

ADDITIONAL INFORMATION AND CLARIFICATION

Airline Competition Plan, August 31, 2000
Philadelphia International Airport

Availability of Gates and Related Facilities

1. Confirm that the City's commitment to convert exclusive-use gates to preferential use or common use applies to all exclusive-use gates, regardless of tenant. Address any US Airways or US Airways Express gates to be made available when those airlines occupy Terminal One and Terminal F.

All exclusive-use gates at the Airport are leased under the terms of the Airline-Airport Use and Lease Agreement, as amended that extends to June 2006 (the Airline Agreement). The City intends to convert to preferential, i.e., nonexclusive, use any exclusive-use gates relinquished by signatory airlines before the expiration of the Airline Agreement.

With regard to existing facilities to be made available when the gates currently under construction become available:

Terminal F is intended primarily to accommodate regional airline flights that currently operate from remote aircraft parking positions adjacent to Terminals D and E. When Terminal F opens, the City plans to convert the regional aircraft parking apron (which will accommodate up to four parking positions for large jet aircraft) to common use.

Terminal One is intended primarily for use for the international flights of US Airways and foreign flag airlines that currently operate from Terminal A. The City does not expect US Airways to relinquish any of its exclusive-use or preferential-use domestic gates in Terminals B, C, or D as a result of its relocation of operations to Terminal One. Gate capacity made available in Terminal A as a result of the relocation of operations to Terminal One will be made available to all airlines on a common-use or possibly preferential-use basis.

2. Specify which exclusive-use gates will be subject to PFC Assurance 7 upon the completion of PFC-financed gates.

For reference, PFC Assurance 7 regarding competitive access is as follows: The City agrees that any lease or use agreement between the City and any airline for any facility financed in whole or in part with PFC revenues will contain a provision that permits the City to terminate the lease or use agreement if (a) the airline has an exclusive lease or use agreement for existing facilities at the Airport, and (b) any portion of its existing exclusive use facilities is not fully utilized and is not made available for use by potentially competing airlines.

To date the City has entered into a lease agreement for PFC-financed gates only with US Airways (for Terminal One and Terminal F).

The Second Supplemental Agreement to US Airways' Airline Agreement (entered into as of July 1998) explicitly incorporates the provisions of PFC Assurance 7 and specifies the conditions under which US Airways is required to accommodate other airlines at its exclusive-use gates if they are not being fully used. The supplemental agreement also specifies procedures whereby the City will determine whether or not US Airways' exclusive-use gates are being fully used and, if not, require the airline to make such gates available for use by other airlines. Under the supplemental agreement, US Airways is deemed not to be fully using its exclusive-use gates if the average number of daily aircraft turns per gate at those gates is less than the Airport-wide average.

The City intends to incorporate similar provisions regarding PFC Assurance 7 in any future agreements for the airline lease of PFC-financed terminal facilities.

3. Describe how the City will monitor the use of those exclusive-use gates that are subject to PFC Assurance 7 so as to allow the City's rights under the assurance to be exercised. Also, describe the City's plans for monitoring the use of all exclusive-use gates.

As required by the July 1998 supplemental agreement to US Airways' Airline Agreement, the City intends to monitor the average number of daily aircraft turns per gate for US Airways' gates in comparison with the Airport-wide average.

As part of the Terminal One project, the City plans to implement a facility management system that will incorporate a new flight information display system (FIDS). The new FIDS will allow the use of all gates in Terminal One (preferential and common use) to be monitored continuously.

The City has included in its capital improvement program a project to implement the FIDS Airport-wide as a second phase. The project would involve the installation of new hardware, including approximately 450 flat-screen monitors, and software at a cost of approximately \$6 million. The planned second phase FIDS project would allow the use of all Airport gates, including exclusive-use gates, to be monitored. The City intends to proceed with implementation of the second phase FIDS project as soon as funding is available.

4. Address the City's plans or procedures for accommodating airlines at underused exclusive-use gates if preferential-use or common-use gates are not available.

