

Airservices Australia

Response to ACCC - Issues Paper on Airservices Australia Draft Price Notification

Submission by Airport Development Group Pty Ltd

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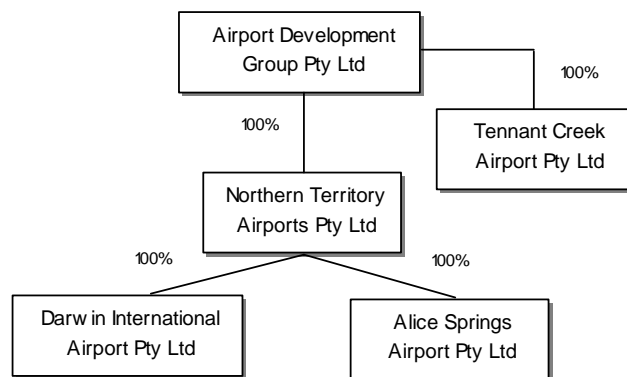
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2. Background on ADG

Airport Development Group Pty Limited (ADG) owns 100% of Northern Territory Airports Pty Limited, which in turn owns 100% of Darwin International Airport Pty Limited and Alice Springs Airport Pty Limited. These companies are the holders of 50 year leases commencing June 1998 (with free options to renew for a further 49 years) over Darwin International Airport (DIA) and Alice Springs Airport (ASA) respectively. In addition, ADG is the holding company of Tennant Creek Airport Pty Limited which holds a 50 year lease (with a free option to renew for a further 49 years) over Tennant Creek Airport (TCA).



Darwin International Airport (DIA)

DIA is the main international and domestic gateway to the Northern Territory and is Australia's closest airport to Asia. DIA provides facilities for international, domestic and regional passenger airlines and for general aviation and helicopter traffic. It also provides facilities for handling air freight and operates curfew free 24 hours per day and is located approximately 13 kilometres from the Darwin central business district on a site of approximately 311 hectares. DIA is a joint user airport where the civilian airport shares runway areas and associated infrastructure with the Royal Australian Air Force (RAAF). In the 2003/2004 financial year, the airport recorded approximately 985,000 domestic passengers and 197,000 international passengers.

Alice Springs Airport (ASA)

ASA is a significant domestic airport servicing the needs of the Central Australian region. ASA provides facilities for domestic and regional passenger airlines and for general aviation and helicopter traffic. It operates curfew free 24 hours a day. The terminal is located 14 kilometres south of Alice Springs on a site of approximately 3,550 hectares. ASA served approximately 610,000 domestic passengers in the financial year 2003/2004, with a significant proportion of passenger traffic associated with tourism.

Tennant Creek Airport (TCA)

TCA is a regional airport that was acquired as part of the privatisation of DIA and ASA. Located one kilometre from the remote outback township of Tennant Creek, the airport caters to mining companies and small predominantly aboriginal communities in the surrounding area, providing an important link for the local population with Alice Springs, Katherine, Darwin and regional centres. TCA has facilities for regular public transport and general aviation aircraft. The airport occupies a site of 323 hectares and has two runways together with associated taxiways and apron areas and a domestic terminal. There is no curfew imposed at TCA, nor is there a control tower or Airport Fire Services.

Principal Activities

The principal business activities that are undertaken at the airports include:

- airport operations;
- the development, provision and maintenance of core aeronautical infrastructure in conjunction with the RAAF;
- the provision, operation and maintenance of the combined domestic and international terminal;
- arrangement of safety and security services;
- car parking;
- retail and trading; and
- property management including utilities distribution and property development.

ADG will now comment on the specific areas asked of it by the ACCC.

