Perth Airport

PO Box 6
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Australia

25 March 2019

Airport Regulation Inquiry
Productivity Commission
Locked Bag 2
Collins Street East Vic 8003

Dear Commissioners,

PERTH AIRPORT RESPONSE TO DRAFT REPORT – ECONOMIC REGULATION OF AIRPORTS

Perth Airport Pty Ltd (PAPL), as the lessee and operator of Perth Airport, welcomes the opportunity to respond to the Productivity Commission's *Economic Regulation of Airports Draft Report* ('the Report').

PAPL supports the Report, noting it provides a considered position based on thorough analysis and observable outcomes in the industry, and is not swayed by unsupported rhetoric. We note also that the Report's overall conclusions are in line with the submissions of independent organisations and persons with expertise in the area of economic regulation, such as the National Competition Council and Mr David Starkie (former advisor on economic regulation to the United Kingdom Civil Aviation Authority).

The Report's overall conclusions and recommendations (which effectively support the ongoing regime of light handed regulation) are critical to the ongoing support of investment in Australian aviation infrastructure as outlined in submissions from groups such as the Australian Airports Investor Group, Infrastructure Partnerships Australia and IFM Investors.

PAPL notes the submission of the Australian Airports Association (AAA) and as a member of the AAA fully supports and adopts the information and analysis included in their submission. As such, PAPL will not address matters already canvassed in the AAA submission but seeks to provide information specific to Perth Airport in response the Productivity Commission's draft findings and recommendations.

COMMERCIAL NEGOTIATIONS.

Information Requests 4.1 and 4.2 - Negotiations and Risk Sharing

PAPL prides itself in engaging in genuine bona fide negotiations with all our airline partners on a bilateral basis. We endeavour to understand what is important and valuable to each of our airline partners and work with them to find a 'win - win' outcome. This has been a feature of both the Prices and Services Agreements (PSAs), currently in place with international operators, and our more recently executed Aeronautical Services Agreements (ASAs) with domestic operators, which commenced on 1 July 2018.

Prices and Services Agreements (2011 – 2019)

The PSAs for international airline partners were due to expire on 30 June 2018 however PAPL negotiated one-year extension arrangements with the majority of our international airline partners to allow PAPL further time to consult with the Board of Airline Representatives Australia (BARA) and international operators regarding the next phase of expansion at the airport.

PSAs in relation to domestic airline partners, specifically Virgin Australia, Rex and Alliance, were replaced with new long term (seven year) ASAs effective 1 July 2018. The exception remains Qantas Group where no agreement has been reached since the expiry of the last PSA on 30 June 2018.

The agreements that were in place between 2011 and 2018[1] included several provisions which demonstrate the sharing of risk between PAPL and its airline partners such as:

- Discounts to aeronautical charges were provided to domestic operators affected by the late delivery of both Terminal 2 (T2) and Terminal 1 Domestic (T1 Domestic) consistent with the terms of their PSAs;
- Perth Airport did not adjust charges for cost overruns in its capital expenditure programme, absorbing costs for infrastructure that could have been reasonably foreseen at the time of entry into the agreements. These costs then formed part of airline consultation on the opening aeronautical asset base for negotiation of new ASAs (2017/2018). The primary contributors of these cost overruns were specifically outlined in PAPL's pricing documentation which was publicly accessible on its data sharing website;
- Volumetric-based rebates for the two major domestic carriers in the event passenger traffic was above certain agreed thresholds were agreed, providing these airlines with an incentive to grow passenger numbers, and benefits in the event of over-performance. However, there was no risk sharing in the event of underperformance on the part of the airlines (ie: no take-or-pay clauses should passenger traffic be below forecast), with PAPL carrying this risk;
- Rebates for delay caused by Perth Airport have been part of agreements to recognise the responsibility of the airport in facilitating passenger and airline performance;
- Provisions were also included in the PSAs to ensure recovery of Unplanned Capital was timed to the expected completion date of the relevant capital projects; and,
- As negotiated with BARA, the one-year extension arrangements with international airline partners offer rebates to airlines recognising the differential service offerings at Perth Airport with respect to aerobridges at Terminal 1 International (T1 International).

