



U.S. Department
of Transportation

**Federal Aviation
Administration**

Office of Airport Planning
and Programming

800 Independence Ave., SW.
Washington, DC 20591

JUN 15 2001

Mr. Jerry Matsuda, P.E.
Airport Administrator
Department of Transportation
Airports Division
Honolulu International Airport
400 Rodgers Boulevard, Suite 700
Honolulu, HI 96819

Dear Mr. Matsuda:

Thank you for your May 1 reply to our March 19, 2001 review of the State of Hawaii Department of Transportation Airports Division's Competition Plan for Kahului Airport (OGG), requesting additional information and clarification.

The information you provided was responsive to our request. In light of these responses, we have determined that your competition plan is in conformity with the requirements of section 155 of the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (AIR 21), Pub. L. 106-181, April 5, 2000. However, we offer some suggestions for your consideration as you implement and update your plan for the next fiscal year. These suggestions are in addition to those we provided in our initial response to your competition plan. We have also identified areas where additional information would be helpful in the first update to your plan. For your convenience, we have categorized our suggestions and information requests according to the categories specified in PGL 00-3.

Availability of gates and related facilities

Thank you for providing copies of the Airport-Airline Lease-Extension Agreement and the Airports Division's Administrative Rules.

We note there are 20 gates at OGG; that none are leased; and that the Airports Division has the final decision on all gate allocations and assignments. Further it is noted that only some areas within the terminal (ticket counters, airline offices, airline ramp offices, baggage conveyor systems, baggage makeup and breakdown, open equipment parking, ramp equipment and operations space, ramp storage, and one airline VIP lounge) are leased under long-term exclusive use leases. All remaining similar facilities are rented to non-signatory air carriers on a month-to-month revocable "permit" basis. To terminate a month-to-month revocable permit either party must provide a 30-day advance termination notice.

The Airports Division is to be commended for adopting leasing arrangements that provide it with the ability to recapture or reassign facilities on short notice to accommodate entry or expansion. However, the response to our inquiry concerning gate capacity and expansion raises several questions. The response indicates the terminal usage is at capacity for inter-island operations and averages 1.7 operations each day per overseas gate. The last sentence of the response states, "there is expansion potential both for overseas and inter-island operations at the gates being used for overseas operations." Please provide additional information on the capacity of the overseas gates to accommodate inter-island service. Specifically, given the current fleet mix, (1) how many additional inter-island operations can be accommodated at overseas gates; (2) how many additional overseas operations can be accommodated; and (3) what is the rate of trade-off between accommodating inter-island versus overseas flights? Also, given the past rate of expansion of service at OGG and the current fleet mix, and projections for growth, when does the Airports Division project that the lack of gate, ticket counter, or other terminal capacity would force the Airports Division to deny requests for access to the Airport?

Leasing and subleasing arrangements

Thank you for sending a copy of the Department of Transportation Sublease Evaluation Policy with your May 1 response to our letter.

The information you provided on the leasing and subleasing policy was responsive to our request for information on the different conditions that affect signatory and non-signatory carriers.

In your next update please explain whether the Airports Division has adopted procedures that an air carrier would follow if a dispute concerning access, sublease fees or terms, or ground handling services arose. For instance, is there a recognized forum for hearing complaints? What role, if any, do carriers serving the airport fill in this forum? Is there an appeal process? How are new entrants made aware of dispute procedures? Even though an airport may have gates available for immediate access, our *Airport Practices* report found that entry is facilitated when airport management assumes an active and continuous role in monitoring gate utilization, assisting new entrants in securing subleases or gate sharing arrangements, and monitoring subleasing agreements.

In the event that the Airports Division has not adopted dispute resolution procedures and policies, we encourage you to do so. Our *Airport Practices* report found that new entrants are more likely to be treated fairly if airports adopt procedures to resolve disputes between carriers.

Gate assignment policy/common use gates

The responses to the questions concerning gate assignment and priority assignment were very helpful in understanding the gate assignment policy and operations at OGG. However, the response did not indicate the criteria or methodology by which nonsignatory air carriers are evaluated for forfeiture of gates when a signatory air carrier requests additional gates. In addition, we are concerned that current policies appear to give a preference to a signatory carrier over a nonsignatory carrier without regard the relative intensity of usage that each would make of a gate (i.e., a non-signatory carrier could be required to forfeit a gate even if the replacement signatory carrier would operate fewer flights on the gate). The FAA would like to suggest that the Airports Division consider adjusting the review criteria to include review of both signatory and non-signatory air carrier gate use. Consideration of signatory gate use could enhance opportunities for air carrier competition by permitting more intensive use of airport facilities.

In addition, it is not clear how air carriers are made aware of gate availability. Although such information is available upon request, we would encourage the adoption of a method of automatically providing such information to all airlines serving the airport as well as new entrants that have expressed an interest in operating there.

The requirement for three years of either audited financial statements or Federal tax returns to obtain signatory status appears to exceed industry practice and could place new entrants or carriers with limited presence at the airport at a competitive disadvantage with existing signatory carriers. In particular, it would appear to preclude start-up carriers from obtaining signatory status for an extended period of time. We suggest that the Airports Division consider less burdensome requirements, such as a reduction in the number of years for which financial information is required or procurement of a payment bond, surety, or letter of credit.

In your next update please describe the Airports Division's accomplishments in these areas.

Financial constraints

Thank you for providing the Airport-Airline Lease Extension Agreement and pointing out the sections that control the source of revenue for airport improvements. In addition, your response on exclusive-use terminal charges was helpful.

Airport controls over airside and groundside capacity

We understand from the competition plan that you have a "concurrence methodology" clause in your agreements, which allows signatory airlines to delay a capital improvement project for up to one year. You note that this delay option has never been exercised. However, based on your description, the clause appears to be a form of a majority-in-interest (MI) agreement. Our *Airport Practices* report recommended that airports ensure that MI agreements do not prevent or delay projects that could be beneficial to new entrants or other competitors. You may want to carefully consider revising the agreement language to gain greater control over capital development on the airport when the opportunity presents itself.

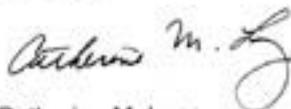
Finally, because of the interest that members of the traveling public may have in airline competitive issues at your airport, including your policy of ensuring reasonable access for new entrant airlines, we encourage you to put a copy of your competition plan, including this response, on your airport web page.

We look forward to reviewing your the first update to your competition plan.

The Secretary is required to review the implementation of the competition plans from time-to-time to make sure each covered airport successfully implements its plan. In connection with our review, we may determine that site visits to one or more locations would be useful. We will notify you should we decide to visit OGG in connection with its competition plan.

If you have any questions regarding this letter or the FAA's review of your plan, please contact Mr. Barry Molar, Manager, Airports Financial Assistance Division at (202) 267-3831.

Sincerely,



Catherine M. Lang
Director, Office of Airport
Planning and Programming