

Seattle-Tacoma International Airport

Competition Plan Update #1

December 8, 2015

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.

In accordance with FAA guidelines, the Port is required to submit a competition plan update within 18 months of the initial approval. This document, following the guidance of FAA Order 5100.38D, AIP Handbook, Section X-7, is the first update to the 2014 competition plan.

COMPETITION PLAN UPDATE #1

a. Changes from Last FAA Approval

There have been no changes in competitive filing information since the initial completion plan was submitted in 2014. The term of the current airline lease and operating agreement (SLOA III) is January 1, 2013 to December 31, 2017.

b. Reasons for Not Instituting FAA Recommendations

In your letter dated August 22, 2014 approving our competition plan, you made a recommendation for the Port to adopt a formal dispute resolution process at SEA. As mentioned in our letter dated September 16, 2014, our existing airline agreement (SLOA III) does not have a dispute resolution process, and we are limited in our ability to develop one that would apply equally to all signatory airlines until its expiration in December 31, 2017. Furthermore, as we considered establishing a dispute resolution process under the regulations that would apply only to new entrants seeking to expand service at SEA that have not yet signed SLOA III, we felt its value in facilitating a dispute would be limited at best since any dispute would likely include one of the existing SLOA carriers. Thus having only one of the disputing parties subject to the process, the Port determined it would not be effective.

As stated in our previous letter, the provisions of articles 4 and 5 of SLOA III were designed with new entrants in mind and give the Port significant leeway and control to accommodate a new airline's interests, which we believe minimizes the risk of airline to airline disputes.

Two current examples demonstrate this point. The Port is in the process of facilitating start-up plans for both Spirit Airlines and SeaPort Airlines. Although facilities are limited, we have developed plans to accommodate both operations without any airline to airline disputes.

c. Responses to FAA Questions

In the FAA's letter to the Port dated August 22, 2014, there were three recommendations. Each is listed below with the Port's responses included in our letter to the FAA dated September 16, 2014.

- 1) Designate an airport competitive access liaison to assist requesting carriers including new entrants seeking entry at SEA.

Port Response dated September 16, 2014:

We think this is a good recommendation and we plan to implement. We plan to designate James Jennings, Manager of Aviation Properties, as the airport competitive access liaison.

Update on Port Response:

James Jennings, Manager of Aviation Properties has been serving as the airport competitive access liaison since 2014. He was instrumental in facilitating the recent announcement from Spirit Airlines that it will commence service at Sea-Tac in March of 2016.

- 2) Adopt a formal dispute resolution process at SEA.

Port Response dated September 16, 2014:

We will consider this recommendation. We are bound by the terms of our existing airline agreement (SLOA III) through December 31, 2017. Since SLOA III does not include a formal dispute resolution process, we could not require a dispute resolution process without amending SLOA III with all signatory airlines. The provisions of articles 4 and 5 of SLOA III were designed with new entrants in mind and give the Port significant leeway and control to accommodate them and avoid disputes. We will, however, specifically consider establishing a dispute resolution process under the regulations that applies only to new entrants seeking to expand service at SEA that have not yet signed SLOA III.

Update on Port Response:

As discussed above, after considering this recommendation, we determined it was not needed, nor would it be effective if needed under the current signatory agreement.

- 3) Clarify Section 6.2 of the agreement so that no one can misconstrue that the MII does not apply to new projects that would be financed in whole or in part with PFCs.

Port Response dated September 16, 2014:

You are correct that Article 6.2 of SLOA III is silent with respect to project funding. As negotiated and written, projects that exceed the MII threshold are subject to MII approval. Consistent with FAA policy, all capital costs funded with PFCs are excluded from the airline rate base. As we see it, there is a difference between a project that is partially funded with PFCs and one that is wholly funded with PFCs. I will address each of these cases.

The language of SLOA III was based on our practice, over many years, of using PFCs as a partial funding source for large projects where the funding plan also includes revenue bonds or cash (or both). Since the portion of the capital costs paid by revenue bonds and cash are recovered in the airline rate base, we have always considered these projects subject to MII approval. For example, even though we used significant amounts of PFCs to fund the Third Runway, Concourse A and the Satellite Transit System Renovation, all of these projects were also submitted to the carriers for MII votes. While these projects were approved under previous airline agreements, the concept has remained the same in successive agreements. If it is the FAA's position that even partially PFC funded projects should be exempt from MII approval, we will include such language into the next airline agreement. We would like to confirm this with you, as this would likely be a contentious issue with the airlines.

As a general practice, we don't fund any projects 100% with PFCs, so there is always a rate base portion of the capital cost. Nonetheless, to address your concern relating to projects 100% funded with PFCs, we will communicate to the carriers that based on your review of our competition plan, any project that is fully funded with PFCs will not be subject to MII approval. We will also include language to that effect in the next airline agreement to eliminate any potential ambiguity.

Update on Port Response:

In the FAA's letter to the Port on November 17, 2014, the FAA confirmed that on projects partially funded with PFCs, the portion not funded with PFCs would be subject to the MII provision. In December of 2014, at the AAAC meeting, the Port discussed the issue of PFCs and the MII provision of our airline lease and operating agreement. We made it clear that if a project is fully funded with PFCs it would not be subject to the MII provisions. In our next airline lease and operating agreement we will make sure there is no ambiguity in the language.

d. Public Availability

The competition plan was previously posted to a SharePoint site accessible by all signatory airlines. It is now (as of December 4, 2015) posted to the Port of Seattle web site at the following address:

<http://www.portseattle.org/About/Financial-Info/Pages/default.aspx>

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