Australian
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Consumer
Commission

Decision

Airservices Australia
Price notification

Ayers Rock Airport—aviation rescue and fire fighting service

April 2004

Contents

Summary

On 14 April 2004 the Australian Competition and Consumer Commission (ACCC) received a price notification from Airservices Australia (Airservices). The proposal relates to a new aviation rescue and fire fighting (ARFF) service at Ayers Rock Airport.[1]

Civil Aviation Safety Authority (CASA) regulations identify a need for an ARFF service at airports at which an international passenger service operates or which has had more than 350 000 passengers in a financial year. Ayers Rock Airport has had more than 350 000 passengers each year since 1996/97.

As the service is new, no price has previously been set. Airservices is therefore seeking to establish a price before the service starts on 1 May 2004.

Airservices is planning to shortly provide a price notification outlining a longer term pricing structure to apply to all of its regulated services at all airports, including the Ayers Rock ARFF service. This is therefore a temporary proposal designed to establish a price for ARFF services at Ayers Rock Airport until a long-term pricing structure is in place.

While Airservices has had notice of the need for the new ARFF service at Ayers Rock Airport since at least May 2003, the ACCC was only alerted of the need for a pricing notification on 8 April 2004. Airservices lodged a price notification with the ACCC on 14 April 2004 seeking a decision in time to implement new charges from 1 May 2004. This limited notice has not allowed the ACCC to undertake its usual process of consultation, including consultation on a preliminary decision. The short consultation on an issues paper, which the ACCC released on 16 April 2004, combined with a lack of detail supporting the proposal, has caused some respondents to comment that it was difficult to comment meaningfully on the proposal. The ACCC did not receive a submission from Qantas which will be the main user of the Ayers Rock ARFF service.

Despite the compressed timing and the limitations this raised the Commission has sought and obtained information relevant and necessary to make an informed decision on this matter.

Airservices is proposing a temporary price for its Ayers Rock ARFF service of $13.09 (incl. GST) per tonne for aircraft with a maximum take-off weight (MTOW) of 2.5 tonnes or greater. Aircraft with a MTOW of less than 2.5 tonnes will not be charged. This price is based on Airservices' estimates of its operating and maintenance costs and depreciation for providing a service from temporary facilities, pending completion of permanent facilities. It has not included an amount for return on capital in this proposal.

[1] Ayers Rock Airport services the township of Yulara. The airport has also been referred to in the notification, issues paper and submissions as Yulara airport and Ayers Rock Aerodrome.

The ACCC has some concerns with the level of Airservices' estimated operating costs which are significantly higher than for other locations. While the ACCC would expect Ayers Rock Airport to be a high cost location, Airservices has provided limited information on which to make an assessment of the efficiency of the cost estimates. The ACCC also considers that the use of 2004–05 cost estimates has slightly inflated expected costs.

However, given the fact that no provision has been made for return on capital and considering the limited scope of this pricing proposal, particularly relating to its temporary nature, the ACCC considers it appropriate for Airservices to charge for the new ARFF service at the proposed level pending fuller consideration of the long-term pricing proposal.

Airservices should not interpret this decision as an approval by the ACCC of its cost estimates for its long-term pricing proposal. The ACCC expects Airservices to provide sufficient evidence in its long-term pricing proposal to enable an assessment of the efficiency of its cost estimates. The ACCC also urges Airservices to allow an extended period of consultation with users about its long-term proposal.

Part A: Introduction

On 14 April 2004 the Australian Competition and Consumer Commission (ACCC) received a price notification from Airservices Australia (Airservices) proposing to set a price for a new aviation rescue and fire fighting (ARFF) service at Ayers Rock Airport. Airservices proposed a price for the service of $13.09 (incl. GST) per tonne for aircraft with a maximum take-off weight (MTOW) of 2.5 tonnes or greater. The ACCC has responsibility for assessing proposed price increases by Airservices.

On 16 April 2004 the ACCC released an issues paper identifying key issues presented in Airservices' proposal. Submissions were accepted up until close of business on 22 April 2004. No preliminary decision was made in this case given the limited scope of the notification and the available time.

This document is the ACCC's final decision on the price proposed in Airservices' price notification. It first sets out the details of Airservices' proposal, the legislative framework under which the notification is assessed and background information on Airservices. The paper then assesses the issues raised in Airservices' proposal and includes a final decision.

Airservices Australia's proposal

Airservices' proposal concerns a new ARFF service at Ayers Rock Airport. This is a new service that has been established to satisfy the intent of Civil Aviation Safety Authority (CASA) regulations, which were amended in May 2003.[2] As the service is new (commencing 1 May 2004), no price has been set in previous price notifications. Airservices is therefore seeking to establish a price for the service to apply from 1 May 2004.

Airservices is planning to shortly provide a price notification outlining a longer term price structure for its declared services. This Ayers Rock ARFF proposal is therefore a temporary proposal applying from the start of operations at Ayers Rock Airport until the new long-term pricing plan.

From 1 May 2004 Airservices will operate out of temporary facilities at Ayers Rock Airport while constructing permanent facilities for an ARFF service. Airservices anticipates that the permanent ARFF facilities will commence operation on 30 November 2004.

