



REGULATORY REPORT

MELBOURNE AIRPORT

1997/98

March 1999

TABLE OF CONTENTS

| | | |
|-----------|--|-----------|
| 1 | INTRODUCTION | 1 |
| 1.1 | AIRPORT PRIVATISATION AND REGULATION | 1 |
| 2 | QUALITY OF SERVICE MONITORING | 3 |
| 2.1 | THE COMMISSION'S APPROACH TO QUALITY OF SERVICE MONITORING | 3 |
| 2.2 | QUALITY OF SERVICE 1997/98 | 5 |
| | <i>Results</i> | 6 |
| 3. | REGULATORY ACCOUNTS REPORTING | 10 |
| 3.1 | THE COMMISSION'S APPROACH..... | 10 |
| 3.2 | MELBOURNE AIRPORT, FINANCIAL ACCOUNTS 1997/98 | 10 |
| 4. | PRICES SURVEILLANCE AND PRICE CAP COMPLIANCE | 12 |
| 4.1 | THE COMMISSION'S ROLE | 12 |
| 4.2 | PRICE CAP COMPLIANCE 1997/98 | 13 |
| 5. | MONITORING OF AERONAUTICALLY RELATED SERVICES | 16 |
| 5.1 | THE COMMISSION'S MONITORING ROLE..... | 16 |
| 5.2 | PRICE MONITORING ACTIVITIES 1997/98..... | 16 |
| | APPENDIX ONE: OUTLINE OF QUALITY OF SERVICE INDICATORS..... | 19 |
| | APPENDIX TWO: SUMMARY OF RESPONSES FROM SURVEY OF AIRLINES | 22 |
| | APPENDIX THREE: SUMMARY OF RESULTS FROM CUSTOMER PERCEPTION SURVEY. | 24 |
| | APPENDIX FOUR: MELBOURNE AIRPORT REGULATORY ACCOUNTS (SUMMARY)..... | 25 |

1 Introduction

In regulating airports the Australian Competition and Consumer Commission (“the Commission”) reports annually on airport accounts, quality of service, prices monitoring and price cap compliance for certain airports that have been leased by the Government. Melbourne Airport is one such airport.

Melbourne Airport is 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 owned by AMP, Morgan Grenfell, BAA plc and Hastings Funds Management. APAM 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 first regulatory report for Melbourne Airport. The Commission wishes to acknowledge the cooperation received from APAM in providing data and responding to queries that assisted in the preparation of this report.

1.1 Airport Privatisation and Regulation

As part of the privatisation of Commonwealth owned airports, the Government granted long-term leases for airports operated by the FAC at Melbourne, Brisbane and Perth in June 1997. In May 1998, Adelaide, Alice Springs, Canberra, Coolangatta, Darwin, Hobart, Launceston and Townsville airports were also privatised through long-term leases. The Government has also transferred ownership of Sydney’s Kingsford Smith Airport to the Sydney Airports Corporation as a step towards eventual privatisation. For the purposes of economic regulation, these airports are termed “core regulated” airports.

One of the Government’s objectives in privatising airports was to promote the efficient and commercial operation of airports. At the same time the Government recognised that many of the services provided by airports displayed monopoly characteristics. For this reason the Government established an airports economic regulatory framework covering pricing, quality of service and access issues.

The Commission has primary responsibility for implementing and administering the economic regulatory measures applying to “core regulated” airports. The regulatory regime comprises measures under the *Trade Practices Act 1974* (“TPA”), the *Prices Surveillance Act 1983* (“PS Act”) and the *Airports Act 1996* (“Airports Act”). These include a price cap on aeronautical services, and access arrangements. It also includes a range of transparency measures. For details on the Commission’s role in the regulation of airports see the paper “Economic Regulation of Airports”.¹

¹ Australian Competition and Consumer Commission, “Economic Regulation of Airports - an overview”, July 1998. This report is available on the Commission’s web site at www.accc.gov.au.

This report is directed towards the transparency measures. It provides information on APAM's performance over the 1997/98 financial year on the following:

- quality of service offered at Melbourne Airport;
- financial accounts, with details of aeronautical and non-aeronautical services;
- prices surveillance and price cap compliance; and
- prices, costs and profits of specified aeronautical related services.

This report follows the first full year of operation of Melbourne Airport after privatisation.

Following on from this report, the Commission intends to provide regulatory reports on an annual basis for the first five years of APAM's private operation of Melbourne Airport. At the end of this five-year period the Commission will conduct a review of the prices oversight arrangements at privatised "core regulated" airports and make recommendations to Government.

This report is divided into four sections. The first section addresses the 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 information 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.

In addition to this report, in December 1998 the Commission released a report on fuel throughput levies as part of its formal monitoring function. The report covered one of the services subject to formal monitoring, namely aircraft refuelling services. The Commission reported separately on the issue because of concerns expressed by airlines and oil companies about levies introduced at Brisbane Airport and proposed at Perth International Airport and because of the complexity of the issues involved. Copies of the report are available on the Commission's website (www.accc.gov.au) or can be obtained by calling Doug Shirrefs on (03) 9290 1865.

