ACCC Information Request

2024 Draft Price Notification

Regulated Asset Base (A1 – A3)

A1. Please provide detailed explanations and supporting information on asset base roll-forward between 2011-12 and 2026-27, with breakdown into capital expenditure, depreciation, inflation adjustment and return on asset calculations where applicable. Please be clear on whether the values are in real or nominal $ values.

A2. Page 17 of the draft price notification explains that the RAB is not indexed for inflation. Please explain:
a. the application of this approach to asset roll-forward calculation and revenue requirement calculation – specifically, if RAB is not indexed for inflation, whether the amount of depreciation included in the allowable revenue is net of inflation adjustment or not
b. why this approach was taken and what stakeholders have said about this approach in Airservices' consultation, and
c. how this approach (as opposed to indexing for inflation) will affect revenue requirements and price paths in this notification and future price notifications.

Airservices applies a straight line depreciation calculation method, based on the original life of the asset and Airservices asset life accounting policies for asset lives. Airservices RAB and useful lives do not include revaluations (which are recognised in our statutory financial accounts).

Airservices has provided a separate spreadsheet detailing its asset roll-forward calculations used to derive its RAB.

Airservices has not indexed its roll-forward RAB, or depreciation for inflation in pricing calculations. This approach is consistent with previous price notifications. Airservices has had discussions around this approach with customers from time to time, who have not raised any issues.

The table below shows the impact on Airservices revenue allowance calculations if an alternate, RAB indexation approach, was applied following the expiration of our last pricing agreement in FY2016. This approach combines a nominal rate of return with an indexed RAB and negative revenue adjustment (to prevent double compensation for inflation).

Maximum Allowable Revenues with/without RAB indexation (financial years)*

$m	2024	2025	2026	2027	2028	2029	2030
MAR - without RAB Indexation	1,208	1,162	1,156	1,422	1,427	1,474	1,471
MAR - with RAB indexation	1,217	1,176	1,164	1,392	1,406	1,458	1,459
Change (%)	0.7%	1.2%	0.7%	(2.2%)	(1.4%)	(1.1%)	(0.8%)

***includes the impact of new services (WSIA, and new runways at Perth and Melbourne)**

The analysis shows the impact of indexation on the regulated asset base increasing revenue allowances over FY2024 – FY2026, followed by a reduction in revenue allowances (over FY2027 – FY2030) due to the significance of downward revenue adjustments associated with new asset commissionings associated with OneSKY (to be recovered through higher indexed RAB and depreciation allowances in later years).

A3. Page 17 of the draft price notification explains that material investment on capex for new services/systems (WSIA/OneSKY) only enters the RAB when commissioned. Please explain:
a. the application of this approach to asset roll-forward calculation and revenue requirement calculation
b. why this approach was taken and what stakeholders have said about this approach in Airservices' consultation, and
c. how this approach (as opposed to the 'as spent' approach) will affect the revenue requirements and price paths over the lives of these assets, and in particular, the impact in this notification and future price notifications.

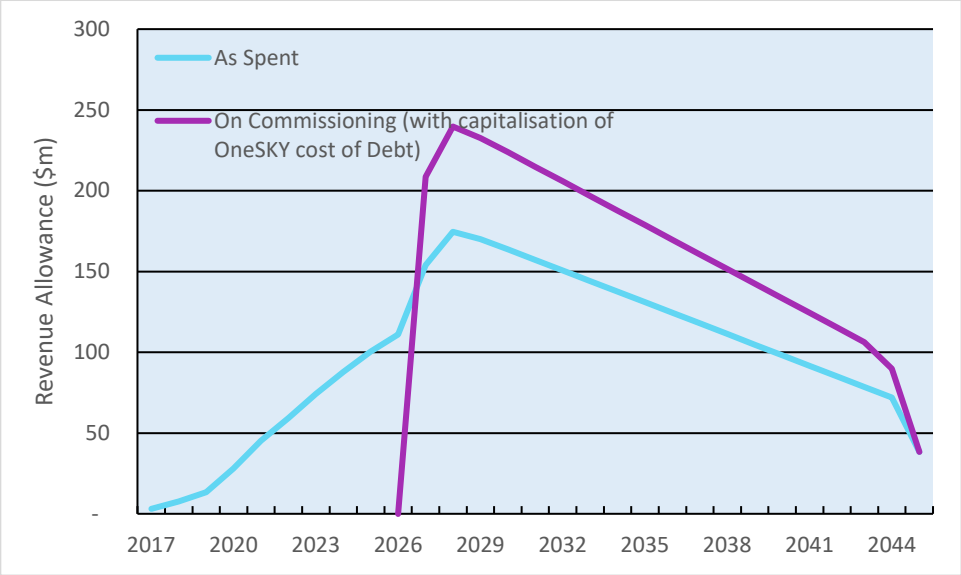
Airservices has received consistent feedback from customers suggesting that prices should not seek to recover costs associated with services until those services are available for use. In this regard customers have expressed opposition to the notion of pre-funding.

With this, Airservices has excluded upfront investment amounts from RAB and revenue allowance calculations for Western Sydney International Airport and OneSKY until the programs are commissioned and in use.

OneSKY is largely a replacement program. However, because of its long investment lead time (relative to other Airservices investments), and in line with customer feedback, Airservices has excluded specific OneSKY related capital investment from its regulated asset base (and revenue allowance calculations), so that customer prices are not impacted by the program until it is commissioned. In order to capture the time value of money of work in progress prior to commissioning this long horizon investment we have indexed historical investment relating to OneSKY for inflation and have applied our estimate of the real cost of debt to the balance of investment each year and capitalised into the regulatory asset base from FY2027.

The figure below compares the recoveries under this, 'on commissioned' approach, to an 'as spent' basis, with the 'on commissioned' approach leading to higher nominal levels of recovery in future years due to the impact of i) the capitalisation of the cost of debt on Return on Assets; and ii) the amortisation of the cost of debt.

Building Block Revenue Allowances for OneSKY and WSIA investment (Depn/Amort and RoA)



Considering the application of the alternative 'as spent' pricing approach, it could be argued that that revenue allowances (for return on assets) for OneSKY during the construction phase could be recovered under existing enroute and terminal navigation charges that the investment relates to. For Western Sydney International Airport investment this approach

would not be possible with no existing Terminal Navigation, or ARFF charges for this service location.

Operating Expenditure (A4 – A6)

A4. Please provide forecasts for both staff numbers and cost of salaries for 2023-24 to 2026-27 used to forecast operating expenditure, broken down by staff type.

