DARWIN INTERNATIONAL AIRPORT SUBMISSION

to

PRODUCTIVITY COMMISSION INQUIRY INTO ECONOMIC REGULATION OF AIRPORT SERVICES

5 April 2011

EXECUTIVE SUMMARY

In recommending removal of Darwin International Airport (DIA) from price monitoring by the ACCC in 2006 the Productivity Commission concluded, among other things, that airlines have some countervailing power at this relatively small airport.

The Terms of Reference issued by the Government for this Inquiry clearly focus on the 5 price monitored airports. However, the approach of this submission is to treat the "monitoring regime" in the Terms of Reference to include the period of Darwin not being subject to formal price monitoring plus the recent federal aviation policy requirement of a Self-administered Price and Quality of Service Reporting Scheme for the 2nd Tier airports.

Five particular features of DIA airline services over the last five years have been the:

- dramatic increase in Low Cost Carrier services as a proportion of total services;
- withdrawal of full service international carriers;
- the volatility of Low Cost Carrier services;
- developing domestic-international narrow body hub; and
- clear dominance of Qantas Group services.

SETTING AIRLINE PASSENGER CHARGES AND AERONAUTICAL INVESTMENT

The last two Pricing Agreements reached with airlines have conformed with the Government Review Principle for airports without capacity constraint. Informed and robust negotiation has been the basis of reaching commercial terms.

One feature of a Long term pricing Agreement (LTPA) at a low volume airport in the current airline industry environment is the demand risk assumed by that airport.

All aeronautical investment is agreed with airlines. Both Full Service and Low Cost Carriers wish to minimise airport costs. Hence they rigorously assess the capital program put forward by DIA to ascertain the capital projects are necessary for either aircraft safety (airside projects), infrastructure capacity (airside and landside projects) or to maintain quality of service (landside projects).

The current LTPA has an 8 year term and an agreed investment profile of around $100M. The fact that each item of aeronautical investment is approved by airlines means that terminal and associated infrastructure quality of service is dictated by what airlines are willing to pay for.

Separate independent third party assessment has provided endorsement of both the DIA:

- infrastructure (assessment of asset condition, asset availability and reliability, asset management and sustainability); and
- pricing model used as the basis of informed commercial negotiation with airlines.

DIA Submission

DIA submits that the recent 'no monitoring' regime and the current Self-administered Reporting regime has allowed the economically efficient and timely operation, use of and investment in airports.

COMMERCIALLY NEGOTIATED OUTCOMES

All aspects of airline use of DIA from charges to operational issues and airport slots are commercially or operationally negotiated by informed parties or moderated by a third party.

DIA Submission

There is clear evidence that the existing light handed regime facilitates/allows commercially negotiated outcomes in DIA airport operations (airport operations being interpreted to cover everything from day to day operational issues to capital investment decisions).

SELF-ADMINISTERED PRICING AND QUALITY OF SERVICE REPORTING SCHEME

DIA has always published its aeronautical and car parking prices. Currently there is a DIA designed Quality of Service survey with some results published on the DIA website.

Effective April 2011 DIA will be employing the Airports Council International (ACI) Quality of Service Survey. This will allow Australian and international benchmarking with other airports and the results will be published on the DIA website.

Compliance costs under the Self-administered Pricing and Quality of Service Reporting Scheme are acceptable.

DIA Submission

The Self-administered Pricing and Quality of Service Reporting Scheme does minimise unnecessary compliance costs.

AIRPORT - AIRLINE MARKET POWER AND DISPUTE RESOLUTION PROCESS

There is objective evidence that airlines have countervailing market power in the DIA context.

In terms of a Dispute Resolution Process some DIA LTPAs with airlines formally incorporate a commercial Dispute Resolution Process and some do not. In practice, DIA experience is that airlines withhold payment of the disputed amount until the issue is resolved by negotiation. Recent DIA conversation with airlines on the issue of dispute resolution has been that a standard Dispute Resolution Clause should be agreed.

In the absence of a formal Dispute Resolution Clause in the LTPA DIA relies on the clause in the DIA Conditions of Use document which is published.

LAND TRANSPORT ACCESS

Darwin modal share for airport journeys is similar to a number of Australian major airports.

For a variety of reasons, public transport is unlikely to feature heavily as a mode of transport to/from DIA for the foreseeable future. Hence the capacity of the internal and

external road system to handle the projected vehicle traffic is the focus of transport planning.

There has always been close consultation and coordination with the Northern Territory and Local Government as illustrated by their input to the 2010 Master Plan. This has been reinforced recently by the advent of the Planning Coordination Forum.

Car park facilities at DIA are convenient and reasonably priced. Car parking revenue provided 5.2% of total DIA revenue in 2009/10.

FUTURE REGULATORY REGIME

A light handed regulatory regime has served the following well:

- DIA;
- airlines;
- airline passengers/airport users; and
- public interest (appropriate essential infrastructure is provided).

This statement is based on DIA responses to the principal components of the Productivity Commission Inquiry Terms of Reference:

- the recent 'no monitoring' regime and the current Self-administered Pricing and Quality of Service Reporting regime has allowed the economically efficient and timely operation, use of and investment in airports;
- the Self-administered Pricing and Quality of Service Reporting Scheme does minimise unnecessary compliance costs;
- there is unambiguous countervailing market power of airlines in the DIA context;
- there is clear evidence that the existing light handed regime facilitates/allows commercially negotiated outcomes in DIA airport operations;
- car parking capacity is adequate and prices reasonable;
- Airport land transport access is easy, there are no foreseeable congestion points and there is good coordination with Territory and local government.

DIA Submission

The Self-administered Price and Quality of Service Reporting Scheme is the appropriate economic regulation environment going forward for the circumstances of DIA.

1. INTRODUCTION

The Productivity Commission (the Commission) is inquiring into regulation of airport pricing for the third time in a decade.

In 2002 the Commission determined that the airport market power that existed and the manner in which the market power was exercised by airports did not warrant actual price regulation. Indeed heavy handed regulation may distort airport behavior and inhibit efficient investment decisions. It also stated it was not convinced that Darwin had substantial market power. The Commission recommended light handed regulation in the form of price and quality monitoring.

The 2006 Inquiry concluded that the ACCC light handed monitoring regime continued to be appropriate and that the group of monitored airports should be reduced to the largest 5 Australian airports – Sydney, Melbourne, Brisbane, Perth and Adelaide.

