

Fuel Facilities Overburdened At Certain Airports, Underutilized At Others

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Southwest Airlines will soon embark on a project to build a new fuel facility at Sacramento International Airport, one of a few fuel projects in the planning stages for the carrier. Southwest’s strong and growing presence in Sacramento, coupled with the fact that the current facility, owned by Chevron, is mired in difficulties, prompted the airline to act.

“We’re working out the details, but the plan is to step forward and build the facility for the airport since we have such a big interest there,” says **Robert Myrben**, director of fuel purchasing and inventory management for **Southwest Airlines**. The airline’s commitment comes after months of airport negotiations in trying to get airlines to act, either with a

consortium approach or a single-airline approach. But because it is a second-tier airport in terms of size, most airlines just weren’t interested in committing to a vast infrastructure project. Unlike at major U.S. airports, a consortium approach just wasn’t viable.

Southwest will shoulder the initial capital outlays, but Myrben says he expects a consortium approach in the future. “We’ll treat it as a consortium, sort of like what we did in Burbank,” he says. “We’re going to essentially finance and build the facility to get it going. Once we get it constructed we’ll give folks the opportunity to join a consortium (probably a committee rather than an

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ATA Fuel Farm Study Tackles Crisis Communications

Taking the adage, “Better Safe than Sorry” to heart, the **Airport Transport Association’s** (ATA) Energy Committee and public relations firm **Xenophon Strategies** recently completed phase one of a massive effort to update the crisis communications plans at fuel farms across the U.S.

The project began three years ago after the ATA Energy Committee took a look at crisis communications plans in place at airport fuel farms across the country.

What they found was that most of the airports had only a few pages of

guidelines and protocols at best, with no updated media lists and no set way of coordinating with airport communications officials to deal with the media. In addition, “the survey three years ago found that most of these facilities had not participated directly in any type of an emergency drill and never really stepped back and asked what would happen ‘if,’ ” says **Jay Silverberg**, senior vice president with Xenophon. “The facility managers had been a part of airport drills but the fuel farms themselves had never been

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Airports like Oakland, San Jose and Long Beach in California, Islip in New York, Baltimore/Washington and others are experiencing or are expected to experience constraints on their fuel facilities as low-fare carriers expand their activities.

actual corporation) and be part of the process. I'm not sure what the ownership will look like down the road, but initially we're going to be it."

Other airports are expected to face similar capital needs for fuel facilities in the near future as demand shifts away from larger airports. The nation's largest airports are seeing a reduction in demand for jet fuel – due to the cutbacks in flights made by Legacy carriers – while certain second-tier airports have seen bursts of activities due to expansion by low-cost carriers.

Airports like Oakland, San Jose and Long Beach in California, Islip in New York, Baltimore/Washington and others are experiencing or are expected to experience constraints on their fuel facilities as low-fare carriers expand their activities. At the same time, some larger airports are experiencing excess capacity.

One airline fuel executive notes that it's par for the course when an airline embarks on a significant expansion plan at a single airport. "Historically, the smaller airports don't have the infrastructure that the larger ones do, and historically the smaller airports usually have tighter storage," the executive says. "It's kind of a hand-to-mouth situation – you're just not going to have the ability to store 10 days inventory."

The source points to Midway Airport as a key example. Before the recent infrastructure investment, he says, a refinery disruption or fuel truck delay would "bring the place to a standstill."

"It was a pretty scary place, an unreliable place, on the fuel side until the infrastructure was put in there," he says.

Myrben says Southwest is accustomed to taking on expansion responsibilities. "Whenever we've gone into a secondary airport with our high-frequency service, we get what people call the 'low-fare effect'," he says. "When you go into that situation you have the ability to surpass the airport's capacity to handle it. Hence, at Islip we're building a facility and there will probably be some additional tankage needed. We've had the same

issue at about every place that we've gone that is smaller like that, unless it was overbuilt for some reason. We're probably going to surpass the facilities at the airport. Often times we have to go in and make a financial commitment to improve."

Like it or not, Southwest is one of the few airlines with the financial wherewithall to take on such projects right now. Yet airport authorities at second-tier airports are eager to attract the new business and thus are compelled to find a way to upgrade facilities. One airline fuel executive notes, for example, that the recent addition by JetBlue of more than 20 flights at Long Beach International Airport will tax that system. "I'm sure that as people move out to a lot of these secondary airports, and if volume increases dramatically in these places, somebody is going to have to make the investment." If not the airline itself "the airport authority or an FBO will step in and make those deals."

