



Australian
Competition &
Consumer
Commission

Sydney Airport Corporation Limited's price notification for regional air services

Decision

September 2010



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Glossary

ACCC	Australian Competition and Consumer Commission
Capital costs	The sum of a return on capital commensurate with the risks faced by the business plus the depreciation of the regulatory capital base
CPI	Consumer Price Index
DET	Domestic express terminal (former domestic common user terminal)
MAR	Maximum allowable revenue—the amount of revenue a regulated firm should receive that recovers all costs plus an efficient and reasonable rate on its capital
Operating costs	Non-capital costs
PFC	Passenger facilitation charge
PS Act	<i>Prices Surveillance Act (Cth) 1983</i>
PTRM	Post tax revenue model—this is the form of the financial model used by the ACCC to model the cash flows of a regulated firm
Regional air services	Regular public transport air services operating wholly within the State of New South Wales
Regulatory capital base	Represents the level of capital employed by the regulatory firm—used to establish the return on capital and return of capital that needs to be recovered in revenues to provide a commercial return
Required revenue	Maximum allowable revenue (see MAR above)
Return of capital	Depreciation
Return on capital	A rate of return measure that is applied to the depreciated capital base value to determine an

	amount of revenue that an investor would require as compensation for the opportunity cost of funding that capital base, given the relative level of risk associated with the capital base—calculated by the rate of return on capital multiplied by the regulatory capital base
SACL	Sydney Airport Corporation Limited
T2	Terminal 2 (domestic common user terminal)
TPA	<i>Trade Practices Act 1974</i>
WACC	Weighted average cost of capital

Executive summary

ACCC's decision

The Australian Competition and Consumer Commission's (ACCC's) decision is to **object** to Sydney Airport Corporation Limited's (SACL's) proposal to increase charges for the provision of terminal, check-in, passenger security and bag screening, runway and apron parking services to 'regional air services' at Sydney Airport.

This decision responds to a proposal by SACL to increase charges for the provision of these services by 2.9 per cent from no earlier than 23 October 2010. SACL's price notification is provided at Appendix A. A summary of SACL's proposed charges and the ACCC's decision on the proposed charges is provided below.

Under Part VIIA of the *Trade Practices Act 1974*, SACL is required to notify the ACCC of proposed increases to charges for the provision of aeronautical services and facilities (which includes terminals, check-in, passenger security and bag screening, runways and apron parking amongst other services) to regional air services at Sydney Airport. The ACCC must then assess the proposed increases and decide whether to object or not object to the proposed charges.

On 24 June 2010, Sydney Airport Corporation Limited (SACL) provided the Australian Competition and Consumer Commission (ACCC) with a price notification under Part VIIA of the *Trade Practices Act 1974* (TPA) proposing an increase in charges for the provision of terminal, check-in, passenger security and bag screening, runways and apron parking services to 'regional air services' at Sydney Airport. Regional air services are defined as regular public transport air services operating wholly within the State of New South Wales (NSW).¹

SACL's price notification

SACL's price notification states that it proposes to increase charges for these services by a maximum of 2.9 per cent (being the one year percentage increase in the Consumer Price Index (CPI) to March 2010) from no earlier than 23 October 2010. This would be the first increase to these charges since May 2001.

As justification for the proposed increase in charges, SACL states in its supporting information that:

The proposed increases are reasonable in the circumstances given the impact on passenger fares would be approximately less than 1 per cent and the impact on regional airlines' costs is similarly low, especially in light of the comparatively higher charges borne by regional airlines at other airports. In addition, the present pricing levels have led to inappropriate price signals resulting in inefficient use of scarce airport capacity and market distortion between regional airlines and other

¹ Declaration 92 under section 95X of the TPA provides that 'regional air services' mean regular public transport air services operating wholly within the NSW.

airport users, through the cross subsidisation of necessary new investments and cost pass through of providing aviation security.²

In summary, it is the ACCC's view that SACL's justification for its proposed increase in charges includes:

- increased costs associated with the provision of aeronautical services and facilities to regional air services without an associated increase in charges (and associated revenues) to recover costs
- current prices signalling inefficient use of scarce airport assets by regional air services
- the proposed changes will not have an appreciable impact on passengers or the general business of airlines.

The ACCC's approach to assessing SACL's price notification

The ACCC takes a consultative approach to its assessments of price notifications and, on 9 July 2010, released an issues paper seeking submissions from interested parties on SACL's proposed increase in charges and on the matters raised by SACL in support of its proposal. The ACCC received a total of 18 submissions from regional air services providers, members of NSW parliament, regional councils and industry associations. The ACCC has considered these submissions in its assessment of SACL's price notification.

In assessing SACL's price notification under Part VIIA of the TPA, the ACCC has also considered the appropriateness of the proposed prices by giving consideration to the Ministerial Direction that the proposed increases should not exceed the total percentage increase in the CPI over the relevant period, and assessing the extent to which the proposed increases are forecast to recover the costs for the efficient provision of services by SACL to regional air services at Sydney Airport.³ In addition, noting SACL's claims that current prices signal inefficient use of scarce airport assets, the ACCC has also considered the appropriateness of SACL's proposed price structure.

The proposed increases are not inconsistent with the Ministerial Direction regarding increases being less than CPI

Regarding the direction to the ACCC to give special consideration to the Ministerial Direction that increases should not exceed the rate of increase in the CPI, the ACCC considers that SACL's proposed increases do not exceed the total percentage increase in CPI over the relevant period (being 2.9 per cent over the twelve months to March 2010).⁴ Therefore, the ACCC considers that proposed increases are not inconsistent with the Ministerial Direction.

² Sydney Airport Corporation Limited, *Submission setting out supporting information to the price notification*, July 2010, p. 3.

³ Direction 32 requires the ACCC to give special consideration to the Ministerial Direction that the total percentage increase in the prices does not exceed the total percentage increase in the CPI over the relevant period.

⁴ The ACCC notes that some proposed increases are slightly higher than 2.9 per cent due to rounding to the nearest cent.

However, SACL has not sufficiently demonstrated that a price increase is required to recover costs for the efficient provision of services

Based on submissions from interested parties, information provided by SACL and other additional resources available, the ACCC considers that the demand for regional air services (including passenger numbers, tonnes landed and aircraft movements), and associated revenues, has increased significantly between 2001-02 and 2008-09, and that growth is expected to continue into the future based on the current prices.

That said, the ACCC notes that the demand for regional air services is potentially a price sensitive segment of the market and an increase in charges will have some effect on the expected growth in demand for these services. However, it is the ACCC's view that the effect on demand of the proposed 2.9 per cent increase is unlikely to be significant enough to offset the expected growth. That is, growth is also expected to continue into the future based on the proposed prices.

The higher the growth in demand, and associated revenues, the lower is the price per unit needed to recover the costs for the provision of services. Therefore, the ACCC considers that, for the purposes of this price notification, SACL needs to sufficiently demonstrate that the specific costs for the provision of services to regional air services have increased since 2001-02 by such an extent that the growth in demand, and associated revenues, is insufficient to recover the costs for the provision of services to regional air services.

Indeed, the ACCC notes that submissions opposed to the increases submit that the demand, and associated revenues, for the provision of aeronautical services to regional air services have increased substantially since 2001-02, while the costs borne by SACL for providing these services have not increased to the same extent (and, in fact, may have decreased on per unit basis due to the higher volumes).

In support of its proposed increase in charges, SACL provided the ACCC with confidential information relating to the combined costs, demand and revenues for the provision of terminal, check-in and passenger security and bag screening services to regional and domestic users at T2. SACL also states that 'the costs associated with aviation security have grown considerably since the events of September 2001 and continue to grow.'⁵ Additionally, SACL states that 'regional airlines [sic] contributions to security costs do not reflect their consumption of those services and facilities.'⁶

SACL claims that its information demonstrates that there is an under-recovery from regional air services for the provision of terminal, check-in and passenger security and bag screening services at T2, and that domestic users at T2 are cross-subsidising regional air services.

SACL also asserts that, in relation to runways, the proposed increase for regional users is justified when compared to the increased prices for international and domestic users at Sydney Airport. Further, in support of the proposed increase in the charge for apron

⁵ Sydney Airport Corporation Limited, *Submission setting out supporting information to the price notification*, July 2010, p. 3.

⁶ *ibid.*

parking, SACL claims that, because terminal and check-in services are provided as part of a package with apron parking, the increase in charge for apron parking is justified due to the claimed under-recovery for terminal and check-in services at T2.

The ACCC considers that SACL's claims of under-recovery from regional air services are largely dependent upon the assumption that shared costs for the provision of aeronautical services should be allocated evenly on a per unit basis to regional and other airport users. Under this assumption, SACL claims that the revenue required on a per unit basis from regional and other airport users should be the same.

However, even if SACL's claims of under-recovery from regional air services were established, the ACCC notes that, as listed in the ACCC's airport monitoring reports, SACL's charges for other airport users are higher than those for regional air services. Moreover, the ACCC considers that, if the charges and associated revenues for other airport users are taken into consideration, SACL is not under-recovering the combined costs for the provision of terminal, check-in, passenger security and bag screening, runway and apron parking services to airport users at Sydney Airport.

Accordingly, the ACCC considers that there are reasons to question the basis of SACL's allocation of the costs for providing terminal, check-in, passenger security and bag screening, runway and apron parking services to regional air services. As such, the ACCC considers that SACL has not sufficiently demonstrated in this case that the specific costs for the provision of these services to regional air services have increased since 2001-02 and, therefore, that a price increase is required to recover costs for the efficient provision of these services.

Also, SACL has not supported its claims that current prices signal inefficient use of scarce airport assets

The ACCC notes SACL's claims that the current pricing structure has 'encouraged an inefficient use of scarce airport assets.'⁷ More specifically, SACL claims that the efficiency with which regional air services use check-in counters and apron parking services has decreased since 2001-02.

The ACCC recognises that prices can be used to promote efficient use of scarce assets. For example, if price structures encouraged regional air services to switch their use of services from peak times (i.e. 6:00am–11:00am and 3:00pm–8:00pm) to off-peak times, then air services providers that would be prepared to pay more than regional air services do to use those services would benefit from gaining access to airport services in peak times.

However, the ACCC notes that SACL has not proposed to change its pricing structure. Additionally, SACL claims that regulatory constraints impact on the efficiency of its airport operations, particularly due to airport curfews and a ring fence around regional air services' slots.⁸

⁷ *ibid.*, p. 12.

⁸ *ibid.*, p. 8.

In fact, the ACCC notes that the regional ring fence that is in effect at Sydney Airport reserves landing slots for regional air services during peak times. This has the effect of preventing the peak-time slots held by regional air services being reallocated to non-regional airlines, which could be prepared to pay more than regional air services do to gain access to regional slots.⁹

In light of effects of the regional ring fence, the ACCC considers that, for the purposes of this price notification, SACL needs to sufficiently demonstrate that scarce capacity exists, the opportunity cost of capacity currently used by regional air services and how the proposed increase to charges would address its claims.

In support of its claims for reduced efficiency of use by regional air services, SACL provided the ACCC with analysis, based on a sample of regional air services providers, of the efficiency with which regional air services use check-in and apron parking services. The ACCC was, however, unable to verify SACL's claims that the efficiency of use had decreased on average as the ACCC requested that SACL provide comparative information for all regional air services providers but this was not provided.

However, even if SACL's claims of reduced efficiency of use by regional air services were established, SACL also did not provide the ACCC with an explanation of the opportunity cost of the capacity currently used by regional air services, nor how the proposed increases to prices would address its claims for reduced efficiency. The ACCC has therefore not found SACL's claims of reduced efficiency of use by regional air services to be persuasive.

As noted above, while the ACCC recognises the importance of managing scarce capacity and signalling such scarce capacity to users through prices, SACL has not demonstrated in this case that scarce capacity exists, nor the opportunity cost of capacity currently used by regional air services. The ACCC considers that SACL would need to consider how proposed increases to charges would address these claims and whether a change to the pricing structure for regional air services may be appropriate if such efficiency arguments are used in support of future notifications.

ACCC's decision

The ACCC's decision is to **object** to SACL's proposed increase to charges for regional air services as outlined in the tables below. The remainder of this document sets out a more detailed explanation of the reasons for the ACCC's decision.

⁹ Productivity Commission, *Review of price regulation of airport services*, report no. 40, Canberra, December 2006.

Approved charges (excl. GST)

Charge	Unit	Prices (GST exclusive)		
		Existing charge	SACL's proposal	ACCC's decision
Passenger facilitation charge (PFC) – based on either option A or B below, as selected by users				
PFC option A: separate charges				
Terminal facility	Per passenger	\$1.75	\$1.80	\$1.75
Apron parking	Per 15 minutes	\$35.00	\$36.01	\$35.00
Check-in counter	Per counter per hour	\$17.00	\$17.49	\$17.00
PFC option B: combined charge				
T2 regional PFC	Per passenger	\$4.50	\$4.63	\$4.50
Passenger security and bag screening				
T2 regional security charge	Per passenger	\$0.87	\$0.90	\$0.87
Runway charges				
Runway charge per tonne	Per MTOW tonne	\$3.44	\$3.54	\$3.44
Minimum runway charge	Per movement	\$50.00	\$51.44	\$50.00
Minimum runway charge (MTOW 5-10 tonnes)	Per movement	\$41.25	\$42.44	\$41.25
Minimum runway charge (MTOW 0-5 tonnes)	Per movement	\$20.00	\$20.58	\$20.00

The following table outlines the derivation of the combined PFC charge:

PFC component	Derivation of charge	Prices (GST exclusive)		
		Existing charge	SACL's proposal	ACCC's decision
Terminal facility charge		\$1.74	\$1.79	\$1.74
Apron parking	Based on average parking time of 45 minutes and 21 passengers per flight	\$2.50	\$2.57	\$2.50
Check-in counter charge	Based on average 2 departing flights per counter hour and 21 passengers per flight	\$0.26	\$0.27	\$0.26
Combined PFC		\$4.50	\$4.63	\$4.50

1 Introduction

On 24 June 2010, SACL provided the ACCC with a price notification proposing to increase charges for the provision of terminal, check-in, passenger security and bag screening, runway and apron parking services to regional air services at Sydney Airport. Regional air services are defined as regular public transport air services operating wholly within NSW.¹⁰

SACL's price notification states that it proposes to increase charges for the provision of each of these services by a maximum of 2.9 per cent and that the increased charges are to commence no earlier than 23 October 2010. This would be the first increase in these charges since May 2001.

The ACCC did not object to the current charges for regional air services in 2000-01 following assessments of SACL's charges for all airport users and 2002 following an assessment of a proposal for a restructure of prices for regional air services (see section 1.2 for more information).

The ACCC takes a consultative approach to its assessment of price notifications and, on 9 July 2010, released an issues paper seeking the views of interested parties on SACL's proposal. The ACCC received a total of 18 submissions in response to the issues paper from regional air services providers, regional ministers, regional councils and industry associations. The ACCC has considered these submissions in its assessment of SACL's price notification. A list of submissions is provided at Appendix B.

The following sections outline SACL's price notification (section 1.1), SACL's previous price notifications (section 1.2) and the structure of the ACCC's decision (section 1.3).

1.1 SACL's price notification

SACL's price notification was provided to the ACCC under section 95Z (Part VIIA) of the TPA. SACL states in its price notification that it proposes a maximum 2.9 per cent increase to each of the following charges for regional air services:

- passenger facilitation charge (PFC) separate charge components, including:
 - terminal facility charge
 - apron parking
 - check-in counter charge
- combined PFC charge
- passenger security and bag screening
- runway charges

¹⁰ Declaration 92 under section 95X of the TPA provides that 'regional air services' mean regular public transport air services operating wholly within the State of NSW.

SACL's proposal also states that the increased charges are to commence no earlier than 23 October 2010. SACL's price notification, which includes a summary of the SACL's proposed charges, is provided at Appendix A.