2 Quality of Service Monitoring

This section deals with quality of service monitoring. It begins by giving an overview of the Commission's role in quality of service monitoring and provides an explanation of its approach in evaluating quality of service at Melbourne Airport. Following on from this is a summary of the first year's quality monitoring results for Melbourne Airport.

2.1 The Commission's Approach to Quality of Service Monitoring

The Commission is required to conduct quality of service monitoring pursuant to Part 8 of the Airports Act.² Under the regulations to the Airports Act, airport operators are required to provide information to the Commission on a range of indicators. These indicators cover various aspects of an airport's service quality performance. Appendix one provides details of these indicators.

Quality of service monitoring is a complement to the prices oversight arrangements. Under price cap regulation there may be incentives to increase profits by reducing costs. In some cases such cost cutting may lead to a lower quality of service. Quality of service monitoring is a means of providing an indication of whether such cost cutting might be occurring over time.

The objectives of quality of service monitoring are:

- to provide transparency about airport performance;
- to discourage airport operators from providing unsatisfactory standards for services which are associated with significant market power; and
- to assist the Commission assess an airport operator's conduct as part of the review of prices oversight arrangements, which the Commission is required to undertake towards the end of the first five years of the price cap.

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

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

² For a detailed description see Australian Competition and Consumer Commission, "Quality of service Monitoring Post Leasing", February 1997

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. These sources included, customers of the airport (through customer perception surveys conducted by the airport operators); information from airport operators as required under the regulations (such as the number of passengers, the number of aerobridges and the size of aprons); airlines (through surveys of airlines); and information provided by Australian Customs Service (“ACS”) and Airservices Australia on the quality indicators.

It should be noted, however, that the information provided by ACS and Airservices Australia did not include data that could be used in the assessment of quality standards at Melbourne Airport. However, ACS and Airservices Australia have informed the Commission that such data will be available for use in next year’s monitoring report.

Airline surveys

In order to gain further information on the quality standard of airside facilities and terminal facilities, the Commission conducted a survey of the airlines that used Melbourne Airport over the 1997/98 financial year. Six surveys were received from the following airlines: United Airlines; Air New Zealand; Qantas; Singapore Airlines; British Airways; and Ansett 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.

In order to accurately report on the results of the various quality indicators, the Commission sought additional comments from airlines for areas where results were critical of the availability or standard of services and facilities, or where concerns regarding performance had been raised. The Commission then followed these comments up with APAM.

Customer perception surveys

Customer perception surveys were also used as a source of information in the quality monitoring report. APAM designed the customer perception survey, and the Commission provided comment on the proposed survey 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 customer perception survey. The Commission was satisfied with the final customer perception survey and the methodology used.

The areas covered by the customer perception survey are set out in the regulations to the Airports Act. These areas include passenger check-in, security clearance, government inspection, lounges, washrooms, baggage collection, signage, car parking, and vehicle access for pick-ups and drop-offs.

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 the findings is presented in Appendix three.

Issues

This is the first monitoring report for Melbourne Airport. As such, it will be used to establish a base for comparison with future year's reports.

In making comparisons from year to year, the Commission is aware that a variety of factors outside the immediate control of APAM might influence results (eg. the staffing by airlines of check-in services and similarly by Customs of immigration facilities). It should be noted that airlines, Airservices Australia and other service providers might have contributed to quality outcomes at Melbourne Airport.

The Commission also acknowledges that it takes time to implement changes and to make improvements in quality monitoring areas. In general, airport operators may not have 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. The Commission also recognises that there is a cost quality trade-off and that improvements in quality may not be made where the costs do not justify the expected benefits.³ The Commission will allow for such factors in its report on quality and in its review of price oversight arrangements.

2.2 Quality of Service 1997/98

This section covers the results obtained for quality of service monitoring at Melbourne Airport for the 1997/98 financial year. Overall, the Commission considers that APAM provided a high level of service at Melbourne Airport. It also appears that airport users, airlines and passengers, were very satisfied with almost all aspects of the facilities and services provided.

³ Australian Competition and Consumer Commission, "Quality of Service Monitoring for Airports - statement of the Commission's approach to analysis, interpretation and publication of quality information", February 1998

Results

This section includes an assessment and discussion of each infrastructure facility/service listed in the regulations and provided by the airport operator. The assessment of results is made having regard to the customer perception survey, the airline survey, and additional comments and data provided by APAM. Summaries of the results of the customer perception survey and the airline survey are provided in Appendices two and three respectively.

Runways, aprons and taxiways

Overall, runways were rated by airlines as “good” to “excellent” for both availability and standard. Comments received indicated that the surface was well maintained.

Aprons were generally rated “good” to “excellent” by airlines for both availability and standard. Comments received from airlines were favourable and referred to regular maintenance and the efficient utilisation of space.

Taxiways were also rated “good” to “excellent”. One airline commented favourably on the regular maintenance of taxiways.

Data, which will provide an indication of runway congestion and delays, is expected to be available from Airservices Australia for use in next year’s report.

Gates

Melbourne Airport had 14 gates for international passenger aircraft at 30 June 1998. Gates were rated by airlines from “good” to “excellent” in terms of both availability and standard.