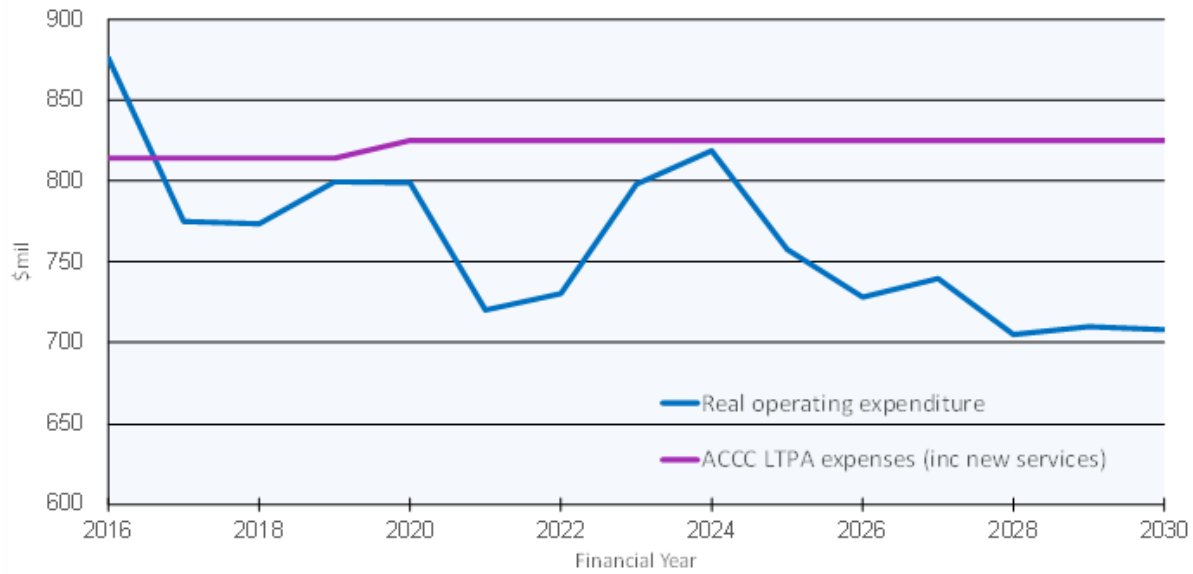
A5. Please provide actual operating expenditure from 2011-12 to 2022-23 and forecasts to 2026-27, and explanations of:
a. what the drivers are for changes in actual operating expenditure during the period
b. operating expenditure forecasting methodology, such as sources of operating expenditure changes and their quantifications
c. the impact of a gradual shift to outsourcing of costs (considering operating and capital expenditure, with further breakdown within operating expenditure) over the historical period, whether the trend continues over the forecast period, and
d. the forecast 10% operating cost savings by 2026-27.

A6. Figure 19 on page 44 of the draft price notification shows both real operating expenditure and ACCC LTPA expenses (including new services). Please provide an explanation of what this chart is showing and reasons for the movements in the trend lines.

Operating Cost Movements

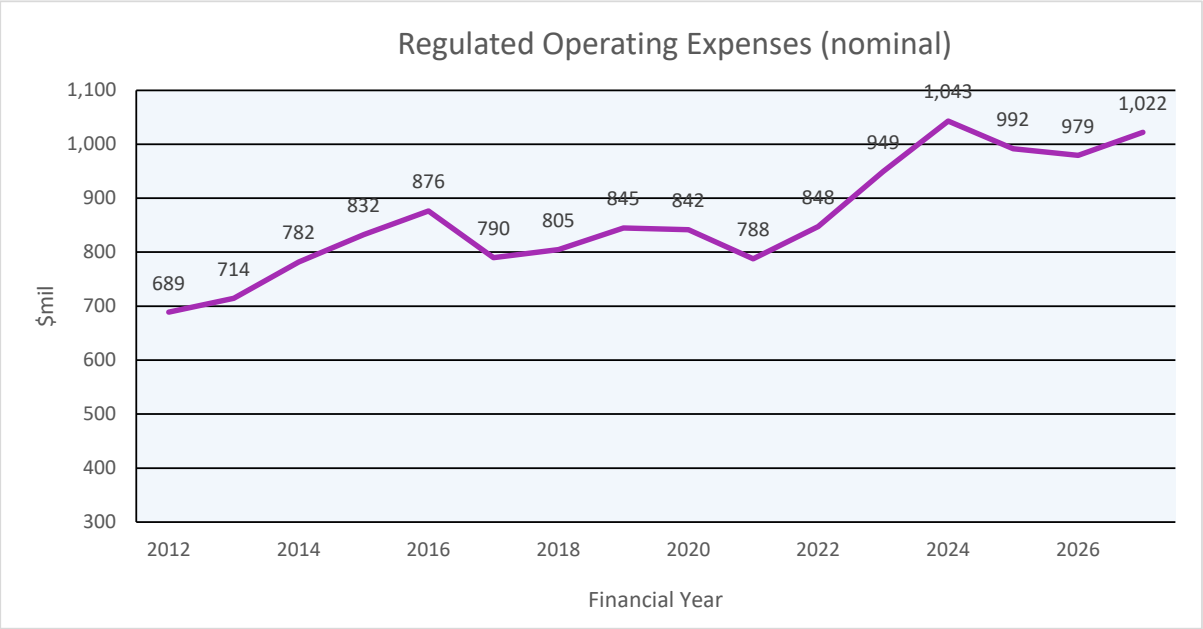
Figure 19 (below, pg 44 our Draft Price Notification) shows Airservices cost management performance, illustrated by the downward change in Airservices regulated operating expenses, relative to inflation and the benchmark FY2016 operating expenditure forecast (adjusted) as reviewed by the ACCC in their 2011 pricing decision.

Figure 19: Real Operating Costs (excluding depreciation) ($FY2016)



The adjustment to the $794m FY2016 benchmark (as reviewed by the ACCC) reflects additional services costs of $20m from FY2016 to FY2019 and $31m from FY2020 onwards for new services at Ballina, Gladstone, Newman, Brisbane parallel runways, Whitsunday Coast, and service upgrades across 7 ports which were not included when the pricing agreement was established (real operating expenses shown excludes non-regulated expenses and one-off expenses relating to such things as business restructuring).

In nominal terms, the chart below provides information on actual and forecast regulated operating expenses included in this price notification (excluding one-off statutory accounting adjustments and restructuring costs).



Over the period, the major drivers of cost movements are outlined in the table below.

Drivers of Cost Change.

Financial Year	Comments
FY2014 – 2016	Cost increases driven by ARFF services expansion, increased project delivery resources to support capital investment growth (following underinvestment in the 2000's due to the potential privatisation of parts of Airservices), and the impact of CASA mandate on ARFF training costs (centralised training with foam).
FY2017	Savings from Accelerate Program
FY2019 – 2020	Cost increases associated with improved IT capability, including cyber uplift, operationalisation costs for new OneSKY voice switch, and start-up costs for new Brisbane runway and ARFF services at Proserpine.
FY2021	Response to COVID and business restructuring savings
FY2023 – 2024	Cost increases associated with managed services solution (non-capital) implementation costs for Airservices Enterprise Network Modernisation Program. Reduction in short term/one-off (response to COVID) savings in line with recovering (post COVID) service demand
FY2025 – 2026	Airservices change program transformation savings
FY2027	Cost impact of OneSKY commissioning (support cost increases) partly offset by transformation program savings

Operating expenditure forecasting methodology

Airservices operating expenditure forecasts, as shown above (as incorporated in the price notification) have been modelled using:

- existing workforce and staff cost information grown using wage price index forecasts (where enterprise agreement has expired)
- supplier cost run rates grown using CPI forecasts
- changes in forward workforce numbers based on workforce plans
- changes in asset support costs based on service changes and new major infrastructure commissionings/decommissionings in line with our forward change program
- changes in project operating expenses based on our forward change program investment (CapEX and OpEX) forecasts
- cost savings estimates based on change program strategic business case information and diagnostics

Staff Numbers and Cost Modelling

Table 4 (pg 16) of our Draft Price Notification shows information on historical staff numbers (headcount), as reported in our annual report. For cost modelling purposes Airservices uses average Full Time Equivalent (FTE) staff number forecasts which is different to headcount information. FTE numbers weight head count in proportion to their full time (e.g. FTE working 5 days a week = 1.0), or part time (e.g. FTE working 2.5 days a week = 0.5) working arrangements.

Using FTE workforce forecasts, current salary data, salary on-cost rates, forecast pay rise growth rates and estimates for overtime and allowances Airservices has calculated the following staff costs and staff numbers (FTE) to include in our operating cost forecast projections.