SACL's justification for its proposed increase to charges

In its price notification, SACL provides some broad justifications for the proposed increase to charges, including:

- The proposed charges are small and only affect regulated prices
 - The proposed maximum increase of 2.9 per cent represents a *de minimus* component of average passenger fares charged by regional airlines
- SACL has commenced consultation with the six affected airlines
- The proposed changes are consistent with the policy and regulatory framework and will:
 - improve the cost recovery rate for regional air services
 - still not reflect the actual cost of use of those services and facilities
 - allow increased investment to improve infrastructure services at Sydney Airport
 - encourage more efficient use of the scarce resources at Sydney Airport.¹¹

In addition to its price notification, SACL provided the ACCC with a supporting submission on 30 June 2010 that states the following as further justification for the proposed increase to charges:

- outdated volume parameters used to derive existing equivalent based charges
- current pricing for regional airlines does not reflect the changing aviation environment
- the proposed changes will not have an appreciable impact on passengers or the general business of airlines
- the proposed changes will not have an appreciable impact on competition between regional airlines
- constraints on SACL and regional air services providers' behaviour
- improving incentives and efficient use of infrastructure.¹²

In summary, SACL states that:

The proposed increases are reasonable in the circumstances given the impact on passenger fares would be approximately less than 1 per cent and the impact on regional airlines' costs is similarly low, especially in light of the comparatively higher charges borne by regional airlines at other airports. In addition, the present pricing levels have led to inappropriate price signals resulting in inefficient use of scarce airport capacity and market distortion between regional

¹¹ Sydney Airport Corporation Limited, *Notification of changes to charges for the provision of aeronautical services and facilities to regional air services*, 24 June 2010.

¹² Sydney Airport Corporation Limited, *Submission setting out supporting information to the price notification*, July 2010, p. 12.

airlines and other airport users, through the cross subsidisation of necessary new investments and cost pass through of providing aviation security.¹³

It is, therefore, the ACCC's view that SACL's justification for its proposed increase to charges essentially includes:

- increased costs associated with the provision of aeronautical services and facilities to regional air services without an associated increase in charges (and associated revenues) to recover costs
- current prices signalling inefficient use of scarce airport assets by regional air services
- the proposed changes will not have an appreciable impact on passengers or the general business of airlines.

SACL's price notification is provided at Appendix A and its supporting submission can be found on the ACCC's website at www.accc.gov.au/aviation.

1.2 SACL's previous price notifications

As discussed in more detail in chapter 2, the Government separately declared the provision of aeronautical services and facilities to regional air services at Sydney Airport from 1 July 2002. However, prior to 1 July 2002, all aeronautical services and facilities at Sydney Airport were declared under the *Prices Surveillance Act (Cth) 1983* (PS Act), requiring SACL to notify the ACCC if it proposed to increase prices for the provision of those services at Sydney Airport.

The ACCC did not object to the current charges for the provision of terminal, check-in, passenger security and bag screening, runway and apron parking services in its previous assessments of pricing proposals by SACL both before and after the Government separately declared the provision of aeronautical services and facilities to regional air services at Sydney Airport. The following table provides a summary of SACL's previous price notifications and the ACCC's assessments and approval of the current charges at their current levels.

¹³ *ibid.*, p. 3

Table 1.1: SACL’s previous price notifications

Price notification	The ACCC did not object to the charges for:
<p>May 2000</p> <p>Sydney Airport; Domestic common user terminal (domestic express terminal)¹⁴</p>	<ul style="list-style-type: none"> - Terminal (per passenger charge) - Passenger security and bag screening (per passenger charge)
<p>May 2001</p> <p>Sydney Airports Corporation Ltd.; Aeronautical pricing proposal¹⁵</p>	<ul style="list-style-type: none"> - Runway (per MTOW tonne and minimum per movement charge) - Apron parking (time based charge at the rate of \$35 per 15 minutes)
<p>October 2002</p> <p>Sydney Airport; Aeronautical charges for regional users of Terminal 2¹⁶</p>	<ul style="list-style-type: none"> - Apron parking (per passenger charge derived based on a rate of \$35 per 15 minutes, average parking time of 45 minutes and 21 passengers per flight) - Check-in counter (per passenger charge derived based on a rate of \$17 per counter hour, average of 2 departing flights per counter hour and 21 passengers per flight) - Combined PFC (per passenger charge incorporating terminal, apron parking and check-in counter per passenger charges)

1.3 Structure of the ACCC’s decision

The ACCC’s consideration of SACL’s proposed price increases involves analysis of SACL’s demand, costs and revenues for the efficient provision of terminal, check-in, passenger security and bag screening, runway and apron parking services to regional air services at Sydney Airport.

The legislative framework and the approach undertaken by the ACCC in applying the legislative criteria are outlined in **Chapter 2: Legislative framework and regulatory approach**.

¹⁴ ACCC, *Sydney Airport; Domestic common user terminal*, May 2000.

¹⁵ ACCC, *Sydney Airports Corporation Ltd.; Aeronautical pricing proposal decision*, May 2001.

¹⁶ ACCC, *Sydney Airport; Aeronautical charges for regional users of Terminal 2 decision and statement of reasons*, October 2002.

The reasons for the ACCC's decision are outlined in chapters 3–6 and include:

- **Chapter 3: Demand**—assessment of the growth in demand for SACL's services, including consideration of forecast future demand
- **Chapter 4: Costs and Revenues**—assessment of SACL's costs and associated revenue for the recovery of those costs
- **Chapter 5: Structure of prices**—assessment of the structure of SACL's proposed prices
- **Chapter 6: ACCC's view**—summary of the ACCC's assessment.

The ACCC's formal response to SACL's price notification is contained in **Chapter 7: ACCC's decision**.

Finally, **Chapter 8: Observations for future price notifications** provides the ACCC's observations in relation to information required for future price notifications.

2 Legislative framework and regulatory approach

Prior to 1 July 2002, all aeronautical services and facilities at Sydney Airport were declared under the PS Act, requiring SACL to notify the ACCC if it proposed to increase prices for the provision of those services at Sydney Airport.

From 1 July 2002, the Government discontinued the price notification regime for most aeronautical services and facilities, but separately declared the provision of aeronautical services and facilities to regional air services at Sydney Airport. This required Sydney Airport to notify the ACCC of any proposals to increase charges for the provision of those services. The price notification regime has operated continuously since then, with the most recent new declaration having come into effect on 1 July 2010.

The following sections outline the ACCC's current responsibilities for assessing SACL's price notifications (section 2.1), matters that the ACCC must give special consideration and regard to when assessing price notifications (section 2.2-2.4) and the ACCC's approach to assessing SACL's price notification (section 2.5). The relevant legislative instruments are provided at Appendix C.

2.1 ACCC's responsibilities for assessing SACL's price notification

The ACCC's role in the prices oversight of SACL's provision of aeronautical services and facilities to regional air services at Sydney Airport falls within the scope of Part VIIA of the TPA.

In particular, under section 95X of the TPA, the Minister, or the ACCC with the approval of the Minister, may:

- declare goods or services to be 'notified' goods or services
- declare a person to be, in relation to goods or services of a specified description, a 'declared person' for the purposes of Part VIIA of the TPA.

Declaration 92 (effective from 1 July 2010) provides that SACL is a declared person, and the provision of aeronautical services and facilities by SACL to 'regional air services' at Sydney Airport are declared to be notified services under section 95X of the TPA.¹⁷

The ACCC notes that, although SACL lodged its price notification on 24 June 2010 (i.e. while the previous declaration was still effective), the ACCC considers that Declaration 92 is the relevant declaration for the purposes of the ACCC's decision with regard to this price notification. The ACCC further notes that SACL's proposed increased charges are to commence no earlier than 23 October 2010.

¹⁷ The previous declaration (Declaration No. 91) took effect on 1 July 2007 for a period of three years. The previous declaration was replaced by a new declaration (Declaration No. 92) which took effect on 1 July 2010.

The declaration provides the following definitions:

- regional air services—regular public transport air services operating wholly within the NSW
- aeronautical services and facilities—having the same meaning as that applying from time to time under Part 7 of the Airports Regulations.¹⁸

Aeronautical services and facilities as defined under the Airports Regulations includes terminal, check-in, passenger security and bag screening, runway and apron parking services, amongst others.

The effect of this declaration is to require SACL to notify the ACCC if it proposes to:

- increase the price of an existing notified service; or
- introduce a new service that would fall within the definition of notified services; or
- provide an existing notified service under terms and conditions that are not the same or substantially similar to the existing terms and conditions of that service.

The ACCC is then responsible for assessing the price notification and can decide to:

- not object to the notified price increase; or
- not object to an increase lower than that proposed; or
- object to the notified price increase.

As set out in section 95ZB of the TPA, there is an ‘applicable period’ of initially 21 days within which the ACCC is to make its assessment starting on the day on which the notification was lodged. Subsection 95ZB(2) of the TPA allows for the period to be longer than 21 days with the agreement of the notifying firm. On 14 July 2010, with the agreement of SACL, the ACCC decided to extend the applicable period for SACL’s price notification to 86 days (to 17 September 2010) to allow sufficient time to publicly consult and scrutinise the price notification.

In exercising its powers and performing its functions in assessing SACL’s price notification under Part VIIA, the ACCC must:

- have particular regard to the matters set out in subsection 95G(7) of the TPA (section 2.2)
- give special consideration to matters outlined in Ministerial Directions relevant to SACL’s price notification (section 2.3).

¹⁸ *Airports Regulations 1997* made under the *Airports Act 1996*.

2.2 The statutory criteria for assessing price notifications

Matters to which the ACCC must have particular regard to are set out in subsection 95G(7) of the TPA, which provides that:

In exercising its powers and performing its functions under this Part, the Commission must, subject to any directions given under section 95ZH, have particular regard to the following:

- (a) the need to maintain investment and employment, including the influence of profitability on investment and employment
- (b) the need to discourage a person who is in a position to substantially influence a market for goods and services from taking advantage of that power in setting prices
- (c) the need to discourage cost increases arising from increases in wages and changes in the conditions of employment inconsistent with principles established by relevant industrial tribunals.

The ACCC's general approach to applying the matters in subsection 95G(7) of the TPA is outlined in the ACCC's *Statement of regulatory approach to assessing price notifications* (reproduced below).¹⁹

Investment, employment and market power—paragraphs 95G(7)(a) and (b)

A declared firm may possess monopoly or market power which allows it to charge excessive prices through having either costs above efficient levels, or profit margins above competitive levels.²⁰

An important consideration relevant to the first two matters in subsection 95G(7) is that in an open and competitive market economy efficient provision of services underpins investment and employment opportunities. Further, investment and employment in the national economy will be promoted when firms produce goods or services efficiently and price them competitively.

The ACCC has interpreted the matters in paragraphs 95G(7)(a) and (b) as seeking to promote economically efficient investment and employment throughout the economy. This is broadly consistent with the objectives outlined by the Government for pricing infrastructure services under the national access regime under Part IIIA of the TPA²¹ and also consistent with the object of prices surveillance, as set out in section 95E of the TPA.

¹⁹ ACCC, *Statement of regulatory approach to assessing price notifications*, June 2009, pp. 12–18.

²⁰ Australia Post and Airservices Australia are both statutory monopoly providers of particular services and the Productivity Commission found that Sydney Airport has a high degree of market power in domestic markets (Productivity Commission, *Price regulation of airport services—Inquiry report*, 23 January 2002).

²¹ Commonwealth Government, *Government response to Productivity Commission report on the review of the National Access Regime*, Canberra, September 2002.

Economic efficiency encompasses the following elements:

- *productive efficiency*—which is achieved when firms have the appropriate incentives to produce goods or services at least cost, and production activities are distributed between firms in a manner that minimises industry-wide costs
- *allocative efficiency*—which is achieved when firms employ resources to produce goods and services that provide the maximum benefit to society
- *dynamic efficiency*—which is achieved when firms have appropriate incentives to invest, innovate and improve the range and quality of goods and services, increase productivity and reduce costs over time.

In an open and competitive economy, the efficient provision of services underpins investment and employment opportunities. Welfare enhancing investment and employment in the national economy will be promoted when firms produce goods or services at least cost and charge prices that correspond as closely as possible to competitive levels. Although a competitive benchmark could be lacking in industries subject to prices surveillance, economically efficient prices would, as in competitive areas, reflect least-cost production and include profit margins reflecting a return on capital commensurate with the risks faced by the firm.

Prices above efficient levels result in a loss of allocative efficiency as they discourage some marginal purchases which would have had a value to the purchaser above the cost of supply. As excessive prices are passed on in higher costs for other industries using the services, they lead to lower profits and potentially a loss of investment and employment opportunity in the competitive sectors of the economy.

Accordingly, the ACCC considers that the matters in subsection 95G(7) will generally be met by economically efficient prices which reflect:

- an efficient cost base
- a reasonable rate of return on capital.

Including a reasonable rate of return on capital employed in prices for goods and services addresses the matters in paragraph 95G(7)(a) by providing incentives to maintain profitable investment in relation to the declared firm's industry. At the same time, a declared firm which may have substantial influence in a market for notified goods and services is discouraged from charging prices based on profits above that reasonable rate of return addressing paragraph 95G(7)(b).

Wages & conditions of employment

The ACCC considers paragraph 95G(7)(c) is less relevant to its consideration of price notifications following changes to industrial relations legislation in 1996, which led to a movement away from centralised wage fixing to agreements negotiated at the enterprise level. The object of the *Workplace Relations Act 1996* was to give 'primary

responsibility for industrial relations and agreement making to employers and employees at the enterprise and workplace levels.’²²

Enterprise bargaining has remained central to enabling an enterprise to negotiate the types of terms and conditions and work practices that allow an enterprise to retain good staff and make productivity gains that ultimately promote the future profitability of that enterprise. This type of remuneration is intended to boost the capacity of the enterprise to attract investment and provide future employment.

Consistent with the current wage determination framework, the ACCC is more likely to not object to price increases based on wage increases where such wage increases are associated with improvements in productivity and/or wage levels are at market levels. However, in monopolies or industries with highly concentrated market power, there may be less pressure for wage and labour agreements to be kept within the bounds of conditions across the economy generally. In assessing a price notification the ACCC will usually treat the level of wages and conditions as part of the broader issue of an efficient cost base.

Consideration of the matters in subsection 95G(7) of the TPA is subject to relevant Ministerial Directions made under section 95ZH of the TPA.

2.3 Ministerial Directions

There is one Ministerial Direction relevant to the ACCC’s assessment of SACL’s price notification—Direction 32 (effective from 1 July 2010).²³

The ACCC notes that, although SACL lodged its price notification on 24 June 2010 (i.e. while the previous direction was still effective), the ACCC considers that Direction 32 is the relevant direction for the purposes of the ACCC’s decision in relation to this price notification.

In assessing the proposal from SACL, Direction 32 provides that the ACCC must give special consideration to:

The Australian Government’s policy that the total revenue-weighted percentage increase in prices over the three years from 1 July 2010, or part thereof (including new or restructured prices) paid by operators of regional air services to SACL should not exceed the total

²² Commonwealth Department of Industrial Relations, *Changes in federal workplace relations law - legislation guide*, Dec. 1996, p. 1.

²³ The previous direction (Direction No. 30) took effect on 1 July 2007 for a period of three years. The previous direction was replaced by a new direction (Direction No. 32) which took effect on 1 July 2010.

percentage increase in the Consumer Price Index (CPI) over that same period.²⁴ The starting point for the price cap is the prices charged by SACL at 1 July 2010.²⁵

As noted in the Productivity Commission's (PC's) 2006 *Review of price regulation of airport services*, this Ministerial Direction is 'intended to give the effect to the Government's policy that the current pricing regime for regional airlines will be maintained, even after the airport is privatised, so that they cannot be forced out by an underhand policy of the landlord upping the rent.'²⁶

2.4 ACCC's approach to considering the relevant matters for assessing price notifications and Ministerial Directions

The Explanatory Memorandum of the *Trade Practices Legislation Amendment Bill 2003* clarifies that matters specified in Ministerial Directions are more important considerations than the factors specified in section 95G of the TPA.²⁷

The Explanatory Memorandum states in regard to section 95G of the TPA that:

...In exercising its powers and performing its functions under Part VIIA, the Commission must, subject to any directions given under s95ZH (which would become the paramount factors to be considered by the Commission), have particular regard to the three other factors described in s95G(7)(a),(b) and (c).²⁸

Further, it states in regard to section 95ZH of the TPA that:

...The purpose of the provision is to ensure that the operations of the Commission remain within the framework of Government policy (95ZH special considerations are to be paramount; for example, they are to be more important considerations than the particular factors specified in s. 95G).²⁹

While the ACCC acknowledges that it must give special consideration to the matters in Direction 32, it must also have particular regard to the factors specified in section 95G of the TPA.

It is the ACCC's view that the approach it takes in giving special consideration to the matters set out in Direction 32 does not conflict with the approach that it takes in having particular regard to the factors specified in section 95G.

