



REGULATORY REPORT

MELBOURNE AIRPORT

1998/99

December 1999

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Introduction

The Australian Competition and Consumer Commission (the Commission) has primary responsibility for implementing and administering the economic regulatory measures applying to ‘core regulated’ airports. ‘Core regulated’ airports include the Phase I airports sold in May 1996, the Phase II airports sold in May/June 1997, and Sydney Kingsford Smith Airport.

The regulatory regime for ‘core regulated’ airports comprises measures under the *Trade Practices Act 1974* (TPA), the *Prices Surveillance Act 1983* (PS Act) and the *Airports Act 1996* (Airports Act). It includes access arrangements, and a price cap on aeronautical services for the privatised Phase I and Phase II airports. The framework also includes a range of measures designed to complement the price cap and increase transparency of certain aspects of the privatised airport business.

In order to meet the transparency requirements under the regulatory framework, the Commission reports annually on airport accounts, quality of service, prices monitoring, and price cap compliance for the ‘core regulated’ airports.

The report

This report relates to Melbourne Airport and is divided into four sections. The first section addresses quality of service at Melbourne Airport and provides a summary of results. The second section provides information on Melbourne Airport’s financial accounts. The third section provides details on Melbourne Airport’s price cap compliance, and the fourth section addresses the formal monitoring requirements under section 27A of the PS Act.

It should be noted that this report is for information only and does not provide recommendations in relation to the matters covered.

Melbourne Airport

Melbourne Airport is owned and operated by Australia Pacific Airports (Melbourne) Pty Ltd (APAM), who took over its operation from the Federal Airports Corporation (FAC) in July 1997. APAM is a wholly owned subsidiary of Australia Pacific Airports Corporation (APAC). AMP, Deutsche Asset Management, BAA plc and Hastings Funds Management are shareholders of APAC. APAC paid \$1.3 billion for a 50-year lease of the airport, with an option for a further 49-year lease at the end of this period.

This is the second regulatory report for Melbourne Airport. The Commission would like to acknowledge the cooperation received from APAM in providing data and responding to queries that assisted in the preparation of this report.

1 Quality of service monitoring

This section details quality of service monitoring at Melbourne Airport. It begins by providing an overview of the Commission's role in quality of service monitoring at Melbourne Airport. Following this is a summary of the 1998/99 quality of service results for Melbourne Airport.

1.1 The Commission's role and approach to quality of service monitoring

Regulations

The Commission is required to conduct quality of service monitoring pursuant to Part 8 of the Airports Act.¹ Under the regulations to the Airports Act, airport operators are required to provide the Commission with information on a range of indicators. These indicators cover various aspects of an airport's service quality performance and are detailed in Appendix 1.

Generally, quality of service monitoring is aimed towards:

- providing transparency about airport performance;
- discouraging airport operators from providing unsatisfactory standards for services which are associated with significant market power; and
- assisting the Commission to assess an airport operator's conduct as part of the review of prices oversight arrangements.

The information requested by the Commission from airport operators is directed towards meeting these objectives.

Commission's approach

In reporting on the quality of service indicators, the Commission focused on the standard and availability of facilities and services provided by, or which could be influenced by the airport operator. These facilities and services included airside facilities such as runways, taxiways and aprons; terminal facilities, such as international departure lounges and baggage claim; car parking; and taxi and bus pick up and drop off points. Domestic terminals owned and/or operated by airlines were not included as part of the quality monitoring report.

In constructing this quality monitoring report, the Commission sought information from a number of different sources, including:

- passengers of the airport, through passenger perception surveys conducted by the airport operator;
- airlines, through surveys of airlines conducted by the Commission;

¹ For a detailed description see *Quality of service Monitoring Post Leasing*, ACCC February 1997

- airport operators, as required under the regulations; and
- Australian Customs Service (ACS) and Airservices Australia.

Passenger perception surveys

APAM, in conjunction with a market research firm designed a survey for use in the first year's monitoring report. The Commission provided comment on the proposed survey for the 1997/98 period and also obtained independent advice on the usefulness of the survey in terms of its methodology and sample selection. In response to Commission comments, APAM made changes to the passenger perception survey. The Commission was satisfied with the final passenger perception survey and the methodology used for that year. For comparability of results, the same passenger perception survey has been used to conduct this year's quality monitoring.

The areas covered by the passenger perception survey included passenger check-in, security clearance, government inspection, lounges, washrooms, baggage collection, signage, car parking, and vehicle access for pick-up and drop-off of passengers.

Respondents were asked to rate quality aspects such as reasonableness of waiting times; clarity of information provided, such as airport signage; and the comfort of gate lounges. A summary of results from the passenger perception survey is presented in Appendix 2.

Airline surveys

In order to gain information on the quality of airside facilities and terminal facilities, the Commission conducted a survey of the airlines that used Melbourne Airport over the 1998/99 period. Five surveys were received from the following airlines: Air New Zealand, Ansett Australia, Qantas, Singapore Airlines, and United Airlines.

As part of the survey, airlines were requested to rate the availability and standard of particular facilities and services on a five-point scale ranging from 'very poor' to 'excellent'. Under the availability category, the Commission sought information from airlines regarding the availability of infrastructure and equipment and the occurrence of delays in gaining access to it. Under the standard category, the Commission sought information on the ability of equipment to perform the function intended, the reliability of the equipment and the possibility of it breaking down. A summary of results from the airline survey is presented in Appendix 3.

Airport operators

APAM was required to provide the Commission with information on the 'static indicators' for Melbourne Airport. These indicators included the number of passengers, the number of aerobridges and the size of aprons. Details of the 'static indicators' for Melbourne Airport are provided in Appendix 4.

Australian Customs Service and Airservices Australia

The Commission conducted a survey of ACS to assess certain quality aspects of Melbourne Airport. ACS was asked to rate the quality of immigration facilities,

baggage processing facilities, and APAM's consultation procedures. Results from this survey are incorporated in the 'quality of service results' section below.

Airservices Australia provided the Commission with information regarding busiest half-hours at Melbourne Airport for the 1998/99 period (see Appendix 4 for details). Airservices Australia, however, could not provide the Commission with data relating to aircraft delays for the 1998/99 financial year.