Forecast Salaries, Oncosts, Overtime & Allowances (Financial Year)*

$m	2024	2025	2026
Air Traffic Management	318	344	358
Aviation Rescue & Fire Fighting	122	136	142
Engineering, Technical & Info Technology	68	70	73
Other	170	177	183
TOTAL	**678**	**727**	**756**

*** Notes:**

1. Forecasts exclude:
   a. Agency & contractor impacts predominantly engaged to deliver our capital investment plan
   b. Staff costs transferred (capitalised) to our capital investment program
   c. Staff cost savings from our change program (see below)
2. Oncosts and allowances include, superannuation, leave, payroll tax, and specific duty allowances

Change Program Financial (Savings) Impacts

As part of Airservices transformation and COVID recovery strategy 10 changes programs were established to help connect our long term transformation with our near term execution and recovery plan. To deliver the targeted outcomes of the strategy savings programs were identified to reduce funding requirement to ensure longer term affordability. In real terms taking, into account the net of program savings and cost increases to support new capabilities, this transformation program is forecast to deliver real savings of 10% over the term of the notification.

The nominal, net financial impacts, of the change programs incorporated in the Draft Price Notification are shown in the table below.

*Excludes one-off program non-capital operating expenditure delivery costs (i.e. project implementation costs which can not be capitalised)

Outsourcing of costs

Airservices has sought to outsource some of its functions where there are competitive markets that offer economic value, or improved capability and expertise over and above own and operate service delivery models.

Most notably, Airservices outsourced its back office information technology infrastructure (and related support services) which reached end of life at the end of the last pricing agreement. It is estimated that this program outsourced approximately $18m of assets and related internal support transferring $3m depreciation and $5m in annual staffing costs onto supplier costs. Whilst this transfer did not significantly impact costs, (only its categorisation), where many of the service implementation and transition costs are required to be expensed in the period they are incurred this created some one-off increases in expenses, in comparison to an own and operate model which amortises the majority of implementation costs over the asset service life.

Looking forward Airservices is in the process of outsourcing its national network infrastructure, VHF communications infrastructure and ADS-B infrastructure through its Enterprise Network Modernisation Program (ENMP). This program is forecast to similarly shift costs from staff and depreciation expenses to supplier costs, with significant one-off implementation costs expensed ($79m in FY2023). Airservices is also pursuing cloud based asset solutions for its financial/enterprise resource planning system, and some of its new Airways Information Technology systems (including Airport Collaborative Decision Making) and considering the feasibility of outsourcing its fleet of fire vehicles.

Capital Expenditure (A7 – A11)

A7.Please provide a table of detailed capital expenditure projects and level of investment included in the current proposal's MAR for each year between 2023-24 and 2026-27 (similar to the level of detail for Table 34 on page 65 of the draft notification).

The below table provides detail on the capital investment plan underpinning Airservices price notification, with highlights on those projects which have been either excluded, or where specific treatment (i.e. OneSKY) has been applied to RAB and revenue allowance calculations.

COMMERCIAL – IN – CONFIDENCE

A8. Please explain and describe all capital expenditure projects related to OneSKY that are included in this pricing proposal's MAR.
A9. Please confirm whether the 'as commissioned' approach is applied to capex for the OneSKY program, and explain:
a. under the 'as commissioned' approach, how capital expenditure, depreciation and return on assets for the OneSKY program have been included in the RAB and revenue requirements in 2026-27

To calculate allowable revenues Airservices predominantly applies an 'as spent' approach to capital expenditure. Due to the muti-year duration of the OneSKY, Airservices has excluded some capital expenditure delivered by this program from the RAB calculations until CMATS is commissioned in FY2027. The table below provides information on this approach for OneSKY related investment.

OneSKY Program Projects

Project	Description
OneSKY Investment included in RAB on 'as spent basis'	
Early Voice Communications System	Replacement of the legacy voice communications technology at Brisbane, Melbourne, Sydney and Perth with a Voice Over Internet Protocol (VOIP)
Equipment Rooms	Dedicated equipment rooms to house operational equipment.
Existing ATSC's Refurbishment	The decommissioning and removal of the existing air traffic management system (TAAATS) also requires refurbishment of existing TAAATS operations rooms and upstairs office spaces.
Training Support Facilities	The training support facilities include the CMATS Pseudo Pilots Room, Operational Simulator and Training Systems (OSTS), Ab Initio Simulator and Training System (ASTS) and Part TASK Trainers used for skill-specific training. These facilities are located in the CMATS Air Traffic Services Centres
Technical Operations Centres	Located in the Brisbane and Melbourne ATSCs, the Technical Operations Centre (TOC) provides system monitoring, system administration and fault reporting management; system recovery using control and monitoring tools; configuration changes and preventive maintenance actions to restore system functionality.
Joint Software Support Facility and Support Platform Space	Located in Melbourne, the Joint Software Support Facility (JSSF) will provide a range of support functions for CMATS including test and evaluation, data adaptation, final verification, and installation.
OneSKY Investment included in RAB from FY2027 when CMATS is commissioned	
CMATS	At the core of a harmonised system is the Civil Military Air Traffic Management System (CMATS) to replace the current independent civil and defence systems.. A single, shared air traffic management system will support a joint and integrated Defence force by enabling more strategic, contemporary, integrated, and agile air power capability.
Bypass CMATS Voice Communication System	An independent, backup voice switch that can be used if the primary CMATS Voice Communication System is not operational. This provides enhanced reliability and resilience, providing a backup capability to all civil operator positions for our enroute and terminal area operations.
Integration Works	Integrating new technologies with existing Airservices air traffic management systems - including systems which require updating, modification, acquisition or decommissioning
CMATS Air Traffic Services Centres (ATSCs)	Purpose-built Air Traffic Services Centres (ATSCs) in Brisbane, Melbourne and Perth to house the new system and operations room

Adopting this approach the table below shows the specific OneSKY investments that have been excluded from the RAB and allowable revenue calculations until CMATS is commissioned in FY2027:

Regulated Asset Base Calculations - OneSKY Investments excluded from RAB until CMATS commissioning in FY2027

	Op Bal FY2024 (exc from RAB)			FY2024-26 mvts (exc from RAB)			Cl Bal FY2026 (exc from RAB)		
$mil	**CapEX**	**Cap of Cost of Debt**	**TOTAL**	**CapEX**	**Cap of Cost of Debt**	**TOTAL**	**CapEX**	**Cap of Cost of Debt**	**TOTAL**
OneSKY Civil Military Air Traffic System (inc): Bypass CMATS Voice Communications System OneSKY Integration Work	670	159	829	190	190	381	860	349	1,209
OneSKY Air Traffic Services Centres *BN, ML, PH ATSC's*	142	40	182	0	37	37	142	77	219
TOTALS	**812**	**199**	**1,011**	**190**	**227**	**418**	**1,002**	**426**	**1,429**

b. why the return on asset capitalisation is calculated using annual cost of debt rather than WACC, as shown in the 'Assets' tab, 'Pricing_Data' spreadsheet

Airservices has used the cost of debt to capitalise investment in OneSky during the construction phase. This is a conservative approach with most regulators using the WACC in similar circumstances.[1]

The rationale for doing so is that during the construction phase, the costs of OneSKY are not being recovered in revenues and, therefore, are not exposed to volume risk associated with aircraft traffic movements. Given that it is exposure to aircraft traffic movement risk that is the main driver of equity risk for Airservices it is, arguably, inappropriate to compensate Airservices for exposure to that risk on OneSKY investment prior to OneSKY investment being recovered in revenues.

