



PERTH AIRPORT

Productivity Commission Inquiry into Economic Regulation of Airport Services

Response to Draft Report

23 September 2011

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1 Introduction and Executive Summary

Westralia Airports Corporation (WAC), as the operator of Perth Airport, welcomes the opportunity to make this submission in response to the Productivity Commission's ("the Commission") Draft Report on the Economic Regulation of Airport Services.

1.1 Structure of this Submission

This submission is structured as follows:

The key points WAC wishes to make are consolidated into the Executive Summary.

Section 2, "Update of Perth Airport Matters Relevant to the Inquiry", provides an update on key factual issues that have moved between WAC's submission and publishing the draft report.

Section 3, "Proposed Changes to the Light-Handed Regulatory Regime", provides WAC's views on the changes proposed by the Commission and some suggestions to address our concerns with those changes.

Section 4, "Land Transport Access and Integration", provides WAC's views on the question of whether airports should contribute to the cost of infrastructure outside its boundary.

Section 5, "Responses to Requests for Further Information", provides WAC's commentary on each of the Commission's information requests.

Section 6, "Car Parking", provides more information on the off-airport car parking market in Perth and provides some additional information in relation to car park spaces on the airport.

1.2 Executive Summary

WAC strongly supports the general direction of the Commission's draft report. The reforms recommended by the Commission and accepted by the Government from the 2002 and 2007 inquiries have supported investment. The regulatory environment has allowed the commercial relationships between airports and airlines to continue to mature and agreements are being reached. In particular, we agree with the Commission's draft findings that:

- There is no evidence to support expanding the scope of monitoring and there is limited benefit in seeking to fine tune the monitored facilities and services;
- Favourable aeronautical investment outcomes have been achieved and quality of service monitoring results do not indicate any misuse of market power;
- Any problems that may exist with commercial negotiation are not symptomatic of system-wide failure and there is no evidence to support the deemed declaration of airports or the introduction of mandatory codes of conduct or mandatory guidelines to the negotiation process; and
- There is no need to introduce access undertakings for surface transport operators to access airports.

Given our general support of the Commission's findings and recommendations, our response to the draft report is largely limited to responding to the Commission's information requests. However, WAC has two key areas of concern.

The Show Cause Proposal

WAC submits that there is no evidence in the pricing and service delivery conduct of airports that justifies any change to the current regulatory regime and that no Show Cause process is required. However, if a change is justified, the Show Cause proposal of the Commission is the most appropriate and feasible solution.

WAC submits that if a Show Cause process is to be introduced, it must be implemented by Commonwealth legislation, including the Show Cause Test. Accordingly, it could be included as a new sub-division of Division 2 of Part VIIA of the *Consumer and Competition Act* or alternatively, it could be enacted by amendments to the *Airports Act*.

The Show Cause test should only be triggered by prima facie evidence of the airport consistently earning over at least the immediately 3 prior years returns substantially in excess of a reasonable return on the assets taking in account all relevant circumstances. WAC submits that it is not appropriate to specify precisely what constitutes 'excessive returns' as the circumstances of airports could materially vary justifying substantially different levels of return. However, "excessive" must be interpreted in the context of whether those returns are so distortionary as to adversely impact community welfare.

WAC submits that the purpose of a Show Cause proposal is to create a process to address (and impliedly identify) any distortionary effects of airport conduct that adversely impacts community welfare. Therefore, the hurdle for the regulatory intervention via a Show Cause process must be set at a level proportionate to the harm it seeks to address. WAC submits that to trigger a Show Cause Notice, airports must achieve returns that substantially exceed reasonable returns considered properly in the context of, for example, the nature of agreements that airports have with airlines and market conditions at any given time.

WAC believes that the ACCC should continue to undertake annual price and service quality monitoring. However, no change should be made to the discretion of the Minister as to who should carry out any price inquiry under Division 3 of Part VIIA of the *Competition & Consumer Act (CCA)*. The CCA currently gives the Minister the discretion to appoint a body other than the ACCC and the retention of this discretion partially mitigates any potential conflict of interest or perception thereof.

Contributions to off-airport infrastructure

WAC submits that contributions to the costs of transport infrastructure outside of the airport boundary should be determined on the basis of well established public-policy principles for requiring contributions by private parties to the costs of constructing or improving public infrastructure. These policy principles are:

Need: There should be a clearly established need for the infrastructure for which a contribution is sought.

Nexus: Contributions to infrastructure development should only be sought where there is a clear nexus between the activities of the proposed contributor and the need for the infrastructure development.

Equity: Contributions to transport infrastructure should be levied from all land developers based on their relative contribution to the need and the nexus.

Where augmentation of shared road infrastructure is required, contributions by private parties may not be appropriate if the broader community shares the benefits.

In the case of infrastructure requirements around Perth Airport, WAC acknowledges the need for the proposed investments in road infrastructure that are referred to collectively as the Gateway WA project.