²⁴ The previous direction (Direction No. 30) took effect on 1 July 2007 for a period of three years and required that the ACCC give special consideration to the Australian Government's policy that the total revenue-weighted percentage increase in prices over the three years from 1 July 2007, or part thereof.

²⁵ Under the previous direction, the starting point for the price cap were the prices charged by SACL at 30 June 2007.

²⁶ Productivity Commission, *Review of price regulation of airport services*, report no. 40, December 2006, p. 128.

²⁷ *Trade Practices Legislation Amendment Bill 2003* Explanatory Memorandum, accessed on 13 August 2010 at http://www.austlii.edu.au/au/legis/cth/bill_em/tplab2003351/memo1.html (see Division 2 - Commission's Functions).

²⁸ *Trade Practices Legislation Amendment Bill 2003* Explanatory Memorandum, accessed on 13 August 2010 at http://www.austlii.edu.au/au/legis/cth/bill_em/tplab2003351/memo1.html.

²⁹ *Trade Practices Legislation Amendment Bill 2003* Explanatory Memorandum, accessed on 13 August 2010 at http://www.austlii.edu.au/au/legis/cth/bill_em/tplab2003351/memo1.html.

Therefore, in the context of Direction 32 and subsection 95G(7) of the TPA, the ACCC considers that its assessment of SACL's price notification should be guided by the following:

- whether the proposed increases do not exceed the total percentage increase in the CPI over the relevant period
- whether the cost base, including a rate of return, underlying the proposed price increases is efficient
- whether the proposed increases will provide SACL with economically efficient investment incentives
- whether the proposed price increases will provide users with economically efficient signals for the consumption of SACL's services
- whether the proposed price increases are sufficient to enable SACL to meet the costs of providing its services but do not reflect monopoly rents.

There may be a number of ways by which the ACCC can assess the above matters. The following section discusses the approach adopted by the ACCC for its assessment of this price notification.

2.5 ACCC's approach to assessing SACL's price notification

As outlined above, the ACCC considers that Direction 32 and subsection 95G(7) of the TPA steer the ACCC towards an assessment of the efficiency of SACL's cost base and rate of return it is seeking. Prices are then assessed on their ability to achieve total revenue sufficient to cover total costs of providing an efficient service, including the rate of return commensurate with the risks faced by SACL, without achieving excessive monopoly profits. This is discussed under cost-based approach below.

In addition, a price notification may raise other issues which are relevant to the ACCC's assessment, such as the allocation of costs between declared and non-declared services and the structure of prices. This is discussed under pricing structure below.

Further, the ACCC's approach to applying the cost-based methodology and consideration of the pricing structure for its assessment of SACL's price notification is discussed under outline of approach for this price notification below.

Cost-based approach

The cost-based approach typically used by the ACCC to inform its price assessments is the building-block model, under which the total required revenue for the efficient service is based on the following formula:

$$\text{required revenue} = \text{operating costs} + \text{capital costs} + \text{tax}$$

where:

$$\text{capital costs} = \text{a return on capital commensurate with the risks faced by the business} + \text{depreciation of regulatory capital base}$$

and

$$\text{return on capital} = \text{rate of return on capital} * \text{regulatory capital base}$$

As outlined in the ACCC's *Statement of regulatory approach to assessing price notifications*, the ACCC generally applies a building-block model of the post tax revenue form (PTRM) to inform its view on whether or not the proposed price increases are expected to recover the efficient costs of providing the declared services.³⁰

Separation between declared and non-declared services

For a firm that provides non-declared services in addition to declared services, the efficient cost base for providing the declared services may be influenced by the concurrent provision of non-declared services. The sharing of some costs jointly incurred in the provision of both declared and non-declared services introduces considerations about the application of the building-block model and how these costs should be recovered through prices under a cost-based approach.

Where a 'dual-till' approach to regulation is applied, a separation needs to be made to these shared costs into the portion used in providing the declared services and the portion used in providing the non-declared services. This allows the building-block model to be applied specifically to the declared component of the business.

Where a 'single-till' approach is applied, no such separation is made, and the building-block model is applied using costs incurred in the provision of both declared and non-declared services. The appropriateness of prices for declared services is then assessed by reference to the extent to which the regulated business can recover its total costs of both declared and non-declared services.

The ACCC notes that SACL provides both aeronautical and non-aeronautical services and facilities at Sydney Airport. For example, T2 incorporates aeronautical services (such as check-in and security screening) and non-aeronautical services (such as retail). In addition, aeronautical services and facilities provided to regional air services are also shared with other airport users. For example, T2 is shared by domestic users and regional users and runways are shared by all airport users. Therefore, the ACCC considers it appropriate to understand the costs allocated to declared and non-declared services and the drivers behind those costs.

Pricing structure

As outlined in the ACCC's *Statement of regulatory approach to assessing price notifications*, in assessing a price notification it may be relevant for the ACCC to consider both the overall level of pricing for regulated goods or services and the structure of relative prices for individual goods or services.

The ACCC considers that an examination of the structure of prices proposed by a declared firm is particularly relevant where several individual goods or services are notified. The ACCC considers it will generally be in the interests of a declared firm to set relative prices which broadly reflect relative costs. Market power of regulated firms

³⁰ ACCC, *Statement of regulatory approach to assessing price notifications*, June 2009, p. 16.

can be reflected in inefficient or anti-competitive pricing structures. Broad examples of this may be:

- excessively high mark-ups on some services, which result in distorted price signals for purchasing and investment
- pricing below cost in particular areas with the effect of suppressing competition from other potential suppliers.

In assessing the structure of prices in a pricing proposal, the ACCC will, when relevant, consider the extent to which the pricing structure promotes the objectives of efficiency which are consistent with meeting the matters set out in Ministerial Directions and subsection 95G(7) of the TPA. Efficient pricing requires that consumers be charged the marginal social cost of supply of a good or service. Prices that are not cost reflective will generally adversely affect the efficiency of the resource allocation decisions by the declared person and its users.

However, where a declared firm has fixed costs, marginal costs may be below average costs and hence strict adherence to marginal cost pricing will result in insufficient revenue for the declared person to recover its total costs. A declared firm that supplies multiple products may also have costs common to several of the services it supplies.

The ACCC considers it important that fixed and common costs are allocated to services in a reasonable and transparent manner. For example, this may involve allocating costs in a manner that takes into account the demand sensitivities associated with the services provided.

The ACCC notes that SACL does not propose to change the pricing structure for regional air services. Nevertheless, the ACCC considers it appropriate to understand the efficiency of the pricing structure.

Outline of approach for assessing this price notification

The ACCC considers that a cost-based approach and assessment of the pricing structure is appropriate for assessing SACL's price notification, particularly given SACL's justifications for its proposed increase to charges which, as noted in section 1.1, essentially includes:

- increased costs associated with the provision of aeronautical services and facilities to regional air services without an associated increase in charges (and associated revenues) to recover costs
- current prices signalling inefficient use of scarce airport assets by regional air services
- the proposed changes will not have an appreciable impact on passengers or the general business of airlines.

However, despite SACL's justifications for its proposed increase to charges, the ACCC notes that SACL provided little information in its price notification and supporting submission to demonstrate what the increased costs, demand and associated revenues were. SACL also did not provide an explanation of how the proposed increased charges

would signal more efficient use of assets. The ACCC advised SACL that it would need to provide this information.

However, the ACCC also recognised that, as discussed in section 1.2, it had previously undertaken a detailed investigation of the basis for SACL's charges for the provision of aeronautical services at Sydney Airport (including for regional air services). As such, the ACCC advised SACL that, for the purposes of this price notification, it was prepared to consider SACL's proposed charges with reference to those established in its previous assessments. Importantly, the ACCC sought to understand how the specific costs, demand and revenues for the provision of aeronautical services to regional air services were likely to have changed since 2001-02.

On this basis, SACL provided the ACCC with the following information in support of its proposed increase in charges:

- a cost-based model for the combined costs, demand and revenues relating to the provision of terminal and check-in services to regional and domestic users at T2, as well as analysis relating to the efficiency of use of check-in counters by regional air services at T2
- limited information for the combined costs and revenues relating to the provision of passenger security and bag screening services to regional and domestic users at T2
- limited information for the combined costs relating to the provision of runways and apron parking services to regional and other airport users at Sydney Airport, as well as analysis relating to the efficiency of use of apron parking services by regional air services.

The above process of assessment, and the extent of the information provided by SACL, required some key assumptions to be made for the ACCC's analysis of SACL's proposed increase to charges. The extent of information provided by SACL (including key assumptions made), interested parties' views on SACL's proposed price increases (see consultation and timing below) and the ACCC's analysis (including analysis of sensitivity to key assumptions made) are discussed in chapters 3 and 4.

Additionally, given SACL's claims that the current pricing structure has resulted in inefficient use of airport assets by regional air services, the ACCC has considered how SACL's proposed structure of prices encourages a more efficient use of airport assets. This is discussed in chapter 5.

Consultation and timing

In reaching its view on the price notification from SACL, the ACCC has carried out a public consultation process. On 9 July 2010, the ACCC released an issues paper seeking submissions from interested parties on the proposed price increases by SACL. The ACCC received a total of 18 submissions from regional air services providers, members of NSW parliament, regional councils and industry associations. The ACCC has taken all submissions provided by interested parties into account in its assessment of SACL's price notification. A list of submissions is provided at Appendix B.

The following table outlines the key dates in the ACCC's assessment of SACL's price notification.

Table 2.1: Key dates in the ACCC's assessment process

Date	Process
24 June 2010	SACL's price notification lodged with the ACCC
9 July 2010	ACCC releases issues paper
30 July 2010	Closing date for submissions on the issues paper
17 September 2010	ACCC publishes its decision

Confidentiality

During the course of the ACCC's assessment of SACL's price notification, SACL has provided the ACCC with supporting information that SACL considers to be commercial-in-confidence. The ACCC has had regard to this information in conducting its assessment and there are aspects of the ACCC's decision which refer to this information to support its views regarding elements of SACL's proposal.

SACL retains the discretion to release information it considers to be commercial-in-confidence. Interested parties should approach SACL to seek access to this information.

3 Demand

Forecasts of demand for regional air services and facilities at Sydney Airport are required under a cost-based pricing methodology as they are used to assess whether the proposed prices are expected to achieve revenue sufficient to recover costs for the efficient provision of services to regional air services, without providing excessive returns.

In general, SACL charges regional air services on the following three bases:

- per passenger
- per maximum take off weight (MTOW) tonne
- per aircraft movement.

Therefore, the ACCC considers it appropriate to assess changes in demand for regional air services on these three bases. However, as discussed in section 2.5, certain services used by regional air services are shared with domestic users (such as terminal, check-in and passenger security and bag screening at T2) and indeed all airport users (such as runways and apron parking). Accordingly, it is also relevant to consider changes in demand by these users.

This chapter outlines the ACCC's assessment of demand at Sydney Airport.

3.1 SACL's price notification

As noted in section 1.1, SACL's justification for its proposed increase to charges essentially includes:

- increased costs associated with the provision of aeronautical services and facilities to regional air services without an associated increase in charges (and associated revenues) to recover costs
- current prices signalling inefficient use of scarce airport assets by regional air services
- the proposed changes will not have an appreciable impact on passengers or the general business of airlines.

In support of its price notification, SACL has confidentially provided the ACCC with actual volumes for domestic and regional passengers at T2 from 2001-02 to 2008-09 and forecast volumes from 2009-10 onwards. SACL has also provided actual aircraft movements for international, domestic and regional users for 2008-09.

The ACCC notes, however, that SACL generally charges regional air services on three bases (per passenger, per MTOW tonnes, and per aircraft movement). As such, the ACCC also requested that SACL provide information on forecast demand for these three bases. However, SACL did not provide this information to the ACCC and, therefore, the ACCC has also used data provided to it by SACL for the ACCC's annual airport monitoring reports and data reported in SACL's 2009 master plan for its analysis.

3.2 Views of interested parties

In response to SACL's claims that its revenue from regional air services has not increased enough to recover increased costs for the provision of those services, REX states in its submission that:

... Rex has expanded its passenger numbers through Sydney Airport by 74 per cent which has resulted in an increase in the per passenger PFC charge revenue to SACL of 8 per cent p.a. which far exceeds CPI over the same period. At the same time the number of Rex aircraft movements during this period has only increased by 35 per cent reflecting greater load factors.³¹

In response to SACL's claims that the proposed changes will not have an appreciable impact on passengers or the general business of airlines, a number of stakeholders commented that the price increase would in fact have a negative impact on the demand for air services in regional areas as costs will be passed on to consumer of regional air services.

In particular, the Bathurst Business Chamber (BBC) opposes SACL's proposed increase to charges on the basis that it would adversely affect regional air services operating to and from Sydney Airport which would result in significant extra costs to travellers from the Bathurst region.

In its submission, the BBC states:

The Bathurst Regional Council, the operator of Bathurst Regional Airport charges some concessional fees to Regional Express to encourage and support the route. This partnership approach by Council highlights the importance of regional air services to the region, and the very price sensitive nature of the market.³²

A number of submissions also note the significance of the need for access to Sydney Airport. For example, the City of Wagga Wagga states:

Affordable and equitable access to Sydney Airport is critical to viability of regional airlines and the employment and economic contribution they make to regional centres like Wagga Wagga.³³

The Kyogle Council submits a similar view stating that:

The ability to access Sydney Airport to attend business in our capital city is also vital for existing businesses in the area as well as the ability to attract new industrial investment.³⁴

Andrew Fraser MP, Member for Coffs Harbour, submits:

I am totally opposed to this proposed increase as I believe it will force many regional airlines to relocate their services to Bankstown airport ... Regional communities do not have the customer

³¹ REX, *Submission in response to ACCC's issues paper*, July 2010.

³² Bathurst Business Chamber, *Submission in response to ACCC's issues paper*, July 2010, p. 4.

³³ City of Wagga Wagga, *Submission in response to ACCC's issues paper*, July 2010.

³⁴ Kyogle Council, *Submission in response to ACCC's issues paper*, August 2010.

base as that of larger airlines and I believe they would need to pass additional SACL charges onto its commuters which could result in a downturn in patronage.³⁵

The NSW Farmers Association states that “many current air routes in NSW are seen as marginal.”³⁶ While the Griffith City Council states that:

As with all price increases the end user (i.e. regional air passengers) in general wears the increase ... and as such [the council believes that] any increase should be kept to the minimum.³⁷

Although, the ACCC also notes that some submissions supported the price rises, alluding to the fact that the 2.9 per cent increase was unlikely to have a negative impact on demand for regional air services at Sydney Airport.

In particular, Infrastructure Partnerships Australia (IPA) states:

... the increases are the first since 2001 and at an estimated 22-23 cents per passenger represent only a small fraction of the ticket price.³⁸

While, Qantas submits that:

On the basis that the proposed increase in the price notification is relatively modest, the Qantas Group does not oppose it.³⁹

3.3 ACCC's views

Passengers

The ACCC notes that SACL charges regional air services the following on a per passenger basis:

- combined PFC, which includes a component for:
 - terminal facilities
 - apron parking
 - check-in counters
- passenger security and bag screening.

The ACCC also notes, however, that terminal, check-in and passenger security and bag screening services at T2 are shared by regional and domestic passengers. Therefore, it is relevant to consider changes in the number of both regional and domestic passengers through T2. The more regional and domestic passengers that are expected to utilise T2, the lower is the price per passenger needed to recover the cost of investments in T2.

³⁵ Andrew Fraser MP, Member for Coffs Harbour, *Submission in response to ACCC's issues paper*, July 2010.

³⁶ New South Wales Farmers Association, *Submission in response to ACCC's issues paper*, July, 2010.

³⁷ Griffith City Council, *Submission in response to ACCC's issues paper*, August 2010.

³⁸ Infrastructure Partnerships Australia, *Submission in response to ACCC's issues paper*, July 2010.

³⁹ Qantas Airways Limited, *Submission in response to ACCC's issues paper*, July 2010.

As noted above, in support of its price notification, SACL confidentially provided the ACCC with actual volumes for regional and domestic passengers through T2 from 2001-02 to 2008-09 and forecast volumes from 2009-10 onwards. SACL also provided actual aircraft movements for international, domestic and regional users for 2008-09.

