



Management of Airport Fuel Systems

The principal aim of an airline fuel manager is to ensure the cost-effective, on-time delivery of on-specification jet fuel to each of its operating aircraft. Ensuring a secure supply of fuel to the airfield is also known as keeping the airport “wet.” Getting on-spec fuel to the airport is the first step. Second comes the safe, cost-effective administration and operation of airport fuel systems, and maintaining the quality of the fuel all the way into the aircraft.

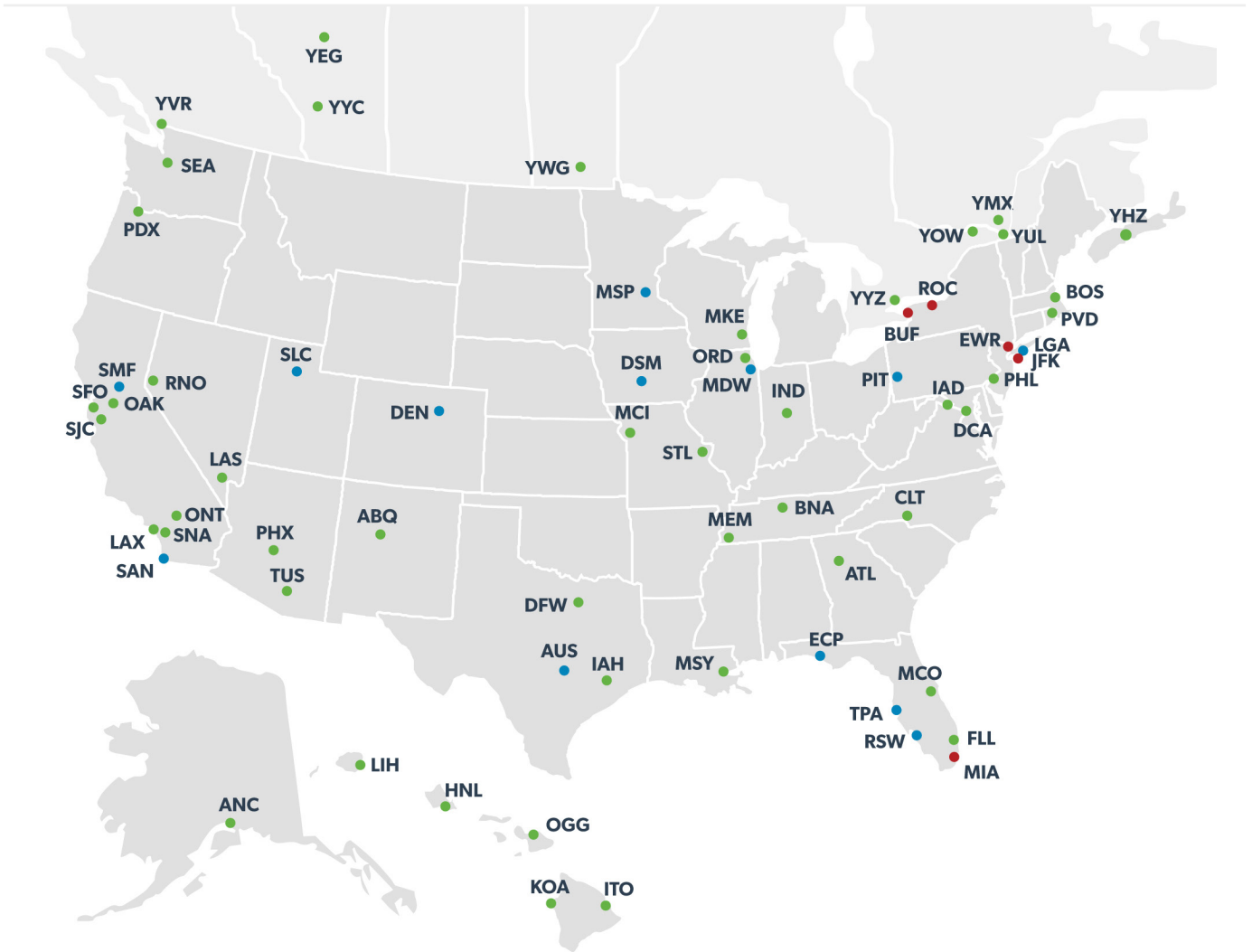
To this end, over the past several decades, at more than 60 airports in the United States and Canada, airlines have chosen to share and oversee the operation of a single fuel system. This common, multiple-user system provides a more efficient and cost-effective alternative to having an array of exclusive-use fuel systems on the airport. At these airports, airline fuel consortia are established to operate, manage and finance improvements to and replacement of common fuel systems. The consortia

typically act through committees, representing all member airlines in an equitable manner, to govern all matters concerning the common-use airport fuel systems and, in many instances, off-airport fuel facilities and distribution systems.

