



**AIRSERVICES AUSTRALIA**

# Draft Price Proposal

December 2010

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## Pricing Proposal

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Airservices Australia has developed a new long term pricing proposal for industry consultation that is proposed to commence on 1 July 2011 for each of its service lines of Enroute, Terminal Navigation (TN) and Aviation Rescue and Fire Fighting (ARFF).

The proposal delivers price certainty and a real price reduction of more than six per cent over the next five years. It responds to stakeholder feedback that Airservices has received during a range of consultation processes conducted over the last two years and most recently as part of the Terminal Navigation Pricing Review that was undertaken in accordance with the Government's National Aviation Policy White Paper.

The five year pricing proposal was developed applying the Australian Competition and Consumer Commission's (ACCC) building block model. It funds new services and new regulatory requirements as well as improved infrastructure.

To balance the risks associated with pricing over a long period, the proposal includes risk sharing across the three pricing elements: flight activity; capital expenditure; and regulatory change. These risk sharing arrangements reduce excessive over or under cost recovery, hold Airservices accountable for maintaining appropriate capital investment, and make provision for additional costs associated with regulatory changes.

The proposed prices in each year for each service and location are set out in the following pages.

**We are now asking for industry comment and would like feedback on this proposal by no later than 24 January 2011 to:**

[pricing@airservicesaustralia.com](mailto:pricing@airservicesaustralia.com) or by mail at

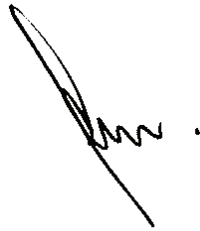
Pricing Consultation  
PO Box 367  
Canberra ACT 2600

A number of public consultation sessions will be held in all major capital cities and some regional locations in January 2011. Details on these are provided on page 16.

Based on the feedback received we will then consider whether the proposal needs to be adjusted before we notify the ACCC in early February 2011 of our intention to implement a new Long Term Pricing Agreement from 1 July 2011.

If you have questions on the paper or the review process, please do not hesitate to contact myself on 02 6268 4850 ([andrew.clark@airservicesaustralia.com](mailto:andrew.clark@airservicesaustralia.com)) or Paul Logan, Manager Financial Strategy and Business Performance, on 02 6268 4241 ([paul.logan@airservicesaustralia.com](mailto:paul.logan@airservicesaustralia.com)).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andrew Clark', with a small dot at the end.

Andrew Clark  
Chief Financial Officer  
1 December 2010

## PROPOSAL OVERVIEW

This proposal is founded on our pricing objectives of:

- providing pricing certainty for Airservices and its customers that will support their respective investment programs;
- signalling the right investment at the right time; and
- continuously improving the efficiency of service delivery by both Airservices and the industry as a whole.

It follows a two year price freeze that was implemented at the expiry of the 2005 Long Term Pricing Agreement (LTPA) in December 2009 which provided certainty for industry while the economy recovered from the effects of the Global Financial Crisis.

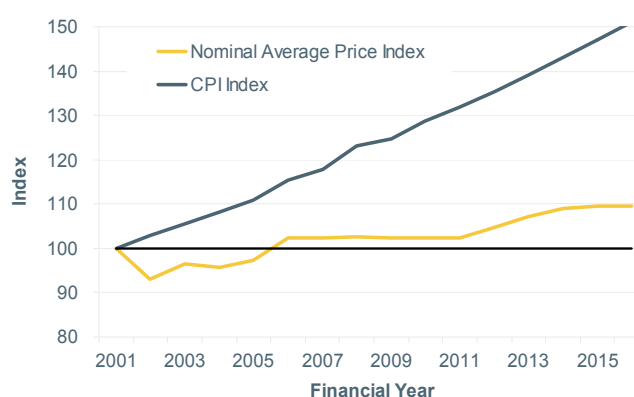
The proposal incorporates the outcomes of the Terminal Navigation pricing review undertaken earlier this year, as well as the consultation on all price structures that has occurred over the last two years.

The price strategy provides a five year price path, funds scheduled prioritised investment, improves the linkage between prices and costs, reflects closely located airport synergies and limits price increases to affordable year-on-year changes at or around inflation.

Over the next five years proposed prices will provide real price reductions of more than six per cent against general inflationary pressures of costs rising at about three to four per cent per annum. This follows Airservices previous pricing arrangements that have continued to pursue improvements to meet the changing shape of the industry.

At the end of this price path, Airservices will have reduced prices in real terms by 40 percent from 2001 levels:

### Nominal Average Price Change 2001 - 2016



The proposal rebalances service prices to address shifts in cross-subsidies that have occurred over the life of the 2005 LTPA. These shifts have arisen due to differences between actual and forecast flight activity, the introduction of new services and additional costs to meet regulatory requirements.

## Weighted Average Price Increases

Service	2011-12	2012-13	2013-14	2014-15	2015-16
Enroute	0.0%	0.0%	0.0%	0.0%	0.0%
Terminal Navigation	2.1%	1.1%	0.9%	0.5%	0.4%
ARFF	9.8%	11.7%	7.8%	4.8%	2.2%
<b>Weighted Average (nominal)</b>	<b>2.1%</b>	<b>2.1%</b>	<b>1.6%</b>	<b>1.0%</b>	<b>0.5%</b>
<b>Weighted Average (real)</b>	<b>(0.6%)</b>	<b>(0.6%)</b>	<b>(1.2%)</b>	<b>(1.7%)</b>	<b>(2.2%)</b>

Nominal price increases in the first two years are required to fund the introduction of new ARFF and Terminal Navigation services as well as higher costs associated with recent Civil Aviation Safety Authority (CASA) regulatory changes at regional and general aviation locations.

As set out in the following table, based on 2005 LTPA services, prices would have reduced by 2.0% on 1 July 2011. However, after adding new services and implementing changes to meet new regulatory requirements, a net increase of 2.1% is now required.

## Components of Price Change

Service	Based on 2005 LTPA Service Levels	Add New Services	Add Regulatory Changes	Total Price Change 1 July 2011
Enroute	0.0%	0.0%	0.0%	0.0%
Terminal Navigation	(4.1%)	1.8%	4.5%	2.1%
ARFF	(3.2%)	13.1%	0.0%	9.8%
<b>Weighted Average (nominal)</b>	<b>(2.0%)</b>	<b>2.5%</b>	<b>1.7%</b>	<b>2.1%</b>

## Background

In 2003, following the terrorist attacks on 11 September, the Ansett collapse, SARS and the Iraq war, industry sought a fundamental shift in pricing arrangements to improve long term price certainty. With this objective Airservices replaced annual price setting arrangements in 2005 by entering a longer term pricing agreement (2005 LTPA) that set a price path for each service until 31 December 2009.

The prices under the 2005 LTPA were established to:

- Set a five year pricing path to transition prices toward required levels, replacing the temporary pricing arrangement that was established in response to the collapse of Ansett and the events of September 11;
- Fund known new services and regulatory changes;
- Support agreed capital investment requirements over the period;
- Reduce cross-subsidisation between service lines; and
- Adjust pricing levels in line with the removal of the government's tower subsidy.

Since the establishment of the 2005 LTPA, Airservices has undertaken extensive consultation with industry on the structure of its prices. This engagement with industry identified that:

- the 2005 agreement has been largely successful in providing certainty;
- the structure of prices could be improved in terms of the way weight is applied in charging formulas;
- there was a need to simplify charging for General Aviation (GA);
- the structure of prices needs to retain incentives for efficient investment in new services and facilities; and
- a growing capital investment program needed to meet industry priorities and minimise whole of life costs for the existing asset base.

## Development of the 2011 LTPA

The 2005 LTPA was originally intended to expire on 31 December 2009, however due to the Global Financial Crisis, the Board of Airservices decided to defer a new set of pricing arrangements until 1 July 2011. This has allowed Airservices to give considerable thought in shaping this proposal and to extensively engage with industry on its prices over the last few years.

### *2008 Pricing Options Paper*

Consultation was undertaken in 2008 and included a comprehensive public and private program of meetings around Australian cities and some overseas locations.

In response to this discussion paper Airservices received 15 formal submissions discussing the structure of price. Most of the responses reflected polarised views on who should fund aviation services and infrastructure reflecting differing views on the relative importance of economic efficiency and the distribution of the charging burden on non-efficiency grounds.

Through this process, the following major pricing issues were identified:

### **ARFF Prices**

The current category based structure was supported by major domestic, regional and smaller operators, but opposed by international airlines. However, given the extensive consultation process undertaken in 2005, there was general acceptance that the existing structure would be likely to continue into future agreements. There had also been support for the proposition that responses to non-airside non-aviation call-outs be charged on a call-out fee basis, with any revenues collected returned to airways customers in an annual rebate at the end of the year.

## Enroute Prices

Three structural issues were raised for review: international airlines requested the removal of weight from the charging formula; whether enroute price signals would be improved if there were different prices for different service delivery environments; and how the current basis of charging could be changed to minimise the impact of prices affecting the choice of whether General Aviation (GA) operators choose to fly by instrument flight rules (IFR).

## Terminal Navigation Prices

The concerns about Terminal Navigation prices related to the use of weight as the basis of charging and the removal of any residual cross-subsidisation from enroute for regional locations and from major capital city airports to closely located general aviation airports.

## General Aviation

Noting that the cost of charging low volume customers (i.e. the bottom 2,000 customers) exceeds the cost of billing and collecting these charges, an alternative arrangement is needed to improve the administrative efficiency of these charges, or to remove charges for these operators.