Airservices is proposing to set a price for the Ayers Rock ARFF service at $13.09 (incl. GST) per tonne for aircraft with a MTOW of 2.5 tonnes or greater. Aircraft with an MTOW of less than 2.5 tonnes will not be charged for the service.

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[2] Civil Aviation Amendment Regulations 2003 (No. 2), Statutory Rules 2003 No 75 (Cth)

Legislative framework for price notifications

The provision of air traffic control and ARFF is declared under s. 95X of the *Trade Practices Act 1974* (the Act).[3] The relevant declaration, Declaration number 66, is available from the ACCC's website—www.accc.gov.au. Under s. 95Z of the Act Airservices is required to notify the ACCC of proposed increases in prices of these declared services. The ACCC is then responsible for assessing the proposed price increases and can either not object to the increases, not object to increases lower than those proposed or object to the proposed increases.

The statutory criteria for assessing a notification are set out in subs. 95G(7) of the Act. This subsection specifies that in assessing a notification, the ACCC should particularly consider the need to:

- maintain investment and employment, including the influence of profitability on investment and employment
- discourage a person, who is in a position to substantially influence a market for goods or services, from taking advantage of that power in setting prices
- discourage cost increases arising from increases in wages and changes in conditions of employment inconsistent with principles established by relevant industrial tribunals.

The ACCC believes that an important consideration regarding these first two criteria is that efficient provision of services underpins investment and employment opportunity in an open and competitive market economy. Investment and employment in the national economy will be promoted when firms produce goods or services efficiently and charge prices which correspond as closely as possible to competitive levels.

Monopoly suppliers do not necessarily produce goods or services at efficient cost levels or at competitive prices. If higher than efficient prices for intermediate services and products are passed on to the rest of the economy, there is a resultant loss in technical and allocative efficiency and potentially therefore in investment and employment opportunity.

The ACCC believes that encouraging efficient pricing outcomes in line with more competitive conditions implies that price increases should stem from an efficient cost base which involves only appropriate margins.

Given this broad context the ACCC, in assessing price notifications, will consider:

- the efficiency of the cost base that the declared company is working from to earn a return

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3 The declaration originally had effect under the *Prices Surveillance Act 1983*, but now has effect under Part VIIA of the Act.

- the reasonableness of the rate of return that the declared company is seeking.

The third criterion outlined in subs. 95Z(7)(c) does not appear to be directly relevant to this price notification.

More detail on these and other aspects of the ACCC's approach to price notification is contained in its *Draft statement of regulatory approach to price notifications*, available on the ACCC website.

Process of assessment

The ACCC received the Ayers Rock ARFF price notification from Airservices on Wednesday, 14 April 2004. Under the provisions of Part VIIA of the Act, it has 21 days from receiving a notification to release a final decision.

The ACCC released an issues paper on Friday, 16 April 2004 calling for submissions by close of business on Thursday, 22 April 2004. A list of the submissions received by the ACCC is set out in appendix A. The notification, issues paper and submissions are available on the ACCC website.

The ACCC has not been able to make a preliminary decision in this case, given the impending commencement of the Ayers Rock ARFF service.

This document represents the ACCC's decision on Airservices' proposal.

About Airservices

Airservices is a statutory monopoly established under the *Air Services Act 1995* (AS Act). It is a commercial authority responsible for a range of functions including safe and environmentally sound air traffic management and related services. It also has a responsibility under the AS Act to promote and foster aviation.

Airservices' en route air navigation services cover approximately 11 per cent of the world's airspace which includes not only Australia's sovereign airspace, but also international airspace over the Pacific and Indian Oceans.

Airservices is a very significant organisation within the Australian aviation industry, generating over $617 million in total annual revenue in 2002–03. By way of comparison, Airservices' charges are of similar significance to airlines as the fees and charges levied by airports. In 2002–03 Airservices generated $487 million in airways revenue, compared with a total of $494 million in aeronautical revenue generated by Australia's seven price-monitored airports.

Legislative framework

This section outlines the main provisions of the AS Act and the *Commonwealth Authorities and Companies Act 1997* (CAC Act) under which Airservices currently operates.

Airservices Australia's functions

Under s. 8 of the AS Act, Airservices is responsible for:

- providing services and facilities
  - for the purpose of giving effect to the Chicago Convention
  - for the purpose of giving effect to another international agreement relating to the safety, regularity or efficiency of air navigation
  - for other purposes relating to the safety, regularity or efficiency of air navigation, both within and outside Australia
- promoting and fostering civil aviation, in or outside Australia
- cooperating with the Executive Director of Transport Safety Investigation in investigating aircraft safety issues and incidents
- carrying out activities to protect the environment from the effects of, and effects associated with, the operation of:
  - Commonwealth jurisdiction aircraft
  - other aircraft outside Australia
- any function prescribed by regulations in relation to effects of and effects associated with Commonwealth jurisdiction aircraft, or other aircraft outside Australia
- any functions conferred under the *Air Navigation Act 1920*
- any other function prescribed by regulations
- providing consultancy and management services relating to any of the above matters
- any incidental functions
- providing services and facilities that use Airservices' spare capacity, improve the technical skills of Airservices staff and do not impede Airservices' capacity to perform other functions.