3. Consultation Process

“The ACCC seeks comment on the effectiveness of Airservices’ consultation processes in its development of the draft price notification and the extent to which the proposal is supported by you or your organisation”

Airservices Australia (AA) did meet with management of Airport Development Group (ADG) to formally advise of the price notification process. This occurred at Darwin on 18 June 2004 and Alice Springs just prior. Rob Porter (Chief Fire Officer – Aviation Rescue and Fire Fighting) and Anthony Lawler (Finance Manager Airport Services) attended from AA Canberra. Bernie Smith, Chief Executive Office and Managing Director of AA subsequently met with ADG management on 14 September 2004.

ADG understands meetings were undertaken with the general aviation community at Alice Springs and are unable to comment on the extent of meetings with the general aviation community at Darwin. General Aviation movements make up approximately 68% of total aircraft movements at Alice Springs Airport and approximately 71% of total aircraft movements at Darwin International Airport. The ACCC may wish to seek comment on the effectiveness of the consultation process from the general aviation sector. The ACCC may also wish to seek comment on the consultative process with the Northern Territory Government.

ADG did appreciate the consultation afforded by Airservices Australia, specifically the personal meeting that was organised at each port. This forum enabled the pricing approach, principles and model to be reviewed. ADG is supportive of the determination of fair value using Depreciated Optimised Replacement Cost (DORC). Such determination of fair value should be extended to the value of ADG assets.

4. Risk Sharing Arrangements

“The ACCC seeks comment on the appropriateness of the risk sharing arrangement embodied in the proposal, in particular relating to the activity trigger mechanism, the approach taken to changes in Airservices’ capital expenditure program and changes in regulation.”

ADG understands and acknowledges the volatility that can occur within the aviation industry resulting in the need to review whether returns are appropriate.

ADG supports the risk sharing arrangements detailed by AA.

5. Operating Costs

“The ACCC seeks comment on the efficiency with which Airservices provides its services, including:

- ***The level of estimated operating costs reflected in Airservices’ proposal***
- ***Airservices’ incentives to, and effectiveness in, containing and reducing costs”***

AA continues to pay peppercorn rentals in respect of its operational facilities. Such practice does not represent market reality and therefore leads to inefficiency within the organisation as a real cost is hidden. Accordingly, AA should review their costs to include market values for land which it leases and commence paying same.

ADG presumes AA’s operating costs when benchmarked against other international operators are comparable. ADG recognises that Airservices Australia (AA) has achieved efficiency gains over the past few years and that this continues to be a focus of the organisation.

ADG will liaise locally with AA to more fully appreciate the costs structures. ADG notes for example that ASA has 21 ARFF staff whilst ADG as airport operator has 11 staff to operate the airport in its entirety, and in addition that ASA and DIA appear to have the same number of trucks despite the variation in operations. ADG assumes such levels result from regulatory requirements.

6. Capital Expenditure

“ The ACCC seeks comment on the efficiency of Airservices’ proposed capital expenditure program including:

- ***The appropriateness of the capital projects included within the proposal***
- ***The level of the estimated costs of the capital expenditure proposed***
- ***The approach taken to determining the capital expenditure program over the period covered by the pricing proposal”***

The level of investment at ASA and DIA would appear appropriate. Darwin has a relatively new Fire Station whilst tower services are provided by the Department of Defence. ADG notes that the ILS is scheduled for replacement as part of the DIA program.

In respect of ASA, both the fire station and tower have been established for a great number of years and possibly a provision should be established for future replacement. We note that ASA has been included as part of the

national tower upgrade and in addition has a number of projects scheduled including a VHF upgrade and control tower simulator. ADG does have concerns about the limited tower coverage after hours (post 1800) at ASA and would like to ensure that AA has provided sufficient resources for after hours emergencies and international operations.

7. Asset Base

“The ACCC seeks comment on:

- ***The efficiency of Airservices’ asset base***
- ***The appropriateness of Airservices’ new values for its asset base***
- ***The appropriateness of revaluing assets which had previously had a zero written down book value”***

ADG is supportive of the building block approach used by AA used to determine charges and in particular supports the use of Depreciated Optimised Replacement Cost in determining asset values.