At locations where the airlines collectively own, operate or lease the fuel facilities or other assets, they may choose to form a legal entity (e.g., corporation, LLC, nonprofit organization). Otherwise, the airlines, through a simple committee structure as established in the airline consortium organic agreement(s), will govern and control the operation and maintenance of the fuel system facilities.

While a fuel consortium is responsible for the administration, oversight and operation of the facility, it is typically supported by third-party professional services such as legal, environmental, engineering, financial, quality assurance and regulatory compliance.

Fuel Committees in North America



Advisory

Airport authority has full ownership and control of the fuel system; it publishes and collects fuel system-related throughput fees from all airlines.

Advisory committee – not a legal entity – is formed to help airlines communicate with the airport authority on fuel system-related issues, but typically lacks an interline agreement to define cost/liability allocation and step-up provisions.

Committee

Airport authority owns the fuel system but chooses to have a group of airlines manage/operate without a fuel system lease; alternatively, the airport leases the fuel system to an airline and a fuel committee is formed to select the M&O operator, manage the system and share related costs. Not a legal entity, but often members sign an interline agreement to define cost/liability allocation and step-up provisions. Generally, the airport does not dictate the fuel system throughput fee charged to airlines.

LLC/Corporation

LLC is the most desirable modern structure, characterized by a legal entity that has signed a fuel system lease with the airport – key elements to obtaining financing for capital investment. Unlike LLCs, corporations may issue stocks to attract investment but offer less tax-return flexibility.

Fuel Consortium Principles

Security of Supply

The airlines collaborate to ensure sufficient storage and reliable delivery systems, thereby ensuring continuity of flight operations.

Efficiency

A consortium enables a wide array of carriers to consolidate all fuel systems into one and work collectively to control costs.

Quality Control

A single system assures higher-quality fuel, with fewer opportunities to introduce contaminants.

Expertise

By sharing resources, participants are better suited to directly manage the critical on-airport jet fuel distribution facilities.

Fuel Consortium Characteristics

- Legal entity formed to negotiate on behalf of any airline that wants to join
- Lease with the airport
- Interline agreement to share costs
- Non-member rates and non-contracting users
- Legal counsel
- Maintenance-and-operation (M&O) agreement
- Insurance and bank accounts separated from the operator
- Independent environmental counsel and/or engineering consultants
- Creditworthy entities able to borrow in public and private markets
- Annual budget and membership meetings
- Full financial disclosure
- Credit protections from member bankruptcy and late payments
- Transparent and frequent communication from the chair on important issues

Fuel Consortium Benefits

For Airports

- Simplified negotiating process with a single entity
 - Can lead to better communication
 - Step-up provision reduces airports' counterparty risk
- Transfers responsibility for execution to the consortium
- Infrastructure planning based on airlines' aggregate business plan
- Financing at consortium level does not affect airport credit metrics
- Common operator promotes improved fuel quality control and inventory management transparency
- Membership changes do not require corporate document amendments or renegotiations
- Airline assumption of lease promotes environmental stewardship
- Cost-effective management of fuel system helps airport retain and attract air service

For Airlines

- Control to optimize supply chain and ensure access to multiple suppliers
- Long-term lease allows for long-term planning on- and off-airport
- Financing at consortium level advantageous for three reasons:
 - Improved creditworthiness reduces financing costs, due to ability to tap markets as infrastructure rather than as airlines
 - Borrowing structure can be customized to match project needs
 - Debt remains off individual airlines' balance sheets



Ideal Airport Fuel System

- Multiple fuel suppliers, one tank farm operator, multiple into-plane providers
- A single cost-effective, not-for-profit facility
- Airlines hire and oversee the facility operator
- Economical, competitive fuel supply and into-plane services