However, WAC submits that the principal driver of the Gateway WA investments is industry and population growth in the eastern metropolitan region. In the absence of a clear nexus between the need for the Gateway WA project and activities at Perth Airport, there is no justification for Perth Airport to contribute to the costs of the principal infrastructure elements of Gateway WA.

This is not to say that WAC would not contribute to works with a clear nexus with Perth Airport. WAC has in the past either borne the costs or contributed to the costs of road infrastructure where there is a direct nexus with Perth Airport and would examine future matters on the same basis. WAC has indicated a preparedness to have much of the Gateway WA road works neighbouring the airport to be constructed on airport land. The value of the contributed land is estimated to exceed \$70 million.

2 Update of Perth Airport Matters Relevant to the Inquiry

A number of key factual issues have moved since our last submission to the Commission. They are:

- WAC has executed seven year prices and services agreements with airlines representing around 83% of pax movements;
- WAC has awarded the construction contract for the new domestic terminal and associated co-generation facility. This project is the first step in a \$750 million transformation of the airport over the next three years and is expected to be completed by the end of 2012;
- WAC will open a “park and wait” car park in October 2011 to provide further support for those customers picking and dropping off at terminal front and to eliminate an excuse for illegal/unsafe parking on the approach roads into the airport; and
- WAC is proceeding with construction of an intersection on the Tonkin Highway, providing a further connection between the on-airport road network and the Tonkin Highway. This new intersection is being fully funded by WAC.

3 Proposed Changes to the Light-Handed Regulatory Regime

3.1 ACCC initiated show cause process

In this section WAC responds to the Commission's proposal for the creation of a Show Cause mechanism to improve the current light handed regulatory regime. If the Commission determines that the current regime would benefit from a credible threat such as a Show Cause mechanism then WAC in principle considers that the Show Cause proposal is the appropriate and most feasible regulatory mechanism to address the relevant concern.

In this section WAC:

- submits that there is no evidence of any distortion to community welfare from Airport conduct justifying any change to the current regulatory regime;
- however submits that the Show Cause proposal of the Commission is the most appropriate and feasible solution if a change is justified;
- sets out an appropriate Show Cause process; and
- proposes the Show Cause test to be satisfied to issue a Show Cause Notice.

Conditions for a Show Cause mechanism

WAC agrees with the Commission's position that a case for any change to the current light-handed regulatory regime must satisfy three conditions. At page 235 the Commission states:

"In an airport context, a case must be made that:

- an airport is using its market power in a way that creates distortions that detract from community welfare (that is, the market failure is policy-relevant)
- a regulatory response is the most appropriate response
- it is feasible to devise a regulatory response that can address the market failure without imposing costs greater than those arising from leaving that market failure untreated."

In relation to the first essential element for any change to the regulatory environment, WAC submits that there is no evidence that Perth Airport, or indeed any other Airport, is using its market power that creates distortions that detract from community welfare. The ACCC and Airlines have not provided any material, let alone evidence, to substantiate that there are distortions arising from Airport conduct and if so how it detracts from community welfare.

As the Commission correctly notes at page 235, "Commission consultations with infrastructure investors found that they generally regard airports as a riskier class of assets with greater exposure to shocks than say energy infrastructure, involving poles, wires and pipes." Accordingly, the higher risk profile of airports requires that the case for any increased level of regulation be made out to a high standard. Therefore, the first essential condition in the case for any change to the current light handed regulatory regime is not satisfied.

The Show Cause Proposal is the most appropriate and feasible mechanism

If the Commission does determine that there is sufficient evidence that airports' behaviour is creating distortions that detracts from community welfare, then the Commission's proposed 'Show Cause' mechanism is the most appropriate response and feasible without imposing costs greater than those arising from leaving the market failure untreated.

A Show Cause mechanism is proportional to the claimed distortion to the "distributional tussle between airports and airlines", especially considering the Commission's finding that "it is less clear that battles by *corporations* over profits have any significant regressive impacts" [p. 236]. Any other form of regulatory change or mechanism, such as deemed declaration or increasing the powers of the ACCC under the price monitoring regime, would be disproportional to the issue to be addressed.

The Show Cause Process

WAC submits that a Show Cause mechanism would fit within the existing price inquiry framework contained in Part VIIA of the *Competition & Consumer Act (CCA)* mechanism as follows:

- The ACCC will continue with annual price and service quality monitoring of airport services.
- The ACCC will be empowered to issue a Show Cause notice to an airport if the ACCC is satisfied that over at least the immediately preceding 3 years the airport has achieved excessive returns. The Show Cause process is to be confidential as between the ACCC and the relevant airport.
- A Show Cause Notice must set out all the evidence and reasons on which the ACCC is satisfied that the airport has *prima facie* achieved excessive returns over at least the immediately preceding 3 year period.
- The *prima facie* case need only be established on the basis of the material before the ACCC at the time the Show Cause Notice was issued. This would create an incentive for airports to voluntarily provide information sought by the ACCC in its investigation of whether or not to issue a Show Cause Notice.
- The ACCC must issue a draft Show Cause Notice. The relevant airport, and only the relevant airport, would then have 12 weeks to make any submissions in response to the draft Show Cause Notice. The ACCC would then have 4 weeks to issue a final Show Cause Notice.