In recommending removal of Darwin from price monitoring by the ACCC the Commission highlighted that Darwin:

- is a relatively small airport dealing with some major airlines that can withdraw services (and have done so), and hence have some countervailing power;
- faces some competition from other airports and/or other modes of transport;
- has less passenger traffic than some of the larger non-monitored airports; and
- although charges at Darwin Airport have risen steadily under the light handed regime, these increases appear justifiable in terms of the cost of new investments and (mandated) security upgrades, and the unwinding of previously uncommercial charging arrangements (*Review of Price Regulation of Airport Services*, December 2006, p XXVI).

Car parking was subsequently included in the ACCC monitoring regime at Government direction in 2008.

The Terms of Reference issued by the Government for this Inquiry clearly focus on the 5 price monitored airports. However, the approach of this submission is to treat the "monitoring regime" in the Terms of Reference to include the period of Darwin not being subject to formal price monitoring plus the recent federal aviation policy requirement of a Self-administered Price and Quality of Service Reporting Scheme for the 2nd Tier airports (Canberra, Hobart, Gold Coast and Canberra).

Those parts of the Terms of Reference and Issues Paper which clearly have no relevance to a 2nd Tier airport are not addressed.

DIA regards the advent of the Self-administered Reporting Scheme as an evolution of removal from formal monitoring and this submission will adopt that approach. Indeed, DIA has always published its aeronautical and car parking prices.

The Terms of Reference for the Inquiry ask the Commission to report on the effectiveness of the price and quality of service monitoring regime in achieving the following three objectives:

- promoting the economically efficient and timely operation, use of and investment in airports and related industries;
- minimising unnecessary compliance costs; and
- facilitating commercially negotiated outcomes in airport operations.

In regard to aspects relevant to DIA the Commission is to examine:

- aeronautical services and facilities provided; and
- the provision and quality of land transport facilities providing access to the airport.

In regard to aspects relevant to DIA the Commission should consider:

- whether the existing regime is effective in appropriately deterring potential abuses of market power by airport operators;
- whether the existing range of remedies is effective in dealing with potential and suspected abuses of market power;
- whether the current regime impacts on the ability of airports to price, operate and invest in airport infrastructure in an efficient and timely manner;
- the appropriate future role of the regime;
- the adequacy and arrangements for the control of planning, operation and service quality monitoring of land transport access to major airports; and
- whether existing arrangements for the planning and operation of land transport linkages to the airports are effective.

The second tier self-administered price and quality of service monitoring regime is outside the Inquiry scope. This presumably refers to the actual operation of the Self Reporting Scheme as there is no history of its operation to review.

2. AIRPORT BACKGROUND AND CONTEXT

DIA has a unique infrastructure and operating profile among Australian airports. It is a low volume capital city airport which:

- is a regional international gateway with an integrated domestic-international terminal;
- provides airport facilities for general aviation operations equivalent to Archerfield, Brisbane's general aviation airport (200 general aviation and regional aircraft). This fleet is crucial to the social and economic well being of remote communities and provision of essential services such as Coastwatch;
- is a joint user airport with significant military aircraft activity;
- has a developing domestic-international narrow body hub;
- is one of Australia's 11 security designated airports; and
- offers curfew free 24 hour availability.

Economic Significance

Input-output analysis was undertaken by ACIL Tasman in 2009 to estimate the economic impact of the airport, using data obtained from a survey of airport businesses and airport financial information. The 2009 total annual impacts of the airport on the Northern Territory economy are significant, with revenues of $541 million, wages and other income of $124 million, value added of $296 million and 1,640 jobs.

ANNUAL AIRPORT RELATED BUSINESS IMPACT 2009

	AIRPORT OPERATIONS	VISITOR-RELATED AIRPORT BUSINESSES	TOTAL
Output ($m)	346.7	194.2	540.9
Income ($m)	79.8	44.3	124.1
Employment (FTEs)	958	683	1,641
Value-added ($m)	197.4	98.2	295.6

Data source ACIL Tasman

The net tourism impact of the airport is also considerable with $317 million in value added, $168 million in wages and other income, $596 million in revenues and 2,790 jobs. These numbers are net of the tourism impacts due to visitor spending at the airport, as these are already included in figures shown in the table below.

AIRPORT ENABLED TOURISM IMPACTS ON NT ECONOMY 2030

	TOURISM IMPACT ($M)	TOURISM IMPACT DUE TO SPENDING AT DIA ($M)	NET TOURISM IMPACT ($M)
Output ($m)	789.7	194.2	595.5
Income ($m)	212.0	44.3	167.7
Employment (FTEs)	3,475	683	2,792
Value-added ($m)	414.6	98.2	316.5

Data source ACIL Tasman

Economic activity at DIA constituted 2% of Northern Territory GSP in 2009. DIA is majority Australian owned by industry superannuation funds and 70,000 Territorians depend on DIA investment returns.

Airservices and Forecasts

Five particular features of DIA airline services over the last five years have been the:

- dramatic increase in Low Cost Carrier services as a proportion of total services;
- withdrawal of full service international carriers;
- the volatility of Low Cost Carrier services;
- developing domestic-international narrow body hub; and
- clear dominance of Qantas Group services.

In 2004 the only Low Cost Carrier (LCC) operating into Darwin was Virgin Blue with some 10 services per week. Over time Virgin Blue expanded services, then severely contracted services in late 2008 and again introduced new services six months later. Royal Brunei ceased operating to Darwin in 2008 after 25 years in the market. Long time carrier Garuda Indonesia ceased services in May 2009. Garuda Indonesia was the last international Full Service Carrier (FSC) that operated into Darwin.