ADG was pleased to see agreement within the Industry Steering committee to adopt this approach.

ADG further submits that the building block approach should also be used for determining pricing for aeronautical charges at Airports incorporating an appropriate value for aeronautical land and use of the Depreciated Optimised Replacement Cost for determination of fair value.

8. Rate of Return

“The ACCC seeks comment on:

- ***The appropriateness of Airservices’ proposed rate of return on capital***
- ***The proposal to apply a transition to a higher WACC by different rates of return in each year***
- ***The extent to which the proposal will act as an incentive on Airservices to achieve increases in productivity”***

Clearly industry has had the opportunity to review the rate of return issue through the Industry Steering Committee and Working Group for the pricing review where IATA, Qantas, Virgin Blue and BARA have been present. Whatever rate is determined for AA, should in no way influence rates applicable for Airports, particularly where risk profiles are different, the size and scale of our operations are markedly different and our cost of funds is much higher.

ADG is seeking to make a return on its aeronautical assets. It is therefore reassuring to note that the industry steering committee and working group for the AA pricing review is across this requirement. ADG will also be working with industry in determining a longer term pricing path for our Airports.

9. Activity forecasts

“The ACCC seeks comment on the reasonableness of Airservices’ activity estimates”

ADG notes the activity volumes for AA’s services. AA through the operation of the ATC has a large database of historical activity on which to base its calculations, and has used a recognised organisation to determine an estimate for future activity levels.

10. The structure of prices

“The ACCC seeks comment on whether the proposed method of cost allocation is appropriate”

It is disappointing to see the pricing structure adopted by a Government authority.

It is ADG’s strong view that pricing for AA services should be on a network basis rather than the location specific pricing adopted in the draft notification. Location specific pricing is sound on the basis that competition for service provision can be introduced that allows for efficiencies in providing that service and resulting falls in price. However AA operates as a network monopoly that totally excludes other service providers from entering in competition. Network pricing should stay until competition is introduced.

Furthermore, ADG believes location specific prices by AA discriminate and severely disadvantage regional and outback Australia, particularly small general aviation users which have a vital role to play in terms of transport, communication and medical services. General aviation is critical to regional areas in terms of the support services it provides, including communication (postal) and medical (aero medical service).

In the absence of network pricing ADG firmly believes the Government should subsidise remote and disadvantaged locations such as DIA and ASA just as it does for other essential services. AA provides essential services.

11. ‘Basin’ Approach to terminal navigation charges

“The ACCC seeks comment on the appropriateness and efficiency of the application of a capital city ‘basin’ approach to charging for terminal navigation services”

ADG supports the basin approach to terminal navigation charges.

12. Timing of price increases

“The ACCC seeks comment on the appropriateness of the phasing in of proposed price increases stemming from both changes in the structure of charging and from projected cost (operating and capital) increases.”

ADG reiterates that a network price is appropriate. Therefore, the question should not be in respect of timing but rather charging methodology.

In the absence of network pricing, and the introduction of location specific pricing, the Federal Government should provide a subsidy to AA for regional users.

13. Pricing across services and user groups

“The ACCC seeks comment on the appropriate method of achieving Airservices’ stated aim of avoiding cross-subsidies and on the appropriateness of the levels of cross-subsidies between services and user groups contained in the pricing proposal.”

ADG does not agree with the “stated aim” of removing cross-subsidies. Location specific pricing clearly seems at odds with the importance placed on regional Australia where it should not cost more to access key infrastructure purely because of your location.

Network pricing should apply because AA operates a network monopoly that totally excludes other service providers from entering in competition.

14. Impact on Users

“The ACCC seeks comment on the likely impact of the proposed prices on the users of airports and air traffic control services. In particular, the ACCC seeks comment on the likely impact on:

- *Demand for air travel*
- *Airline scheduling decisions*
- *Providers of other aviation services*
- *airfares.”*

ADG is not a direct user of AA services.