The Show Cause process, including the Show Cause Test, must be implemented by Commonwealth legislation. Accordingly, it could be included as a new sub-division of Division 2 of Part VIIA of the CCA or alternatively, it could be enacted by amendments to the *Airports Act*. By implementing it in legislation, all parties have a clear process to follow and a high hurdle for triggering the show cause process can be ensured.

The Show Cause Test

Due to the fact that the case for any change to the current light handed regulatory regime is, at best marginal, the test which the ACCC must satisfy to issue a Show Cause Notice must set a high hurdle and be conservative. To this end, WAC agrees that any Show Cause process must "place a responsibility on the ACCC to be robust in its process, explicit and definitive in its judgement and be prepared to stand by and act on that judgment." [p. 244].

WAC submits that the Show Cause process set above ensures that the ACCC is definitive in its judgment and requires it to act on its judgment whilst being accountable.

The Show Cause test should only be triggered by prima facie evidence of the Airport consistently earning over at least the immediately 3 prior years returns substantially in excess of a reasonable return on the assets taking in account all relevant circumstances. WAC submits that it is not appropriate to specify precisely what constitutes 'excessive returns' as the circumstances of Airports could materially vary justifying substantially different levels of return. However, "excessive" must be interpreted in the context of whether those returns are so distortionary as to adversely impact community welfare.

A suggested formulation of the Show Cause Test is:

The Australian Competition and Consumer Commission must be reasonably satisfied that the business has, over an immediately preceding period of no less than 3 consecutive years, achieved returns which substantially exceed a reasonable weighted average cost of capital for the relevant aeronautical assets, commensurate with the relevant regulatory and commercial risks over that period, and determined having regard to all relevant agreements for use of those assets over that period.

As noted above, the purpose of a Show Cause proposal is to create a process to address (and impliedly identify) any distortionary effects of Airport conduct that adversely impacts community welfare. Therefore, the hurdle for the regulatory intervention via a Show Cause process must be set at a level proportionate to the harm it seeks to address. Therefore, WAC submits to trigger a Show Cause Notice, airports must achieve returns that substantially exceed reasonable returns considered properly in the context of, for example, the nature of agreements that the Airports have with airlines and market conditions at any given time (noting that positive market conditions can easily be reversed).

3.2 ACCC responsibility for issuing show cause directions and conducting any subsequent inquiry

Information request: The Commission seeks comment on whether the ACCC should be responsible for both issuing show cause directions and conducting any subsequent Part VIIA inquiry.

The ACCC should continue to undertake annual price monitoring and service quality monitoring. Further, the ACCC is the appropriate body to issue a Show Cause Notice under WAC's proposal above. The ACCC has the requisite expertise and experience to properly fill these roles.

WAC does not however consider that any change should be made to the discretion of the Minister as to who should carry out any price inquiry under Division 3 of Part VIIA of the CCA.

Currently the Minister has the discretion pursuant to section 95H(3) of the CCA to "request a body other than the Commission to hold an inquiry into a specified matter or specified matters". This discretion should remain and the ACCC should not automatically conduct a price inquiry under Division 3 of Part VIIA of the CCA if it has issued a final Show Cause Notice.

The retention of the discretion in the Minister to appoint either the ACCC or another body to conduct a price inquiry partially mitigates any potential conflict of interest in the ACCC being able to issue Show Cause Notices and conduct any resultant price inquiry. If it appears to the Minister that there is a conflict or a sufficient level of perception of a conflict the Minister can at that time exercise their discretion to appoint another body to eliminate any such conflict or perception thereof.

3.3 Pricing principles

Information request: The Commission is seeking information on whether guidelines on matters that could improve commercial negotiation — such as information on whether existing assets are being deployed efficiently prior to new investment and processes to facilitate effective service level agreements — should be:

- *devised by the Productivity Commission and incorporated into the Pricing Principles; or*
- *encapsulated within a new voluntary industry code — a committee comprising representatives from the Australian Airports Association, the Board of Airline Representatives of Australia, the Regional Aviation Association of Australia, Qantas, and Virgin Australia (and possibly with guidance from the Australian Competition and Consumer Commission) could be tasked with this.*

WAC has recently completed the negotiation and execution of agreements with airlines representing ~83% of passengers for aeronautical services at Perth Airport for the next 7 years and is confident of reaching agreement with most remaining airlines. Whilst this process may have taken too long in some airlines' view, WAC is confident that now that comprehensive and flexible agreements have been reached with the airlines future negotiations will be significantly streamlined and more efficient. Furthermore, WAC considers that the agreements reached with the airlines are fair and reasonable.

WAC considers that there is no basis to conclude that guidelines for negotiations could further improve the efficiency of future negotiations. However, if guidelines were to be established, the purpose of such guidelines would be to improve the efficiency of the negotiations across all airports and therefore cannot be overly prescriptive. For this reason, WAC agrees with the Commission that proposals such as that put forward by Virgin (summarised at page 251) being "prescriptive proposals are 'a bridge too far'".