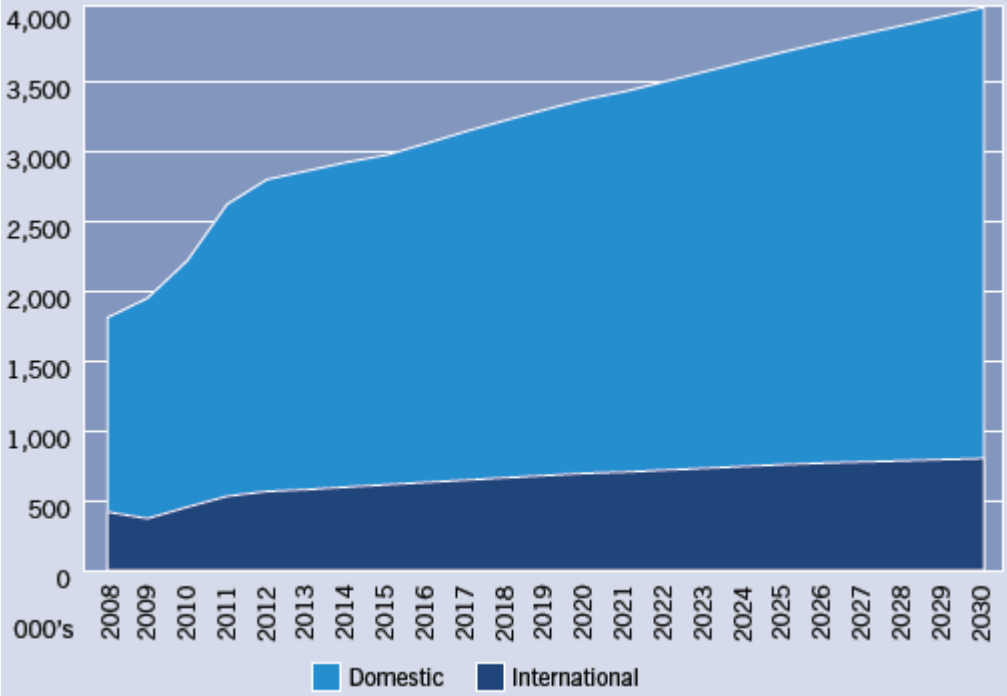
Tiger Airways commenced Darwin services in 2005, ceased in late 2008, re-entered the market in June 2010 and left the Darwin market for the second time in January 2011.

Jetstar commenced Darwin services in 2006 and has expanded domestic and international services since then. In August 2008 Jetstar announced its intention to develop Darwin as an international-domestic hub, which included basing 7 aircraft in Darwin from 2012. AirAsia Indonesia commenced services in December 2010.

LCCs (largely Jetstar) now provide the majority of total Darwin airline capacity. The Qantas Group as a whole currently operates 74% of total capacity plus has other codeshare services.

It is projected that passenger movements, including transit and transferring passengers, will increase from just over 2 million passengers in 2009/10 to approximately 4 million passengers by 2030.

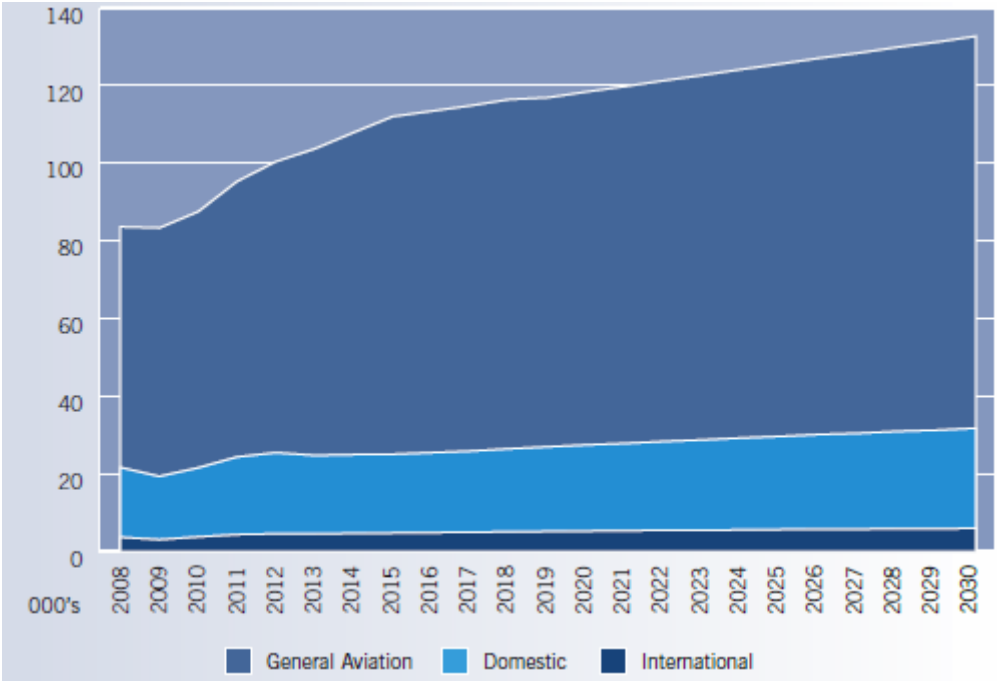
Forecast Passenger Movements (incl. transit and transfer)



Source: 2010 Master Plan

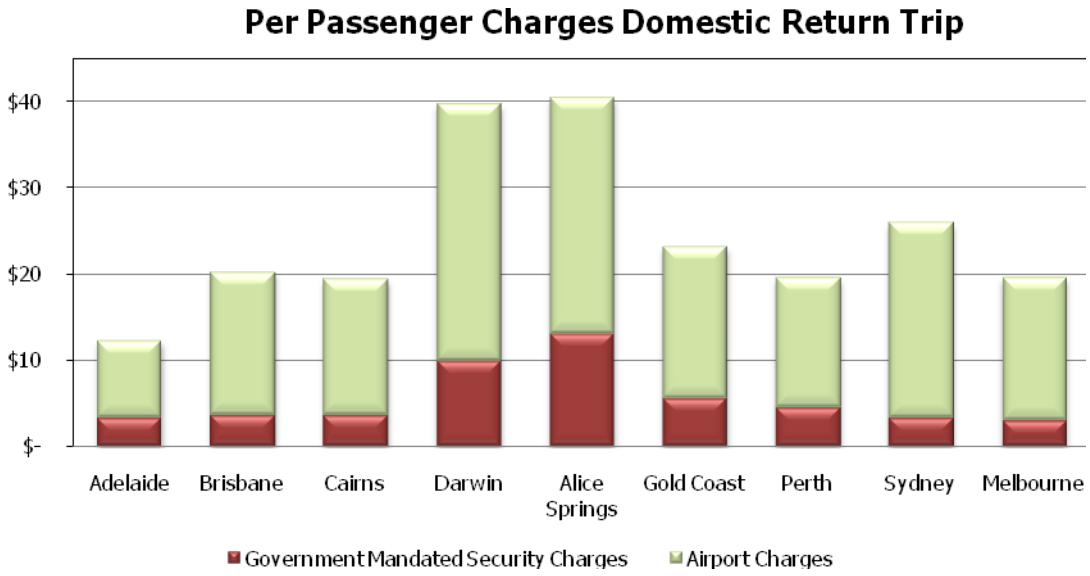
Projected aircraft movements over the same period are illustrated below. The 200 general aviation and regional aircraft based at DIA dominate total movements.