A10. Please confirm whether the 'as commissioned' approach is also applied to other new services (WSIA and New Runways at Perth and Melbourne), and in which year (to be rolled in the RAB).

Western Sydney International Airport

Investment associated with Western Sydney International Airport (WSIA) will be rolled into Airservices RAB on an 'as commissioned' basis and scheduled to be commissioned and rolled into Airservices RAB in FY2027. Note, WSIA asset impacts have been excluded from this price notification (and RAB) and will be subject to a separate price notification and industry consultation process.

New Runways at Perth and Melbourne

Investment associated with new runways at Perth and Melbourne will be rolled into Airservices RAB on an 'as commissioned' basis. New runway asset impacts are excluded from this price notification and will be the subject of a future price notification with services scheduled to be commissioned in FY2029 and FY2030.

A11. Please confirm whether and explain how all other capital expenditure has been included in the RAB on an 'as spent' basis.

With the exceptions noted above (specific OneSKY, and new runways at Perth and Melbourne investments and Uncrewed Services investments), all other capital expenditure has been included in Airservices RAB on an 'as spent' basis.

These capital expenditure estimates are based on Change Program forecasts (as incorporated in our 2024 Corporate Plan) which take into account project schedules for in-flight works and project forecasts for works in planning.

[1] For example, see AER, Draft decision, Transgrid Waratah Super Battery (non-contestable) (1 July 2024 to 30 June 2029). See Section 6.2.3 where the AER applies an estimate of the WACC to capitalise "its pre-period expenditure to form an opening RAB as at the start of the relevant regulatory control period" (p.30). That said, we note that energy businesses are subject to a revenue cape and are not subject to the same traffic volume risk as Airservices. Consequently, there is only a 1.1% difference between the AER estimate of WACC and the AER estimate of cost of debt for Transgrid in 2023-24.

Return of Capital (A12 – A13)

A12. Please explain the depreciation method applied.
A13. Please explain and describe what useful life of assets has been applied for the purpose of calculating depreciation.

Airservices applies a straight line method to calculate depreciation, based on the original lives and Airservices accounting policies for asset useful lives. Airservices RAB and useful lives do not include revaluations (which are recognised in our statutory financial accounts).

The below table provides information on the assets in Airservices (FY2024) opening RAB.

FY2024 Opening RAB Balance by Class	Opening Balance ($m)	Remaining Life (yrs)	Avg Useful Life (yrs)
Airways Technical Equipment	260.9	4	12
Vehicles	32.5	6	17
Office and ADP Equipment	1.9	2	8
Control Towers & Equipment	48.9	8	17
Buildings & Amenities	175.6	10	18
Applications & Operational Software	52.0	10	17
Sub-total	**571.9**	**6**	**14**
Land	10.5		
Assets Under Construction	117.4		
TOTAL	**699.8**		

The useful lives applied to Airservices forward investments (CapEX) and assets under construction, which are commissioned during the term of the price notification, have a weighted average life of 20 years. Commissioning dates for forward investments and assets under construction are based on project schedules and forecast information.

Return of Capital, Incenta Consulting Report (A14 – A16)

A14. For the asset beta estimates:
a. please confirm what comparators are used. Page 2 of the report refers to 29 airports and 19 comparator firms. The text on page 8 of the report above Table 2 of the report notes that the full sample has 26 airports and the comparator sample has 17 comparators, yet Table 2 has 28 airports and 19 comparators.

Table 2 (and other tables) are correct:

- Total sample considered was 29 businesses (28 airports and ENAV (airport traffic controller))
- 9 airports were found to have illiquid stock and were rejected
- ENAV was rejected due to its regulatory framework, which left 19 comparators.
- References in the text to 17 and 26 were an error. During preparation of the advice we commenced with the sample we used in a previous task (the 26 and 17), but subsequently discovered an additional 2 airports and ENAV, which resulted in the total sample increasing to 29 and number of comparators relied upon increasing to 19. The text to reflect this was not updated.

b. please explain why there was a need for Incenta to round down its estimate from 0.72 to 0.7.

Beta estimation is subject to error, which is why Incenta chose to round the beta estimate to 0.70. Rounding is something that Incenta frequently do in relation to asset betas, although this is an area where practice varies.

c. please explain why the bid-ask spread rather than the total return index was used to determine the asset beta values.

Incenta applied the bid-ask spread as a measure of liquidity, and removed firms with low stock liquidity from the sample in the same manner as the New Zealand Commerce Commission[2]. Incenta estimated asset betas in a conventional manner (i.e. via regression of shareholder returns against market returns).

A15. For the benchmark gearing:
a. Please confirm what comparators are used. The text above Table 3 on page 10 of the report notes that 17 comparators are used, yet Table 3 has 19 comparators

This is a typographical error. The same 19 airport comparators are used in estimating beta and benchmark gearing.

A16. For the debt risk premium estimate:
a. please explain why Incenta decided not to include the Refinitiv (page 2 of the report).
b. Incenta states on page 2 of the report that they 'do not expect this to result in a material difference'. Please explain how this can be verified.

Incenta did not include the Refinitiv (Thompson Reuters) estimate of the debt risk premium as it does not subscribe to this financial data service. Incenta subscribe to Bloomberg and obtained the RBA's estimates from its website.

This statement is based on the findings of the AER (Australian Energy Regulator). In Figure 9 of the AER's Omnibus report on the regulatory rate of return Incenta found that in recent years the RBA debt risk premium for matched term A/BBB debt has been above the Bloomberg debt risk premium, with the Thompson Reuters (Refinitiv) spread lying in

[2] Bid-ask spread has a long history as an indicator of stock liquidity. For example, see Amihud, Y. and H. Mendelson, (1986), "Asset pricing and the bid-ask spread," *Journal of Financial Economics*, 17 (2), pp.223-249.

between[3]. The RBA's estimated A/BBB yields continued to lie above the Bloomberg yields during the period of estimation in our report (July, 2023). Incenta therefore expect the weighted average of the RBA and Bloomberg yield estimates (and hence debt risk premiums) to be relatively close to the estimate that would be obtained if Refinitiv data were included.

Aviation Traffic Forecasts (A17 – A18)

A17. Please provide and explain the data, modelling, and results underpinning the traffic forecasts, including the two scenarios examined and the final set of traffic forecasts used in support of the draft price notification.

See **Attachment 1,** TFI Draft Note: Traffic Scenario Development Methodology for Airservices Australia, for information on forecast modelling and scenario development.

Based on this information the traffic forecasts incorporated in Airservices Draft Price Notification reflects the upper range for FY2024, following the belated recovery of international traffic (which previous lagged during FY2023), with moderating growth (at the mid-point of the ranges) for the remainder of the pricing term.

A18. Table 27 on page 52 of the draft price notification presents airways traffic data (2022-23 to 2026-27). Please explain the last row on 'Draft Pricing Proposal':
a. whether this relates to volume forecasts, and why it differs from the 'weighted average growth' calculation, and
b. whether 22% is over the four-year period (2023-24 to 2026-27); that is, the 'n/a' in 2026-27 equals zero.

The last row on Table 27 of the price notification was included as a reference point to the Draft Price Proposal which was discussed with industry earlier this year. It reflects the weighted average traffic growth. The Proposal did not consider traffic for FY2027. 22% is FY2026 growth on FY2023 (three years).

Aviation Traffic Forecasts, Tourism Future International Report (A19 – A21)

See **Attachment 1,** TFI Draft Note: Traffic Scenario Development Methodology for Airservices Australia, for information on forecast modelling and scenario development.