The non-availability of gates was considered to be rare, although a comment was received indicated that over the year insufficient gates were provided for 737 aircraft, and that for two gates, 767s have difficulty manoeuvring. Melbourne Airport responded to the concerns about 737 aircraft by re-configuring gates 9 and 11 to service these aircraft. Melbourne Airport advised that the changes to gate 9 took effect in early March 1999 and that that gate 11 would be modified shortly.

Ground service equipment

Ground service equipment and storage sites were rated from “poor” to “excellent”. A criticism received indicated that there was a shortage of space that had existed for some years. Melbourne Airport commented that space is available and it would be open to proposals from airlines that wanted to develop facilities.

Freight facilities

Freight facilities were rated by airlines from “very poor” to “excellent” for availability and standard, with a concentration around the “satisfactory” rating. Two comments were made that the area provided was insufficient.

Melbourne Airport responded that it had not refused any request for additional freight equipment storage sites at this time. Additional sites were available and freight operators had been advised of this.

Aerobridges

Melbourne Airport had 10 aerobridges to service international aircraft at 30 June 1998.

Aerobridges were rated by airlines as “good” to “excellent” for both availability and standard. For the year to 30 June 1998, almost all (99.9 per cent) arriving and departing passengers used an aerobridge.

Check-in facilities

Melbourne Airport had 72 check-in counters and a further 16 service counters at 30 June 1998.

Check-in facilities were rated by airlines as “good” to “excellent” in terms of both availability and standard. As an indication of availability over the year, there were only 179 hours when more than 80 per cent of counters were in use. Passengers surveyed also rated time required to check-in as “good” to “excellent”.

Favourable comments received by airlines suggested that the standards of counters were “state of the art”. The allocation of counters was done in consultation with airlines.

Government inspection

Melbourne Airport had 18 desks available for departing passengers and 16 desks for arriving passengers at 30 June 1998. The ACS conducted inspection for both departing and arriving passengers. At this stage no comment can be made as to the adequacy of the number of desks provided. However, ACS have stated that it will be able to provide suitable data which will indicate the time elapsed in processing passengers in future.

Passengers surveyed rated the waiting time to be processed as “good” to “excellent”.

Security

Melbourne Airport had three security clearance systems at 30 June 1998 for departing international passengers. Departing passengers surveyed rated the efficiency and quality of the security procedure as “good” to “excellent”.

Gate lounges

At 30 June 1998, 2,289 seats were provided in gate lounges at Melbourne Airport. Passengers rated all aspects of gate lounges surveyed as “good” to “excellent”. The aspects of gate lounges rated were the ease of finding a seat, the comfort of seating, the adequacy of the area provided, and the crowding and ease of finding the correct gate.

Baggage processing and trolleys

At 30 June 1998, Melbourne Airport had a baggage processing system with a capacity of 2,720 inbound bags per hour and 3,060 outbound bags per hour. Users indicated that the system provided a good service.

Airlines rated baggage processing facilities as “satisfactory” to “good”. Positive comments indicated that there were minimal breakdowns.

Passengers surveyed rated the baggage processing system as “good” to “excellent” in terms of waiting time for baggage reclaim and ease of finding the correct belt. Crowding in the reclaim area, however, did not rate as highly, with a score of “average”.

Trolley findability was rated “good” to “excellent” for both arriving and departing passengers.

Flight information displays

Passengers surveyed rated the quality of flight information as “good” to “excellent”.

Washrooms

The cleanliness of washrooms was rated as “good” to “excellent”.

Car parking and kerbside access

Melbourne Airport had 6,168 car park spaces available at 30 June 1998. Of these, 2,729 were short term and 3,439 long term.

Passengers surveyed rated the short term car park as “good” to “excellent” in terms of the ease of entry and ease of finding a car parking space. The long term car park was also rated highly in terms of ease of entry, while the ease of finding a car park was rated just below “good”.

It should be noted that the time taken to exit car parks was not included in the survey. This aspect, while important, could not be surveyed for practical reasons.

Kerbside access at an airport is required to allow passengers to be dropped off and picked up by taxis, buses and other vehicles. The survey covered aspects of kerbside access such as the ease of being dropped off. This was rated as “good” to “excellent”.

Waiting times for taxis were measured and results indicated that for busy times, Monday mornings and Thursday and Friday afternoons, waiting times were on average under three minutes.

Consultation with airlines

Consultation between airport management and airlines, which is said to occur regularly, was rated “satisfactory” through to “excellent”. No critical comments were received.

3. 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 1997/98 financial year.

3.1 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 of 30 June of that year.⁴ The accounts include a Profit and Loss Statement, Balance Sheet and Cashflow Statement.⁵ In addition, other supporting information, such as statements on accounting policies and cost disaggregations between aeronautical and non-aeronautical costs are required.

All accounts information must be audited. In addition, a directors responsibility statement must be signed by at least two directors, stating that the regulatory accounting statements and supporting schedules are "fairly" presented and in accordance with the guidelines, the Airports Act, and the regulations made pursuant to that Act.

In completing this regulatory report, the Commission assessed the financial information provided by APAM for compliance with the guidelines. The Commission concluded that APAM had prepared its accounts in accordance with these guidelines.

