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17<sup>th</sup> October 2017

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To,

**Secretary Airports Economic Regulatory Authority of India**

AERA Building, Administrative Complex

Safdarjung Airport,

New Delhi – 110003

*28/2017-18*

**Sub: Stakeholder's Comments on Consultation Paper No. 01/2017-18 for the second Control Period.**

Dear Madam,

With reference to communication from the Authority dated 10<sup>th</sup> October, 2017 and 12<sup>th</sup> October, 2017, enclosed please find herewith response from MAFFFL for following stakeholders.

1. Air Travellers Association (ATA)
2. IATA
3. Business Aircraft Operators Association (BAOA)
4. Bharat Petroleum Corporation Limited (BPCL)
5. Hindustan Petroleum Corporation Limited (HPCL)
6. Reliance Industries Limited

**For Mumbai Aviation Fuel Farm Facility Pvt Ltd.**



Suranjan Pal

Chief Executive Officer

Encl: As Above

**Mumbai Aviation Fuel Farm Facility Private Limited**

Regd. Office : Opp. ITC Maratha, Sahar Police Station Road, CSI Airport, Sahar, Andheri (East), Mumbai - 400099.

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CIN: U63000MH2010PTC200463

Name of Stakeholder	Point Raised	MAFFFL's Response
Air Travellers Association (ATA)	<p><b>Infrastructure:</b></p> <p>We would like to submit that any Infrastructure project should be established by evaluating overall economic impact from both users as well as operator perspective. There is no necessity to mandate two operators merely to create competition if they can't attain economy of scale. The cost of extra capex/capacity is also effectively borne by the passengers. Hence, we believe that the existing infrastructure should be sweat out to its fullest before implementing new infrastructure plans.</p> <p>We heard the fuel facility operators airing the views in the consultation meeting that any extension of the existing hydrant system by the same airport operator will ensure the much wanted integration of this; otherwise it becomes capital intensive system. Air traveller Association sees merit in this stand point.</p>	<p>We agree with the Air Travellers Association's views.</p> <p>At CSIA, Mumbai, MAFFFL is a sole operator meeting the entire fuelling requirement with respect to operation and building of any infrastructure project including existing hydrant system and extension thereof.</p>
	<p><b>Safety:</b></p> <p>As an Air Traveller Association, our key objective is to support the measures meant to provide safe Infrastructure for the air travellers. In this regard we believe that the Fuel Hydrant System is efficient and the safest way to re-fuelling the Aircraft. It does not only reduce the air side traffic movement but also helps airlines to get faster turnaround. DGCA also mandates measures that reduce air side traffic. Accordingly, we request Authority to promote fuel hydrant system at all Indian Airports.</p>	<p>We fully agree with the Air Travellers Association's views.</p>



Name of Stakeholder	Point Raised	MAFFFL's Response
IATA	CP – 28/2017-18 dated 20 <sup>th</sup> September 2017 in the matter of determination of Fuel Infrastructure charges in respect of Mumbai Aviation Fuel Farm Facility Private Limited (MAFFFPL) at CSI Airport, Mumbai.	
	1. IATA agrees with AERA's proposal that dead stock be treated as non-depreciable capital asset.	We agree with the decision of AERA Authority and view expressed by IATA.
	2. IATA agrees with the revision in the asset depreciation rates.	We agree with the decision of AERA Authority in revision of depreciation rates and view expressed by IATA.
	3. IATA does not agree that operating and maintenance expenditure should be trued up in the third control period as it runs to the contrary to incentivising operational efficiency and fiscal discipline.	MAFFFL does not agree with view expressed by IATA and strongly recommends that operating and maintenance expenditure should be trued up in the third control period. The trued-up approach adopted by AERA is fully justifiable. To strengthen further, detailed explanation is given as under.

#### Annexure:

MAFFFL, as a company, has robust policies across all functions and is committed for economical operational efficiency and maintaining fiscal discipline in projecting Operating & Maintenance Cost in MYTP submission. Some of the points to substantiate the above are as follows:

- MAFFFL, being a Joint Venture Company (JVC) of Mumbai International Airport Private Ltd. (MIAL), Hindustan Petroleum Corporation Ltd. (HPCL), Bharat Petroleum Corporation Ltd (BPCL) and Indian Oil Corporation Ltd (IOCL), has formed its' policies in line with Shareholders' strong and proven practices, who are pioneers in their respective fields.
- MAFFFL is subject to the following mandatory Audits:
  - ✓ Comptroller & Auditor General of India (CAG): They have conducted supplementary audits under section 143(6) of Companies Act, 2013 and issued NIL Report to MAFFFL for the three consecutive financial years.
  - ✓ Statutory Audit: The appointment of statutory auditor is done by CAG under section 139 of the Companies Act, 2013 and from Financial Year 2014-15 to 2016-17, there are no adverse remarks by Statutory Auditor of MAFFFL.



- ✓ Cost Audit: MAFFFL is covered under Cost Audit for Providing services of Fuel supply at the Airport from the Financial Year 2016-17. There are not any adverse remarks by Cost Auditor of MAFFFL.
- ✓ Tax Audit: As per Section 44AB of the Income Tax Act, 1961, MAFFFL is governed under Tax Audit from Financial Year 2014-15 to 2016-17, there are no adverse remarks by Tax Auditor of MAFFFL.
- ✓ Internal Audit: As per the provisions of Section 138(1), internal audit by independent Chartered Accountant Firm takes place on quarterly basis and their report is presented to the Board.