[1] Note that PSAs for international airlines have been extended to 30 June 2019 whereas PSAs for domestic airlines expired on 30 June 2018

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Aeronautical Service Agreements (Domestic) – 2018 onwards

Our recently concluded long term ASAs with domestic operators (excluding Qantas Group for which an agreement is still to be reached), as well as several bespoke side agreements, include many provisions unique to individual airlines in mutually acceptable agreements. There are also clauses which demonstrate the sharing of risk between PAPL and its airline partners, including downward adjustment to price on an annual basis should Perth Airport not incur capital expenditure within agreed thresholds.

Aeronautical Service Agreements (International) – 2019 onwards

PAPL is currently in discussions with BARA regarding the terms of the ASAs for international airline partners, which are due to commence on 1 July 2019. In collaboration with our international airline partners, PAPL is committed to exploring further the ability to link risk sharing arrangements to delivery of agreed service outcomes within the new ASAs.

Conclusion

The above multiple examples demonstrate the breadth and complexity of relationships between airports and airlines and the benefits that can be derived from a combination of general and bespoke commercial arrangements.

LANDSIDE ACCESS

Information Request 6.1 – Consultation and Negotiations

PAPL has regard to a range of factors when setting charges including:

- Its objective for a fair access and price model for all ground transport operators seeking to operate from Perth Airport.
- The need for efficient asset utilisation having regard to the relationship between pricing and operator spatial demand as evidenced in usage data.
- The value proposition to airport passengers as the end user of the landside services.
- The opportunity cost of scarce in-terminal and near terminal space which would otherwise be deployed for other revenue generating purposes.
- Publicly available benchmarking data for comparable services.

Charges for landside operators are set on a mode by mode basis having regard to the above factors and the requirement to maintain competitive neutrality. PAPL does not therefore negotiate applicable access charges with any individual operators within any given mode.

PAPL is working on development of an enhanced access system providing improvements to operational efficiency, licensing and access for all ground transport operators operating at and from Perth Airport. PAPL's objective is to classify and licence all modes in a fair, reasonable and non-discriminatory manner relevant to vehicle size, time parked and the nature and location of suitable facilities. Enhancement of the taxi access system is being progressed as a priority initiative and enhancements in other modes will be addressed subsequently.

On-Airport Car Rental

- Contracts are periodically negotiated via a competitive Request for Proposal (RFP) process; incumbent and off-airport operators are invited to participate.
- In the planning phase for contract renegotiation PAPL consults with operators to seek feedback on the car rental business (current KPI trends and drivers, risks and influences anticipated to impact the business for the coming term), provide an overview of PAPL's planned or anticipated facility investments and seek feedback on existing agreement terms which if reviewed could improve the value proposition for the operator. This process is evidenced by consultation undertaken in FY15 leading up to the last RFP process undertaken.
- The RFP process enables respondents to propose alternative proposals, new value-added services or innovation, and departures or qualifications it proposes to make to PAPL's draft car rental licence.
- The airport provides on airport operators with passing terminal passenger traffic to sell rental on the day and offer in terminal personalised promotional activity. PAPL provides operators the desks from which to sell their offer and the bays in which to redeem it.
- Airport charges are reflective of the market value of the in-terminal space used for rental desks and of space – constrained, high value, proximate to terminal parking facilities. These proximate parking facilities are offered to car rental companies at rates substantially below market value to facilitate passenger demand for close, convenient, on-airport car rental facilities. In addition to desks and parking bays at the terminals the car rental companies may choose to rent vehicle cleaning and service facilities on airport land but remote from the terminals.
- On airport operators benefit from being able to charge their customers a higher rental price for the convenience of picking up a car on airport rather than being bussed to a remote location. PAPL notes that despite offering competitive rates for airport facilities, a number of rental operators pass on higher location fees (often referred to as 'Airport Charges' or 'Premium Location Surcharges') to their clients than PAPL charges operators for use of its facilities. A recent review of car rental fees and charges shows, for example, one operator passing on a 'Premium Location Surcharge' five percent higher than that charged by Perth Airport to the operator.
- Operators choose to be on airport although they can operate successfully off airport. It seems evident that being on airport offers significant value for a number of operators.
- PAPL does not consult with operators when setting fees. Charges are clearly communicated within the RFP; the fees include a percentage of turnover and annual fees for each in-terminal counter, ready bay and ready bay booth allocated to the operator. In addition, operators who value proximity are provided the opportunity to bid a premium fee to secure preferred locations.
- PAPL can negotiate terms with individual operators providing negotiations do not provide an unfair competitive advantage to an individual operator, detrimentally impact PAPL's service, safety or security standards, or undermine customer service standards.
- PAPL has invested in numerous new and improved facilities for on-airport car rental operators in recent years. These include dedicated covered walkways, ready return buildings and parking bays, new desks and a car rental access system that removes the need for operators to issue customers with physical parking tickets at an approximate total

capital cost of $12m.