Airservices may provide its services and facilities both within and outside Australian territory.[4]

In performing its functions, Airservices is required by s. 9 of the AS Act to regard the safety of air navigation as the most important consideration. Under s. 10 Airservices is required to consult with government, commercial, industrial, consumer and other relevant bodies in performing its functions and exercising its powers. In 1998 the government amended s. 8 of the AS Act to require Airservices to operate in a way that promotes the aviation industry.

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4 *Air Services Act 1995* (Cth) s. 8(2).

Ministerial role in price setting

Under s. 53 of the AS Act, the Board of Airservices may set charges for services and facilities. Under s. 54, however, the Board must provide the Minister with written notice of the proposed determination and the Minister may approve or disapprove the proposed determination. Subsection 54(3) states that the Board may only make its determination if it has been approved by the Minister or if the period by which the Minister must provide the Board a notice has expired.

Corporate plan

In preparing a corporate plan under s. 17 of the CAC Act, Airservices is required under s. 13 of the AS Act to consider eight matters including:

- the need for aviation safety
- the need to maintain a reasonable level of reserves with consideration to future infrastructure requirements
- the need to earn a reasonable rate of return on assets (other than assets wholly or principally used in search and rescue services)
- the expectation of the government that Airservices will pay a reasonable dividend.

Under s. 14 the Minister may direct changes to the corporate plan regarding financial targets and performance indicators.

Minister's directions under s. 16 of AS Act

Under s. 16 of the AS Act the Minister may give written directions to Airservices about the performance of its functions. Particulars of any directions are to be included in Airservices' annual report.

If Airservices satisfies the minister under subs. 16(4) of the AS Act that it will incur financial detriment by complying with a direction, the government may provide reimbursement. Financial detriment is taken to include incurring costs that are greater than would otherwise have been incurred and forgoing revenue that would otherwise have been received.

Recent changes to airspace regulation

On 1 April 2004 the Australian Government announced that Airservices would lose its regulatory function.[5] This means that Airservices will no longer be responsible for matters such as the classification of airspace and the designation of air routes. This role will be transferred to an Airspace Authority which will be created within the Department of Transport and Regional Services.[6]

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5 Minister for Transport and Regional Services, John Anderson, 'Changes to airspace regulation in Australia' (media release, 1 April 2004).

6 The date of the transfer depends on the date of CASR Part 71 coming into force, which has not been finalised.

CASA ARFF requirements

The new ARFF service at Ayers Rock Airport is being provided by Airservices to satisfy the intent of the Civil Aviation Safety Regulations 1998 (Cth) (CASR).

The CASR were amended in May 2003.[7] The amended CASR intend that any aerodrome to which an international passenger service operates, or which has more than 350 000 passengers in a financial year, should set up an ARFF service within 12 months.[8] Ayers Rock Airport has had more than 350 000 passengers every year since 1996–97.

The requirements for an ARFF service are set out broadly in CASR *Division 139.H.3—Requirements to be complied with by ARFFS provider*. The detailed requirements for the service are set out in the relevant Manual of Standards.[9] Based on the frequency and size of aircraft using Ayers Rock Airport, Airservices is intending to provide a category 6 level of service.[10] This in turn requires it to meet several requirements in the Manual of Standards about such matters as vehicle performance, response time and fire extinguishing agent performance.

The Commission notes there has been some misunderstanding concerning the legal obligation to establish an ARFF service at Ayers Rock Airport. The Commission has since learned that due to passenger numbers at Ayers Rock Airport an ARFF service would have been required under former CASR but these regulations were removed. The Commission understands that on removal of these regulations the obligation to provide ARFF services was intended to be established under new legislative provisions but that there has been some delay in introducing these provisions. The Commission further understands that under the likely imposed criteria, as with the position under the former regulations, an ARFF service at Ayers Rock Airport will be necessary.

Airservices' previous notification

On 19 June 2003 the ACCC received a price notification from Airservices for a 6.95 per cent increase in the charges applying to uncapped terminal navigation and ARFF ports, with a small number of exceptions, to apply from 1 July 2003. These increases were proposed as temporary, applying for a 12-month period until 30 June 2004.

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7 See footnote 2.

8 CASR, r. 139.755 and Division 139.H.3 generally. Also, CASA, *MOS Part 139H—standards applicable to the provision of aerodrome rescue and fire fighting services*, February 2003, p. 2-1.

9 CASA, *MOS Part 139H—standards applicable to the provision of aerodrome rescue and fire fighting services*, February 2003.

10 ibid. The determination of the category of aerodrome can be seen at p. 3-1. Also CASA, *AC 139H-1(0) ARFFS—recommended practices: category determining for level 1 aerodromes*, April 2003.

Airservices claimed that the price increases were required to obtain a reasonable rate of return following a downturn in aviation activity (due to the Iraq war, the ongoing threats of terrorism and the SARS outbreak).