## *2009 Price Freeze*

In 2009, as the Global Financial Crisis emerged, Airservices decided that rather than pursue a new pricing agreement it would freeze prices to address concerns of severely depressed aviation activity and the significant pressures on airline profitability. At the same time, Airservices was required to make a significant contribution to the defined benefit superannuation fund that supports the retirement incomes of current and past employees. The Board of Airservices has decided not to seek to recover this contribution from users. Similarly, it has decided not to increase its contribution rate in this next pricing round, a cost which is normally passed through as part of Airservices normal labour cost.

This freeze provided time for markets to stabilise and, as is now evident, allowed pessimistic flight activity forecasts at the time to return to a normal growth outlook.

## *2010 Terminal Navigation Pricing Review*

Earlier this year Airservices reviewed its Terminal Navigation prices and received 37 formal responses to its discussion paper. After further discussion and consideration, Airservices has decided upon the following principles for adoption in this pricing proposal:

- Location specific costs should be recovered from that location as a key efficiency driver;
- Non-location specific support and overhead costs could be recovered on a basis such as total tonnage across all terminal navigation service locations. By recovering non-location specific costs across as wide a base as possible the efficiency loss arising from the need to recover these costs can be minimised. Non-location specific costs are to be taken to mean those costs that are network wide and driven by overall air traffic volumes;



- Prices at GA airports in a capital city basin will be capped (the Basin Cap). The shortfall from price capping these services are funded from the major location in the capital city basin in recognition of the fact that the safe and efficient management of traffic at these airports improves the safety and efficiency of the management of traffic at major airports;
- Prices at regional locations will be capped (the Regional Cap). The shortfall from price capping these services will be recovered through enroute services where the distortionary impact is likely to be low;
- Any location's price would not exceed either cap (Basin and Regional) and all caps would be increased over time in line with or near normal levels of inflation in the consumer price index;
- Where the price for a new terminal navigation service is significantly above the average terminal navigation price, the price will initially recover the forecast incremental operating and annualised capital costs at the location of the service in the first year, then increase the price to a fully allocated basis over the following two years. Any shortfall in the first three years will be recovered through prices in later years;
- Activity forecasts for new service locations could be reviewed after 12 months and prices amended for significant variations from original forecasts; and
- Administration costs relating to low volume general aviation operators could be minimised through fixed pricing arrangements that reflect broad volumes of usage.

### *Pricing Consultative Committee (PCC) Meetings*

Over this same time period Airservices has maintained regular discussions on pricing through Pricing Consultative Committee (PCC) forums. These meetings have been important in helping to establish and agree pricing frameworks. The PCC comprises representatives from the major domestic and regional carriers, international airlines and associations, and GA operators. The committee played an important role in developing prices for the current LTPA and more recently has discussed the core pricing inputs such as the forward capital works program; weighted average cost of capital; and forecast activity.

### **Structure of Prices in the 2011 LTPA**

The features and structure of this proposal include some important changes to our existing price framework. These changes are the outcome of consultation work noted above and take into account the ACCC criteria for assessing the concerns of industry over different aspects of pricing. Airservices application of the ACCC's framework and objective criteria for assessing price notifications is set out on page 17.

The proposal also considers the impact of different options and adopts transitional pricing paths where larger increases or more dramatic structural changes would be dislocating for the industry.

The structure for prices in the proposal is as follows:

### **Terminal Navigation**

Terminal Navigation charging is based on the principles derived from the TN Pricing Review as noted on page 7. The proposed pricing structure is largely in line with current arrangements. To limit the impact of any year on year price increase, where applicable, price caps have been applied across all service locations.

### **Aviation Rescue & Fire Fighting (ARFF)**

ARFF category-based charging will continue as is, with the introduction of a combined Category 9/10 price to reflect the entry of the A380 into the fleet.

ARFF domestic response services for attending alarms and incidents in non-aviation and non-aerodrome areas will be charged to the airport on an attending basis, with the revenue this generates rebated to industry. Non-aviation and non-aerodrome areas does not include the aerodrome itself, passengers and freight terminals, hangars, flight kitchens and similar aviation related buildings that access the aerodrome. The precise scope of these will be determined on a case-by-case basis by Airservices and the airport operator as part of wider Memorandum of Understanding (MOU) discussions that are currently under way.

### **Enroute**

Enroute charging will continue broadly as is.

Consideration of options that may provide greater service granularity for enroute by, for example, splitting airspace along functional service lines have been deferred until the next LTPA.

As the conversion of the organisation into these functional service lines is not complete, there are a number of issues that significantly impact the attribution of costs among these service lines and consequently any related charging arrangement. These are likely to be resolved as the service lines and supporting infrastructure are transitioned to the new environment.

In addition, the planning for the next generation of new ATC system that will be implemented shortly after this pricing period may require further changes to this operating model and these changes are likely to commence within the pricing period.

### **General Parameters**

Charging will be based on Maximum Take-off Weight (MTOW) and capped at 500 tonnes as a maximum charging point.




Average MTOW's will be applied to aircraft types greater than 15.1 tonnes in weight (e.g. as set out in Appendix 2, all Boeing 737-800 will be charged at an average MTOW weight of 77.8 tonnes). This will simplify the currently complex identification of MTOW based on individual airframe and engine configurations.

General aviation pricing will also be simplified with charges only being applied once a \$500 threshold has been passed. Further details are provided on page 28.

Service costs have been calculated using standard unit costs to ensure that the price of services does not vary from place to place as a result of non-traffic related factors such as the relative age of the workforce or infrastructure.

Price increases over time have been capped at or near normal levels of inflation.

A summary of proposed changes is contained in the table below.

Service	Current Charges	Proposed Charges
Enroute Services	<ul style="list-style-type: none"> <li>Levied on IFR flights only</li> <li>Based on aircraft weight (MTOW) and distance flown</li> </ul>	 <p><i>As per current charging arrangements</i></p>
		<ul style="list-style-type: none"> <li>Weight capping for large aircraft</li> <li>Average MTOW of aircraft if &gt;15.1t</li> </ul>
Terminal Navigation Services	<ul style="list-style-type: none"> <li>Levied on IFR and VFR full stop landings and practice instrument approaches</li> <li>Based on aircraft weight (MTOW)</li> <li>Capital city basin pricing</li> <li>Price capping at GA and regional locations</li> </ul>	 <p><i>As per current charging arrangements</i></p>
		<ul style="list-style-type: none"> <li>Weight capping for large aircraft</li> <li>Average MTOW of aircraft if &gt;15t.1</li> <li>Price capping across ALL locations</li> </ul>
Aviation Rescue & Fire Fighting Services	<ul style="list-style-type: none"> <li>Applies to aircraft with MTOW &gt;15.1t, or "target" aircraft with MTOW between 5.7t and 15.1t</li> <li>Levied on full stop landings and practice instrument approaches</li> <li>Based on aircraft weight (MTOW) and aircraft ARFF category</li> </ul>	 <p><i>As per current charging arrangements</i></p>
		<ul style="list-style-type: none"> <li>Weight capping for large aircraft</li> <li>Average MTOW of aircraft if &gt;15.1t</li> <li>Call-out charge for non-aviation false alarms</li> </ul>
General Aviation	<ul style="list-style-type: none"> <li>Charges under standard contract or light aircraft option (LAO)</li> </ul>	<ul style="list-style-type: none"> <li>Cessation of LAO</li> <li>Simplification of charging</li> <li>Free access for low volume general aviation users</li> <li>Fixed price option available</li> </ul>

## Risk Sharing

Risk sharing arrangements have been an important feature of the current long term pricing agreement. Stronger than predicted levels of growth will see Airservices return on average, \$18 million to customers each year by the time new prices are established in mid 2011. Whilst a long term pricing agreement provides price certainty, risk sharing has been important in mitigating some of the risk inherent in accurately estimating costs and flight activity volumes over longer periods.

In accordance with the current agreement it is proposed that risk continue to be shared. This will occur across three pricing elements as follows:

### Flight Activity Volumes

The flight activity volumes that underpin the recovery of service costs under this proposal have been projected to grow at three to five percent per annum. Where flight volumes grow at a rate significantly different to this there is a risk of excessive over or under recoveries. To mitigate this risk, it is proposed that surpluses and deficits greater or less than five per cent of the proposed revenues will trigger a risk sharing event.

Revenues (\$mil)	2012	2013	2014	2015	2016
- 5% risk threshold	833	876	925	974	1,014
Revenue	877	922	973	1,025	1,068
+ 5% risk threshold	921	968	1,022	1,077	1,121

Note: revenue targets and thresholds for risk sharing are subject to adjustment, pending the outcome of the final ACCC pricing decision.

Airservices noted the ACCC request to review options to improve the sharing of activity volume risk at individual airports. Consultation on this issue was held through one-on-one meetings, the Pricing Consultative Committee meetings and the 2008 discussion paper.

These discussions identified that while there was support for adjusting for high growth, there was no support for increasing prices if the activity fell significantly below forecast. This position was noted under both a general industry wide agreement or, as an alternative, under a bilateral agreement with an individual airport. As a consequence, no viable alternative to the existing arrangement has been identified.

### Capital Expenditure

As well as recovering operating costs, charges help fund capital investment. With this there is an undertaking that funding levels for capital investment will be utilised appropriately. To manage this undertaking, risk sharing also covers capital investment levels.

In accordance with the current price agreement, a risk sharing event will be triggered where shortfalls in capital expenditure are either less than 50 per cent of agreed expenditure in a single year, or less than 25 per cent of agreed expenditure on a cumulative basis.