- PAPL consulted with on-airport car rental operators during the planning, design and implementation phases of these new facilities. As PAPL is required to balance the needs of various modes and operators within modes, facilities ultimately deployed do not always deliver preferred outcomes for each operator. A few examples of PAPL seeking and acting upon operator input when making investment decisions are:
  - Design for in-terminal counters at T1 International, T2 and T3 was improved to deliver a minimum counter length allocation for each counter workstation and include dedicated storage provisions proximate to each counter to improve user experience.
  - Optional Ready Bay Booths were developed for T2 to enable operators to reduce their labour requirements in the precinct and contract terms were revised to remove the requirement for operators to staff in-terminal desks for all arriving flights. In addition, as a direct result of feedback from one operator, PAPL extended its design to provide both a standard and large booth option.

Taxis

- Taxi pick-up activity has been managed via gold coin payment since a Ground Access Fee (GAF) was introduced in January 2001.
- Fees are set considering the level of investment made in facilities, charges applied by similar airports and the high value of the proximate to terminal land that the taxis occupy.
- PAPL does advise industry of pending fee changes prior to implementation via the primary despatch companies. Only two increases - in 2005 and on 1 December 2015 - have been undertaken since system inception in January 2001; PAPL provided industry with 6 weeks' notice of the pending increase.
- PAPL is undertaking significant investment in the development of an automated taxi access system, expected to cost $3.5m. The system is designed to increase the speed of taxi access, reduce road congestion, remove the friction associated with coin payment and improve the level of service offered to customers and drivers. To ensure the system is developed to be efficient and effective for the local industry, PAPL commenced consultation with the primary despatch companies during preliminary planning, and consultation is continuing throughout system design. As a direct result of industry input, PAPL has refined the concept of operations and system design to incorporate additional value adding features.
- Industry engagement will continue with development of a change management plan to mitigate transition impacts and support drivers through the transition period.
- The taxi industry primary despatch companies have expressed appreciation as to the extent and value of the consultation process undertaken by PAPL during investment planning for the new taxi access system.

Rideshare

- Rideshare activity is managed via rideshare access agreements between PAPL and the relevant rideshare operator. The access agreements set out the agreed notice period for fee changes and facilities provided by Perth Airport.
- In response to the Western Australian State Government's on-demand transport reform

and emergence of new market entrants, PAPL consulted extensively with a new market entrant when developing its concept of operations for Rideshare. This consultation enabled Perth Airport and Rideshare Operators to collaborate and leverage the available technology to maximise customer experience and operational control. Outcomes achieved by the collaborative approach include a material reduction in forecourt congestion, and efficiency and fairness for rideshare drivers wishing to undertake trips from Perth Airport. The concept of operations and facilities provided are structured for shared use.

- PAPL has limited scope for bespoke negotiation in terms of access for Rideshare Operators to ensure a consistent concept of operation is maintained. However, PAPL can negotiate terms with individual operators providing negotiations do not provide an unfair competitive advantage to an individual operator, detrimentally impact PAPL's service, safety or security standards or undermine customer service standards.
- As a direct result of consultation with Rideshare Operators, PAPL is now investing in improvements within holding areas to increase comfort for drivers via provisioning of shaded waiting areas and increasing capacity where required.
- Rideshare facilities at Perth Airport comprise two (2) dedicated remote holding areas where drivers wait for a rider in a virtual queue and three (3) pick-up areas adjacent to each terminal's Taxi rank. To date, incremental capital expenditure to upgrade these facilities has been around $0.5m. In addition, 200 car parking bays have been repurposed to Rideshare holding bays. Perth Airport expects to spend another $0.25m on further upgrades to Rideshare facilities.