Based on the data provided by SACL, the number of regional passengers through T2 has increased substantially between 2001-02 and 2008-09, while the number of domestic passengers through T2 has increased by a greater amount over the same period. Indeed, REX notes in its submission that its passenger numbers through Sydney Airport have increased by 74 per cent over the last seven years.

Further, data from the ACCC's airport monitoring reports shows that the total number of regional and domestic passengers through Sydney Airport, which includes both T2 and the Qantas domestic terminal (T3), increased by 42.1 per cent between 2001-02 and 2008-09 (from 15.5 million to 22.0 million). While this data is not just in relation to T2, it provides an indication of the growth.

According to the confidential data provided by SACL, in 2001-02, regional passengers accounted for a greater percentage of the total number of passengers through T2 than in 2008-09. SACL has also provided the ACCC with forecast theoretical growth in the total number of passengers through T2 from 2009-10 onwards, which are confidential.

Additionally, apron parking is a common use facility shared by regional air services and other airport users. Although passengers are not the major driver of costs for apron parking, as noted above SACL generally charges airport users for apron parking on a per passenger basis. Therefore, it is relevant to consider changes in the total number of passengers through the airport. Assuming that costs are unchanged, the more passengers that are expected to utilise the airport, the lower is the price per passenger needed to recover the cost of providing apron parking.

Data from the ACCC's airport monitoring reports show that the total number of passengers through Sydney Airport (including regional, domestic and international passengers) has increased by 34.6 per cent between 2001-02 and 2008-09 (from 24.3 million to 32.7 million).

SACL's 2009 master plan forecasts 'annual average growth rates of 4.8 and 3.9 per cent respectively for international and domestic passengers (which includes intrastate)' to 2029.⁴⁰ In respect of regional passengers, SACL's 2009 master plan states:

Annual regional passengers are forecast to grow from 1.9 million in 2007 to 3.1 million by 2029. This growth will be accompanied by a growth in the average number of passengers per movement from 35 in 2007 to around 48 in 2029. The forecast schedule anticipates that regional destinations will continue to be served predominately by turbo-prop aircraft. However, almost 20 per cent of the movements to regional destinations are expected to be operated by jet services by 2029.⁴¹

⁴⁰ Sydney Airport, *Sydney Airport master plan 2009*, p. 49.

⁴¹ *ibid.*, p. 50.

MTOW tonne and aircraft movements

The ACCC notes that SACL charges regional air services a runway charge on a per MTOW tonne basis. The runway charge is also subject to minimum runway charges, calculated on a per aircraft movement basis.

The ACCC also notes that the runways are shared by all airport users. The greater the tonnes landed and/or the greater the number of aircraft movements that are expected to utilise the runways, the lower is the price per MTOW tonne and/or aircraft movements needed to recover the cost of investments in runways. Therefore, it is relevant to consider changes in the total airport tonnes landed and aircraft movements.

As noted above, in support of its price notification, SACL has provided actual aircraft movements for international, domestic and regional users for 2008-09. Although the ACCC requested that SACL provide forecast volumes for MTOW tonne and aircraft movements, this information was not provided. Therefore, the ACCC has also used data provided to it by SACL for the ACCC's annual airport monitoring reports and data reported in SACL's 2009 master plan in its analysis.

Data from the ACCC's airport monitoring reports show that the total tonnes landed increased by 21 per cent between 2001-02 and 2008-09 (from 12.4 million to 14.9 million). Additionally, the total number of aircraft movements (excluding GA) increased by 14.9 per cent over the same period (from 232 726 to 267 300).

SACL's master plan forecasts 'an average annual growth of 2.0 per cent for passenger aircraft movements' to 2029.⁴² The master plan also notes that:

The lower rate of growth in aircraft movements relative to passengers, results from the assumption that passenger load factors will continue to increase and that the average number of seats per aircraft movement (aircraft size) will also increase.⁴³

Analysis of change in demand and associated revenues

Based on the information available, the ACCC has undertaken an analysis of demand in assessing whether SACL's proposed prices will achieve revenue sufficient to recover the specific costs for providing services to regional air services. That is, the ACCC has considered the extent to which the historical and forecast growth in passengers would affect the price per passenger necessary to achieve revenue sufficient to recover costs.

The ACCC considers that the total number of regional and domestic passengers through T2, the total number of passengers through Sydney Airport, as well as the number of tonnes landed and aircraft movements have all increased between 2001-02 and 2008-09.

⁴² Sydney Airport, *Sydney Airport master plan 2009*, p. 50.

⁴³ *ibid.*, p. 50

Therefore, even assuming no increase in prices, SACL's increase in revenue derived from the provision of aeronautical services in 2008-09 is far greater than in 2001-02. However, the ACCC notes that the price for terminal, check-in and apron parking for domestic users has in fact increased from \$5.90 per passenger (excl. GST) to \$7.40 per passenger (excl. GST) over this period. Meanwhile, international and domestic passenger service charges (which include charges for runways) have also increased over the same period. This suggests that there has been an even higher increase in revenue over that period than the increase in demand.⁴⁴

The higher the growth in demand, and associated revenues, the lower is the price per unit needed to recover the costs for the provision of services. Therefore, the ACCC considers that, in order to justify an increase in the charge for regional air services, SACL needs to sufficiently demonstrate that costs for the provision of aeronautical services have increased since 2001-02 by such an extent that the growth in demand, and associated revenues, is insufficient to recover the costs for the provision of those services.

In particular, the ACCC notes that many of the costs for the provision of aeronautical services to regional air services are shared costs with other airport users. Therefore, the ACCC considers that SACL needs to demonstrate that the specific costs for the provision of aeronautical services to regional air services have increased by such an extent that the growth in revenues from regional air services is insufficient to recover the costs for the provision of those services.

Indeed, the ACCC notes submissions opposed to the increases submit that the demand, and associated revenues, for the provision of aeronautical services to regional air services have increased substantially since 2001-02, while the costs borne by SACL for providing these services have not increased to the same extent (and, in fact, may have decreased on a per unit basis due to the higher volumes).

Finally, an important consideration is the extent to which the proposed charges affect regional air services' willingness to use Sydney Airport. Several stakeholders expressed that smaller carriers are particularly sensitive to price increases. However, submissions also note that a 2.9 per cent increase is unlikely to have a significant effect on regional air services' willingness to use Sydney Airport given the important benefits derived from having access to the airport.⁴⁵

Taking this into consideration, it is the ACCC's view that the effect on demand of the proposed 2.9 per cent increase in the charges for regional air services is unlikely to be

⁴⁴ ACCC, *Airport monitoring report*, 2002-03 and 2008-09.

⁴⁵ The ACCC notes that some submissions raised concerns that the proposed increases were only part of a much larger proposed increase. The concerns related to additional charges for aircraft parking which were in addition to the 2.9 per cent increases already notified to the ACCC. On 26 August 2010, the ACCC published a media release addressing the concerns and advising that SACL has confirmed that it will not increase charges for aircraft parking for regional airlines unless the charges are notified to the ACCC. Therefore, the ACCC has not considered those additional charges for aircraft parking in its assessment of this price notification. For further, see the ACCC's website at: <http://www.accc.gov.au/content/index.phtml/itemId/944121/fromItemId/142>.

significant enough to offset the expected growth and, therefore, growth in demand is expected to continue into the future based on the proposed prices.

The ACCC considers that, based on the submissions from interested parties, information provided by SACL and other additional resources, demand for regional air services (including passenger numbers, tonnes landed and aircraft movements) have all increased significantly between 2001-02 and 2008-09, and growth in demand is expected to continue into the future based on the current prices and proposed prices.

Accordingly, particularly in light of the growth in demand and associated revenues, the ACCC considers that SACL needs to sufficiently demonstrate for the purposes of this price notification that the specific costs for the provision of aeronautical services to regional air services have increased since 2001-02 by such an extent that the growth in revenues is insufficient to recover the costs for the provision of services to regional air services.

4 Costs and revenues

In its assessment of SACL’s price notification, the ACCC considers the extent to which the proposed prices are expected to achieve revenue sufficient to recover efficient costs for the provision of terminal, check-in, passenger security and bag screening, runway and apron parking services to regional air services at Sydney Airport.

As outlined in section 2.5, for the purposes of this price notification, the ACCC has used previous assessments of SACL’s current charges as benchmarks and assessed how the costs, demand and revenues have changed.

More specifically, as discussed in section 1.2, the following table provides a summary of SACL’s previous price notifications and the ACCC’s assessments and approval of the charges at current levels.

Table 3.1: SACL’s previous price notifications

Price notification	The ACCC did not object to the charges for:
<p>May 2000</p> <p>Sydney Airport; Domestic common user terminal (DET)</p>	<ul style="list-style-type: none"> - Terminal (per passenger charge) - Passenger security and bag screening (per passenger charge)
<p>May 2001</p> <p>Sydney Airports Corporation Ltd.; Aeronautical pricing proposal</p>	<ul style="list-style-type: none"> - Runway (per MTOW tonne and minimum per movement charge) - Apron parking (time based charge at the rate of \$35 per 15 minutes)
<p>October 2002</p> <p>Sydney Airport; Aeronautical charges for regional users of T2</p>	<ul style="list-style-type: none"> - Apron parking (per passenger charge derived based on a rate of \$35 per 15 minutes, average parking time of 45 minutes and 21 passengers per flight) - Check-in counter (per passenger charge derived based on a rate of \$17 per counter hour, average of 2 departing flights per counter hour and 21 passengers per flight) - Combined PFC (per passenger charge incorporating terminal, apron parking and check-in counter per passenger charges)

The ACCC assessed a terminal per passenger charge for the DET in 2000. Following the withdrawal of Ansett and SACL’s purchase of the Ansett terminal (T2) in 2002, T2

was opened for use as a common user domestic facility from September 2002. Regional air services operations moved from the former DET to T2 in September 2002.

The ACCC's assessment of aeronautical charges for regional users of T2 in 2002 did not include an investigation of the costs of the T2 terminal. Rather, SACL's price notification proposed a restructuring of the prices that had applied at the DET for regional airline use of T2, which the ACCC decided to not object to.

Section 2.5 outlines the information provided by SACL in support of its proposed price increases, which included a confidential building-block model for the costs, demand and revenues for the provision of services at T2 and information pertaining to the change in costs for the provision of runways, apron parking and passenger security and bag screening.

This chapter outlines SACL's information (including assumptions made by SACL), interested parties' views on SACL's proposed price increases and the ACCC's analysis of SACL's information (including analysis of sensitivity to assumptions made by SACL) and interested parties' views relating to the provision of terminal and check-in facilities (section 4.1), passenger security and bag screening (section 4.2), runways (section 4.3) and apron parking (section 4.4) to regional air services at Sydney Airport.

4.1 Terminal and check-in

The current charge of \$1.75 per passenger (excl. GST) for terminal services was approved by the ACCC in 2000 for the use of Sydney Airport's former DET. However, regional air services moved their operations from the former DET to T2 in September 2002.

Additionally, the current charge for check-in services of \$17 per counter hour (excl. GST) (and equivalent passenger based charge of \$0.26 per passenger (excl. GST) that was derived based on a rate of \$17 per counter hour and an average of 2 departing flights per counter hour and 21 passengers per flight) was approved by the ACCC in 2002 as part of SACL's proposal to restructure prices for regional air services' use of T2.

SACL's price notification

Costs

SACL claims increased costs associated with the provision of terminal and check-in services to regional air services without an increase in related charges (and associated revenues) to recover those costs.

In its supporting submission, SACL states:

... the existing charges [do] not reflect the cost and quality of services provided ... the DET was a low cost facility whereas T2 [provides] facilities and services of higher quality and cost.⁴⁶

⁴⁶ SACL, *Submission setting out supporting information to the price notification*, p. 3.

In support of its proposed increase in charges for terminal and check-in services, SACL provided the ACCC with a building-block model containing confidential information on costs, demand and revenues for the provision of terminal and check-in services at T2.

SACL's model provides the combined costs for the provision of terminal and check-in services to regional and domestic users. It also includes building-block parameters for weighted average cost of capital, cost of debt, gearing, tax and dividend imputation credits. Finally, actual volumes for regional and domestic passengers through T2 from 2001-02 to 2008-09 and forecast volumes from 2009-10 onwards are provided.

SACL's model uses the building-block parameters to estimate an allowable revenue (calculated as the sum of operating costs, depreciation, a return on the value of assets and taxes) for the provision of terminal and check-in services based on the combined costs for the provision of these services.

SACL's model then uses the combined forecast volumes for regional and domestic passengers through T2 to calculate the revenue per passenger that is required to achieve the estimated allowable revenue for the provision of terminal and check-in services. More specifically, the charge per passenger that is required to achieve revenue sufficient to recover SACL's combined costs for the provision of these services.

SACL's model compares the calculated required charge per passenger for terminal and check-in services to the current charge for regional air services, being \$2.00 per passenger (excl. GST). SACL claims that the difference between the two charges demonstrates that there is an under-recovery from regional air services for the combined costs for terminal and check-in services and that the increase of \$0.06 per passenger (excl. GST) for regional air services is justified.

Efficiency

In addition, SACL claims that, in the case of check-in services, the volume parameters (such as the number of passengers per counter hour) that were used to derive an equivalent passenger based charge in 2002 have become outdated. As a result, SACL claims that the efficiency with which regional air services use check-in counters has decreased since 2001-02.

In its supporting submission, SACL states:

The structure of the combined PFC calculated on a per passenger basis has encouraged inefficient use of scarce airport assets, as asset allocation requirements (use of check-in and aircraft parking faculties) have increased at a greater rate than passenger volumes, thus reducing asset utilisation.⁴⁷

SACL provided the ACCC with confidential analysis, based on a sample of regional operators, of the efficiency with which regional air services use check-in services in support of its claims for reduced efficiency of use by regional air services. However, the ACCC notes that SACL's price notification does not propose to use this analysis to

⁴⁷ *ibid.*, p. 12

update the volume parameters used to derive the equivalent passenger based charge for check-in services.

Views of interested parties

In response to SACL's statements regarding T2 representing a higher quality and cost facility, REX asserts that the facilities provided for regional air services have not increased, stating:

Rex has not seen any change in the infrastructure for its regional operations and is still operating out of one gate with extensive bussing required to increasingly remote standoff bays. The infrastructure that Rex is currently using (at gate 47 for its passenger departures) is not as convenient or efficient as that available in its previous T2 locations (at gate 39 and 35). The main investments in infrastructure at Sydney airport appear to be driven by demands of the large operators.⁴⁸

Additionally, REX notes higher costs due to bussing:

Rex paid \$0.8m in apron bussing costs in 2009 and previous years saw bussing costs at up to \$0.9m. These costs borne were not applicable when air services operated out of DET due to the way SACL manages T2 and its aprons.⁴⁹

In response to SACL's assertion that regional air services have expanded their use of such facilities out of proportion to passenger numbers, REX submits that the use of check-in counters has not changed since 2002:

When Rex moved to T2 in 2002, Rex was allocated 3 check-in counters with a fourth shared counter. This is the same today. As for the departure gates, Rex has had a 74 per cent increase in passenger movements but are still serviced by the one solitary departure gate. Overall it means that \$2.00 (check-in and terminal use) of the total \$4.50 aeronautical charges have been given a 74 per cent increase through efficiency brought about by Rex.⁵⁰

The Kyogle Council reinforces REX's view that by REX having to use buses to transport regional passengers to and from the aircraft which are required to be parked at a distance from the terminal, REX incurs significant bussing costs for the service.⁵¹

Further, in the Bathurst Business Chamber (BBC) submission which focuses on issues with REX, BBC submits it does not agree that its members travelling between Bathurst and Sydney have the benefit of any improved facilities or services. Noting that REX in particular operates from one gate, using buses to access aircraft parked in various locations distant from the terminal itself.⁵²

REX asserts that its regional operations have had to become more efficient and has effectively achieved profitability by growing its business and providing better value and not by charging its passengers more. In particular, its average fare today is even

⁴⁸ Regional Express, *Submission in response to ACCC's issues paper*, July, 2010, p. 28.

⁴⁹ Regional Express, *Submission in response to ACCC's issues paper*, July, 2010, p. 8.

⁵⁰ Regional Express, *Submission in response to ACCC's issues paper*, July, 2010, p. 26.

⁵¹ Kyogle Council, *Submission in response to ACCC's issues paper*, July, 2010, p. 1.