As for the Legacy carriers, **Bob Sturtz**, director of petroleum administration at **United Airlines**, notes that it's less about financial wherewithall and more about focusing on airports where they have a major presence. "I don't think you're going to see the likes of United and American stepping up to provide leadership (at second-tier airports)," he says. "They're just not of interest to us. Our positions aren't that big in those markets, therefore there is really no need for us to commit resources to solve those problems. We've solved the problems where we've needed to solve them."

Added Volume or Volume Shift?

The Legacy carriers, of course, tend to concentrate on the nation's major airports, most of which have fuel consortiums in place to jointly maintain and operate fuel systems, as well as embark on any capital improvements. Some of those fuel facilities currently have excess capacity due to flight cutbacks from carriers.

For example, in 2002 Los Angeles International Airport, the leading airport in the world in terms of jet fuel consumption, recording a consumption decline of 10.4% to 96,000

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“We’ve stayed focused on looking for innovative ways to better serve Legacy carriers, and we have been pretty successful in acquiring some new business from them...”

barrels per day on average. Chicago O’Hare International Airport posted an 8.7% decline in consumption to an average 78,500 barrels per day and San Francisco International Airport had a consumption drop of 9.6% to 60,400 barrels per day on average.

Those were some of the largest drops, but every U.S. airport among the top 35 experienced consumption declines. Those that experienced significant declines are currently faced with excess capacity, which isn’t a problem in itself, but the demand drop does mean higher costs for fuel overall.

“Common sense would tell you that the unit cost per gallon is going to go up because volume is down,” notes one airline executive. “You’re going to have certain fixed costs like debt service regardless of who is part of the consortium and how much fuel they use. In Denver, for example, the debt service is fairly expensive and its going to be there whether the same volume goes through the system or not.”

It is unclear at this point whether the growth in demand at second-tier airports represents an expansion in demand for fuel overall or just a shift in the carriers – and as a result in the airports – that use it. Certainly the blend of carriers is changing, with low-cost carriers taking share from Legacy carriers.

But whether that is a long-term trend remains to be seen. Since the September 11 terrorist attacks, business has been far from usual. Legacy carriers in particular have been hard hit, with bankruptcies from United Airlines and US Airways and with other carriers teetering on the brink. The Iraq war, the economic doldrums and other factors have also contributed, and such unusual circumstances make this particular ebb in the usual airline business cycle particularly difficult to analyze.

Legacy carriers are retiring older less fuel efficient aircraft in favor of smaller more fuel efficient regional jets leading to a further reduction in jet fuel demand at major airport hubs. As a result, fuel facilities costs at major hub airports will continue to rise as higher throughput fees will be necessary to compensate for the lower volume. And, if aviation analysts prove correct, airports such as San Francisco, Denver

and Washington Dulles may have to wait until 2010 to reach traffic levels and therefore jet fuel volumes of 2000.

Jet fuel suppliers say such circumstances dictate that they move with the market. For example, **Peter O’Callaghan**, general manager of **Air BP**, notes the opportunities surrounding the change in carrier and airport mix. “It’s important for us to be flexible around where the shifts are going to be,” he notes. “It’s about how efficiently you can get fuel to a certain location compared to your competitors.”

Ted Rullo, marketing manager for North America, commercial airlines at **ExxonMobil Aviation**, also acknowledges the need to woo the low-fare carriers. He says ExxonMobil has some business with Southwest and is pursuing business with other low-cost carriers. But for an airline like JetBlue, the prospect is difficult due to the airline’s policy to outsource its fuel management. [JetBlue has contracted Miami-based World Fuel Services for fuel management] “We’re a very lean organization and we don’t have the back room that can support that type of fuel management program,” he says.

Rullo adds that ExxonMobil’s business with the Legacy carriers is strong. “We’ve been somewhat blessed because our sales numbers have been pretty fantastic,” he claims. “It may be because of the fact that we are a major supplier into the various pipelines in the U.S. and the airlines have actually been very good to us in honoring the contractual commitments they’ve entered into.

“We’ve stayed focused on looking for innovative ways to better serve the Legacy carriers, and we have been pretty successful in acquiring some new business from them, not only in the U.S. but also around the world,” Rullo says.

Capacity Constraints?