<u>Small Charter Vehicles (SCVs), Buses & Shuttles</u>

- Fees currently apply to SCVs but not to buses or shuttles.
- PAPL consults with the Motor Traders Association (MTA) regarding pending infrastructure or fee changes which impact operators. In addition, PAPL issues fee change notifications to its SCV email database.
- PAPL sets Ground Access Fees for SCV's considering the level of investment made in facilities, charges applied by similar airports and the high value of the proximate to terminal land that the SCVs occupy. PAPL also notes that SCV operators benefit from a discount of up to 70 per cent compared to the public parking fees for short term car park access. This discount is offered to assist operators to meet passenger demand for an in-terminal arrivals meeting service. It reduces charges which operators would otherwise incur through repeat car park usage in provision of services.
- The fee changes notice period provided has varied - 6 weeks' notice was provided for a fee change effective 1 Dec 2015.
- One weeks' notice was provided for a fee change effective 1 July 2017.
    - PAPL acknowledges that the notice period provided to the MTA regarding the 2017 fee increase was not operationally sufficient. After consultation between the parties PAPL withdrew the proposed price changes for a period of 2 months to allow the industry time to adjust and amend its business model.
    - To ensure PAPL provides operators time to adapt and incorporate fee changes into their business models, PAPL has revised its internal governance processes to provide a notice period of at least 6 weeks.
- Effective consultation with the highly fragmented industry is challenging; contributing

factors include:
  - MTA's membership is not exhaustive; and
  - The manual nature of PAPL's SCV system and associated database management challenges.
- PAPL is exploring the feasibility of introducing an automated access system for these modes. Amongst other things, implementation would enable PAPL to efficiently communicate with the vast number of operators and independent drivers.
- Terms of access apply for operators/drivers utilising Perth Airport facilities. PAPL does not negotiate the terms of access with operators/drivers however PAPL consults with the MTA as industry representatives when establishing new concepts of operation.
- Negotiation of bespoke terms of access is unfeasible having regard to the nature of facility access, the generality of appropriate terms of access, PAPL's objective of competitive neutrality and the insufficient cost-benefit of applying resources with which to facilitate direct negotiations in light of the preceding three factors.

Information Request 6.1 - Resolution of Issues

- Concerns and suggested improvements can be provided to PAPL via a range of means including via online or telephone customer feedback channels and via email or phone to the relevant operational or development manager.
- Due to the nature of facilities provided, scarcity of near terminal space and ongoing airport developments, PAPL is not always able to meet the preferences of each operator.
- PAPL management gives due consideration to issues tabled by operators and takes an objective fact-based approach when determining the need for (and feasibility of) change in a balanced, considered manner cognisant of a range of often competing demands from various airport stakeholders.
- PAPL does not consult with the individual operators that comprise the taxi industry due to the high number of operators and the lack of a meaningful industry representative organisation. Instead, PAPL holds quarterly meetings with the primary despatch companies and representatives from the MTA.
- PAPL has received no communication from the car rental industry or from the Australian Finance Industry Association (AFIA) informing PAPL that the AFIA are a representative body for the car rental industry; the first PAPL became aware of this organisation was when reviewing their submission to the Productivity Commission's *Inquiry into the Economic Regulation of Airports*. Therefore, PAPL has had no prior dealings with the AIFA.

Short Term Car Park (STCP) Utilisation Rates

The Commission notes in its draft Report at page193 that it requires time-series data on utilisation rates of at-terminal domestic car parks at the monitored airports to rule out the exercise of market power in car parking by some airports.

PAPL will provide time-series data to the Commission which it is confident will rule out the exercise of market power in car parking by Perth Airport.

The following information is provided by way of background:

- Car parks at airports are designed to accommodate peak periods; average utilisation data is therefore not the best measure to determine whether an exercise of market power is occurring.
- Peaks in car parks can be daily and/or seasonal.
- PAPL's target product standard for occupancy is that occupancy should not exceed 85 per cent of the available car parking capacity.
- This target product standard is adopted to ensure the customer is always able to locate a bay quickly without having to circulate the car park, facilitating a more efficient journey and improving user experience. PAPL understands application of such targets are standard across airports.
- PAPL offers a 10-minute free period across all its Short-Term Car Parks (STCP) for those requiring a longer period to drop off or pick up passengers. Provision of this service requires PAPL to ensure adequate capacity is available to accommodate demand which is highly variable.
- PAPL also offers 1-hour free parking in all long-term car parks for passengers wanting to wait for a further extended period.
- The type and nature of peaks in specific car parks may vary dependent on the type of flights departing from the terminals with which the car parks are associated. For example, at Perth Airport, T1 has both daily and seasonal peaks, with the seasonal peaks reflecting relatively high leisure and visitor traffic through that terminal. On the other hand, T2 (a regional terminal servicing mainly Fly in Fly Out (FIFO) traffic, has daily peaks but not seasonal peaks, reflecting the mainly rostered - work related nature of traffic through the terminal.
- The progressive relocation of airlines from the T3/T4 precinct into the T1 precinct coupled with the resources sector slowdown has resulted in an over-supply of capacity (as measured by average utilisation, not peak periods) in some car parks.
- Conversely, a significant footprint of the T1 STCP has recently been excised for use in construction activities associated with the Forrestfield- Airport Link (FAL) project. This has resulted in a temporary decrease in capacity, and hence corresponding increase in utilisation in that car park.
- PAPL's policy is to ensure equal drive up prices across all its STCPs. This ensures a standardisation of product and experience regardless of the terminal from which a passenger arrives or departs.
- Whilst time series data on utilisation rates of car parks is available and will be provided, factors described above and below (such as seasonality, peak periods, relocations and construction activities which require the uptake of space in car parks) will impact the usefulness of the data.
- Despite having low average utilisation in some of its STCPs during non-peak periods, PAPL's car parking prices are the lowest of the major airports.

T1 Short Term Car Park (STCP)

The T1 average daily peak occupancy is 82 per cent. This results in the T1 STCP being almost fully utilised from a product standard perspective daily, once in the morning peak period and once in the evening peak period.

Seasonal peaks generate further increases in demand. These occur during the school holiday and public holiday periods. During these periods, PAPL temporarily permits occupancy levels above the ideal product standard. When this occurs, PAPL deploys additional resources to assist customers with finding an available bay and ensuring parking only occurs in permitted locations.

In FY17, occupancy in the T1 STCP during seasonal peak periods was 94 per cent. A similar seasonal peak (~ 93 per cent was observed in FY18). This resulted in the T1 STCP being above the ideal utilisation levels for more than a quarter of the year with customer experience impacted as a result.

To encourage higher utilisation of the car park at times of lower demand while creating a better customer experience, overnight prices are discounted by up to 60 per cent when booking online. Offers for discounted upsells from the long-term parking network are also made available.

T3/T4 Short Term Car Park

The T3/T4 STCP initially catered for passengers flying with Qantas, Virgin, Tiger and regional domestic airlines. Tiger and regional airlines relocated to T2 in 2013, and Virgin relocated to T1 (Domestic) in November 2015.

As a result, the passenger base of T3/T4 was reduced by 40 per cent and T3/T4 STCP average utilisation levels have been lower than they were prior to 2015.

Peak occupancy of the T3/T4 STCP during the reporting period of FY17 was 74 per cent; unlike T1 STCP this peak is for a single sustained period during the day commencing around 1000 hours in the morning and ending at approximately 1800 hours in the evening. These peaks occur Monday to Friday.

Seasonal peaks also occur during the school holiday and public holiday periods in the T3/T4 STCP, although these are less pronounced than those experienced in T1.

Prior to Virgin's relocation to T1 (Domestic), peak occupancy reached 105 per cent (FY16) and more recently (FY18) peak occupancy has also reached 105 per cent. On these occasions PAPL deploys additional resources to assist customers with finding an available bay and ensuring parking occurs only in permitted locations.

T2 Short Term Car Park

The T2 STCP was originally constructed with a capacity of 232 bays in 2013. Shortly after construction, several FIFO charter flights were relocated to T2 resulting in significant periods where demand exceeded the car park capacity.

The car park was expanded in 2013 to cater for this increase in demand. Since the end of the mining boom in 2014 the peak daily occupancy has been around 75 per cent. This peak occurs daily, once in the morning peak and once in the evening peak. Unlike the T1 STCP, this car park does not experience seasonal peaks.

PAPL notes that had the investment in expanding the car park for the peak of the mining boom not occurred, current daily peak occupancy would be greater than the 85 per cent product standard for our public car parks.