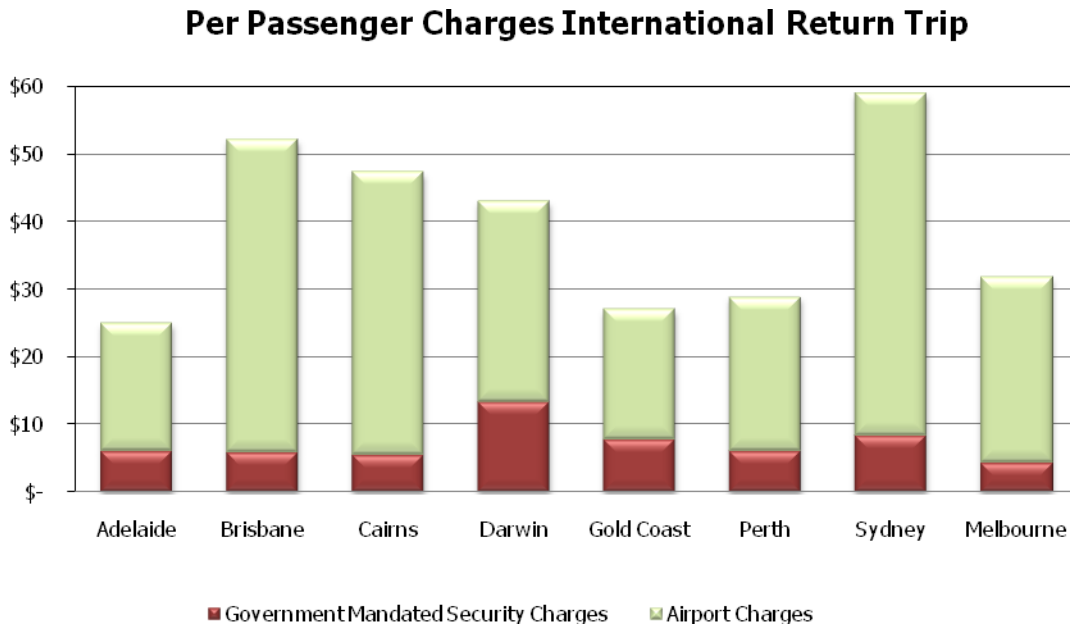
Forecast Aircraft Movements



Source: DIA 2010 Master Plan

Airport and Security Charges





Ignoring the impact of investment cycle, both DIA airport and security charges are very much driven by the low volume of passengers and the 24 hour operation.

The necessity for 24 hour operation is illustrated by the current daily airline peaks:

- 2330 – 0200 domestic arrivals/departures;
- 0300 – 0600 international arrivals;
- 0600 – 0800 domestic and international departures;
- 1130 – 1430 domestic arrivals and departures; and
- 1600 – 1830 domestic arrivals/departures & international departures.

Australia's Top 10 Airports 2009/10		
Airport	**Total O/D Passengers**	**% of Total Australian Market**
Sydney	32,700,964	27.2
Melbourne	23,943,342	19.9
Brisbane	18,297,730	15.2
Perth	8,952,069	7.5
Adelaide	6,619,267	5.5
Gold Coast	4,323,355	3.6
Cairns	3,777,154	3.1
Canberra	2,853,480	2.4
Hobart	1,758,241	1.5
Darwin	1,562,216	1.3

As can be seen, DIA has a fraction of the volume of passengers at the major airports (5% of Sydney, 9% of Brisbane) which obviously impacts on passenger charges. Interestingly, DIA compares favourably on international airport and security charges (note that Darwin has the same domestic and international airport charges because of the integrated domestic-international terminal).

3. DIA AIRLINE AERONAUTICAL PRICING HISTORY

Setting Airline Passenger Charges

The Terms of Reference for the Productivity Commissions 2006 Inquiry stated that airport pricing should be consistent with the Government Review Principle for airports. The relevant Principle for airports not operating at full capacity is:

> *"At airports without significant capacity constraints, efficient prices broadly should generate expected revenue that is not significantly above the long run costs of efficiently providing aeronautical services (on a 'dual-till' basis). Prices should allow a return on (appropriately defined and valued) assets (including land) commensurate with the regulatory and commercial risks involved."* Productivity Commission (2006)

Following the change from aircraft landing charges to passenger charges in 2001, DIA desired to enter into a longer term agreement with its airline customers. It hence engaged KPMG to develop a long term pricing model based on accepted ACCC "building block" principles

The price modelling undertaken by KPMG, which provided the basis for negotiations with airlines, is consistent with the above Government Review Principle, as it:

- used a Weighted Average Cost of Capital (WACC) consistent with the ACCC approved nominated new investment process and was reflective of the regulatory and commercial risks faced;
- was based on conservative asset values;
- included forecasts of capital expenditure and operating costs over the five year period of the analysis, and thus approximated the long run cost of service provision; and
- was determined on a "dual till" basis.

The outputs and inputs to the model were shared openly with airlines. In discussions with our airline customers we provided a detailed passenger forecast, a forward-looking capital plan, information on our forward-looking operating expenses and details of the WACC used. The same information was provided to all airlines. In short, the pricing model inputs and outputs were shared freely as the basis for discussion and negotiation.

After some 18 months of consultation and commercial negotiation a pricing agreement for the period January 2006 to June 2009 was struck with all airlines. The agreed prices provided transparency and certainty for both airlines and DIA.

A similar model was used as the basis for negotiations on the Long Term Pricing Agreement (LTPA) effective July 2009. A long and robust negotiation with the Qantas Group led to agreed Long Term Pricing Agreement terms, with the fact agreement had been reached on the commercial terms being announced on 11 October 2010.

The LTPA term is 1 July 2009 to 30 June 2017. The Qantas Group negotiation needed to be concluded first as it provides some 80% of Darwin seat capacity historically. LTPA commercial terms have subsequently been negotiated and agreed with some airlines with agreement expected shortly with the remainder.

The current airport-airline pricing agreement is of 8 years duration compared to the previous one which was 3½ years duration.

Features of DIA Long Term Pricing Agreement

There are a number of parameters which constitute an airport-airline LTPA. The main parameters are:

- WACC employed;
- passenger forecasts;
- capital program and timing of capital expenditure;
- operational and maintenance expenditure forecasts;
- rebate structure when base passenger volumes are exceeded;
- relative pricing of transit/transfer and origin/destination passengers; and
- for the latest LTPA, employing a 10 year model rather than an 8 year model which has the effect of reducing terminal value.