3. Basis above, MAFFFL requests Authority to consider trued up approach for Operating and Maintenance cost in the third control period for following reasons:

- **Price Cap Approach:** The Authority vide letter dated 28.01.2016, in order to have uniformity in submissions for the 2nd control period, advised MAFFFL to submit the MYTP/ATP for the second control period starting 01.04.2016. Further decided that ARR/tariff levied for the period 1st February 2015 up to 31st March 2016 will be trued up while considering tariff determination for the forthcoming control period.
- **Mechanism Followed:** Under Price cap regulation, the Operating & Maintenance expenditure as per the Audited Financial Statements are determined with trued up or trued down approach. Therefore, there is equal possibility of reduction of tariff in third control period in the scenario of less actual operating cost incurred. Since the actual operating cost is supported with audited financials, it brings transparency and accountability in the entire process.
- **Cost control Measures :** MAFFFL has complete operational cost control and fiscal discipline as explained above.
- **Control period is for Five years:** The control period is running for five years, though the advance projections are carried out with at most prudence, certain unexpected unforeseen expenditure may occur in reality which can be considered in the trued up approach.
- **Materiality:** Proposed Fuel Infrastructure Charges are forming part of approximately 1.51% of the average seven month's domestic fuel cost delivered at Mumbai for the current financial year. Therefore, fuel infrastructure charges may not be material in entire value chain. Trued up or trued down approach for operating and maintenance expenditure will provide transparent and fair assessment of tariff during third control period.



Name of Stakeholder	Point Raised	MAFFFL's Response
Business Aircraft Operators Association (BAOA)	Fuel Charges should be regulated on 'Price Cap' approach, based on cost inputs and, not on 'light touch' approach.	We agree with the Business Aircraft-Operators Association's views.



Name of Stakeholder	Point Raised	MAFFFL's Response
Bharat Petroleum Corporation Limited (BPCL) and Hindustan Petroleum Corporation Limited (HPCL)	Any revision in Fuel Infrastructure Charges should be approved by prospective basis only.	We agree with the Bharat Petroleum Corporation Limited's (BPCL) and Hindustan Petroleum Corporation Limited's (HPCL) views.



Name of Stakeholder	Point Raised	MAFFFL's Response
Reliance Industries Limited	<p>With reference to the above, it has been clearly brought out in the consultation paper that Mumbai Airport Fuel Farm Facility Private Limited (MAFFFPL) has been incorporated with an express provision of ushering in "Open Access" at Mumbai Airport by developing an Integrated Fuel Farm Facility.</p> <p>It is pertinent to note even after 3 years of the operations, MAFFFPL is nowhere near operating on "Open Access" basis. Only IOCL, BPCL, &amp; HPCL – the equity holders of MAFFFPL – have access to supply fuel (ATF) to airlines operating out of Mumbai Airport while all other ATF suppliers having valid authorisation to market ATF in India (by GOI) continue to be denied access to supply ATF at Mumbai Airport. The situation is totally against the principles on which MAFFFPL has been formulated and goes contrary to the assurances provided by MAFFFPL to Competition Commission of India (CCI) during the approval process for the combination.</p> <p>We, therefore, feel that continuation of the Fuel Infrastructure Charges (FIC) much less accepting an increase as proposed by MAFFFPL would be akin to rewarding the PSU OMCs (Who hold 75% of equity shares in MAFFFPL) by providing them a healthy and assured return on less risky investment made in MAFFFPL and also to continue to allow them to have monopoly – for as long as they wish – to sell ATF at Mumbai Airport without any</p>	<p>We agree that MAFFFL has been incorporated with an objective of providing "open access" to all the authorised fuel suppliers at the CSIA, Mumbai by developing an Integrated Fuel Farm Facility.</p> <p>While MAFFFL is developing the aforesaid facility, the open access can be provided once this facility is commissioned. The MAFFFL is fully committed in this direction and the facility will be made available at the earliest.</p> <p><b>Dead Stock:</b> Dead Stock is accounted based on actual acquisition values incurred while taking over existing facilities from OMCs and Hydrant facilities from MIAL. OMC's compensation for fresh dead stock was based on than declared present Domestic Market Price of ATF, whereas actual fuel cost related to Hydrant system was reimbursed to MIAL basis their Statutory Auditor's Certification. Total value of the existing dead stock is Rs 3876 Lakhs which was scrutinised by CAG and all other auditors. MAFFFL's total dead stock value of Rs 4563 Lakhs up to second control period, includes value of this existing dead stock Rs 3876 Lakhs (added in First Control period) and further projection value for incremental dead stock of Rs.687 Lakhs (included in second control period). Projection value of incremental dead stock will differ based on actual operational requirement at time of commissioning of integrated facility and it will get</p>





	<p>competition from other private players including RIL. The intended objectives of improving efficiency and service quality has not been achieved so far.</p> <p>As regards the consultation paper 28/2017, in clause 4.5 the basis for determining the value of the dead stock (ATF) is not clear, whether this value has been determined based on open bidding from all the ATF suppliers authorised by GoI. As per clause 4.9, it is mentioned dead stock (ATF) after end of second control period shall be disposed off. It is not clear, how this transaction of sale and purchase of ATF (valued at Rs. 4563 lakhs) and at what value by MAFFFPL shall carried out.</p> <p>We, therefore, request AERA to ensure that immediate "Open Access" be provided to all ATF Marketing Companies in India at Mumbai on the same terms and conditions and facilities as enjoyed by PSU OMCs before deciding on FIC issue at Mumbai Airport.</p>	<p>trued up based on actual acquisition cost.</p> <p>Please refer to decision of Authority (clause 1.c), where in Authority is considering above dead stock as non-depreciable asset and will consider an appropriate adjustment in tariff at the time of actual disposal of dead stock in LAST CONTROL PERIOD. Therefore please note this dead stock shall exist as non-depreciable asset throughout the life of the facility and shall not be disposed in second control period as stated.</p>
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