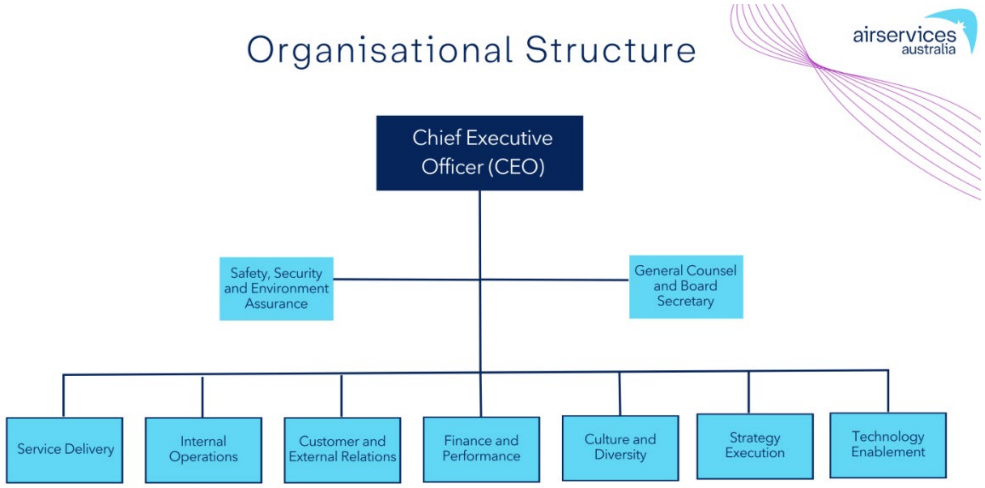
[3] Australian Energy Regulator (December, 2021), Rate of return, Overall rate of return, equity and debt omnibus – Final working paper, p.82.

Allocation of Costs (A22 – A24)

A22.Please provide and describe cost allocation method, including cost/allocation (This may include information such as cost allocation principles, methodology, consolidated separate accounts, accounting separation record keeping, reporting and assurance framework, procedures and methodology for establishing and maintaining separate accounts, associated reporting and external assurance arrangements):
a. between the services within the price notification and the services outside the price notification, and provide detailed description of the scope of services outside the price notification.
b. within each of the three services under the price notification, and
c. between the Department of Defence and Airservices for the OneSKY. Please distinguish between investment included in the current draft notification, and the future notifications.

Airservices organisation and accounting cost centre hierarchies are structured functionally, with cost accounting and allocation principles governed by AASB accounting standards and an internal framework of financial management policies and management instructions.

Under these arrangements discrete accounting cost centres are used to collect direct costs (staff, supplier and assets costs) associated with the provision of services for both regulated and unregulated (Other Commercial) activities under dual-till accounting processes. For pricing purposes, estimates of fully allocated, 'total service costs', are calculated outside of Airservices enterprise accounting system using cost allocation drivers and statistics.



Airservices total running costs (expenses before interest and tax) are forecast between $1.1b - $1.2b per annum over the next 3 years.

Airservices 2024 Corporate Plan

($m)	FY2023 Forecast	FY2024 Plan	FY2025 Plan	FY2026 Plan
Revenues	**914.4**	**1,047.9**	**1,221.2**	**1,327.6**
Staff costs	671.0	746.9	757.1	786.7
Supplier costs	332.0	303.6	257.6	213.8
Depreciation	109.0	130.7	141.6	156.0
Total expenses before interest and tax	**1,112.1**	**1,181.1**	**1,156.2**	**1,156.4**
Earnings before interest and tax (EBIT)	(197.7)	(133.2)	65.0	171.2
Net profit/(loss) after tax (NPAT)	**(165.3)**	**(122.7)**	**4.6**	**74.1**

Of these costs:

a) Approximately 97% have been included in revenue allowance calculations incorporated in this the Draft Price Notification.
b) Approximately 1% relate to services that will be subject to future price notifications, and have been excluded from this price notification (e.g. Western Sydney International Airport, Perth and Melbourne new runways and Uncrewed Services).
c) Approximately 2% relates to other services (Other Business Revenue costs) delivered under contract which are not subject to ACCC price notification, and have been excluded from this Draft Price Notification.
d) Airservices cost base includes expenses related to the provision of 'Other Business Revenue' activities to the Department of Defence. However, no Department of Defence costs relating to OneSKY are included Airservices cost base.

Other Business Revenue Costs

To account for costs associated with Other Business Revenue activities Airservices has specific 'Other Business Revenue' and 'Other Business Revenue Projects' business procedures to identify, manage, establish staff roles and responsibilities associated with these activities. Key elements of these procedures are that costs relating to 'Other Business Revenue' activities should be accounted for discretely to ensure there is not cross subsidisation across regulated and unregulated business activities. To further help with identification of 'Other Business Revenue' costs, where relevant, partial labour effort is also recorded separately through time-sheeting, and in some cases work-breakdown-structures are utilised to further isolate costs from 'Regulated Costs'.

To determine fully allocated 'Other Business Revenue' costs Airservices applies a common cost allocation methodology across all of its services (both regulated and unregulated) to ensure an appropriate level of indirect costs are attributable to the service. These cost allocations are calculated outside of Airservices enterprise accounting.

Examples of Other Business Revenue activities include:

Service	Example
Training Services	The provision of training services to external parties, such as fire training courses
Consultancy Services	The provision of subject matter advice to airports, neighbouring Air Navigation Service Provider counterparts, or the Department of Defence
Fire Services	Fire alarm monitoring services to aerodrome buildings
Data Sales	The sale of flight movement data to external parties, such as airports

Service	Example
Maintenance Services	The provision of airways equipment maintenance, flight inspection and system calibration services and (e.g. for non-Airservices/privately owned infrastructure and the Department of Defence)
Non-Aviation Revenue	Includes site-sharing property rentals from telecos (e.g. Vodafone)
Publication Sales	Sales of Airservices publications through Booknet

Services Costs Subject to Future Price Notifications

To identify costs associated with services that will be incorporated in future price notifications (which are excluded from this price notification), Airservices uses accounting work-breakdown-structures to discretely account for all staff and supplier costs associated with the activity. During the service implementation phase (prior to service commencement) these costs are managed through our Investment Program delivery teams.

Services Costs included in the Price Notifications

Of the remaining costs (after excluded costs are deducted from cost base), costs are then aggregated into cost pools (as described in section 2.2 of the Draft Price Notification) which are then allocated to services and locations based on a range of different allocation methods. The allocation methods are broadly consistent with methodologies applied in previous price notifications. The [SLC 0].xlsx excel service cost allocation model provides information on the specific cost allocation statistics used.

Allocation of costs between Airservices and Defence for OneSKY

All current OneSKY related investments included in this draft notification and the future notification reflect Airservices share of costs only. Defence share of costs are not included in the current pricing notification and will not be included in the future notifications.

The sharing and allocation of OneSKY costs between Airservices and Defence is managed through a formal ‘On Supply Agreement’. This agreement is supported by a Joint Governance Framework and associated Committees and review Boards (with joint memberships). More information the cost sharing principles between Airservices and Defence is contained in section 4.4 of the Draft Price Notification.

To discretely manage and account for all costs associated with the OneSKY program Airservices uses accounting work-break-down-structures. These costs are managed by Airservices Investment Program OneSKY delivery team. All program costs are captured in these work-break-down structures with contra-accounts used to clear Defence share of program costs to balance sheet provisions.

