

# Aeronautical Pricing Consultation



PerthAirport

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**Aeronautical Pricing Consultation  
Information Pack**

# Key Objectives

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- Present Perth Airport's Aeronautical Pricing Principles
- Overview the Proposed Approach to Consultation
- Review Consultation Timetable and Information Timing
- Outline proposed Information Sharing and Confidentiality
- Confirm Airline Contact Points

# Aeronautical pricing consultation (1/2)

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- Perth Airport is undertaking an open and transparent consultation process with its airline customers (airlines) in relation to the contractual documentation and material components therein (including pricing) that will apply from 1 July 2018
- The consultation process will enable Perth Airport to finalise its new Conditions of Use that will provide the contractual framework for airlines wishing to operate at the Airport from 1 July 2018
- The Conditions of Use will underpin negotiations between Perth Airport and airlines interested in entering into individual agreements, to be known as Aeronautical Services Agreements (ASAs)
- These agreements will help deliver shared outcomes for the airport and airlines as well as facilitating growth for the State
- The open exchange of information during the consultation process will underpin a cooperative approach to delivering the infrastructure and services you, as airline customer, and our State, need and expect



# Aeronautical pricing consultation (2/2)

- A key component of the Commonwealth Government's Aeronautical Pricing Principles is that prices and terms and conditions of access to aeronautical services should be established on the basis of “open and transparent information exchange between the airports and their customers”
- With this in mind, we are undertaking the consultation process set out in this document in respect of aeronautical services at Perth Airport from 1 July 2018



# Aeronautical pricing principles (1/2)

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- We commit to the Commonwealth Government's Aeronautical Pricing Principles for the next aeronautical pricing period commencing on 1 July 2018
- "The pricing principles relating to prices for aeronautical services and facilities (as defined in Part 7 of the Airports Regulations 1997) provided by airports are:
  - a) that prices should:
    - i. be set so as to generate expected revenue for a service or services that is at least sufficient to meet the efficient costs of providing the service or services; and
    - ii. include a return on investment in tangible (non-current) aeronautical assets, commensurate with the regulatory and commercial risks involved and in accordance with these Pricing Principles;
  - b) that pricing regimes should provide incentives to reduce costs or otherwise improve productivity;

# Aeronautical pricing principles (2/2)

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- c) that price structures should:
    - i. allow multi-part pricing and price discrimination when it aids efficiency (including the efficient development of aeronautical services); and
    - ii. notwithstanding the cross-ownership restrictions in the Airports Act 1996, not allow a vertically integrated service provider to set terms and conditions that discriminate in favour of its downstream operations, except to the extent that the cost of providing access to other operators is higher;
  - d) that service-level outcomes for aeronautical services provided by the airport operators should be consistent with users' reasonable expectations;
  - e) that aeronautical asset revaluations by airports should not generally provide a basis for higher aeronautical prices, unless customers agree; and that at airports with significant capacity constraints, peak period pricing is allowed where necessary to efficiently manage demand and promote efficient investment in and use of airport infrastructure, consistent with all of the above Principles.”
- We will be seeking your feedback on our performance against these principles and your feedback and suggestions will also need to be assessed against them



# Aeronautical pricing agreement

The current seven year Prices and Services Agreement ends 30 June 2018

The targeted date to agree new Conditions of Use and, if required, Aeronautical Services Agreements (ASA) is **31 March 2018** with the agreements to take effect from **1 July 2018**. We understand airlines prefer a 90-days notice period prior to any changes in pricing

- Our preference is for a 7 year term, from 1 July 2018 to 30 June 2025 for the next pricing agreement in order to align with proposed major investments
- We are now starting a constructive consultation process with you that will progress over the next months. This will be followed by bilateral negotiations, to quickly and efficiently finalise an ASA with you
- Over this period, we will be actively engaging with you on each element of pricing agreement and pricing drivers
- The purpose of this consultation process is to create a common understanding between us and all of our airline customers. Consultation on the key components of pricing will enable us to establish a base of prices to include in the Airport Conditions of Use and expedite the negotiation and finalisation of ASAs in a timely and efficient manner
- We invite you to participate in the consultation process by making submissions on documentation posted by us on the Consultation Website (either directly or through an authorised representative). If you do not comment on a document, then we will need to finalise the Conditions of Use (including prices) to apply from 1 July 2018 without the benefit of your views
- We welcome your feedback on the proposed process and would like to discuss this with you when we meet

