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Mr Anthony Wing
General Manager
Transport and General Prices Oversight Branch
Australian Competition & Consumer Commission
Level 35
360 Elizabeth Street
Melbourne, VIC 3000

Dear Mr Wing

Price Notification – Terminal Navigation services at Avalon Airport

I refer to correspondence from David Salisbury on Friday 8 January 2010 in relation to our most recent price notification for Terminal Navigation services at Avalon Airport on 18 December 2009.

I understand that the Australian Competition and Consumer Commission (Commission) has some concerns in relation to the reasonableness of Airservices' forecast for demand; process of consultation; and the estimated costs for the service.

Each of these is addressed in turn below and is able to be made public:

Forecast for demand

The tonnage activity used to calculate the price was 256,000 tonnes. This was calculated based on annualised Instrument Flight Rules (IFR) flight data for the five months ending November 2009, adjusted for Visual Flight Rules (VFR) flights. The tonnes landed for the five months ended November 2009 was 100,651 which equates to an annualised activity of 240,116 tonnes. This figure was then increased by approximately 4000 tonnes for VFR flights and 12000 tonnes to allow for normalised growth on existing levels of around 5%.

The forecast tonnage was used both for this price notification and previous advice to stakeholders during earlier price consultation with Jetstar and Avalon Airport in August last year.

The tonnes landed (100,651 tonnes) for the five months to November 2009, as well as the recent December data, is set out at **Attachment A**.

The forecast tonnage (256,000 tonnes) as currently applied in the price notification equates to approximately nine A320 arrival landings a day (or 18 movements as departures are not charged). This is calculated as follows - nine landings x A320 maximum take off weight (approximately 75 tonnes) X 365 days = 246,375 tonnes.

With such low frequencies, forecasting is inherently problematic. Over the last 18 months, Jetstar operations have fallen from a high of 12 landings per day to a low of 6 landings per day. From February it varied between 7 and 9 landings per day, before falling to 6 through November and December.

It is worth noting that if we were to forecast tonnage out today based on the current Jetstar schedule alone, which have dropped to 6 landings a day, this would reduce annualised tonnage to around 170,000 tonnes.

The forecast tonnage (256,000 tonnes) will also be reviewed in 12 months time as part of the draft price notification process proposed to reset our prices at the end of the existing price freeze (June 2011) or if the Civil Aviation Safety Authority reclassifies the airspace up from the currently determined airspace structure of Class E over Class D. This may occur if the existing traffic levels or mix change, as an example a significant increase in IFR traffic.

Process of consultation

Consultation was held with the current major users of Avalon Airport, Avalon Airport and the industry representative bodies, including Jetstar, Sharp Aviation, Qantas, Regional Aviation Association of Australia (RAAA), and Air Operators and Pilots Association (AOPA).

Consultation was not conducted with potential future users.

CASA conducted an Aeronautical Study of Avalon in May 2008, as a result of this a direction was provided to Airservices to provide a Class C Aerodrome Control Service at Avalon seven days a week during day light hours.

In response Airservices commenced a Class C non radar aerodrome control and approach control service from the Avalon tower on 17 March 2009. We have been operating this service since that date.

CASA subsequently conducted a post implementation review (PIR) of the airspace which indicated that they would commence a Airspace Change Proposal (ACP) to change the control zone airspace from Class C to Class D with the remainder of the airspace to be classified as Class E overlaying the Class D control zone. Effectively the airspace has been classified as Class E over Class D.

The PIR was released on 18 December 2009 and at the same time CASA provided Airservices with its ACP which provides the authorised information required for aeronautical information (charts etc) to be amended in line with the Aeronautical Information Regulation and Control (AIRAC) cycle and published timetable.

It is noted that CASA's consultation period runs to 29 January 2010 though under either airspace configuration a manned tower service is required.

As noted earlier the proposed price under both airspace models was consulted on by Airservices. The first back between April and August 2009 which at the time under a Class C service had the price at \$7.91 p/tonne, which was not notified nor introduced at the time as

Airservices was aware that CASA was to shortly conduct a PIR and most recently the \$5.49 p/tonne price based on the new airspace configuration. The key difference between these two costs is the aerodrome control service change from Class C to Class D airspace driven predominantly by the change in radar console requirements.

All the airspace configurations considered by CASA and the associated costs for these (as provided by Airservices) are contained in the PIR on page 65, Annex H. CASA uses the cost of the service, **not price**, in its cost benefit analysis (see page 38 of the PIR) in reviewing the most efficient and equitable airspace.

Estimated costs for the service

Whilst basic tower costs are similar the extent of the service provided (e.g. hours of coverage), the location (e.g. fly-in fly-out operations) and the asset base (e.g. size of tower, number of navigation aids etc) can dramatically impact the cost and therefore price.

Avalon tower as a Class D tower compares best to the other Class D towers of Albury and Coffs Harbour where the cost bases are at similar levels. The main difference between these services and other Class D towers is the level of infrastructure where the other locations have instrument landing systems and surveillance systems such as radar or wide area multilateration, along with some variation in operational staff numbers where there are different local operating rules in place specific to the complexity of the mix of traffic operations or geography at those locations. However, ultimately the greatest driver in price variation is the number of movements of heavy aircraft.

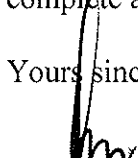
The assets value included in the Avalon price notification reflects the cost of the project to refurbish the existing tower infrastructure, including the ATC console and communications equipment.

CASA as noted earlier has determined under both its earlier Direction and the PIR that a Class D approach control service must be provided. There is currently no approved alternate way to provide this service other than by way of a manned tower. Airservices is always conscience of the impact of its costs at location and looks to minimise costs where possible and practical. In the case of Avalon Airport we obtained access to the existing tower and only did that necessary to make it operational we also reviewed the optimum staffing mix and roster to minimise wage costs.

Finally, I appreciate the efforts of your office over Christmas to finalise the matter and note that it may not be possible to review this additional information by the end of the existing applicable period. Accordingly I would propose, with the Commission's agreement, to extend the applicable period from close of business today to 28 January 2010.

This I hope will provide the additional time required to address the issues raised and complete any necessary consultation.

Yours sincerely


Andrew Clark
Chief Financial Officer
11 January 2010

Avalon Airport Flight Activity and Tonnes Landed

2009	MTOW Total	No. Flights
Jul	22,601	325
Aug	17,672	268
Sept	22,477	329
Oct	21,980	309
Nov	15,922	229
Total (5 months)	100,651	1,460
Estimated IFR Annualised	240,116	
VFR Estimate (1.6%)	3,842	
Growth Estimate (5.0%)	12,006	
Forecast Activity for Price Notification	255,964	

Recent Month Result for Dec 09	13,074	218
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