⁵² Bathurst Business Chamber, *Submission in response to ACCC's issues paper*, July, 2010, p. 2.

less than when it started operations seven years ago, notwithstanding a tripling of oil prices and continued CPI increases of many of its cost components.⁵³

The Regional Aviation Association of Australia (RAAA) supports that efficient use that has been achieved by regional air service in their submission, stating:

The airline industry, including regional service providers, has made substantial efficiency savings over many years resulting in lower passenger prices....It should not be assumed that airport prices should inexorably go up. In fact, airports should be able to offer the sorts of savings airlines have been able to make. Given year-on-year passenger growth airports should actually reduce their prices over time.⁵⁴

A number of submissions also noted the importance of regional airlines having access to Sydney Airport. For example, the City of Wagga Wagga submitted that:

Regional airports and regional airline services are vital to the economic wellbeing of communities ... Direct services to capital city airports such as Sydney Airport are essential to enable efficient day business trips and direct connection to domestic and international routes.⁵⁵

While Qantas states that:

For a fully networked airline like the Qantas Group the ability for regional passengers to access connecting international and domestic services is critical.⁵⁶

ACCC's views

Analysis of SACL's model

The ACCC notes that the current charge for terminal services was based on the former DET, which the ACCC approved as part of its 2000 assessment. When regional air services' operations moved from the former DET to the current T2 in September 2002, the ACCC approved the current charge for check-in services (including the equivalent per passenger charge) as part of its 2002 assessment of a pricing restructure. The 2002 assessment did not, however, involve a detailed investigation of the specific costs of providing services to regional air services at T2. As the ACCC noted in its decision:

... SACL states that the facilities at Terminal 2 are generally higher quality and the costs are higher, and has foreshadowed that it may submit a further notification of a longer-term charge to recover the costs of use of Terminal 2 by regional operators.⁵⁷

Given that the ACCC previously undertook a detailed investigation of the costs of providing aeronautical services to regional air services in 2000-01, the ACCC was prepared to consider, for the purposes of this price notification, SACL's proposed

⁵³ Regional Express, *Submission in response to ACCC's issues paper*, July, 2010, p.29.

⁵⁴ Regional Aviation Association of Australia, *Submission in response to ACCC's issues paper*, July, 2010, p.5.

⁵⁵ City of Wagga Wagga, *Submission in response to ACCC's issues paper*, July 2010.

⁵⁶ Qantas Airways Limited, *Submission in response to ACCC's issues paper*, July 2010.

⁵⁷ ACCC, *Sydney Airport; Aeronautical charges for regional users of Terminal 2; Decision and statement of reasons*, October 2002, p. 3.

charges with reference to those established in its previous assessments. As such, the ACCC sought to understand how the specific costs, demand and revenues for the provision of terminal and check-in services to regional air services were likely to have changed.

As noted above, in support of its price notification, SACL provided the ACCC with a building-block model that contained confidential information for the combined costs, demand and revenues for the provision of terminal and check-in services to domestic and regional users at T2. SACL's model allocates the combined terminal and check-in costs on a per passenger basis to regional and domestic users. SACL's model is therefore based on the assumption that every passenger, whether regional or domestic, is allocated an equal share of the cost for the provision of terminal and check-in services at T2.

Based on the model provided by SACL, the ACCC has undertaken an analysis of the extent to which SACL's forecast growth in passengers and proposed prices will achieve revenue sufficient to recover costs for the provision of terminal and check-in services to regional air services. That is, based on the costs, demand and estimated allowable revenue (using the WACC parameters) provided by SACL, the ACCC has assessed whether SACL's proposed charge per passenger for regional air services will achieve the estimated allowable revenue per passenger required to recover costs.

In conducting its analysis, the ACCC has also applied alternative WACC parameters to those provided by SACL in its model. The ACCC has not, however, applied alternative growth forecasts or costs to those provided by SACL in its model.

Based on SACL's model, SACL's proposed charge per passenger for the provision of terminal and check-in services to regional air services is less than the estimated allowable revenue per passenger required to recover costs. That is, based on SACL's model, there is a forecast under-recovery from regional air services for the provision of these services. The ACCC notes, however, that applying the ACCC's alternative WACC parameters reduces the forecast under-recovery.

Analysis of sensitivity to the assumptions of SACL's model

The ACCC considers that SACL's model is dependent upon the assumption that combined terminal and check-in costs should be allocated evenly on a per passenger basis to regional and domestic users and, therefore, the model assumes that the revenue required on a per passenger basis from regional and domestic users should be the same.

However, the ACCC notes that, according to SACL's charges as listed in the 2008-09 airport monitoring report, domestic users are charged approximately \$4.90 per passenger (excl. GST) for terminal and check-in services.⁵⁸ This compares to SACL's current charge of \$2.00 per passenger (excl. GST) for regional users. That is, domestic users pay approximately \$2.90 per passenger (excl. GST) or 145 per cent more than regional users.

⁵⁸ ACCC, *Airport monitoring report 2008-09*, March 2010, p. 235. Based on T2 domestic passenger facilitation charge (which combines terminal, check-in and apron parking) of \$7.40 per passenger (excl. GST) less \$2.50 (excl. GST) assumed attributable to apron parking.

The ACCC also notes that the charge for domestic users is greater than the estimated allowable revenue per passenger calculated in SACL's model. The ACCC therefore considers that, if the charges, and associated revenues, for domestic users are taken into consideration, SACL is not under-recovering the combined costs for the provision of terminal and check-in services to regional and domestic users at T2 due to level of cost recovery from domestic users.

Additionally, the ACCC recognises that submissions opposed to the increase assert that the increase in regional passengers (and associated revenues) since the last price review in 2001 has been greater than any increased costs to SACL for providing terminal and check-in services to regional air services. Also, submissions note that, compared to the former DET, some regional air services are incurring additional costs for bussing passengers at the current T2. This has the effect of reducing the costs borne by SACL for regional air services.

While the ACCC recognises that, by ensuring that the specific costs of providing terminal and check-in services to regional air services are recovered through revenue from regional air services users, SACL is provided with an incentive to maintain these services for regional air services, the ACCC must also consider whether costs have appropriately been allocated to regional air services.

Accordingly, the ACCC considers that there are reasons to question the basis of SACL's allocation of the costs of providing terminal and check-in services to regional air services. As such, SACL has not sufficiently demonstrated in this case that the specific costs for the provision of these services to regional air services have increased since 2001-02, nor that a price increase is required to recover costs for the provision of these services.

Analysis of SACL's claims for reduced efficiency

The ACCC notes SACL's claims that the efficiency with which regional air services use check-in services has decreased since 2001-02. However, the analysis provided by SACL was based on only a sample of regional air services providers. Although the ACCC requested that SACL provide comparative information for all regional air services providers, this was not provided.

Therefore, the ACCC considers that the analysis provided by SACL does not represent the average regional user. This makes comparison with existing charges, which were based on an average of all terminal users, difficult and the ACCC is unable to verify SACL's claim's the efficiency of use by regional air services has decreased on average.

Indeed, the ACCC notes that submissions opposed to the increases have asserted that regional air services have needed to increase their efficiency of use as a result of increased passenger numbers without the equivalent increase in services provided by SACL.

However, even if SACL's claims of reduced efficiency of use by regional air services were established, the ACCC notes that SACL has not provided the ACCC with any information relating to scarce capacity for check-in services, the opportunity costs of capacity currently used by regional air services, nor how the proposed prices would address its claims for reduced efficiency.

The ACCC recognises the importance of managing scarce capacity and signalling efficiency of use through prices. The ACCC provided SACL with the opportunity to provide information supporting its claims. However, based on the limited information provided, the ACCC has not found SACL's claims of reduced efficiency of use by regional air services to be persuasive.

Based on the information provided by SACL, and the views of interested parties, the ACCC **objects** to SACL's proposed increase to terminal and check-in counter charges for regional air services.

4.2 Security screening

The current charge of \$0.87 per passenger (excl. GST) for passenger security and bag screening was approved by the ACCC in 2000 for use of Sydney Airport's former DET. As noted above, regional air services moved their operations from the former DET to T2 in September 2002.

SACL's price notification

SACL has claimed that costs for passenger security and bag screening have increased substantially and that domestic users are cross-subsidising regional air services.

In its supporting submission, SACL states:

The security and necessary new investment cost recovery process excludes regional airlines and results in cross subsidisation ... [and this] means that the substantial costs associated with the aviation industry are borne inequitably by users.⁵⁹

More specifically, in relation to costs, SACL claims:

the costs associated with aviation security have grown considerably since the events of September 2001 and continue to grow with recent announcements by [the] Government that more investment and increased security measures are required. Regional airlines' contributions to security costs do not reflect their consumption of these services and facilities.⁶⁰

In support of its price notification, SACL has referred the ACCC to the difference in per passenger charges for passenger security and bag screening for regional air services and domestic users.

SACL's model refers to the fact that security costs are essentially a cost pass through and that the airports do not make a margin on security costs. SACL's model then compares the per passenger charge for passenger security and bag screening for domestic users to the current per passenger charge for regional air services, being \$0.87 per passenger (excl. GST).

SACL claims that the difference between the two charges demonstrates that there is an under-recovery from regional air services for the provision passenger security and bag screening services. More specifically, that domestic users are cross-subsidising regional

⁵⁹ SACL, *Submission setting out supporting information to the price notification*, p. 13.

⁶⁰ SACL, *Submission setting out supporting information to the price notification*, p. 3.

air services and that the increase of \$0.03 per passenger (excl. GST) for regional air services is therefore justified.

Views of interested parties

In response to SACL's comments regarding domestic users cross-subsidising the costs of security for regional users at T2, REX contends that it should not have its passengers' security costs assessed on a per head basis as:

The screening at Terminal 2 is in place for domestic operators and given the combined volume of passengers travelling on Jetstar and Virgin Blue compared to the volume of Rex passengers, it is doubtful that the incremental cost of processing Rex passengers is anywhere near the \$500,000 per annum paid by Rex under the current charging regime. If anything, Rex is subsidising the jet operators for security costs.⁶¹

The NSW Farmers Association submission states:

Many regional airports do not have security facilities, and do not benefit from the investments made in Sydney Airport.⁶²

The Member for Burrinjuck MP Katrina Hodgkinson submits:

The ACCC should consider whether it is appropriate for regional airlines to be asked to bear the costs infrastructure such as security infrastructure ... which are unnecessary for their continued operation.⁶³

In contrast, submissions supporting the increased charges included the TTF which states:

... the aviation security environment has changed dramatically since 2001 as the aviation industry has worked with government to develop robust security arrangements in response to the terrorist attacks of September 2001.⁶⁴

Qantas submits:

Between 2001 and 2010 there has been significant investment in both security and aeronautical infrastructure. The security landscape in particular is very different from that which airlines operated under in 2001 and now includes the mandated introduction of security measures such as Checked Bag Screening and Explosive Trace Detection ... Qantas accepts that it is important that all airlines accessing Sydney Airport contribute to the true cost of this infrastructure.⁶⁵

⁶¹ Regional Express, *Submission in response to ACCC's issues paper*, July, 2010, p.26.

⁶² New South Wales Farmers Association, *Submission in response to ACCC's issues paper*, August 2010.

⁶³ Katrina Hodgkinson MP, Member for Burrinjuck, *Submission in response to ACCC's issues paper*, July 2010.

⁶⁴ Transport & Tourism Forum, *Submission in response to ACCC's issues paper*, July 2010.

⁶⁵ Qantas Airways Limited, *Submission in response to ACCC's issues paper*, July 2010.

ACCC's views

Analysis of SACL's model

The ACCC notes that the current charge for passenger security and bag screening services was based on the former DET, which the ACCC approved as part of its 2000 assessment. However, regional air services' operations moved from the former DET to T2 in September 2002. The ACCC has never undertaken an investigation of the specific costs of providing passenger security and bag screening to regional air services at T2.

Therefore, the ACCC considers it appropriate that, for the purposes of this price notification, SACL demonstrates how the specific costs, demand and revenues for the provision of passenger security and bag screening services to regional air services have changed since the current charge was approved.

As noted above, in support of its price notification, SACL referred the ACCC to the fact that security costs are essentially a cost pass through and that the airports do not make a margin on security costs.

The ACCC notes, that security costs at Australian airports (including Sydney Airport), are essentially driven by the Government. As noted in the ACCC's airport monitoring reports, security requirements at Australian airports are stipulated in legislation and regulations by the Government. In particular, the 2008-09 airport monitoring report notes that:

Following terrorist incidents and other threats to security, the Government has introduced additional security requirements at Australian airports. These include increased passenger and baggage screening.

On 10 March 2005, the *Aviation Transport Security Act 2004* and the *Aviation Transport Security Regulations 2005* – including a requirement that domestic checked bag screening at the major airports be in place by 1 January 2006 – were enacted to further strengthen Australia's aviation transport security systems.

...

Additional security measures in the legislation and regulations partly contributed to the increase in the airports' costs (and associated revenues) as a result of the necessary investment in security equipment and personnel.⁶⁶

The airports generally advise that security costs are essentially a cost pass through, that is, the airports do not make a margin on security costs except for an agreed return on the cost of security capital expenditure. The charges are set to recover the costs of these activities.⁶⁷

SACL's model refers to the difference between the per passenger charge for regional air services and domestic users for passenger security and bag screening services as demonstrating that there is an under-recovery from regional air services. The ACCC

⁶⁶ ACCC, *Airport monitoring report 2008-09*, p. 7.

⁶⁷ *ibid.*, p. 240.

notes that SACL's model is based on the assumption that every passenger, whether regional or domestic, should be allocated an equal share of the cost for the provision of passenger security and bag screening services at T2.

Based on the model provided by SACL, the ACCC has undertaken an analysis of the extent to which SACL's proposed prices will achieve revenue sufficient to recover costs for the provision of passenger security and bag screening services to regional air services.

The ACCC notes that, as listed in the 2008-09 airport monitoring report, domestic users paid a 'T2 domestic security charge' of \$1.59 per passenger (excl. GST) plus a 'domestic security charges (additional security measures)' of \$0.14 per passenger (excl. GST) which equates to a total of \$1.73 per passenger (excl. GST) for passenger security and bag screening at T2.⁶⁸ At the same time, regional air services paid a 'T2 regional security charge' of \$0.87 per passenger (excl. GST), which is equivalent to \$0.86 per passenger (excl. GST) less than the charge for domestic users.⁶⁹

Therefore, based on SACL's model, the difference between the charge for domestic users and charge for regional users demonstrates that there is an under-recovery from regional air services for the costs for passenger security and bag screening services.

Analysis of sensitivity to the assumptions of SACL's model

The ACCC considers that SACL's model is dependent upon the assumption that the passenger security and bag screening costs should be allocated evenly on a per passenger basis to regional and domestic users and, therefore, the model assumes that the revenue required on a per passenger basis from regional and domestic users should be the same.

However, the ACCC notes that security costs are essentially a cost pass through and that the charges are set to recover the full costs of these activities. The ACCC therefore considers that, if the charges, and associated revenues, for domestic users is taken into consideration, SACL is not under-recovering the combined costs for the provision of passenger security and bag screening to regional and domestic users at T2 due to the level of cost recovery from domestic users.

The ACCC also recognises that submissions opposed to the increase assert that domestic users are the main drivers for the cost of security at T2, and the incremental cost of providing security to regional air services is less than the amount of revenue derived from regional users. That said, several submissions also recognise that regional air services derive significant benefits from having access to the T2 terminal that integrates regional and domestic services.

While the ACCC recognises that, by ensuring that the specific costs of providing passenger security and bag screening services to regional air services are recovered through revenue from regional air services users, SACL is provided with an incentive

⁶⁸ *ibid.*, p. 235.

⁶⁹ *ibid.*

to maintain these services for regional air services, the ACCC must also consider whether costs have appropriately been allocated to regional air services.

Accordingly, the ACCC considers that there is reason to question the basis of SACL's allocation of costs for passenger security and bag screening costs to regional air services. As such, SACL has not sufficiently demonstrated in this case that the specific costs for the provision of these services to regional air services have increased since 2001-02, nor that a price increase is required to recover costs for the provision of these services.

Based on the information provided by SACL and the views of interested parties, the ACCC **objects** to SACL's proposed increase to passenger security and bag screening charge for regional air services.

4.3 Runways

The current runway charge of \$3.44 per MTOW tonne (excl. GST) and minimum charges per aircraft movement were approved by the ACCC in 2001. This was part of the ACCC's assessment of a proposal by SACL relating to charges for aeronautical services and facilities for all airport users that included aircraft take off and landing, aircraft taxiing, aircraft parking and charges for the use of the international passenger terminal.