Importantly, WAC submits that any such guidelines should not in any way, expressly or implicitly, result in any bias towards any outcome of the negotiations. The purpose of the guidelines is simply to improve the efficiency of the negotiation process in a fair and balanced manner.

WAC considers that a voluntary code of practice devised by the stakeholders would not be the most efficient way to develop the required guidelines/code. Rather WAC submits that the Commission is the most experienced, qualified and independent body to facilitate a process to develop appropriate negotiation guidelines.

From the conduct of this inquiry, the Commission has extensive knowledge of all the factual, legal and policy issues relevant to the issue that the guidelines are seeking to address. Therefore, the Commission should create a process to facilitate the development of negotiation guidelines. In doing so the Commission can determine whether or not the negotiation guidelines should form part of the Pricing Principles or stand alone.

3.4 Non-aeronautical revenue as a constraint on charges

Information request: The Commission requests additional information on whether an airport's ability to earn non-aeronautical revenue provides an incentive to constrain aeronautical charges, and if so, to what extent this currently occurs.

The ability to earn non-aeronautical revenue enables an airport to provide services to users of the airport (including passengers) on a standalone commercial basis. Many of these services such as car parking and retail are related services that are an important part of the overall airport experience for passengers. The ability to earn non-aeronautical revenue ensures that there is no subsidy from the provision of aeronautical services. However, as many of the non-aeronautical revenue sources are adjacent to the aeronautical assets there is an opportunity for lower aeronautical charges due to the economies of scale in the provision of services and shared infrastructure.

Non-aeronautical revenue from passenger transit through Perth Airport represents a significant element of WAC's revenue stream. As returns from car parking and retail businesses are directly linked to passenger throughput, WAC is motivated to set both aeronautical and non-aeronautical charges in such a manner as to encourage throughput. This effectively aligns the incentives of WAC with the airlines. As the Commission noted in its 2002 report:

“There are strong commercial incentives pulling in the other direction, including scope for increased profits in non-aeronautical activities from increasing passenger volumes and incentives to discriminate and differentiate in pricing.”

This alignment of incentives with airlines creates a moderating force to WAC's incentives to set higher aeronautical prices.

WAC's recent redevelopment planning and supporting price negotiations provide an example of this principle in action. In a presentation to BARA in July 2009 early in the negotiation process, WAC stated that what we were seeking to do in expanding the international terminal was:

- Customer service to airline requirements
- Airport charges as low as possible
- Favourable first & last impression of WA
- Support competition
- Safety, security & efficiency
- Best environmental outcomes

The first stage of the negotiation/consultation process with airlines was to develop the most efficient long term capital expenditure plan that meets current and anticipated future demand while providing service levels acceptable to passengers and airlines.

There are tradeoffs between some of these objectives, but keeping airport charges as low as possible was a key part of our considerations throughout the planning and negotiation process. There are a number of reasons why this was one of our objectives including:

- It is easier to reach agreement with airlines if price increases are kept to a minimum and airline agreement is necessary for financing the redevelopment; and
- Airport charges form part of the competitive positioning to attract new airlines and services to Perth. Like most airports, WAC markets to airlines in an effort to grow throughput. The lower the airport charges, the better Perth is positioned relative to other markets competing for limited numbers of aircraft.

Finally, access to non-aeronautical revenue also gives WAC further incentive to deliver a good quality of service to passengers. For example, studies have shown that retail revenue is maximised when passengers have a good airport experience (e.g. low stress, efficient security processes, space in departure lounge, etc).

4 Airport Development

4.1 Land Transport Access and Integration

Information request: The Commission seeks views on whether an airport should contribute to the cost of infrastructure outside its boundary as a result of future on-airport non-aeronautical development.

If funding is viewed as necessary, the Commission also requests information regarding:

- *the basis for funding such infrastructure including the benefits;*
- *the form of funding (such as upfront financial contributions, rate payments or land transfers);*
- *the method of calculating contributions and how the contributions would relate to existing developer charges levied by local governments; and*
- *how such funding would align with the conditions under which airport leases were granted.*

WAC submits that contributions to the costs of transport infrastructure outside of the airport boundary should be determined on the basis of well established public-policy principles for requiring contributions by private parties to the costs of constructing or improving public infrastructure. These policy principles of “need”, “nexus” and “equity” are as follows.

Need: There should be a clearly established need for the infrastructure for which a contribution is sought. This requirement is noted in, among other reports, the Productivity Commission's report *Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments* (2011)¹ and its report *First Home Ownership* (2004). This requirement is also noted in policy and legislation of the Western Australian Government. For example, the Western Australian *State Planning Policy 3.6 - Development Contributions for Infrastructure* states that the need for the infrastructure included in the development contribution plan must be clearly demonstrated.