Capital Expenditure (\$mil)	2012	2013	2014	2015	2016
Annual CAPEX Plan	228	188	165	213	206
50% Annual risk threshold	114	94	83	106	103
Cum CAPEX Plan	228	416	581	794	1,000
25% Cum risk threshold	n/a	312	436	596	750

Note: capital expenditure targets and thresholds for risk sharing are subject to adjustment, pending the outcome of the final ACCC pricing decision.

### Regulatory Change

To promote service productivity and efficiency there is no risk sharing to mitigate risks associated with changes in operating costs under the LTPA. However, where changes in costs are associated with regulatory change, and outside Airservices control, the LTPA provides that risk will be shared.

Under the current agreement costs incorporated into the ARFF charge for forecast regulatory changes were subject to this risk sharing provision. Where these regulatory changes did not eventuate and costs were not incurred, funds were returned to industry.

Under this pricing proposal costs have been included for regulatory change, relating to two new ARFF service locations and category 10 service upgrades at ARFF Perth. Costs have also been included for proposed ATC tower service upgrades at 11 regional ports. As with the current LTPA where projected regulatory changes do not occur or are delayed, cost savings will be returned to industry through annual risk sharing rebate arrangements.

### *New Services*

Any new services that arise which have not been included in this proposal will have a three month grace period, from the services commencement date before charging begins.

Prices for new services will then be reviewed after 12 months to determine whether there has been a significant change in flight activity volumes. If activity levels have varied by more than five per cent from the initial forecast, then after adjusting for demonstrated demand driven cost changes, prices will be varied accordingly.

## **Services Charter**

### *Measuring and Monitoring Performance*

Airservices has been developing a Services Charter over the last 18 months to improve the measurement and monitoring of its performance.

In determining how its services are provided, Airservices is guided by International Civil Aviation Organisation's (ICAO) key result areas: safety, access and equity, capacity, cost-effectiveness, efficiency, environment, flexibility, global interoperability, participation, predictability and security.

Through its Services Charter, Airservices is seeking to engage stakeholders in a common understanding and agreement of current and future service delivery requirements. To this end, the Charter was developed through consultation with key stakeholders in the Pricing Consultative Committee, including a number of operational performance workshops.

The Charter also aligns with Airservices Just Culture where the information is being provided openly and honestly to the aviation industry with the objective of improving service performance for the industry as a whole.

It sets out a Schedule of Services and Facilities, provides a Quality of Service Framework, establishes Performance Measurement metrics and identifies how Airservices will be reporting performance outcomes.

It was implemented on 1 July 2010 as a work in progress and will be reviewed annually as more data becomes available and there is a better

understanding of the connection between performance measures and actual service quality.

Further details on Charter performance measurement metrics is provided at Appendix 3. A copy of the Services Charter is also available on Airservices website, [www.airservicesaustralia.com](http://www.airservicesaustralia.com).

## Proposed Prices

Current	Service Price (inc GST)	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Enroute</b>						
\$4.18	20 tonnes or more	\$4.18	\$4.18	\$4.18	\$4.18	\$4.18
\$0.93	Up to 20 tonnes	\$0.93	\$0.93	\$0.93	\$0.93	\$0.93

Current	Service Price (inc GST)	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Terminal Navigation</b>						
\$11.43	Adelaide	\$11.66	\$11.83	\$11.95	\$12.07	\$12.07
\$5.83	Brisbane	\$6.15	\$6.21	\$6.27	\$6.34	\$6.34
\$10.95	Cairns	\$11.55	\$11.96	\$12.38	\$12.81	\$13.26
\$12.66	Canberra	\$12.53	\$12.41	\$12.28	\$12.16	\$12.16
\$10.82	Gold Coast	\$10.28	\$10.07	\$9.92	\$9.82	\$9.72
\$5.06	Melbourne	\$5.34	\$5.53	\$5.66	\$5.66	\$5.66
\$8.63	Perth	\$8.20	\$8.03	\$7.91	\$7.83	\$7.76
\$5.57	Sydney	\$5.60	\$5.62	\$5.64	\$5.66	\$5.68
\$12.69	Albury	\$13.39	\$13.86	\$14.34	\$14.84	\$15.36
\$12.69	Alice springs	\$13.39	\$13.86	\$14.34	\$14.84	\$15.36
\$5.49	Avalon	\$4.70	\$4.86	\$5.03	\$5.21	\$5.39
\$12.69	Broome	\$13.39	\$13.86	\$14.34	\$14.84	\$15.36
\$12.69	Coffs Harbour	\$13.39	\$13.86	\$14.34	\$14.84	\$15.36
\$9.20	Hamilton Island	\$9.71	\$10.05	\$10.40	\$10.76	\$11.14
\$9.54	Hobart	\$10.06	\$10.42	\$10.78	\$11.16	\$11.55
\$12.69	Karratha	\$13.39	\$13.86	\$14.34	\$14.84	\$15.36
\$12.22	Launceston	\$12.89	\$13.34	\$13.81	\$14.29	\$14.79
\$12.69	Mackay	\$12.56	\$12.44	\$12.44	\$12.44	\$12.44
\$12.69	Rockhampton	\$13.39	\$13.86	\$13.86	\$13.86	\$13.86
\$12.69	Sunshine Coast	\$13.39	\$13.86	\$14.34	\$14.84	\$15.36
\$12.69	Tamworth	\$13.39	\$13.86	\$14.34	\$14.84	\$15.36
\$12.69	Archerfield	\$13.39	\$13.86	\$14.34	\$14.84	\$15.36
\$12.69	Bankstown	\$13.39	\$13.86	\$14.34	\$14.84	\$15.36
\$12.69	Camden	\$13.39	\$13.86	\$14.34	\$14.84	\$15.36
\$12.69	Essendon	\$13.39	\$13.86	\$14.34	\$14.84	\$15.36
\$12.69	Jandakot	\$13.39	\$13.86	\$14.34	\$14.84	\$15.36
\$12.69	Moorabbin	\$13.39	\$13.86	\$14.34	\$14.84	\$15.36
\$12.69	Parafield	\$13.39	\$13.86	\$14.34	\$14.84	\$15.36
\$2.26	Darwin	\$2.15	\$2.11	\$2.07	\$2.05	\$2.03
\$2.94	Townsville	\$2.79	\$2.74	\$2.69	\$2.67	\$2.64

### Charging Formula for Enroute Services:

For IFR aircraft with an MTOW of 20 tonnes or more:  $price \times \frac{distance}{100} \times \sqrt{MTOW}$

For IFR aircraft with an MTOW up to 20 tonnes:  $price \times \frac{distance}{100} \times MTOW$

### Charging Formula for Terminal Navigation Services:

For all aircraft:  $price_{Location} \times MTOW$

Current	Service Price (inc GST)	2011-12	2012-13	2013-14	2014-15	2015-16
<b>Aviation Rescue &amp; Fire Fighting</b>						
<b>Category 6 Aircraft &amp; below</b>						
\$1.81	Brisbane	\$1.99	\$2.19	\$2.30	\$2.41	\$2.45
\$1.81	Melbourne	\$1.99	\$2.19	\$2.30	\$2.41	\$2.45
\$1.81	Sydney	\$1.99	\$2.19	\$2.30	\$2.41	\$2.45
\$1.81	Perth	\$1.99	\$2.19	\$2.30	\$2.41	\$2.45
\$1.81	Adelaide	\$1.99	\$2.19	\$2.30	\$2.41	\$2.45
\$1.81	Cairns	\$1.99	\$2.19	\$2.30	\$2.41	\$2.45
\$1.81	Darwin	\$1.99	\$2.19	\$2.30	\$2.41	\$2.45
\$1.81	Gold Coast	\$1.99	\$2.19	\$2.30	\$2.41	\$2.45
\$1.81	Canberra	\$1.99	\$2.19	\$2.30	\$2.41	\$2.45
\$1.81	Hobart	\$1.99	\$2.19	\$2.30	\$2.41	\$2.45
\$1.81	Karratha	\$1.99	\$2.19	\$2.30	\$2.41	\$2.45
\$1.81	Townsville	\$1.99	\$2.19	\$2.30	\$2.41	\$2.45
\$1.81	Alice Springs	\$1.99	\$2.19	\$2.30	\$2.41	\$2.45
\$1.81	Avalon	\$1.99	\$2.19	\$2.30	\$2.41	\$2.45
\$1.81	Ayers Rock	\$1.99	\$2.19	\$2.30	\$2.41	\$2.45
\$1.81	Broome	\$1.99	\$2.19	\$2.30	\$2.41	\$2.45
\$1.81	Hamilton Island	\$1.99	\$2.19	\$2.30	\$2.41	\$2.45
\$1.81	Launceston	\$1.99	\$2.19	\$2.30	\$2.41	\$2.45
\$1.81	Mackay	\$1.99	\$2.19	\$2.30	\$2.41	\$2.45
\$1.81	Rockhampton	\$1.99	\$2.19	\$2.30	\$2.41	\$2.45
\$1.81	Sunshine Coast	\$1.99	\$2.19	\$2.30	\$2.41	\$2.45
<b>Category 7 Aircraft</b>						
\$1.93	Brisbane	\$2.22	\$2.55	\$2.81	\$2.81	\$2.81
\$1.89	Melbourne	\$2.17	\$2.50	\$2.75	\$2.75	\$2.75
\$1.86	Sydney	\$2.14	\$2.46	\$2.71	\$2.71	\$2.71
\$2.01	Perth	\$2.31	\$2.66	\$2.92	\$2.92	\$2.92
\$2.33	Adelaide	\$2.68	\$2.95	\$3.09	\$3.25	\$3.25
\$2.29	Cairns	\$2.63	\$3.03	\$3.18	\$3.34	\$3.51
\$3.39	Darwin	\$3.90	\$4.48	\$4.93	\$5.18	\$5.44
\$4.01	Gold Coast	\$4.21	\$4.21	\$4.21	\$4.21	\$4.21
\$7.91	Canberra	\$8.31	\$8.47	\$8.47	\$8.47	\$8.47
\$6.73	Hobart	\$7.74	\$8.13	\$8.53	\$8.53	\$8.53
\$7.40	Karratha	\$7.40	\$7.40	\$7.40	\$7.40	\$7.40
\$8.47	Townsville	\$9.74	\$11.20	\$12.32	\$12.94	\$13.58
<b>Category 8 Aircraft</b>						
\$2.62	Brisbane	\$3.01	\$3.46	\$3.81	\$3.81	\$3.81
\$2.29	Melbourne	\$2.63	\$3.03	\$3.33	\$3.33	\$3.33
\$2.08	Sydney	\$2.39	\$2.75	\$3.03	\$3.03	\$3.03
\$3.01	Perth	\$3.46	\$3.98	\$4.38	\$4.38	\$4.38
\$9.12	Adelaide	\$7.75	\$6.98	\$6.63	\$6.30	\$5.98
\$4.76	Cairns	\$5.47	\$6.30	\$6.92	\$7.62	\$8.00
\$16.06	Darwin	\$18.47	\$19.39	\$20.36	\$20.36	\$20.36
\$4.01	Gold Coast	\$4.61	\$5.30	\$5.83	\$6.42	\$6.74
<b>Category 9 &amp; 10 Aircraft</b>						
\$3.70	Brisbane	\$4.26	\$4.89	\$5.38	\$5.92	\$6.22
\$3.03	Melbourne	\$3.48	\$4.01	\$4.41	\$4.85	\$5.09
\$2.45	Sydney	\$2.82	\$3.24	\$3.56	\$3.92	\$4.12
\$5.08	Perth	\$5.84	\$6.72	\$7.39	\$8.13	\$8.54