The current situation means that certain airports are faced with excess capacity while other, generally smaller, airports are in need of infrastructure investments to meet increasing demands. While the trend toward

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As a result, fuel facilities costs at major hub airports will continue to rise as higher throughput fees will be necessary to compensate for the lower volume.

second-tier airports may continue as low-cost carriers continue to thrive, it's likely that demand will return at major airports as well.

"Volumes overall are down and as a result there aren't any airports (served by United) that I believe are currently constrained," says Sturtz. "That's not to say that two or three years from now, as flights continue to be added back and the economy recovers, that we won't be faced with constraints in the future. Everybody is playing up the fact that consumption is down, but those volumes are starting

to come back to the market. I don't know anybody who believes that long-term fuel consumption is not going to grow." JFR

ATA Fuel Farm Study Tackles Crisis Communications
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directly involved in any type of airport drill."

The ATA energy committee decided to address the situation by hiring a public relations firm to develop a comprehensive crisis communications plan. Washington DC/San Francisco-based Xenophon won out over several other high-profile PR firms in part because it was among the lowest bidders at around \$1 million and also because of its expertise in crisis communications.

There hasn't been a major incident at a US fuel farm since the 1990 fire at Stapleton Airport in Denver, but many in the industry still recall the media frenzy that accompanied that blaze. "We had television news helicopters flying overhead reporting for days so it was a big story," says Ed Merlis, who recently joined Xenophon from the ATA. "And don't forget back then you didn't have four or five 24-hour news stations and you didn't have the Internet."

Four fixed-based operators participated in the project: **Aircraft Service International Group (ASIG)**, **Airport Group International (AGI)**, **Swissport Fueling Inc.**, **Allied Aviation**. Swissport volunteered five of its facilities - in Boston, Las Vegas, Oakland, Fort Myers, and Phoenix - to serve as pilot facilities.

"We went into the facilities and met with the facility managers, met with the staffs, interviewed them, talked to them about their operations," says Silverberg. "We also had them fill

out a questionnaire dealing with how many tanks they had, what their fueling capacity is, where the fuel comes from, how much is necessary to fuel a plane at their airport and who are their environmental contacts."

Xenophon then crafted individual plans for those five facilities. "There were consistencies through all of the plans because these facilities operate the same way city to city," Silverberg says. "But we also found that the different state and local agencies that need to be involved in communications process varied from airport to airport, and we also occasionally had to adjust the protocols in accordance with what the airports wanted."

"At Phoenix SkyHarbor for example, there is a procedure they follow that if anything happens to the airport, the facility manager calls a hotline and tapes a message that is essentially a sound bite that any media can tap into to alert people to a situation that's developing," he continues.

At each facility, Xenophon also built dark web sites, maintained by Xenophon and the ATA, for every facility in the study. The sites include basic background information on jet fuel, fuel farm ownership, the consortium, how the facility is managed and operated, how fuel is stored, and brief explanation on the fueling process. The site also includes the safety preventative measures that are built into the operations of the fuel farms as well

There hasn't been a need to put one of the new crisis communications plans into action because of a major incident, but there was recently a close call at Burbank...

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Mark Your Calendars...

6th International Jet Fuel Conference & Exhibition Returns to Miami's Inter-Continental Hotel



Armbrust Aviation Group is pleased to announce that the **6th Annual International Jet Fuel Conference & Exhibition** is scheduled for March 7 -10, 2004 at Miami's Inter-Continental Hotel.

This will be the second time that the hotel, which overlooks Biscayne Bay, will host the conference.

AAG is currently working with key industry participants to identify topics and speakers to create an informative agenda. Early indications call for significant focus on the accuracy of current pricing models with plans to explore additional pricing options.

AAG plans to facilitate industry challenges regarding existing pricing models in open discussions and working groups. Check back regularly for information on topics and speakers.

We welcome suggestions regarding agenda topics and speakers.

Contact Barb Moreno, Conference Manager at 561.659.6818 ext. 104 or email: bmoreno@armbrustaviation.com

as contact information and still photographs. A plan to include streaming video B-Roll footage of the facilities will be in place on each site by the time the project ends in June 2004.

"The idea is that should anything happen to these facilities, the web sites are available and can be activated with airport and consortium approval so that the media can be sent to these web sites within the first 30 minutes to an hour," says Silverberg. "There's a link on each of these web sites where news releases can be posted and there's a link to the airport web site."