Nexus: Contributions to infrastructure development should only be sought where there is a clear nexus between the activities of the proposed contributor and the need for the infrastructure development. This principle was stated in the Commission report *Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments*² and is embodied in the Western Australian Government's *State Planning Policy 3.6 - Development Contributions for Infrastructure*. In its 2004 report *First Home Ownership*, the Commission found that up-front developer charges were most appropriate where the associated (social and economic) infrastructure was used to service a specific development or location rather than being shared among the broader community.

The nexus principle is consistent with a test proposed by *Australia's Future Tax System Review Panel* whereby a user would pay for construction if the infrastructure was avoidable without their use.

In circumstances where the broader community will share the infrastructure benefits, the Productivity Commission has stated that developer charges may not be appropriate. The Commission report *Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments* referenced the *First Home Ownership* report in assessing how to determine the most efficient and equitable allocation of costs among users and at what point in time those costs should be paid: The Commission stated that:

"The Commission saw merit in upfront charging to finance major infrastructure where the incremental costs associated with a new development can be well established and, in particular, where such increments are likely to vary across developments. ...

The Commission also commented that investment for infill development, where it is required to upgrade or augment system-wide components that provide comparable benefits to users in well-established areas, would, in principle, be better funded out of borrowings and recovered through rates or taxes (or the fixed element in periodic utility charges)."

Equity: Contributions to transport infrastructure should be levied from all land developers based on their relative contribution to the need and nexus. Previous Commission reports reflect this principle, such as the *Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments* (May 2011)³ and in State legislation and policy. The Western Australian Government's *State Planning Policy 3.6 -*

¹ Page 202

² Page 202

³ Page 202

Development Contributions for Infrastructure has a principle of equity, whereby development contributions should be levied from all developments within a development contribution area based on their relative contribution to need.

The equity principle is also about ensuring competitive neutrality so that landowners are not advantaged/disadvantaged relative to others. In this respect, though the airport is on federally leased land, the airport and its tenants make various contributions through a variety of taxes and charges. In one respect, it is already at a disadvantage to off airport businesses given that it pays Council rates equivalent, but the council does not maintain the local roads on the airport, whereas off airport it does. The issue of competitive advantage is discussed further in section 4.2 below.

In the case of infrastructure requirements around Perth Airport, WAC acknowledges the need for the proposed investments in road infrastructure that are referred to collectively as the Gateway WA project. WAC observed in its initial submission to the Commission that there are periods of traffic congestion on roads surrounding Perth Airport:

“[T]he arterial roads in the vicinity of Perth Airport have become badly congested during the traditional morning and afternoon commuter peaks, noting this is not unique to the roads in the vicinity of Perth Airport, nor to the city of Perth.

Congestion on the Tonkin and Leach Highways during the urban commuter peaks has made it very difficult to access the airport.”

A number of submissions to the Commission suggested that Perth airport was a major contributor to traffic congestion in the area.

The City of South Perth stated that:

“One of the major problems associated with access to and from the Perth Airport has been traffic issues emanating from the significant growth in industrial and transportation industries within the grounds of the airport on Commonwealth land (sub. 30, p. 3.)”

South West Group, a co-operative venture consisting of the local governments of Cockburn, East Fremantle, Fremantle, Kwinana, Melville and Rockingham, also submits that non-aeronautical development on Perth Airport was allowed ‘to proceed without a contribution to resolving the traffic and transport impacts generated by that development’. South West Group specifically highlighted the warehouses and distribution centres on the airport:

“Perth Airport is an example of where major investment in warehouses and distribution centres created congestion at all adjoining road intersections. (sub. 24, p. 2)”

WAC submits that these views on the drivers of requirements for investment in transport infrastructure in Perth’s eastern metropolitan region are in error.

- The principal driver of the Gateway WA investments is industry and population growth in the eastern metropolitan region.
 - The eastern Metropolitan Regional Council, comprising six Councils in the vicinity of and to the North and East of the airport has a population of over 300,000 and is one of Perth’s fastest growing regions. Significant work is being conducted at a number of other intersections in the region.

- The development of a land freight hub in Kewdale, while succeeding in reducing the requirement for container storage at the Port of Fremantle and reducing road freight through southern and eastern Perth, has increased road demand in the region of the airport.
- There is at best a weak nexus between the operations of Perth airport, development on its land and the requirement for investment to relieve congestion near the airport. The requirement for road infrastructure improvement would not be avoidable in the absence of development on Perth Airport land.
- The road congestion that is driving the need for the Gateway WA project arises in peak commuter periods that do not coincide with the peak periods for traffic flows to and from Perth Airport.

In the absence of a clear nexus between the need for the Gateway WA project and activities at Perth Airport, there is no justification for Perth Airport to contribute to the costs of the principal infrastructure elements of Gateway WA. Any contribution would be inconsistent with the policy principles that should guide requirements for contributions.

This is not to say that WAC would not contribute to works with a clear nexus with Perth Airport. WAC has in the past either borne the costs or contributed to the costs of road infrastructure where there is a direct nexus with Perth Airport, such as contributions to the costs of connecting roads.