A23. Please provide and explain for TN and ARFF services (including calculations):
a. the value of subsidies (past, current, and projected) from large airports to basin and regional airports, and
b. the price caps at basin and regional airports.
A24. Please provide and explain the value of subsidies (past, current, and projected) between en route, TN, and ARFF services.

Service Line Cross Subsidies

The table below provides information on service recoveries, estimated allowable revenues and resulting services surpluses/shortfalls. Forecasts for FY2027 – FY2030 include the impact of new services for Western Sydney International Airport and new runways for Perth and Melbourne.

$m	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Revenue Recoveries														
Enroute	505	529	536	405	187	248	409	484	548	603	634	648	662	677
Terminal Navigation	359	366	368	287	156	201	308	352	419	484	513	525	536	549
ARFF	181	186	190	147	73	102	156	171	207	237	252	257	263	269
TOTAL	**1,045**	**1,081**	**1,094**	**838**	**416**	**551**	**873**	**1,006**	**1,174**	**1,324**	**1,398**	**1,430**	**1,462**	**1,495**
Estimated Allowable Revenues (excluding one-off costs)														
Enroute	464	468	485	477	445	460	509	519	494	485	621	666	679	671
Terminal Navigation	371	372	385	379	354	369	412	429	430	431	530	512	530	534
ARFF	212	212	219	216	203	212	229	261	237	238	271	248	264	264
TOTAL	**1,047**	**1,051**	**1,089**	**1,072**	**1,002**	**1,041**	**1,151**	**1,208**	**1,162**	**1,154**	**1,422**	**1,426**	**1,473**	**1,469**
Service Line Surplus/(Shortfall)														
Enroute	41	61	51	(72)	(258)	(212)	(101)	(35)	53	118	13	(18)	(17)	6
Terminal Navigation	(11)	(6)	(16)	(92)	(198)	(168)	(104)	(77)	(11)	53	(17)	12	7	15
ARFF	(31)	(26)	(29)	(70)	(130)	(110)	(74)	(90)	(30)	(1)	(20)	9	(1)	5
TOTAL	**(2)**	**29**	**5**	**(234)**	**(586)**	**(490)**	**(278)**	**(202)**	**12**	**170**	**(24)**	**4**	**(11)**	**26**

The table below provides information on the driver of service line surpluses and shortfalls.

Drivers of Service Surpluses and Shortfalls

Period	Comments
FY2017 to FY2019	• Enroute services surpluses were driven by Accelerate program savings and stronger international revenues associated with Chinese carrier services growth. To help rebalance these surpluses Airservices reduced enroute prices by 4% in FY2020. • Terminal Navigation recoveries were largely in line with revenue allowances, partly impacted by services cost increases associated with new Port Hedland AFIS and start up costs for new runway services at Brisbane. • ARFF services shortfalls were predominantly driven by services expansion that was not considered in 2012-2016 LTPA revenue allowances (and prices), including 3 new fire services and services upgrades driven by increases in category 7 aircraft operations into regional ports and new and expanded international services into Adelaide, Avalon, Canberra and Gold Coast airports.
FY2020 to FY2023	• There were no service surpluses with all services incurring shortfalls over FY2020 – FY2023 as a result of the impact of COVID-19 on traffic.
FY2024 to FY2027	• Following COVID-19 proposed prices have been set to rebalance service line recoveries over a price path which takes into account the traffic recovery, the impact of OneSKY on Enroute and Terminal Navigation services costs and affordability. • Under a future pricing agreement prices will need to be rebalanced to consider actual traffic growth/recovery outcomes and the impact of new Terminal Navigation and ARFF services for Western Sydney International Airports and new runways at Perth and Melbourne.

Price Caps

To improve affordability, proposed prices include the following price caps across all service locations (including capital city basin and regional ports).

Maximum Pricing Increases

Service	Apr 24	Sep 24	Jul 25	Jan 26
Terminal Navigation	7.5%	7.5%	6.0%	6.5%
ARFF*	6.0%	7.0%	5.0%	5.0%

Excludes the impact of pricing increases relating to ARFF services upgrades (e.g. upgrade of service from category 6 to category 7.

Capital City Cross Subsidies

The below table provides information Terminal Navigation and ARFF capital city cross subsidies to Metro-D capital city basin ports and regional locations. No surpluses were generated over the period FY2020 to FY2024.

Terminal Navigation (TN) Surpluses/(Shortfalls)

$m	FY2017-19 (avg)	FY2020-24	FY2025	FY2026	FY2027
Major Capital City Surpluses	28	n/a	33	89	53
Metro D Shortfalls					
Archerfield	(4)	n/a	(4)	(4)	(4)
Bankstown	(6)	n/a	(5)	(5)	(5)
Camden	(2)	n/a	(2)	(2)	(2)
Essendon	(3)	n/a	(3)	(3)	(3)
Jandakot	(6)	n/a	(6)	(7)	(7)
Moorabbin	(5)	n/a	(6)	(6)	(6)
Parafield	(6)	n/a	(5)	(6)	(6)
TOTAL	**(32)**	**n/a**	**(31)**	**(32)**	**(34)**
Other Location Surplus/(Shortfall)	(7)	n/a	(13)	(4)	(17)
Western Sydney International Airport (future price notification)	n/a	n/a	n/a	n/a	(20)
Total TN Surplus/(Shortfall)	**(11)**	**n/a**	**(11)**	**53**	**(17)**

* Terminal Navigation major capital city basins include Adelaide, Brisbane, Melbourne, Perth & Sydney

Aviation Rescue & Fire Fighting Surpluses/(Shortfalls)

$m	FY2017-19 (avg)	FY2020-24	FY2025	FY2026	FY2027
Major Capital City Surpluses	25	n/a	47	74	80
Category 6 Location Shortfalls					
Alice Springs	(4)	n/a	(4)	(4)	(4)
Avalon	(5)	n/a	(5)	(5)	(6)
Ayers Rock	(4)	n/a	(3)	(4)	(4)
Ballina	(5)	n/a	(4)	(4)	(5)
Broome	(4)	n/a	(4)	(4)	(4)
Coffs Harbour	(4)	n/a	(4)	(5)	(5)
Gladstone	(5)	n/a	(4)	(4)	(4)
Newman	(5)	n/a	(3)	(4)	(4)
Hamilton Island	(4)	n/a	n/a	n/a	n/a
Rockhampton	(5)	n/a	(5)	(5)	(6)
Sunshine Coast	(5)	n/a	n/a	n/a	n/a
Whitsunday Coast	n/a	n/a	(3)	(4)	(4)
TOTAL	**(48)**	**n/a**	**(41)**	**(42)**	**(45)**
Other Location Surplus/(Shortfall)	(6)	n/a	(36)	(33)	(34)
Western Sydney International Airport (future price notification)	n/a	n/a	n/a	n/a	(20)
Total ARFF Surplus/(Shortfall)	**(29)**	**n/a**	**(30)**	**(1)**	**(20)**

* ARFF major capital cities include, Brisbane, Melbourne, Perth & Sydney. Whitsunday Coast Airport was established in FY2020. Hamilton Island and Sunshine Coast have now increased service levels to category 7

Pricing Data Spreadsheet (A25 – A28)

A25. In the '2024', '2025', '2026' and '2027' tabs for rows 73-90 please explain what the rows on 'Terminal Navigation Basin Recovery' estimate are, and what these values are used for. Please explain the calculations, as these do not appear to line up with the column headings.

Noting that this file was developed to present pricing information to the ACCC, and not to determine actual proposed prices levels, these rows have been found to contain errors in formula references. The corrected formulas should carry down adjacent terminal navigation service location information presented above in the rows 14 to 44 for each location belonging to a capital city basin. A revised file with corrections to these formulas has been shared.

b. Please provide a copy of this spreadsheet to determine how the allowable revenue for the different services were calculated.