ARFF Call-out charges are set out on page 29.

#### Charging Formula for ARFF Services:

For all aircraft >15.1 tonnes and target aircraft between 5.7 and 15.1 tonnes

$$price_{Category\ Location} \times MTOW$$



## IMPLEMENTATION & CONSULTATION

### Implementation Timeline

The proposed implementation date for the new pricing agreement is 1 July 2011.

Over the next seven months, there are a number of consultation and review points that will be undertaken by both Airservices and the ACCC. The final dates for these review points will be dependent on the outcomes of Airservices consultation and the ACCC's assessment of the relevant issues. As a guide the schedule below sets out the indicative timelines which will be progressively updated through the review process.

#### Pricing Development Process – Indicative Timeline

Date	Process
24 Jan 11	Consultation on Draft Pricing Proposal concludes
04 Feb 11	Airservices submits a Draft Price Notification to the ACCC
Early Feb 11	ACCC releases its Issues Paper outlining relevant issues and seeking comment
Late Mar 11	ACCC Consultation Finalised
Late Apr 11	The ACCC publishes its Preliminary View on the Draft Price Notification
Mid May 11	Interested parties submit responses to the ACCC's Preliminary View
31 May 11	Airservices submits its Formal Price Notification
Early Jun 11	The ACCC makes its Final Decision
01 Jul 11	New prices commence

### Public Meeting Program

Airservices will be undertaking a public meeting program for interested stakeholders in January 2011 at the locations listed in the table below. The specific dates, times and locations will be published on Airservices website on the 14<sup>th</sup> of December 2010.

Location	Location
Adelaide	Perth
Brisbane	Rockhampton
Cairns	Sydney
Hobart	Tamworth
Melbourne	

### Website

Information relating to previous discussion papers and reviews, including industry responses can be found on our website at:

<http://www.airservicesaustralia.com/pricingproposal/>

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## PRICING PRINCIPLES

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### Principles for Determining Prices

Price setting by Airservices is subject to review by the Australian Competition and Consumer Commission (ACCC).

The ACCC assesses prices based on principles of economic efficiency. This takes into consideration:

- productive efficiency, which occurs when firms produce goods or services at least cost;
- allocative efficiency, which occurs when resources are used in areas where they provide the greatest value to society as a whole; and
- dynamic efficiency, which occurs when firms have appropriate incentives to invest, innovate and improve quality or reduce costs over time.

For Airservices the price setting challenge is to provide economically efficient prices that enable the cost of air navigation and ARFF services to be recovered, while minimising undesirable distortions to airport usage. The ACCC has similarly acknowledged Airservices “need to achieve cost recovery while minimising the attendant distortion to allocative efficiency.”

Using these parameters and considering discussions with customers and stakeholders Airservices applies the following criteria in determining prices:

- Prices should encourage economically efficient resource allocation and, as such, should have a strong relationship to the cost and investment decisions in providing services;
- Prices should be equitable; and
- Prices should be simple and transparent and facilitate planning by end users.

### ACCC Building Block Overview

The ACCC assesses Airservices price notifications using a cost-based ‘building block’ approach<sup>1</sup>, with a specific focus on the efficiency of the cost base and the reasonableness of the rate of return being sought.

The ‘building block model’ is then based on the amount of revenue required to cover the costs of an efficient service. Under this model ‘allowable revenue’ is the sum of return on capital (assets), depreciation of assets, operating expenditure and an allowance for tax.

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<sup>1</sup> See ACCC *Statement of regulatory approach to assessing price notifications June 2009* for more details: <http://www.accc.gov.au/content/index.phtml/itemId/700599>

From this allowable revenue, individual prices for services are determined using cost attribution, activity forecasts and transitional pricing paths.

Where revenues are derived from other sources, a dual-till approach is adopted and the ACCC considers whether common costs have been appropriately allocated to these sources and excluded from the building block model.

In relation to the structure of relative prices for individual services, the ACCC considers it will generally be appropriate to set these prices to broadly reflect their relative costs as a means of encouraging efficient resource allocation decisions.

In assessing these costs, the ACCC also considers it important that fixed and common costs are allocated in a reasonable and transparent manner, and takes into account demand sensitivities associated with the services provided.

This methodology is applied by the ACCC as part of its regulatory decision making across a number of industries, including pricing for airports, postal services and energy utilities.

## Pricing Period

Prices under this proposal will be set for the five year period 1 July 2011 to 30 June 2016. This is consistent with the ACCC's previously stated preference for longer term pricing arrangements to provide the industry with price certainty over a reasonable period of time.

Where the previous pricing agreement started and ended on a calendar year basis the new agreement will be aligned to financial years beginning in July and ending in June.

## Estimated Allowable Revenues

Proposed prices are derived from Airservices assessment of allowable revenues as calculated under the ACCC building block model and are set out in the following table:

Service Costs (\$mil)	2012	2013	2014	2015	2016
Operating Costs	770	820	862	901	938
Return on Assets	88	99	104	109	115
Tax Allowance	10	11	12	12	13
<b>Maximum Allowable Revenue</b>	<b>869</b>	<b>930</b>	<b>978</b>	<b>1,023</b>	<b>1,067</b>

## Operating Costs

Forecast operating costs have been estimated to reflect the required terminal navigation, enroute and ARFF services over the next five years.

To calculate these costs Airservices maintains dual-till accounting processes, segregating the regulated service costs from costs and risks associated with commercial activities that are not declared under the Trade Practices Act. All costs have been separated out on the basis of their fully allocated cost.

The five year cost projections have been based on Airservices 2010 – 2015 Corporate Plan with additional projections incorporated to estimate costs for 2016.

The projected costs are set out in the following table:

Service Costs (\$mil)	2012	2013	2014	2015	2016
Staff Costs	517	537	563	588	607
Supplier Costs	161	168	171	175	187
Staff & Supplier Costs	678	705	735	764	794
Depreciation	92	115	128	138	144
<b>Total Operating Costs</b>	<b>770</b>	<b>820</b>	<b>862</b>	<b>901</b>	<b>938</b>
<i>Staff &amp; Supplier Cost Growth</i>		4.0%	4.2%	4.0%	4.0%
<i>Total Cost Growth</i>		6.4%	5.1%	4.5%	4.1%

### Changes in cost base

Since the formulation of the 2005 LTPA the underlying cost base of the business has changed. Over this period five new ARFF and ATC services have been introduced, regulatory changes have increased ATC service requirements at General Aviation Aerodrome Procedures (GAAP) aerodromes and investment has grown to support industry expansion and key infrastructure renewals.

Under this proposal, further underlying cost base changes are projected over the next five years:

- New terminal navigation services are planned at Broome and Karratha
- New ARFF services are planned with traffic growth at regional locations such as Ballina, Coffs Harbour or Port Hedland likely to push through establishment thresholds.
- ARFF service category 10 upgrades have been planned for Brisbane and Perth.
- Investment growth will continue to impact depreciation
- Further regulatory changes are planned including the provision of approach services into current Class D regional tower locations and the conversion of GAAP aerodrome services to Class D towers.