JET FUEL SUPPLY

Information Request 8.1- Further Information on Jet Fuel Supply Arrangements

PAPL notes draft finding 8.1 which indicates current arrangements may have enabled incumbent fuel suppliers to restrict competition in markets to supply jet fuel, leading to some airports having a small number of fuel suppliers, and has likely led to higher prices to access infrastructure services and higher fuel prices. In response to the Commission's request for further information, the following information is provided in relation to the arrangements in place at Perth Airport:

- Perth Airport does not charge jet fuel suppliers a throughput levy.
- Perth Airport sees merit in the Productivity Commission's recommendation that a jet fuel supply coordination forum be incorporated into the master planning process at each monitored airport tasked with discussing, amongst other things - capacity constraints and any potential pressure points, linkages between infrastructure, demand forecasts and security of supply and future infrastructure requirements and investment planning.
- The renegotiation of the current JUHI lease arrangement at Perth Airport includes the possibility of establishing a Fuels Management Group (FMG). The FMG will promote the efficient sharing of relevant information amongst key airport stakeholders and facilitate stakeholder input into key safety and operational aspects of the JUHI facilities.

ANTI-COMPETITIVE CLAUSES IN COMMERCIAL AGREEMENTS

PAPL notes draft recommendation 10.1 which recommends the Australian Government amend the *Aeronautical Pricing Principles* to specify that any agreement between an airport and an airport user must not contain anticompetitive clauses. This includes clauses that would constrain that user's access to regulatory remedies for the exercise of market power or that directly or indirectly reference the terms being offered to users' competitive rivals.

- PAPL supports the draft recommendation to remove anticompetitive clauses in agreements between airports and airport users.
- 'Terms no less favourable' clauses were commonly found in the PSAs that expired on 30 June 2018. However, these clauses were deleted as part of the one-year extension arrangements agreed with our international airline partners.
- 'Terms no less favourable' clauses were not included in the new ASAs executed with our domestic airline partners and which commenced on 1 July 2018. These terms will also not be included in the new form ASAs currently being negotiated with BARA, and which are expected to commence on 1 July 2019.
- PAPL has yet to reach agreement with Qantas which has, during negotiations, challenged

why PAPL would want to remove this clause.

- Although one of the executed ASAs initially included a provision granting a right to terminate the agreement in the event the airline sought a declaration under Part IIIA of the Competition and Consumer Act, PAPL and the airline have recently agreed a variation to remove this provision from the ASA. PAPL can confirm that this type of provision does not exist in any other aeronautical agreement currently on foot.
- PAPL is reviewing other documents (such as our Conditions of Use) and will amend them in consultation with airline partners if other clauses are identified that raise concerns in the context of the Commission's recommendations.

MORE DETAILED INFORMATION ON AIRPORT PERFORMANCE

PAPL notes draft recommendation 10.4. General observations are as follows:

- From an airport perspective, there are few issues associated with reporting the number of arriving and departing passengers. However, confidentiality issues may arise for airlines where a single airline occupies a terminal or where an airline could be identified through the comparison of data sets.
- Whilst disclosure of aeronautical costs to a greater level of segmentation is possible (as is providing an outline of methodology and cost allocation drivers), to do so may require significant modification of cost allocation models (depending on the required level of specificity).
- Where costs are reported and compared against other airports, normalisation of assumptions would be required to make comparison meaningful and on a like for like basis. If this is contemplated, a common set of allocation rules or guidance may be required.
- In terms of Perth Airport operations, there should be no confidentiality concerns for airlines in the separate reporting of domestic and international costs. However, confidentiality issues will arise if Perth Airport was required to split and reports costs between each domestic terminal. There are three domestic terminals at Perth Airport, each with a single operator (T1 (Domestic), T3 and T4), and as such, reporting of information on costs associated with individual terminals would allow other parties to 'back calculate' and estimate prices agreed between Perth Airport and airlines operating out of those terminals.
- As mentioned by the Australian Airports Association in their submission, PAPL sees value in reporting revenues, but also challenges in reporting costs due to allocation issues. This is particularly the case in relation to airfield and landside services (runways, taxiways, road infrastructure, IT, electricity, etc.).

Perth Airport comments on the specifics of the recommendation are as follows:

Report the number of passengers that depart from and arrive at each terminal

- PAPL has no issues with reporting the number of passengers that depart from and arrive at each terminal, however the respective airlines operating out of single operator terminals T1 (Domestic), T3 and T4 may view the disclosure of passenger numbers as commercially sensitive.
- PAPL has concerns with respect to reporting domestic versus international revenue by terminal. We also expect that our airline partners will have reservations with the disclosure of this information as it would allow their competitors to (either directly or indirectly)

potentially calculate individual airline contractual price terms with PAPL.