The full pricing model, including background spreadsheets, forms the basis of informed negotiations between DIA and airlines.

As with the previous DIA pricing agreement negotiated with airlines, all main parameters to the pricing model were vigorously discussed and negotiated at length. Agreement was reached on each individual parameter.

One feature of an LTPA for a low volume airport such as DIA is the demand risk associated with that LTPA. DIA takes 100% of demand risk. An LTPA is not a contract in the conventional sense in that no forward looking level of passengers or services are guaranteed by airlines. The demand risk associated with large Australian airports with 10 million plus passengers and a significant number of airlines is obviously minimal compared to a low volume airport such as DIA (a small number of carriers and historic volatility in carrier entry and exit).

In the recently agreed terms for airline Long Term Pricing Agreements DIA bears demand risk (downside risk) but airlines share in the upside risk through rebates/incentives for exceeding base traffic projections.

Demand risk is a real factor for Darwin International Airport (DIA) but is not a risk which features in the rate of return calculations.

4. DOES THE EXISTING LIGHT HANDED REGIME DELIVER EFFICIENT AND TIMELY OPERATION OF AND INVESTMENT IN DIA AERONAUTICAL FACILITIES?

Efficient Airport Operations

DIA must grant access to aircraft operators unless they are financially in default to DIA. This is a condition of the Head Lease from the Commonwealth under the *Airports Act 1996*.

Airline operations at DIA are determined by airlines. There are no airspace or runway capacity issues at DIA. The only technical constraints are terminal/gate capacity and/or aircraft apron position availability during peak periods, particularly 4.00am to 7.30am year round. Additionally, during the dry season the midnight peak also has capacity issues and there is building pressure on facilities during the midday peak (airlines operate more flights during the dry season).

The allocation of airport slots for airlines is outsourced to Airport Coordination Australia who allocate slots within operational Guidelines. All aircraft slot applications go to Airport Coordination Australia. If terminal or apron capacity is tight Airport Coordination Australia moderates discussions/negotiations and communicates the outcome to the applicant airline.

On the ground operational issues between airlines and DIA are resolved collectively (all airlines and DIA in the one forum) or bilaterally as circumstances dictate. Standing forums include the Airport Security Committee, Baggage Users Group, Passenger Facilitation Group and Ramp Safety Group.

Efficient and Timely Airport Investment

Historical aeronautical investment to 2009/10 and projected aeronautical investment from 2010/11 in the LTPA are listed in the table below.

All aeronautical investment is agreed with airlines either as part of the negotiations on the LTPA or variation to capital expenditure is agreed during the life of the LTPA.

Airlines, whether they be a Full Service Carrier or Low Cost Carrier, wish to minimise airport costs. Hence they rigorously assess the capital program put forward by DIA to ascertain the capital projects are necessary for either aircraft safety (airside projects), infrastructure capacity (airside and landside projects) or to maintain quality of service (landside projects).

The quality of service issue in a common user integrated terminal serving both Full Service and Low Cost Carriers will no doubt become more of a challenge in the future. The $33.5M terminal expansion project which is currently in the design phase must satisfy the passenger level of service objectives of both Full Service and Low Cost Carriers (note: $33.5M is the aeronautical investment component of the terminal expansion project).

Year	Aero Investment
2001-02	$1.0M
2002-03	$5.3M
2003-04	$3.5M
2004-05	$15.2M
2005-06	$19.7M
2006-07	$4.6M
2007-08	$17.1M
2008-09	$4.4M
2009-10	$9.5M
2010-11	$13.0
2011-12	$17.9
2012-13	$24.6
2013-14	$1.6
2014-15	$12.4
2015-16	$2.6
2016-17	$16.2

As indicated in the above table, the 8 year LTPA contains around $100M of airline approved aeronautical investment. This is a significant amount of investment for an airport with 2M passengers (includes transits/transfers) per annum currently.

The fact that each item of aeronautical investment is approved by airlines means that terminal and associated infrastructure quality of service is dictated by what airlines are willing to pay for.

Benefits of Commercially Negotiated Long Term Pricing Agreements

There are significant benefits to both the airlines and DIA in the commercially negotiated LTPA which expires 30 June 2017. Benefits for airlines are:

- a certain airport pricing path for aeronautical services going forward. This is important for cost planning purposes; and
- knowledge that only necessary investment is occurring and hence capital costs are supporting airside safety requirements or landside (terminal and associated facilities) airline endorsed quality of service levels.

Benefits to DIA are:

- forward budgeting is facilitated;
- capital projects can be efficiently planned and undertaken in the knowledge that the revenue stream is there to support the investment; and
- financing is both easier to obtain and the cost of finance is improved.

Engineers Australia 2010 Northern Territory Infrastructure Report Card

Engineers Australia periodically issue an Infrastructure Report Card on each jurisdiction with an assessment of each infrastructure sector.

The summary of the Northern Territory Infrastructure Report Card taken from the Engineers Australia media release on 9 November 2010 is repeated in full on the next page. The key to the ratings is below.

> **The ratings** have been based on an assessment of asset condition, asset availability and reliability, asset management and sustainability. An "A" means very good and the infrastructure is fit for its current and anticipated future purposes; "B" is good, with minor changes needed to meeting current and future needs; "C" is adequate, but major changes required; "D" is poor, with critical changes required; and "F" is inadequate.
> (Source- Engineers Australia Media Release 9 November 2010)

Airport infrastructure overall is rated as B- across Northern Territory major (Darwin and Alice Springs), regional and remote airports. There is positive comment about Darwin and Alice Springs with the observation that future expansion funding is uncertain. This refers to the July 2009 announcement by DIA of a deferral for the Darwin terminal expansion because commercial agreement had not been achieved with the airlines. When the Report Card had been finalised Engineers Australia would not have known that commercial agreement had been achieved (announced on 14 October 2010) which allowed the terminal expansion to proceed.

Independent Review of DIA Pricing Model

Following the July 2009 announcement of the terminal expansion deferral, there was Northern Territory Government concern about the lack of commercial agreement with Qantas Group and the consequent effect of the terminal expansion not proceeding. In response to this concern, DIA offered to provide its pricing proposal (pricing model) for an independent review commissioned by the Northern Territory Government.