SACL's price notification

Costs

SACL has claimed increased costs associated with the provision of runways to regional air services without an associated increase in charges (and associated revenues) to recover costs.

In relation to costs, SACL advised the ACCC that:

... approximately \$167.7 million [was spent] to upgrade the shared airfield, apron, runway, and taxiway works, including completion of the \$100 million runway safety project in April 2010.⁷⁰

In support of its price notification, SACL has referred the ACCC to the increased charges for domestic and international users as a result of the runway safety project. Specifically, in its supporting documentation, SACL states:

For the RESA project alone, the price rises agreed with the airlines amount to \$0.50 for international passengers, \$0.25 for domestic passengers ... All necessary new aeronautical investment charges are modelled through an agreed building-block methodology approach.

SACL claims that the increased charges for domestic and international users demonstrates that the increase for regional air services, which is equivalent to \$0.07 per regional passenger (excl. GST) is justified.

⁷⁰ SACL, *Submission setting out supporting information to the price notification*, p. 7.

Efficiency

SACL also notes regulatory constraints that it believes impacts on the efficiency of its airport operations in its supporting submission⁷¹, stating:

SACL operates under a range of regulatory constraints that impact on the efficiency of its operations and, in turn, impact on Australia's economic growth ... In addition to price regulation under the [TPA], airline access to Sydney Airport is regulated by [a curfew on aircraft movements in Sydney Airport; a maximum movement limit of no more than 80 scheduled aircraft movements per hour; and a ring fence around regional air services' slots]

Also, SACL submits:

While regional airlines account for just 6 per cent of all Sydney Airport traffic, they account for 23 per cent of all allocated runway slots. The proportion of overall allocated slots varies between 33 per cent during 1800 hour and averages 26 per cent between 0700 and 1100 morning peak hours. The average regional aircraft size has increased slightly to 50 seats per allocated slot, while the average passengers per regional movement also increased to 34 between 2008 and 2009. Despite gradual efficiency gains, regional airlines remain heavy users of peak runway and terminal capacity.⁷²

However, the ACCC notes that SACL has not provided the ACCC with any further information relating to regional air services' use of runways impacting on the efficiency of its operations at the airport.

Views of interested parties

In response to SACL's claims that it has made substantial investments runways, REX submits that the investments made do not fully apply to all regional air services, and therefore it appears to not be a strong justification to increase regional charges:

SACL mentions some \$166.7m spent on upgrading shared airfield, apron, runway and taxiway works but does not state how this actually benefits regional operators. It is hard to comment when no detail has been provided by SACL ... The infrastructure spending has been dictated by large aircraft including the airfield modifications needed to accommodate the A380. Rex does not see this as a justification to increase regional charges.⁷³

In addition, the New South Wales Farmers Association notes that:

Regional airlines are limited by the runway size of the smaller airports that they connect with, for this reason they do not gain any benefit from investment in runway safety measures.⁷⁴

While Thomas George MP, Member for Lismore, submits:

... I note that REX operates on much shorter runways in all of the regional airports it services, and thus will not directly benefit from these upgrades.⁷⁵

⁷¹ *ibid.*, p. 8.

⁷² *ibid.*, p. 12.

⁷³ Regional Express, *Submission in response to ACCC's issues paper*, July, 2010, p. 28.

⁷⁴ New South Wales Farmers Association, *Submission in response to ACCC's issues paper*, August 2010.

Additionally, REX submits that fees paid by some airlines that are far in excess of what is received by most other regional airports to adequately provide for efficient operations:

... Sydney Airport has facilities that are far in excess of those required by regional air services in terms of runways, taxiways and aprons. The annual fees currently paid by Rex of around \$4.5m are far more than received by most regional airports and would more than adequately provide for the infrastructure required for efficient regional operations.⁷⁶

Also, in response to SACL's claims of inefficient use of runways, REX states:

The number of aircraft required to provide these services cannot be utilised more efficiently during periods of reduced demand as the demand cannot even support the variable operating costs...Regional schedules tend to be orientated around the peak hours reflecting demand for business to travel to Sydney for the day (or from Sydney to a regional centre for the day). Accordingly, Rex's aircraft tend to stay overnight at regional airports for early morning flights into Sydney as this schedule reflects the preference of regional customers...⁷⁷

While the RAAA notes:

Regional operators cannot simply increase their passenger numbers and aircraft size in order to meet the preferences of Sydney Airport ... many regional centres will not necessarily be able to accept larger passenger aircraft due to operational issues such as runway length, runway strength and new security requirements that impose large costs.⁷⁸

ACCC's views

Analysis of SACL's model

The ACCC notes that the current runway charges were approved as part of the ACCC's 2001 assessment for all airport users.

Given that the ACCC undertook a detailed investigation of the specific costs of providing runway services to regional air services in 2001, the ACCC was prepared to consider, for the purposes of this price notification, SACL's proposed charges with reference to those established in 2001 and 2002. As such, the ACCC sought to understand how the specific costs, demand and revenues for the provision of runways to regional air services were likely to have changed.

As noted above, in support of its price notification, SACL referred the ACCC to the increased charges for domestic and international users as a result of the runway safety project. SACL notes that the price rise rises agreed with the airlines amount to \$0.50 for international passengers, \$0.25 for domestic passengers. The ACCC notes that this

⁷⁵ Thomas George MP, Member for Lismore, *Submission in response to ACCC's issues paper*, July 2010.

⁷⁶ Regional Express, *Submission in response to ACCC's issues paper*, July, 2010, p. 28.

⁷⁷ Regional Express, *Submission in response to ACCC's issues paper*, July 2010, p. 23.

⁷⁸ Regional Aviation Association of Australia, *Submission in response to ACCC's issues paper*, August 2010.

equates to an approximate 2.7 per cent per passenger increase for international users and a 7.9 per cent per passenger increase for domestic users.⁷⁹

The ACCC notes that, in contrast, the proposed increase for regional users is 2.9 per cent per movement—equivalent to \$0.07 increase per passenger for regional users or a 1 per cent per passenger increase.⁸⁰ Essentially, it is the ACCC's view that SACL claims that the increase for regional users is justified given the fact that the increase is much less than the increases for international and domestic users.

Based on SACL's model, SACL's proposed increase to runway charges for regional air services might be reasonable as the percentage increase in prices for international and domestic users is higher than for regional air services, which recognises the fact the international and domestic users appear to be the main driver behind runway investments at Sydney Airport.

Analysis of sensitivity to the assumptions of SACL's model

The ACCC considers that SACL's model is dependent upon the assumption that the runway costs should be allocated equally on a per unit basis to regional, domestic and international users and, therefore, the model assumes that the revenue required on a per unit basis from regional, domestic and international users should be the same.

The ACCC notes that submissions opposed to the increase argue that the investments have been dictated by large aircraft including the airfield modifications needed to accommodate A380s. That is, submissions opposed to the increase submit that international and domestic users are the main drivers for the necessary investment in runways and, therefore, it appears not to be a strong justification to increase regional charges.

While the ACCC recognises that, by ensuring that the specific costs of providing runways to regional air services are recovered through revenue from regional users, SACL is provided with an incentive to maintain these services for regional air services, the ACCC must also consider whether costs have appropriately been allocated to regional air services.

Accordingly, the ACCC considers that there is reason to question the basis of SACL's allocation of costs for runways to regional air services. As such, SACL has not sufficiently demonstrated in this case that the specific costs for the provision of these services to regional air services have increased since 2001-02, nor that a price increase is required to recover costs for the provision of these services.

⁷⁹ Based on SACL's international passenger services charge of \$18.32 per passenger (excl. GST) (which includes runway use and terminal facilities) and domestic passenger services charge of \$3.18 (excl. GST) (which includes runway use and terminal facilities) as listed in the ACCC's 2008-09 airport monitoring report.

⁸⁰ Based on SACL's regional runway minimum charge of \$2.45 per passenger (excl. GST) and regional T2 PFC of \$4.63 per passenger (excl. GST). The runway minimum charge per passenger was derived based on an average of 21 passengers per movement.

Analysis of SACL's claims for reduced efficiency

The ACCC notes SACL's claims that regulatory constraints impact on the efficiency of its use of runways, particularly due to airport curfews and the regional ring fence. Indeed, the PC in its 2006 inquiry report noted the potentially significant efficiency loss from the regional ring fence:

The reservation of slots for regional airlines potentially limits passenger throughput ... [by] potentially [reducing] the number of air traffic movements in a given period of time. Also regional airlines carry far fewer passengers per plane than do major domestic and international carriers ... This suggests that there is a potentially significant efficiency loss from the ring fence.⁸¹

However, SACL has not provided the ACCC with any substantial information relating to regional air services' use of runways impacting on the efficiency of its operations at the airport.

The ACCC recognises that, in general, prices can be used to promote efficient use of scarce assets. If, for instance, prices could be structured such that regional air services have an incentive to switch their use of the runway from peak times to off-peak times, then those peak-time slots would be available to other providers of air services who would be prepared to pay more than regional air services do.

However, the ACCC notes that the regional ring fence has the effect of preventing the peak-time slots held by regional air services being reallocated to non-regional airlines, which could be prepared to pay more than regional air services do.⁸²

Moreover, the ACCC also notes comments in submissions opposed to the increases that regional airlines' use of runways is largely orientated around the peak hours reflecting demand for business to travel to Sydney for the day.

Therefore, the ACCC considers that regional airlines' use of runways is unlikely to be altered by the proposed increase in price due to the commercial importance of the existing scheduling (which, in turn, is a result of demand by passengers) and regional ring fence. As such, any proposed increase in price would simply result in increased revenues without signalling any change to efficiency of use of runways.

Thus, in light of the effects of the regional ring fence, the ACCC considers that SACL has not demonstrated how its proposed increase to charges would address its claims that the current pricing structure has encouraged an inefficient use of potentially scarce airport assets. The ACCC recognises the importance of managing scarce capacity and signalling efficiency of use through prices. However, the ACCC has not found SACL's claims of in relation to impacts on efficiency of runways by regional air services to be persuasive.

⁸¹ Productivity Commission, *Review of price regulation of airport services*, report no. 40, Canberra, December 2006, p. 124.

⁸² *ibid.*

Based on the information provided by SACL, and the views of interested parties, the ACCC's **objects** to SACL's proposed increase to charges for runway for regional air services.

4.4 Apron parking

The current apron parking charge of \$35.00 per 15 minutes (excl. GST) was approved as part of the ACCC's 2001 assessment of SACL's charges discussed above. Additionally, the current equivalent passenger based charge of \$2.50 per passenger (excl. GST) (derived based on a rate of \$35 per 15 minutes and an average apron parking time of 45 minutes and 21 passengers per flight) was approved by the ACCC in 2002 as part of SACL's proposal to restructure prices for regional airline use of T2.

SACL's price notification

Costs

SACL has referred the ACCC to its claimed under-recovery for the provision of terminal and check-in services at T2, and the complementarity between terminal and check-in services and apron parking services as justification for its proposed increase in charges for the provision of apron parking to regional air services.

That is, SACL claims that, because terminal and check-in services are provided as part of a package with apron parking, the increase in the charge for apron parking is justified due to the claimed under-recovery for terminal and check-in services at T2.

Accordingly, in support of its proposed increase in charges for apron parking, SACL relies on the confidential building-block model it provided to the ACCC for the combined costs, demand and revenues for the provision of terminal and check-in services at T2 (see section 4.1 above).

SACL claims that the under-recovery from regional air services for the provision of terminal and check-in services demonstrated by its model is sufficiently large enough that the increase of \$1.01 per 15 minutes (excl. GST) and \$0.07 per passenger (excl. GST) for the equivalent passenger based charge for regional air services is justified.

Efficiency

In addition, SACL has claimed that, in the case of apron parking, outdated volume parameters (such as the average parking time) are used to derive an equivalent passenger based charge and the efficiency of use of assets has decreased since the derivation.

In its supporting submission, SACL states:

The regional NSW air transport industry has grown by approximately 45% since March 2001. However, the asset allocation requirements (use of check-in and aircraft parking facilities) have

increased at a greater rate than passenger volumes, thus reducing the overall efficiency. This is evidenced by the considerable increase in aircraft parking requirements for a “typical” stay.⁸³

SACL provided the ACCC with confidential analysis, based on a sample of regional operators, of the efficiency with which regional air services use apron parking services. However, the ACCC notes that SACL’s price notification does not propose to use this analysis to update the volume parameters used to derive the equivalent passenger based charge for apron parking services.

Views of interested parties

Rex submits that fees paid by some airlines that are far in excess of what is received by most other regional airports to adequately provide for efficient operations:

... Sydney Airport has facilities that are far in excess of those required by regional air services in terms of runways, taxiways and aprons. The annual fees currently paid by Rex of around \$4.5m are far more than received by most regional airports and would more than adequately provide for the infrastructure required for efficient regional operations.⁸⁴

Additionally, in relation to efficiency of use by regional air services, REX states:

The number of aircraft required to provide these services cannot be utilised more efficiently during periods of reduced demand as the demand cannot even support the variable operating costs...Regional schedules tend to be orientated around the peak hours reflecting demand for business to travel to Sydney for the day (or from Sydney to a regional centre for the day). Accordingly, Rex’s aircraft tend to stay overnight at regional airports for early morning flights into Sydney as this schedule reflects the preference of regional customers...⁸⁵

Indeed, a number of submissions also noted that scheduling of regional air services, is largely driven by passenger demand for travel in morning and afternoon peak periods. For example, the Bathurst Regional Council stated:

The ability to be able to travel to Sydney and do business during business hours and return on the same day is paramount ...⁸⁶

Submissions also note the need for congestion management, such as Qantas which stated that:

As Sydney Airport continues to build to meet the current and future passenger demands there will be ever increasing pressure on key infrastructure resources such as apron and gates. Qantas accepts that it is important that all airlines accessing Sydney Airport contribute to the true costs of this infrastructure.⁸⁷

⁸³ SACL, *Submission setting out supporting information to the price notification*, p. 3.

⁸⁴ Regional Express, *Submission in response to ACCC’s issues paper*, July, 2010, p. 28.

⁸⁵ Regional Express, *Submission in response to ACCC’s issues paper*, July 2010, p. 23.

⁸⁶ Bathurst Regional Council, *Submission in response to ACCC’s issues paper*, July 2010.

⁸⁷ Qantas Airways Limited, *Submission in response to ACCC’s issues paper*, July 2010.

ACCC's views

Analysis of SACL's model

The ACCC notes that the current time based apron parking charge was approved as part of the ACCC's 2001 assessment for all airport users. Further, the current equivalent per passenger charge was approved as part of the ACCC's 2002 assessment of a pricing restructure for regional air services' use of T2.

Given that the ACCC has previously undertaken an investigation of the costs of providing apron parking to all airport users, the ACCC considers it appropriate that, for the purposes of this price notification, SACL demonstrates how the specific costs, demand and revenues for the provision of apron parking to regional air services have changed since the current charges were approved.

However, as noted above, in support of its proposed increase for apron parking, SACL claims that the under-recovery from regional air services for the provision of terminal and check-in services demonstrated by its building-block model is sufficiently large enough to justify an increase in the apron parking charge for regional air services due to the complementarity of use of those services.

As outlined in section 4.1 above, based on SACL's model there is a forecast under-recovery from regional air services for the provision of terminal and check-in services. The ACCC notes that SACL's proposed increase of \$0.07 per passenger (excl. GST) for the provision of apron parking to regional air services is less than the forecast under-recovery from regional air services for the provision of terminal and check-in services. That is, based on SACL's model, there is a forecast under-recovery even including the revenue as a result of the increased apron parking charge.

Analysis of sensitivity to the assumptions of SACL's model

The ACCC considers that SACL's model is dependent upon the assumption that combined terminal and check-in costs should be allocated evenly on a per passenger basis to regional and domestic users and, therefore, the model assumes that the revenue required on a per passenger basis from regional and domestic users should be the same. Additionally, that there is an under-recovery from regional air services for combined terminal and check-in costs.

However, as outlined in section 4.1, the ACCC notes that the charge for terminal and check-in services for domestic users is greater than the revenue required on a per passenger basis calculated in SACL's model. The ACCC therefore considers that, if the charge for domestic users is taken into account in SACL's model, SACL is not under-recovering combined costs for the provision of terminal and check-in services to regional and domestic users at T2 due to what appears to be an over-recovery from domestic users.