The Commission used the financial data provided by APAM for two main purposes. These were:

1. In the assessment of compliance with the price cap and the review of regulatory arrangements after five years; and
2. Transparency, by making information available to interested parties.

3.2 Melbourne Airport, Financial Accounts 1997/98

APAM lodged the audited financial accounts for Melbourne Airport within the required 90 days following the close of the financial year. The information provided by APAM complied with the requirements of the Airports Act, the regulations under the Act and the Commission's guidelines.

⁴ Phase 1 airports include Melbourne, Brisbane and Perth airports.

⁵ See the Commission's guidelines on accounts reporting requirements titled: *Regulatory Information Requirements under Part 7 of the Airports Act 1996 and Sections 21 and 27A of the Prices Surveillance Act 1983*. The guidelines are available on the Commission's airport website.

APAM reported on a period of activity from the commencement of its lease, on 2 July 1997, to 30 June 1998. Over the entire airport, a loss after tax of \$29.6 million was reported. The result was significantly affected by interest expense which, at \$103.0 million, represented 59 per cent of total expenses.

As at 30 June 1998, APAM reported controlled total assets valued at \$1,357.6 million. Of this total, \$654.8 million (approximately 48%) comprised a “lease premium” which represented the cost of acquiring the airport business in excess of the net tangible assets acquired as calculated by APAM as at 2 July 1997.

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.

Melbourne Airport developed a system to allocate transactions to a segment code, such as check-in counters, international terminals or corporate services. For the allocation of depreciation, all fixed assets were coded to the appropriate segment.

A summary of Melbourne Airport’s regulatory accounts is attached to this report at Appendix four.

4. Prices Surveillance and Price Cap Compliance

This section covers the Commission's prices surveillance function and reports on APAM's price cap compliance over the 1997/98 financial year.

4.1 The Commission's Role

Certain aeronautical services at leased airports are declared under section 21 of the PS Act for prices 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).⁶

Declaration requires the airport operator to notify the Commission of a proposal to increase charges on the services covered by the declaration. It should be noted that 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 "core regulated" airports declared services are subject to CPI-X price cap. The X factors are based on expected productivity improvements.⁷ The X factor for Melbourne Airport is 4.0 per cent and has been set for five years from July 1997. Direction 13 sets out the details of the price cap formula, the X values and other issues relevant to the Commission's administration of the cap.⁸

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

Using data provided by APAM, the Commission assessed whether Melbourne Airport complied with its price cap over the year to 30 June 1998. A summary of movements in charges subject to the cap, as well as the maximum charges endorsed by the Commission at 30 June 1998 is provided below. Details of price notifications are available on a public register maintained by the Commission pursuant to section 23 of the PS Act.

⁶ A copy of declaration 83 is available on the Commission's airport website.

⁷ For a detailed explanation of the arrangements see Australian Competition and Consumer Commission, "Administration of Airport Price Cap Arrangements", January 1997

⁸ A copy of direction 13 is available on the Commission's airport website.

4.2 Price Cap Compliance, 1997/98

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 for 1997/98 was 2.1 per cent, meaning that Melbourne Airport was required to lower nominal average aeronautical charges by 1.9 per cent in that year.

APAM adjusted its most significant aeronautical charges on 1 January 1998. These prices were adjusted by approximately double CPI – X so that over the entire financial year an adjustment of CPI – X was achieved. The adjustments led to lower average charges over the 1997/98 financial year of 2.06 per cent, meaning that Melbourne Airport complied with the cap. Changes to charges for particular aeronautical services are shown in Table 1 below.

Table 1: *Changes in Charges Subject to Price Cap for Year Ended 30 June 1998*

| Charge | Basis | 1/7/97 | Description | 30/6/98 |
|--------------------------------|--|--------|---|---------|
| Landing Charges | Per landing, \$/tonne MTOW ⁹ | 5.72 | Adjusted 1/1/98 by approx. double CPI – X | 5.503 |
| Australian Protective Services | Per landing, \$/tonne MTOW for aircraft > 20,000kg | 0.44 | Unchanged | 0.44 |
| International Terminal | Per landing, \$/tonne MTOW | 4.07 | Adjusted 1/1/98 by approx. double CPI – X | 3.915 |
| Parking | Per day in General Aviation area | 11.00 | Unchanged | 11.00 |

To demonstrate compliance with the price cap, APAM provided disaggregated revenue data for aeronautical services for the 1997/98 financial year. This also gave the units of revenue (eg. tonnes landed) for each category of revenue. A summary of the data is provided in Table 2 below.

⁹ Maximum Take-Off Weight

Table 2: Aeronautical Revenue and Price cap compliance for the Period Ended 30 June 1998

| Description | Number of Units | Basis of Charge (Price per unit) | Revenue | Average Charge | Rate Variation, 96/97 v. 97/98 | % Revenue Share | Compliance |
|--|-----------------|----------------------------------|------------|----------------|--------------------------------|-----------------|--------------|
| | | | \$'000 | | | | |
| Landing Charges (Domestic and International) | 7,157,063 | 5.72 | 40,096,648 | 5.602 | -2.06 | 80.81 | -1.66 |
| International Terminal Charges | 2,472,108 | 4.07 | 9,852,000 | 3.985 | -2.08 | 19.19 | -0.40 |
| Parking Charges | | 11.00 | | | | | |
| Total | | | | | | | -2.06 |

APAM also derived security revenue, which is considered “aeronautical” and therefore subject to the price cap. As security services are mandated by Government policy the associated costs may be passed through under the cap. Compliance is discussed below.