# Determining Aeronautical Pricing

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- Perth Airport proposes to apply the building block methodology to inform aeronautical price consultation and ASA negotiations
- We understand airlines are familiar with the approach as it is widely used across Australian airports and other industries to inform current pricing agreements and has been used by many of our customers for previous agreements
- The building block approach assists in transparency and understanding of pricing proposals
- Key elements of the building block methodology include:
  - a) Passenger forecasts
  - b) Capital Expenditure
  - c) Opening Asset Base
  - d) Operational Expenses
  - e) Weighted Average Cost of Capital



# Information transparency

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- We are committed to an open and transparent approach to aeronautical pricing consultation
- An open process allows information to be shared on a consistent, efficient and fair basis with all airlines
- We will post information relating to the consultation process on our website so that it is accessible to you and other airline customers
- Aeronautical Pricing information will be shared in 3 packages
- The Information Packages will include the following:
  - 1) Background Documentation
    - a) Conditions of Participation
    - b) Consultation Framework and Timeline
    - c) Perth Airport Background Information
    - d) Outline of Proposed Contractual Framework
  - 2) Aeronautical Pricing Documentation
    - a) Traffic Forecast
    - b) Capital Expenditure Plan (for the period from FY19 to FY28)
    - c) Operational Expenditure Forecast (FY19 to FY28)
    - d) Opening Asset Base
    - e) Weighted Average Cost of Capital
    - f) Pricing Model Methodology
  - 3) Contractual Framework Documentation
    - a) Conditions of Use
    - b) Airport Operating Protocol
    - c) Process for Establishing Service Standards