Attachment A summarizes the City's procedures for responding to a request for facilities from an airline.

Leasing and Subleasing

5. *Explain the reasons for the disparate recapture provisions relating to the preferential-use gates in Terminal One, Terminal F, and Terminal D.*

Provisions of the various agreements relating to the airline use and lease of preferential-use gates are summarized in section 15 of the Competition Plan.

Under the terms of its agreement for Terminal D, Continental Airlines has rights to the preferential use of three gates capable of accommodating large jet aircraft. The agreement incorporates provisions under which the City may recapture one or more of the gates if Continental does not maintain the equivalent of four aircraft turns per gate per day. The City intends to use the Continental agreement as the model for any future agreements covering gates in the domestic Terminals B through E.

The provisions of the agreements for Terminal One and Terminal F are different from those in the Continental agreement because of (1) the different intended uses of the new terminals and (2) the City's need to ensure that the capital and operating costs of those terminals are recovered without affecting the rentals and fees paid by the tenants and users of the other terminals.

Terminal One is intended primarily for international operations, mainly by widebody aircraft, although it will be possible to operate domestic and narrowbody aircraft flights at the terminal. Nine of the 13 gates will be leased to US Airways on a preferential-use basis and the remaining four will be used on a common-use (or possibly preferential-use) basis. The nine US Airways preferential-use gates will be available for other airlines if they are not being used but will not be subject to recapture by the City. US Airways will have the obligation to pay rentals and fees to allow the City to recover all debt service and operating costs for the nine gates whether or not they are being fully used. This obligation was important to securing the financing of the large capital investment made in the terminal, particularly given uncertainties about the future numbers of international passengers. If any of the four common-use gates were to be leased in the future on a preferential-use basis, they would be subject to recapture.

Terminal F is intended primarily for use by small turboprop or jet aircraft in regional airline service, although it will be possible to operate larger narrowbody jet aircraft from certain of the gates. US Airways will initially have preferential rights to all 38 gates for its US Airways Express flights and will be required to pay rentals and charges to allow the City to recover all debt service and operating costs for the 38 gates without affecting the rentals and fees paid by the tenants and users of the other terminals. US Airways will be required to share its preferential-use gates in

Terminal F if they are not being used. The City will, at its option, have the right to recapture gates if, in the City's judgment, the gates are not required to accommodate US Airways' flight schedule. The City's analysis of the gates required for the flight schedule will be conducted every six months taking into account the use of all gates in the terminal.

Gate Assignment Policy

6. Explain whether the City intends to review a signatory airline's use of its exclusive-use and preferential-use gates before giving it priority over a nonsignatory airline in assigning common-use gates in Terminal A. Also explain whether the City intends to review US Airways' use of its exclusive-use and preferential-use gates before giving it priority over another signatory airline or a nonsignatory airline in assigning preferential-use gates in Terminal One and Terminal F.

The priorities for assigning gates in Terminal A, as set forth in a 1991 amendment to the Airline Agreement, provide that (1) international flights have priority over domestic flights and (2) the flights of signatory airlines (i.e., airlines signatory to the Airline agreement or the Memorandum of Understanding (MOU)) have priority over those of nonsignatory airlines. Similar priorities will apply in the combined Terminal A/Terminal One.

As a practical matter, no requests are pending from scheduled domestic airlines to be accommodated in Terminal A. Nevertheless, the City is aware of its obligations under PFC Assurance 7 and will review US Airways' use of its exclusive-use and preferential-use gates in Terminals B through D in resolving any future conflicts between requests from signatory and nonsignatory airlines to be accommodated in Terminal A or Terminal One.

As already noted, the City intends that Terminal F will be used primarily for regional airline flights. The use of gates in the other terminals (which are expected to be used primarily for large jet aircraft operations) is not expected to be relevant in resolving any conflicts over the use of Terminal F gates.

7. Describe whether the City has considered a system of "rotating priority" in assigning preferential-use or common-use gates.