Therefore, if the charge for domestic users is taken into account in SACL's model, SACL is not under-recovering combined costs for the provision of terminal and check-in services and there is no justification for the increased charge for apron parking for regional air services.

As discussed in section 4.1, the ACCC considers that SACL's model for the combined costs for the provision of terminal and check-in services to regional and domestic users requires more detailed analysis regarding the basis of SACL's allocation of costs to regional air services. As such, SACL has not sufficiently demonstrated in this case that a price increase is required to recover costs.

Analysis of SACL's claims for reduced efficiency

The ACCC notes SACL's claims that the efficiency with which regional air services use apron parking services has decreased since 2001-02. However, the analysis provided by SACL was based on only a sample of regional air services providers. Although the ACCC requested that SACL provide comparative information for all regional air services providers, this was not provided.

Therefore, the ACCC considers that the analysis provided by SACL does not represent the average regional user. This makes comparison with existing charges, which were based on an average of all airport users, difficult and the ACCC is unable to verify SACL's claims that the efficiency of use by regional air services has decreased on average.

Indeed, submissions opposed to the increases have asserted that regional air services have needed to increase their efficiency of use as a result of increased passenger numbers without the equivalent increase in facilities. Also, that scheduling of regional air services, which is largely driven by passenger demand for travel in morning and afternoon peak periods, may result in some regional air services providers parking for extended periods of time at the apron.

Therefore, the ACCC considers that regional air services' use of apron parking is unlikely to be altered by an increase in price due to the commercial importance of the existing scheduling (which, in turn, is a result of demand by passengers). As such, any increase in price would simply result in increased revenues without signalling any change to efficiency of use.

However, even if SACL's claims of reduced efficiency of use by regional air services were established, the ACCC notes that SACL has not provided the ACCC with any information relating to scarce capacity for apron parking services, the opportunity costs of capacity currently used by regional air services, nor how the proposed prices would address its claims for reduced efficiency.

The ACCC recognises the importance of managing scarce capacity and signalling efficiency of use through prices. However, the ACCC has not found SACL's claims of reduced efficiency of use by regional air services to be persuasive.

Based on the information provided by SACL, and the views of interested parties, the ACCC **objects** to SACL's proposed increase to charges for apron parking for regional air services.

5 Structure of prices

As outlined in section 2.5, the ACCC applies a building-block model to inform its view on whether or not SACL's proposed price increases are expected to recover the efficient costs of providing aeronautical services and facilities to regional air services at Sydney Airport. However, price notifications may raise other issues which are relevant to the ACCC's assessment, such as the structure of prices.

SACL's current pricing structure for regional air services is as follows:

Charge	Unit	Prices (GST exclusive)	
		Existing charge	SACL's proposal
Passenger facilitation charge (PFC) – based on either option A or B below, as selected by users			
PFC option A: separate charges			
Terminal facility	Per passenger	\$1.75	\$1.80
Apron parking	Per 15 minutes	\$35.00	\$36.01
Check-in counter	Per counter per hour	\$17.00	\$17.49
PFC option B: combined charge			
T2 regional PFC	Per passenger	\$4.50	\$4.63
Passenger security and bag screening			
T2 regional security charge	Per passenger	\$0.87	\$0.90
Runway charges			
Runway charge	Per MTOW tonne	\$3.44	\$3.54
Minimum runway charge	Per movement	\$50.00	\$51.44
Minimum runway charge (MTOW 5-10 tonnes)	Per movement	\$41.25	\$42.44
Minimum runway charge (MTOW 0-5 tonnes)	Per movement	\$20.00	\$20.58

It should be noted that, in relation to the PFC, regional air services are charged based on either the separate charge components OR the combined charge. That is, users can choose their preferred option.

This chapter discusses the structure of SACL's proposed prices.

5.1 SACL's price notification

SACL's proposed pricing structure for regional air services is unchanged from its current pricing structure.

However, as justification for the proposed price increases, SACL claims that the current prices signal inefficient use of scarce airport assets by regional air services, stating:

The structure of the combined PFC calculated on a per passenger basis has encouraged an inefficient use of scarce airport assets, as asset allocation requirements (use of check-in and aircraft parking facilities) have increased at a greater rate than passenger volumes, thus reducing asset utilisation.⁸⁸

Additionally, SACL states:

While the changes proposed are modest, they do go some way to furthering SACL's efforts to encourage efficient use of infrastructure.⁸⁹

SACL has also noted regulatory constraints that it believes impacts on the efficiency of its airport operations in its supporting information, stating that:

SACL operates under a range of regulatory constraints that impact on the efficiency of its operations and, in turn, impact on Australia's economic growth ... In addition to price regulation under the [TPA], airline access to Sydney Airport is regulated by [a curfew on aircraft movements in Sydney Airport; a maximum movement limit of no more than 80 scheduled aircraft movements per hour; and a ring fence around regional air services' slots]⁹⁰

However, the ACCC notes that SACL has not provided the ACCC with any further information relating to regional air services' use of runways impacting on the efficiency of its operations at the airport.

5.2 Views of interested parties

In response to comments by SACL regarding use of check-in counters, REX submits that the use of check-in counters has not changed:

When Rex moved to T2 in 2002, Rex was allocated 3 check-in counters with a fourth shared counter. This is the same today. As for the departure gate, Rex's 74 per cent increase in passenger movements are still serviced by the one solitary departure gate. Overall it means that \$2.00 (for check-in and terminal use) of the of the total \$4.50 aeronautical charges have been given a 74 per cent increase through efficiency brought about by Rex.⁹¹

Additionally, in respect to the use of runways and apron parking by regional air services, REX states:

⁸⁸ Sydney Airport Corporation Limited, *Submission setting out supporting information to the price notification*, July 2010, p. 12.

⁸⁹ *ibid.*, p. 17.

⁹⁰ *Ibid.* p. 8.

⁹¹ Regional Express, *Submission in response to ACCC's issues paper*, July, 2010, p. 20.

The number of aircraft required to provide these services cannot be utilised more efficiently during periods of reduced demand as the demand cannot even support the variable operating costs ... Regional schedules tend to be orientated around the peak hours reflecting demand for business to travel to Sydney for the day (or from Sydney to a regional centre for the day). Accordingly, Rex's aircraft tend to stay overnight at regional airports for early morning flights into Sydney as this schedule reflects the preference of regional customers ...⁹²

However, the Tourism Transport Forum submits:

The current fee structure creates an inequitable payment model for Sydney Airport services among the resident airlines.⁹³

5.3 ACCC's view

The ACCC notes SACL's claims that the current pricing structure has 'encouraged an inefficient use of scarce airport assets.'⁹⁴ Additionally, SACL claims that the efficiency with which regional air services use check-in counters and apron parking, for example, has decreased since 2001-02.

The ACCC recognises that, in general, prices can be used to promote efficient use of scarce assets. For example, if price structures encouraged regional air services to switch their use of services from peak times to off-peak times, then air services providers that would be prepared to pay more than regional air services do to use those services would benefit from gaining access to peak time services.

However, the ACCC notes that SACL's proposed pricing structure for regional air services is unchanged from its current pricing structure. Additionally, SACL claims that regulatory constraints impact on the efficiency of its airport operations, particularly due to airport curfews and a ring fence around regional air services' runway slots.

The regional ring fence has the effect of preventing the peak-time slots held by regional air services being reallocated to non-regional airlines, who may be prepared to pay more than regional air services do to gain access to regional slots.⁹⁵ Thus, in light of the effects of the regional ring fence and submissions from interested parties, the ACCC considers that SACL has not demonstrated how its proposed increase to charges would address its claims that the current pricing structure has encouraged an inefficient use of potentially scarce airport assets.

The ACCC considers that issues relating to congestion and inefficient use of airport assets needs to be addressed through restructuring of prices, not simply price increases, and this will be important for any future price notifications.

⁹² Regional Express, *Submission in response to ACCC's issues paper*, July 2010, pp. 22–23.

⁹³ Tourism Transport Forum, *Submission in response to the ACCC Issues Paper*, July 2010.

⁹⁴ *ibid.*, p. 12.

⁹⁵ Productivity Commission, *Review of price regulation of airport services*, report no. 40, Canberra, December 2006.

The ACCC considers that SACL has not demonstrated how its proposed increase to prices addresses its claims that the current prices signal inefficient use of potentially scarce airport assets by regional air services.

The ACCC would therefore expect that future proposed price increases would need to be supported by a more detailed explanation of how the proposed prices would address these claims, and consideration of whether a change to the pricing structure for regional air services may be appropriate if such efficiency arguments are used in support of proposed increases.

6 ACCC's view

In assessing SACL's price notification under Part VIIA of the TPA, the ACCC has considered the appropriateness of the proposed prices by giving consideration to the Ministerial Direction that the proposed increases should not exceed the total percentage increase in the CPI over the relevant period, and assessing the extent to which the proposed increases are forecast to recover the costs for the efficient provision of services and facilities by SACL to regional air services at Sydney Airport.⁹⁶ In addition, noting SACL's claims that current prices signal inefficient use of assets, the ACCC has considered the appropriateness of SACL's proposed price structure. Finally, the ACCC has taken into account all submissions made from interested parties on SACL's proposed increases.

The proposed increases are not inconsistent with the Ministerial Direction regarding increases being less than CPI

Regarding the direction to the ACCC to give special consideration to the Ministerial Direction that increases should not exceed the rate of increase in the CPI, the ACCC considers that SACL's proposed increases do not exceed the total percentage increase in CPI over the relevant period (being 2.9 per cent over the twelve months to March 2010).⁹⁷ Therefore, the ACCC considers that proposed increases are not inconsistent with the Ministerial Direction.

However, SACL has not sufficiently demonstrated that a price increase is required to recover costs for the efficient provision of services

Based on submissions from interested parties, information provided by SACL and other additional resources available, the ACCC considers that the demand for regional air services (including passenger numbers, tonnes landed and aircraft movements), and associated revenues, has increased significantly between 2001-02 and 2008-09, and that growth is expected to continue into the future based on the current prices.

That said, the ACCC notes that the demand for regional air services is potentially a price sensitive segment of the market and an increase in charges will have some effect on the expected growth in demand for these services. However, it is the ACCC's view that the effect on demand of the proposed 2.9 per cent increase is unlikely to be significant enough to offset the expected growth. That is, growth is also expected to continue into the future based on the proposed prices.

The higher the growth in demand, and associated revenues, the lower is the price per unit needed to recover the costs for the provision of services. Therefore, the ACCC considers that, for the purposes of this price notification, SACL needs to sufficiently demonstrate that the specific costs for the provision of services to regional air services have increased since 2001-02 by such an extent that the growth in demand, and

⁹⁶ Direction 32 requires the ACCC to give special consideration to the Government's policy that the total percentage increase in the prices does not exceed the total percentage increase in the CPI over the relevant period.

⁹⁷ The ACCC notes that some increases are slightly higher than 2.9 per cent due to rounding to the nearest cent.

associated revenues, is insufficient to recover the costs for the provision of services to regional air services.

Indeed, the ACCC notes that submissions opposed to the increases submit that the demand, and associated revenues, for the provision of aeronautical services to regional air services have increased substantially since 2001-02, while the costs borne by SACL for providing these services have not increased to the same extent (and, in fact, may have decreased on per unit basis due to the higher volumes).

In support of its proposed increase in charges for terminal and check-in services, SACL has provided the ACCC with a building-block model containing confidential information for the combined costs, demand and revenues for the provision of terminal and check-in services to regional and domestic users at T2. SACL claims that its model demonstrates that there is an under-recovery from regional air services for the provision of these services.

In support of the proposed increase in charges for passenger security and bag screening, SACL provided the ACCC with confidential information relating to the combined costs and revenues. SACL advises that ‘the costs associated with aviation security have grown considerably since the events of September 2001 and continue to grow.’⁹⁸ Additionally, SACL states that ‘regional airlines [sic] contributions to security costs do not reflect their consumption of those services and facilities.’⁹⁹ SACL therefore claims that there is an under-recovery from regional air services for the provision of these services, and that domestic users are cross-subsidising regional air services.

SACL has asserted that, in relation to runways, the proposed increase for regional users is justified when compared to the increased prices for international and domestic users at Sydney Airport. In particular, international users’ charges have increased by \$0.50 per passenger and domestic by \$0.25 per passenger (2.7 per cent and 7.9 per cent respectively) while the increase for regional users is equivalent to around \$0.07 per passenger or 1 per cent.

Finally, in support of the proposed increase in charges for apron parking, SACL claims that, because terminal and check-in services are provided as part of a package with apron parking, the increase in the charge for apron parking is justified due to the claimed under-recovery for terminal and check-in services at T2.

The ACCC considers that SACL’s claims of under-recovery from regional air services are largely dependent upon the assumption that shared costs for the provision of aeronautical services should be allocated evenly on a per unit basis to regional and other airport users. Under this assumption, SACL claims that the revenue required on a per unit basis from regional and other airport users should be the same.

However, even if SACL’s claims of under-recovery from regional air services were established, the ACCC notes that, as listed in the ACCC’s airport monitoring reports, SACL’s charges for other airport uses are higher than those for regional air services.

⁹⁸ Sydney Airport Corporation Limited, *Submission setting out supporting information to the price notification*, July 2010, p. 3.

⁹⁹ *ibid.*

Moreover, the ACCC considers that, if the charges, and associated revenues, for other airport users are taken into consideration, SACL is not under-recovering the combined costs for the provision of terminal, check-in, passenger security and bag screening, runway and apron parking services to airport users at Sydney Airport.

Accordingly, the ACCC considers that there are reasons to question the basis of SACL's allocation of the costs for providing terminal, check-in, passenger security and bag screening, runway and apron parking services to regional air services. As such, SACL has not sufficiently demonstrated in this case that the specific costs for the provision of these services to regional air services have increased since 2001-02, nor that a price increase is required to recover costs for the efficient provision of these services.

Also, SACL has not supported its claims that current prices signal inefficient use of scarce airport assets

The ACCC notes SACL's claims that the current pricing structure has 'encouraged an inefficient use of scarce airport assets.'¹⁰⁰ More specifically, SACL claims that the efficiency with which regional air services use check-in counters and apron parking services has decreased since 2001-02.

The ACCC recognises that prices can be used to promote efficient use of scarce assets. For example, if price structures encouraged regional air services to switch their use of services from peak times (i.e. 6:00am–11:00am and 3:00pm–8:00pm) to off-peak times, then air services providers that would be prepared to pay more than regional air services do to use those services would benefit from gaining access to airport services in peak times.

However, the ACCC notes that SACL has not proposed to change its pricing structure. Additionally, SACL claims that regulatory constraints impact on the efficiency of its airport operations, particularly due to airport curfews and a ring fence around regional air services' slots.¹⁰¹

In fact, the ACCC notes that the regional ring fence that is in effect at Sydney Airport reserves landing slots for regional air services during peak times. This has the effect of preventing the peak-time slots held by regional air services being reallocated to non-regional airlines, which could be prepared to pay more than regional air services do to gain access to regional slots.¹⁰²

In light of effects of the regional ring fence, the ACCC considers that, for the purposes of this price notification, SACL needs to sufficiently demonstrate that scarce capacity exists, the opportunity cost of capacity currently used by regional air services and how the proposed increase to charges would address its claims.

¹⁰⁰ *ibid.*, p. 12.

¹⁰¹ *ibid.*, p. 8.

¹⁰² Productivity Commission, *Review of price regulation of airport services*, report no. 40, Canberra, December 2006.

In support of its claims for reduced efficiency of use by regional air services, SACL provided the ACCC with analysis, based on a sample of regional air services providers, of the efficiency with which regional air services use check-in and apron parking services. The ACCC was, however, unable to verify SACL's claims that the efficiency of use had decreased on average as the ACCC requested that SACL provide comparative information for all regional air services providers but this was not provided.

However, even if SACL's claims of reduced efficiency of use by regional air services were established, SACL also did not provide the ACCC with an explanation of the opportunity cost of the capacity currently used by regional air services, nor how the proposed increases to prices would address its claims for reduced efficiency. The ACCC has therefore not found SACL's claims of reduced efficiency of use by regional air services to be persuasive.

As noted above, while the ACCC recognises the importance of managing scarce capacity and signalling such scarce capacity to users through prices, SACL has not demonstrated in this case that scarce capacity exists, nor the opportunity cost of capacity currently used by regional air services. The ACCC considers that SACL would need to consider how proposed increases to charges would address these claims and whether a change to the pricing structure for regional air services may be appropriate if such efficiency arguments are used in support of future notifications.

