

Airservices Australia

Draft Price Notification

August 2004

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Draft Notification

Airservices Australia, following an extensive consultation process, has developed a pricing arrangement for the next five years. The proposed prices are as follows:

Proposed Prices for Airways Services

	Prices (incl GST)						Price Change				
	Current	Oct 04	1 Jul 05	1 Jul 06	1 Jul 07	1 Jul 08	Oct 04	1 Jul 05	1 Jul 06	1 Jul 07	1 Jul 08
ARFF											
Adelaide	\$ 2.69	\$ 3.14	\$ 3.35	\$ 3.35	\$ 3.35	\$ 3.35	16.7%	6.7%	-	-	-
Alice Springs	\$ 6.81	\$ 7.95	\$ 8.75	\$ 9.63	\$ 10.59	\$ 11.65	16.7%	10.1%	10.1%	10.0%	10.0%
Brisbane	\$ 1.46	\$ 1.70	\$ 1.76	\$ 1.76	\$ 1.76	\$ 1.76	16.4%	3.5%	-	-	-
Cairns	\$ 3.83	\$ 4.31	\$ 4.31	\$ 4.31	\$ 4.31	\$ 4.31	12.5%	-	-	-	-
Canberra	\$ 3.58	\$ 4.18	\$ 4.60	\$ 5.06	\$ 5.33	\$ 5.33	16.8%	10.0%	10.0%	5.3%	-
Coolangatta	\$ 4.24	\$ 4.95	\$ 5.09	\$ 5.09	\$ 5.09	\$ 5.09	16.7%	2.8%	-	-	-
Darwin	\$ 7.23	\$ 8.44	\$ 9.28	\$ 10.21	\$ 11.23	\$ 11.95	16.7%	10.0%	10.0%	10.0%	6.4%
Hobart	\$ 8.46	\$ 9.88	\$ 10.16	\$ 10.16	\$ 10.16	\$ 10.16	16.8%	2.8%	-	-	-
Launceston	\$ 9.30	\$ 10.86	\$ 11.95	\$ 13.15	\$ 14.47	\$ 15.92	16.8%	10.0%	10.0%	10.0%	10.0%
Mackay	\$ 9.98	\$ 11.66	\$ 12.83	\$ 14.11	\$ 15.52	\$ 17.07	16.8%	10.0%	10.0%	10.0%	10.0%
Melbourne	\$ 1.09	\$ 1.27	\$ 1.40	\$ 1.41	\$ 1.41	\$ 1.41	16.5%	10.2%	0.7%	-	-
Perth	\$ 2.40	\$ 2.74	\$ 2.74	\$ 2.74	\$ 2.74	\$ 2.74	14.2%	-	-	-	-
Rockhampton	\$ 9.59	\$ 11.20	\$ 12.32	\$ 13.55	\$ 14.91	\$ 16.40	16.8%	10.0%	10.0%	10.0%	10.0%
Sydney	\$ 0.69	\$ 0.80	\$ 0.88	\$ 0.97	\$ 1.04	\$ 1.04	15.9%	10.0%	10.2%	7.2%	-
Weighted Average ARFF							15.9%	6.3%	3.8%	3.2%	1.6%
TERMINAL NAVIGATION											
Alice springs	\$ 7.42	\$ 8.67	\$ 9.54	\$ 10.49	\$ 11.54	\$ 12.69	16.8%	10.0%	10.0%	10.0%	10.0%
Hobart	\$ 7.42	\$ 8.67	\$ 9.54	\$ 9.54	\$ 9.54	\$ 9.54	16.8%	10.0%	-	-	-
Launceston	\$ 7.42	\$ 8.67	\$ 9.54	\$ 10.49	\$ 11.54	\$ 12.22	16.8%	10.0%	10.0%	10.0%	5.9%
Mackay	\$ 7.42	\$ 8.67	\$ 9.54	\$ 10.49	\$ 11.54	\$ 12.69	16.8%	10.0%	10.0%	10.0%	10.0%
Rockhampton	\$ 7.42	\$ 8.67	\$ 9.54	\$ 10.49	\$ 11.54	\$ 12.69	16.8%	10.0%	10.0%	10.0%	10.0%
Maroochydore	\$ 7.42	\$ 8.67	\$ 9.54	\$ 10.49	\$ 11.54	\$ 12.69	16.8%	10.0%	10.0%	10.0%	10.0%
Coffs Harbour	\$ 7.42	\$ 8.67	\$ 9.54	\$ 10.49	\$ 11.54	\$ 12.69	16.8%	10.0%	10.0%	10.0%	10.0%
Albury	\$ 7.42	\$ 8.67	\$ 9.54	\$ 10.49	\$ 11.54	\$ 12.69	16.8%	10.0%	10.0%	10.0%	10.0%
Tamworth	\$ 7.42	\$ 8.67	\$ 9.54	\$ 10.49	\$ 11.54	\$ 12.69	16.8%	10.0%	10.0%	10.0%	10.0%
Hamilton Island	\$ 5.38	\$ 6.28	\$ 6.91	\$ 7.60	\$ 8.36	\$ 9.20	16.7%	10.0%	10.0%	10.0%	10.0%
Weighted Average Regional							16.8%	10.0%	7.7%	7.9%	7.5%
Cairns *	\$ 8.75	\$ 10.22	\$ 10.95	\$ 10.95	\$ 10.95	\$ 10.95	16.8%	7.1%	-	-	-
Canberra *	\$ 9.50	\$ 11.10	\$ 12.21	\$ 12.66	\$ 12.66	\$ 12.66	16.8%	10.0%	3.7%	-	-
Coolangatta *	\$ 9.99	\$ 10.82	\$ 10.82	\$ 10.82	\$ 10.82	\$ 10.82	8.3%	-	-	-	-
Adelaide	\$ 9.74	\$ 11.38	\$ 11.43	\$ 11.43	\$ 11.43	\$ 11.43	16.8%	0.4%	-	-	-
Parafield (AD Basin)	\$ 7.42	\$ 8.67	\$ 9.54	\$ 10.49	\$ 11.54	\$ 12.69	16.8%	10.0%	10.0%	10.0%	10.0%
Brisbane	\$ 4.96	\$ 5.79	\$ 5.83	\$ 5.83	\$ 5.83	\$ 5.83	16.7%	0.7%	-	-	-
Archerfield (BN Basin)	\$ 7.42	\$ 8.67	\$ 9.54	\$ 10.49	\$ 11.54	\$ 12.69	16.8%	10.0%	10.0%	10.0%	10.0%
Melbourne	\$ 3.45	\$ 4.03	\$ 4.43	\$ 4.87	\$ 5.06	\$ 5.06	16.8%	9.9%	9.9%	3.9%	-
Moorabbin (ML Basin)	\$ 7.42	\$ 8.67	\$ 9.54	\$ 10.49	\$ 11.54	\$ 12.69	16.8%	10.0%	10.0%	10.0%	10.0%
Essendon (ML Basin)	\$ 7.42	\$ 8.67	\$ 9.54	\$ 10.49	\$ 11.54	\$ 12.69	16.8%	10.0%	10.0%	10.0%	10.0%
Perth	\$ 7.49	\$ 8.63	\$ 8.63	\$ 8.63	\$ 8.63	\$ 8.63	15.2%	-	-	-	-
Jandakot (PH Basin)	\$ 7.42	\$ 8.67	\$ 9.54	\$ 10.49	\$ 11.54	\$ 12.69	16.8%	10.0%	10.0%	10.0%	10.0%
Sydney	\$ 4.82	\$ 5.57	\$ 5.57	\$ 5.57	\$ 5.57	\$ 5.57	15.6%	-	-	-	-
Bankstown (SY Basin)	\$ 7.42	\$ 8.67	\$ 9.54	\$ 10.49	\$ 11.54	\$ 12.69	16.8%	10.0%	10.0%	10.0%	10.0%
Camden (SY Basin)	\$ 7.42	\$ 8.67	\$ 9.54	\$ 10.49	\$ 11.54	\$ 12.69	16.8%	10.0%	10.0%	10.0%	10.0%
Weighted Average -Capital/Major							15.8%	2.7%	1.9%	0.8%	0.2%
Darwin	\$ 3.31	\$ 3.10	\$ 2.89	\$ 2.68	\$ 2.47	\$ 2.26	(6.3%)	(6.8%)	(7.3%)	(7.8%)	(8.5%)
Townsville	\$ 4.76	\$ 4.40	\$ 4.03	\$ 3.67	\$ 3.30	\$ 2.94	(7.7%)	(8.3%)	(9.0%)	(9.9%)	(11.0%)
Weighted Average Navaid Ports							(7.0%)	(7.5%)	(8.1%)	(8.8%)	(9.7%)
Weighted Average TN							15.5%	3.0%	2.1%	1.2%	0.5%
ENROUTE											
Enroute > 20 tonnes	\$ 4.66	\$ 4.42	\$ 4.37	\$ 4.26	\$ 4.22	\$ 4.18	(5.2%)	(1.1%)	(2.5%)	(0.9%)	(0.9%)
Enroute < 20 tonnes	\$ 1.04	\$ 0.99	\$ 0.98	\$ 0.95	\$ 0.94	\$ 0.93	(5.2%)	(1.1%)	(2.5%)	(0.9%)	(0.9%)
EXISTING SERVICES - Weighted Average							4.0%	1.3%	0.0%	0.4%	(0.0%)
New ARFF Services											
Ayers Rock	\$ 13.09	\$ 15.29	\$ 16.82	\$ 17.12	\$ 17.12	\$ 17.12	16.8%	10.0%	1.8%	-	-
Maroochydore	\$ -	\$ 15.29	\$ 16.82	\$ 18.50	\$ 20.35	\$ 22.39	-	10.0%	10.0%	10.0%	10.0%
Townsville	\$ -	\$ 10.37	\$ 10.37	\$ 10.37	\$ 10.37	\$ 10.37	-	-	-	-	-

Note: Cairns, Canberra & Coolangatta aircraft <5.7tonne will be charged at the lower of the capped rate for regional towers or the full price in each year

Overview of the Notification

Need for the price changes

The proposed price changes will:

- Set a five year pricing path to transition prices toward required levels, replacing the temporary pricing arrangement that was established in response to the collapse of Ansett and the events of September 11;
- Fund known new services and regulatory changes;
- Support agreed capital investment requirements over the period;
- Reduce cross-subsidisation between service lines; and
- Adjust pricing levels in line with the removal of the government's tower subsidy.

Development of the proposed pricing arrangement

In June 2003 Airservices Australia notified the Commission of an intention to temporarily increase prices following the collapse of Ansett, the events of September 11, the Iraq war and SARS.

The Commission objected to the increase on the basis that the proposal had not addressed their preference for a longer term arrangement that was foreshadowed in the previous year's pricing decision. In reaching its decision, the Commission noted the need to address a number of issues and encouraged Airservices to consult with its customers to reach a longer term pricing agreement.

Accordingly, Airservices Australia has undertaken an extensive consultation process to examine the issues raised by the Commission with a view to establishing a pricing path that would provide customers with more certainty.

The process commenced in August 2003 when a cross-section of international, major domestic and regional airlines, along with industry associations, representatives from airports, the general aviation industry and the Commission were invited to an inaugural consultation meeting. This meeting agreed the framework for developing the long term pricing arrangement and established an Industry Steering Committee to oversee the process. The Committee would be supported by a smaller Working Group that would carry out the detailed analysis.

The Committee agreed to adopt the Commission's building block model to assess allowable revenues, the use of independent consultants to determine key parameters and that five years was the appropriate length for the agreement. The Committee then progressively worked through the foundation elements that underpin the proposed pricing strategy and, through detailed analysis and the engagement of the independent consultants, agreed:

- The target return on capital
- The capital value of existing assets
- The forecast costs by service and location
- The proposed capital expenditure program
- The forecast activity levels

Recognising that representatives of regional and general aviation (GA) operators had been difficult to engage early in the process, and were not satisfactorily represented by the Industry Steering Committee, Airservices Australia embarked on an extensive consultation process with the wider group during June and July 2004. This included mail outs to around 7000 customers, on-airport meetings with major stakeholders, the establishment of a web-site with detailed service cost and investment information for each service and briefings to various industry and government representatives.

This process bridged the consultation gap. With more than 600 written responses received, it providing a sound platform for regional and GA stakeholders to enunciate their position and express their concerns. The prime concern expressed in these responses was that a transition to full location specific pricing based on fully allocated costs was untenable and would result in business closures and dysfunctional behaviour at smaller locations. Respondents believed that these services should instead be funded from:

- a government subsidy which reflected their view that the services are in the nature of community service obligations;
- a return to full network pricing;
- the introduction of network pricing within each metropolitan city basin; or
- a return to the fuel levy system which existed prior to the introduction of location specific pricing in 1998/99.

