Management of Airport Fuel Systems

The principal aim of an airline fuel manager is to ensure the cost-effective, on-time delivery of onSpecification 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.

Questions or comments? Contact fuel@airlines.org.
**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.

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

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

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

<table>
<thead>
<tr>
<th>For Airports</th>
<th>For Airlines</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simplified negotiating process with a single entity</td>
<td>Control to optimize supply chain and ensure access to multiple suppliers</td>
</tr>
<tr>
<td>* Can lead to better communication</td>
<td>* Long-term lease allows for long-term planning on- and off-airport</td>
</tr>
<tr>
<td>* Step-up provision reduces airports’ counterparty risk</td>
<td>* Financing at consortium level advantageous for three reasons:</td>
</tr>
<tr>
<td>* Transfers responsibility for execution to the consortium</td>
<td>* Improved creditworthiness reduces financing costs, due to ability</td>
</tr>
<tr>
<td>* Infrastructure planning based on airlines’ aggregate business plan</td>
<td>* to tap markets as infrastructure rather than as airlines</td>
</tr>
<tr>
<td>* Financing at consortium level does not affect airport credit metrics</td>
<td>* Borrowing structure can be customized to match project needs</td>
</tr>
<tr>
<td>* Common operator promotes improved fuel quality control and inventory</td>
<td>* Debt remains off individual airlines’ balance sheets</td>
</tr>
<tr>
<td>management transparency</td>
<td></td>
</tr>
<tr>
<td>* Membership changes do not require corporate document amendments or</td>
<td></td>
</tr>
<tr>
<td>renegotiations</td>
<td></td>
</tr>
<tr>
<td>* Airline assumption of lease promotes environmental stewardship</td>
<td></td>
</tr>
<tr>
<td>* Cost-effective management of fuel system helps airport retain and attract</td>
<td></td>
</tr>
<tr>
<td>air service</td>
<td></td>
</tr>
</tbody>
</table>
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

Learn more at airlines.org.