Issues

In assessing the quality of service at Melbourne Airport, it is important to note that there were a variety of factors outside the immediate control of APAM that may have influenced the quality of service results. The first of these is the staffing of check-in services by airlines, and similarly, staffing of immigration services by Customs, which may have affected the quality results obtained for related services. Secondly, airlines, Airservices Australia and other service providers might have contributed to quality outcomes at Melbourne Airport.

Another point to consider when viewing results is that it takes time to implement changes and to make improvements in quality monitoring areas. In general, airport operators may not have had sufficient time to make improvements in areas where deficiencies have been identified in one year's report, before the next year's monitoring report is completed. For example, there may be a lag between an increase in passenger and flight numbers and an increase in the capacity of terminal infrastructure. Given that investment in terminal infrastructure is 'lumpy', there may be increased crowding in the lead up to new investment which could reflect adversely in the results of some quality of service indicators. Also, improvements in quality may not be made where the costs do not justify the expected benefits.

1.2 Quality of service results 1998/99

The assessment of overall quality of service at Melbourne Airport is made having regard to the passenger perception survey, the airline survey, a survey of ACS, and the additional comments and data provided by APAM.

Overall, it appeared that airport users, airlines, and passengers were very satisfied with almost all aspects of the facilities and services provided at Melbourne Airport. In particular, airlines appear to be pleased with the consultation procedures adopted by APAM, and the overall standards of facilities at Melbourne Airport.

The quality results for this year's monitoring are similar to results obtained in the 1997/98 quality monitoring. This indicates that APAM maintained the quality of service and facilities at Melbourne Airport with passenger numbers increasing 7% over the 1998/99 period compared with the 1997/98 period.

Runways, aprons and taxiways

The quality of runways, aprons and taxiways at Melbourne Airport was assessed using the results obtained from airline surveys.

The standard and availability of runways was rated from 'satisfactory' to 'excellent' by airlines. A number of comments received from airlines indicated that repairs and rubber removal was carried out in a timely fashion and that airlines were kept well informed of developments. No negative comments were received.

Melbourne Airport had fourteen international apron positions for aircraft parking at 30 June 1999. Overall, aprons were rated from 'satisfactory' to 'excellent' by airlines. Comments received from airlines indicated that aprons were maintained to a high standard, with regular sweeping and debris collection.

Airlines rated taxiways at Melbourne Airport as 'good' to 'excellent'. Comments received indicated that maintenance of taxiways was conducted in a timely manner.

Gates

The quality of gates at Melbourne Airport was assessed using information obtained from the airline surveys.

The availability and standard of gates at Melbourne Airport was rated from 'satisfactory' to 'excellent' by airlines. No comments were received.

Ground service equipment storage sites

The quality of ground service equipment storage sites at Melbourne Airport was assessed using airline surveys.

Ground service equipment storage sites were rated from 'poor' to 'good' in terms of availability and standard. Comments received from airlines indicated that there were insufficient container storage areas and that equipment parking was limited. In response to these comments, APAM stated that it had not refused any request to make

sites available for equipment storage. APAM stated that sites were available and it was happy to provide such facilities in negotiation with its customers.

Freight equipment storage sites

The quality of freight equipment storage sites at Melbourne Airport was assessed using airline surveys.

Freight equipment storage sites were rated from 'very poor' to 'satisfactory' by airlines. Comments received from airlines indicated that inadequate space and lack of equipment storage sites impacted on the quality rating of this facility. One airline did, however, comment that this facility had improved from last period.

In response to the negative comments regarding freight storage sites, APAM stated that it had not refused any request to make available sites for equipment storage. APAM stated that sites were available and it was happy to provide such facilities in negotiation with its customers.

Aerobridges

The quality of aerobridges at Melbourne Airport were assessed using airline surveys and information provided by APAM.

Melbourne Airport had ten aerobridges for international aircraft at 30 June 1999. For the 1998/99 financial period, almost 100 per cent of all passengers embarking or disembarking used an aerobridge.

Aerobridges were generally considered by airlines to be 'satisfactory' to 'excellent'. No comments were received.

Check-in facilities

The quality of check-in facilities at Melbourne Airport was assessed using airline surveys, passenger perception surveys, and information provided by APAM.

Melbourne Airport had 72 check in desks at 30 June 1999.

Airlines rated the availability of check-in facilities as 'good' to 'excellent'. The standard of check-in facilities was rated from 'satisfactory' to 'excellent'. No comments were received.

Passengers surveyed rated the waiting time at check-in as just above 'good'.

These results were similar to results obtained for check-in facilities at Melbourne Airport in the previous period (1997/98).

Government inspection

The quality of Government inspection at Melbourne Airport was assessed using passenger perception surveys, a survey of ACS, and information provided by APAM.

Melbourne Airport had 26 inbound immigration desks and 18 outbound immigration desks at 30 June 1999.

Passengers surveyed rated the waiting time at Government inspection outbound as 'good' to 'excellent'. The waiting time at Government inspection inbound was rated similarly.

ACS rated the adequacy of areas provided for circulation and queuing at immigration (arrivals) as 'good'. ACS also rated signage, lighting, desks and passenger facilities for immigration (arrivals) at Melbourne Airport as 'good'. The quality of immigration facilities for departing passengers was rated similarly. Comments received from ACS indicated that the 'inward' duty free shop had a negative impact on queuing and circulation for arriving passengers. ACS stated that it tended to slow the processing of passengers and contributed to some of the delays experienced in the Customs examination area for flights that had a high component of goods to declare

In response to this, APAM stated that the area in question was last reconfigured in 1997 prior to APAM taking control of Melbourne Airport. APAM stated that nothing had changed since then. It should be noted, however, that this year was the first time ACS had been surveyed as part of the quality of service monitoring at Melbourne Airport. As such, this comment did not arise in the first year's regulatory report.

With regard to departing immigration facilities, ACS suggested the location of the passenger screening point would be better if it were placed forward of the primary line, at the doors to the hall.

Security

The quality of security at Melbourne Airport was assessed using passenger perception surveys and information provided by APAM.