Features of the proposal

Airservices Australia has developed a viable pricing strategy that balances the parameters agreed to by the Industry Steering Committee with the key concerns expressed by regional and GA stakeholders.

In particular, the proposed pricing path features:

- a phasing in of higher prices, offsetting the impact of the expiration of the government subsidy for regional and GA tower services in June 2005;
- a revised cost allocation methodology for overhead and distributed costs based on aviation activity levels which takes account of users' capacity to pay; and
- the adoption of a 'basin' concept with respect to general aviation aerodromes situated in capital city locations.

These outcomes are supported by a lower weighted average cost of capital targeted by Airservices, coupled with a slowing in the enroute price reduction.

This proposal seeks a weighted average price increase at the commencement of the new long term arrangement of 5.2% (or 2.8% in real terms). This increase includes 1.2% for new and 1.3% for upgraded aviation rescue and firefighting (ARFF) services under recently mandated regulatory changes.

During the course of the next four years it is proposed that overall prices increase by a total of around 1.7%, or reduce in real terms. This would be accompanied by a rebalancing of pricing levels, with terminal navigation and ARFF service prices increasing, and enroute prices decreasing as shown in Table 1.

Table 1 Annualised Price Changes

Regulated Services	2004/05	2005/06	2006/07	2007/08	2008/09	Total
Terminal Navigation	15.5%	3.0%	2.1%	1.2%	0.5%	23.5%
ARFF	15.9%	6.3%	3.8%	3.2%	1.6%	34.1%
Enroute	-5.2%	-1.1%	-2.5%	-0.9%	-0.9%	-10.3%
Weighted Average [Incl. new services]	4.0% [5.2%]	1.3%	0.0%	0.4%	0.0%	5.8%

The proposed prices will provide price certainty for the next five years. However, the Industry Committee has noted the need to allow for the possibility for prices to be reviewed during the course of the agreement where:

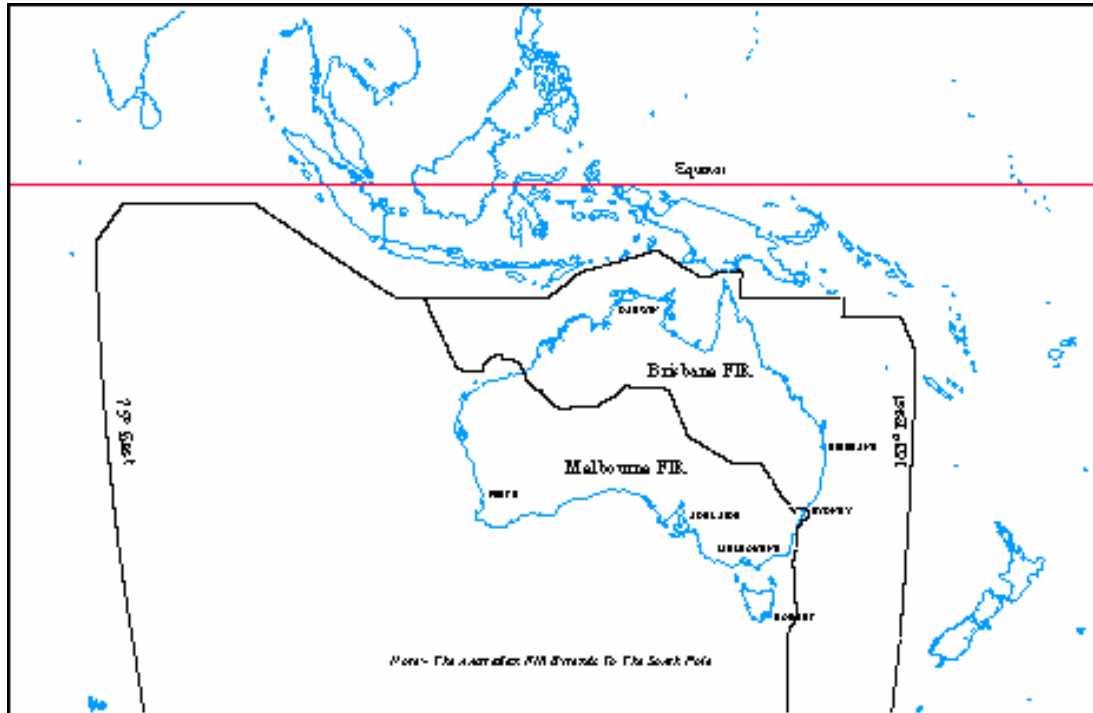
- New regulatory or customer requirements change service levels which result in a net change in costs;
- Actual capital expenditure varies substantially from the levels agreed in the plan; or
- Activity levels deviate materially from the levels underpinning this proposal

These triggers oblige the Industry Steering Committee to consult on the best means for dealing with the impact of the event. This may include absorption of the cost impact, changes to service levels and/or capital investment programs, or the need for a price adjustment. Should a price adjustment be assessed as the appropriate response as a result of this consultation, the standard price notification process would be followed in accordance with the relevant provisions of the Trade Practices Act.

About Airservices Australia

Under the *Air Services Act 1995*, Airservices Australia is responsible for the provision of safe and environmentally sound air traffic management and related services to aircraft operators in approximately eleven per cent of the world's airspace. Australia's Flight Information Region (FIR), includes Australia's sovereign airspace, as well as international airspace over the Pacific and Indian Oceans. Airservices Australia is also the Australian airspace authority.

Figure 1 – Australian FIR



Airservices Australia's specific functions are listed in the *Air Services Act 1995*:

- (a) air traffic services
- (b) an aeronautical information service
- (c) an aeronautical radio navigation service
- (d) an aeronautical telecommunications service
- (e) rescue and fire fighting services

These include airspace management, air traffic flow management, air traffic control services and flight information. Airservices Australia provides its services in accordance with Civil Aviation Safety Authority (CASA) Regulations. Its airspace regulatory role is carried out in accordance with the Chicago Convention on International Civil Aviation, to which Australia is a contracting state.

The *Air Services Act 1995* (amended 2003) contains a function to promote and foster aviation. This is seen in the context not just of the corporation's major customers, but also extends to areas of aviation industry development identified by the government. In performing its functions and in exercising its powers, the corporation is required to consult with government, commercial, industrial, customer and other relevant bodies and organisations, including the International Civil Aviation Organization (ICAO) and bodies representing various elements of the aviation industry.

The Corporation has a key obligation to maintain and improve the safety of Australia's air traffic system. Airservices Australia, the Australian Transport Safety Bureau (ATSB), CASA, the Australian Defence Force (ADF), the Department of Transport and Regional Services (DoTaRS) and aircraft operators form a collective industry structure for providing safe aviation, each with separate and distinct roles but working together as an integrated system.

Corporate Governance and Structure

Airservices Australia is wholly owned by the Australian Government. The Corporation was established on 6 July, 1995 as a Government Business Enterprise (GBE), by the Air Services Act 1995, with reporting and accountability arrangements in accordance with the Commonwealth Authorities and Companies Act 1997 (CAC Act). In 1997, Airservices Australia ceased to be classified as a GBE and became a Commonwealth Authority. However, on 1 April 2004, the Minister for Transport and Regional Services and the Minister for Finance and Administration foreshadowed the reinstatement of this status.

In October 1999 the Minister issued a policy statement entitled 'A Measured Approach to Aviation Safety Reform' and a Charter Letter which prescribed a number of gradual changes to our operating environment over the next few years. The Minister confirmed the continuation of his existing Charter Letter in September 2002, which, among other things, requires Airservices to operate in a way that promotes the general health of the aviation industry.

Airservices Australia is governed by a Board of Directors appointed by the Minister for Transport and Regional Services. Section 21 of the *Air Services Act 1995* defines the functions of the Board, which are to decide the objectives, strategies and policies to be followed and to ensure that the Corporation performs its functions in a proper, efficient and effective manner. The Board delegates responsibility for the management of the Corporation to the Chief Executive Officer, who is also a member of the Board.

To better understand the responsibilities of the Board, its functions need to be read in conjunction with Sections 8 and 9 of the *Air Services Act 1995*. The former defines the functions of Airservices Australia, while section 9 defines the manner in which Airservices Australia must perform these functions, specifically:

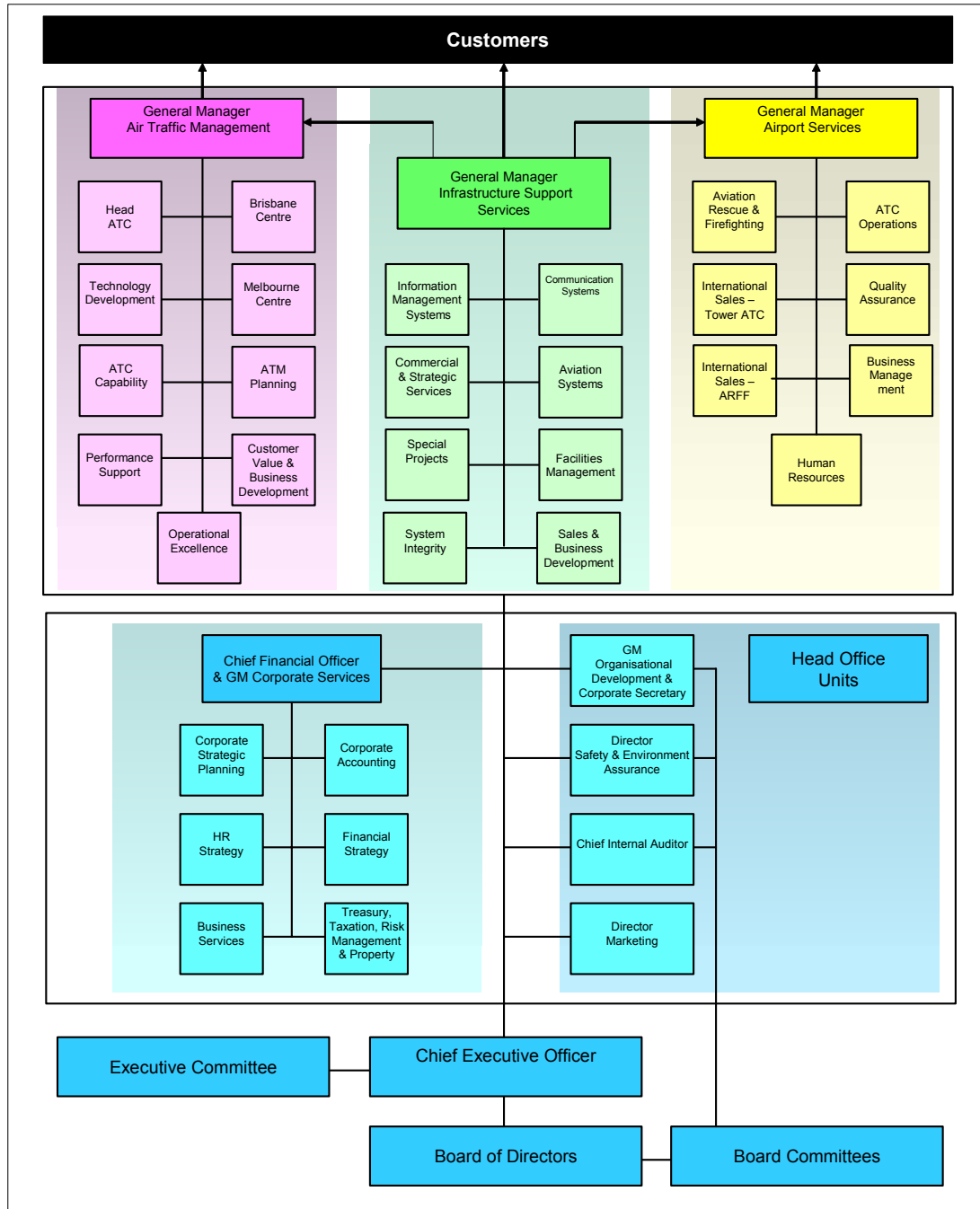
- (1) In exercising its powers and performing its functions, Airservices Australia must regard the safety of air navigation as the most important consideration.
- (2) Subject to subsection (1), Airservices Australia must exercise its powers and perform its functions in a manner that ensures that, as far as is practicable, the environment is protected from:
 - (a) the effects of the operation and use of aircraft
 - (b) the effects associated with the operation and use of aircraft.
- (3) Airservices Australia must perform its functions in a manner that is consistent with Australia's obligations under:
 - (a) the Chicago Convention
 - (b) any other agreement between Australia and any other country or countries relating to the safety of air navigation.

