would be generated by replacement cost pricing needed for other purposes, since aeronautical users can be charged directly for the amounts needed to maintain debt service and coverage reserves, working reserves for normal operations, and contingency funds. Also, surplus funds for any airport purpose can be accumulated from revenues generated by nonaeronautical uses, which are not covered by the policy. In summary, historical cost valuation is the most widely used and accepted valuation methodology; it reimburses the airport proprietor fully for costs incurred; and it is consistent with the policy's provision that fees charged to aeronautical users are limited to the costs of services provided.

The Department believes that many of the impacts of historic costs noted by airport commenters would not be as problematic as the commenters suggest. First, historic costs would result in rents substantially below market only where a facility has not been renovated, reconstructed, or replaced for many years. While there are such cases, it would be the exception for airport facilities. Second, increased use of shorter airport leases reduces the instance of potential windfall situations, in which a lessee who pays the airport proprietor a historic cost-based rate is able to sublease at market rates, because the airport proprietor can reallocate the property to the actual user after a shorter time. Third, the policy adopted expressly permits airport proprietors to average the historic cost basis of all property, new and old, in the same general category (e.g., terminal gates). Accordingly, lessees of similar facilities can be charged identical rates regardless of the age and original cost of each facility. Finally, the policy should not result in any significant disruption of existing practice. Historic cost is already the most widely accepted basis for asset valuation; also, existing airport-air carrier agreements and air carrier fees that were not in dispute as of August 23, 1994, are not subject to challenge under the special expedited procedures in any event.

That said, as airport commenters and the FTC staff noted, rates based on historic cost can potentially result in inefficiencies and unintended subsidies. Accordingly, the Department believes that it is reasonable that airport proprietors, where justification exists, have some flexibility to use an asset valuation other than historic cost for the purpose of ratesetting. However, for overall aeronautical fees to be consistent with the provisions of the policy, several limitations will necessarily apply when asset valuation other than historic cost is used to determine some rates. First, aeronautical revenues in the aggregate cannot exceed the cost of aeronautical facilities (valued at historic cost) and services provided, and the use of a valuation higher than historic cost would not increase the total limit on aeronautical revenues since the total cost of aeronautical facilities would continue to be calculated using historic cost. Therefore, charging a market rate not based on historic costs for one category of leased aeronautical facility may require charging less than a full compensatory rate for other facilities used by the same aeronautical users. Second, only historic cost valuation will be considered reasonable for airfield facilities and land. Any potential effects of inefficiency or subsidy would apply particularly to terminal and other landside facilities, which may be exclusively leased. Accordingly, the Department will consider the possibility that a fee based on valuation other than historic cost could be reasonable, but only with respect to facilities other than the airfield, and only to improvements, not land. Finally, because historic cost valuation remains the standard in both public finance accounting and in ratemaking methodology, historic cost asset valuation methodology will be presumed to be reasonable for facilities other than airfield facilities and land. Subject to the general limit on total aeronautical revenue, for facilities other than airfield facilities and land an airport proprietor may demonstrate that an alternate valuation methodology is justified in the circumstances existing at the airport.

The Department believes the policy adopted represents the most reasonable approach to valuation of airport assets, in consideration of the comments received and the policy direction in recent legislation. The policy applies a strict historical valuation standard to core aeronautical use facilities, i.e., the airfield and land. For terminal and exclusively leased areas of the airport the policy permits flexibility in rate methodology and avoids disruption of existing arrangements, while at the same time discouraging accumulation of excess revenues.

The policy adopted is intended to cover the fees for use of aeronautical facilities, and is not intended for strict application to a transfer of assets. The policy applies the general rule that subsequent airport proprietors will acquire the cost basis of assets used in the rate base at the original airport proprietor's historic cost. However, requests for approval of the transfer of airport assets may include requests for deviation from this policy with justification.

FTC staff acknowledged that the monopoly power of airport operators requires some pricing regulation. With respect to the use of price-cap regulation suggested by FTC staff, such an approach does not appear to be feasible. The examples cited by FTC staff represented monopoly or near monopoly regimes where a cap was being set for one, or at most a handful of firms. In contrast, there are more than 400 commercial service airports and thousands of obligated airports that may be subject to the airport fee policy. The Department cannot effectively establish a separate price cap regime for each regulated entity, and it is not clear that the benefits of a price cap regime would be available if the Department were to develop a single industry standard formula. In the U.K. airport context, the British determined different price-cap values for each of the airports covered by the price cap regulation. Finally, the U.S. Government's own experience with price cap regulation of airports in the United Kingdom demonstrates that in order to be effective in preventing excessive returns, price cap regulation must be implemented with care. Among other things, it is important to assure that the base prices relied on do not themselves reflect excessive profits, which in turn makes it necessary to undertake a cost-of-service evaluation of each firm's costs and revenues.

10. Fair and Reasonable Rates: Multiple Airport Systems in the Rate Base

Airports generally commented that it is unduly restrictive to require quantification of the benefits of the secondary airport for inclusion of subsidy costs in the first airport's rate base; benefits will be difficult to quantify, and should be presumed if the airport has been designated as a reliever in the FAA's National Plan of Integrated Airport Systems (NPIAS); also, the blending of rates of multiple airports is an accepted current practice and should continue to be considered reasonable.

The Airports Council International-North America (ACI–NA) requested that common ownership not be a prerequisite of inter-airport cost sharing. ACI–NA notes that FAA permits the transfer of AIP entitlement funds between airports under different sponsorship; there is no reason to impose stricter standards on the airport's own funds, as the benefits of a reliever airport are the same regardless of ownership. AAAE and individual operators of airport systems, including Kansas City and the Metropolitan Washington Airports Authority, agree