WAC has contributed funding or land where Perth Airport specifically requires the intersection (or its upgrade). Recent examples of funding provided by WAC are contained in the following table.

Intersection	Date	Background / Description	Cost or Commitment
Dubbs Close / Abernethy Road	2010-11	WAC required access to a new Munday Substation on south-east corner of the Perth Airport Estate. WAC paid for the land, an upgrade of the Abernethy intersection and widening of the road to enable truck access.	\$340,000
Hudswell Road / Abernethy Road	2005	WAC designed and paid for this intersection to allow road train access in all directions. The arrangement included a land swap between WAC and Landcorp.	Not available
Grogan Road / Abernethy Road	2005	WAC paid for Grogan Rd to re-open to enable four way road train access.	\$900,000
Lewis Road / Abernethy Road	2005	WAC designed, funded and built Lewis Road and its intersection with Abernethy Rd to enable development in Precinct 3. WAC incurred additional costs when the Shire of Kalamunda required the intersection be upgraded to include slip lanes on and off Abernethy.	\$300,000 Not available
Horrie Miller Drive / Tonkin Highway	2010	WAC paid to upgrade the intersection to reduce traffic congestion (primarily northbound exiting Airport), and enable better access for road trains.	\$570,000
Tonkin "Left In Right Out" Dunreath / Tonkin Highway	Planned	WAC have committed to build a temporary intersection off Tonkin Highway to cater for the new Terminal WA. The intersection will be removed when the new Gateway Tonkin / Leach / Sugarbird intersection is constructed.	~\$5.4 million

WAC considers that these past contributions have been consistent with the policy principles set out above. Where there is a clear nexus between activities on Perth Airport land and the requirement for the infrastructure, WAC is the primary contributor.

WAC is also prepared to fund road works that are required wholly or substantially by the airport. An example of this is WAC's full funding of the road link between the domestic and international airport precincts that has been constructed on Perth Airport land.

Further, WAC has indicated a preparedness to have much of the Gateway WA road works neighbouring the airport to be constructed on airport land. There are over 30 hectares of land now required and this will greatly assist the project, including by allowing the State to avoid resuming residential properties on the other side of the Tonkin Highway and consuming some public parkland. The value of the contributed land is estimated to exceed \$70 million.

WAC continues to work closely with Main Roads Western Australia (MRWA) and the Gateway Vision team to assist in the development of the master plan for Gateway WA program of works. MRWA has worked well with all stakeholders to ensure the master plan delivers the required outcomes for the project and the parties involved.

4.2 No competitive advantage for Perth Airport development

In its Draft Report, the Commission states [p. 286]:

At face value, there appears to be an apparent imbalance in the requirements, with a potential competitive advantage conferred to development on airport land.

The Commission's statement was reflected in the submission to the Commission from South West Group:

The privileged position occupied by lessees of Federal Government land associated with airports has meant that development has been able to proceed at a scale that may not have been permitted under state based planning schemes. ...

Economic regulation is not sufficient to provide for the equitable operation of airports. Airports need to be subject to stronger engagement with state, territory and local governments through structured planning processes so that their privileged position does not distort local development or pass costs on to other parties. [Sub 24, p1].

WAC submits that development on airport land has no significant competitive advantage over development of land elsewhere. The combination of Master Plans, Environment Strategies, Major Development Plans and on-Airport Building Controllers and Environment Officers employed by the Commonwealth, result in an oversight of Airport development as rigorous as any State planning regime. State and Local Governments can and do play an active role in the development of the Perth Airport Master Plan.

While developments within Perth Airport may be subject to different planning regulation to other developments, airport developments are subject to some disadvantages due to their location. For example, businesses on Perth Airport land pay "rate equivalents" to Belmont Council but they do not accrue all of the normal benefits of local rates such as maintenance of access roads or rubbish collection. Rather, WAC performs access road maintenance, with such costs reflected in the pricing of land in the Airport precinct.

Finally, airport land is all leasehold compared to freehold title off airport. Leasehold land is widely considered to have a lower value than freehold.

5 Responses to Requests for Further Information

5.1 Airside and terminal: effectiveness of monitoring

Information request: The Commission seeks participants' views on the appropriateness of including capital costs, such as the cost of borrowing, in the ACCC's price monitoring program. Are there reliable measures that can be collected with relatively low compliance costs? If so, which is the best measure?

WAC submits that it is not a straightforward task to gather measures of costs of capital that can be collected and used on a comparative basis between airports. There is a need for a measure of return on assets (capital employed in delivering aeronautical services). However, we do not believe that either Audited Financial Statements prepared under Accounting Standards or "line in the sand" (LITS) values present an accurate measure of the capital employed. These measures fail to address the current cost of assets and a measure such as Depreciated Optimal Replacement Cost would be more appropriate.

5.2 Options for future airport regulation

5.2.1 Other data to assist "show cause" determination

Information request: The Commission is seeking information on whether there are additional readily accessible financial or other data that would assist the Australian Competition and Consumer Commission to determine if a 'show cause' direction was warranted.