Access Economics was subsequently commissioned by the Northern Territory Government and the pricing proposal (pricing model) was provided to Access Economics for review.

Access Economics concluded that the DIA pricing proposal/model was broadly consistent with:

- a conventional approach to airport price determination; and
- the pricing principles articulated by Qantas in its Aviation White Paper submission of July 2008.

Access Economics also observed that outcomes produced by the DIA model are consistent with those of a building block model in its pure form.

DIA Submission

DIA submits that the recent 'no monitoring' regime and the current Self-administered Reporting regime has allowed the economically efficient and timely operation, use of and investment in airports.

5. SELF-ADMINISTERED PRICING AND QUALITY OF SERVICE REPORTING SCHEME

DIA has always published its aeronautical and car parking prices.

Currently there is DIA designed Quality of Service survey collected through survey stations on the terminal. Some results from this survey are published on the DIA website.

Effective April 2011 DIA will be employing the Airports Council International (ACI) Quality of Service Survey. This is employed at the following airports in Australia and New Zealand - Sydney, Melbourne, Adelaide, Perth, Gold Coast, Townsville, Newcastle, Auckland, Wellington and Christchurch - plus 180 other airports worldwide.

Participation in the ACI survey will allow Australian and international benchmarking with other airports.

Results from ACI Quality of Service survey will be published on the DIA website.

6. DOES THE EXISTING LIGHT HANDED REGIME FACILITATE MINIMISING UNNECESSARY COMPLIANCE COSTS?

In its 2006 submission to the Commission, DIA outlined that its compliance costs under the ACCC monitoring regime were $135,000 per annum and employed one person fulltime at a low volume airport.

Compliance costs under the Self-administered Pricing and Quality of Service Reporting Scheme for the 2nd Tier airports will be around $50,000 per annum and are acceptable.

DIA Submission

The Self-administered Pricing and Quality of Service Reporting Scheme does minimise unnecessary compliance costs.

7. DOES THE EXISTING LIGHT HANDED REGIME FACILITATE COMMERCIALLY NEGOTIATED OUTCOMES IN AIRPORT OPERATIONS?

This issue has been discussed in Sections 3 and 4 of this Submission, with airport operations being interpreted to cover everything from day to day operational issues to capital investment decisions.

DIA Submission

There is clear evidence that the existing light handed regime facilitates/allows commercially negotiated outcomes in DIA airport operations.

8. AIRPORT - AIRLINE MARKET POWER AND DISPUTE RESOLUTION PROCESS

In its 2006 Inquiry Report the Commission came to the position that DIA "is a relatively small airport dealing with some major airlines that can withdraw services (and have done so), and hence have some countervailing power" (*Review of Price Regulation of Airport Services*, December 2006, p XXVI). There is no reason to review this assessment.

Qantas Group Share of Total Domestic and International Capacity

October 2005	80%
June 2008	73%
December 2008	84%
November 2010	78%
February 2011	74%
June 2012 (projected)	75%

It can be seen from the above table which contains snapshots of Qantas Group seat capacity over the last 5½ years that the Qantas Group dominates Darwin airline services. A 2012 projection is also included.

These Qantas Group market share figures do not include Qantas codeshare services operated by Airnorth. This comprised 8% of Darwin airline capacity in February 2011.

In terms of a Dispute Resolution Process some DIA Long Term Pricing Agreements with airlines formally incorporate a commercial Dispute Resolution Process and some do not. In practice, DIA experience is that airlines withhold payment of the disputed amount until the issue is resolved by negotiation.

Recent DIA conversation with airlines on the issue of dispute resolution has been that a standard Dispute Resolution Clause should be agreed.

In the absence of a formal Dispute Resolution Clause in the Long Term Pricing Agreement DIA relies on the clause in the DIA Conditions of Use document which is published.

9. LAND TRANSPORT ACCESS

Land Transport Context

The only public transport service to DIA is a recently introduced employee oriented public bus service with 5 to 6 frequencies per day between the hours of 6.30am and 7.00pm. The single bus stop is within walking distance of the terminal. Airline passengers carried on the bus service would be near zero.

A 2008 survey on mode of travel to DIA by airline passengers revealed the following results.

Mode of Travel to Airport (2008)

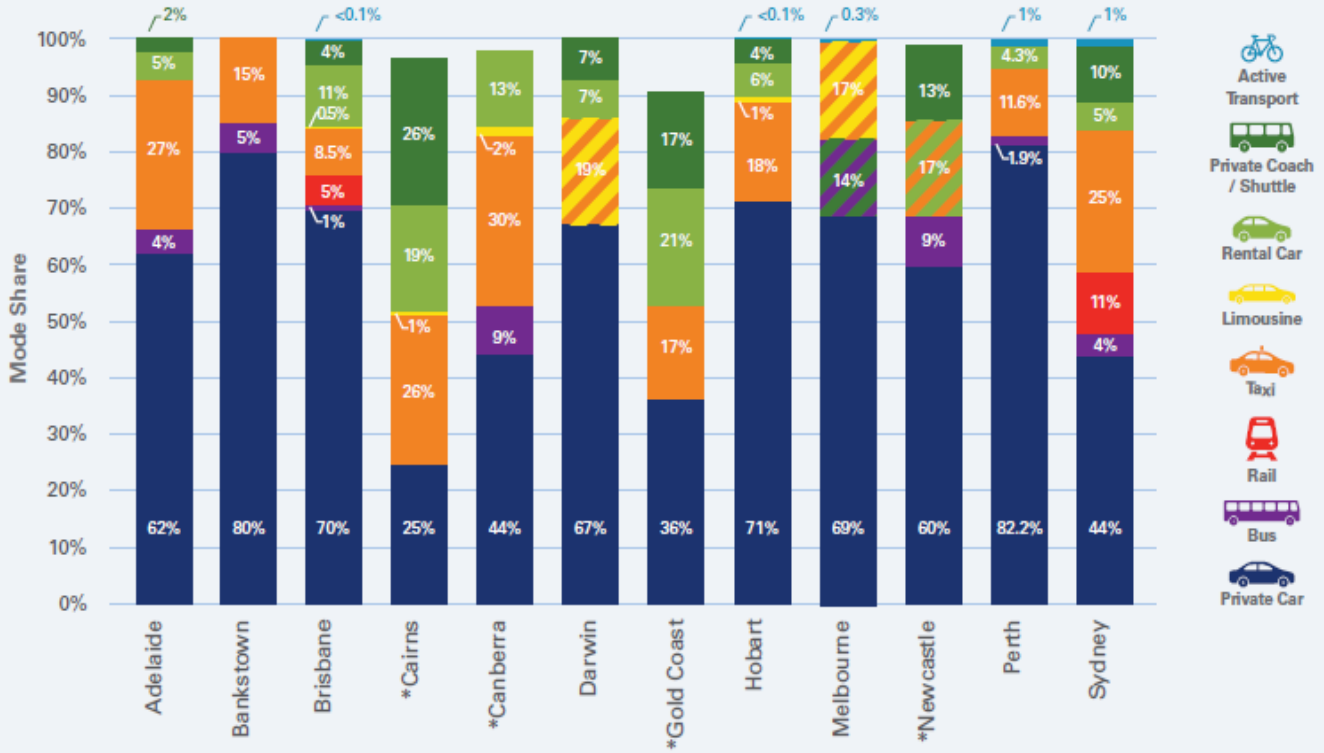
MODE	%
Private vehicle	67
Taxi	19
Shuttle bus	7
Rental car	7
Total	100

