Actual yield per unit (12/1)	268.05	385.29

### Certification

The above statement is true and correct as per books, records and other information provided to us for our verification.

For Pankaj & Associates

Chartered Accountants

FRN: 022500N

2A/004/2019-20

2A/004/2019-20



**Annexure-II**

**M/s Bharat Star Service Private Limited (BSSPL)**  
**Annual Tariff Proposal (ATP) for the (FY 2019-20) 4<sup>th</sup> Tariff Year & (FY 2020-21) 5<sup>th</sup> Tariff Year.**

<b>M/s Bharat Star Service Private Limited, Kempegowda International Airport, Bengaluru</b>					
<b>Tariff Card (All Amounts in INR per KL)</b>					
	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>
	Fueling of Aircraft	Defueling of Aircraft within 6 Hours	Defueling of Aircraft Beyond 6 Hours	Refueling of defueled product within 6 Hours	Refueling of defueled product beyond 6 Hours
4 <sup>th</sup> tariff year (FY 2019-20) From the date of issue of order to 31.03.2020	300.72	300.72	360.86	330.79	360.86
5 <sup>th</sup> tariff year (FY 2020-21) From 01.04.2020 to 31.03.2021	363.34	363.34	436.00	399.67	436.00

Note:

1. Rates of “Fuelling of Aircraft” in Column ‘A’ above only have been determined by AERA.
2. The other charges of Defueling/Refuelling/refuelling of defueled product (within/ beyond 6 hours) as column ‘B’ to ‘E’ above are on proportionate basis as per submission of BSSPL.