7 ACCC's decision

The ACCC's decision, for the reasons set out in this decision paper, is to **object** to SACL's proposed increase to charges for the provision of terminal, check-in, passenger security and bag screening, runway and apron parking services to regional air services at Sydney Airport. A summary of SACL's proposed charges and the ACCC's decision is provided below.

Approved charges (excl. GST)

Charge	Unit	Prices (GST exclusive)		
		Existing charge	SACL's proposal	ACCC's decision
Passenger facilitation charge (PFC) – based on either option A or B below, as selected by users				
PFC option A: separate charges				
Terminal facility	Per passenger	\$1.75	\$1.80	\$1.75
Apron parking	Per 15 minutes	\$35.00	\$36.01	\$35.00
Check-in counter	Per counter per hour	\$17.00	\$17.49	\$17.00
PFC option B: combined charge				
T2 regional PFC	Per passenger	\$4.50	\$4.63	\$4.50
Passenger security and bag screening				
T2 regional security charge	Per passenger	\$0.87	\$0.90	\$0.87
Runway charges				
Runway charge per tonne	Per MTOW tonne	\$3.44	\$3.54	\$3.44
Minimum runway charge	Per movement	\$50.00	\$51.44	\$50.00
Minimum runway charge (MTOW 5-10 tonnes)	Per movement	\$41.25	\$42.44	\$41.25
Minimum runway charge (MTOW 0-5 tonnes)	Per movement	\$20.00	\$20.58	\$20.00

The following table outlines the derivation of the combined PFC charge:

PFC component	Derivation of charge	Prices (GST exclusive)		
		Existing charge	SACL's proposal	ACCC's decision
Terminal facility charge		\$1.74	\$1.79	\$1.74
Apron parking	Based on average parking time of 45 minutes and 21 passengers per flight	\$2.50	\$2.57	\$2.50
Check-in counter charge	Based on average 2 departing flights per counter hour and 21 passengers per flight	\$0.26	\$0.27	\$0.26
Combined PFC		\$4.50	\$4.63	\$4.50

8 Observations for future price notifications

As stated in section 2.5, the ACCC considers that a cost-based approach and assessment of the pricing structure was appropriate for the assessment of this price notification. However, the ACCC also recognised that it had previously undertaken a detailed assessment of the basis for SACL's charges. Therefore, the ACCC advised SACL that it was prepared to consider SACL's proposed charges with reference to those established in previous assessments. As such, the ACCC sought to understand how the specific costs, demand and revenues for the provision of aeronautical services to regional air services were likely to have changed.

However, based on the information that SACL has provided, the views of interested parties and the ACCC's analysis of that information, the ACCC's assessment is that SACL has not sufficiently demonstrated that the specific costs for the provision of services to regional air services have increased by such an extent that the growth in demand, and associated revenues, is insufficient to recover costs for the provision of those services. In particular, the ACCC considers that there are reasons to question the basis of SACL's allocation of shared costs to regional air services.

The ACCC would therefore expect that future proposed price increases would need to be supported by a more detailed analysis of costs, including the basis of allocation of those costs to regional air services.

Finally, the ACCC notes that, in support of its price notification, SACL claims that the pricing structure has 'encouraged an inefficient use of scarce airport assets' by regional air services.¹⁰³ Despite this claim, SACL has not, in this instance, proposed a change to the pricing structure for regional air services.

Based on the information that SACL has provided, the ACCC considers that SACL has not demonstrated in this case that scarce capacity exists, nor the opportunity cost of capacity currently used by regional air services. This includes taking into consideration the operation of the regional ring fence and curfew at Sydney Airport.

The ACCC would therefore expect that future proposed price increases would need to be supported by a more detailed explanation of how the proposed prices would address concerns regarding efficiency of use of potentially scarce airport assets by regional air services.

¹⁰³ *ibid.*, p. 12.



24 June 2010

Mr Anthony Wing
General Manager - Transport and General Prices Oversight Brand
Australian Competition and Consumer Commission
GPO Box 520
Melbourne VIC 3001

Dear Mr Wing

Notification of changes to charges for the provision of aeronautical services and facilities to regional air services

I am writing to formally notify the Commission, in accordance with Part VIIA of the *Trade Practices Act 1974*, of proposed changes to charges for the provision of aeronautical services and facilities to regional air services providers at Sydney Airport. The proposed changes are proposed to take effect from no earlier than 23 October 2010.

We ask that the Commission review our proposed maximum changes now under the current regime set out in Declaration 91 and Direction 30. Our formal notification is provided at Attachment 1. We intend to provide the Commission with supporting information as soon as possible.

1. The proposed changes are small and only affect regulated prices

We propose to increase price by a maximum of 2.9%, being the All Groups Consumer Price Index ("CPI") for the period 1 April 2009 to 31 March 2010. This compares with the actual recorded increase in CPI since March 2001 of approximately 28.9% and increases in CPI since 1 July 2007 of approximately 9.9% as is consistent with the applicable Direction 30. The changes proposed represent the first change to these charges since 25 May 2001.

The proposed changes represent a *de minimus* component of average passenger fares charged by regional airlines. SACL's understanding is that the proposed increase is less than 1% of the typical regional fare. Further, SACL has calculated that the impact on typical charges paid by regional air services providers would be only approximately \$4.70 per aircraft movement.

Our proposed changes will only affect regulated pricing, which encompasses runway, terminal and minimum movement charges. Unregulated prices that are commercially agreed are not affected by our proposed changes.

Sydney Airport
Corporation Limited
ABN 62 082 578 809

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Sydney International
Airport NSW 2020
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Airport NSW 2020
Australia

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61 2 9667 9111
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2. We have commenced consultation with the six affected airlines

The following six airlines will be affected by our proposed changes, though we note that Tiger Airways is not presently operating regional air services from Sydney Airport:



Our proposed changes are subject to consultation and notice provisions under the terms of the Sydney Airport Conditions of Use ("COU") that governs, in part, our commercial relationship with regional air services providers. We have commenced consultation with the above regional air service providers in accordance with clause 8 of the COU in respect of the changes proposed.

While our view is that the increases proposed are consistent with the regulatory and policy framework, a purpose of the consultation process under the COU is to negotiate on the merits. Accordingly, the changes for which the Commission's approval are sought reflect the maximum price proposed and may ultimately be lower depending on the outcome of the consultation process with airlines.

3. The proposed changes are consistent with the policy and regulatory framework

Our objective is to achieve an increase in charges for the provision of aeronautical services and facilities to regional air services at Sydney Airport that is acceptable to the Commission. In our view, the proposed changes are consistent with Government policy and the requirements of Part VIIA of the *Trade Practices Act 1974* and will:



- improve the cost recovery rate for regional air service providers use of aeronautical services and facilities at Sydney Airport by ensuring that we are able to recover CPI increases going forward from 2009;
- still not reflect the actual cost of use of those services and facilities;
- allow increased investment to improve infrastructure and services at Sydney Airport; and
- encourage more efficient use of the scarce resources at Sydney Airport.

As mentioned earlier, the current charges for aeronautical services and facilities to regional air services have not increased since May 2001. SACL has not previously availed itself of the notification regime set out in Part VIIA of the Act because of the sensitivities around regional pricing at Sydney Airport.

Recently, SACL has embarked on a review of how SACL conducts business, including implementing appropriate cost savings, improving debt recovery and ensuring appropriate and efficient pricing.

Regional pricing for aeronautical services and facilities was identified as an area where price increases are required and appropriate in the circumstances notwithstanding those sensitivities. However, SACL is seeking only a one year increase in CPI rather than the full three years provided for in Direction 30.

In our view, the maximum changes proposed are consistent with the applicable policy and regulatory framework set out in Part VIIA of the Act, Direction 30 and Declaration 91.

It is within the Commission's purview to consider and assess our proposed changes under the current regime notwithstanding they are proposed to take effect post 30 June 2010.

To take any other view would be to introduce considerable uncertainty into the notification regime for declared persons and would significantly limit the Commission's role and functions under Part VIIA. This is clearly not what was contemplated by Part VIIA of the Act.

Accordingly, we ask that the Commission commence a review of our proposed changes now under the current regime.



We wish to assist the Commission in its consideration of our notification. Accordingly, if you have any queries in respect of this notification, please do not hesitate to contact either:

Elizabeth Henderson
Senior Corporate Lawyer
P +61 2 9667 6458

Nigel Fanning
Airline Commercial Manager
P +61 2 9667 9294

Yours sincerely

Russell Balding AO
Chief Executive Officer

Attachment 1

**LOCALITY NOTICE ISSUED BY SYDNEY AIRPORT CORPORATION LIMITED IN
RELATION TO THE PROVISION OF AERONAUTICAL SERVICES AND
FACILITIES TO REGIONAL AIR SERVICES**

Notification of prices pursuant to section 95Z of the *Trade Practices Act 1974* in relation to Declaration 91.

Declared person:

Sydney Airport Corporation Limited
1 Link Road
Mascot NSW 2020

gives notice that it proposes to supply aeronautical services and facilities to regional air services at the prices detailed in Schedule 1 to this Attachment, effective from no earlier than 23 October 2010 in line with Sydney Airport Conditions of Use ("COU") consultation and notification process.

Sydney Airport Corporation Limited considers that the proposed price changes are consistent with the requirements of section 95G(7) of the *Trade Practices Act 1974* and would not result in total percentage increase in price of more than the total percentage increase in the All Groups Consumer Price Index for the period 1 April 2009 to 31 March 2010.



Russell Balding AO
Chief Executive Officer
Sydney Airport Corporation Limited

Date: 24th June 2010

Schedule 1 to Attachment 1

PROPOSED MAXIMUM PRICE CHANGES

Service	Existing Charge (1)	Proposed Increase (1)	Proposed New Charge (1)	Unit
Passenger Facilitation Charge (PFC) (2)				
Separate Charge Components				
<i>Terminal Facility Charges</i>	\$1.75	\$0.05	\$1.80	Per Passenger
<i>Apron Parking</i>	\$35.00	\$1.01	\$36.01	Per 15 minutes
<i>Check-in counter charge</i>	\$17.00	\$0.49	\$17.49	Per counter Per Hour
Combined PFC Charge (5)				
<i>Regional T2 PFC</i>	\$4.50	\$0.13	\$4.63	Per Passenger
Passenger Security and Bag Screening (2)				
<i>Per Passenger</i>	\$0.87	\$0.03	\$0.90	Per Passenger
Runway Charges (3)				
<i>Runway Charge Per Tonne</i>	\$3.44	\$0.10	\$3.54	Per MTOW tonne
<i>Minimum Runway Charge (4)</i>	\$50.00	\$1.44	\$51.44	Per Movement
<i>Minimum Runway Charge (MTOW 5-10 Tonnes) (4)</i>	\$41.25	\$1.19	\$42.44	Per Movement
<i>Minimum Runway Charge (MTOW 0-5 Tonnes) (4)</i>	\$20.00	\$0.58	\$20.58	Per Movement

CPI is Australian, All Groups, in the year to 31 March 2010.

NOTES

1. All charges are GST exclusive;
2. Passenger defined as per arriving and departing passenger;
3. Per tonne MTOW (Maximum Take Off Weight) on take-off and landing, and subject to minimum runway charge;
4. Minimum Runway Charge per take-off and landing;
5. Combined PFC is derived from previous guidance provided by the Commission and set out in Schedule 1 Attachment 3

Schedule 2 to Attachment 1

DERIVATION OF COMBINED PFC PER PASSENGER

SACL has derived the PFC from previous guidance provided by the Commission¹ and is summarised by the following:

Passenger Facilitation Charge (PFC) (2)	Existing Charge (1)	Proposed Increase (1)	Proposed New Charge (1)	Derivation of charges
<i>Terminal Facility Charges</i>	\$1.74	\$0.05	\$1.79	Interim charge based on 2001 ACCC approved Domestic Express Terminal (DET) facility charge
<i>Apron Parking</i>	\$2.50	\$0.07	\$2.57	45 minutes inclusive at rate \$35 per 15 minutes and 21 passenger per flight
<i>Check-in counter charge</i>	\$0.26	\$0.01	\$0.27	\$17 per counter hour, 2 departures per hour and 21 passengers per flight
Combined Per Passenger	\$4.50	\$0.13	\$4.63	

NOTES

1. All charges are GST exclusive;
2. Passenger defined as per arriving and departing passenger;

¹ Australian Competition and Consumer Commission, 'Sydney Airport Aeronautical Charges for regional users of Terminal 2, Decision and Statement of Reasons' (October 2002), Appendix 1: Derivation of equivalent-based charges

APPENDIX B: List of submissions received

The ACCC received a total of 18 submissions in response to the ACCC's issues paper for SACL's price notification for regional air services. In summary, submissions were received from:

- Andrew Fraser MP, Member for Coffs Harbour (NSW)
- Bathurst Business Chambers (BBC)
- Bathurst Regional Council (BRC)
- Broken Hill City Council, NSW
- City of Wagga Wagga, NSW
- Clarence Valley Council, NSW
- Griffith City Council, NSW
- Infrastructure Partnerships Australia (IPA)
- Katrina Hodgkinson MP, Member for Burrinjuck (NSW)
- Kyogle Council, NSW
- NSW Farmers Association
- Northern Rivers Regional Organisation of Councils
- Qantas Airways Limited (Qantas)
- Regional Aviation Association of Australia (RAAA)
- Regional Express (REX)
- Steve Cansdell MP, Member for Clarence (NSW)
- Thomas George MP, Member for Lismore (NSW)
- Tourism & Transport Forum (TTF)

The submissions are available in full on the ACCC's website at:

www.accc.gov.au/aviation.

COMMONWEALTH OF AUSTRALIA

Trade Practices Act 1974

DECLARATION NO 92

I, Craig Anthony Emerson, Minister for Competition Policy and Consumer Affairs, pursuant to section 95X of the *Trade Practices Act 1974* ('the Act'), hereby declare:

- 1) Subject to paragraph (3), the provision of aeronautical services and facilities to regional air services to be notified services for the purposes of the Act.
- 2) The following to be a declared person for the purposes of the Act:
 - a) Sydney Airport Corporation Ltd in relation to the provision of the aeronautical services and facilities referred to in paragraph (1) at Sydney Kingsford Smith Airport;
- 3) In this declaration:
 - a) '**regional air services**' means regular public transport air services operating wholly within the State of New South Wales;
 - b) '**aeronautical services and facilities**' has the same meaning as that applying from time to time under Part 7 of the *Airports Regulations 1997*.
- 4) This declaration takes effect from 1 July 2010 and ceases on 30 June 2013.
- 5) This declaration replaces Declaration No. 91.



CRAIG ANTHONY EMERSON

28 May 2010

COMMONWEALTH OF AUSTRALIA

Trade Practices Act 1974

DIRECTION NO 32

I, Craig Anthony Emerson, Minister for Competition Policy and Consumer Affairs, pursuant to section 95ZH of the *Trade Practices Act 1974*, hereby direct the Australian Competition and Consumer Commission (ACCC), in exercising its powers and performing its functions under the Act in relation to the pricing of aeronautical services and facilities at Sydney Kingsford Smith Airport, to give special consideration to the following matters:

- 1) The Government's policy that, to facilitate continuing access to Sydney Kingsford Smith Airport by operators of regional air services:
 - a) The total revenue-weighted percentage increase in prices over the three years from 1 July 2010, or part thereof (including new or restructured prices) paid by operators of regional air services to Sydney Airport Corporation Ltd (SACL) for the provision of regional aeronautical services and facilities declared to be notified services in Declaration No. 92 should not exceed the total percentage increase in the Consumer Price Index (CPI) over that same period.
- 2) The starting point for the price cap is the prices charged by SACL at 1 July 2010.
- 3) In this Direction:
 - a) '**regional air services**' means regular public transport air services operating wholly within the State of New South Wales;
 - b) '**CPI**' means the Australian All Groups Consumer Price Index, recorded in the year to the March Quarter immediately preceding the start of the relevant financial year.
- 4) This Direction applies to an exercise of powers and performance of functions by the ACCC in relation to Declaration No. 92 and Direction No. 29.
- 5) This Direction takes effect from 1 July 2010 and ceases on 30 June 2013.
- 6) This Direction replaces Direction No. 30

Craig (—)

CRAIG ANTHONY EMERSON

28 May 2010