The ACCC is currently in receipt of a comprehensive information suite pursuant to current reporting. WAC considers that there is no additional data that could be provided that would assist the ACCC in determining if a show cause direction is warranted. We believe that the usefulness of the current information is limited and as a consequence additional information is best provided in response to specific circumstances; that is, part of a show cause direction. This information should reflect the long-term costs of capital in providing capacity and over periods longer than twelve months.

5.2.2 Standardised passenger survey methodology

Information request: The Commission seeks participants' view on the potential means to standardise passenger survey methodology, such as the use of ACI Airports Service Quality information, without incurring substantial increases in compliance costs.

While WAC currently uses the ACI methodology, it is our preference that it not be prescribed as the only acceptable methodology for submission to Quality of Service monitoring. As highlighted in our original submission, the primary purpose of quality surveys is as a management tool to identify areas for improvement/investment on the airport. While we are currently happy with the ACI methodology, we would prefer to have the flexibility to use a different supplier and/or customise the survey to meet Perth specific circumstances in the future. As long as the different methodology/supplier still provides the relevant information to

the ACCC, it should not matter which methodology/supplier is used. For example, WAC currently supplements the standard ACI questions with some additional questions specific to the ACCC QSM template.

5.2.3 Airline surveys and service level agreements

Information request: The Commission invites participants' views on its proposals in relation to airline surveys and service level agreements. In particular, would annual publication of the coverage of, and performance under, service level agreements improve regulatory outcomes?

The transitional concept outlined by the Commission has a number of practical difficulties. The caveat that finalised SLA's with "all" RPT airlines at the airport would be difficult, noting that many such airlines do not request such agreements and some may not agree. An alternative would be that the opt out threshold is met where the airport can demonstrate that SLA's exist with airlines representing say 75% of the airport's international and domestic annual passenger volume.

5.3 Adequacy of Airport-Government Communication

Information request: The Commission is seeking views about the adequacy of communication between airports and the tiers of governments in relation to the provision of information such as estimated traffic volumes, travel time projections and other key performance indicators relevant to current and future efficiency of access to airports.

Perth Airport has been actively and effectively engaged with the various State agencies responsible for surface access planning and delivery to Perth Airport for the last two and half years. This engagement with the then Department for Planning and Infrastructure (DPI), the Department of Transport (DOT), Main Roads Western Australia (MRWA) and the Public Transport Authority (PTA) was initially focussed on the development of the Perth Airport Transport Master Plan which addressed at a strategic level the future plans for all modes of transport to and from the airport.

Subsequent to this work, the development of the Gateway WA project with MRWA has progressed and this circa \$ 750 Million (State infrastructure priority and IA pipeline project) regional road upgrade project is designed to alleviate congestion and provide for future demand in the Kewdale area. This project, which is currently in the planning phase, has involved constant contact between the State and WAC to ensure that the resulting solution achieves the required outcomes. Transport Planners and Civil Engineering Consultants employed by WAC have been integrating the developing on airport systems with the developing regional plan to ensure that optimal outcomes can be achieved.

A notable example of the benefits of shared information and of the quality of the relationships with the State and with MRWA in particular, is the approval of a temporary intersection onto the airport from Tonkin Highway. This temporary signalised intersection will ensure suitable access for the users of new terminal infrastructure ahead of the delivery of the major works in the Gateway WA project and assist with options for traffic management during the major works. The approval was achieved on a cooperative basis that saw traffic data and analysis collected by consultants working for Perth Airport, modelled an assessed on the MRWA system to demonstrate that the temporary intersection had a positive impact on the network and should proceed.

In summary, WAC believes that the various formal and informal processes for engagement on infrastructure planning are resulting in adequate exchange of relevant specific information.

5.4 Other matters

Information request: The Commission seeks information on the potential costs and benefits of extending the Pricing Principles to regional airports. How might the principles be applied, and is the problem of sufficient magnitude to warrant any potential enforcement mechanisms?

WAC does not have any information to support the Commission's request.

6 Car Parking

6.1 Off airport car parking market

Information request: The Commission seeks more information on the nature of the off-airport parking market, particularly in Perth and Adelaide.

In addition to parking options available on-airport, at least five (5) operators provide off-airport car parks in close proximity to the Airport (refer to the locality plan in Attachment 1). This number is based on our observations and therefore other smaller operators may exist but do not have prominent web or arterial route to airport presence.

The capacity of off-airport car parks is estimated to be approximately 780 bays, representing 7% of all car parking spaces available to airport customers in FY10.

Off airport car parks offer prices that are similar to on-airport long term car parking options or higher if additional services added (see Attachment 2).

In most instances, services offered by off-airport car parks include value added options such as online booking, undercover parking, car washing/detailing, car servicing and courtesy transfers to and from the airport. Vehicle and customer security is often a key factor when customers are determining their preferred mode of transport. Off-airport car parks promote high levels of vehicular and customer security via fenced locations, 24/7 security patrols and terminal kerbside transfers.