The most surprising early finding from the project was the misperception among the fuel consortiums that the media would automatically come directly to them first in the event of an incident at a fuel farm. "But what we found particularly after 9/11, was the first wave of media, the second wave and probably even the third wave media, should something happen at one of these fuel farms, is going to go to the airport," says Silverberg. "And the airport will likely then step up and say, it may not be our facility but it's certainly on our property and it's affecting the operation of the airport and this is what we're doing to mitigate and this is what we're doing to help the passengers."

The other major reasons the airport communications teams are being brought to the forefront of many of these plans is the realization that the consortia chairs tend to travel a lot and so the odds that they would be at the facility in the event of an incident are slim. "In the crisis plan there is a decision point where the consortia chair decides whether to actually go the site and handle the communications role," says Silverberg.

To their credit, most of the communications departments at the airports themselves have come to the realization the more updated information they have in the event of a crisis, the better.

"We found that with airport communicators the level of knowledge about the fuel farms ran the gamut from a fairly strong in-depth knowledge of how a fuel farm operates, to some who

only visited it once or twice and needed to learn more about how it operates," says Silverberg. "But in every case they said the more information you can give us that's credible and accurate and quick, the better it will be for all of us."

Xenophon recently completed Phase One of the project, which involved working with the five test cities plus Atlanta, Charlotte, Chicago, Salt Lake, Houston, Dallas, St. Louis, Denver, Los Angeles, Memphis, Minneapolis-St. Paul, Pittsburgh, San Francisco and Reno.

The second phase, which runs through the project's end in June 2004, includes the facilities at Honolulu, Ontario, Washington (Reagan National), Kansas City, San Diego, Burbank, Cincinnati, Ft. Lauderdale, Orlando, Milwaukee, Portland, Philadelphia, Orange County, Tampa, Anchorage, Buffalo and Rochester.

Not every airport is participating in the program. "Dulles was involved initially in Phase One," explains Silverberg. "British Petroleum is the operator there and, in my experience, they have 10 years of developing some of the best crisis preparation plans out there. So while we provided them with all the materials we prepared and they're certainly aware of this process, they opted out."

"The basic program was laid out to approach the entities where the airlines have fuel consortia," says **Tom Brown**, managing director, aviation infrastructure for the **ATA**. Brown says the organization initially targeted 45 airports, some of which already had programs in place. "We weren't interested in forcing something on them, we were interested in offering them something that we believe will be useful," he adds.

Fortunately, there hasn't been a need to put one of the new crisis communications plans into action because of a major incident, but there was recently a close call at Burbank that's already been turned into a case study by Xenophon.

The fast-breaking story started when a truck found sitting just off the airport property and within 100-150 yards of the fuel farm was linked to a

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The ultimate goal of the project is to drive home the message that while a single major incident at a fuel farm may last days at most, how the airlines, fixed-base operators and airport managers deal with the media could impact their reputations for years.

report about a potential terrorist who was said to be traveling from Texas to California intent on blowing up an airport.

“The media went live and the TV helicopters were flying over the Burbank airport and airport officials shut down one of the runways and did some evacuation,” explained Silverberg.

The fuel farm was drawn into the story peripherally, with the bulk of the coverage devoted to the trucker and terrorism and how the investigation was proceeding. But even with that, the media was reporting as though the fuel tanks were above ground (they are in fact above ground but located below ground level in a pit), how volatile jet fuel is and what the potential impact would be if the truck explodes.

“Those are the kinds of media reports that get out because there was no place for the media to go to get information,” says Silverberg.

Ultimately, the ATA and Xenophon decided not to activate the web site as the media quickly ended their live coverage and dropped the story when the terror link to the truck turned out to be hoax, Merlis says.

Merlis stressed that this project won't end with the development of the crisis communications plans and the creation of web sites for each airport. Procedures will be in place so that these reports can be continually updated with new information and new

contacts lists.

Xenophon is already running 60-90 minute table-top exercises for many of these plans, which have resulted in additional tweaking of the crisis communications tools and procedures. “For example, the facility management folk told us that if anything happens to their facility, they're going to have to evacuate, so they didn't want to carry a 10-page crisis communications binder with them,” said Silverberg. “So what we've done is put the communications plan, protocols and call lists on CD that they can put on one laptop. We also provided them with a 10-15 item check list of things they need to do quickly that they put on 5-7 cards they carry with them at all times.”

Merlis said the ultimate goal of the entire project is to drive home the message that while a single major incident at a fuel farm may last days at most, how the consortium, fixed-base operators and airport managers deal with the media during that time could impact their reputations for years.