Business Structure

Airservices Australia's business structure as based on the concept of three market oriented operating groups, each with distinct business portfolios - Air Traffic Management (ATM), Airport Services (AS) and Infrastructure Support Services (ISS). All three groups are assisted by a Corporate Services Group delivering business partner services, and a Head Office to meet the governance needs of the Board and Chief Executive Officer.

The Corporation employs around 2,950 people across Australia. Its diverse range of expertise and skills includes specialists in air traffic control, aviation rescue and fire fighting, engineering, technical services, information technology, business management, communication, finance, media, stakeholder relations, security and administration.

Figure 1-2 Airservices Australia Business Structure



Proposal to Increase Prices

Background

Declared services

Terminal navigation, enroute and aviation rescue and firefighting (ARFF) services are declared pursuant to section 95X of the Trade Practices Act 1974 (TPA). Under Part VIIA of the TPA, this declaration requires Airservices Australia to notify the Commission of proposed increases to the prices of these services.

Events leading up to this proposal

Previous Assessment

In 2003, Airservices Australia proposed a 12 month temporary price increase from July 2003, primarily as a result of the lower activity outlook caused by ongoing global security issues and the SARS health crisis. The proposed increase was 2.7% in weighted average terms, or just 0.6% above those applying during the first half of 2002/03.

While noting the Commission's preference for a longer term arrangement, the temporary pricing proposal was aimed at ameliorating concerns that activity levels may recover faster than assumed.

However, the Commission objected to the 2003 proposal, citing Airservices' failure to address the Commission's previously expressed preference for a longer term approach as its main reason¹. The decision also noted that the proposal did not adequately address previously identified issues such as cost efficiency and incentives, and asset valuations.²

As an outcome of this decision, the Commission sought to provide "an incentive for Airservices to work with its customers towards agreeing upon a longer-term pricing model"³.

Consultation Process

The process commenced in August 2003 with the establishment of a consultation framework by Airservices Australia, and an invitation was extended to a cross-section of industry representatives to participate in the process. The following stakeholders were invited, including representatives from the Commission, to the inaugural meeting:

- Qantas Airways
- Virgin Blue
- Air New Zealand
- Singapore Airlines
- Emirates Airlines
- Japan Airlines
- Regional Express
- Regional Aviation Association of Australia (RAAA)
- Aircraft Owners and Pilots Association (AOPA)
- Australian Airports Association
- Board of Airlines Representatives in Australia (BARA)
- International Air Transport Association (IATA)

¹ ACCC Decision Airservices Australia Proposed Price Increase June 2003, p. 4

² Ibid, p. 4

³ Ibid, p. 4

In addition to agreeing the framework, the meeting also established an Industry Steering Committee to oversee the development of the long term pricing arrangement and a Working Group charged with carrying out the detailed analysis on the Committee's behalf. The Working Group consisted of a representative from Qantas, Virgin Blue, BARA and Airservices Australia.

The meeting also agreed to the following⁴:

- Acceptance of a dual till as an appropriate basis for pricing services;
- Adoption of the Commission's building block model as the platform to assess revenues;
- To jointly seek an independent review of Airservices' WACC by a mutually acceptable consultant (based on agreed terms of reference) and to abide by the outcome of the review, rather than each stakeholder engaging separate consultants;
- To jointly seek an mutually acceptable independent consultant to provide a valuation (based on agreed terms of reference) of Airservices' asset base, including the written down value, replacement cost, depreciated replacement cost and optimised depreciated replacement cost;
- That, with more detailed cost information and further benchmarking, a total factor productivity analysis was not required to determine cost efficiencies;
- That pricing structures would not need to be resolved prior to submitting a notification to the Commission, but that a pricing structure review could be made within a longer term pricing agreement
- That a five year arrangement would be appropriate, as this was in line with the ATM Strategic Plan (ASTRA) cycles.

The Committee agreed to adopt the Commission's building block model to assess allowable revenues, the use of independent consultants to determine key parameters and that five years was the appropriate length for the agreement. The Committee then progressively worked through the foundation elements that underpin the proposed pricing strategy and, through detailed analysis and the engagement of the independent consultants, agreed:

- The target return on capital
- The capital value of existing assets
- The forecast costs by service and location
- The proposed capital expenditure program
- The forecast activity levels

Recognising that representatives of regional and general aviation (GA) operators had been difficult to engage early in the process, and were not satisfactorily represented by the Industry Steering Committee, Airservices Australia embarked on an extensive consultation process with the wider group during June and July 2004. This included mail outs to around 7000 customers, on-airport meetings with major stakeholders, the establishment of a web-site with detailed service cost and investment information for each service and briefings to various industry and government representatives.

This process bridged the consultation gap. With more than 600 written responses received, it providing a sound platform for regional and GA stakeholders to enunciate their position and express their concerns. The prime concern expressed in these responses was that a transition to full location specific pricing based on fully allocated costs was untenable and would result in business closures and dysfunctional behaviour at smaller locations. Respondents believed that these services should instead be funded from:

⁴ Long Term Pricing Consultation Meeting (27 August 2003) Minutes

- a government subsidy which reflected their view that the services are in the nature of community service obligations;
- a return full network pricing;
- the introduction of network pricing within each metropolitan city basin; or
- a return to the fuel levy system which existed prior to the introduction of location specific pricing in 1998/99.

Further details of this consultation process are set out in the in Appendix 6 – Regional & GA Consultation.

Pricing Proposal

Overview

In accordance with the agreement at the inaugural consultation meeting, the proposed prices are derived from an assessment of the corporation's maximum allowable revenues for each service under the Commission's Building Block model. Prices are based on the agreed projections for:

- a return on capital;
- capital asset values;
- efficient operating costs;
- a return of capital (depreciation);
- an allowance for income tax;
- and forecast activity levels for each service and location.

The determination of these elements has been the result of considerable consultation and is detailed below.

The specific prices reflect a transition to the assessed revenue targets over time. At some smaller ports, this process will take longer than five years. An analysis of how the pricing strategy was developed is also set out below.

Building Block Model

The following table sets out the assessment of maximum allowable revenues based on the agreed parameters and compares this with the revenues based on a lower return target profile:

	2004/05	2005/06	2006/07	2007/08	2008/09
WACC Target (Full)	9.75%	9.75%	9.75%	9.75%	9.75%
Return on Assets	\$39.0m	\$43.1m	\$46.9m	\$49.5m	\$51.4m
Operating Costs (incl. Depreciation)	\$559.5m	\$582.1m	\$596.5m	\$617.2m	\$634.1m
Tax Allowance	\$4.8m	\$5.3m	\$5.8m	\$6.1m	\$6.3m
Maximum Allowable Revenue	\$603.3m	\$630.5m	\$649.2m	\$672.8m	\$691.7m
Transitioning WACC Target	6.00%	7.25%	8.50%	9.25%	9.75%
Revenue Target	\$585.7m	\$617.0m	\$642.4m	\$669.6m	\$692.1m
Difference in Revenue Target	-\$17.5m	-\$13.5m	-\$6.8m	-\$3.1m	\$0.4m

Return on Capital

Target Return

The return on capital component of the building block model provides a return to equity and debt holders for the opportunity cost of capital invested in the business.

In its 2003 decision, the Commission stated that it “encourages Airservices to undertake further analytical work on this matter in consultation with its customers as part of the development of a forward looking longer term pricing framework”⁵.

As described previously, following the initial industry consultation meeting in August 2003, mutually agreed consultants were invited to submit proposals to provide an assessment of Airservices’ weighted average cost of capital for application in a long term pricing proposal. PricewaterhouseCoopers (PwC), a consultant recommended by the major airlines, was selected as following a competitive bidding process.

In carrying out their review, PwC researched the market both domestically and internationally and received submissions from BARA and Virgin Blue.

The PwC recommendation is set out in the following table and their full report is at *Appendix 1 – PwC Report on Airservices Australia WACC*:

Table 2 – PricewaterhouseCoopers’ Recommended Parameters & WACC

Measure	PwC Recommendation
Risk Free Rate	5.83%
Asset Beta	0.55-0.65
Equity Beta	1.0-1.3
Debt beta	0
Market Risk Premium	6%
Debt margin	0.6%-0.8%
Cost of Debt	6.5%-6.7%
Gearing (D/V)	40%-50%
Dividend Imputation	50%
Cost of Equity (post tax nom)	11.8%- 13.6%
Nominal Vanilla WACC	9.4%-10.1%
Post tax nominal WACC*	6.9%-8.2%

Based on the prevailing 5 year bond rate, PwC recommended 9.75% as the nominal vanilla WACC as the simple midpoint of the range established by an assessment of the underlying parameters.

In providing their assessment, PwC also noted:

Overall, AsA is unlike most regulated infrastructure entities in that over 83% of revenue from the building block approach is derived from non-capital costs with the remainder from capital costs (depreciation 10% and rate of return 7%). By contrast most regulated infrastructure entities derived over 70% of maximum revenue from capital costs.

⁵ ACCC Decision Airservices Australia Proposed Price Increase June 2003, p. 45

Consequently, whilst WACC remains an important input to AsA maximum prices, it is comparatively less significant and changes in WACC yield relatively smaller changes in maximum prices.⁶

This pricing proposal has adopted PwC's recommended WACC of 9.75%, in accordance with the Industry Steering Committee decision at its December 2003 meeting, as the normal target return. However, in developing the pricing strategy, the Industry Steering Committee was concerned that the cost of transitioning under the new pricing arrangement should not be solely borne by the airlines, and considered that Airservices Australia should also contribute to this outcome. Consequently, Airservices agreed to target a lower WACC in 2004/05 and to progressively increase this to 9.75% by 2008/09. It was also recognised that this reduced target would also act as a formal incentive to seek additional productivity efficiencies in order to achieve a normal return during this period.

As a result, this pricing proposal now targets the following WACC profile in determining the return on capital target across the five year period:

	2004/05	2005/06	2006/07	2007/08	2008/09
WACC Target (Full)	9.75%	9.75%	9.75%	9.75%	9.75%
Increasing WACC Target	6.00%	7.25%	8.50%	9.25%	9.75%

⁶ PricewaterhouseCoopers, Review of Weighted Average Cost of Capital (Airservices Australia, November 2003) p. 10

Asset Valuation

The valuation of the underlying assets of the corporation is used in the building block model as a proxy for the capital investment in the business. The Commission's approach to asset valuations is to use the Optimised Depreciated Replacement Cost (ODRC) methodology.

In its 2003 decision, the Commission concluded "that the principles underpinning ODRC should be applied consistently by Airservices across its operations" and "the Commission would expect corresponding detailed information on the effects of such a valuation on operating and maintenance costs"⁷.

Recognising the difficulties the corporation was likely to encounter in undertaking an ODRC valuation, and noting the Commission's encouragement to work through this issue with customers⁸, Airservices Australia adopted a consultative approach to address this issue. This involved the Industry Steering Committee seeking a mutually agreed independent consultant (Hymans) to provide valuation advice and a close examination of the material movements in individual asset values. The outcome of the consultancy reflects an iterative process, involving the Industry Working Group, that tested the valuer's methodology in terms of both replacement cost and optimisation principles. The overview from the valuation report is at *Appendix 2 – Hymans Report & Valuation (Extract)*.

Hymans noted that there were a number of challenges in undertaking an ODRC review of Airservices Australia's asset base⁹:

Elements considered when optimising equipment include:-

- *The functional design parameters*
- *Safety standard compliance*
- *Cost*
- *Technological/Economic Life*
- *Operational and maintenance cost considerations*
- *Flexibility of design of buildings*

These considerations provide a challenging basis for valuing Airservices Australia's assets, with international compliance standards regulating the functionality and standards of equipment in the field. In addition, due to the unique nature of the plant and equipment, there are limited prime contractors in the market place (eg. manufacturers of equipment such as approach and enroute radar systems, satellite bearer equipment and high end radio communications equipment).

All the assets that we have investigated appear to have been undertaken with a reasonable and efficient design execution. There is evidence however, that the international design parameters with respect to safety have and will lead to a higher bench marking of design and cost standards compared to other organisations' infrastructure and technical applications. This is particularly noticeable in the case of fire fighting appliances, navigational aids and enroute and approach radar systems.

Similarly, the selection of contract partners for capital projects requires consideration of the above optimising elements. There is no evidence in current ASA capital programs of iconic design statements or excess with respect to property design or configuration. The prime contractors that ASA have selected for capital works are fully conversant with these design considerations and build to the relevant cost and technological design platform.