Source: 2010 Master Plan

Booz and Company conducted a 2010 study for the Transport and Tourism Forum *ACCESSING OUR AIRPORTS – Integrating City Transport Planning with Growing Air Services Demand.* This study gave a brief current access overview of each airport and recommended short, medium and long term land transport priorities.

Figure 3 of the study which outlines mode share for the journey to and from a selection of Australian airports is repeated below. It illustrates that the Darwin modal share for airport journeys is similar to a number of Australian major airports.

Figure 3
Land transport availability and mode share



Source: ***ACCESSING OUR AIRPORTS – Integrating City Transport Planning with Growing Air Services Demand,*** **Transport and Tourism Forum, 2010 p15**

Of those travelling to DIA by private vehicle, an estimate can be made of the relative numbers being dropped curb side and those either using the car park or being picked up by people using the car park (note: short term and long term parking is currently available in the one car park immediately in front of the terminal).

Car Park Usage Profile 2010/1

	2010/11 YTD Feb '000	2010/11 YTD Feb Car Park Pax @ 1.5 Pax Per Vehicle '000	2010/11 YTD Feb % of Pax Using Car Park
Total Origin/Dest Passengers	1295.8		
Total Car Park Usage	169.3	254.0	19.6
Car Park ≤ 1.5 Hours	134.2	201.3	15.5
Car Park ≥ 12 Hours	18.8	28.2	2.2

Note: assumption is each vehicle using the car park carries 1.5 passengers

If you assume that each vehicle (≤ 1.5 hours in car park) is dropping off/picking up 1.5 passengers, then around 16% of passengers are dropped off/picked up by someone using the car park and some 2% of passengers drive themselves to/from the airport and use the car park (vehicle ≥ 12 hours in car park).

Using this approach plus the results of the 2008 survey, the following DIA approximate journey profile can be constructed.

Journey To and From the Airport

Mode	%
Curb Side Drop Off/Pick Up by Third Party	49
Car Park Drop Off/Pick Up by Third Party	16
Long Term Parking User	2
Taxi	19
Shuttle Bus	7
Rental Car	7
Total	**100**

The very high curb side drop off/pick up reflects the easy accessibility of DIA from the Darwin and Palmerston area with:

- journey times ranging from 5 minutes in the near Darwin northern suburbs to 30 minutes for the most distant point in Palmerston; and
- the extensive drop off/pick up curb side immediately in front of the terminal.

Similarly, the high incidence of drop off/pick up by third parties using the car park reflects the:

- ease of accessing the terminal from the car park as it is located immediately in front of the terminal;
- free use of the car park for 20 minutes (10 minutes from entry to scanning at the pay station plus 10 minutes from scanning ticket to exit);
- relatively low car park charges (discussed below).

Land Transport Planning in 2010 Master Plan

The DIA 2010 Master Plan was approved by the federal Minister in December 2010. There was an extensive public consultation process of 60 business days in 2009 plus 60 business days in 2010 for the 2010 Master Plan. As part of the public consultation process the Master Plan was featured at the 2009 Royal Darwin Show.

A Ground Transport Section is an important part of the Master Plan.

For a variety of reasons, public transport is unlikely to feature heavily as a mode of transport to/from DIA for the foreseeable future. Hence the capacity of the internal and external road system to handle the projected vehicle traffic from both aeronautical and non-aeronautical related vehicle traffic is the focus of transport planning.

External Road Network

A whole of Airport traffic study, based on projected aviation growth and commercial development to 2030 was undertaken. This traffic study incorporated the relevant external road network plus internal DIA roads.

Projected growth in both aviation traffic and commercial development will result in an increase in daily airport trips from around 15,000 currently to some 49,000 in 2030 (refer to the table below). A feature of the overall trip generation will be commercial development focused along Osgood Drive.

Traffic Generation 2030

DEVELOPMENT	DAILY TRIP GENERATION, 2008	DAILY TRIP GENERATION, 2030	DAILY INCREASE IN TRIP GENERATION
Terminal + short term parking	5890	13150	7260
Staff car park and long term car park	1360	3040	1680
General aviation east	2560	5710	3150
General Aviation west	2640	5890	3250
Aviation subtotal	12450	27790	15340
Hotel and resort	720	1170	450
Homemaker super centre	/	11350	11350
Office and commercial	/	3670	3670
Industry, warehouse	/	2370	2370
Bunnings and Bagot Road commercial	1750	2600	850
Non-aviation subtotal	2470	21170	18700
Total	14920	48960	34040

Source: 2010 Master Plan

The major external access development concept is a new all movements signalised intersection off McMillans Road which will connect with Osgood Drive. The new intersection will be located between Rapid Creek and Sabine Roads.

The external road access developments envisioned over the 20 year planning period are:

- new signalised intersection on McMillans Road providing access to the Commercial Zone (anticipated in the first 5 years of the planning period);
- downgrading of the existing intersection of McMillans Road and Charles Eaton Drive to provide left-in and left-out traffic movements only (anticipated in the first 5 years of the planning period); and
- increased queuing capacity at the Henry Wrigley Drive and Neale Street intersections on McMillans Road as required.

DIA has worked closely with the Department of Lands and Planning (the Northern Territory road authority) during development of the traffic study which analysed the traffic implications of the 2030 land transport development concept. The Northern Territory Government approved in principle the new future signalised intersection on McMillians Road in November 2009.