## Efficiency

Airservices number one priority is safety. This is evident from Airservices enviable safety record and international comparisons of safety performance which put the organisation in the category of world-leading air navigation service providers (ANSP's). An indicator of safety performance is the number of incidents of breakdowns in separation standards per 100,000 flight hours or 100,000 movements:

Air Traffic Services (ATS) attributed breakdown of separation standards

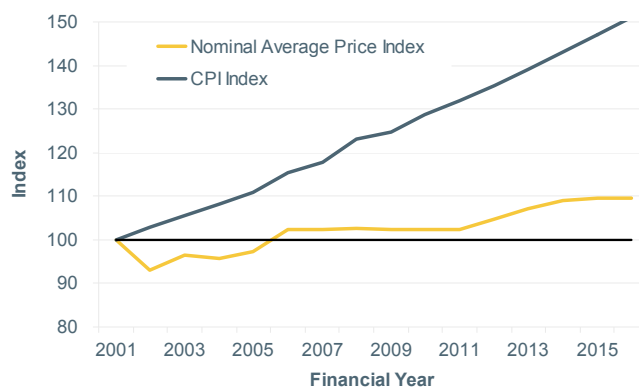
	2007	2008	2009	2010
Enroute	1.02	1.05	1.31	0.60
Terminal	1.46	1.31	0.92	1.03
Tower	1.07	0.98	0.90	0.55

Rate per 100,000 flight hours or movements

Airservices is also committed to improving efficiency and service delivery. This is challenging in a highly regulated environment and where the expansion of the industry with increasing volumes and customer diversity, must also consider impacts on the environment from emissions and noise.

However, through continuous business improvement and efficiency initiatives is now managing more traffic and we have improving our cost effectiveness, as ultimately measured by price, delivering real price reductions of 40 per cent since 2001.

### Nominal Average Price Change 2001 - 2016



## Asset Values, Capital Expenditure and Depreciation

Asset values projected over the next five years take into account existing assets and new assets commissioned through the capital expenditure program. Airservices has developed the following approach to ensure that the treatment of asset values is consistent with the Government's requirements of price monitored airports.

- Existing Assets - valuations and lives have been either based on the valuations as determined in the 2004 LTPA pricing decision, or at cost, where they have been commissioned since the commencement of the 2005 LTPA.

This discounts any asset revaluations that have been recognised as part of normal statutory financial reporting as a result of indexation or re-lifing.

- New Assets - include upgrades, replacements, and new technology, as included in the capital expenditure program to 2015-16. New asset values take into account the timing and amount of investment and expected commissioning dates.

Depreciation is based on the estimated useful life of existing and new assets acquired through the capital expenditure program.

The following tables set out the asset values by year:

Asset Values (\$mil)	2012	2013	2014	2015	2016
Opening Asset Bal	866	1,001	1,074	1,112	1,187
CAPEX	227	188	165	213	205
Depreciation	92	115	128	138	144
Closing Asset Bal	1,001	1,074	1,112	1,187	1,248

### *Changes in asset base*

Over the last five years the majority of investment has targeted asset renewals. This has addressed a large part of Airservices asset base which was approaching end of life.

In addition to renewing Airservices asset base the organisation has invested in some key infrastructure upgrades which include improvements to the air traffic management system, the rationalisation and digitisation of the telecommunications infrastructure and the introduction of satellite based technologies to improve surveillance and navigation. This has improved surveillance, introduced user preferred routes and consequently yielded improved aircraft operation efficiency.

### Return on Capital (WACC)

In addition to the recovery of operating costs and depreciation, the ACCC's building block model provides for a return on capital. This provides a return to equity and debt holders for the opportunity cost of capital invested in the business.

It is calculated by applying the weighted average cost of capital (WACC) to the average written down value of assets.

Whilst some market rates may be subject to re-assessment at the time of the final price notification a WACC of 9.42 per cent has been used in the formulation of the prices in this proposal.

This estimation takes the previous ACCC decision and updates it with the prevailing market Government Bond rates and debt margins.

**WACC Parameters**

Measure	Proposed	2004 ACCC Decision
Nominal Risk Free Rate	5.08%	5.41%
Debt Margin	2.30%	0.55%
Market Risk Premium	6.00%	6.00%
Corporate Tax Rate	30.00%	30.00%
Dividend Imputation	50%	50%
Gearing	45.00%	45.00%
Debt Beta	0.00	0.00
Asset Beta	0.55	0.55
Equity Beta	1.00	1.00
<b>WACC Analysis</b>		
Cost of Debt	<b>7.38%</b>	<b>5.96%</b>
Cost of Equity (post tax nom)	<b>11.08%</b>	<b>11.39%</b>
<b>Nominal Vanilla WACC</b>	<b>9.42%</b>	<b>8.95%</b>

Measures for the market risk premium of 6.0 per cent and an asset beta of 0.55 are consistent with the 2004 LTPA ACCC decision. The risk free rate applies a current 10 year government bond rate of 5.08 per cent. This is a reduction of 0.33 per cent from the rate used in the 2004 decision of 5.41 per cent.

The debt margin is based on a AA stand-alone credit rating. This compares to recent regulatory decisions which have assumed BBB+ standalone ratings. The rate applied of 2.30 per cent is an increase of 1.75 per cent from the 2004 decision of 0.55 per cent. This movement largely reflects the impacts of the global financial crisis. For reference if a BBB+ standalone credit rating was applied the debt margin would be closer to 4.25 percent.

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## DETERMINING PRICES

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Based on the Building Block elements set out above, prices on a service and location are based on:

- cost attributions to those locations;
- the forecast activity levels; and
- transitional price caps where larger price increases would be dislocating for the industry.

### Cost Attribution

#### *Inventorying Facilities & Services Costs*

Airservices applies an activity based approach in determining the cost of each service at each location. This methodology provides for location specific pricing, underpinning the principle of 'user pays' and supports efficient resource allocation, particularly around capital investment decision making.

In order to appropriately allocate costs an inventory of services and key cost statistics was undertaken. These cost statistics have then been used as the basis for allocating costs and asset values to service lines to the following broad functions:

- Direct operational functions; and
- Non-operational functions.

Direct operational functions are attributed to services using location and service specific key cost statistics. These include direct ATC and ARFF service costs and asset costs.

Non-operational functions are attributed to services at an aggregated level using broad attribution statistics. These include operational support and safety, environment and corporate management costs.

#### *Standard Costing*

To maintain equity across 'like' services, standard costings have been applied. This approach provides for the standardisation of costs for similar cost inputs, smoothing any cost anomalies that are not location driven, and providing a cost base that better reflects the level of service and types of assets employed at the particular location.

This means that inputs such as staff and assets, providing the same functionality, have been costed to services at the same rate, for example a standard salary cost for an air traffic controller and a standard asset value and depreciation cost per facility type. This contrasts to actual costs where air traffic controller salaries will vary from location to location based on length of tenure and asset costs which vary based on the timing of the replacement program which may roll out over a number of years.



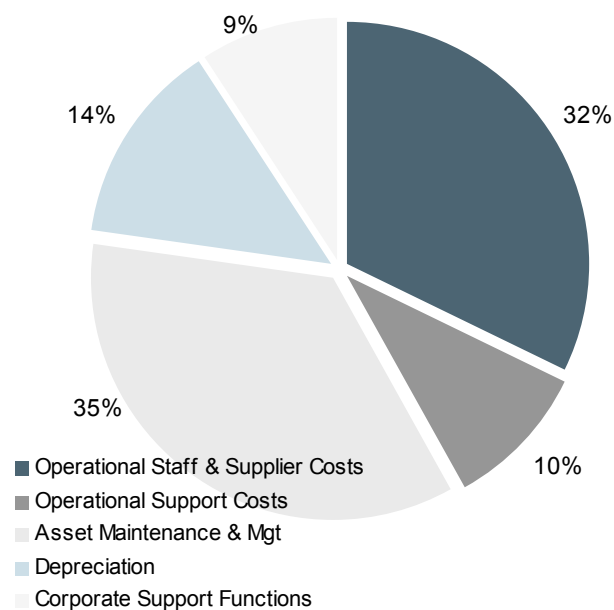
### Attributing Costs to Locations

Service costs have been broadly categorised as:

- Location specific (i.e. operational staff, supplier costs, asset maintenance, depreciation and management costs consumed at a location)
- Non-location specific (i.e. operational support costs, corporate support functions, asset maintenance, depreciation and management costs attributed to a location but not consumed at a location.)

The costs at a location comprise both the location specific and non-location specific costs that are attributed to a location's cost base by a range of different allocation methods. The main cost components and how they are allocated are discussed below.

### Composition of Service Costs



### Operational Staff and Supplier Costs

Service line (ATC, ARFF and Enroute) location costs are operational staff and supplier costs relating to air traffic controllers and firefighters that are incurred at a location. These costs are attributed to service locations based on staff numbers and the standard staffing and supplier costs relating to the different categories of ATC or firefighter.

For each category there are different salary and associated cost structures. A standard cost is then attributed to a location based on the number of staff in each of the categories that are working at that location.

## **Operational Support Costs**

Operational support costs are specialist support costs which are service specific, but do not directly relate to the provision of ATC or ARFF services at a specific location, or airspace sector. These costs include such things as operational training, safety compliance and standardisation as well as some network management services such as aeronautical charting, flight information services and the National Operations Centre.

These costs are allocated to service locations in proportion to the locations share of location specific costs.

## **Asset Maintenance and Management Costs**

Asset costs include Airservices technical maintenance staff costs, third party support contracts, asset support services, non-capital expenses relating to asset renewals and upgrades and property services such as rents, utilities and security. They also include return on assets.

They comprise both location and non-location specific Asset Maintenance and Management costs, with the majority relating to location based operational assets and equipment.