Melbourne Airport had six security systems at 30 June 1999. This was one more than at the same time in the previous year.

Passengers rated the quality of passenger screening at Melbourne airport as 'good'.

Gate lounges

The quality of gate lounges at Melbourne Airport was assessed using passenger perception surveys and information provided by APAM.

At 30 June 1999, there were 2363 seats provided in the gate lounges at Melbourne Airport, 74 more than in the previous period (1997/98).

Passengers rated the comfort and seating arrangements of gate lounges at Melbourne Airport as 'good'. Passengers rated the crowding of gate lounges and ease of finding a seat in the gate lounges from 'good' to 'excellent'.

Baggage processing facilities and trolleys

The quality of baggage processing facilities and trolleys at Melbourne Airport was assessed through airline surveys, passenger perception surveys, a survey of ACS, and information provided by APAM.

At 30 June 1999, Melbourne Airport had a baggage system with a capacity of 3060 bags per hour for outbound baggage, and 2720 bags per hour for inbound baggage.

Airlines rated the standard and availability of the baggage handling system at Melbourne Airport as 'satisfactory' to 'excellent'. One comment received suggested that software limitations were impeding the progress of the baggage handling system. Another comment indicated that 'automatic sort bags' were not processed early enough to connect with certain flights.

Passengers surveyed rated the ease of finding the correct belt at Melbourne Airport as 'good'. The waiting time and crowding of baggage areas was rated 'satisfactory'. The baggage trolley facility was rated by arriving passengers as 'good' to 'excellent'. Departing passengers rated the quality of trolleys as 'good'.

ACS rated the adequacy of space, signage, position, access, security, and passenger inspection facilities at Melbourne Airport as 'good'. Comments received from ACS suggested that the location of the examination area and duty free shop added to congestion. ACS did, however, recognise that due to limited space, little could be done with regard to the examination area.

Flight information displays

The quality of flight information displays at Melbourne Airport was assessed using passenger perception surveys.

Departing passengers rated the quality of this facility as 'good'.

Washrooms

The quality of washrooms at Melbourne Airport was assessed using passenger perception surveys.

Passengers rated the cleanliness of washrooms as 'good'.

Car parking and kerbside access

The quality of car parking and kerbside access at Melbourne Airport was assessed using passenger perception surveys and information provided by APAM.

Melbourne Airport had 6215 car parking positions at 30 June 1999, 47 more than in the previous period (1997/98).

Passengers using the car parking facilities at Melbourne Airport rated the facility as 'good'. Car parking maintenance and signage was rated similarly.

Kerbside access is required to allow passengers to be dropped off and picked up by taxis, buses and other vehicles. Passengers rated this facility at Melbourne Airport as 'good'.

Consultation with airlines

The quality of APAM's consultation procedures was assessed through airline surveys and a survey of ACS.

The Commission asked airlines to rate and comment on APAM's performance in addressing airline concerns on quality related issues. The responses ranged from

‘satisfactory’ to ‘excellent’. Comments from a number of airlines indicated that concerns were addressed in a timely manner and with good communication.

ACS rated APAM’s responsiveness to concerns as ‘good’.

2. Regulatory accounts reporting

This section reports on Melbourne Airport's financial accounts. First an outline of the financial reporting requirements is given, followed by the financial accounts of Melbourne Airport for the 1998/99 financial year.

2.1 The Commission's approach

The operators of the Phase 1 airports are required under Part 7 of the Airports Act to provide the Commission with annual financial accounts within 90 days after 30 June of that year. The accounts include a Profit and Loss Statement and Balance Sheet, and a Statement of Cash Flows. In addition, other supporting information, such as statements on accounting policies and cost disaggregations between aeronautical and non-aeronautical costs are required.

All information provided to the Commission must be audited. To authenticate this, a director's responsibility statement must be signed by at least two directors stating that the accounting statements and supporting schedules are presented 'fairly' and in accordance with the guidelines, the Airport Act, and the regulations made pursuant to that Act.

APAM lodged its audited regulatory accounts with the Commission in the required 90 days following the end of the financial year. The Commission concluded that APAM had prepared its accounts in accordance with the guidelines.

2.2 Melbourne Airport, regulatory accounts 1998/99

APAM reported on a period of activity from 1 July 1998 to 30 June 1999. Over the entire airport, a loss after tax of \$29 million was reported. This result was significantly affected by interest expense, which totalled \$105 million.

As at 30 June 1999, APAM controlled total assets valued at \$1,345.1 million. Of this total, APAM valued its aeronautical assets at \$449.9 million and its non-aeronautical assets at \$895.1 million.

APAM's independent auditors attested to the appropriateness of its systems and records which enabled it to comply with the requirement to separate accounting information between aeronautical and non-aeronautical activities.

Some of the more prominent account items and 'drivers' were as follows. Depreciation was allocated on the basis of the function of the relevant asset. Services and utilities (eg. electricity) were allocated by historical metered usage. Australian Protective Services were allocated on a landed tonne basis. Other expenses were allocated by square metres for functions within the terminal, landed tonnes and by a staff function.

A summary of the regulatory accounts is attached at Appendix 5.

3. Price cap compliance

This section details Melbourne Airport's price cap compliance for the 1998/99 financial year.

3.1 The Commission's role – price cap

Certain aeronautical services at leased airports are declared under section 21 of the PS Act for price surveillance. Declaration 83 made by the Treasurer pursuant to the PS Act declares the services at Phase I airports. The Declaration covers aircraft movement areas (eg. runways, aircraft parking areas) and passenger processing areas (eg. aerobridges, departure lounges).²

Declaration requires an airport operator to notify the Commission of a proposal to increase charges for the services covered by the declaration. The legislative framework does not give the Commission the discretion to object to proposed price increases that fall within the parameters set by the price cap.

At all privatised 'core regulated' airports, declared services are subject to CPI-X price caps. The X factors are based on expected productivity improvements.³ The X factor for Melbourne Airport is 4.0 per cent and has been set for five years from 1 July 1997. The Treasurer's Direction number 13 sets out details of the price cap formula, the X values and other issues relevant to the Commission's administration of the cap.⁴

3.2 Price cap compliance 1998/99

Price cap compliance is calculated on a revenue weighted average price basis. According to this approach, increases in particular charges are weighted by that component's proportion of revenue for the previous period.