# Information sharing and confidentiality

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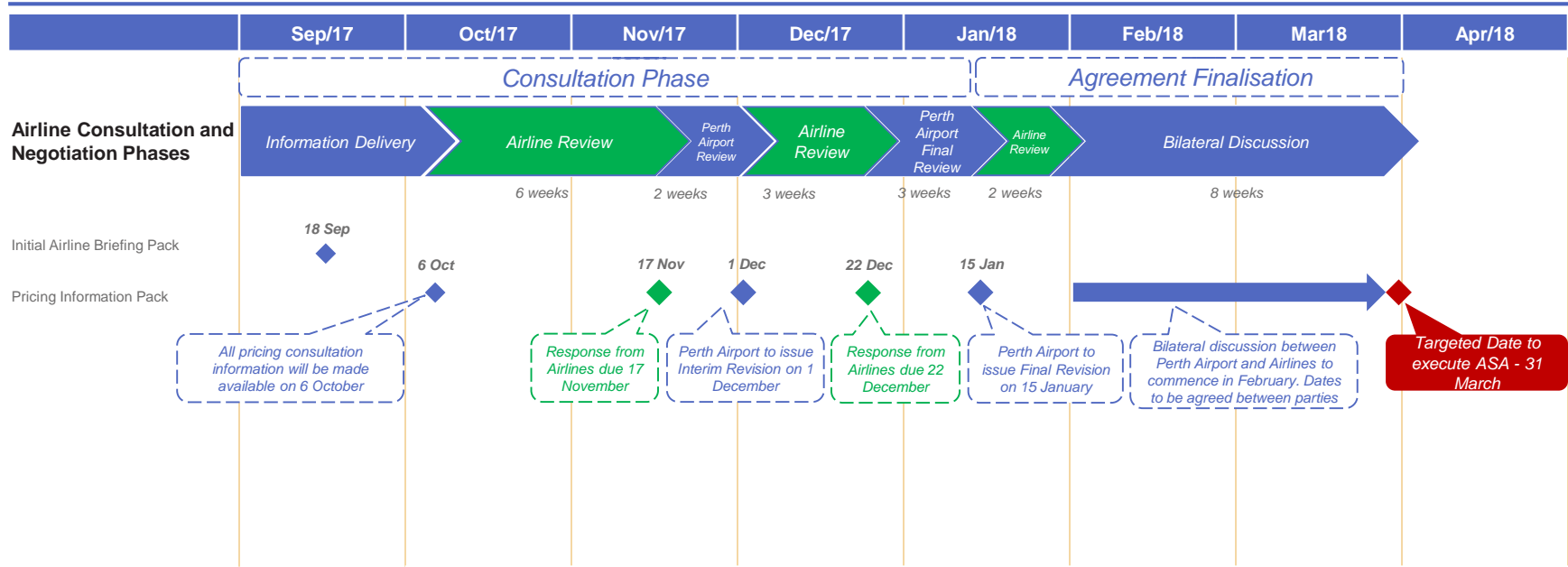
- Perth Airport's Information
  - Information that we generate as part of the Consultation will be shared on the Airline Consultation Website
  - We will review all questions/queries and seek to address them on a best endeavours basis
  - We reserve the right to not answer queries. If this occurs, we will explain why the question cannot be answered.
  - Where relevant to all parties, summaries of questions arising from meetings with airlines may be included however, any details identifying individual airlines will not be shared
  - Updates or revisions to aeronautical pricing information may be posted. We will seek to explain the reason for the change(s)
  - All historical information will be retained
- Airline and other Stakeholder Information
  - All written comments and submissions should be sent to [airlineconsultation@perthairport.com.au](mailto:airlineconsultation@perthairport.com.au)
  - All written comments and submissions will be posted on the Airline Consultation Website
  - We expect most of your questions and comments to be able to be shared with all participants to enhance the value of the process
  - If you wish to share genuinely confidential data with us, please mark this clearly and provide an explanation of why it is confidential. We will then exclude it from publication
  - We note, however, the weight we can give to restricted information may be lower in the interests of fairness to all participants
  - Where parties do not wish for their company's name / personal details to be shared, a summary of comments / submissions will be tabled in a generic form

# Information packs proposed issue dates

Package	Stream	Content	Perth Airport Issue date
1	Airline Briefing Information Pack	<ul style="list-style-type: none"> <li>This pack (as amended on 6<sup>th</sup> October)</li> <li>Perth Airport Background Information Pack</li> </ul>	18th September
	Conditions of Participation	<ul style="list-style-type: none"> <li>Outlining process for consultation, including sharing of parties' information and review of submission and comments</li> </ul>	6th October
	Contract Framework	<ul style="list-style-type: none"> <li>Proposed contractual framework</li> </ul>	
2	Passenger Forecast	<ul style="list-style-type: none"> <li>Report issued by TFI underpinning passenger forecasts</li> </ul>	6th October
	Capital Plan	<ul style="list-style-type: none"> <li>Capital expenditure plans for the Airfield, T1 International, T1 Domestic, T2 and T3</li> </ul>	
	Opening Asset Base	<ul style="list-style-type: none"> <li>Asset Base, based on closing balance as of 30 June 2018</li> </ul>	
	Opex forecast	<ul style="list-style-type: none"> <li>Perth Airport's Operational expenditures forecast</li> </ul>	
	Pricing Model Methodology	<ul style="list-style-type: none"> <li>Reviewed and audited pricing model methodology of the aeronautical pricing model</li> </ul>	
	WACC	<ul style="list-style-type: none"> <li>Proposed WACC required by shareholders</li> </ul>	
3	Conditions of Use	<ul style="list-style-type: none"> <li>Proposed Conditions of Use</li> </ul>	6th October
	Operating Protocol	<ul style="list-style-type: none"> <li>Draft Operating Protocol</li> <li>Consultation process to run separately from Airline Pricing Consultation</li> </ul>	
	Service Standards	<ul style="list-style-type: none"> <li>Process for establishing Service Standards to be provided by Perth Airport</li> </ul>	