APS Revenue and Expenditure Reconciliation for Period Ended 30 June 1998

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

APAM supplied the following information to the Commission, which demonstrated that it recovered \$51,000 more from airport users (through the security charge) than the cost it incurred in delivering APS services. APAM will carry this difference forward and include it in the reconciliation calculations for the following year.

Table 3: Reconciliation of APS revenue to APS costs

| | |
|----------------------------|-------------|
| APS costs | \$3,014,000 |
| APS revenues | \$3,066,000 |
| Over-recovery of APS costs | \$51,000 |

Based on the data provided, the Commission is satisfied that APAM complied with the provisions of the price cap.

5. Monitoring of Aeronautically Related Services

This section covers the Commission's role in the monitoring of aeronautically related services which 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 1997/98 financial year.

5.1 The Commission's Monitoring Role

In May 1998 the Treasurer directed that aeronautically related services be the subject of formal prices 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 to ensure that an airport operator does not misuse any market power it may have in setting prices.

Aeronautically related services include aircraft refuelling, aircraft maintenance sites and buildings, freight facilities, and car parking. A full list is given in the Treasurer's Direction no. 14, available on the Commission's web site. For a more complete outline of the 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 the report 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.

5.2 Price Monitoring Activities, 1997/98

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 to 30 June 1998. The data is summarised in Table 4 and 5 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 1998

| Description | Aero-Related services Total |
|---|--------------------------------|
| AERO-RELATED SERVICES | \$'000 |
| Refuelling services | 0 |
| Aircraft maintenance sites & buildings | 1,468 |
| Freight equipment storage sites | 2 |
| Cargo facility sites & buildings | 656 |
| Ground support equipment sites | 130 |
| Check-in counters and related facilities(1) | 1,151 |
| Public car parking | 9,373 |
| TOTAL AERO-RELATED COSTS | 12,780 |

Notes:

1. At terminals operated by airport-operator companies.
2. Costs do not include amortisation of intangible assets or interest.

Table 5: Monitored Services: Aero-Related Revenue for the Period Ended 30 June 1998

| Description | Basis of Charge(s) | Revenue |
|---|---|---------------|
| | | \$'000 |
| AERO-RELATED SERVICES | | |
| Refuelling services | N/A | 0 |
| Aircraft maintenance sites & buildings | (per square metre) | 3,489 |
| Freight equipment storage sites | (per square metre) | 101 |
| Cargo facility sites & buildings | (per square metre) | 1,031 |
| Ground support equipment sites | N/A | 0 |
| Check-in counters and related facilities(1) | Agreement with Airlines Operators Committee based on agreed total revenue allocated on hours of usage | 1,416 |
| Public car parking/Staff car parking(2) | Per hour | 23,884 |
| TOTAL AERO-RELATED REVENUE | | 29,921 |

Notes: 1. At terminals operated by airport-operator companies.

2. Rates for short term car park, \$4 for first hour, \$2 for second hour and \$1 for each further hour or part there after. Maximum, \$17 for 24 hours. Long term car park, \$14 for first 48 hours and \$7 for each additional 24 hours with no maximum.

While revenues tended to exceed costs, it is important to note that costs do not include amortisation of intangible assets or interest. These were significant, amounting to \$107.1 million in 1997/98, or 61.4 per cent of total costs. The Commission asked that these costs 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 is a 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.

At this stage the Commission has not draw conclusions regarding the pricing and provision of monitored services at Melbourne Airport.

During the year ending 30 June 1998, the Commission did not have cause to make use of its formal monitoring powers to investigate any services at Melbourne Airport.

Appendix One: 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 are given in Table 6 below.

Table 6: *Quality of Service Indicators*

| Service/Infrastructure | Type of indicator | Source of data |
|--------------------------|---|--|
| Runways and taxiways | <ul style="list-style-type: none"> Hours over which aircraft movements exceed 95 per cent of runway capacity; Percentage of aircraft delayed longer than five minutes; Difference between standard taxi-ing times and actual taxi-ing times; Satisfaction with the standard and availability of facilities. | Airservices Australia; 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 Airport operator Survey of airlines Customer 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 Customer perception survey |

Table 6 continued...

| Service/Infrastructure | Type of indicator | Source of data |
|--------------------------------------|---|--|
| 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; Customer perception survey |
| Baggage system | <ul style="list-style-type: none"> Capacity of system in terms of number of bags handled per hour; Satisfaction with the system in terms of capacity, and mishandled baggage; Customer satisfaction with the system in terms of waiting time, information display and circulation space. | Airport operator Survey of airlines Customer perception survey |
| Baggage trolleys | <ul style="list-style-type: none"> Customer satisfaction with findability of trolleys. | Customer perception survey |
| Flight information display and signs | <ul style="list-style-type: none"> Customer satisfaction with the system. | Customer perception survey |
| Washrooms | <ul style="list-style-type: none"> Customer satisfaction with the standard of facilities. | Customer perception survey |
| Car parking | <ul style="list-style-type: none"> Number of car parking spaces; Throughput of the car park; Customer satisfaction with standard of facilities and availability of spaces and time taken to get into car park. | Airport operator; Airport operator; Customer perception survey |
| Kerbside access | <ul style="list-style-type: none"> Customer satisfaction with space and waiting time for taxis. | Customer perception survey |

Airport operators are also required to report each year on a range of static indicators. These are given in Table 7 below, and will be used in future years monitoring reports to assess changes in quality of service.