On the opposite hand an over zealous approach to optimising can prove costly with respect to unprogrammed maintenance of plant, longevity of equipment and lack of flexibility in design. It is

⁷ ACCC Decision June 2003, p. 37

⁸ ACCC Decision June 2003, p. 37

⁹ Hymans, Report & Valuation December 2003, p. 3

apparent from our assessment and interviews that ASA engineers are acutely aware of these pitfalls when considering design.

The result of this asset valuation exercise was an increase in the value of assets of \$41.7m as at September 2003. This 14% increase in the asset base primarily reflected the reversal of a one-off asset write down in 1999 of almost \$100m to reduce the value of assets at loss making locations to zero in accordance with accounting standards. The write down also took into account a reduction in the lives of a number of assets which were anticipated to be made redundant due to changes in technology.

The regeneration of positive financial returns from these assets as a result of this pricing proposal, coupled with the world-wide deferral of the anticipated new technology deployment, now requires a reversal of the previous write down.

The steps taken to assist the Industry Working Group to review and accept the valuation included provision of the asset register, assisting customer consultants verify data and reassessing asset values as requested. Following the resolution of this valuation, the result was accepted by the Industry Steering Committee at its January 2004 meeting.

Capital Expenditure Program

Nature of the program and pricing approach

Airservices Australia's five year capital program is based on investment requirements driven by:

- Safety – to meet mandatory requirements at minimum cost, or to take reasonable steps to improve the safety of air navigation in Australia;
 - Australia, as a contributing state to the International Civil Aviation Organisation convention on international aviation (the Chicago Convention), is bound by their standards and recommended practices
 - The Civil Aviation Safety Regulations (CASRs) are a risk averse, prescriptive regulatory framework which clearly defines the standards, redundancy, reliability, maintainability and availability criteria for a broad range of aviation infrastructure.
 - The Air Services Act states at section 9(1) that in undertaking our functions we must “make safety the primary consideration”.
- Renewal – to maintain the asset base necessary to meet current service requirements;
- Efficiency – delivering the required service at minimum lifecycle cost, often through avoiding projected cost increases as a result of obsolescence;
- Capacity – which will increase our capacity to meet expected increased traffic levels, other than by increasing staff numbers;
- Improved service to industry – delivering new services enabling customers to yield improved operational benefit.

The scope, timing and funding for these investments is formulated using the best information available at the time. However, the environment within which Air Navigation Services providers operate is dynamic and necessarily requires a flexible approach to capital budgeting. Some relevant considerations include:

- Evolving operational requirements, to meet desired changes in airline operations and take advantage of internal innovation;
- Complex engineering requirements, which often must be defined in conjunction with suppliers to take best advantage of current offerings;
- Evolving implementation of global technology, determining the available offerings from suppliers;
- Investment by other ANS providers, which influences supplier prices due to scarcity of resources or economies of scale;
- Evolving global standards and practices, affecting the fitment of international aircraft operating in Australia;
- Dependence on aircraft fitment profiles and regulation, such that many investment decisions must be made jointly with aircraft operators and CASA;
- Movements in foreign currency, as most purchases are made in Euros, US dollars or Yen.

Figure 2 – Illustration of Capital Investment Planning

To illustrate, the proposed Terminal Area Radar (TAR) replacement project, initially estimated at a cost of \$48m, may be amended to take advantage of the faster than anticipated global uptake of Mode S: Enhance Elementary Surveillance (EES) technologies. With Europe mandating aircraft fitment supporting this technology, many aircraft flying in Australia will soon be appropriately equipped. Re-specifying the TAR investment required to be made by Airservices will allow the downlink of information from the aircraft flight management system, providing significant operational and safety benefits. The level of investment in Europe will also affect pricing. An innovation is now possible which was not envisaged at program formulation.

Given this dynamic environment, Airservices Australia has two approaches available to incorporate the impact of capital investment into a longer term pricing agreement:

- The first is to adopt the standard model applied for other capital intensive organisations such as airports. This approach includes investments that are relatively certain in terms of timing and cost estimates in baseline prices and is therefore most appropriately used where investments are large and infrequent. Subsequently, price variations are effected for each additional “necessary new investment” agreed with customers.
- The second approach is to work cooperatively with customers to make joint decisions on significant capital investment, and to dynamically manage variations in the capital program as uncertainties are resolved. In this case, baseline prices are struck on an agreed 5 year plan and adjustments are made at the end of the pricing cycle, or if a significant change occurs during the life of the plan. This approach encourages the innovation characteristic of the service and allows a greater degree of pricing certainty where there are numerous planned investments in each year.

The Industry Steering Committee has endorsed the adoption of the second approach as the more relevant. To continuously apply to the Commission for price adjustments as each capital investment proposal reaches full maturity was considered to be too cumbersome and costly, and would not deliver pricing certainty to customers.

Management of the capital program within the pricing arrangement

Recognising the need to regularly monitor progress under this approach to incorporating capital into the pricing arrangement, the Committee resolved to schedule half yearly meetings to maintain a watching brief on capital investments. Under this arrangement, Airservices will work closely with the industry, through ASTRA and the umbrella of strategic partnering agreements, to assess business cases as they mature and uncertainties are resolved.

This cohesive approach will be critical where innovative new systems and facilities depend on joint investment across the aviation industry and careful consideration is required to achieve the best whole of industry outcome. To achieve this, Airservices is taking a lead role in ASTRA to develop a cross industry business case model that assesses the benefit for each stakeholder, together with the societal net benefit. The result can then inform regulatory change, subsidy decisions or pricing models, to deliver the best outcome for industry as a whole.

To maintain price certainty within this environment, the Committee further agreed that the pricing impact of cumulative variations during the term of the 5 year pricing arrangement should be carried forward into the subsequent pricing agreements. However, where capital expenditure is anticipated to differ from plan by 50% or more within a single year, or by 25% cumulatively, a price variation may be required (up or down) to recognise the impact of large-scale changes in the overall program scope and schedule.

Development of the five year program

The Australian Strategic Air Traffic Management Group (ASTRA) is a collaborative initiative of key Australian aviation industry stakeholders. These stakeholders include Airservices Australia, Qantas, Virgin Airways, the Australian Airports Association, Alliance Airways, the Aircraft Owners & Pilots Associations, Coastwatch, Regional Airspace Users Advisory Committee, Guild of Airline Pilots and Air Navigators, Civil Aviation Safety Authority, the Australian Defence Force, and the Department of Transport and Regional Development.

ASTRA has issued the *Australian Air traffic Management Strategic Plan: 2003-2015 and beyond*¹⁰. Airservices Australia investment plans are developed in response to this plan.

In formulating the project program, a range of inputs addressing immediate, medium term and future requirements are assessed. The inputs to the program planning process include:

- Strategic operational change in support of more efficient, expeditious flight and/or improved service efficiency and capacity, enabled by technological change, formulated with customers and other stakeholders through the ASTRA forum;
- Evolutionary change in support of business and operational requirements, driven by changes in ICAO, regulatory, efficiency and capacity requirements to provide immediate benefits of regulated till customers; and
- Systems Review reports on the current asset base, undertaken on an annual or biannual basis for all major systems, with input from maintenance and operational personnel and statistical asset performance records, which identify lifecycle asset management issues, performance concerns and renewal requirements.

From this base, proposed initiatives for the next 5 to 7 years totalling around \$700m were assembled, prioritised and checked for consistency. Internal review and consultation with customer groups then followed to consider the reasonableness of the proposed investments given the value and age of the asset base, availability of solutions from the market and the appropriateness of the timing.

The result of this iterative process was the \$542m capital expenditure program presented in *Appendix 3 – Capital Expenditure Program 2004 - 2009*. The Industry Steering Committee endorsed this capital expenditure program at its December 2003 meeting, although they expressed reservations about the requirement for surface movement guidance systems totalling \$14.6m proposed at Brisbane and Melbourne airports.¹¹

The program and impact on a location basis was also made available through the wider regional and GA consultation process via the internet and the airport meetings. Other than broader affordability concerns related to large price increases, this process did not identify any other specific concerns with the investment program, but sought a review of the allocation basis of the investments to particular locations. This re-allocation has been adopted in the proposed pricing arrangement.

Process for specific project approval

Projects with a total capital expenditure in excess of \$1m, or which have a major impact on the organisation's operations, require a detailed business case. Needs are defined, costs and benefits evaluated and options assessed in consultation with industry stakeholders.

Internally, the approval process involves the sponsoring group, evaluation of corporate finance, tax, insurance, treasury, and legal aspects, and approval by the Chief Executive, with projects exceeding \$5m also requiring Board approval. Projects in this category are managed by an experienced and qualified Project Manager, reporting through the National Program Office to the Capital Investment Executive Steering Group.

An example of a project approval in this category (ADS-B Upper Airspace) is detailed below.

¹⁰ www.astra.aero

¹¹ As a result, Airservices has been working closely with the Brisbane and Melbourne Safety Committees to confirm its understanding that the proposed investment is the most appropriate solution to mitigating safety risks. A final resolution of the issue, including any necessary adjustments, will be made prior to lodgement of the final notification.

Figure 3 - Illustration of ADS-B Upper Airspace Project

Automatic Dependent Surveillance – Broadcast (ADS-B) Upper Airspace: budget \$14.3m

The ADS-B project for upper airspace was proposed by ASTRA, emanating from a requirement to enable User Preferred Trajectories (UPT). Improved situational awareness and surveillance capability was recognised by ASTRA as essential to realise the full benefits of UPT; ADS-B was the recognised medium to address these requirements.

The ASTRA Strategic Plan (including the Surveillance Plan – ADS-B) was presented to the Airservices Board for endorsement and this plan was then used as one of the strategic bases for development of the capital investment program.

As ADS-B is relatively new technology to aviation, standards did not exist for its operation in the way envisaged by ASTRA. Airservices Australia embarked on a program to prove the viability of ADS-B to the regulator – CASA (standards) and airlines (commercial benefits) to support the business case.

The business case was then developed in consultation with industry representatives from ASTRA and other key stakeholders. The finalised business proposal was presented to ASTRA and additional industry forums for endorsement prior to being presented for endorsement by the internal sponsor group (Air Traffic Management).

Following the business case being presented to and approved by the Board, tenders were called for provision of the equipment, two successful tenderers selected and the contract was finally let following an exhaustive review process. Installation is being timed to coincide with other capital works to take advantage of economies in travel, accommodation and resource usage.

Projects in the range \$100,000 to \$1m require a rigorous business case and appropriate industry consultation. However, approval for medium projects generally rests within each Group at Business Centre or General Manager level, in accordance with delegation limits. Projects greater than \$500,000 require Chief Executive approval.

Projects with a total capital expenditure less than \$100,000, and with relatively small impact on the organisation's operations, are approved and managed at local management level.

Efficient Operating Costs

Cost Projections

Airservices Australia introduced a dual till approach during 2003 to segregate the risks and returns of the price regulated services from other commercial activities. Under this proposal, the asset and operating and maintenance related costs reflect the cost of providing the regulated services only. Other commercial activities have been separated out on the basis of their fully allocated cost.

The five year operating cost projection was developed, in consultation with the Industry Steering Committee, to reflect:

- The statutory obligation to regard the safety of air navigation as the most important consideration;
- The cost of providing the services described in the Baseline Service Descriptions contained in *Appendix 4* –
- The impact of the capital investment program set out in the Capital Expenditure Program section above;
- A reduction in repair and maintenance costs in accordance with the independent review of the impact on these costs from the adoption of an ODRC asset valuation;
- The projected effect of the regulatory changes in the provision of ARFF services; and
- Continuing productivity improvements evidenced through increasing activity levels being serviced with fewer staff.

The projected cost profile is summarised in the following table:

Table 3 – 2004/05 to 2008/09 Projected Costs

(\$'000)	2003/04 Baseline	2004/05	2005/06	2006/07	2007/08	2008/09
Staff Costs	344,560	368,027	384,365	399,399	415,416	429,227
Supplier Costs	103,600	114,368	123,358	120,300	123,174	126,557
Depreciation	53,430	77,062	74,398	76,835	78,589	78,277
Total Operating Cost	501,590	559,457	582,121	596,534	617,180	634,061
Cost Growth		11.5%	4.1%	2.5%	3.5%	2.7%
Weighted Average Activity Growth*		4.7%	4.9%	4.1%	3.9%	3.5%

* Does not include increased activity from new services

In 2004/05, costs are expected to increase by \$58.3m or 11.6% (9.2% in real terms) from the 2003/04 baseline¹² due to:

- New aviation rescue and fire fighting (ARFF) services planned, or recently established at Ayers Rock, Maroochydore and Townsville have added \$6.2m;
- Recent regulatory changes for ARFF services will require upgrades to services at some locations, without any changes in the revenue base, and are projected to increase costs by \$6.6m;

¹² The baseline costs reflected the cost of providing the services as at December 2003.