Location specific Asset Maintenance and Management costs reflect the costs of assets that are typically involved in the provision of ATC and ARFF services at a location. These include airways technical equipment and infrastructure (e.g. radars, navigation aids, towers, operational software and communication equipment) and rescue and fire fighting equipment and infrastructure (e.g. fire vehicles, water rescue equipment, alarm monitoring equipment, fire stations and communications equipment).

These location specific based costs are standardised so that the cost of a similar piece of equipment is the same across all locations and is attributed to each service based on the number of units installed at that location. Standard costs take into account asset type as well as the level of service the asset supports.

Non-location specific Asset Maintenance and Management costs relate to assets that are not involved in the provision of a specific ATC or ARFF service, or are not service specific (e.g. Safety Management Reporting Systems). These assets are more network in nature and the costs for these assets are allocated to service locations in two steps. Firstly, to services based on their proportional share of total location costs, then secondly, to individual service locations based on overall demand (i.e. the chargeable units underpinning the service such as tonnes landed).

## **Depreciation**

Depreciation costs are allocated in the same way as Asset Maintenance and Management costs. Location specific depreciation costs are attributed on a standard cost basis to a location. Non-location specific depreciation costs are attributed applying the same two step process as that used for non-location specific Asset Maintenance and Management costs.

## Corporate Support Functions

Non-location specific service costs include functions such as safety, environmental monitoring, human resources, finance and administrative support.

These costs have been allocated to service locations in two steps. Firstly, to services based on their proportional share of location costs, then secondly, to individual service locations based on overall demand (i.e. the chargeable units underpinning the service such as tonnes landed).

## Flight Activity Volume Forecasts

Airservices engaged IATA Consulting to undertake a forecast of flight activity over the next five years as the basis for this proposal.

Their approach was to analyse the interaction between the prospects for future demand by the customers of domestic and international air transport services on the one hand, and the supply of these services by the airlines on the other. The forecasts of aviation activity that result from this analysis are set out in Appendix 1.

These demand forecasts for air travel are dependent on factors such as income levels and airfares. At a global level, income is represented by Gross Domestic Product (GDP) — for Australia and for the world. Trends in these measures have a powerful effect on demand. Regression analysis of the impact of GDP and airfares on traffic demand was undertaken for most of the markets.

The estimated relationships, together with assumptions about the future development of the causal factors, were used as a basis for forecasting passenger numbers.

Assumptions about airline pricing and aircraft deployment strategies to meet future customer demand were then incorporated into the forecasts. This process took into account the aircraft types in the existing airline fleets, the numbers and types of aircraft on order and the flexibility of the airlines to adjust delivery schedules.

Passenger forecasts were translated into aircraft movement forecasts using assumptions about average load factors and aircraft size. These assumptions were influenced by airline response to developments in passenger demand.

## Transitional Price Capping

Taking into account service costs and flight activity volumes the proposed prices for each location have been established to transition along a path from the current price to a price in 2015/16 that reflects the total allocated cost of the service over time.

At an aggregate level, this rate of transition has been capped at general inflationary levels, while at a service and location level there are some increases that are greater than inflation.

## Weighted Average Price Increases

Service	2011-12	2012-13	2013-14	2014-15	2015-16
Enroute	0.0%	0.0%	0.0%	0.0%	0.0%
Terminal Navigation	2.1%	1.1%	0.9%	0.5%	0.4%
ARFF	9.8%	11.7%	7.8%	4.8%	2.2%
Weighted Average (nominal)	2.1%	2.1%	1.6%	1.0%	0.5%
Weighted Average (real)	(0.6%)	(0.6%)	(1.2%)	(1.7%)	(2.2%)

This pricing proposal was also impacted by whether the actual cost and flight activity volume changes under the 2005 LTPA matched the forecast. For example, in some cases, flight activity volumes exceeded the forecast and as a consequence prices under this proposal will reduce. In other cases, the volumes were lower than the 2005 LTPA forecast and prices will increase.

In capital city basins and some regional locations, price caps have been included for Terminal Navigation services to limit substantial price increases.

Regional location price caps are funded from enroute services.

Capital city basin caps are funded by major city airports in the basin. This acknowledges the fact that the safe and efficient management of traffic at secondary airports located near major airports improves the safety and efficiency of the management of traffic at major airports.

Pricing basins incorporated in the Terminal Navigation pricing framework are as follows:

Airport / Basin	Sydney	Brisbane	Melbourne	Adelaide	Perth
Capital City	Sydney	Brisbane	Melbourne	Adelaide	Perth
Closely located general aviation airport	Bankstown	Archerfield	Essendon	Parafield	Jandakot
Closely located general aviation airport	Camden		Moorabbin		

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## Basis of Charges

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### MTOW (Maximum Take-Off Weight)

Maximum Take-Off Weight (MTOW) will continue to be used as the basis of charges for TN, ARFF and Enroute service charging calculations.

#### *Average MTOW to be applied*

To simplify the determination of MTOW for larger aircraft between different operational configurations of very similar aircraft, an average MTOW will be applied.

This average will only apply to aircraft weighing greater than 15.1 tonnes. The average MTOW will be aircraft type specific (e.g. B747-400). A table of MTOW's applicable for each aircraft type greater than 15.1 tonnes is shown at Appendix 2.

#### *Weight Capping*

To reflect the strong consultation feedback on the need to move away from a pure weight based charge this proposal includes a cap on the maximum weight to be used of 500 tonnes. This is intended to support the operational efficiencies that large aircraft provide with regard to capacity, fuel efficiency and noise. It also recognises international policy which discourages the direct relationship between aircraft weight and charges.

### Charging for General Aviation

To improve efficiency and cost, the structure of charging for General Aviation is to be changed. This addresses the administrative burden of recovering less than 0.02 per cent of revenue from 4,000 low volume users. It applies to any aircraft weighing less than 5.7 tonnes as follows:

- users who incur annual charges of \$500, or less will not be liable for Airservices charges.
- users incurring charges greater than \$500 in value will be liable for the total amount of charges. To pay these charges:
  - users may pay them normally as they are incurred, or
  - users may elect to pay a fixed annual charge based on prior year usage, calculated from April to March which can be paid on an annual or quarterly basis, depending on the value of the fixed charge. Under this option users will receive a 2.5 per cent discount.

Under these new charging arrangements the light aircraft option (LAO) will no longer be available as payment option for General Aviation users.

## ARFF Charges for Non-Airside Call-Outs

ARFF callouts for non-aviation or non-aerodrome fire alarms are increasing. This is particularly true where airport precincts have become a burgeoning area for commercial enterprise.

To the extent that aviation charges are intended to recover the cost of aviation related activities, charging for these services is to be amended such that services for emergency call-outs to non-airside, or non-aerodrome events will attract a call-out fee. This fee will be \$500.

Because of the difficulties in forecasting the demand for non-airside call outs, it is proposed to return to aviation customers who use ARFF services all revenues collected from call-outs to non-airside, or non-aerodrome events. This rebate will be paid on an annual basis.

## Charging for Out-Of-Hours services

For non-24-hour TN and ARFF services 'out of hours' charges will continue to apply where services are required before services commence, or after services close. As per the current agreement operational service times will be based on information as contained in current ERSA's or NOTAM's.

### Call out charges for Terminal Navigation Services

Before or after normal hours	Charge (inc GST)				
	2012	2013	2014	2015	2016
Up to 15 minutes	n/a	n/a	n/a	n/a	n/a
Over 15 up to 60 minutes	\$190	\$196	\$202	\$208	\$214
Each additional hour or part hour	\$190	\$196	\$202	\$208	\$214

### Call out charges for Aviation Rescue & Fire Fighting Services

ARFF Service Category	If only 15 minutes before/ after normal hours	Greater than 15 minutes before/ after normal hours & every 15 minutes thereafter (or part thereof)				
		2012	2013	2014	2015	2016
6	n/a	\$85	\$87	\$90	\$93	\$96
7	n/a	\$103	\$107	\$110	\$113	\$116
8	n/a	\$136	\$140	\$144	\$148	\$153
9/10	n/a	n/a	n/a	n/a	n/a	n/a

ARFF Service Category	Recall of Staff Flat Charge (inc GST)*				
	2012	2013	2014	2015	2016
6	\$1,019	\$1,049	\$1,081	\$1,113	\$1,147
7	\$1,241	\$1,278	\$1,317	\$1,356	\$1,397
8	\$1,631	\$1,679	\$1,730	\$1,782	\$1,835
9/10	n/a**	n/a**	n/a**	n/a**	n/a**

\*Recall of Staff Charges apply only where the timing of the out of hours service requires staff to be called in from home to work.

\*\* These are 24 hour locations.

## IMPACT OF PRICES

### Estimated Impact by Aircraft Type

To understand the impact of the proposed price changes the table below provides a comparison of current services charges to those proposed for selected aircraft operations and routes.