Broad consumer trends show increasing interest in on-line purchasing including the pre-booking of car parking spaces. A key benefit offered by on-line booking in relation to airport parking is the guaranteed availability of parking spaces. Three (3) out of five (5) off-airport car park operators servicing Perth Airport utilise an online booking aggregator to leverage strong internet marketing and booking presence. The increase in online booking demand may favour operators who offer this service. Airline websites are also increasingly offering airport car parking.

Examples include:

- Qantas and Virgin Australia offering valet services at many airports (Qantas valet is provided at Perth Airport);

- Virgin Australia partnering with off-airport car parking booking aggregator Airport Parking (parking offered at many Australian Airports including 4 off-airport car parks servicing Perth Airport); and
- Jetstar offering pre-booking of car parking at Sydney Airport.

Indicative mode share information suggests that the mode share held by off-airport car parks (1-2%) is significantly lower than the market share of car park capacity (estimated at 7%). We believe that this is due to a combination of the following factors:

- the value based pricing and proximity to terminals of on-airport long term parking options;
- ease of utilising free kerbside pick-up/drop off;
- the central metropolitan location of Perth Airport and its accessibility for private vehicles and taxis; and
- the high value of land in the areas surrounding Perth Airport, possibly making large scale off-airport parking provision uneconomical, especially given value based pricing of Perth Airport parking options.
- Other parking options, namely, other on-airport options are available to customers including:
 - Qantas Valet (leased area);
 - Airport Security Parking Valet (licenced service);
 - Cobham General Aviation leased customer Car Park; and
 - Skippers General Aviation leased customer Car Park.

6.2 Car park spaces

There is an error in Table 8.8 of the Commission's draft report. The car parking spaces noted as international are actually domestic and vice versa. The actual numbers are correct, but the labels are wrong. This error also exists in the ACCC report that the numbers are sourced from and was not picked up by either WAC or the ACCC when their draft report was circulated for checking.

Attachment 1 Off Airport Car Park Locations

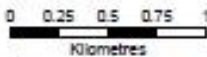


Area m2	Carpark Name	Details	Bay No	Hours	Shuttle	Security	Bookings	Type
1700.7	Discount Airport Parking	Off Great Eastern Highway, Airport WA	110	7:30am to 4:30pm Weekdays	No	No	No	Open Air
2001.14	Hamer Airport Parking	Off Deaneville Street, Perth WA	200	7:30am to 10:00pm Weekdays & 9:30am to 6:00pm Weekends	Yes	24-hour	Yes	Covered and Open Air
2014.69	Skypark Valet Parking	Off Great Eastern Highway / Conventry, Airport WA	150	7:30am to 4:30pm to 10:30pm, 7 days for confirmed bookings	Yes	24-hour	Yes	Covered and Open Air
1012.48	Park & Fly Perth	Off Deaneville Street, Perth WA	400	24-hour Open to public	Yes	24-hour	Yes	Covered
2543.00	The Car Port & Spa	Off Great Eastern Highway, Perth WA	200	24-hour	Yes	24-hour	No	Covered and Open Air
			Total Bays = 710					

Legend

- Airport Car Parks
- CarParksExternal
- Airport Boundary

Airport Parking



AUTHOR: J. Goss/AFH SCALE: 1:25000 DATE: 15/09/2011
 MOD NAME: M2/AFH/2/ITE/PLANS/M2/Car Park Study 0911.mxd



PERTH AIRPORT

Attachment 2 Off Airport Car Parking Operators

Off Airport Car Parking - Perth

Operator	Est Capacity	Online Parking Aggregators Used	Cost - 2 Day	Cost - 5 Day	Cost - 7 Day	Cost - 14 Day	Type of Parking
Hamer Airport Parking	220	Yes	From \$57 - \$83	From \$84 - \$117	From \$88 - \$140	From \$136 - \$221	Choice of open-air or covered parking
Skypark Valet Parking	150	Yes	From \$71 - \$85	From \$131 - \$159	From \$160 - \$194	From \$227 - \$294	Choice of open-air or covered parking
Discount Airport Parking	110	No	\$44	\$70	\$90	\$158	Open-air only
Park & Fly Perth	100	Yes	\$72	\$127	\$137	\$204	Covered parking
The Car Port & Spa	200	No	From \$20 - \$30	From \$50 - \$75	From \$70 - \$105	From \$140 - \$210	Choice of open-air or covered parking
Perth Airport	10215	No	\$34	\$70	\$88	\$151	Open-air remote Long Term Car Park with free 10 minute shuttle to terminals
Total Estimated Bay Capacity	10995						

Market Share of Bay Capacity:

Perth Airport	93%
Off-Airport	7%

Notes:

- Pricing is current at the time of preparation - 19 September 2011
- Pricing provided for Perth Airport is based upon Long Term Car Park Pricing
- Discount Airport Parking is scaling down in preparation for closure of the business
- Perth Airport capacity includes all public car parks (long term, short term & fast track business parking as at FY10)
- Off-Airport bay capacities are estimates as firm data is not available to WAC
- FY10 numbers used for consistency with data in draft report