- The revaluation of assets (mainly the write back of loss making assets described in the Asset Revaluation section above) and investment in new facilities will increase depreciation by \$22.9m.
- Additional ATC training requirements to facilitate flexible use airspace, user preferred routes and upgraded high frequency radio facilities will require an additional \$3.9m; and
- Increases in staff and supplier costs of \$21.4m related to Airservices Australia's Certified Agreement, aging workforce issues and inflationary pressure on other inputs.

As the Commission noted in its decision last year, the application of the ODRC asset valuation methodology requires recognition of the impact of this view of the asset base on repairs and maintenance costs. The projected costs incorporate a \$2.6m reduction in these costs in accordance with Hymans review of the impact of their valuation¹³.

Following 2004/05, cost growth in tracks below forecast activity growth. This is achieved by targeting productivity improvements through a combination of capital investment and the need to pursue more efficient work practices.

In overall terms, after removing the impact of the new and upgrade requirements for ARFF services, costs move in line with activity over the 5 years, with both increasing by 23% in nominal terms over the period.

Importantly, these operating costs have been extensively reviewed and endorsed by the Industry Working Group. The following extract from the minutes of the Industry Steering Committee's June Meeting reflects this outcome¹⁴:

"[BARA] explained that Qantas and Virgin Blue had invested considerable resources into analysing the various cost structures including the capital expenditure program and employment structures. [BARA] noted that from [their] perspective [they] had been happy with the amount of data and the transparency with which it was provided and whilst there may be room for one or two million dollars more in efficiency improvements, [they were] comfortable that the bulk had been identified particularly when safety implications were taken into account.

[Qantas] similarly endorsed the consultation process noting that whilst one could always spend considerably more resources reviewing the cost structures [they] felt that the outcome would not be significantly different to what had been determined.

[Virgin Blue] had provided considerable resources to the consultation process and was happy with the return on investment identified and that the cost base was reasonable."

The focus of regional and GA concerns with regard to the cost efficiency of the organisation was on the overall affordability and the concern that as a monopoly service provider, there were few incentives to operate efficiently. These concerns should be ameliorated to a large extent by the targeting of a lower WACC and a proposal that offers affordable prices.

Additional concern was also expressed about the requirement for tower services and the hours of operation. Airservices has noted this concern and will continue to review the ongoing requirement for the more marginal towers and their operating hours.

¹³ Hymans, The Effect of Optimised Cost on Airservices Australia's Maintenance Programs December 2003

¹⁴ Long Term Pricing Consultation Meeting Minutes (June 2004)

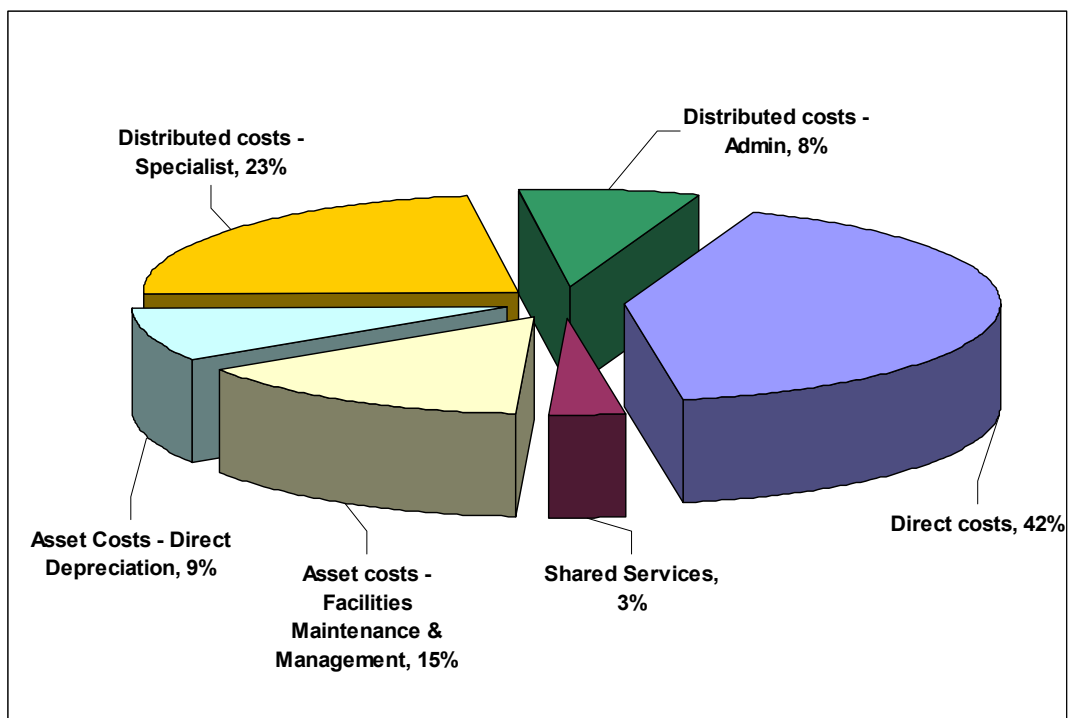
Allocation of costs

Airservices Australia has traditionally adopted a sophisticated, activity-based, approach in determining the costs of each service at each location. This was developed to support location specific pricing in accordance with a ‘user pays’ philosophy, to support capital investment decision making and to prepare for the introduction of competition for its services.

Airservices’ financial systems are configured such that direct costs, fully attributable to unregulated services, are identified and accounted for separately. Shared services, Group and Corporate overheads are allocated to this till on a basis consistent with that applied to the regulated business till.

In allocating costs to the individual regulated services at particular locations, a mix of direct costing, activity based allocation and generic allocation methods are applied. The following chart depicts the proportion of regulated services costs by allocation type:

Figure 4 – Analysis of Cost Allocation by Cost Type



Direct Costs

42% of regulated service costs are directly attributed to a particular service and location. This includes the air traffic controllers and firefighters at particular locations, and supplier costs incurred at a particular location

Shared Services

Shared Services account for about 3% of regulated services costs, which include non-operational communication and data services, transaction processing (e.g. accounts payable, accounts receivable, payroll) and information management services. Cost allocations are based on activity and usage.

Asset Cost – Facility Management & Maintenance

The national airways system includes radars, navigation aids, towers, communication networks and operational software. The management and maintenance of this

	infrastructure accounts for 15% of regulated services costs and are allocated on activity based costing principles using technical maintenance scheduling software applications.
Asset Cost – Direct Depreciation	Direct depreciation represents 9% of the regulated service costs. When an asset is fully dedicated to a service at a particular location, depreciation associated with this asset is costed directly to the relevant service and location. Depreciation relating to shared assets is captured in Distributed Costs and allocated accordingly.
Distributed Costs	<p>Distributed costs primarily consist of specialist support, group and corporate overheads which contributes 23% of regulated services costs.</p> <p>Specialist support includes ATS recruitment and training, QA and safety management, the Flight Information Centre, operational management and procedure design. These costs are allocated firstly to regulated services based on activity based principles, and then distributed to locations based on airways activity.</p> <p>Group and Corporate overheads such as HR, finance and administrative support are allocated to services and locations in proportion to airways activity projected in each location</p>

As noted above, in past proposals Airservices adopted a conventional activity based costing approach to distribute joint or common costs to service lines. However, considerable concern expressed by regional and GA operators demonstrated that pricing predicated on this methodology would be untenable and cause widespread dislocation to significant and vulnerable sectors of the industry. As a result, Airservices has adjusted its allocation approach toward one that takes into account users' capacity to pay.

Within each service line, 'Distributed Costs', noted above, tend to be fixed relative to the operation of regional and GA towers and ARFF services. That is, if these services were withdrawn, say as a result of price increases driving down demand, these costs would largely continue to be incurred. Therefore, it is more price efficient to recover these costs in line with the customer's capacity to pay.

Under this proposal, Distributed Costs have been allocated within each service based on the chargeable units underpinning the service (ie. tonnes landed). This revised approach recognises that smaller GA and regional locations should continue to contribute towards fixed costs, but at a significantly lower level than in the past. As a result of this change, a proportionately higher level of these costs will be recovered from Sydney, Melbourne and Brisbane users.

Activity Forecasts

Aviation activity has experienced extreme volatility over the last decade. While long term aviation activity has traditionally mirrored international and domestic economic growth patterns, the current changes in growth are considered to be driven more by industry restructuring and oil prices.

On the positive side, activity growth is being spurred along by the expansion of domestic fleets and international competition. On the negative side, oil prices are at an all time high and likely to continue higher, while airline yields are under intense pressure from the competition to fill the additional capacity they are adding to the market.

Given the difficulty in ascertaining an objective basis for the activity forecast, Airservices Australia agreed to the Industry Steering Committee's recommendation to engage the International Air Transport Association's (IATA) Forecasting and Consulting Unit to develop a forecast for the next five years and to abide by its recommendation. A copy of the report is at *Appendix 5 – IATA Activity Forecast Report*.

The IATA forecast modelled the derived flight activity and the number of charging units from an initial forecast of passenger demand. This was constructed using a series of parameters which included the average number of passengers per flight, and the average weight and distances for key sectors in the Australian airspace. The forecast considered the likely recovery from current security threats, the war in Iraq and SARS, and the expansion of the domestic market due to the introduction of the new Qantas low cost carrier, Jetstar.

These activity forecasts formed the basis of a headline forecast. The chargeable unit forecasts for enroute, terminal navigation and ARFF services at each location were then derived as follows:

- The forecast growth rates for aircraft greater than 20 tonnes was generically applied to major airports
- The forecast growth rates for aircraft less than 20 tonnes was generically applied to regional airports
- The forecast growth rates for "Non-Commercial" flights for aircraft less than 20 tonnes was generically applied to general aviation airports

From this review the following forecasts were derived:

Table 4 Forecast Activity Growth Rates

	2004/05	2005/06	2006/07	2007/08	2008/09
Enroute	4.2%	5.2%	4.6%	4.3%	4.0%
Major Airports	5.6%	4.7%	3.8%	3.7%	3.1%
Regional Airports	3.0%	2.6%	2.1%	1.5%	1.3%
General Aviation Airports	1.0%	2.0%	2.0%	2.0%	1.8%
Weighted Average	4.7%	4.9%	4.1%	3.9%	4.7%

These forecasts were endorsed at the January 2004 meeting of the Industry Steering Committee as the appropriate basis for pricing.

Consultation with airports and other customers, however, has suggested that the regional and GA airport forecasts are optimistic, as significant price increases are likely to result in a contraction in demand. While noting these concerns, Airservices Australia considers that determining the reaction of the market to this pricing proposal in isolation from other changes in input costs for operators, such as fuel costs and airport charges, would be extremely difficult. Therefore, the IATA forecasts have been retained as an objective basis for pricing.

Noting the volatility in activity levels experienced over the last decade, the Industry Steering Committee considered the implications of large-scale changes in underlying activity trends on a longer term pricing arrangement. To mitigate the risks posed by significant levels of volatility, the Committee resolved to adopt a watching brief over activity forecasts and to apply similar principles to those accepted to manage significant variations in the capital program.

If activity levels fall or rise by 10% or more within a 60 day period, and/or are forecast to trend 5% above or below the forecast quantitative levels in a financial year, the parties will consider the implications and determine the most appropriate means of addressing the situation. Potential courses of action could include agreement to change cost levels via a change in service levels, a re-scheduling of capital expenditure or to seek a price variation through the normal price notification process.

Pricing Strategy

Pricing environment

In balancing the needs of its customers, commercial imperatives and legislative and governance obligations, Airservices has framed its pricing proposal to meet, as far as reasonably practicable, the following pricing principles:

Prices for each service at each location should aim to promote the general economic health of the industry by:

- reflecting the efficient, fully allocated costs of providing the service;
- providing a reasonable return on the assets employed in delivering the service;
- avoiding cross subsidising the costs of other services;
- promoting efficient use of facilities and services;
- being structured to reflect an appropriate balance between administrative simplicity and cost congruence.

In 1997 Airservices embarked on a process of pricing reform to advance these principles, which would see the removal of full network pricing and the charging of a fuel levy that applied across the board, irrespective of whether operators used Airservices services.