The ACCC objected to the proposed price increases but did not object to prices for these services remaining at their current levels until 30 June 2004.

The main reason for the ACCC's objection to Airservices' price notification was its failure to adopt a longer term approach to pricing. Instead, Airservices was seeking temporary price increases on the basis of short-term cost and activity forecasts.

Part B: The ACCC's assessment

Introduction

In assessing price notifications the ACCC generally applies a 'building block methodology' to assess the revenue required for regulated services, considering the declared company's need to earn a reasonable rate of return. The building block methodology defines required revenue as the sum of projected efficient operating and maintenance costs, the return of capital and the return on capital. Using the required revenue and forecast activity, proposed price increases are then assessed. Further information on the building block methodology and the ACCC's approach to price notifications is available from the ACCC website.[11]

In this pricing proposal Airservices wants to apply a price to cover the costs of an ARFF service using temporary facilities. The price will apply until a long-term pricing framework, which would incorporate the use of permanent ARFF facilities at Ayers Rock Airport, is implemented. Airservices has not included a claim for a return on capital in the Ayers Rock ARFF proposal. Accordingly, the ACCC has applied the building block model excluding the return on capital component. The ACCC will examine the return on capital in the context of Airservices' expected longer term pricing proposal for all of Airservices' regulated services at all locations.

While Airservices has provided cost and financial information for the period 2004–05 to 2008–09, it has based its pricing proposal solely on the 2004–05 data. To assess this proposal the ACCC has only considered the 2004–05 data that underlies the proposed temporary price.

In objecting to Airservices' 2003 pricing notification the ACCC based its decision on the fact that Airservices had failed to address previously identified issues. In particular, Airservices failed to adopt a longer term approach to pricing. The ACCC expects Airservices to address this concern in its impending longer term pricing notification. The ACCC recognises that the current proposal relates to a new service required by regulation and that the proposal is expected to operate only until a longer term pricing approach is in place.

The remainder of this section discusses the issues identified in the ACCC's issues paper, incorporating the views of interested parties who made submissions.

Pricing

The issues paper sought submissions on the price proposed for the Ayers Rock ARFF service, including on whether the proposed price:

- reflects the cost of providing the Ayers Rock ARFF service

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[11] Publications relevant to the model are the *Draft statement of principles for the regulation of electricity transmission revenues* and the *Draft statement of regulatory approach to price notifications*.

- provides adequate incentives for users of the Ayers Rock ARFF service to provide services at Ayers Rock Airport.

Airservices' position

For the Ayers Rock ARFF service, Airservices has proposed to charge $13.09 (incl. GST) per tonne landed for aircraft with a MTOW of 2.5 tonnes or greater. Aircraft with a MTOW of 2.5 tonnes will not be charged.

Airservices stated that the proposed temporary price is at a level that will recover the costs of the service, less the depreciation on the station and infrastructure that is yet to be built. It stated that, when the longer term pricing arrangement is finalised, the price at Ayers Rock Airport would be adjusted to reflect the full cost and an allowance for return on the investment. Airservices indicated that the price for the permanent service under the longer term arrangement could be about $17.70, depending on the ACCC's evaluation of the return and permanent cost parameters.

Views of interested parties

Australian Airports Association (AAA)

AAA questioned the proposed approach of only charging planes weighing more than 2.5 tonnes, stating that it was unreasonable for larger aircraft to be effectively subsidising those aircraft that would fall below the 2.5 tonne threshold.

Royal Flying Doctor Service (RFDS)

RFDS objected to the charge proposed by Airservices at Ayers Rock Airport. It stated that the PC12 aircraft it operated had a MTOW of 4.5 tonnes and would therefore be subject to the charge. However, it argued that the ARFF service is required for regular public transport and not for its style of operation. RFDS also questioned the 'arbitrary limit' of no payment below 2.5 tonnes.

Virgin Blue Airlines (Virgin)

In Virgin's opinion, while the level of costs claimed at Ayers Rock Airport appeared to be 'a little on the high side for this operation', the price level appeared to be satisfactory, considering the low amount of traffic through that location. Virgin also considered that the price would not be a disincentive to commence flights to Ayers Rock Airport.

Voyages Hotels and Resorts (Voyages)

Voyages considered that Airservices' submission provided no transparency of its proposed charge which is necessary to allow for objective scrutiny.

Voyages was also concerned about the possibility of ongoing cost escalation resulting from Airservices' proposal to charge a figure per landed tonne. It stated that, as visitation to the airport increases, there is the possibility of exponential increases in Airservices' revenue. It stated that it would expect to see a mechanism whereby, as visitation increases, charges per passenger will decrease. It also raised the issue of whether a per passenger charge may be more flexible than a per tonne charge.

Analysis and conclusion

Amount charged

The ACCC agrees with comments made by Voyages that Airservices' pricing proposal lacks transparency making it difficult for respondents to meaningfully comment on the proposed price. A charge of $13.09 per tonne is significantly higher than that of any other ARFF service operated in Australia. In comparison, ARFF services at regional areas such as Rockhampton and Mackay pay $9.59 and $9.98 per tonne respectively. These issues are discussed further below, in the context of costs.