Perth Airport reserves its rights to change these dates, but will use reasonable endeavours to meet these dates

# Pricing agreement proposed timeline



◆ Documents to be provided by Perth Airport

◆ Comments to be provided by Airlines

Perth Airport reserves its rights to change these dates, but will use reasonable endeavours to meet these dates

# Information packs response times

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- **Initial Pricing Information Pack**
  1. The Initial Information Pack will be made available on October 6<sup>th</sup>
  2. We propose a period of six weeks to consider the information and provide any comments or questions
  3. We intend to meet with airlines in face to face workshops to consult within the 6-week period between October 6<sup>th</sup> and November 17<sup>th</sup>
  4. We will be in contact with you separately to agree a convenient time to meet
  5. Comments will be due on November 17<sup>th</sup>
- **Interim Information Pack Revision**
  1. Following consideration of airline views by November 17<sup>th</sup>, we anticipate preparing a subsequent revision to the Information Pack for your consideration by December 1<sup>st</sup>
  2. We propose a period of 3 weeks to consider the subsequent information and provide comments
  3. Comments will be due on December 22<sup>nd</sup>
- **Final Revision**
  1. Following consideration of airline views due on December 22<sup>nd</sup>, we will target a pricing proposal by January 15<sup>th</sup>
  2. You will be able to consider the Final Information Pack ahead of Bilateral Negotiations, to occur from the beginning of February 2018
  3. The information provided in the Final Information Pack will form the basis of the “Rack Rate” charges and all documentation that will be shared with all airlines
- **Agreement Finalisation**
  1. Bilateral discussion between us and you will commence in February, to the extent required
  2. Final date to execute agreements is 31 March 2018

# Bilateral discussion to finalise agreement terms

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- Over the period from February to March, we will meet with you if you wish to negotiate an individual ASA
- We believe that the Final Information Pack will provide a strong platform to consider any individual airline issues or proposals
- As all airlines will be provided a reasonable opportunity to comment upon all aeronautical pricing information in the first stage of the consultation process, we will reasonably assume that if you do not comment upon a document, you accept the document and will not be seeking materially different terms
- We would like to agree meeting dates for this process as soon as practicable



# Charges that apply in the absence of an ASA

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- If an ASA is not executed between the parties at the expiry of the current PSA (1 July 2018), Perth Airport's standard Conditions of Use will apply
- Standard Conditions of Use currently apply to all airport users that do not have a PSA with Perth Airport
- The Standard Conditions of Use will outline the terms and conditions on which the user must comply to use the airport
- Standard Conditions of Use will include the aeronautical usage charges that apply in the absence of an ASA
- The charges in the Conditions of Use will be based on the Final Information that is delivered in January 2018 and forms the basis of a 'rack rate'
- Conditions of Use charges will be advised in February 2018

# Feedback and Contacts

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## Feedback

We would be pleased to review your feedback on the process proposed in this document. We would be happy to accept this feedback in a meeting or in writing. To enable the process to commence on a clear basis, we request your feedback by 29 September 2017

**Email correspondence should be directed to [airlineconsultation@perthairport.com.au](mailto:airlineconsultation@perthairport.com.au)**

## Perth Airport Consultation team:

- Brian Pereira – Chief Financial Officer
- Fred Teng – General Manager Corporate Finance
- Andre Mammana – Senior Pricing Analyst
- James Gorton – General Manager Aviation Business Development
- Other Subject Matter Experts as required

## Confirm Operator Contact(s)

- Please confirm your preferred contact person and details either during the Briefing Meeting or by 29 September 2017 at the latest

# Next steps

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- We would like to meet with you to engage on the detail of the information being shared
- We will be attempting to schedule meetings over the course of the consultation period
- We look forward to working with you



# Disclaimer

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## Disclaimer

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