Aeronautical services at Melbourne Airport are subject to a price cap set at CPI less an X factor of 4.0 per cent per annum. The relevant CPI figure used to assess price cap compliance for the 1997/98 period was 1.5 per cent, meaning that APAM was required to lower its average aeronautical charges in nominal terms by 2.5 per cent.

Using data provided by APAM, the Commission assessed whether Melbourne Airport complied with the price cap over the year ending 30 June 1999. A summary of movements in charges subject to the cap is provided below (see table 1). Details of price notifications are available from a public register maintained by the Commission pursuant to section 23 of the PS Act.

² A copy of declaration 83 is available on the Commission's website, under airports.

³ For a detailed explanation of the arrangements see Australian Competition and Consumer Commission, "Administration of Airport Price Cap Arrangements", January 1997

⁴ A copy of direction 13 is available on the Commissions website, under airports

Table 1: Changes in charges subject to price cap for year ended 30 June 1999

Charge	Basis	Charges 30/6/98	Charges 30/6/99
Landing charges (domestic and international)	Per landing \$/tonne MTOW	\$5.503	\$5.47
Australian Protective Service	Per landing \$/tonne MTOW (aircraft over 20,000 kg)	\$0.59	\$0.44
International Terminal charge	Per landing \$/tonne MTOW	\$3.915	\$3.89
RPT below minimum rotary wing	\$ per landing	\$13.50	\$13.16
RPT below minimum fixed wing	\$ per landing	\$27.00	\$26.31
GA Itinerants fixed wing	\$ per landing	\$27.00	\$100.00
GA Itinerants rotary wing	\$ per landing	\$13.50	\$50.00
Parking	\$ per day	\$10.00	\$50.00

To demonstrate compliance with the price cap, APAM provided disaggregated revenue data for aeronautical services for the 1998/99 financial year. APAM also gave the units of revenue (eg. tonnes landed) for each category of revenue. A summary of the data is given in Table 2 below.

Table 2: Aeronautical revenue and price cap compliance for the period ended 30 June 1999

Description	Number of Units	Base Charge (Price per unit)	Revenue 98/99	Average Charge 98/99	Rate Variation (% change)	Revenue Share 97/98	Compliance %
Landing Charges:							
- Domestic and International	7,254,578 tonnes	\$5.59 per 1000kg MTOW	39,682,542	\$5.47	-2.14	80.16%	-1.778
RPT – below minimum fixed wing	1,055	\$27.00 per landing	27,757	\$26.31	-2.5	0.10%	-0.0025
RPT – below minimum rotary wing	114	\$13.50 per landing	1,499	\$13.15	-2.6	0.01%	-0.00026
GA – below minimum fixed wing	540	\$27.00 per landing	54,000	\$100	270.37	0.01%	0.027
GA – below minimum rotary wing	134	\$13.50 per landing	6,700	\$50	270.37	.00118%	0.003
International Terminal Charges	2,398,413	\$3.99 per 1000kg MTOW	9,329,827	\$3.89	-2.51	19.72%	-0.49
Parking Charges	34	\$10 per day	1,700	\$50	400	.00046%	0.0018
Actual Reduction							-2.238
CPI-X : Required Reduction							-2.5
Non Compliance %							0.2618
CPI-X required reduction in aeronautical revenue 98/99							0.0250
Overcharge amount for 98/99 %							0.0026
Revenue overcharge 98/99							136,689
Carried forward from 97/98 period							(80,321)
Net over recovery							56,377
% of 98/99 revenue							0.12

In the 1997/98 period, APAM reduced charges by more than the amount required under the CPI-X framework (ie. by 2.06% instead of the required 1.9%). Under the framework, APAM may recover the amount of revenue it would have derived if charges were reduced by the required amount in that period. Therefore, APAM was allowed to carry forward the under recovery amount of (\$80,321) to the 1998/99 period. Price cap compliance with regard to this carry forward is shown in the table above.

APAM reduced aeronautical charges by 2.38% (taking into account the under recovery carry forward), instead of the required 2.5%. APAM has two years to pass back to users the over recovered amount of \$56,377.

APS revenue and expenditure reconciliation for year ended 30 June 1999

The price cap regime allows airport operators to 'pass-through' to users 100 per cent of the costs related to Government mandated airport security requirements, without those increases affecting compliance with the price cap. The Department of Transport and Regional Services has advised the Commission that such costs include amounts charged to the airport by the Australian Protective Service (APS). In future, Government mandated security requirements met by the airport operators and other service providers would also qualify for the cost 'pass-through' arrangements.

APAM supplied the following information, which demonstrates that the increased security charges to airport users did not seek to recover more than the charges levied by APS during the financial year.

Table 3: Reconciliation of APS revenue to APS costs

APS income recharge	\$3,100,000
APS direct expense	\$2,920,000
<i>Sub Total</i>	\$180,000
Carried forward balance 1998	\$51,000
Carried forward total	\$231,000

4. Monitoring of aeronautically related services.

This section covers the Commission's role in the monitoring of aeronautically related services that are outside the price cap arrangements. This section begins with an outline of the Commission's approach to monitoring and is followed by a report on the activities of Melbourne Airport for the 1998/99 financial year.

The Commission also reports on the operational statistics of Melbourne Airport. Details of these statistics can be found in Appendix 6.

4.1 The Commission's monitoring role

In May 1998, the Treasurer directed that aeronautically related services be the subject of formal price monitoring pursuant to section 27A of the PS Act. The monitoring covers the costs, revenues and profits of an airport. The rationale for monitoring is that airport operators may exert significant market power in relation to the monitored services at individual airports. As such, the Government considered that these services should be monitored for misuse of any market power the airport operator may have in setting prices.

Aeronautically related services include aircraft refuelling, aircraft maintenance sites and buildings, freight facilities, and car parking. A full list of aeronautically related services is given in the Treasurer's Direction number 14, available on the Commission's web site. For a more complete outline of the Commission's monitoring role, see the Commission publication titled "Economic Regulation of Airports".