The program has been well received thus far, Brown says, and he suggested that the program may extend beyond June 2004. “Everybody recognized that the documents and process set forth is not static, but in fact is living and needs to be continually updated,” he adds. JFR

News Briefs

Airline Legal Moves Put Airport Bondholders At Risk

New York... Fitch Ratings has expanded the importance it places on the willingness of U.S. airlines to honor leases and contracts while under financial stress, the bond ratings company said. Fitch is especially concerned by bankrupt airlines that are pursuing legal strategies in bankruptcy court that would effectively divert revenues away from bondholders.

According to a study released July 21 entitled “*Airline Bankruptcies and Airport Bonds: 2003-2006*,” worsening fundamentals and the specter of bankruptcies in the aviation sector prompted the change.

“As certain airlines redesign

and begin to execute business plans in response to their weakened financial state, their willingness to continue to pay for some of the airport services traditionally used is evaporating,” the report noted. “For the first time in more than a decade, a prominent rating issue has become not only the ability, but the willingness, of airlines under financial stress – and especially those in or likely to be in bankruptcy – to continue to honor key leases and contracts.”

The new policy applies to all three classes of airport bonds: general airport revenue bonds, special facility bonds and passenger facility charge bonds. The report notes that bankruptcy

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World Jet Fuel Prices

Spot Cargoes

Trend ?

Rotterdam			Mediterranean			Middle East			New York			US Gulf Coast		
7/25	7/18	7/11	7/25	7/18	7/11	7/25	7/18	7/11	7/25	7/18	7/11	7/25	7/18	7/11
251.0	262.0	255.6	243.6	255.1	248.9	29.5	28.1	27.8	78.49	81.64	80.16	75.59	78.66	77.55
Chicago			Los Angeles			Pacific NW			CIF Japan			Singapore		
7/25	7/18	7/11	7/25	7/18	7/11	7/25	7/18	7/11	7/25	7/18	7/11	7/25	7/18	7/11
79.46	82.99	82.09	82.10	84.25	82.25	82.60	85.15	83.50	32.0	31.2	29.1	30.7	29.7	28.6

Futures/Differentials

Trend ?

IPE Gasoil*			NY Heating Oil			WTI Crude			Brent Crude			Rott Jet/IPE Gasoil		
7/25	7/18	7/11	7/25	7/18	7/11	7/25	7/18	7/11	7/25	7/18	7/11	7/25	7/18	7/11
236.5	241.5	246.5	79.00	80.75	81.85	30.17	31.41	31.28	28.18	28.93	29.19	14.5	20.5	9.10
			NY Jet/Heating Oil			Gulf Jet/NY 2 Oil			Gulf/Los Angeles Jet					
			7/25	7/18	7/11	7/25	7/18	7/11	7/25	7/18	7/11			
			1.92	2.07	1.62	-1.34	-1.00	-1.00	-6.51	-5.59	-4.70			

Key: U.S. weekly averages cents per gallon, WTI Crude, Asian jet in \$/barrel, Europe, Medd \$/Ton

Sources: Opus Jetfax, JFR

rulings are currently relevant in all three classes of airport bonds.

Prominent examples for each include: **US Airways'** forward rejection in March 2003, while in bankruptcy, of the Allegheny County Airport Authority's Pittsburgh International Airport airline use and lease agreement; **United Airlines'** position that its failure to make special facility bond payments in some cases does not trigger eviction and re-letting of the financed facility; and a federal bankruptcy judge's December 2002 order for United to pay PFCs it had collected prior to entering bankruptcy

to Denver International Airport and Chicago O'Hare International Airport.

New Ground Handling Contracts Announced

Florida... Aircraft Service International Group (ASIG) announced that it has been awarded ground handling contracts this year at Baltimore/Washington, Miami and Orlando International Airports. At Baltimore/Washington, ASIG was awarded the contract to provide complete ground handling services to **Aer Lingus**, including passenger, cabin cleaning, into-plane fueling and cargo

services at Baltimore Washington International Airport. The company in May started ramp services for **AeroMexico** and Miami International Airport and commenced ground handling, passenger, cabin cleaning and into-plane fueling services for **Alaska Airlines** at Orlando International Airport.

Also, **Skytanking**, a subsidiary of German-based **Marquard & Bahls AG.**, announced its first contract in North America. The company will provide into-plane services for **United Airlines** and **Air Canada** at Miami International Airport. **JFR**

