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Mr David Salisbury
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Dear Mr Salisbury

Further Information: Price Notification for Avalon

Thank you for your letter of 12 January, seeking further information on our forecasts and consultation for the Avalon Terminal Navigation services Price Notification. Our response to each of these is set out below.

Activity Forecasts

Given the unusual environment at Avalon where there is a single large operator with relatively low frequencies the forecasts are particularly sensitive to small changes in operations and there are also significant commercial sensitivities in providing forecast information with any certainty either privately or publicly.

Within this context, in developing forecast activity volumes Airservices considered activity volumes current at the time the notification was being prepared, known changes going forward and the impact the charge may have on these volumes.

The prevailing activity volume for Jetstar at the location over the five months Jul-Nov 09 had varied as follows:

Average landings per day

Jul 8.8
Aug 7.1
Sep 9.1
Oct 8.1
Nov 6.0

The potential changes going forward were not clear, users indicated that services could either increase or decrease by 2-3 landings per day based on a range of factors.

It is worth noting that the terminal navigation charge would typically represent around 1-2% of total operating and service costs for a large domestic aircraft operation.

From the consultation conducted, Airservices took an optimistic view that landings would increase to levels experienced in 2008/09 of around 9-10 landings per day in about six months time as the economy recovered. This equated to around 10% on the Jul-Nov levels, or around

5% on an annualised basis. There was a risk to revenues in taking this approach, as if volumes continued at current levels, there could be an under recovery.

We also considered the impact of the new price on a per passenger basis. Based on a 177 seat A320 weighing 73.5 tonnes and load factor of 85%, a terminal navigation price of \$5.49 per tonne landed would add \$2.68 to the price of a return ticket. A return ticket from Avalon to Sydney ranges from \$78 to \$258 for "Jetsaver" fares. With such varied fare pricing arrangements it was difficult to determine whether the addition of \$2.68 could be absorbed, or added to the fare without impacting on demand, regardless it is a very small component of the overall operating cost.

Consultation

Our consultation took place over most of the 2009 calendar year and included consultation on what services were required and how they could be refined while still meeting the Civil Aviation Safety Authority (CASA) requirements and what impact this would have on Airservices costs and consequently on operations at Avalon.

In addition to phone call discussions, face-to-face meetings were held with Jetstar representatives in Melbourne on 13 January, 27 February and 11 August. Price-related meetings were also held with Avalon Airport in Canberra on 13 January and in Melbourne on 27 February and 11 August.

In addition, Qantas, Sharp Airlines, the RAAA and AOPA were also apprised of these issues by phone at these times.

Further general updates were also provided at Airservices Pricing Consultative Committee meetings on 8 April, 28 July and 16 December. The Pricing Consultative Committee comprises representatives from Qantas, Virgin Blue, Regional Express, Singapore Airlines, Emirates, Board of Airline Representatives in Australia (BARA), International Air Transport Association (IATA), Regional Aviation Association of Australia (RAAA), Aircraft Owners and Pilots Association (AOPA) and Royal Federation of Aero Clubs of Australia (RFACA).

All the discussions across this period were based on the service model operating at that time under CASA's initial aeronautical study from May 2008. This included a total cost estimate of \$1.8m comprising a tower cost of \$1.3m and an approach cost of \$0.5m. Estimated tonnage forecasts have remained relatively static at around 250,000 tonnes. In the August meetings we advised Jetstar, Avalon and Qantas that we intended to introduce a price at Avalon of \$7.91 per tonne that was to commence on 1 October 2009.

The feedback on costs, activity levels and the impact on operations at Avalon was that the costs were reasonable in complying with CASA requirements, the activity forecasts were reasonable if operations continued at Avalon, however, Jetstar and Avalon Airport expressed concerns about the viability of services at Avalon if the cost of the Tower Service (\$1.8m) was to be funded from operations at Avalon.

In late August it became apparent that CASA would be undertaking a post-implementation review of the Avalon airspace and as a consequence, the price notification was postponed until the outcome was known. At the time it was expected that the review would be completed by the end of October 2009.

CASA completed their review and published their Post Implementation Review (PIR) on 21 December 2009.

Based on the outcomes from this PIR, the change in requirement for services at Avalon reduced the cost base to \$1.3m and the price to \$5.49 per tonne. As this was considerably below the previously discussed cost, Airservices believed this would have a reduced impact on demand as noted above in the section on activity forecasts.


Airservices subsequently submitted a price notification to the Commission on 21 December 2009 and the next day provided email copies of the notification to the affected stakeholders, including Avalon Airport, Jetstar, Qantas, Virgin Blue, Tiger, Sharp Airlines, RAAA and AOPA. These stakeholders were also phoned to provide an over-the-phone update, where they were available, along with an offer for further face-to-face briefings in January if required.

Given the extended timeframes since we commenced the service and the discussions we had with directly affected parties where the issues were well known and understood, Airservices believed the approach it took was reasonable. However, Airservices notes the Commission's concerns about the need for all parties to understand the specific details of a notification in order for them to comment on that notification, particularly under the minimum statutory review period.

As previously agreed, the review timeframe has been extended to ensure all parties are apprised of the issues and this has now been undertaken with face-to-face meetings held with significantly affected parties this week. This consultation confirmed previous consultation outcomes.

Please let me know if you require further information.

Yours sincerely



Andrew Clark
Chief Financial Officer
14 January 2010