Basis of charging—prices based on aircraft size

Airservices' approach of charging for ARFF services based on the MTOW of aircraft, using a minimum threshold of 2.5 tonnes, has been in place since 1993 and is not exclusive to what is proposed to apply at Ayers Rock Airport.[12] Airservices advised the ACCC that the 2.5 tonne threshold was introduced when ARFF charges (based on a network price) began to be directly levied on aircraft. Previously, revenues were received through a fuel levy.

The ACCC understands that the reason for this approach is that ARFF services are primarily established to provide assistance to aircraft with significant numbers of passengers aboard rather than single passenger general aviation aircraft. The ACCC understands that the threshold of 2.5 tonnes is designed to distinguish between general aviation aircraft and commercial regular public transport aircraft.

The ACCC considers that the concerns raised by both AAA and RFDS about Airservices' weight-based basis of charging are legitimate concerns. The ACCC questions both the basis of charging and whether the threshold limit is achieving its intended purpose. However, a detailed examination of this issue is beyond the scope of the current price notification. The ACCC would encourage Airservices to examine this issue, particularly as part of the development of its long-term pricing proposal.

Voyages has raised a legitimate concern about the possibility of escalations in user costs and Airservices' revenues as a result of increases in activity. However, the ACCC has in the past expressed concern with Airservices' short-term approach to pricing, which has seen proposals to increase prices as a result of downturns in activity. In response to the concerns raised by the ACCC, Airservices has been developing a long-term approach to pricing in consultation with its users. Such an approach could allow for a sharing of the risks associated with changes in activity between Airservices and its customers that in turn would provide better incentives for Airservices to invest efficiently. As such, the ACCC does not feel that the cyclical pricing proposed by Voyages would be appropriate.

Costs

Operating and maintenance costs, along with depreciation, play a critical role in determining the required revenue for a declared service. As a result, the efficiency in which those costs are incurred is a key consideration for the ACCC. This is

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[12] Airservices Australia, *Charges for facilities and services, standard contract terms*, 28 July 2003.

particularly true for Airservices, which has a significantly higher proportion of operating and maintenance costs as compared to other regulated businesses.

In its issues paper, the ACCC identified two major issues concerning costs:

- the appropriateness of the level of costs expected by Airservices
- the use of 2004–05 figures for operating costs to establish prices for a period commencing in 2003–04.

Airservices' position

Airservices' price notification provides an estimate of the operating, maintenance and depreciation expenses for providing the Ayers Rock ARFF service for 2004–05.[13] Airservices has estimated these costs to be:

Operating costs	2004–05 ($)
Staff costs	1,759,342
Combined supply and operational costs	808,467
Facility maintenance and management	12,829
Depreciation	173,788
Distributed costs	297,497
Total costs (excl. interest & tax)	3,051,924

Airservices based its cost estimates on the 2004–05 financial year, but recognised that some of the depreciation amount above reflects depreciation on facilities that are not yet built. As such, it excluded $131 243 of depreciation, resulting in an adjusted total cost figure of $2 920 681 per year.

Views of interested parties

Australian Airports Association (AAA)

AAA stated that it was difficult to comment meaningfully on Airservices' proposal without knowing the exact details of each category of costs. AAA argued that, for example, it was ambiguous as to whether 'fly-in / fly-out' costs were 'staff costs' or 'combined supply and operational costs'. It also argued that one would reasonably expect that staff should be flying from Alice Springs, where Airservices already has a significant operational base, but that this was not clear from the information provided.

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[13] It should be noted that while Airservices has also provided cost figures for the years 2005–06 to 2008–09, these cost figures are not relevant to the current short-term proposal and have not been considered by the ACCC.

AAA also considered that it is not appropriate to use 2004–05 figures for operating costs to establish prices for a period commencing in 2003–04.

Virgin Blue Airlines (Virgin)

While Virgin considered that the costs for the operation appeared to be ‘a little on the high side’, it considered that this was a start-up operation and that Airservices would be able to achieve efficiencies, which it believed Airservices would implement with end users. Virgin believed that many of the cost drivers for this service were specified by regulation and therefore outside of Airservices’ control.

Voyages Hotels and Resorts (Voyages)

Voyages considered that Airservices’ proposal lacked detail and that the costs associated with the temporary facilities appeared to be high and appeared to reflect all of the charges associated with the permanent facility apart from depreciation. Voyages was also concerned that Airservices was attempting to recover a high amount (approximately $300 000 per annum) from Ayers Rock Airport for corporate overheads. It stated that this figure appeared to be unreasonable and could not be reflective of the correct cost to Airservices for support of Ayers Rock Airport.

Analysis and conclusion

Appropriateness of costs generally

In previous decisions the ACCC has expressed concerns that Airservices has not provided detailed supporting information to verify the efficiency of its cost levels. This concern remains for the Ayers Rock ARFF proposal as no supporting information has been provided concerning the efficient levels necessary for an ARFF service. This makes it difficult to judge the appropriate level of costs and users have commented that they have been unable to comment meaningfully on this aspect of the proposal.