Table 7: Static Indicators as provided by Airport Operator

| Indicator | At 30 June 1998 |
|--|------------------------|
| Number of (international) aircraft parking bays at 30 June 1998 | 14 |
| Number of aerobridges at 30 June 1998 | 10 |
| Percentage of passengers (arriving and departing) using an aerobridge | 99.9 |
| Number of check-in desks | 72 ¹⁰ |
| Number of inbound immigration desks | 16 |
| Number of baggage inspection desks | 16 |
| Number of outbound immigration desks | 18 |
| Number of security clearance systems | 3 |
| Number of seats in gate lounges | 2,289 |
| Capacity of baggage handling equipment (in bags per hour) (outbound) | 3,060 |
| Number of car park spaces (including long term car park with 3,439 spaces) | 6,168 |

¹⁰ there are also 16 service desks

Appendix Two: Summary of Responses from survey of airlines

The Commission received surveys from six airlines that used Melbourne Airport. These airlines were United Airlines, Air New Zealand, Singapore Airlines, British Airways, Ansett Airlines and Qantas. Ratings were given in regard to 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 standard and availability of facilities services provided at Melbourne Airport. Two areas of concern, however, needed to be referred to airport management for a response. A summary of the ratings provided by the airlines is given in the table below. The table shows that almost all ratings were either “good” or “excellent”.

| Facility | Aspect | Very Poor | Poor | Satisfactory | Good | Excellent |
|-------------|--------------|-----------|------|--------------|------|-----------|
| Runways | Availability | | | | 3 | 3 |
| | Standard | | | | 3 | 3 |
| Aprons | Availability | | | 1 | 2 | 3 |
| | Standard | | | | 4 | 2 |
| Taxiways | Availability | | | | 3 | 3 |
| | Standard | | | | 3 | 3 |
| Gates | Availability | | | | 4 | 1 |
| | Standard | | | | 4 | 1 |
| Aerobridges | Availability | | | | 2 | 3 |
| | Standard | | | | 3 | 2 |

Continued...

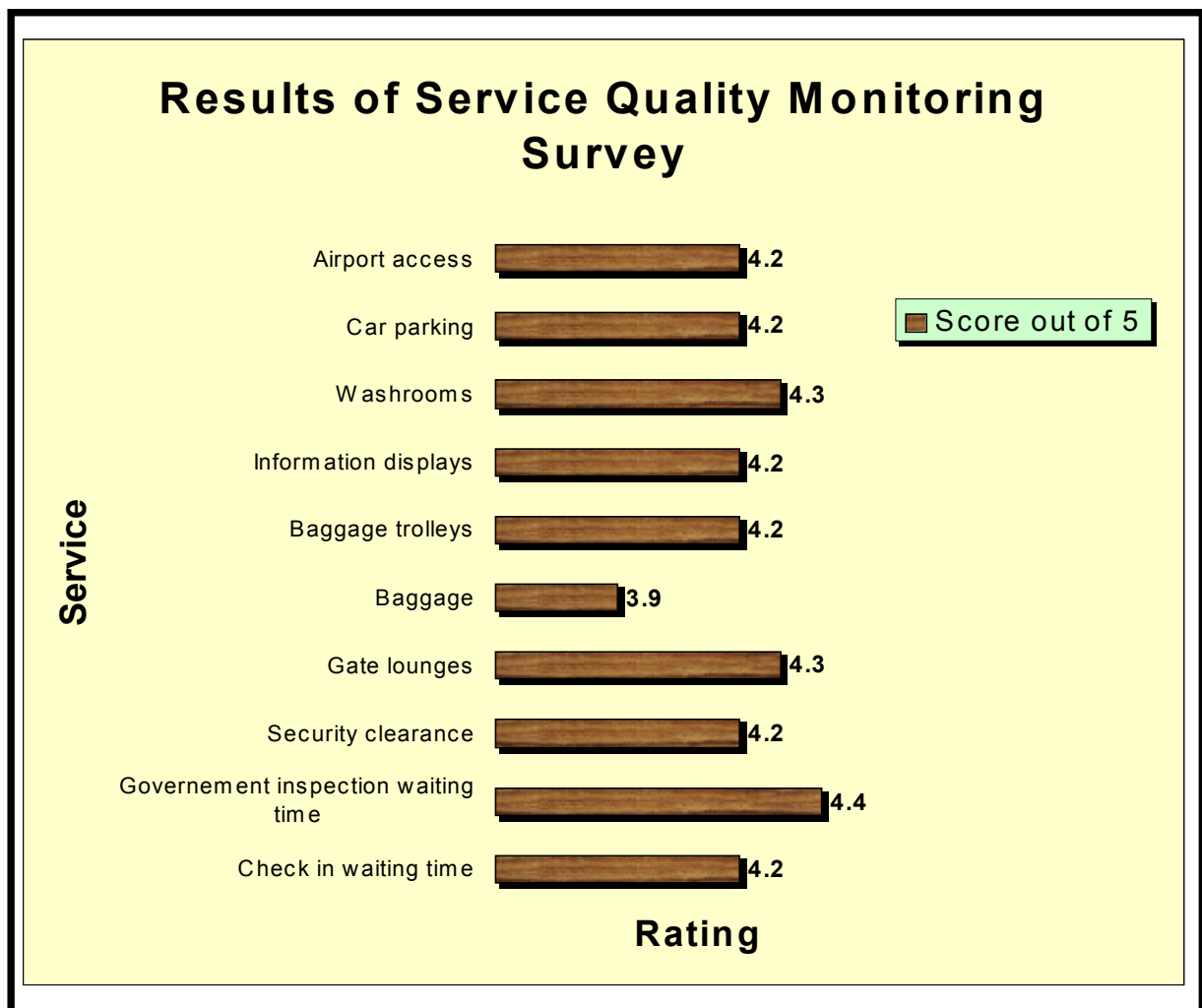
| Facility | Aspect | Very Poor | Poor | Satisfactory | Good | Excellent |
|---|--------------|-----------|------|--------------|------|-----------|
| Ground service equipment storage sites | Availability | | 1 | 1 | 3 | 1 |
| | Standard | | 1 | 1 | 3 | 1 |
| Freight equipment storage sites | Availability | 1 | 1 | 3 | | 1 |
| | Standard | 1 | | 4 | | 1 |
| Check-in facilities | Availability | | | | 2 | 3 |
| | Standard | | | | 4 | 1 |
| Baggage processing facilities | Availability | | | 2 | 3 | |
| | Standard | | | 3 | 2 | |
| Addressing airline concerns | | | | | 4 | 1 |