Under section 27B of the PS Act, the Commission is required to report annually to the Treasurer on its formal prices monitoring activities. The Commission is also required to make its reports publicly available.

In exercising its role, the Commission may investigate particular pricing issues where users have raised concerns and it appears that the airport operator may have taken advantage of its market power. To date this has included the proposed imposition of fuel throughput levies at Brisbane and Perth airports.

4.2 Price monitoring –Melbourne Airport, 1998/99

The purpose of monitoring is to identify changes in aeronautical related costs and revenues over time for services that are associated with significant market power. Such differences may point to the use of market power by the airport operator in setting prices. The movement over time of costs and revenues will be of particular interest to the Commission.

APAM provided data to the Commission for the year ending 30 June 1999. The data is summarised in tables 4, 5 and 6 below, and includes revenues and costs for services related to:

- aircraft refuelling;
- aircraft maintenance sites and buildings;
- freight equipment storage sites;

- freight facility sites and buildings;
- ground support equipment sites;
- check-in counters and related facilities; and
- public and staff car parks.

Table 4: Monitored services: Aero-related costs for the period ended 30 June 1999

Revenue	Aero Related Costs 97/98	Aero-Related Costs 98/99
	\$'000	\$'000
AERO-RELATED SERVICES		
Refuelling services	N/A	N/A
Aircraft maintenance sites & buildings	1,468	1,567
Freight equipment storage sites	2	18
Cargo facility sites & buildings	656	591
Ground support equipment sites	130	113
Check-in counters and related facilities(1)	1,151	1,462
Public car parking	9,373	10,388
TOTAL AERO-RELATED COSTS	12,780	14,139

Notes:

1. Costs exclude amortisation of intangibles and interest.

Table 5: Monitored services: Aero-related revenue for the period ended 30 June 1999

Description	Basis of Charge(s)	Revenue 97/98	Revenue 98/99
		\$'000	\$'000
AERO-RELATED SERVICES			
Refuelling services		N/A	N/A
Aircraft maintenance sites & buildings	(\$ per square metre)	3,489	3,482
Freight equipment storage sites	(\$ per square metre)	101	101
Cargo facility sites & buildings	(\$ per square metre)	1,031	1,352
Ground support equipment sites		N/A	N/A
Check-in counters and related facilities(1)	Agreement with airlines	1,416	2,387
Public car parking/staff car parks	Time Parking Rates	23,884	26,471
TOTAL AERO-RELATED REVENUE		29,921	33,793

Table 6: Car Parking Rates

Hours	Short Term 30/6/98	Short Term 30/6/99
1	\$4.00	\$4.00
2	\$6.00	\$7.00
3	\$7.00	\$8.00
4	\$8.00	\$9.00
5	\$9.00	\$10.00
6	\$10.00	\$10.00
7	\$11.00	\$13.00
8	\$12.00	\$13.00
9	\$13.00	\$13.00
10	\$14.00	\$16.00
11	\$15.00	\$16.00
12	\$16.00	\$16.00
12-24	\$17.00	\$20.00

Days	Long Term 30/6/98	Long Term 30/6/99
1	\$14.00	\$14.00
2	\$14.00	\$14.00
3	\$21.00	\$21.00
4	\$28.00	\$28.00
5	\$35.00	\$35.00
6	\$42.00	\$42.00
7	\$42.00	\$42.00

While revenues tended to exceed costs, it is important to note that the costs did not include amortisation of intangible assets or interest. These were significant, amounting to \$112 million in 1998/99. The Commission asked that these items be excluded for the purposes of the monitoring reports because (a) their allocation to services would have involved a degree of subjectivity, and (b) there would be risk of circularity if an allocation of the cost of the lease premium were included. However, the Commission acknowledges that an allocation that recognises a cost of capital would be appropriate in any detailed analysis.

Appendix 1: Outline of quality of service indicators

The regulations to the Airports Act specify performance indicators to be used in quality of service monitoring. These cover a range of services and infrastructure for which the airport operator has some, or complete influence over. An outline of the indicators and the source of data for each is given in table 6 below.

Table 7: Quality of service indicators

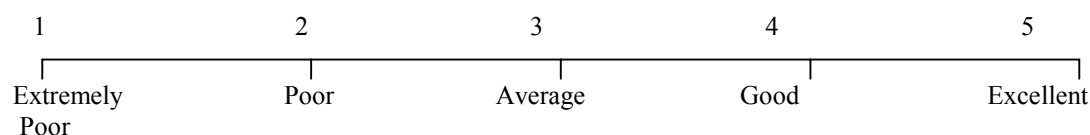
Service / Infrastructure	Type of indicator	Source of data
Runways, aprons, taxiway system	<ul style="list-style-type: none"> • Average aircraft movements in 30/60 busiest half hours per month. • Various delay indicators. • Airlines and Airservices Australia questionnaire regarding adequacy of facilities. 	Airservices Australia; Airservices Australia; Survey of airlines
Gates	<ul style="list-style-type: none"> • Number of aircraft parking bays. • Satisfaction with the standard and availability of facilities. 	Airport operator; Survey of airlines
Ground service equipment	<ul style="list-style-type: none"> • Satisfaction with the standard and availability of facilities. 	Survey of airlines
Freight facilities	<ul style="list-style-type: none"> • Satisfaction with the standard and availability of facilities. 	Survey of airlines
Aerobridges	<ul style="list-style-type: none"> • Number of aerobridges. • Number and percentage of passengers using aerobridges for boarding and disembarkation; • Satisfaction with the standard and availability of facilities. 	Airport operator Airport operator Survey of airlines
Check-in	<ul style="list-style-type: none"> • Number of desks. • Number of hours when more than 80 per cent of check-in desks are open. • Satisfaction with the standard and availability of facilities. • Satisfaction with waiting time. 	Airport operator Survey of airlines Passenger perception survey
Government inspection	<ul style="list-style-type: none"> • Number of desks. 	
Security	<ul style="list-style-type: none"> • Number of clearance systems. • Satisfaction with the system. 	Airport operator Passenger perception survey
Gate lounges	<ul style="list-style-type: none"> • Number of seats in gate lounges; • Satisfaction regarding quality and availability of seating and crowding. 	Airport operator; Passenger perception survey