The ACCC sought an explanation from Airservices as to why its stated costs at Ayers Rock Airport were higher than at other regional locations. Airservices stated that the higher costs at Ayers Rock Airport mainly reflect fly-in / fly-out travel and accommodation costs and staffing costs that equate to around $0.47 million per year.

While it appears reasonable to the ACCC that operating and maintenance costs, including staffing costs, would be higher at Ayers Rock Airport than other locations due to its remote location and planning standards, the ACCC considers that Airservices has provided limited information to allow an assessment of the efficiency of these costs.

For Airservices’ longer term proposal, the ACCC expects Airservices to provide sufficient information to enable it to make an informed assessment about the efficiency of Airservices’ operating and maintenance costs. As the ACCC stated in its decision on Airservices’ 2003 price notification, the provision of detailed efficiency information benchmarking the performance of all significant business units within Airservices against relevant best practice standards would enable it to make this assessment. The ACCC also considered that efficiency incentives should be built into a long-term pricing structure to ensure that Airservices faces adequate incentives to continue to improve efficiency.

Use of 2004–05 figures

The Ayers Rock ARFF service is due to start operations on 1 May 2004. The ACCC is therefore concerned by Airservices' use of 2004–05 data to derive a price for the service. This proposal is designed to be a temporary pricing arrangement to apply until a long-term pricing regime is implemented. Depending on the timing of the long-term pricing proposal, this temporary pricing arrangement would operate for at least half of its duration in the 2003–04 financial year.

The ACCC requested details from Airservices of its cost estimates in the 2003–04 financial year. These estimates result in a price (incl. GST) for the May/June 2004 period of $12.88 per tonne. This is consistent with the ACCC's own analysis on the basis of information contained in Airservices' proposal. As such the ACCC considers that the use of 2004–05 data may have slightly inflated Airservices' costs and therefore the price it is seeking to charge.

Activity levels

Forecast aeronautical activity levels have a significant and direct influence on the prices that are proposed by Airservices. After the appropriate level of regulated revenue is determined, the final price charged for Airservices' regulated services will be determined by activity levels. In its issues paper, the ACCC sought comment on the appropriateness of the activity level at Ayers Rock Airport proposed by Airservices.

Airservices' position

Airservices forecast a level of activity at Ayers Rock Airport of 245 414 tonnes. It stated that it obtained this estimate by using airline schedule data for 2002–03 as a base and then applied a 1 per cent forecast growth rate. Airservices also noted that the compound average growth rates in regular public transport numbers and movement rates at Ayers Rock Airport from 1997–98 to 2001–02 were -0.3 per cent and -6.7 per cent respectively.

Views of interested parties

Australian Airports Association (AAA)

AAA urged the ACCC to take a conservative approach to considering the activity levels at Ayers Rock Airport, submitting that 'the vagaries of the aviation and tourist industries … are such that positive traffic patterns can diminish overnight'.

Virgin Blue Airlines (Virgin)

Virgin considered that the activity level used did not appear unreasonable, but considered that Qantas, being the main operator at Ayers Rock Airport, could possibly comment on this better than Virgin.

Analysis and conclusion

The ACCC recognises that the Ayers Rock ARFF proposal is a short-term temporary proposal that does not necessarily lend itself to a long-term forecast of activity levels. Given the lack of opposition from respondents to the activity level used by Airservices, the ACCC is prepared to accept this figure for the current proposal.

However, the ACCC would stress that, in the future long-term pricing proposal, it expects Airservices to fully explain the basis for the activity levels and growth rates assumed.

Impact on users

Additional costs in using Ayers Rock Airport could be expected to have an effect on the users of the airport. Users include airline operators, airline passengers and others who use Ayers Rock Airport or provide services at the airport.

The ACCC's issues paper sought views on the effect of the proposed price on:

- the demand for air travel to and from Ayers Rock Airport
- airline scheduling decisions at Ayers Rock Airport
- airfares for flights to and from Ayers Rock Airport
- providers of other services at Ayers Rock Airport.

Airservices' position

Airservices did not address the effect on users in its notification.

Views of interested parties

Australian Airports Association (AAA)

AAA stated that the significant cost of the ARFF charge at Ayers Rock Airport would be passed on to passengers, a large proportion of which are international tourists. AAA submitted that airfares to Ayers Rock Airport are already high and that the sum total of all charges for passengers to Ayers Rock Airport may well have a dampening effect on future passenger demand for air travel to and from Ayers Rock Airport.

AAA also expressed a concern that, if passenger demand did drop, Ayers Rock Airport might no longer require the ARFF facility under CASA requirements. AAA expressed a concern that, if this occurred, Ayers Rock Airport could be left with infrastructure and a long-term contract which would place 'an extraordinary and unfair future imposition on Ayers Rock Airport over which it has no control whatsoever'.

Royal Flying Doctor Service (RFDS)

In its submission RFDS indicated that the additional cost to RFDS of the new charge would be around $4 000 per annum. RFDS indicated that 'this will have to come out of the health system'. RFDS argued in its submission that it did not require the service and that the majority of its landings were at locations where there is not even a local community fire service.

