



18 September 2002

Mr John Martin
Commissioner
Australian Competition and Consumer Commission
PO Box 1199
DICKSON ACT 2602

Dear Commissioner,

Aeronautical Charges for Regional Users of the Sydney Airport Common Use Terminal

Notification

I am writing to notify the Australian Competition and Consumer Commission (ACCC), in accordance with Declaration 90 and pursuant to section 22(2)(a) of the *Prices Surveillance Act 1983*, of the intention of Sydney Airports Corporation Limited (SACL) to offer a passenger-based charge to NSW intrastate operations using Terminal 2 (the former Sydney Ansett domestic terminal).

The restructured charge is based on the existing suite of charges approved for regional users of Sydney Airport. That is, this charge is intended to comply with the Government's policy, stated in Direction 28, that the average revenue-weighted increase in charges for regional operations should not exceed CPI.

SACL intends to offer this restructured charge on an interim basis pending ACCC consideration, in due course, of an expected further notification to establish a new charge for Terminal 2. This future notification will seek to implement a charge required to appropriately recover the costs of use of the terminal facility by regional operations.

Regulatory Framework

The Government announced on 13 May 2002 the general deregulation of aeronautical charges at Sydney Airport, in response to the Productivity Commission's review of price regulation of airports.

Sydney Airport continues to be subject to monitoring by the ACCC of charges for the provision of aeronautical and passenger processing services. This monitoring regime was established by Direction 27 pursuant to the *Prices Surveillance Act*, dated 26 June 2002.

On 26 June 2002, the Parliamentary Secretary to the Treasurer also declared Sydney Airport under the *Prices Surveillance Act* for the provision of aeronautical and passenger processing facilities and services to regional air services. This Declaration, number 90, requires Sydney Airport to notify the ACCC of any proposal to levy charges for the provision of aeronautical services to regional users where proposed charges exceed those levied in the preceding twelve months.

In declaring Sydney Airport charges for regional services, the Government also issued Direction 28 to the ACCC. This requires the ACCC to give special consideration, in assessing price notifications, to the Government's policy that the average revenue-weighted percentage increase in charges for regional services in a financial year should not exceed CPI. This Direction also established the relevant starting point prices as those charged by SACL at 30 June 2002.

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Acquisition and Operation of the Former Ansett Terminal

Sydney Airport acquired the former Ansett terminal from Ansett's administrators on 1 July 2002. The terminal has been renamed Terminal 2, and has been formally available for use from 2 September 2002.

SACL's acquisition of the former Ansett domestic terminal provides Sydney Airport with a quality, cost-effective alternative to the existing Domestic Express Terminal to accommodate domestic and regional air services. The terminal is to be operated as a common user facility and is intended to accommodate the increasing demand for quality terminal facilities by domestic and regional operators. The facility is also expected to promote competition in the domestic aviation market, providing a level of opportunity and access to new entrant airlines and competitor airlines not seen since the commencement of the domestic terminal leases over ten years ago.

Proposed Pricing for the Former Ansett Terminal

SACL is proposing to offer regional airline users of Terminal 2 the choice of:

- continuing with the existing approved charges and charging structure for regional users at Sydney Airport,
- an alternative of an equivalent passenger-based charge, which they may choose if they consider it to be revenue-neutral or represent an overall price reduction.

Current Charge Structure

The approved charges as at 30 June 2002 for regional operations, were (excluding GST):

Runway charges: \$3.45 per tonne MTOW, levied on take-off and landing. Runway charges will continue to apply to regional operations regardless of the terminal facilities that they utilise.

Terminal Facility Charge: \$1.74 per arriving and departing passenger. This was approved by the ACCC for airlines utilising the domestic common user passenger terminal facilities owned or leased and operated by SACL.

Aircraft apron parking: A charge of \$35 per 15 minutes of part thereof has been approved by the ACCC for any aircraft (other than GA) parked in a designated aviation parking area not leased to a third party.

Passenger security screening: A charge of \$1.79 per departing passenger was approved for passengers using domestic common user passenger terminal facilities, subject to reconciliation against costs.

In addition, check-in counter charges are currently levied from airlines using SACL's common-user check-in facilities. These are not subject to price regulation.

Regional operations using Terminal 2 will be charged up to a maximum of the above charges.

Proposed Passenger-Based Charge

SACL, however, considers that it would more straightforward to apply a single passenger-based charge for use of Terminal 2. Accordingly, we seek the ACCC's approval to give airlines the choice of charges set on a passenger basis.

The proposed Terminal 2 Passenger Facilitation Charge (PFC) for regional users will cover:

- Terminal use, on a common use basis
- Aircraft apron parking
- Check-in counter use

Attachment A provides a list of the services and facilities covered by the proposed PFC.

The PFC equivalent of the current charges is \$4.50 per arriving and departing passenger, excluding GST.

In addition to the PFC:

- weight-based runway charges will continue to be levied, along with counter-terrorist first response charges and recovery of additional security measures.
- passenger screening costs will continue to be recovered through a separate charge, up to a maximum of \$1.79 per departing passenger, excluding GST.
- airlines will directly meet their own costs of apron bussing.

Attachment B provides a summary of the components and derivation of the charge.

The basic terminal charge of \$1.74 is directly transferable as a basis for the new PFC. The parking and check-in charges, however, are not directly based on passengers and assumptions must be made on their conversion to a per passenger basis.