Service / Infrastructure	Type of indicator	Source of data
Baggage trolleys	<ul style="list-style-type: none"> • Passenger satisfaction with findability of trolleys. 	Passenger perception survey
Flight information display and signs	<ul style="list-style-type: none"> • Passenger satisfaction with the system. 	Passenger perception survey
Washrooms	<ul style="list-style-type: none"> • Passenger satisfaction with the standard of facilities. 	Passenger perception survey
Car parking	<ul style="list-style-type: none"> • Number of car parking spaces; • Throughput of the car park; • Passenger satisfaction with standard of facilities and availability of spaces and time taken to get into car park. 	Airport operator; Airport operator; Passenger perception survey
Kerbside access	<ul style="list-style-type: none"> • Passenger satisfaction with space and waiting time for taxis. 	Passenger perception survey

Appendix 2: Passenger perception survey results

APAM commissioned an independent market research company to conduct the passenger perception survey at Melbourne Airport.

Passengers were asked to rate their level of satisfaction with Terminal aspects and facilities at Airport on a scale from one to five:



The graph below shows the average score obtained for each service/facility in the 1997/98 period and the 1998/99 period.

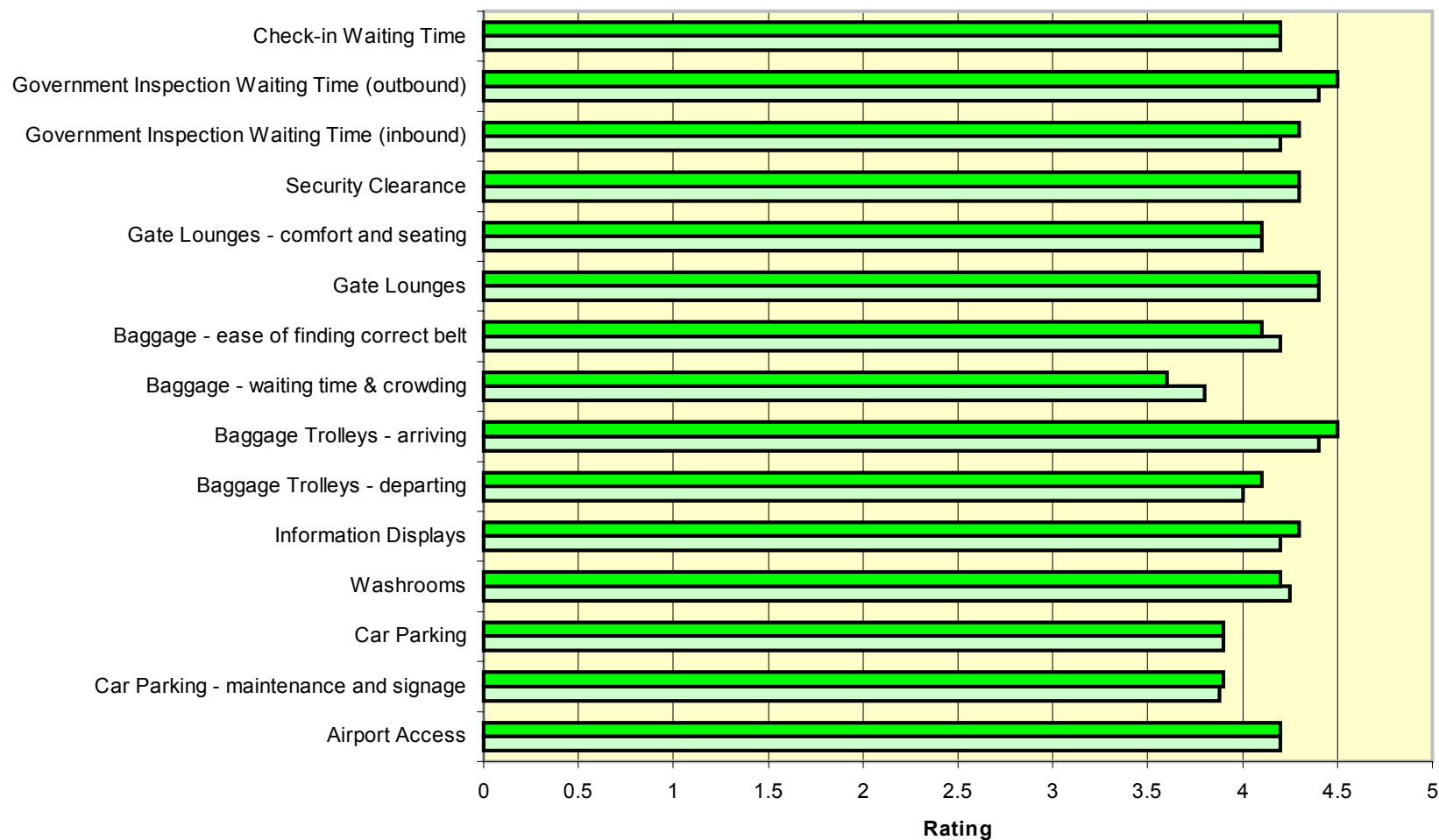
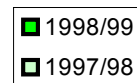
As can be seen from the graph below, the quality of service results over the 1998/99 period are similar to results obtained in the 1997/98 passenger survey. It should, however, be noted that passenger numbers increased at Melbourne Airport by 7% compared with last year's passenger numbers. This would indicate that, even with more passengers using the facilities at Melbourne Airport, quality of service has been maintained for most facilities.

Descriptions of each indicator and the service aspects surveyed are given below in the 'Indicator Summary' table.