Virgin Blue Airlines (Virgin)

Virgin considered that, although the cost of this service is significant, it could not be sure what the effect on pricing or passenger demand would be. It stated that, in

relation to scheduling, the current time requirements for this service are not ideal. It did not believe that the proposed charge would affect a particular schedule time.

Voyages Hotels and Resorts (Voyages)

Voyages considered that the effect of this proposal on the charges at Ayers Rock Airport on a per passenger basis would be inequitable because the large level of infrastructure and services would be spread over a small number of passengers. It stated that the charges per passenger would be quite substantial relative to the ticket price and greater than at other airports. It considered that a more equitable approach would be for the cost of such services nationally to be spread across the whole of the air travelling public.

Discussion and conclusion

The ACCC has recognised in the past that users largely come from two main groups—direct users such as airlines and end users such as passengers. Increased charges for using Ayers Rock Airport may affect these groups differently.

Airlines will be the users that directly pay the new charge for the Ayers Rock ARFF service. The effect on airlines will depend on the extent to which they absorb this new charge and/or pass it on to end user passengers.

Qantas is the only operator providing regular public transport services between Ayers Rock Airport and other airports in Australia. The remaining operators at Ayers Rock Airport—Ayers Rock Scenic Flights, Professional Helicopter Service and Ayers Rock Helicopters—are charter operators providing services in and around the Yulara/Uluru area. As the sole operator providing services into Ayers Rock Airport, Qantas faces limited competitive pressure on the route. This suggests that Qantas may be able to pass the new cost onto passengers without significantly affecting its passenger numbers, depending on the demand elasticity of such passengers. Table 1 provides an illustrative example of the effect on passengers if all of the new charge was passed on to them, based on a Qantas flight from Sydney airport to Ayers Rock Airport. The analysis suggests that imposing the new ARFF charge at Ayers Rock Airport could lead to an increase of around $9 in airfares for passengers travelling to Ayers Rock Airport on a 737-376.

Table 1: Possible effect of Ayers Rock ARFF charge on passengers

Aircraft type: Boeing 737-376

Number of seats on plane: 130 economy seats

MTOW: 61,235kg

Assume load factor of 70 per cent

Cost of landing = 61.235 tonnes × $13.09 per tonne = $801.57

Number of passengers = 130 × 70 per cent = 91

Additional cost per passenger as result of ARFF service	=	$801.57 / 91
	=	$8.81

The ACCC notes that on 20 April 2004 it was possible to buy an adult ticket from Sydney airport to Ayers Rock Airport on a 737-376 aircraft for $199. As such, the additional charge represents an increase of 4 per cent on the price of an adult ticket.

The effect of this new charge on airlines and passengers (if 100 per cent of the charge is passed through) is significant. However, the ACCC recognises that CASA regulations identify a need for an ARFF service at Ayers Rock Airport. It is therefore reasonable that Airservices recovers the efficient costs associated with the provision of this service.

In terms of the effect on the proposed new ARFF charge on particular users, such as the RFDS, the ACCC reiterates that Airservices should re-examine the current basis for imposing ARFF charges in the context of its long-term pricing proposal.

AAA raised a concern that an ARFF service at Ayers Rock Airport may not be required in the future. The ACCC considers that it is not unreasonable for Airservices to set up permanent ARFF facilities at Ayers Rock Airport for two reasons. Firstly, Ayers Rock Airport has had more than 350 000 passengers per year since 1996–97, which covers a period of high volatility in international passenger numbers. Additionally, passenger numbers are expected to grow into the future.

In relation to Voyages' argument that the cost of providing ARFF services nationally should be spread across passengers generally, this would represent a move for Airservices back to a form of network-based pricing, rather than its present system of location-based pricing. The ACCC supports location-based pricing, which should be more reflective of the costs incurred in providing services at different locations.

Timing

The ACCC noted in its issues paper that the short time in which it has been asked to consider this notification is less than ideal and sought comments on the appropriateness of the timing of the Ayers Rock ARFF proposal.

Airservices' position

Airservices requested that a decision be made by 1 May 2004, the date on which the new service starts. The formal price notification was provided to the ACCC on 14 April 2004. Airservices' notification recognised that a long-term pricing proposal was due to be submitted to the ACCC soon and that the pricing of the service would be reviewed again as part of that process.

Views of interested parties

Australian Airports Association (AAA)

AAA questioned the timing of the Ayers Rock ARFF proposal in light of the upcoming long-term pricing proposal. AAA argued that incorporating the Ayers Rock ARFF proposal into the long-term proposal would allow the ACCC to undertake comparative analysis of location-specific costs and allocations.

Virgin Blue Airlines (Virgin)

Virgin considered that the time given to respond to this notification was less than ideal (given that Airservices has been aware of the need for an Ayers Rock Airport ARFF service for some time). Virgin stated that it would have sought an extension of time to do an in-depth analysis of the costs and drivers if the notification related to a port that it currently flies to. Virgin stated that it expects a much longer time (approximately two months) to consider the longer term pricing proposal.

Voyages Hotels and Resorts (Voyages)

Voyages considered that the time for making submissions on this proposal was 'completely unreasonable and (made) it impossible to provide any substantial input'. It requested that the ACCC extend the date for receipt of submissions for a further 21 days.

