

Seattle-Tacoma International Airport

Competition Plan Update #2, Updated for new airline lease agreement

May 4, 2018

OVERVIEW

The Port of Seattle submitted the first completion plan for Sea-Tac Airport on June 13, 2014. FAA approval was received on August 22, 2014. The letter of approval contained three recommendations for the Port to consider. The Port responded with a letter on September 16, 2014. A final response was received from the FAA on November 17, 2014.

The Port submitted the first update to this competition plan on December 8, 2016. It was approved by the FAA on April 22, 2016.

In accordance with FAA guidelines, the Port is required to submit a second competition plan update within 18 months of the approval. The Port submitted the second update to the 2014 competition plan on December 18, 2017. At that time, the Port and airlines were still engaged in negotiations over a new lease agreement to succeed the Signatory Lease and Operating Agreement (SLOA III) that was to expire on December 31, 2017. To accommodate the need for more time to reach an agreement, the Port commission passed a motion on October 10, 2017 extending SLOA III until March 31, 2018. An agreement in principle on the terms of a new Signatory Lease and Operating Agreement (SLOA IV) was reached on February 9, 2018. On February 13, 2018, the Port commission extended SLOA III until May 31, 2018 to allow sufficient time to draft, review and execute the new agreement. The Port commission approved SLOA IV on February 27, 2018, with the conditions that: 1) Airlines representing 66 and 2/3 of the 2017 rate base revenues would need to execute the agreement by April 25, 2018, and 2) Airlines representing 40% of the 2017 rate base revenues would need to sign a memorandum of agreement to engage in a joint study to further sustainable aviation fuels at Sea-Tac by April 25, 2018. As of April 25, 2018 both conditions were met. Consequently, SLOA IV will be effective June 1, 2018 and the terms will be retroactive to January 1, 2018.

This document, following the guidance of FAA Order 5100.38D, AIP Handbook, Section X-7, is therefore an updated version of the second update to the 2014 competition plan, reflecting the terms of SLOA IV.

COMPETITION PLAN UPDATE #2

a. Changes from Last FAA Approval

SLOA IV, a five year agreement, includes very few changes to SLOA III. The substantive changes are highlighted in the table below:

Provision	SLOA III (2013 – 2017)	SLOA IV (2018 – 2022)
Term	5 Years	5 Years
Definition of a gate	Those portions of the terminal comprised of a passenger loading bridge, if any, and a passenger hold room	Distinction and weighting difference between a passenger loading bridge gate (1.0) and a ground boarded gate (0.5)
Limit on common use gates Port can withhold	None	2019: 16 2020: 18 2021: 18 2022: 21
Preferential gate allocation formula		
<ul style="list-style-type: none"> • Threshold 	None	6.0x average daily weighted turns
<ul style="list-style-type: none"> • Months of seats data 	1 (August – peak month)	9: 6 months of actual (February – July) and 3 months of forecast (August - October)
Capital Approval:		
<ul style="list-style-type: none"> • Minimum annual activity to vote • Vote by cost center • Majority-in-Interest threshold • Implications of MII vote • Other 	None No \$3.0 million (\$5.4 million for roadway projects) Negative MII vote requires 12 month delay.	100,000 units of landed weight Yes \$10.0 million for aeronautical rate base costs No change Acknowledgment that the Port plans to spend up to \$300 million for planning and design for projects needed to construct new gates on north side of the Airport.
Revenue Sharing	Port will share with airlines 50% of net revenues in excess of 1.25x debt service.	Port will share with airlines a percent of net revenues in excess of 1.25x debt service as follows: <ul style="list-style-type: none"> • 2018: 40% • 2019: 20% • 2020-22: 0%
Cruise baggage	No provision	Include 50% of cost for baggage handling from ship to airport in rate base for Bag Makeup.
Signatory status	No minimum requirements	Regularly scheduled service
Debt service coverage	Included in airline rate bases if overall airport debt service coverage falls below 1.25 times	No change