A number of facility and service ratings are grouped together and an average rating is provided in the chart. In all instances, the average score, indicated on the above graph, is representative of the individual service/facility ratings that make up the group

Table 8: Indicator summary

- *Check in waiting time* refers to passenger satisfaction with the waiting time during check-in for departing passengers.
- *Government inspection waiting time (inbound)* refers to passenger satisfaction with the waiting time at customs/immigration for departing passengers for arriving passengers.
- *Government inspection waiting time (outbound)* refers to the passenger satisfaction with waiting time at passport control for departing passengers.
- *Security clearance* refers to the perceived quality of the security system.
- The *gate lounge* measure refers to an average figure combining the crowding at the gate lounges, the ease of finding a seat in the gate lounge and ease of finding a seat.
- The *gate lounge – comfort and seating* measure refers to passenger satisfaction with this aspect of the service.
- The *baggage – ease of finding correct belt* refers to passenger satisfaction with this facility.
- *Baggage – crowding and waiting time* refers to passenger satisfaction with the waiting time for baggage and the congestion of the baggage reclaim.
- *Baggage trolley - arriving* refers to arriving passenger perceptions of the ease of finding a trolley.
- *Baggage trolley – departing* refers to the satisfaction of departing passengers in finding a trolley.
- The *information display* measure covers passenger satisfaction with the flight information system for departing passengers.
- The *washroom* measure covers the cleanliness of washrooms for both arriving and departing passengers.
- *Car parking* covers to the ease of access and availability of spaces in the car park, including both the long-term and short term car parks.
- *Car parking maintenance and signs* refers to passenger satisfaction with the signs directing passengers to the car park and signs within the car park, as well as maintenance of the car park facilities.
- *Airport access* refers to passenger satisfaction with the ease of being dropped off at the kerbside. Only departing passengers were surveyed.

Survey results compared 1997/98 and 1998/99

Appendix 3: Airline survey results

The Commission received surveys from five airlines that used Melbourne Airport over the 1998/99 year. These airlines were Air New Zealand, Ansett Australia, Qantas, Singapore Airlines, and United Airlines. Ratings were given with regard to both the 'availability' and 'standard' of facilities. Under 'availability', the Commission sought from airlines an assessment of the absence of delays in being able to use infrastructure and equipment. Under 'standard', the Commission sought an assessment of the capability of equipment to perform the functions intended, its reliability, and the possibility of breakdown.

Overall, the airlines surveyed were favourable towards the availability and standard of facilities provided at Melbourne Airport. A summary of the ratings provided by the airlines is given in the table below. Ratings were generally 'good' to 'excellent' for most categories.

Table 9: Responses from airline surveys

Facility	Aspect	Very Poor	Poor	Satisfactory	Good	Excellent
Runways	Availability			1	2	2
	Standard				2	3
Aprons	Availability			1	2	2
	Standard			1	2	2
Taxiways	Availability				3	2
	Standard				3	2
Gates	Availability			1	2	2
	Standard			1	2	2
Aerobridges	Availability			1	1	3
	Standard			2	1	2
Ground service equipment storage	Availability		1	1	2	
	Standard		1	1	2	
Freight equipment storage	Availability	1	1	2		
	Standard	1	1	2		
Check in facilities	Availability				2	3
	Standard			1	2	2
Baggage processing	Availability			1	2	2
	Standard			2	2	1
Airline concerns				1	1	3

Appendix 4: Static indicators

Indicators provided by the airport operator	At 30 June 1999
Number of (international) aircraft parking bays at 30 June 1998	14
Number of aerobridges at 30 June 1998	10
Percentage of passengers (embarking) using an aerobridge	99.9 %
Percentage of passengers (disembarking) using an aerobridge	99.9%
Number of check-in desks – managed by APAM	72
Number of baggage inspection desks	16
Number of inbound immigration desks	26
Number of outbound immigration desks	18
Number of security clearance systems	6
Number of seats in gate lounges	2363
Capacity of outbound baggage handling equipment (bags per hour)	3060
Capacity of inbound baggage reclaim system (bags per hour)	2720
Number of car park spaces – Long term	3439
- Short term	2763
Throughput of the car park per day – Long term	679
- Short term	6775

Provided by Airservices Australia

- Aircraft movements in busiest 30 half hours: Annual average 23
- Aircraft movement in busiest 60 half hours: Annual average 21

Appendix 5: Melbourne Airport regulatory accounts (summary)

Profit and loss account for the period ended 30 June 1999⁵

Description	Audited financial statements	Aero services	Non-Aero services
<i>Description</i>	\$ '000	\$	\$
Revenue			
Aeronautical revenue	52,511	52,511	
Non-Aeronautical revenue	100,496		100,496
Grazing and tenant revenue	132		
Interest Income	251		
Total Revenue	153,390	52,511	100,496
Expenditure			
Salaries and wages	13,861	9,746	4,115
Depreciation	24,393	14,856	9,537
Amortisation	6,935		6,935
Services and utilities	13,200	4,767	8,433
Property maintenance	4,213	2,900	1,313
Maintenance add backs	---	(132)	---
Australian Protective Service costs	2,920	2,920	---
Other costs	12,118	4,653	7,465
Total Expenditure	77,640	39,710	37,798
Operating Profit/(Loss)	75,750	12,801	62,698
<i>Abnormal items</i>			
Earnings Before Interest and Tax (EBIT)	75,750	12,801	62,698
Interest Expense	105,182		
Loss Before Tax	(29,432)		
Tax benefit attributable to loss	0		
Loss after Tax	(29,432)		
Dividends Paid	---		
Retained Earnings	---		

* Note: costs do not include amortisation of intangible assets or interest

⁵ The Commission does not require an allocation of costs related to amortisation or interest expense because any allocation between aeronautical and non-aeronautical services is likely to be arbitrary.

Balance sheet for the period ended 30 June 1999

Description	Audited financial statements	Aero services	Non-Aero services
	\$'000	\$'000	\$'000
CURRENT ASSETS			
Cash	34		
Receivables	8,497	4,688	3,809
Inventories	756	590	166
Accrued revenue	460	146	314
Other			
Total current assets	9,747	5,424	4,289
NON-CURRENT ASSETS			
Property, plant and equipment	687,461	444,512	242,949
Intangibles	647,865		647,865
Total non-current assets	1,335,326	444,512	890,814
TOTAL ASSETS	1,345,073	449,936	895,103
CURRENT LIABILITIES			
Creditors	7,204		
Borrowings	8,702		
Provisions	3,285	2,299	986
Total current liabilities	19,191		
NON-CURRENT LIABILITIES			
Borrowings	1,284,569		
Provisions	325	228	97
Total non-current liabilities	1,284,894		
TOTAL LIABILITIES	1,304,085		
NET ASSETS/(LIABILITIES)	40,988		
SHAREHOLDER'S EQUITY			
Share capital	100,000		
Accumulated profits/(losses)	(59,012)		
TOTAL SHAREHOLDER'S EQUITY	40,988		
Accumulated profit/loss as start of year	(29,580)		
Profit/loss for the year	(29,432)		
Accumulated profit/loss at end of year	(59,012)		

Australia Pacific Airports (Melbourne) Regulatory Accounts

Summary of accounting policies

Financial Reporting Framework

The company is not a reporting entity because in the opinion of the Directors there are unlikely to exist users of the accounts who are unable to command the preparation of reports tailored so as to satisfy specifically all of their information needs. Accordingly, this "special purpose financial report" has been prepared to satisfy the Directors' reporting requirements under the Corporations Law.