- Cost separation for provision and use of aeronautical services for domestic and international flights using the existing allocation model and methodology would also be very difficult and lack comparability.
- For example, a significant difficulty exists in relation to T3 which facilitates both domestic and international passengers. Both domestic and international passengers use the same primary screening points, terminal areas, gates, aprons and aerobridges at different times of the day. Different allocation methodologies can be applied, each one yielding different outcomes, and in any scenario the information obtained and reported is likely to be specific to Perth Airport and lack comparability with any other airports (if that is the intended use of the data).
- As such, the information obtained may not be particularly useful or meaningful, and the cost and effort of the allocation process may outweigh the benefit of obtaining this data.
- Similar issues exist in relation to swing gate operations (ie: gates that swing between domestic and international operations, more specifically gates 50 and 51) at T1.
- As such, the cost allocation model and methodology would need to be further developed to provide the relevant data, and even then, the data would be subject to variability and imprecision depending on the allocation criteria considered (eg: number of hours used for international v domestic; number of international v domestic passengers; number of international flights v domestic flights).

Separately show the number of users, costs and revenues in relation to the provision and use of at-terminal and at-distance car parking and the utilisation rates for each type of parking

- The allocation of costs for specific ground transport activity is not currently available nor is segmentation of the costs of 'at terminal and at distance parking'. Additional development of the cost allocation model would be required to provide this information.
- User and revenue information is available.

Separately show the number of vehicles that use landside access services, charges and other terms of access for each landside service, and the operating costs and revenues in relation to the provision and use of the various landside access services, such as services for shuttle buses, taxis and hire cars

- The numbers of vehicles that use landside access services is not currently available due to a mixture of different ground transport activities that utilise unmonitored shared access facilities. Significant infrastructure development would be required to provide this information.
- Revenue information is available and has already been provided for pick up activity by modes that are currently charged a Ground Access Fee.

Report all costs on the basis that they are specific to a service or common across more than one service (stating the relevant services). In addition, airports should report costs on an allocated basis and should clearly set out the methodologies used for allocating the costs to international and domestic aeronautical services; at-terminal and at-distance parking; and landside access services.

- The type and specificity of cost allocation contemplated by this recommendation would require a significant update and rebuild of the cost allocation model.
- The current allocation methodology required by the Australian Competition and Consumer Commission (ACCC), splits costs between Airfield, Domestic, International and non-Aeronautical only.
- A significant reconstruction of the cost allocation model would be required to split non-aeronautical costs associated with parking from other activities such as retail or property.
- As noted above, further complexity also exists when multiple passenger types use the same assets, for example:
    - The STCP in our Airport Central Precinct is used by both domestic passengers travelling through T1 (Domestic) and T2 (Regional); and international passengers travelling through T1 (International).
    - Similarly, our long-term car parks in the Airport Central Precinct are used by both domestic and international passengers.
    - Inter-terminal transfer buses are used by both domestic and international passengers.
    - Some aeronautical facilities are used by both domestic and international passengers in T1 (swing gates, aerobridges, aprons, terminal areas) and in T3 (gates, primary screening points, aerobridges, aprons, terminal areas).
    - Terminal forecourts at both precincts are used by both domestic and international passengers

IMPROVING QUALITY OF SERVICE MONITORING

PAPL notes draft recommendation 10.5, specifically that the Australian Competition and Consumer Commission (ACCC) should, within 12 months, provide advice to the Australian Government on an updated set of quality of service indicators, in consultation with airports, airlines and other airport users.

PAPL supports this recommendation, and considers the involvement of airports, airlines and other airport users to be critical to the success of any proposed changes.

It will be important in any such exercise to identify which service indicators are the responsibility of airports, and which are the responsibility of other parties noting, for example, current issues with indicators of airport performance such as the following:

- Check-in service indicators (where self-service check-in facilities are not used) are currently used as an indicator of airport performance, however airlines can significantly affect check-in service performance through inefficient allocation of check-in staff and through failing to agree to upgrade of check-in infrastructure.