The economic inefficiencies inherent in these mechanisms, and the groundswell of support for pricing reform, resulted in the introduction of location specific pricing for ARFF services in 1997 and terminal navigation services in 1998.

This pricing reform was strongly supported by most sectors of the aviation industry, including the major carriers and a large section of the general aviation community, including those represented by AOPA. The government also supported this reform as it promoted efficient cost structures and investment and supported national competition policy. An immediate consequence of the reform was a reduction in the fuel levy contribution to Airservices of some \$16m.

To alleviate the impact of this transitioning to higher prices, a temporary subsidy for regional and GA terminal navigation services was provided by the government. This subsidy also required the temporary capping of prices, which were planned to progressively increase from \$6.75 (excluding GST) to \$10.00 (excluding GST) per tonne over 3 years. However, the vulnerable nature of the regional and GA sectors resulted in this transitioning being deferred, with the funding gap being bridged by a combination of continuing subsidies and higher enroute prices.

The implementation of location specific pricing and costs has been a catalyst for significant cost reductions. Savings of more than \$100m per annum in operating costs have been achieved. As a result, Airservices has reached a level of efficiency where further material cost reductions would be counter-productive and possibly compromise safety. Through the Industry Steering Committee, customers have acknowledged that current and planned costs are at efficient levels. The transparency provided during the recent consultation has provided them with this level of comfort¹⁵.

In establishing a longer term pricing arrangement, Airservices has been given the incentive to contain cost increases at or below the rate of traffic growth. Overall proposed price increases are primarily accounted for by new, and upgraded, ARFF services in response to regulatory change,

¹⁵ Long Term Pricing Consultation Meeting Minutes (June 2004)

and the expiration of the government's temporary subsidy arrangement for regional and GA terminal navigation services.

While only a moderate overall price increase of 5.8% over five years (or a reduction in real terms of around 6.2%) is proposed, the impact of removing cross subsidies in service line prices is more significant. The following table highlights the degree of service line cross subsidy currently in place:

Table 5 – Projected Shortfall/(Surplus) in 2004/05 at current prices

	Terminal Navigation		ARFF	Enroute
	Regional & GAAP	Major	(excl new services)	
Allowable Revenue	\$33.3m	\$201.7	\$77.5m	\$283.1m
<i>Less</i>				
User Charges (at current prices)	(\$12.5m)	(\$174.5)	(\$57.8m)	\$304.8m
Government Subsidy	(\$7.0m)	(\$0.0m)	(\$0.0m)	(\$0.0m)
Shortfall/(Surplus)	\$13.8m	\$27.2	\$19.7m	(\$21.7m)

The table shows that at current prices enroute is set to over-recover its costs by nearly \$22m, whereas terminal navigation and ARFF services will under-recover by more than \$60m.

A further significant change in the pricing environment is the expiration of the government subsidy for regional and GA terminal navigation services of \$7m on 30 June 2005. Associated with the payment of this subsidy is a Direction provided by the Minister for Transport and under the *Air Services Act 1995* restricting price increase to a maximum of 16.8% at capped locations in 2004/05.

Transition to higher prices

Airservices is conscious of the potentially dislocating impact of large price increases, and has noted the feedback from regional and GA operators who are particularly vulnerable to significant increases required at these locations. The feedback called for increases to be phased in over a number of years and in this proposal, price increases are restricted to a maximum of 16.8% (in line with the Minister's Direction) in the first year, with later year increases capped a maximum of 10% per annum. Therefore, over the five year period the maximum increase is 71% (or around 53% in real terms).

By transitioning prices in this way, most regional terminal navigation and ARFF services will reach, or be close to, full cost recovery.

Application of the 'Basin' concept

The 'basin' concept was raised through the industry consultation process as an appropriate means of spreading the cost of airports co-located within the major capital city 'basins'. The concept is based on the inherent interdependency that exists between the operations of these airports, where the existence of the secondary location has a significant positive impact on reducing the congestion at the major basin airport.

This concept is underpinned by:

- An historical basis. Significant increases in activity following World War II placed pressure on the safety and efficiency of the primary airports leading to the provision of government incentives to move flying training and private operations to secondary airfields.
- An impact on runway capacity. An increase in the number of light aircraft operations at the major airport, were the secondary port not to exist or be too expensive, would reduce the arrival and departure rate per hour due to increased variability in aircraft performance (landing and take-off speeds) and operating weights (wake turbulence requirements). The resulting loss of slots at peak periods would be exacerbated by environmental constraints and differing taxiway access requirements and increases in delays would be expected. Estimates made by Airservices suggests that movement rates, and slots, could reduce by considerably more than 10% at peak periods if this relocation occurred.
- Shared management of operations. A large part of the operations within the basin environments is managed as a whole to optimise operational efficiency and safety levels. As a result, there are significant levels of shared resources. Both primary and secondary airports currently share various radar and navigation resources that are located within the basin areas. These shared resources utilise the same terminal area approach and departure radar service to prioritise the traffic into and out of these airports.

In considering its pricing principles, Airservices has targeted a revenue level for each metropolitan city basin as a whole in lieu of individual airport targets. While a clear interdependency exists between the locations, part of the cost structure is required to service operators that would not necessarily re-locate to the major airport should the secondary aerodrome not exist. It is therefore appropriate to maintain a higher price at the secondary location. Under this proposal, the prices at the secondary locations will increase by 16.8% in the first year and 10% per annum for the following four years.

This principle has been agreed, after extensive consultation, with the major airlines whose costs will increase as a result of this approach.

Pricing Structures

Currently Airservices pricing structure accords with international practice and ICAO guidelines. In the recent past, and in submissions, sections of the industry have proposed alternative structures such as passenger and movement based charging, which they argue more closely reflect the cost drivers of our services.

Airservices is committed to working with the industry to overcome issues identified with its current structure. However, the alternatives suggested are contentious as they simply result in shifting the revenue burden between industry sectors. Given this environment, previous experience is that achieving structural pricing reform is challenging. For example, recent consideration of a change to a passenger based charge for ARFF services faced considerable opposition from some major operators.

The Industry Steering Committee's August 2003 meeting noted these problems and agreed that resolution of such issues should be deferred until after the a longer term pricing agreement was in place based on the current pricing structure.¹⁶

¹⁶ Long Term Pricing Consultation Meeting (27 August 2003) Minutes

Airservices has noted the structural issues raised by regional and GA stakeholders and will continue to explore with industry the following options:

- Passenger based charging for ARFF services;
- Movement charges at GA locations (ie. for each “touch & go”);
- Nav aids only charged to users of the aids.

Pricing Proposal

Airservices Australia has developed a pricing strategy that balances the parameters agreed to by the Industry Steering Committee, with the key concerns expressed by regional and GA stakeholders, and its pricing principles framework.

In particular, the proposed pricing path features:

- a phasing in of higher prices, offsetting the impact of the expiration of the government subsidy for regional and GA tower services in June 2005;
- a revised cost allocation methodology for overhead and distributed costs based on aviation activity levels which takes account of users’ capacity to pay; and
- the adoption of a ‘basin’ concept with respect to general aviation aerodromes situated in capital city locations.

This proposal seeks a weighted average price increase in 2004/05, at the commencement of the new long term arrangement, of 5.2% (or 2.8% in real terms). This increase includes 1.2% for new and 1.3% for upgraded aviation rescue and firefighting (ARFF) services under recently mandated regulatory changes.

During the course of the next four years it is proposed that overall prices increase by a total of around 1.7%, or reduce in real terms. This would be accompanied by a rebalancing of pricing levels, with terminal navigation and ARFF service prices increasing, and enroute prices decreasing as shown in Table 6.

Table 6 Annualised Price Changes

Regulated Services	2004/05	2005/06	2006/07	2007/08	2008/09	Total
Terminal Navigation	15.5%	3.0%	2.1%	1.2%	0.5%	23.5%
ARFF	15.9%	6.3%	3.8%	3.2%	1.6%	34.1%
Enroute	-5.2%	-1.1%	-2.5%	-0.9%	-0.9%	-10.3%
Weighted Average [Incl. new services]	4.0% [5.2%]	1.3%	0.0%	0.4%	0.0%	5.8%

Impact of the Proposal on Customers and Stakeholders

Impact of the Pricing Proposal

Top 25 Revenue City Pairs Impact

TOP 25 REVENUE CITY PAIRS											
CITY PAIR		AIRCRAFT TYPE	LOAD FACTOR	2003/04		2004/05		2003/04 v 2004/05		INDICATIVE LOWEST INTERNET FARE	INCREASE PER PAX AS % OF INDICATIVE FARE
				TOTAL CHARGE	EST CHARGE PER PAX	TOTAL CHARGE	EST CHARGE PER PAX	% CHANGE IN CHARGE	\$ CHANGE IN CHARGE PER PAX		
SINGAPORE	SYDNEY	747-400	0.75	\$5,956	\$15.16	\$6,107	\$15.54	2.5%	\$0.38	\$379	0.1%
SINGAPORE	SYDNEY	777-300	0.75	\$4,923	\$16.66	\$5,015	\$16.97	1.9%	\$0.31	\$379	0.1%
SYDNEY	MELBOURNE	737-800	0.75	\$601	\$4.24	\$648	\$4.57	7.8%	\$0.33	\$65	0.5%
SYDNEY	MELBOURNE	747-400	0.75	\$2,356	\$6.00	\$2,629	\$6.69	11.6%	\$0.69	\$65	1.1%
SYDNEY	MELBOURNE	767-200	0.75	\$1,229	\$6.09	\$1,351	\$6.70	10.0%	\$0.61	\$65	0.9%
SYDNEY	MELBOURNE	767-300	0.75	\$1,229	\$6.09	\$1,351	\$6.70	10.0%	\$0.61	\$65	0.9%
BANGKOK	SYDNEY	747-400	0.75	\$5,956	\$15.16	\$6,107	\$15.54	2.5%	\$0.38	\$757	0.1%
SINGAPORE	MELBOURNE	747-400	0.75	\$5,358	\$13.63	\$5,476	\$13.93	2.2%	\$0.30	\$390	0.1%
SINGAPORE	MELBOURNE	777-300	0.75	\$4,448	\$15.05	\$4,516	\$15.28	1.5%	\$0.23	\$390	0.1%
BRISBANE	MELBOURNE	737-800	0.75	\$877	\$6.19	\$909	\$6.41	3.7%	\$0.23	\$135	0.2%
LOS ANGELES	SYDNEY	747-400	0.75	\$3,338	\$8.49	\$3,624	\$9.22	8.6%	\$0.73	\$930	0.1%
BRISBANE	SYDNEY	737-700	0.75	\$635	\$5.68	\$683	\$6.11	7.6%	\$0.43	\$95	0.5%
BRISBANE	SYDNEY	737-800	0.75	\$693	\$4.89	\$748	\$5.28	7.9%	\$0.38	\$95	0.4%
BRISBANE	SYDNEY	767-300	0.75	\$1,436	\$7.12	\$1,577	\$7.82	9.9%	\$0.70	\$95	0.7%
PERTH	SYDNEY	330-200	0.75	\$3,510	\$15.97	\$3,595	\$16.36	2.4%	\$0.38	\$205	0.2%
PERTH	SYDNEY	737-800	0.75	\$1,739	\$12.27	\$1,740	\$12.27	0.0%	\$0.00	\$205	0.0%
PERTH	SYDNEY	737-800	0.75	\$1,739	\$12.27	\$1,740	\$12.27	0.0%	\$0.00	\$205	0.0%
SINGAPORE	PERTH	777-200	0.75	\$4,130	\$16.79	\$4,409	\$17.92	6.8%	\$1.13	\$540	0.2%
SINGAPORE	BRISBANE	777-200	0.75	\$4,269	\$17.35	\$4,397	\$17.88	3.0%	\$0.52	\$561	0.1%
CAIRNS	SYDNEY	767-300	0.75	\$2,215	\$10.98	\$2,316	\$11.48	4.6%	\$0.50	\$255	0.2%
HOBART	MELBOURNE	717-200	0.75	\$425	\$5.34	\$457	\$5.75	7.7%	\$0.41	\$49	0.8%
AUCKLAND	BRISBANE	747-400	0.75	\$3,560	\$9.06	\$3,937	\$10.02	10.6%	\$0.96	\$163	0.6%
KUALA LUMPUR	MELBOURNE	777-200	0.75	\$3,928	\$15.97	\$3,972	\$16.15	1.1%	\$0.18	\$703	0.0%
ADELAIDE	SYDNEY	737-700	0.75	\$798	\$7.14	\$838	\$7.50	5.0%	\$0.36	\$115	0.3%
ADELAIDE	SYDNEY	737-800	0.75	\$866	\$6.11	\$912	\$6.43	5.3%	\$0.32	\$115	0.3%
AUCKLAND	SYDNEY	767-300	0.75	\$1,699	\$8.42	\$1,827	\$9.06	7.5%	\$0.64	\$165	0.4%
PERTH	MELBOURNE	330-200	0.75	\$2,879	\$13.10	\$2,959	\$13.47	2.8%	\$0.37	\$195	0.2%
PERTH	MELBOURNE	737-800	0.75	\$1,425	\$10.05	\$1,429	\$10.08	0.3%	\$0.03	\$195	0.0%
ADELAIDE	MELBOURNE	737-400	0.75	\$514	\$4.08	\$555	\$4.40	8.0%	\$0.33	\$75	0.4%
ADELAIDE	MELBOURNE	737-700	0.75	\$526	\$4.71	\$569	\$5.09	8.1%	\$0.38	\$75	0.5%
KUALA LUMPUR	SYDNEY	747-400	0.75	\$5,956	\$15.16	\$6,107	\$15.54	2.5%	\$0.38	\$671	0.1%
KUALA LUMPUR	SYDNEY	777-200	0.75	\$4,337	\$17.63	\$4,399	\$17.88	1.4%	\$0.25	\$671	0.0%
CANBERRA	MELBOURNE	737-400	0.75	\$447	\$3.55	\$492	\$3.90	10.0%	\$0.35	\$75	0.5%
DUBAI	PERTH	777-200	0.75	\$6,115	\$24.86	\$6,292	\$25.58	2.9%	\$0.72	\$1,059	0.1%
TOKYO	SYDNEY	747-400	0.75	\$4,424	\$11.26	\$4,654	\$11.84	5.2%	\$0.59	\$697	0.1%
BRISBANE	PERTH	737-800	0.75	\$2,216	\$15.63	\$2,257	\$15.92	1.9%	\$0.29	\$385	0.1%
AUCKLAND	SINGAPORE	747-400	0.75	\$4,531	\$11.53	\$4,297	\$10.93	-5.2%	-\$0.59	\$965	-0.1%