Insurance	\$500M aviation liability per occurrence; \$10M commercial general liability per occurrence.	No change
Security Deposit/ Security Fund	Security Fund eliminated. If SLOA III executed in 2013, airline revenue requirement in 2013 will be reduced by an amount equal to Security Fund balance. No surety required for carriers operating in good financial standing at the Airport for at least 24 months.	No change

From a competition plan perspective, it is important to note that SLOA IV continues the annual preferential gate allocation process with a three key changes. First, SLOA IV includes an escalating cap on the number of common gates the Port can withhold at the outset of the annual preferential gate allocation process (16 in 2019, 18 in 2020 and 2021, and 21 in 2022). These caps are well above the number of common gates the Port withheld the last few years. Still, the cap provides a degree of certainty to the preferential gate holders on the minimum number of annual preferential gates in the allocation pool from year to year. Second, SLOA IV has a daily weighted turn threshold (6.0x) to qualify for a preferential gate. This insures that only carriers that will fully utilize a gate throughout the day can qualify. Third, the data set of seats was increased from one month (August – peak month) for SLOA III to nine months (six months of actual and three months of scheduled) for SLOA IV. This effectively increases the commitment needed by an airline to the Seattle market to qualify for a preferential gate. Together, these changes are aimed at achieving the highest possible gate utilization, while making sure that the Port has sufficient control to accommodate existing carriers and potential new entrants at common use gates.

In the FAA letter responding to the Port’s first Competition Plan, there were three competition friendly measures recommended:

1. Designate competition access liaison. As noted in the Port’s letter dated September 16, 2014, the Port did implement this recommendation. James Jennings, Senior Manager, Aviation Properties, continues to serve in this role.
2. Formal dispute resolution. See below.
3. Clarify MII language relating to PFC funded projects. The Port did implement this recommendation in SLOA IV. The language in SLOA IV clarifies that the MII threshold is based on aeronautical rate base costs. Thus, any capital costs paid with grants or PFCs would be excluded from the aeronautical rate base and not subject to MII vote.

b. Reasons for Not Instituting FAA Recommendations

Of the three recommendations noted by the FAA in its letter dated August 22, 2014, only one remains outstanding. This is the recommendation that the Port implement a dispute resolution process. After reviewing the terms of SLOA IV (and the similarity to SLOA III, during which there were no disputes), and after reflecting on the Port's success in attracting and accommodating new entrants over the past few years, the Port concluded that adding a dispute resolution process to SLOA IV was not necessary.

The Port believes that the terms of SLOA IV allow the Port to effectively handle potential disputes among signatory carriers. In particular, under SLOA IV the Port maintains the ability to determine the number of common use gates (up to the agreed upon caps) in order to accommodate existing carriers and potential new entrants. In addition, under SLOA IV, the Port retains secondary user rights on preferentially leased gates. In addition, recognizing that Sea-Tac is gate constrained, the Port has implemented a number of capital projects to facilitate hardstand operations for times when contact gates are not available. For example, by August of 2018, the Concourse D Hardstand Terminal will add six hardstand hold rooms able to accommodate up to six concurrent hardstand operations. The busing service for hardstand operations is operated by the Sea-Tac Airline Consortium.

SLOA IV does provide the Port with flexibility to accommodate new entrants. For example, the Port does have the right to recapture underutilized preferential premises to accommodate a request for space (SLOA IV, Articles 5.3 – 5.6).

For potential disputes arising from a potential new entrant that is not yet a signatory airline, having a dispute resolution process within SLOA IV would not be applicable to a non-signatory airline. The Port will consider whether it would be helpful to add a dispute resolution process to the Airport Rules and Regulations.

c. Responses to FAA Questions

See above.

d. Public Availability

The completion plan and the competition plan update #1 and the FAA letter are posted on the Port of Seattle web site at the following address:

<https://www.portseattle.org/about/financial>

Or, after accessing the Port of Seattle web site, click on “About the Port” then “Financial Information” then “Competition Plan.”