GREAT BARRIER REEF AIRPORT
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Ms Margaret Arblaster
General Manager – Transport and Prices Oversight
Australia Competition and Consumer Commission
GPO Box 520J
Melbourne Vic 3001

Dear Margaret

I refer to the letter received of 17 August 2004 inviting responses to the draft pricing notification that Airservices Australia (ASA) has put forward to the ACCC. The letter requested comment on a number of aspects of ASA's long-term pricing proposal.

With regards to the effectiveness of ASA's consultation process, Great Barrier Reef Airport – Hamilton Island (GBRA) did not receive any notice detailing the "New Price Consultation" process dated May 31 2004. The first that GBRA knew of this consultative process was on June 23 when ASA requested a meeting with the major aviation stakeholders in the area on June 28. This was with a deadline for submissions re the long term pricing proposal to ASA of June 30. Following protests from GBRA and other Aviation stakeholders, ASA agreed to extend the submission deadline to 14 July 2004.

The time frame that we have had to respond to the notification was less than ideal. This is especially the case considering that ASA has been aware for some time that they would be submitting their proposal to the ACCC.

GBRA does not support the proposal for a number of reasons. There are a number of flawed methodologies used in the calculation of the costs for the operation of the control tower located at Hamilton Island. In addition the proposal to increase the staffing levels at the control tower from 05/06 does not support the information that GBRA has concerning future RPT operations into the Airport.

With regards to the risk sharing arrangements re long term pricing it is interesting to note that there are triggers in place to assess further price rises, but there is no mention if the same triggers apply if forecasted activity is less than anticipated. In addition forecasting capital expenditure over a 5-year period is admirable but very much subject to advances in technology, changing business needs and forecast activity. Major changes in these parameters reducing anticipated capital spend must be considered under the same guidelines as for additional capital expenditure than forecast.

The level of operating costs that ASA has indicated for its operations at GBRA requires further thought. Staff costs currently make up 51 % of the total operational expenses. This is with regards to a tower that handles approximately six RPT movements a day. Currently the GBRA safety officer handles the other six due to the operational hours of the airport. Within the draft-pricing plan it is proposed that the tower increases its staffing levels by an additional person to three people in the fiscal year 05/06. This pushes the staff cost component to 62 % of total operational costs.

This additional staff member is directly related to the forecasted increase in tonnage through GBRA. However Jetstar Airways, the major RPT carrier into the airport has indicated that they have forecasted an increase in passenger numbers by the utilisation of larger aircraft on a reduced frequency. Thus actual tonnage will stay very close to what is currently being achieved, and not the amount that has been forecast by ASA.

This does not indicate an attempt by ASA to contain costs. If the data that had been put forward by GBRA re future movements at the airport been considered on its merits, then we would not be seeing the cost for the proposed additional staff member in the ASA profit & loss statement from the 05/06 period onwards.

With regards to capital expenditure there seems to be very little capital expenditure being planned for GBRA by ASA when perusing the pricing proposal. There is one project of $40,000 to refurbish the antennae towers over the next five years. This is most probably appropriate considering the age of the towers and the environment they operate in.

The data in the model for the assets employed at Hamilton Island is incorrect. The stated asset written down value is $20,000. However the same model then states that the asset costs (defined by ASA on its website as “the depreciation costs and maintenance costs of the primary assets”) are $100,000 per annum, which is $80,000 greater than the value of the assets. This is not possible and is more indicative of an estimate based on normalized costs of other towers and not a true reflection of direct costs.

In addition the pricing model indicates increases in the Asset Written Down Value from a value of $20,000 in year one to $80,000 in year five. As mentioned previously the antennae tower refurbishment project is the only one mentioned for GBRA. With a value of $40,000 that leaves at least $20,000 in projects unaccounted for. If the investments are an allocation of national costs, there has been no basis of the allocation provided.

The proposal that ASA puts forward to have a proposed return rate of capital is unsupportable in today's competitive environment. Any business must ensure that it operates as efficiently as possible to determine a product price that is market competitive. If a regulated organisation is able to dictate a specific return on assets employed as a determinate of pricing, then there is no mechanism that can be put into place to ensure that they operate efficiently.

As previously mentioned ASA's activity forecasts do not take into account the intention of the primary RPT operator, Jetstar Airways, to use larger aircraft at the same or of a lesser frequency into Hamilton Island. Thus the forecasted cost increases do not correspond with Jetstar's future plans.

The proposal for distributed costs in more equitable than when first proposed. If tonnes landed are the measurement unit used to determine these costs then this is an appropriate model to utilise.

The proposed prices could no doubt provide ASA with incentives to commence operations at additional ports. With a guaranteed return of 9.75 % on capital invested, additional expenditure would guarantee ASA dividends each fiscal year. This approach would no doubt encourage further capital investment with no guarantees of additional operational efficiencies or productivity.

If the proposed charges are introduced it will have a severe impact on General Aviation and regional airports around Australia. The development of regional areas will be stymied at a time when further encouragement is required and job losses could well occur with opportunities lost due to the costs of aviation travel in regional Australia becoming unsustainable.

Yours Sincerely

Jason Rainbird
Airport Manager
Great Barrier Reef Airport – Hamilton Island