In the case of parking charges, the bulk of domestic passengers will be carried by Dash-8 or Saab 340 aircraft, with an average capacity of 35 seats. The Bureau of Transport and Regional Economics (BTRE) has provided data on load factors on regional services using Sydney. In 2001, the average load factor was 59%. While data for January to June 2002 suggests load factors of 54.6%, SACL has adopted the more conservative assumption of 60%, giving an average of 21 passengers per movement. The BTRE data is at Attachment C.

Sydney Airport operational statistics (Attachment D) record average apron parking times for regional aircraft as 60 minutes. However, the average time is based on a very long tail of exceptional stays, in some cases over 7½ hours. The single most frequent stay time is 30 minutes, and the median time is 40 minutes. This suggests more normal 'typical' stay within the 30-45 minute block, or \$105 per turn-around. As each parking event corresponds to 2 aircraft movements, the typical apron parking charge per passenger is \$2.50.

While check-in counter charges are not subject to ACCC approval, a passenger equivalent of the current \$17 per counter per hour charge has been factored into the PFC. This is based on the average 21 passengers per movement and typical check-in counter allocations.

Possible Future Pricing Notification

The proposed interim regional user charge represents existing approved charges for the Domestic Express Terminal. By comparison, the former Ansett terminal provides regional operators with higher quality, uncongested passenger processing and concourse areas, automated baggage handling, close proximity to car parking and rail transport, quality gate lounges and access to a range of food and beverage and retail offerings. It also has an asset value and operating costs considerably in excess of the DET.

Accordingly, SACL may provide a second notification to the ACCC in due course to reflect an appropriate longer-term charge for regional users using Terminal 2.

Consistency with Government Policy

The interim charge outlined in this notification is consistent with the Government's Direction 28 of 26 June 2001. Charges under the multi-component structure do not

exceed those approved for regional users as at 30 June 2002. The passenger-based PFC has been established so as not to represent an increase in charges.

Customer Consultation

SACL has discussed with the major regional carriers the application of charges at Terminal 2, and the proposed introduction of a PFC. Carriers are to be offered the choice of charges levied in accordance with existing structure, or converted to a Passenger Facilitation Charge.

Yours sincerely



Dominic Schuster
Manager Economics

Facilities and Services Included Within the Interim Regional Passenger facilitation Charge for Terminal 2

Services provided on a common use basis:

- airside aprons that are contiguous with Terminal 2 and the foxtrot bays 1 - 6
- aerobridges, stand off/remote aircraft parking positions/nose-in guidance system
- CUTE (Common Use Terminal Equipment network)
- holding/gate lounges (not premium lounges)
- public address systems, management of closed circuit surveillance/security systems (excluding PAX security screening)
- baggage make up/handling, oversize baggage facilities/reclaim units
- public areas/amenities/air conditioning/lifts/escalators and moving walkways
- FIDS
- airside lighting/landside lighting (excludes JUHI and GSE storage);
- check-in-counters
- kerbside and traffic management
- terminal waste removal (not including aircraft waste removal)
- terminal cleaning (excluding leasehold areas for concessions, airlines or agencies)

Derivation of Regional Passenger Charge for T2

Charge Type	Existing Charge (excl GST)	Justification	Passenger-Based Equivalent	Justification
Terminal Charge	\$1.74 each way per passenger	ACCC approved charge for use of the Domestic Express Terminal, 25 May 2000	\$1.74 each way	
Apron Parking	\$35 per 15 minutes	ACCC approved charge for aircraft parking on designated Sydney Airport aprons during non-curfew hours	\$2.50	Conversion based on: <ul style="list-style-type: none"> Average turn-around (excluding lay-overs) apron charge of \$105, using airport ops data of a most common stay of 30 min and a median stay of 40 min Ave aircraft capacity of 35 seats Pax load factor of 80% (from BTRR 2001 data)
Check-in counter	\$17 per counter per hour	Current SACL charges, not subject to price control	\$0.26	Conversion based on: <ul style="list-style-type: none"> Pax load factor of 60% GIC use of 1 counter for 1 hour per 2 regional flights Cost based to exclude arriving pax
Charge excluding passenger screening			\$4.50	

Attachment B

DOMESTIC/REGIONAL AIRLINES
CITY PAIR STATISTICS :
TRAFFIC ON BOARD BY STAGES
CALENDAR 2001

Intrastate routes at Sydney KSA - Excludes Canberra and Norfolk Island.
Includes Estimates.

Connection	Inbound Sydney		Outbound Sydney		Sydney Total			Seats In	Seats Out	Total Seats
	Rev Pax	Seat LF%	Rev Pax	Seat LF%	Rev Pax	Seat LF%	Seat LF%			
TOTAL	626,334	58.9	626,287	59.2	1,252,621	59.0		1,063,766	1,058,134	2,121,900

Six months from 1 January 2002 to 30 June 2002

Intrastate routes at Sydney KSA - Excludes Canberra and Norfolk Island.
Includes Estimates here.

Connection	Inbound Sydney		Outbound Sydney		Sydney Total			Seats In	Seats Out	Total Seats
	Rev Pax	Seat LF%	Rev Pax	Seat LF%	Rev Pax	Seat LF%	Seat LF%			
TOTAL	262,566	55.0	259,107	54.1	521,673	54.6		476,990	478,830	955,820

Source: Bureau of Transport and Regional Economics

PE

Sydney Airport Regional Ground Time