Aircraft & Route		Current Charge			Proposed 2012 Charge			Passenger Impact					
Aircraft Type	From	To	Enroute	Terminal Navigation	ARFF	Total	Enroute	Terminal Navigation	ARFF	Total	Per PAX impact from change in total charge	Ave PAX Fare	% Impact on Ticket Price
AIRBUS A380	SINGAPORE	SYDNEY	3,670	3,169	1,394	8,233	3,450	2,800	1,409	7,659	(\$1.70)	\$737	-0.2%
	DUBAI	SYDNEY	6,708	3,169	1,394	11,271	6,288	2,800	1,409	10,497	(\$2.29)	\$871	-0.3%
	DUBAI	PERTH	4,541	4,910	2,891	12,342	4,257	4,099	2,921	11,277	(\$3.16)	\$742	-0.4%
BOEING B747	SINGAPORE	SYDNEY	3,073	2,210	972	6,255	3,073	2,222	1,118	6,413	\$0.53	\$499	0.1%
	TOKYO	CAIRNS	377	4,301	1,870	6,548	377	4,538	2,150	7,065	\$1.75	\$1,062	0.2%
BOEING B737	MELBOURNE	BRISBANE	424	449	149	1,022	424	474	171	1,069	\$0.40	\$460	0.1%
	BRISBANE	MELBOURNE	424	390	146	960	424	411	167	1,003	\$0.37	\$460	0.1%
	SYDNEY	GOLD COAST	191	843	312	1,347	191	801	328	1,320	(\$0.23)	\$279	-0.1%
	GOLD COAST	SYDNEY	191	435	145	772	191	437	167	796	\$0.21	\$279	0.1%
AIRBUS A320	SYDNEY	GOLD COAST	187	806	135	1,127	187	765	148	1,101	(\$0.20)	\$109	-0.2%
	BRISBANE	CAIRNS	420	816	135	1,371	420	861	148	1,429	\$0.44	\$698	0.1%
	AUCKLAND	CAIRNS	780	835	138	1,752	780	881	152	1,812	\$0.45	\$836	0.1%
	CAIRNS	BRISBANE	420	434	135	989	420	458	148	1,027	\$0.28	\$698	0.0%
SAAB 340	WAGGA	SYDNEY	38	73	24	135	38	74	26	138	\$0.10	\$111	0.1%
	MELBOURNE	ALBURY	18	167	-	185	18	176	-	194	\$0.34	\$143	0.2%
	SYDNEY	COFFS HARBOUR	41	167	-	208	41	176	-	217	\$0.34	\$386	0.1%
	SYDNEY	HOBART	114	125	24	263	114	132	26	272	\$0.34	\$575	0.1%

## Appendix 1 – Activity Forecasts

### *Forecasts in chargeable units for the pricing period*

The following tables have been developed by IATA Consulting showing the activity growth forecasts that underpin this pricing proposal:

#### Major Domestic Enroute Traffic

Year ending 30 June	PAX numbers (mil)		MTOW-Km (mil)	
	Level	Growth	Level	Growth
2007	48.9		31.7	
2008	52.8	8.1%	34.8	9.5%
2009	53.9	2.0%	36.5	5.1%
2010	54.8	1.8%	37.0	1.2%
2011	56.7	3.4%	38.5	4.1%
2012	59.6	5.0%	40.3	4.7%
2013	62.7	5.3%	41.4	2.8%
2014	66.1	5.3%	43.1	4.1%
2015	69.6	5.3%	44.8	3.9%
2016	73.3	5.3%	46.5	3.8%

#### Major International Enroute Traffic

Year ending 30 June	PAX numbers (mil)		MTOW-Km (mil)	
	Level	Growth	Level	Growth
2007	22.1		43.9	
2008	23.3	5.1%	46.9	6.8%
2009	23.5	1.0%	50.4	7.5%
2010	25.5	8.7%	55.1	9.4%
2011	27.0	5.7%	57.0	3.4%
2012	28.6	6.2%	60.1	5.5%
2013	30.3	5.7%	62.7	4.4%
2014	32.0	5.7%	65.1	3.8%
2015	33.9	5.7%	68.3	4.9%
2016	35.8	5.7%	70.6	3.4%

#### 8 Major Airports (aggregated)

Year ending 30 June	PAX numbers (mil)		MTOW (mil)	
	Level	Growth	Level	Growth
2007	47.6	7.2%	35.4	
2008	50.9	6.9%	41.6	17.6%
2009	51.6	1.5%	42.1	1.3%
2010	53.8	4.2%	43.2	2.5%
2011	55.4	3.0%	45.0	4.2%
2012	57.8	4.4%	47.4	5.4%
2013	60.4	4.4%	48.9	3.3%
2014	63.1	4.4%	50.9	4.0%
2015	65.9	4.4%	53.1	4.3%
2016	68.8	4.5%	55.1	3.7%

#### Regional Airports (aggregated)

Year ending 30 June	Total MTOW	
	Level	Growth
2007	3.3	
2008	3.9	18.1%
2009	4.1	5.1%
2010	4.1	0.2%
2011	4.4	7.7%
2012	4.5	1.9%
2013	4.6	3.4%
2014	4.8	3.6%
2015	5.0	3.5%
2016	5.1	3.4%



**Brisbane Airport**

Year ending 30 June	Passengers (mil)		Total MTOW (mil)	
	Level	Growth	Level	Growth
2007	8.7	8.4%	5.8	-5.9%
2008	9.2	5.2%	6.8	16.7%
2009	9.4	2.3%	7.0	3.2%
2010	9.4	-0.1%	6.9	-1.9%
2011	9.7	3.8%	7.2	4.9%
2012	10.2	5.3%	7.7	6.2%
2013	10.8	5.0%	8.0	3.9%
2014	11.3	5.1%	8.3	4.7%
2015	11.9	5.1%	8.8	5.0%
2016	12.5	5.1%	9.1	4.4%

**Melbourne Airport**

Year ending 30 June	Passengers (mil)		Total MTOW (mil)	
	Level	Growth	Level	Growth
2007	11.1	5.5%	8.1	-9.3%
2008	12.0	7.9%	9.6	18.5%
2009	12.3	2.2%	9.7	1.7%
2010	12.9	4.8%	10.1	4.1%
2011	13.3	3.2%	10.6	4.5%
2012	13.9	4.6%	11.2	5.6%
2013	14.5	4.5%	11.6	3.3%
2014	15.2	4.6%	12.0	4.2%
2015	15.9	4.6%	12.6	4.4%
2016	16.6	4.6%	13.1	3.8%

**Perth Airport**

Year ending 30 June	Passengers (mil)		Total MTOW (mil)	
	Level	Growth	Level	Growth
2007	4.0	13.8%	3.3	4.2%
2008	4.5	12.4%	4.0	21.0%
2009	4.7	4.6%	4.3	5.9%
2010	5.0	5.9%	4.5	4.4%
2011	5.1	3.3%	4.6	4.2%
2012	5.4	5.0%	4.9	5.9%
2013	5.7	5.4%	5.1	4.4%
2014	6.0	5.5%	5.4	5.1%
2015	6.3	5.5%	5.7	5.4%
2016	6.7	5.5%	6.0	4.7%

**Sydney Airport**

Year ending 30 June	Passengers (mil)		Total MTOW (mil)	
	Level	Growth	Level	Growth
2007	15.6	7.1%	13.1	-7.5%
2008	16.4	5.5%	15.1	16.0%
2009	16.2	-1.2%	15.0	-1.2%
2010	17.1	5.5%	15.5	3.8%
2011	17.7	3.2%	16.2	4.1%
2012	18.4	4.2%	17.0	5.1%
2013	19.1	3.7%	17.5	2.8%
2014	19.8	3.7%	18.1	3.4%
2015	20.6	3.7%	18.7	3.8%
2016	21.3	3.7%	19.3	3.0%

**Adelaide Airport**

Year ending 30 June	Passengers (mil)		Total MTOW (mil)	
	Level	Growth	Level	Growth
2007	3.1	7.5%	2.0	-3.8%
2008	3.3	7.0%	2.3	16.6%
2009	3.4	2.5%	2.3	0.6%
2010	3.5	2.8%	2.2	-2.3%
2011	3.6	2.4%	2.3	3.8%
2012	3.7	3.6%	2.4	4.7%
2013	3.8	4.0%	2.5	2.6%
2014	4.0	4.1%	2.6	3.8%
2015	4.2	4.1%	2.7	3.7%
2016	4.3	4.1%	2.8	3.4%

**Canberra Airport**

Year ending 30 June	Passengers (mil)		Total MTOW (mil)	
	Level	Growth	Level	Growth
2007	1.3	5.3%	0.8	-4.5%
2008	1.4	6.5%	1.0	22.1%
2009	1.5	7.3%	1.1	14.2%
2010	1.6	6.9%	1.1	-1.0%
2011	1.7	1.8%	1.1	3.2%
2012	1.7	3.1%	1.2	4.0%
2013	1.8	3.8%	1.2	2.3%
2014	1.9	3.9%	1.2	3.6%
2015	1.9	3.9%	1.3	3.5%
2016	2.0	3.9%	1.3	3.3%

**Cairns Airport**

Year ending 30 June	Passengers (mil)		Total MTOW (mil)	
	Level	Growth	Level	Growth
2007	1.9	1.8%	1.4	-11.5%
2008	1.9	-0.2%	1.6	13.5%
2009	1.8	-3.4%	1.4	-10.8%
2010	1.7	-4.4%	1.3	-8.3%
2011	1.8	2.6%	1.4	3.9%
2012	1.9	3.4%	1.4	4.4%
2013	1.9	3.0%	1.4	1.7%
2014	2.0	3.0%	1.5	2.7%
2015	2.0	3.0%	1.5	2.7%
2016	2.1	3.0%	1.6	2.3%

**Gold Coast Airport**

Year ending 30 June	Passengers (mil)		Total MTOW (mil)	
	Level	Growth	Level	Growth
2007	1.9	7.1%	0.9	-10.4%
2008	2.2	14.9%	1.2	27.5%
2009	2.3	6.8%	1.3	12.7%
2010	2.6	12.0%	1.5	14.9%
2011	2.6	-0.3%	1.5	1.1%
2012	2.6	2.0%	1.6	3.1%
2013	2.8	5.6%	1.7	4.2%
2014	2.9	5.8%	1.7	5.5%
2015	3.1	5.8%	1.8	5.6%
2016	3.3	5.8%	1.9	5.1%

