Airports price monitoring and financial reporting 2004–05

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Over the reporting period there are likely to be a number of factors that explain the increase in aeronautical revenue shares; however, the increase appears to be aligned with the removal of price caps and the major aeronautical price notification at Sydney.

The CPI-X price caps were removed for Adelaide, Canberra and Darwin airports in October 2001. Canberra and Darwin share of aeronautical revenue experienced substantial (80 per cent and 63 per cent, respectively) increases in total aeronautical revenue in 2001–02, while Adelaide's share of aeronautical revenue increased by 9 per cent in 2001–02 and by 78 per cent in 2002–03.

Melbourne, Perth and Brisbane all experienced substantial increases in aeronautical revenue (53 per cent, 85 per cent and 38 per cent, respectively) after CPI-X price caps applying to those airports were removed in June 2002.

Sydney airport experienced its highest increase in aeronautical revenue in 2001–02, corresponding to the price increases approved by the ACCC in its major aeronautical price notification.

While the proportion of aeronautical to non-aeronautical revenue is higher in 2004–05 than in the period between 1998–99 to 2001–02 for the price-monitored airports, the majority of revenue earned by the price-monitored airports is from the supply of non-aeronautical services.

Average aeronautical revenue increased sharply between 2001–02 (when price caps were first removed) and 2002–03. Increases during 2002–03 ranged from approximately 9 per cent at Sydney to approximately 58 per cent at Perth. Since then the rate of increase has been less.

Increases since 2002–03, combined with increases that occurred in 2001–02[30] result in average aeronautical revenue increasing by between approximately 50 per cent (Melbourne) and 228 per cent (Darwin) over the past four years. The increase at Sydney was 92 per cent with most of this increase occurring in 2001–02, when prices increased by 69 per cent following the ACCC's approval of a price notification. Over the three years of price monitoring, the increase has ranged from approximately 13 per cent at Sydney to 76 per cent at Adelaide.

The relative stability in earlier periods occurred when price caps were in place and there was some downward adjustment to prices because of the operation of the X factor in the CPI-X formula. There were occasional increases in prices resulting from pass-throughs for necessary new investment and security costs.

The major price increases for phase I airports (Brisbane, Melbourne and Perth) came shortly after price caps were removed on 1 July 2002 and for Sydney in 2001–02. The price increases for phase II airports (Adelaide, Canberra and Darwin) mainly occurred shortly after price caps were removed in October 2001.

[30] For reasons such as new investment, security charges and one-off increases allowed when Ansett collapsed.

Canberra reported its third consecutive positive post-tax return on average equity in 2004–05. The return on equity in 2004–05 was 1.5 per cent, down from 2.1 per cent in 2003–04 but above 0.6 per cent in 2002–03. These positive returns followed three years of negative returns from 1999–2000 to 2001–02. However, as discussed in section 1.2 of this report, this measure is currently of limited value.

Canberra's regulatory accounts are attached at appendix A.

On a per passenger basis in 2004–05 aeronautical revenue, operating expenses and operating margin increased.

Aeronautical revenue per passenger was relatively stable over the period 1997–98 to 2001–02, before increasing by 9.3 per cent in 2001–02 and 49 per cent in 2002–03, followed by a further 6.4 per cent in 2003–04. In 2004–05 it increased by 4.4 per cent to $6.60 from $6.32 in 2003–04 demonstrating that the rate of revenue increases over the past three reporting periods has slowed. The increase in 2002–03 resulted from a major restructuring and increase of prices following the removal of price cap regulation on 1 July 2002. Aeronautical revenue includes revenues from the operations of the domestic terminal formerly operated by Ansett.[47]

Aeronautical operating expenses per passenger increased by 2.1 per cent from $3.47 in 2003–04 to $3.55 in 2004–05. After a rise of 30 per cent in 2001–02, (likely from costs associated with the operation of domestic terminals) operating expenses per passenger appears to have remained relatively stable to 2004–05.

Aeronautical operating margin per passenger remained similarly stable from 1997–98 to 2000–01. There was a 48 per cent reduction in margins in 2001–02 before a strong rebound in 2002–03 (382 per cent) as the increase in aeronautical revenue more than offset increases in expenses. In 2004–05 the operating margin was $3.05, up 7.2 per cent from $2.85 in 2003–04. This reflects the continued increase in operating revenues coupled with the stabilisation of operating expenses.

Since price cap regulation was removed in 2001–02, aeronautical revenue per passenger has increased by 66 per cent while aeronautical operating expenses per passenger has increased by 1.5 per cent. Aeronautical operating margin per passenger increased from $0.49 in 2001–02 to $3.05 in 2004–05.

[47] Revenue from the domestic terminal lease with Qantas (and formerly Ansett) is classified as non-aeronautical by Melbourne. However, revenue from its operation of the former Ansett terminal has been included in aeronautical revenue.

2002–03 it has increased at a slower rate, 4.1 per cent. Over the past four years average aeronautical revenue has increased by 92 per cent, which includes the 2001 ACCC-approved increase that was expected to provide an average increase of 97 per cent. In 2004–05 aeronautical revenue per passenger increased by 3.3 per cent to $10.87 from $10.52 in 2003–04. This follows a 10 per cent increase in aeronautical revenue coupled with a 6.9 per cent increase in passenger volumes.

Average operating expenses per passenger increased each year from 1998–99 to 2001–02, and by 43 per cent in total over this period. During the last two years from 2002–03 to 2004–05 they decreased by 16 per cent. In 2004–05 expenses declined by 8.8 per cent to $5.64 from $6.19 in 2003–04, the lowest level since 1999–2000, suggesting a downward trend since peaking in 2001–02.

Because of the increase in average aeronautical revenue and the reduction in average aeronautical operating expenses, aeronautical margin per passenger increased by 21 per cent in 2004–05 to $5.22 from $4.33 in 2003–04.

Since price cap regulation was removed at the end of 2001–02, aeronautical revenue per passenger has increased by 13 per cent while aeronautical operating expenses have decreased by 16 per cent. Aeronautical operating margin per passenger has increased from $2.91 in 2001–02 to $5.22 in 2004–05.

In 2004–05 Sydney airport reported a negative return on average equity for the third consecutive year. The return in 2004–05 was –37.2 per cent, down from –22.9 per cent in 2003–04. This followed positive returns between 1999–2000 and 2001–02. However, as discussed in section 1.2 of this report, this measure is currently of limited value.

Sydney's regulatory accounts are attached at appendix A.