

BLR/ITP/AERA/MYTP

04-October-2019

To,  
The AGM (F)  
Airports Economic Regulatory Authority of India  
AERA Building, Administrative Complex  
Safdarjung Airport  
New Delhi – 110 003  
Email: gita.sahu@aera.gov.in

Subject: **Comments on Consultation Paper 06/2019-20**

Dear Madam,

IndianOil Skytanking (IOSL) is providing Into Plane (ITP) Services at Bangalore Airport and commenced ITP operations under new SPRH agreement from 24<sup>th</sup> May 2019.

Pursuant to the execution of the SPRH agreement on 21 March 2019, IOSL submitted its tariff proposal to AERA and further to its Consultation Paper 06/2019-20 was published by AERA on 13<sup>th</sup> September 2019. Our comments to AERA are submitted as stated below.

1. It is our understanding that AERA has used Operating Costs + Depreciation + 14% Return on Average RAB divided by projected volumes for FY19-20 as the basis of arriving the tariffs for the remaining part of FY19-20 and FY20-21. This approach is not in line with the AERA guidelines on light touch approach.
2. ITP is a manpower intensive business where these costs are around 50% of the total operating costs. Basing of returns to the operator by AERA on the RAB is therefore not a suitable metric for use in case of Into Plane Operators. RAB keeps reducing every year, in case new assets are not added and therefore the returns of the operator are diminished.
3. After almost 11 years of operating successfully at Bangalore the existing assets require replacement and their book value is negligible. The new investments required will need a suitable tariff and returns to make those investments viable. It is proposed that AERA allow Operating Expenditures + Depreciation and a 14% return on these two line items also. The tariff as per this methodology is INR 323.33 / KL for FY19-20 and INR 384.61 / KL
4. As per 3.3 of CP 06/ 2019-20, AERA has arrived at projected operating margins of 7% for FY2019-20 and 8% for FY2020-21. As per CP 08/2019-20, operating margins of BSSPL have been maintained at 9% for FY2019-20 and 13% for FY2020-21. Furthermore, as per CP 07/2019-20, Operating profit for Celibi Airport Services has been observed at 14.50% for FY2017-18 and 18.63% for FY2018-19. This practice of determining tariffs to arrive at different operating margins for two competing firms (IOSL & BSSPL) is discriminatory in nature and against principles of competition.
5. IOSL does not agree with 3.5 of CP 06/2019-20 that there is no competition in real terms between the two ISPs (IOSL & BSSPL). The justifications for the same have already been submitted to AERA vide letter dated 24 June 2019. Some of the points

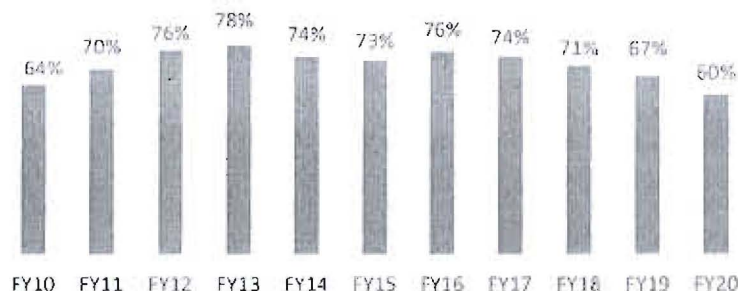
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stated in the letter are reiterated here to once again prove to the authority that competition exists in the rendering of ITP Services at Bangalore.

- a. **Falling Market Share:** IOSL's market share has fallen from 74% in FY16-17 and is expected to be 60% in FY19-20. In case there is no competition as claimed by AERA, then IOSL's market share would have remained constant or increased. This is not the case as there is consistent annual fall in market share due to competition. Furthermore, Market share has varied since inception (FY09-10) from a low of 64% to a high of 78%, which are all signs of a competitive market environment.

IOSL ITP Market Share



- b. **AERA Guidelines:** As per page 7 of 76 of AERA guidelines, a service provided by two or more service providers is deemed competitive. The same has been reiterated in Order No 05/2017-18. IOSL has been a joint venture of IOCL from day one & ITP operations have always been considered by the Authority as competitive due to the presence of two ITP operator at an Airport. The same guideline of determining competitiveness has been used by AERA in case of IOSL's & BSSPL's ITP Services at Bangalore, Delhi and Mumbai Airports where these services were deemed "competitive"
- The authority's assertion that from 3<sup>rd</sup> control period onwards (2<sup>nd</sup> control period incorrectly stated in the 3.5 of CP 06 /2019-20) it is inclined to determine the tariff of Into Plane Service providers under "price cap approach" is therefore not in line with AERA guidelines.
  - IOSL submitted its tariff proposal to AERA on 27.04.2019 while the CP was published on 13<sup>th</sup> September 2019, after a period of 139 calendar days. Furthermore, in case the new tariff comes into effect from 01 November 2019, it would be after 189 Calendar days or more than 6 months. Since applicability of tariff orders has always been on prospective basis, AERA should consider, projected revenue loss for 06 months when finalizing the tariff order for IOSL.
  - During the consultation meeting, a common demand from all stakeholders (Sr No 14, Minutes of Meeting 09 May 2019) was to have similar tariffs for both ITP service providers at Bangalore Airport. ***IOSL would like to meet the requirements of its stakeholders and therefore requests AERA to fix same ITP tariffs for both the ITP operators i.e. IOSL and BSSPL.***

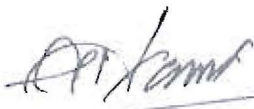
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9. Based on the above submissions we once again request AERA to consider tariff as per IOSL's tariff submission, i.e. INR 353.07 / KL for FY19-20 and INR 370.72 / KL for FY20-21 or as stated in point 3 above at INR 323.33 / KL for FY19-20 and INR 384.61 / KL

Best Regards,

For IndianOil Skytanking Private Limited

  
Shantanu K Saxena 24/10/19  
Chief Financial Officer  
SHANTANU SAXENA  
Chief Financial Officer  
IndianOil Skytanking Pvt. Ltd.  
Bangalore International Airport  
Bangalore