Appendix Three: Summary of results from customer perception survey

This appendix provides an overview of the results of the customer perception survey conducted by APAM. Overall, the results of the survey indicated a high level of satisfaction from passengers with the airport terminal and facilities.

APAM conducted a survey of passenger perceptions over a one-year period from 1 July 1997 to 30 June 1998.

A five point scale from “extremely poor” (rated as 1) to “excellent” (rated as 5) was used. Ratings for survey participants were then averaged to give an overall score. Results for the survey are presented in the summary table below. The higher the score out of five, the greater the level of satisfaction.



The baggage measure was the only indicator where the rating was less than 4. The baggage category was made up of three different categories: “the ease of finding the correct reclaim belt” (rating of 4.2); “waiting time in the reclaim area” (rating of 3.9); and

“crowding in the reclaim area” (rating of 3.7). Crowding and waiting times in the reclaim baggage area brought the average score for the entire baggage rating down.

An outline of what was included in the service quality indicators is given in the table below.

Service Summary:

- “Check in waiting time” refers to customer satisfaction with the waiting time during check-in for departing passengers.
- “Government inspection waiting time” refers to customer satisfaction with the waiting time at customs for departing passengers, and the waiting time at immigrations for arriving 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 the comfort of the seating in the gate lounge.
- The “baggage” measure refers to the ease of finding the correct belt, satisfaction with the waiting time for baggage, the congestion of the baggage reclaim and the information display relating to the baggage section.
- The “baggage trolley” measure indicates customers’ perception of the ease of finding a trolley for both departing and arriving passengers.
- The “information display” measure covers customer satisfaction with the flight information system.
- 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 the long-term car park.
- “Airport access” covers customer satisfaction with the kerbside space provided and the relative congestion and standard of the access facilities.

For ease of compilation and interpretation, a number of facilities and service ratings have been grouped together and an average rating is provided for each section. In all instances, the average score is representative of the individual service/facility ratings that make up the group.

Appendix Four: Melbourne Airport Regulatory

Accounts (Summary)

Profit and Loss Account for the Period Ended 30 June 1998

| | Audited financial statements | Aero services | Non-Aero services |
|--|---------------------------------|------------------|----------------------|
| | \$'000 | \$'000 | \$'000 |
| Revenue | | | |
| Aeronautical revenue | 53,014 | 53,014 | |
| Non-Aeronautical revenue | 90,990 | | 90,990 |
| Grazing and Tenant Revenue | 141 | | |
| Interest Income | 534 | | |
| Total Revenue | 144,679 | 53,014 | 90,990 |
| Expenditure | | | |
| Depreciation | 21,862 | 14,318 | 7,544 |
| Amortisation of Intangibles | 4,050 | 0 | 4,050 |
| Services and utilities | 8,664 | 4,423 | 4,241 |
| Australian Protective Service costs | 3,014 | 3,014 | 0 |
| Other costs | 33,641 | 17,739 | 15,761 |
| Total Expenditure | 71,231 | 39,494 | 31,596 |
| Operating Profit/(Loss) | 73,448 | 13,520 | 59,394 |
| Abnormal items | 0 | | |
| Earnings Before Interest and Tax (EBIT) | 73,448 | 13,520 | 59,394 |
| Interest | 103,028 | | |
| Earnings Before Tax (EBT) | (29,580) | | |
| Tax charge | 0 | | |
| Profit/Loss after Tax | (29,580) | | |
| Dividends paid | 0 | | |
| Retained Earnings | 0 | | |