## Appendix 2 – Average MTOWs

The following table sets out the proposed average MTOW for aircraft with a MTOW of greater than 15.1 tonnes that will apply under this proposal:

Aircraft Type	Aircraft Description	Maximum Take Off Weight
DHC7	DE HAVILLAND CANADA DASH 7	15.6
DH8A	DE HAVILLAND CANADA CC-142 DASH 8	15.7
AT43	ATR ATR-42-300	16.2
G200	AKROTECH G-200	16.2
C750	CESSNA 750 CITATION 10	16.3
DH8B	DE HAVILLAND CANADA DASH 8 (200)	16.5
HA4T	HAWKER BEECHCRAFT 4000 HAWKER 4000	17.0
CL30	BOMBARDIER BD-100 CHALLENGER 300	17.6
LJ45	LEARJET 45	18.4
AT45	ATR ATR-42-500	18.6
F2TH	DASSAULT FALCON 2000	19.0
DH8C	DE HAVILLAND CANADA DASH 8 (300)	19.5
CL60	CANADAIR C-143 CHALLENGER 604	20.3
CRJX	BOMBARDIER CL-600 REGIONAL JET CRJ-1000	20.4
S64	SIKORSKY CH-54 TARHE	20.5
F27	CONAIR F-27 FIREFIGHTER	20.8
F50	FOKKER 50	20.8
CVLP	CONVAIR C-131	21.4
CVLT	CANADAIR CC-109 COSMOPOLITAN	21.5
E135	EMBRAER EMB-135	22.4
AT72	ATR ATR-72-200	22.8
H47	BOEING CH-47 CHINOOK	23.1
CRJ2	CANADAIR CHALLENGER 800	24.5
F900	DASSAULT FALCON 900	24.7
FA50	DASSAULT FALCON 50	27.6
DH8D	DE HAVILLAND CANADA DASH 8 (400)	28.2
GLF3	GULFSTREAM AEROSPACE C-20A GULFSTREAM 3	31.6
FA7X	DASSAULT FALCON 7X	31.8
GLF4	GULFSTREAM AEROSPACE C-20F GULFSTREAM 4	33.3
P2	LOCKHEED L-426 NEPTUNE	36.3
E170	EMBRAER 170	37.2
B461	BRITISH AEROSPACE BAE-146-100	37.6
RJ70	AI(R) AVROLINER (RJ-70)	40.8
GLF5	GULFSTREAM AEROSPACE C-37 GULFSTREAM 5	41.0
B462	BRITISH AEROSPACE BAE-146-200	42.2
GL5T	BOMBARDIER BD-700 GLOBAL 5000	42.2
F100	FOKKER 100	42.7
GLEX	BOMBARDIER BD-700 GLOBAL EXPRESS	43.5
F28	FOKKER F-28 FELLOWSHIP	43.6
B463	BRITISH AEROSPACE BAE-146-300	44.2
HERN	DE HAVILLAND DH-114 HERON	44.2
RJ1H	AI(R) AVROLINER (RJ-100)	44.3
E190	EMBRAER 190	51.8

Aircraft Type	Aircraft Description	Maximum Take Off Weight
B732	BOEING 737-200	52.6
B712	BOEING 717-200	53.5
C208	CESSNA 208 CARAVAN 1	54.2
CONI	LOCKHEED C-121 CONSTELLATION	59.0
A318	AIRBUS A-318	59.0
B733	BOEING 737-300	62.2
B737	BOEING 737-700	66.9
B734	BOEING 737-400	67.3
MD82	BOEING MD-82	67.3
MD87	BOEING MD-87	67.8
C130	LOCKHEED AC-130 SPECTRE	70.3
A319	AIRBUS A-319	71.3
MD83	BOEING MD-83	72.6
A320	AIRBUS A-320	74.8
B721	BOEING 727-100	76.9
B738	BOEING 737-800	77.8
B722	BOEING 727-200	90.1
A321	AIRBUS A-321	91.9
B752	BOEING 757-200	115.6
B703	BOEING 707-300	149.6
DC87	DOUGLAS DC-8-70	156.0
DC86	DOUGLAS DC-8-60	158.9
B762	BOEING 767-200	167.7
B763	BOEING 767-300	171.5
A333	AIRBUS A-330-300	229.5
A310	AIRBUS A-310	230.4
A332	AIRBUS A-330-200	230.4
DC10	BOEING MD-10	244.7
A342	AIRBUS A-340-200	258.4
A343	AIRBUS A-340-300	274.2
MD11	BOEING MD-11	281.8
B772	BOEING 777-200	285.6
B773	BOEING 777-300	297.3
B743	BOEING 747-300	325.5
B77L	BOEING 777-200LR	345.2
B77W	BOEING 777-300ER	349.7
A345	AIRBUS A-340-500	371.2
A346	AIRBUS A-340-600	372.3
B742	BOEING 747-200	372.9
A124	ANTONOV AN-124 RUSLAN	392.0
B744	BOEING 747-400 (INTERNATIONAL, WINGLETS)	398.2
A388	AIRBUS A-380-800	500.0

Note: weight cap of 500 tonnes has been applied in the list above.

## Appendix 3 – Services Charter Performance Measurement Metrics

### ATM performance indicators

Key performance indicator	Methodology	Target
		Jul 10 – Jun 11
<b>Safety</b>		
ATS attributed en route BoS rate	ATS attributed number of en route breakdowns of separation (BoS) per 100,000 flight hours (12-month moving average)	<1.25
ATS attributed terminal area (TMA) BoS rate	ATS attributed number of terminal area breakdowns of separation per 100,000 movements (12-month moving average)	<1.5
ATS attributed tower BoS rate	ATS attributed number of tower breakdowns of separation per 100,000 movements (12-month moving average)	<1.5
ATS attributed runway incursions	Number of ICAO Class A or B Airservices ATS attributable runway incursions	<3
<b>Cost-effectiveness</b>		
ATS attributable flight delays (total)	Number of total ATS attributable flight delay events (where delay is greater than 10 min) per quarter for:  whole of system Sydney Melbourne Brisbane Perth	<7  <i>Current trends will be reported and analysed to establish a target for these KPIs over the next 12 months</i>
ATS induced delay (average minutes of delay per flight)	<i>Under development</i> The collection and categorisation of delay information does not currently support routine reporting. The parties will review systems, data exchange and resource requirements to establish a routine KPI for delay measurement.	
<b>Capacity</b>		
Air navigation services availability	Hours of service availability (normal operations, not restricted access such as non provision of notified service) as a % of total hours of coverage for:  whole of system East Coast Services Regional Services Upper Airspace Services	99.9% 99.9% 99.9% 99.9%
% of declared runway capacity achieved	% of declared peak runway capacity achieved when demand is greater than runway capacity for:  Sydney Melbourne Brisbane Perth	<i>Current trends will be reported and analysed to establish a target for these KPIs over the next 12 months</i>

Capacity improvement	% improvement of maximum hourly theoretical airport capacity. Improvement in airport capacity through new initiatives (eg reduced separation and wake standard procedures, ACE, high speed taxi ways, CAT III etc)	Industry target 10%
Mean time between outages	Mean time between outages for: radar ILS AGA VHF	>9000 hrs >1000 hrs >9000 hrs
<b>Flight efficiency/environment noise</b>		
Noise complaints	Number of annual complainants per 100,000 movements	2% reduction
Consultation on noise issues	Number of procedural changes implemented without consultation in accordance with Airservices Communication and Consultation Protocol	0  (excluding those implemented to address immediate safety issues)
Noise abatement* (note: an allowance has been made in the target against 100% compliance for uncontrollable events such as weather.)	Adherence to noise abatement procedures at all controlled aerodromes	90% compliance
NEU response time	Noise Enquiry Unit compliance to prescribed response times for complaints and enquiries	95% compliance
<b>Flight efficiency/emissions</b>		
ALOFT delay absorption	Average delay issued compared to delay absorbed per aircraft for Sydney	<i>Current trends will be reported and analysed to establish a target for these KPIs over the next 12 months</i>
CO <sub>2</sub> emissions*	Annual improvement in overall fuel efficiency	2% reduction (industry target)
Aircraft holding*	Percentage reduction in total airborne holding delay  Percentage of airborne holding compared to ground holding	10% reduction  <i>Current trends will be reported and analysed to establish a target for these KPIs over the next 12 months</i>
Continuous descent arrival*	Percentage of Required Navigation Performance (RNP) approaches provided for RNP capable flights at those aerodromes where RNP has been implemented after community consultation in accordance with Airservices Communication and Consultation Protocol	55% provision
Operational architecture - design efficiencies	Average % reduction in track miles per new procedure  % reduction in track miles nationally	5% reduction  2% reduction
Flexible routes*	Percentage of flexible routing accessible to long haul international flights	10% increase

\* These measures are to be considered trial indicators to allow time for proper monitoring, feedback and assessment of potentially more appropriate targets. The parties will review systems, data exchange and resource requirements to establish a routine KPI for these elements.

## ARFF performance indicators

Key performance indicator	Methodology	Target
		Jul 10 – Jun 11
<b>ARFF availability</b>		
% ARFF operational preparedness	Percentage of time ARFF resources were available to meet required capacity according to regulated ARFF service category (level) for the aerodrome	98%
<b>ARFF response</b>		
% ARFF responsiveness	Percentage of total responses to aircraft incidents on the aerodrome movement area within three minutes	100%