The accounts have been prepared in accordance with the Corporations Law, the basis of accounting and disclosure requirements specified by all applicable Accounting Standards and UIG Consensus Views, except the disclosure requirements of:

Going Concern

Notwithstanding the company's deficiency in working capital the Directors believe that the entity is a going concern based on future positive operating cash flows and finance facilities available.

Significant Accounting Policies

Accounting policies are selected and applied in a manner, which ensures that the resultant financial information satisfies the concepts of relevance and reliability, thereby, ensuring that the substance of the underlying transactions and other events is reported.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Depreciation

Depreciation is provided on property, including buildings, plant and equipment, roads, runways and other infrastructure. Depreciation is calculated on a straight-line basis so as to write off the net cost of each asset over its expected useful life. Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method.

The following estimated useful lives are used in the calculation of depreciation:

- | | |
|---|-------------|
| • Buildings | 10-25 years |
| • Roads, Runways and Other Infrastructure | 13-80 years |
| • Plant and Equipment | 3- 10 years |

(b) Lease Land and Lease Premium Amortisation

Land leased as part of the airport acquisition has been valued at acquisition at fair value and the cost of the airport business in excess of net tangible assets has been capitalised as lease premium. Prior to July 1 1998 the cost of acquisition of occupied land and lease premium were being amortised over the expected passenger traffic for the first fifteen years and then amortised straight line over the remaining period of the lease. The straight-line basis is considered consistent with industry practice and the view of the Australian securities and Investments Commission.

The financial effect of this change in methodology is to increase the depreciation charge in respect to leased land in the current year by \$403,000 and lease premium amortisation by \$2,767,000 when compared with the expenses calculated applying the previous methodology.

Land held for commercial property development is held at acquisition cost and will be systematically amortised when it begins to generate income.

(c) Acquisition of assets

Assets acquired are recorded at the cost of acquisition, being the purchase consideration determined as at the date of acquisition plus costs incidental to the acquisition.

(d) Capitalisation of Interest

Interest costs directly attributable to finance assets under construction are capitalised up to the date of completion of each asset.

(e) Derivative Financial Instruments

The economic entity has entered into interest rate swaps. The swaps have been allocated against the underlying debt instrument and to this extent modify the interest rate risk of underlying debt.

(f) Inventories and Supplies

Inventories are valued at the lower of cost and net realisable value.

(g) Receivables

Trade receivables are recorded at amounts due less any provision for doubtful debts.

(h) Recoverable Amount of Non-Current Assets

Non-current assets are written down to recoverable amount where the carrying value of any non-current assets exceeds recoverable amount. In determining the recoverable amount of non-current assets, the expected net cash flows have not been discounted to their present value.

(i) Accounts Payable

Trade payables and other accounts payable are recognised when the company becomes obliged to make future payments resulting from the purchase of goods and services.

(j) Borrowings

Bank loans and other loans are recorded at an amount equal to the net proceeds received. Interest expense is recognised on an accrual basis. All fees and costs incurred by the company in establishing the funding facilities for the acquisition of Airport have been capitalised and will be amortised on a straight-line basis over the term of the facilities.

(k) Comparative Figures

Comparative figures are, where appropriate, reclassified so as to be comparable with the figures presented for the current financial year.

(l) Income Tax

Tax effect accounting principles have been adopted whereby income tax expense has been calculated on pre-tax accounting profits after adjustment for permanent differences. The tax effect of timing differences, which occur when items are included or allowed for income tax purposes in a period different to that for accounting, is shown at current taxation rates in provision for deferred income tax and future income tax benefit, as applicable.

The future income tax benefit relating to income tax losses has not been recognised as an asset in the accounts, as the Directors are not "virtually certain" that these losses will be recovered.

(m) Employee Entitlements

Provision is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, other leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provision made in respect of wages and salaries, annual leave, long service leave, sick leave, and other employee entitlements expected to be settled within 12 months, are measured at their nominal values.

Provisions made in respect of other employee entitlements which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the company in respect of services provided by employees up to the reporting date.

(n) Revenue Recognitions

Rental Revenue

Revenue from a lease or use of physical assets owned by the economic entity is recognised as the property or asset is used by the passenger.

Service Revenue

Revenue from services provided is recognised when the service is provided or when the service is consumed by the passenger.

Goods Revenue

Revenue from the supply of goods is recognised when the goods are delivered to the passenger.

Appendix 6: Operations statistics

Operational statistics for the period ended 30 June 1999

Description	Number
PASSENGERS	
Domestic Passengers	11,568,545
International Passengers (excluding transit)	2,725,843
International Transit Passengers	213,351
Domestic On-Carriage	75,607
TOTAL PASSENGERS	14,583,346
AIRCRAFT MOVEMENTS	
Regular Public Transport Aircraft Movements	154,332
General Aviation Aircraft Movements	2,470
TOTAL AIRCRAFT MOVEMENTS	156,802
TOTAL TONNES LANDED	7,262,427
AVERAGE STAFF EQUIVALENTS	
- Aeronautical Services	131
- Non-Aeronautical Services	56
TOTAL AVERAGE STAFF EQUIVALENTS	187
AREA (HECTARES)	
- Aeronautical Services	1,742.76
- Non-Aeronautical Services	624.54
TOTAL AREA (HECTARES)	2,367.30