A copy of the source spreadsheet [SLC0.xlxs] has been shared separately.

A26. For rows 4 and 5 in 'Price Growth' tab: Please provide the source for the growth rates for 'TN' and 'ARF'. We note that the 'ENR' growth rates align with the summary in the draft price notification, but the source of the values for TN and ARF is not clear.
A27. Please provide explanations for the hardcoded (shaded) cells in the 'Prices' and 'Price Growth' tabs. Please provide detail on why these manual adjustments were necessary and what the basis was for these adjustments.

Price growth rates reflect the maximum pricing increase for service locations as discussed in Section 2.1 (pg 54) of the Draft Price Notification and shown in Table 29, below.

Table 29: Maximum pricing increase

Service	Apr 24	Sep 24	Jul 25	Jan 26
Enroute	4.5%	4.5%	2.0%	1.0%
Terminal Navigation	7.5%	7.5%	6.0%	6.5%
ARFF*	6.0%	7.0%	5.0%	5.0%

* Excludes the impact of pricing increases relating to ARFF services upgrades (e.g. upgrade of service from category 6 to category 7

Where the application of this maximum pricing increase leads to cumulative over-recoveries for service locations (on a present value basis), the rate of increase has been adjusted to align with service location allowable revenue levels. Where the service is new with no existing reference pricing point (e.g. an upgraded ARFF service category), the maximum service price has been set in line with the highest priced comparative service (e.g. new category 7 ARFF services prices have been aligned to Townsville).

These adjustments to the maximum price increase are made in the hard coded (shaded) cells.

A28. The spreadsheet data in the 'Asset' tab links to a separate spreadsheet (BUSPLAN\Pricing\2024 LTPA\6.0 - Assets\[Asset Rec Summary.xlsx]) – please provide a copy of this spreadsheet. Please also explain:
a. how depreciation in row #5 was calculated, and
b. why return on assets in row #11 was calculated using average RAB values

A copy of the source spreadsheet [Asset Rec Summary] has been shared separately.

Actual depreciation shown over the financial years FY2017 to FY2023 (in nominal values) has been calculated using actual fixed asset register, pricing book, depreciation amounts.

Forecast depreciation shown over financial years FY2024 to FY2027 (in nominal values) has been calculated using both:

i) fixed asset register depreciation simulation forecast reports for existing assets using current asset written down values, remaining asset useful lives, and straight line depreciation values

ii) forecast asset commissionings and useful lives for new assets delivered under our forward capital investment plan.

Airservices has adopted the standard regulatory practice (in accordance with previous price notifications) of calculating returns on assets using average asset values.

Other (A29 – A34)

A29. Table 5 on page 21 of the draft price notification (NPV of cost recovery/(shortfall) from FY2024 until a future date) starts at '2026'. Please explain why the table does not start at '2024'.

This table was intended to provide information on future levels of recovery following the term of the 2024 Price Notification. Additional information is provided separately in the price notification showing the level of recovery over FY2024 – FY2027 on page 42, table 23.

For completeness, an analysis combining this price notification and future years is shown below.

Scenario ($mil)	2024	2025	2026	2027	2028	2029	2030
No price increase (current services)	(213)	(302)	(319)	(477)	(604)	(725)	(814)
Airservices proposed price increase:							
- This Notification	(202)	(190)	(48)	(36)	(3)	25	77
- Inclusive of WSIA & New Runways	(202)	(190)	(48)	(68)	(66)	(73)	(58)

A30. Airservices has presented the proposed Out of Hours Charges (Tables 13, 14, 15, 16 of the draft notification) by financial year – this is different to the previous tables (Tables 10-12 are presented by calendar year or aligned to the proposed price increases). Please confirm whether these proposed price increases follow the same timing (months) as for Tables 10-12 of the draft price notification.

Out of Hour Charges are based on the recovery of overtime costs incurred to extend operational staff shifts to service aircraft operating outside of the aerodrome hours of operation. The change in Out of Hours Charges reflects the impact of pay rises provided on a financial year basis. To account for this the timing of these charges was structured around financial years.

A31. Please confirm whether the $ values in the tables 10-16 are in nominal or real terms.

The values in tables 10-16 are all expressed in nominal terms.

.A32. Please explain and describe Airservices' internal drivers of efficiency, for example:
a. budget processes to drive cost savings
b. formal decision-making processes to drive productivity
c. a robust performance management system incorporating appropriate key performance indicators for staff and managers, and effective rewards and processes for accountability
d. efficiency requirements to shareholders, and
e. consultation with customers.

Enterprise Performance Management & Financial Strategy

At a high level Airservices articulates its enterprise performance goals in its Corporate Plan which is updated each year to confirm our strategy, target performance outcomes, and the performance measures required to monitor our progress. These goals also take into account our Ministers Statement of Expectations and our requirements to meet them.

Ministers Statement of Expectations

In our 2024 Corporate Plan the Ministers Statement of Expectation included the statement, in relation to our 'Strategic Direction and Manner of Performance', that Airservices is expected to:

- perform its functions and manage its finances in an efficient, economic and ethical manner, in accordance with the Act, the Public Governance, Performance and Accountability Act 2013, best practice principles and guidelines, other applicable legislation and relevant accounting standards;

- comply with this SoE (Statement of Expectation) and all Ministerial Directions issued under the Act, and for Airservices to demonstrate it is on track to return to profitability and pay a dividend to Government in the 2027-28 financial year, or sooner;

Driving Efficiency & Reducing Our Cost to Serve

Our strategic goals drive the direction of our business at all levels and are pushed down through the business using our business performance and governance frameworks, as they relate to investment decision making, budget resource allocation, and employee performance agreements to ensure they are aligned with our longer term goals. The table below provides information on the target performance outcomes and key performance indicators included in our 2024 Corporate Plan.

Airservices Enterprise Key Performance Indicators

Performance outcomes	KPIs	Baseline	Targets – FY2024–FY2028
Zero significant attributable safety occurrences	Significant attributable safety occurrences	0	Zero significant attributable safety occurrences
100% Planned aerodrome capacity delivered	**Planned capacity delivered as a percentage of time**	82%	Meet planned capacity greater than 85% of time as traffic grows
	Sydney	78%	
	Melbourne	79%	
	Perth	82%	
	Brisbane	93%	
	Airservices attributable cancellations	24*	Monthly average, year-on-year improvement trending towards zero
	Sydney	17	
	Melbourne	0	
	Perth	1	
	Brisbane	6	
	Airservices attributable ground delay (hours)	109	Monthly average, year-on-year improvement trending towards zero
	Sydney	70	
	Melbourne	0	
	Perth	1	
	Brisbane	38	
30% Reduction in cost to serve	Real price growth (5 year trend)	< 0%	Less than 0%
	Return on assets	> -7.0%	Improve our return to match a reasonable rate over time
80% People engagement	People engagement	70%	Improve engagement to be greater than 80% over time
Fostering the drive towards zero harm	Total recordable injury frequency rate (TRIFR)	10	Less than 4
	Lost time injury frequency rate (LTIFR)	4	Zero
Net zero emissions by 2050	Net carbon emissions	221,746 tCO_2e	Reduce to 217,359 tCO_2e by 2025-26 representing a 10% reduction from 2018-19 levels of 241,510 tCO_2e
	Significant environmental events	0	Zero significant environmental events
Community acceptance of the value of aviation	Total annual change in movements	Baseline	Reduce number of complainants relative to movements
	Total annual change in complainants		
	Aircraft noise ombudsman complaints investigations initiated		

* To be confirmed by an independent audit.