Discussion and conclusion

The ACCC considers that there are two issues regarding the timing of this proposal, which are discussed below.

Time until the commencement of the Ayers Rock ARFF service

As noted in its issues paper the ACCC believes that the short time in which it has been asked to consider and consult on this proposal is less than ideal, particularly given that Airservices has known of the need for this new service since at least early May 2003. To meet Airservices' requested timing for this proposal, the ACCC has been unable to consult on a preliminary view.

The ACCC notes respondents' comments that the short time periods have made meaningful comment difficult. However, the ACCC is unable to extend the date for receipt of submissions because it is required to consider a final price notification within 21 days.

This proposal is limited in scope to one service at one location and, importantly, is intended to operate for a limited time. However, the ACCC would encourage Airservices to allow more time for consideration and consultation with all potentially affected stakeholders in future pricing proposals. In the context of Airservices'

expected long-term pricing proposal, the ACCC would expect to follow its normal consultation process, whereby Airservices provides a draft notification to the ACCC.

Time before the upcoming long-term pricing proposal

The ACCC also considers that the timing of this proposal, shortly before Airservices is expected to submit a long-term pricing proposal, is less than ideal. As noted by AAA, considering this proposal in the context of the long-term proposal would allow the ACCC to undertake comparative analysis of location-specific costs and allocations.

However, the ACCC acknowledges that Airservices has not claimed any amount for return on capital in this proposal, so that there can be full consultation on this in the context of the long-term proposal. The ACCC also accepts that, from an efficiency perspective, it is preferable for Airservices to be charging for a new service from the time it begins to provide that service.

Part C: Conclusion

Decision

The ACCC's options

In responding to Airservices' notification, the ACCC has several options. These are:

- not objecting to the proposed price
- not objecting to a price lower than that proposed
- objecting to the proposed price.

Summary

Airservices is proposing a temporary price of $13.09 (incl GST) for a new ARFF service at Ayers Rock Airport based on its estimates of operating and maintenance costs and depreciation. The proposed price is based on Airservices' estimates of costs for the 2004–05 financial year less depreciation on facilities that have not yet been built. Given Airservices' upcoming long-term pricing proposal, in which the proposed prices at all locations for all regulated services will be considered, Airservices did not include any return on capital for this pricing proposal.

Airservices proposes charging for the new ARFF service on the basis of the MTOW of aircraft, with a minimum threshold of 2.5 tonnes, consistent with the basis of charging at other locations.

Airservices used an estimated activity level of 245 414 tonnes for 2004–05, based on airline schedule data and assuming a 1 per cent growth rate.

Submissions received on this proposal generally commented that Airservices' estimated costs appeared to be high and that the lack of detail in the proposal made it difficult to properly assess the level of costs. Users also raised issues about the basis of Airservices' charging.

There were no objections made to the activity figure used by Airservices.

Respondents to the issues paper raised concerns about the effect on users of the proposed charge.

Respondents also commented that the short time available for making submissions on the proposal was less than ideal and questioned the timing of this proposal in the light of the upcoming long-term proposal.

Conclusions

The ACCC endorses the comments made by respondents relating to the timing of this proposal. However, it notes that this proposal is intended to operate for a limited time only, until a long-term pricing structure is in place. The ACCC also recognises that Airservices has not included any claim for return on capital in its proposed price for

an ARFF service at Ayers Rock Airport and that this will be considered in the context of its long-term proposal.

The ACCC has concerns with the level of Airservices' estimated costs and considers that, while costs at Ayers Rock Airport could be expected to be higher than at other locations due to its remoteness and planning standards, the ACCC has been given limited information with which to assess the efficiency of those costs. It also considers that the use of 2004–05 cost estimates have slightly inflated the estimated costs.

However, given that no provision has been made for a return on capital, which is an appropriate cost for Airservices to recover, and considering the limited scope of this pricing proposal, the ACCC considers that it is appropriate to allow Airservices to charge the proposed price for an interim period. The ACCC expects to undertake an assessment of the long-term Ayers Rock Airport price in the context of Airservices' expected price notification covering all of its regulated services.

Airservices should not interpret this decision as reflecting an assessment of its costs over the longer time which will be covered in its expected price notification. The ACCC expects Airservices to provide sufficient information in that notification to allow the ACCC to make an assessment on the efficiency of its operating and maintenance costs.

ACCC decision

The ACCC's decision is to not object to Airservices' pricing proposal for an aviation rescue and fire fighting service at Ayers Rock Airport. Airservices is proposing to introduce a temporary price of $13.09 (incl. GST) per tonne landed for aircraft with a maximum take off weight of 2.5 tonnes or greater, pending long-term pricing arrangements being established.

Appendix A: List of submissions

The ACCC received submissions from the following parties regarding Airservices' Ayers Rock ARFF price notification

- Australian Airports Association
- Royal Flying Doctor Service
- Virgin Blue Airlines
- Voyages Hotels & Resorts Pty Ltd

The submissions are available on the ACCC website at www.accc.gov.au.