The City has not formally adopted a system of rotating priority for the assignment of preferential-use or common-use gates. However, in its operation of the common-use gates in Terminal A, the City, in consultation with the affected airlines, routinely uses a system of rotating priorities to resolve conflicts and determine which airline flights will be accommodated at loading bridge-equipped gates and which at remote parking positions served by passenger transfer vehicles.

8. Describe how a new-entrant airline could qualify for preferential-use rather than common-use gate rights. Specifically, describe the City's intended gate assignment policies for the new gates to be constructed at the enlargements to Terminal D and Terminal E.

The City has not yet determined the assignment of the additional gates that are being constructed in Terminal D or may be constructed in Terminal E. In assigning additional gates that become available, either as a result of new construction (e.g., in Terminals D and E) or through an airline relinquishing its exclusive-use rights, the City will consider all airlines, whether new-entrant or incumbent, that have requested preferential-use rights to gates. The City will decide among competing requests taking into account, among other factors, incumbent airlines' current status as tenants or subtenants and which airline(s) will make the most intensive and efficient use of the gates to provide improved air service to the Airport.

9. Describe the City's procedures to make airlines aware of any additional gates that will become available, specifically in Terminal D and Terminal E.

The City disseminates information regarding the status of construction projects and the availability of terminal facilities through a variety of channels.

All airlines serving the Airport are members of the Philadelphia Airline Management Council and all international airlines are members of the Terminal A Users Association. Both of these groups meet monthly. At all meetings, a standing agenda item is a report from the City on the status of facility construction and availability.

The Division of Aviation's Marketing & Public Affairs department routinely prepares news releases and other media reports. The Marketing & Public Affairs department also prepares presentations for specific airlines and routinely conducts meetings to inform potential new entrant airlines of opportunities to serve the Airport. The Division's Properties department is always available to respond to inquiries from new entrant airlines interested in serving Philadelphia. Information on the status of Airport construction projects is posted on the Airport's web site.

10. Explain the advantages of signatory airline status, specifically with regard to the exemption from paying the fuel flowage fee, and describe whether the City has considered extending those advantages to the airlines operating under an Airline Operating License Agreement (AOLA).

All airlines operating at the Airport under the terms of an Airline Agreement, MOU, or AOLA, pay the same fees and charges, are exempt from paying the fuel flowage fee,

and, if they elect to join the Philadelphia Fuel Facilities Corporation, pay the same lower fuel prices available to all consortium members.

For the domestic service airlines, the only significant difference between signatory (i.e., Airline Agreement) and nonsignatory (i.e., AOLA) status is that the signatory airlines are entitled to vote in majority-in-interest (MII) decisions. Since the early 1990s, the City has not entertained requests from airlines to become signatory to the Airline Agreement because of the exclusive rights granted.

For the international service airlines, the only significant difference between signatory and nonsignatory status is that the signatory airlines have higher priority in the assignment of common-use gates in Terminal A.

PROCEDURES FOR ACCOMMODATING AIRLINES

Philadelphia International Airport

The City will follow the following procedures in responding to requests for gates from new entrant or incumbent airlines.

1. City attempts to accommodate requesting airline at common-use gates
2. If accommodation at common-use gates is not possible, City reviews use of preferential-use gates
3. City identifies any apparently unused or underused preferential-use gates
4. City selects a Scheduled Airline with apparently unused or underused preferential-use gates and directs that it accommodate requesting airline
5. If accommodation at preferential-use gates is not possible, City reviews use of exclusive-use gates
6. City identifies any apparently unused or underused exclusive-use gates
7. City selects a Scheduled Airline with apparently unused or underused exclusive-use gates and requests that it voluntarily accommodate requesting airline
8. If no voluntary accommodation by the selected airline occurs within 30 days, City notifies all Scheduled Airlines of requesting airline's needs and provides notice that if requesting airline is not accommodated voluntarily, City will select Scheduled Airline to accommodate
9. If no voluntary accommodation by any Scheduled Airline occurs within 30 days of the notification, City selects Scheduled Airline that will be required to accommodate requesting airline and specifies that accommodation must occur within 15 days