Internal Road Network

The traffic modelling indicated that access to/from the external road system was adequate for projected aeronautical and non-aeronautical development to 2030. The internal road network will develop over time in response to demand.

The approach to development of the internal road network will be to:

- maximise the use of existing road capacity;

- segregation of passenger and non-passenger (eg maintenance, commercial developments) traffic as far as practicable;
- progressive enhancement of road system capacity in line with demand; and
- facilitate aviation and commercial developments.

Independent View on Land Transport Priorities

Table 19 (p31) of the 2010 Transport and Tourism Forum study referenced above outlines the short, medium and long term land transport priorities for DIA.

Short term priorities are:
- Northern Territory Government to work on taxi availability issues during early morning periods; and
- DIA and the Northern Territory Government to work together on monitoring the effectiveness of the limited employee oriented bus service as a platform for development of greater frequency.

Medium term priorities are DIA to develop:
- multi-level terminal parking facilities; and
- parking for the general aviation precinct (note: a 295 space general aviation car park was recently commissioned).

The one long term priority is the Northern Territory Government to plan for provision of comprehensive public bus services to DIA. The study also points out that, because of the reliance on road transport for airport access, there needs to be a strategic focus by DIA on its internal road network.

As indicated in the road and traffic planning underpinning development of the 2010 Master Plan, DIA has a strategic focus on both the internal and external road network capacity and projected future traffic.

Coordination with Territory and Local Government

There has always been close consultation and coordination with the Northern Territory and Local Government. This spans everything from the DIA role in the Region One (Darwin Region) Counter Disaster Plan to road network and land development planning in the vicinity of DIA.

The close consultation and harmonious working with both the Northern Territory Government and Darwin City Council during development of the 2010 Master Plan is the most recent example of ‘project planning’. An example of an ongoing issue is the working together with the Northern Territory Government, Department of Defence and also now the Darwin City Council on Rapid Creek flood mitigation. All 4 parties are land owners abutting the Rapid Creek catchment and waterway.

In 2010 the DIA Planning Coordination Forum, an Aviation White Paper initiative, held its first meeting. The Planning Coordination Forum membership is:
- Northern Territory Government (strategic land planning, road authority, economic development agency);

- Department of Defence (RAAF Base Darwin and Defence planning Canberra);
- Darwin City Council (infrastructure and city planning); and
- Department of Infrastructure and Transport Canberra.

There have now been 3 meetings of the Planning Coordination Forum since August 2010 and a number of the ongoing previous bilateral issues with each organisation are now incorporated in the collective Forum.

10. CAR PARKING

DIA has had an integrated terminal short and long term car park to date. This will change when a long term car park is completed in June 2011 and there will be separate short term and long term car parks.

The two aspects of airport car parking that airport users are interested in are charges and capacity. An extract from the DIA website below outlines the current parking charges (as at 1 April 2011).

These rates compare favourably with many airports. They are also comparable to Darwin City Council on street CBD parking for say a 5 hour stay – Darwin City Council charges $8.00 and DIA charges $9.00. An all day park in the Darwin City Council Westlane car park costs $7.30 providing you arrive prior to 9.00am. Otherwise an all day car park in Westlane is $9.20.

Short term charges

Length of stay	Rate (inclusive of GST)
0 - 10 minutes	FREE
10 - 30 minutes	$3.00
30 - 60 minutes	$5.00
1 – 2 hours	$7.00
2 – 3 hours	$7.00
3 - 4 hours	$8.00
4 - 5 hours	$9.00
5 + hours	$12.00
1 day (24 hours)	$12.00

Long term charges

Length of stay	Rate (inclusive of GST)
2 – 7 days	$12.00 per day
2 days (or part thereof)	$24.00
3 days	$36.00
4 days	$48.00
5 days	$60.00
6 days	$72.00
7 days	$84.00

Parking is capped at $10 per 24-hour period from the eighth day.

In terms of capacity there are no current accurate statistics to determine the average hourly occupancy level of the integrated short and long term terminal car park. Capacity has only been an issue on one occasion – the period from Christmas Eve 2010 to New Years Day 2011.

This obviously reflects the situation that travellers regarded the charges for, say, an 8 day car park stay of $94 as reasonable (a car park charges calculator is on the website).

Overflow capacity over Christmas-New Year was provided in the recently completed General Aviation car park (295 car spaces) which is around 400 metres from the terminal.

As illustrated below, the new long term car park will be located near the eastern end of the terminal. When completed in June 2011 terminal car park capacity will be 624 short term and 266 long term spaces. This will increase terminal car park spaces from 624 to 890.

A valuable feature of the ticketing system is that the long term car park can be an overflow car park for the short term one. This is because the ticketing system in the long term car park has the same charges regime for short term parking.

Car Parking Layout from June 2011

With the introduction of a long term car park in June, DIA has reviewed parking charges for 2 reasons:

- to support the investment in the long term car park; and
- provide a differential pricing incentive to encourage long term parking users into the long term car park and not take up short term car park capacity.

Proposed changes to the above short term and long term parking charges will be:

- daily rate for long term parking in the short term car park will be $20 in order to encourage long term users not to take up short term car park capacity;
- long term car park daily rate will be $14, reducing to $12 from the 8th day; and
- the short term car park will retain the $12 charge for stays up to 16 hours. This allows for a day return trip to Alice Springs which is a common day return destination.

All other charges remain unchanged.

Car Parking Revenue

Car parking revenue provided 5.2% of total DIA revenue in 2009/10.

11. FUTURE REGULATORY REGIME

A light handed regulatory regime has served the following well:

- DIA;
- airlines;
- airline passengers/airport users; and
- the public interest (appropriate essential infrastructure is provided).

This statement is based on DIA responses to the principal components of the Productivity Commission Inquiry Terms of Reference:

- the recent 'no monitoring' regime and the current Self-administered Pricing and Quality of Service Reporting regime has allowed the economically efficient and timely operation, use of and investment in airports;
- the Self-administered Pricing and Quality of Service Reporting Scheme does minimise unnecessary compliance costs;
- there is unambiguous countervailing market power of airlines in the DIA context;
- there is clear evidence that the existing light handed regime facilitates/allows commercially negotiated outcomes in DIA airport operations;
- car parking capacity is adequate and prices reasonable;
- airport land transport access is easy, there are no foreseeable congestion points and there is good coordination with Territory and local government.

DIA Submission

The Self-administered Price and Quality of Service Reporting Scheme is the appropriate economic regulation environment going forward for the circumstances of DIA.