- Check-in service indicators become even less relevant as an indicator of airport performance where self-service check-in kiosks are owned and operated by airlines (as is the case at T3, T4 and T1 (Domestic) at Perth Airport).
- Ground handling arrangements are managed by airlines, generally but not always, through contract arrangements with Ground Handling organisations. However, availability and standard of services and facilities are used as service performance indicators for airports.
- Airports have little control or influence over Commonwealth Agency infrastructure and staffing, yet immigration waiting times (amongst other indicators) are also used as a measure of an airport's performance.

It is also important to note that the objective measures of quality of service currently used by the ACCC focus on quantity and fail to capture improvements in quality or efficiency.

- Examples of improvements in quality not captured include investment in the spaces for check-in kiosks, as well as software and interface improvements benefiting kiosk users. Also, car parking spaces lost in short-term car parks to make way for dedicated use motorcycle parking compounds with additional security.

The 'Overall Quality of Service' rating is the metric upon which the media and public opinion is most focused yet the methodology behind the passenger, airline and objective indicator data aggregation is not fully transparent. Airports cannot validate their own scores prior to publication of results and there are important considerations relating to the methodology.

- Airline survey data should be weighted appropriately - or even removed from the Overall Quality of Service calculations - given the small sample size and the possibility of strategic motivation to rate the quality of services downwards at individual airports, as noted by the ACCC.
- Perth Airport would also support the review of the use of benchmarking in rating performance against objective indicators; whether it is appropriate that an airport can report the same raw performance figures to the ACCC as the previous year but find its rating for that measure going up or down in a subsequent year.

QANTAS SUBMISSION – 21 DECEMBER 2018

As the Commission would be aware, in December 2018 PAPL reluctantly commenced proceedings in the Supreme Court of Western Australia to recover unpaid charges by the Qantas Group. This was done as a last resort after numerous attempts by PAPL to secure a new agreement with Qantas.

This matter is referenced in a submission to the Commission from the Qantas Group dated 21 December 2018.

Given that legal proceedings are currently underway, with the exception of the issue relating to accelerated depreciation, it is not appropriate to comment in detail on the allegations contained in Qantas' submission. Suffice to say that PAPL remains very confident of the matters outlined in its Statement of Claim.

In relation to the issue of accelerated depreciation, PAPL notes that the submission to the Commission from the Qantas Group contains an unsubstantiated allegation that financial mismanagement by Perth Airport is the reason for accelerating the depreciation of terminal assets (Terminals 3 and 4) that Qantas uses exclusively.

The reality is that consolidation of all terminal facilities into the Airport Central precinct has been part of Perth Airport's Masterplan since 1985.

In line with the Commonwealth Government's revised Aeronautical Pricing Principles, an airport is entitled to achieve both a return on and of capital invested.

Further it is a fundamental economic and accounting principle that assets are valued and recognised on their effective economic life.

As Qantas has previously signed a binding Heads of Agreement with PAPL to move to new terminal facilities in Airport Central by no later than 2025, it is a reasonable conclusion to draw that both Terminals 3 and 4 will not have an economic life beyond 2025 and as such Perth Airport should seek to recover its capital invested over the remaining life of the assets.

Further, the economic justification for accelerated depreciation is that the customers that benefit from the services provided by an asset (in this case the Qantas Group) should pay for the full costs of those assets. Alternatively, other customers who derive no benefit or services from those assets (other airlines at Perth Airport) should not pay. Accelerated depreciation has been accepted by regulators to promote these outcomes

These principles have been affirmed in numerous cases including, for example:

- Transgrid (2003)[2]
- Ergon Energy (2010)[3]
- AusNet Services (2016)[4]
- CitiPower (2016)[5]
- Powercor (2016)[6]

Your sincerely,

Debra Blaskett
CHIEF CORPORATE SERVICES OFFICER

[2] TransGrid, *TransGrid 2004 Revenue Reset Application*, September 2003, p102
[3] AER, Ergon Energy – Queensland Final Determination Decision 2010-15, 2010, p xl.
[4] AER, Final decision AusNet distribution determination 2016 to 2020- Attachment 5 - Regulatory depreciation, May 2016, p 15.
[5] AER, CitiPower distribution determination final decision 2016-20, Attachment 5, p 15.
[6] AER, Powercor distribution determination final decision 2016-20, Attachment 5, p 15