The impact of the proposed price changes on major routes is not expected to be material. The largest increase, as a percentage of a low internet ticket price, on the top 25 routes is estimated at \$0.69 or 1.1%.

**Estimated impact of TN and ARFF price
changes on ticket prices
Aircraft > 2.5 tonnes**

Location	Total TN and ARFF Price		Est. Increase in Ticket Price
	Current	Proposed	
Adelaide	\$ 12.43	\$ 14.52	\$ 1.35
Albury	\$ 7.42	\$ 8.67	\$ 0.81
Alice springs	\$ 11.00	\$ 12.85	\$ 1.19
Archerfield	\$ 7.42	\$ 8.67	\$ 0.81
Bankstown	\$ 7.42	\$ 8.67	\$ 0.81
Brisbane	\$ 6.42	\$ 7.50	\$ 0.70
Cairns	\$ 12.58	\$ 14.53	\$ 1.26
Camden	\$ 7.42	\$ 8.67	\$ 0.81
Canberra	\$ 13.08	\$ 15.28	\$ 1.42
Coffs Harbour	\$ 7.42	\$ 8.67	\$ 0.81
Coolangatta	\$ 14.23	\$ 15.77	\$ 0.99
Darwin	\$ 10.54	\$ 11.54	\$ 0.65
Essendon	\$ 7.42	\$ 8.67	\$ 0.81
Hamilton Island	\$ 5.38	\$ 6.28	\$ 0.58
Hobart	\$ 15.88	\$ 18.55	\$ 1.72
Jandakot	\$ 7.42	\$ 8.67	\$ 0.81
Launceston	\$ 16.72	\$ 19.53	\$ 1.81
Mackay	\$ 17.40	\$ 20.33	\$ 1.89
Maroochydore	\$ 7.42	\$ 23.96	\$ 10.67
Melbourne	\$ 4.54	\$ 5.30	\$ 0.49
Moorabbin	\$ 7.42	\$ 8.67	\$ 0.81
Parafield	\$ 7.42	\$ 8.67	\$ 0.81
Perth	\$ 9.89	\$ 11.37	\$ 0.95
Rockhampton	\$ 17.01	\$ 19.87	\$ 1.85
Sydney	\$ 5.51	\$ 6.38	\$ 0.56
Tamworth	\$ 7.42	\$ 8.67	\$ 0.81
Townsville	\$ 4.76	\$ 14.77	\$ 6.46

Estimate based on average PAX per tonne: 1.55

The estimated impact of the proposed increases in terminal navigation and ARFF prices on ticket prices ranges from \$0.49 to \$1.89 for existing services.

However, the introduction of new ARFF services at Maroochydore and Townsville is more significant, with increases expected to be in the order of \$6.46 and \$10.67 per ticket respectively. While the increase is large, the combined proposed prices are in line with comparable regional airports.

Indicative GA training impact

Cessna 172

	Current	2004/05	2005/06	2006/07	2007/08	2008/09
Price (excl. GST)	\$ 6.75	\$ 7.88	\$ 8.67	\$ 9.54	\$ 10.49	\$ 11.54
Total Charge (excl. GST)	\$ 7.04	\$ 8.22	\$ 9.05	\$ 9.95	\$ 10.94	\$ 12.03
<i>Change in Total Charge</i>		\$ 1.19	\$ 0.82	\$ 0.90	\$ 1.00	\$ 1.09
<i>Cumulative increase</i>		\$ 1.19	\$ 2.01	\$ 2.91	\$ 3.91	\$ 5.00
Traning fees/Hour	\$195	\$195	\$195	\$195	\$195	\$195
Cumulative increase as % of hourly rates		0.61%	1.03%	1.49%	2.00%	2.56%

An assessment of the impact of the proposed increases on GA training indicates that it would cost an additional \$5 per hour by the end of the 5 years.

APPENDICES

Appendix 1 – PwC Report on Airservices Australia WACC

[Separately attached]

Appendix 2 – Hymans Report & Valuation (Extract)

[Separately attached]

Appendix 3 – Capital Expenditure Program 2004 - 2009

Major Projects	2004/05 Plan (\$M)	2005/06 Plan (\$M)	2006/07 Plan (\$M)	2007/08 Plan (\$M)	2008/09 Plan (\$M)	5 Year Total (\$M)
Terminal Radar Replacement Program	1.3	6.0	25.0	16.0		48.3
Very High Frequency (VHF) Radio Communication Systems Upgrades	23.9	10.6	0.6			35.1
Telecommunications Infrastructure Network Replacement	0.7	29.3				30.0
Surface Movement Guidance & Control Systems	0.5	3.0	12.0	12.0	1.8	29.3 **
Fire Vehicle Replacement Project Stage 2 (03/04 - 04/05)	13.5					13.5
Fire Vehicle Replacement Project Stage 3				10.0	15.0	25.0
Nav aids Replacement Program	7.1	9.9	11.0	17.0	13.3	58.3
National Tower Upgrade Project	-	6.6	6.8	4.2	4.2	21.8
Enroute Surveillance Life Extension Program			5.0	5.0	5.0	15.0
High Frequency (HF) Communication Networks - Rationalisation & Modernisation Project	10.7	0.2				10.9
Automatic Dependent Surveillance Broadcast (ADS-B) - Upper Airspace	9.0	1.5				10.5
Eurocat Ongoing functional Upgrade (Software & Hardware)	6.3	8.8	2.0	-	2.0	19.1
National Aeronautical Information Processing System (NAIPS) Enhancement	3.6	3.0	2.1	0.5	0.5	9.7
Voice Switching & Control System (VSCS) - Replacement					9.0	9.0
Aeronautical Data Inter-change Network - Upgrade/Replacement Program					9.0	9.0
Flight Inspection Equipment Replacement				4.5	4.5	9.0
Aeronautical Fixed Telecommunication Network (AFTN) - Upgrade/Replacement	3.7	3.6	1.0	0.1	0.1	8.5
Control & Maintenance Management Replacement (TAAATS)	1.0	1.6	5.0			7.6
SAP Upgrade			0.5	5.0	1.8	7.3
National Technical Monitoring Replacement	1.0	2.0	4.0			7.0
Parallel Approach Runway Monitor	6.0					6.0
Aeronautical Information Databank	0.7	1.8	2.6	0.7		5.7
Dynamic Sector Management			1.0	4.0	0.4	5.4
Other Capital Items <\$5m	28.1	39.1	24.4	26.0	23.5	141.0
Total Program	117.0	127.0	103.0	105.0	90.0	542.0

** Note: The Industry Steering Committee expressed reservations about the requirement for surface movement guidance systems totalling \$14.6m proposed at Brisbane and Melbourne airports. As a result, Airservices has been working closely with the Brisbane and Melbourne Safety Committees to confirm its understanding that the proposed investment is the most appropriate solution to mitigating safety risks. A final resolution of the issue, including any necessary adjustments, will be made prior to lodgement of the final notification

Appendix 4 – Service Delivery Baseline

[Separately attached]

Appendix 5 – IATA Activity Forecast Report

[Separately attached]

Appendix 6 – Regional & GA Consultation

Regional & GA Consultation

Background

On 31 May 2004 Airservices wrote to 7000 customers and stakeholders seeking feedback on

- The efficiency of operations
- The level of future investment
- The activity volumes forecast for our services
- The structure of prices, including recovery alternatives
- The rate of return to be included in the prices
- The impact on users if prices were lifted to recover the full cost per unit
- Alternative ways to deliver the services

To enable these customers and stakeholders to make a reasonable assessment of these issues, a website was established providing a high degree of transparency over the key cost drivers, capital investment and costs of providing each service.

In response to this consultation, 607 responses were received with a central theme that large price increases were untenable and would either:

- trigger a vicious cycle: as prices increase, traffic will flow to non-towered ports, compromising safety standards and/or resulting in the requirement for the establishment of a tower service in the new location. Prices at the new location will then erode demand and the cycle will continue, wasting resources without resolving any issues; or
- create dysfunctional results as small to medium operations at GAAP airports would relocate to major capital city airports, resulting in additional congestion problems at those locations.

In particular, most flying schools and small business operators stated that they would not be able to absorb or pass on the increase in prices under the fully allocated pricing regime and would either close their business, fly after-hours or move to a more reasonably priced airports or airfields. They also noted the flow on effect caused through the closure in terms of the multiplier effects of the closure on employment at the location.

They also noted the longer term impact on the supply of pilots in the future (including those feeding into the major carriers) and indicated that flying training as an export would cease.

Feedback on operating efficiency

The following aspects of operating efficiency that were the central concerns identified by the respondents:

- A number of locations do not have levels of activity to support the requirement for a tower service;
- A change in operating hours could be achieved to reduce the cost at a location; and
- A number of services and facilities are redundant.

Airservices Response

Airservices will continue to review the need for tower services and the appropriate hours of operation on an ongoing basis.

The issue of concern regarding redundant facilities was also raised by the Industry Steering Committee. At their request, operational experts representing Airservices and the customers

review the existing asset base and investment program. The pricing proposal reflects the outcomes of that review. Facilities that are surplus to requirement will be progressively removed in accordance with the appropriate regulatory and change management processes.

Feedback on parameters underpinning pricing proposal

The respondents also raised issues concerning the parameters:

- Forecast activity levels do not reflect the impact of price increases; and
- The rate of return of 9.75% is higher than industry standards.

Airservices Response

Airservices notes that activity levels, as taken from the IATA forecast, does not reflect any contraction in demand as a result of price increases. However, in taking the IATA forecast, Airservices has taken the risk of this downside.

Airservices has adopted the recommendation of the independent consultant for the WACC. In addition, under this proposal the concern of regional and GA operators is mitigated by the lower WACC target in early years.

Alternative Funding Options

Overall Recovery Options

The following sources of funding for regional and GA locations were identified by respondents in preference to full location specific pricing:

- a government subsidy which reflected their view that the services were in the nature of a community service obligation;
- a return full network pricing;
- the introduction network pricing within a metropolitan city basin; or
- a return to the fuel levy system which ceased in 1998/99.

Airservices Response

Airservices has advised the government of these preferences and has carefully considered their application in a longer term pricing arrangement. In this proposal, the subsidy and a return to fuel levies were not available and a return to full network pricing was not considered to be economically efficient. However, Airservices has explored the city basin concept and incorporated it into this pricing proposal.