While our goals and related performance outcomes seek to balance the interests of all our stakeholders including communities, customers, Government, our regulator and our people, they include an explicit financial efficiency goal to reduce our costs to customers – '30% reduction in cost to serve'.

At a strategic level this goal helps to set the constraints for our strategic financial plan (incorporated in our Corporate Plan) which considers, customer pricing (real price growth less than 0%), available funding (from airways revenues/demand) for investment and services delivery and efficiencies required to ensure a reasonable return is delivered to our owner (whilst keeping prices at affordable levels 'no real price growth').

This approach and driver of efficiency underpinned our 2016 Accelerate savings program, which avoided the requirement to increase customers charges in 2017 following industry contraction at the end of the mining boom and enabled the reduction in prices passed on to

customers in 2019. Into the future it has shaped the savings and efficiency programs required to support Airservices transformational change following the recovery from COVID.

Financial Performance Management Processes, Decision Making & Oversight

Airservices financial performance management and governance processes which is used to drive this strategy and efficiency across the business spans operating expenditure, capital investment, and employee work performance. Across our organisation decision making, oversight, and governance of these activities is provided by:

- Airservices internal Program Boards and non-executive financial delegates
- Airservices Executive
- Airservices Board

Government oversight is provided through quarterly reporting to our Minister. Under our previous customer engagement model Airservices consulted with customers on financial performance and decision making through its Pricing Consultative Committee. This will continue under our new customer commercial engagement model which we are re-establishing (discussed below).

The following table provides information on Airservices financial performance management processes used to drive our strategy and the efficiency of our business.

Financial Performance Management Processes

Process	Description	Approvals & Oversight
Operating Expenditure Performance Management	Airservices strategic financial plan sets the parameters for operating budget resource allocation. These parameters are developed each year to determine spending allowances for financial delegates. Spending parameters take into account our strategy to reduce our cost to serve.	Airservices Enterprise Operating Budgets are set by Airservices Board and allocated to business functions and programs by Airservices Executive. Airservices Operating Budget Performance is monitored through regular performance reporting to our Minister, Board and Executive. Airservices also consulted with industry on our operating budget performance through the Pricing Consultative Committee which operated with customers prior to COVID. It will continue to consult with industry into the future when our customer commercial engagement model is re-established in the new year.
Capital Investment Performance Management	Airservices strategic financial plan sets the parameters for overall investment funding allowances for our Change Program (capital investment plan). Budget allocation for individual project investment funding are based on project investment cases which consider project costs, benefits and pricing impacts to customers (where relevant).	Approval for Airservices overall investment plan is set by Airservices Board. Approval for individual projects are set by the relevant financial delegate (depending on the value), including the Board and Executive. Airservices Investment Performance is monitored through regular performance reporting to our Minister, Board and Executive. Airservices also consults on industry significant and large value investment decisions through the Pricing Consultative Committee which operated with customers prior to COVID. It will continue to consult with industry into the future when our customer commercial engagement model is re-established in the new year.
Employee Work Performance Management	Airservices non-operational employees' performance is governed by annual work performance cycles. These cycles establish employee work performance objectives related to their area of work which are linked to Airservices strategic objectives.	Year end employee performance outcomes are reviewed and endorsed by Airservices Executive and approved by the CEO. Oversight of Airservices overall work performance frameworks, to ensure they achieve Airservices strategic objectives, is provided by Airservices Board People, Culture and Remuneration Committee.

Process	Description	Approvals & Oversight
	Through ongoing and annual performance reviews employee's performance outcomes (as linked to strategic objectives) determine their eligibility for salary progression within the salary band (for award staff), or market reference point range (for contract staff). Airservices operational staff performance and eligibility for salary progression is dependent on their technical performance.	

A33. Airservices states on page 50 of the draft notification that it is has discussed future commercial engagement models with its customers, and that the model to be implemented is still to be finalised. Please explain and describe the future engagement models Airservices is considering, and the extent to which Airservices has engaged its customers on these models

As discussed in our Draft Price Notification COVID has had a large impact on our commercial engagement with customers. Almost without exception, the restructuring and staff turnover in commercial areas across airlines and industry associations during COVID, has meant that we have had to re-establish relationships to engage in commercial conversations with our customers over the last 12 months.

Prior to that, as acknowledged by International Civil Aviation Organisation, Airservices customer engagement on pricing matters has been regarded as a benchmark in Asia Pacific region.

In early 2023, Airservices increased regular engagement with customers and stakeholders as part of its commitment to ensuring transparency and accountability for our ongoing performance and fostering cross-industry collaboration. This includes significant operational and Executive touchpoints on a weekly, monthly and quarterly basis, and implementing initiatives such as publication of the monthly Aviation Network Performance Overview report and quarterly Aviation Network Performance Roundtable involving senior leaders across airlines, airports, industry associations and government stakeholders to jointly review and driven enhanced network performance.

The industry engagement on Airservices draft pricing proposal development since May has also reinvigorated commercial engagement with industry, in addition to the above cadence focused on service performance and outcomes.

Building on these, Airservices is currently finalising a commercial engagement model with industry with a draft Terms of Reference being developed and to be shared with industry for feedback by early January 2024. The model will consist of:

- Continued bilateral engagement with major customers on a quarterly basis at the Executive levels to address commercial/pricing and investment matters
- A new multilateral industry reference group to regularly engage with domestic, international airlines, regional airlines and industry associations representing general aviation and airports to seek feedback on cross-industry commercial implications of Airservices pricing options, and further tying together Airservices financial and service performance and investment plans.

In addition to the commercial engagement model, Airservices will continue to utilise ongoing monthly and quarterly engagement and reporting cadence with airlines, airports and industry

associations at Executive and operational levels to demonstrate the commitments made in line with those outlined in the 2024 Draft Price Notification.

Going forward Airservices will continue its current bilateral engagement with major customers on a quarterly basis at the Executive levels to address commercial, pricing and investment matters.

A34. Airservices indicated to the ACCC it will not be proposing a financial rewards/penalties system as an accountability mechanism for progress against its performance metrics (as suggested by some stakeholders in 2011) for the current pricing proposal. Please confirm and explain why Airservices is not proposing a financial rewards/penalties system.

Under most recent pricing agreement, Airservices was unable to reach a consensus with customers, when discussing potential rewards and penalty systems and metrics to help drive performance. It is a complex issue which needs to consider the commercial priorities and service needs of all our diverse customer base, the influence of other factors impacting overall industry performance, and potential dysfunction that can occur when increasing the focus on single areas of performance at the expense of another.

As we have noted in the price notification while we have established dedicated programs to address recent inconsistency in our service reliability, we do not believe that the introduction of a rewards or penalty system, in itself, would improve performance outcomes over the short term (particularly when the duration of the proposed pricing agreement is shorter). Instead, it is likely that it would either potentially reduce Airservices funds (penalty to Airservices) which are required at this time to invest in service improvement activities, or alternatively increase the cost of our services (reward to Airservices) to customers many of whom are still in the process of recovering from COVID-19.

In the current environment where industry is still recovering and pricing increases are required to improve our financial sustainability we thought it was most important to provide price certainty and maintain existing pricing structures so as to risk of potential unwanted pricing shocks, or winners or losers, that may arise when moving away from the status quo price. Airservices acknowledges that there is always an opportunity to improve pricing structures and the connection of price to the level of services performance received. However, to implement such changes we believe further consultation with customers, along with an understanding of the commercial impacts, would be required.