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

Balance Sheet for the Period Ended 30 June 1998

| Description | Audited financial statements | Aero services | Non-Aero services |
|--|---|--------------------------|------------------------------|
| | \$'000 | \$'000 | \$'000 |
| CURRENT ASSETS | | | |
| Cash | 62 | | |
| Receivables | 8,930 | 5,818 | 3,112 |
| Inventories | 712 | 690 | 22 |
| Other | 217 | 174 | 43 |
| Total current assets | 9,921 | 6,682 | 3,177 |
| NON-CURRENT ASSETS | | | |
| Receivables | 0 | 0 | 0 |
| Investments | 0 | 0 | 0 |
| Property, plant & equipment | 692,871 | 463,058 | 229,813 |
| Intangibles | 654,799 | 0 | 654,799 |
| Other | 0 | 0 | 0 |
| Total non-current assets | 1,347,670 | 463,058 | 884,612 |
| TOTAL ASSETS | 1,357,591 | 469,740 | 887,789 |
| CURRENT LIABILITIES | | | |
| Creditors | 13,680 | | |
| Borrowings | 20,861 | | |
| Provisions | 3,342 | 2,506 | 836 |
| Total current liabilities | 37,883 | | |
| NON-CURRENT LIABILITIES | | | |
| Borrowings | 1,248,997 | | |
| Provisions | 291 | 218 | 73 |
| Total non-current liabilities | 1,249,288 | | |
| TOTAL LIABILITIES | 1,287,171 | | |
| NET ASSETS | 70,420 | | |
| SHAREHOLDER'S EQUITY | | | |
| Share capital | 100,000 | | |
| Accumulated profits/(losses) | (29,580) | | |
| TOTAL SHAREHOLDER'S EQUITY | 70,240 | | |
| Accumulated profit/loss at the start of the year | 0 | | |
| Movements: | | | |
| Profit/loss for the year | (29,580) | | |
| Other (describe if applicable) | | | |
| Accumulated profit/loss at the end of the year | (29,580) | | |

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:

| | |
|-----------|--|
| AASB 1015 | Accounting for the Acquisition of Assets |
| AASB 1005 | Financial Reporting by Segments |
| AASB 1017 | Related Parties Disclosures |
| AASB 1026 | Statements of Cash Flows |
| AASB 1033 | Presentation and Disclosure of Financial Instruments |
| AASB 1028 | Employee Entitlements |

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.

In addition, the accounting policies prescribed by applicable Accounting Standards and Urgent Issues Group Consensus Views, 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 | 25-40 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 airport acquisition has been valued at acquisition at fair value. The cost of acquisition of airport land and occupied commercial land is being amortised over expected passenger traffic for the first 15 years and then written off over straight line for the remaining 84 years.

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

The costs of acquisition of airport business in excess of net tangible assets has been capitalised as lease premium. Lease premium is being amortised over expected passenger traffic for the first 15 years and then written off over straight line for the remaining 84 years.

(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) Inventories and Supplies

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

(f) Receivables

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

(g) 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.

(h) 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.

(i) 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.

(j) Comparative Figures

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

(k) 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.

(l) 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.

Australia Pacific Airports (Melbourne) Regulatory Accounts

Operational Statistics for the Period Ended 30 June 1998

| Description | Number |
|--|-------------------|
| PASSENGERS (not audited) | |
| Domestic Passengers | 11,331,637 |
| International Passengers (excluding transit) | 2,563,164 |
| International Transit Passengers | 229,225 |
| Domestic On-Carriage | 77,314 |
| TOTAL PASSENGERS (2) | 14,201,340 |
| AIRCRAFT MOVEMENTS | |
| Regular Public Transport Aircraft Movements | 143,994 |
| General Aviation Aircraft Movements (1) | 10,136 |
| TOTAL AIRCRAFT MOVEMENTS (2) | 154,130 |
| TOTAL TONNES LANDED (2) | 7,174,299 |
| AVERAGE STAFF EQUIVALENTS | |
| - Aeronautical Services | 142 |
| - Non-Aeronautical Services | 48 |
| TOTAL AVERAGE STAFF EQUIVALENTS | 190 |
| AREA (HECTARES) | |
| - Aeronautical Services | 1,742.76 |
| - Non-Aeronautical Services | 624.54 |
| TOTAL AREA (HECTARES) (3) | 2,367.30 |

Notes :

1. Of this 10,136, approximately 6,600 were incorrectly classified as General Aviation and would now be classified as Regular Public Transport or Freighter.
2. Units are for year commencing 1 July 1998
3. As at 30 June 1998