Charging Structures

With respect to the mechanism for charging, the following were suggested::

- Passenger, ARFF costs should be included in ticket price and born by passengers;
- Movement Charge, i.e. charging continuous circuits training for each “touch & go”;
- Nav aids should only be charged to IFR.

Airservices Response

Currently Airservices pricing structure accords with international practice and ICAO guidelines. Although in the recent past, and in these submissions, sections of the industry have proposed alternative structures such as passenger and movement based charging, which they argue more closely reflect the cost drivers of our services.

Airservices is committed to working with the industry to overcome issues identified with its current structure. However, the alternatives suggested are contentious as they simply result in

shifting the revenue burden between industry sectors. Given this environment, previous experience is that achieving structural pricing reform is challenging. For example, recent consideration of a change to a passenger based charge for ARFF services faced considerable opposition from some major operators.

The Industry Steering Committee's August 2003 meeting it noted these problems and agreed that resolution of such issues should be deferred until after the a longer term pricing agreement was in place based on the current pricing structure.¹⁷

Airservices has noted the structural issues raised by regional and GA stakeholders and will continue to explore with industry the following options:

- Passenger based charging for ARFF services;
- Movement charges at GA locations (ie. for each "touch & go");
- Nav aids only charged to users of the aids.

¹⁷ Long Term Pricing Consultation Meeting (27 August 2003) Minutes

List of submissions

COMPANY	RESPONDENT
Amity Aviation Pty Ltd	Baxter, Trevor
Antonov Airlines	Furlonger, Paul
Anyair Aviation Services Pty Ltd	Callil, Peter
ANZ Gympie	Alcorn, Malcolm John
AOPA Australia	AOPA
AOPA Australia	Signature unreadable
AOPA Australia	Signature unreadable
AOPA Australia	Signature unreadable
AOPA Australia	Signature unreadable
AOPA Australia	Signature unreadable
AOPA Australia	Signature unreadable
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AOPA Australia	Signature unreadable
AOPA Australia	Signature unreadable
AOPA Australia	Signature unreadable
AOPA Australia	Signature unreadable
AOPA Australia	Signature unreadable
AOPA Australia	Signature unreadable
Arena Aviation	Bradberry, Gordon
Associated with Royal Aero Club	Johnston, D. B.
Associated with Royal Aero Club	Rogerson, C
Associated with Royal Aero Club	Rogerson, R
Associated with Royal Aero Club	Rogerson, Y
ATM Metals	Signature unreadable
Australian Aboriginal Outreach	Morreau, Antoon
Australian Air League	Bridge, Keith
Australian Air Services Pty Ltd	Highett, Graham
Australian Flying Training School	Gottle, Nathan
Australian Wine Holdings	Signature unreadable
Aviall	Bennett, S
Avian Australia	Signature unreadable
Aviation Central	Hoffman, Elan
Aviation Institute of Australia	Bond, Paul
Aviation Shop	Avery, Rob
Aviation Tourism Australia	Sweeney, Alan
Aviators Café	Signature unreadable
Aviators Café	Signature unreadable
Aviators Café	Signature unreadable
B.G. AirServices Pty Ltd	Newman, Ben
BAE SYSTEMS Flight Training - Adelaide	Morgan, Keith
Battale Pty Ltd	Fiala, Will
BDI Systems Pty Ltd	Fraenkel, Manfred
Becker Helicopters Pty Ltd	Becker, Mike
Bendigo Aviation Services	Mostyn, Derek
Bentley Health	Signature unreadable
Blank form sent no 2nd reply	Cosson, Murray
Blank form sent no 2nd reply	Foord, David
Brindabella Airlines	Corry-Boyd, Lara
Broome Air Services	Watkins, Brad
Bunbury Flying School	Tasker, Michael
Bush Breaks	Lee, Chris

List of submissions

COMPANY	RESPONDENT
C F Balcatta	Signature unreadable
Caddy Industrial Sales	Caddy, G
Cairns Port Authority	Robinson, Ian
Caloundra Tourism	Wilkinson, Mike
Camden Aviation	Caron, Francoise
CASA VIC	Hammond, Jim
Castletop Pastoral Co	Michell, John
CATD & Associates	Signature unreadable
Champions of the Bush	Chester, Darren
Channel Seven Brisbane Pty Ltd	Jankowski, Andy
Channel Seven Brisbane Pty Ltd	Rogers, Greg
Channel Seven Melbourne	Robertson, Neil
Chartair	Mitchell, John
CHC Helicopters	Signature unreadable
Chemisal Pty Ltd	Weber, Stephen H
China Southern West Australia Flying College	Bishop, Luke
China Southern West Australia Flying College	Hoogland, Burt
China Southern West Australia Flying College	Spencer, Andrew
China Southern West Australia Flying College	Wei, Qlan
City Farmers Balcatta	Cunneen, Jan
Clamback & Hennessy P/L	Hennessy, Aminta
Clearly Pty Ltd / Clear Skies Medical Pty Ltd	Keir, Jeffrey (Dr)
Coffs City Skydivers	Brody, Mark
Coffs Coast & Country Property	
Coffs Harbour City Council	Edwards, Bevan
Comiskey Corp	Comiskey, Steve
CSWATC?	Signature unreadable
Curtin Flying Club	Perryman, Graeme
Curtis Aviation Pty Ltd	Curtis Aviation
Darling Downs Aviation	Thomson, Chris
Daujal Pty Ltd	Signature unreadable
Davison Aviation Service	Davison, J B
De Visser Aviation	de Visser, Marc
Deceased	McSparrow, I F
Department of Planning and Infrastructure	Belyea, Nick
Diamond Management Pty Ltd	Signature unreadable
Directair	Nikolovski, Vas
Doug Stott & Associates Pty Ltd	Stott, Doug
Dreamtime Flights	Quartermain, Max
Eastmere Nomineer Pty Ltd	Signature unreadable
Ebony Sky Pty Ltd	Benny, Geoff
Edith Cowan University	Signature unreadable
Edith Cowan University	Signature unreadable
English Engineering	English, Patrick
Esperance Community College Library	Morris, Vicki
ESSA Training Centre	Valentin, Karl
Essendon Flying School	Peppard, Laurie
Essex Maintenance	Signature unreadable
Federal Member for Bass	O'Byrne, Michelle
Federal Member for Hindmarsh	Gallus, Chris (Hon)
Flight Line Aviation	Young, Peter
Flinders Council	Jamieson, Geoff
Flycorp Pty Ltd	Thompson, Richard
Flyer Australia	Signature unreadable
Future Aviation	Signature unreadable
GBH Technology Services	Signature unreadable
General Aviation Maintenance Pty Ltd	Bradley, Craig
Gold Coast Airport Limited	Briggs, Barrie
Gold Coast Aviation Centre	Broadbent, Jocelyn
Gold Coast Flight Facilities	Kimeklis, Elisabeth

List of submissions

COMPANY	RESPONDENT
Goldfields Baptist College	Griffiths, Rob
Goldfinch Black	Signature unreadable
Good Impressions Aviation	Edwards, Peter
Gosnells Council	Smith, Kevin F
Grape Escape Farms	Goodfellow, Edward
Great Barrier Reef Airport Pty Ltd	Huber, John
Great Northern Helicopters	Anderson, Colin
H&K Plane Hire	Hamilton, William
Hancock Prospecting	Signature unreadable
Hastings Council	Coulter, Michael
Hazair Pty Ltd	Death, Stephen R
Hinterland Aviation Pty Ltd	Sapuppo, Sam
Hi-Tech Software	Stubbs, Clyde
Humphries & Cooke Pty Ltd	Cooke, Michael C
Hunter Flight Pty Ltd	Currie, David & Kathy
Ianing & Keenan Real Estate	Keenan, Peter F
Individual	Adam, R. D.
Individual	Adams, Aaron J
Individual	Allen, Phil
Individual	Andersen, Andrew
Individual	Anderson, Bevan
Individual	Atherton, M
Individual	Ayres, J
Individual	Baddams, David
Individual	Bader, Sydney (Dr)
Individual	Badger, Langdon
Individual	Bainbridge, D J
Individual	Ball, Sue
Individual	Banks, Peter
Individual	Barnett, Roger
Individual	Barrett-Lennard, Kathy
Individual	Bart, E S
Individual	Baxter, Dale
Individual	Bayliss, David
Individual	Bell, Andrew
Individual	Bell, Andrew
Individual	Bell, David
Individual	Bell, David
Individual	Bentley, Graham
Individual	Beydoun, Moses
Individual	Billing, Ross
Individual	Bingley-Pullin, Robert
Individual	Bowman, Paul
Individual	Braybrook, Michael
Individual	Brosnan, Kevin J
Individual	Budd, Brian
Individual	Carfrae, Ian
Individual	Cartwright, John
Individual	Chappell, Suzanne
Individual	Charlett, John
Individual	Clark, Peter
Individual	Clews, Maxwell James
Individual	Cliffe-Hickling, Pat
Individual	Comiskey, Bill
Individual	Coomans, Jack
Individual	Cooper, Brian
Individual	Corben, S R
Individual	Crain, Dominic
Individual	Crees, Owen
Individual	Csikos, George

List of submissions

COMPANY	RESPONDENT
Individual	Currie, Alan
Individual	Dale, Brad
Individual	Dann, Russ
Individual	Davies, Colin V
Individual	Davis, John
Individual	Dawes, Warwick
Individual	Dean, Paul
Individual	Denning, Matthew
Individual	Devery, Harry
Individual	Dickson, Kevin A
Individual	Drum, Peter
Individual	Duncan, AD & SE
Individual	Duncan, Ivan
Individual	Dunn, Connie
Individual	Dwyer, Peter
Individual	Edwards, Tony
Individual	Elliott, Brandon
Individual	Evans, Noel
Individual	Fatone, Lou
Individual	Faulkner, E A
Individual	Fawcett, John
Individual	Fielder, Peter
Individual	Findlay, Ian J
Individual	Finlen, Bill
Individual	Folan, Glenn M
Individual	Forkas, Paul
Individual	Frew, John
Individual	Fricot, Jean-Marie
Individual	Georgeson, L E (Dr)
Individual	Gibson, Michael
Individual	Glass, Alex
Individual	Glauerdt, Axel
Individual	Glent, David
Individual	Goodfellow, Edward
Individual	Goodfellow, Ted
Individual	Gould, Doug
Individual	Grace, Jeff
Individual	Greenwood, Kerin B
Individual	Grimstead, Bob
Individual	Grinter, Brian
Individual	Grose, Dale
Individual	Groth, John
Individual	Hack, Ian
Individual	Hall, Noel Victor
Individual	Hannan, Brian J
Individual	Harris, Paul
Individual	Harrison, Des
Individual	Harrison, Ross
Individual	Harvey, Bruce
Individual	Hawthorne, Grant
Individual	Hayward, David
Individual	Henry, Warwick & Maggie
Individual	Hill, David
Individual	Hills, J
Individual	Hitchen, Steve
Individual	Hogarth-Scott, Piers
Individual	Horne, Des
Individual	Hough, K. L.
Individual	Hughson, B J (Dr)
Individual	Jacobson, John L

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COMPANY	RESPONDENT
Individual	Jakins, Graham
Individual	Jeanes, J W
Individual	Johns, Paul
Individual	Jones, Ian
Individual	Kay, Lloyd D
Individual	Kempton, John
Individual	Kennedy, Peter
Individual	King, Bill
Individual	King, Peter
Individual	King, Peter
Individual	Layton, Bill
Individual	Lillyston, John
Individual	Linford, B
Individual	Lockhart, Alistair
Individual	Loorinh Van Beeck, R
Individual	Lucktaylor, Colin
Individual	Macsween, Peter
Individual	Maley, Phil
Individual	Mason, K C
Individual	McCall, Marion
Individual	McCance, Diane
Individual	McCubbin, Shane
Individual	McKenzie, David
Individual	McLeod, Philip
Individual	Melis, Stephen
Individual	Milne, Lachlan
Individual	Monkton, Stepiteon R
Individual	Moon, Murray
Individual	Moxham, Keith
Individual	Mullooly, Graham
Individual	Murphy, Leonard O
Individual	Murphy, Michael
Individual	Nelson, Chris C
Individual	Noonan, Richard & Kath
Individual	Norman, Adrian
Individual	Nott, Jeff
Individual	O'Sullivan, Vin
Individual	Padwick, Bryan
Individual	Parker, Alison
Individual	Pawell, Richard K
Individual	Pawell, Richard K
Individual	Peel, David
Individual	Pharoah, Mark
Individual	Phillips, David
Individual	Pickett-Heaps, Christ
Individual	Pickett-Heaps, Jeremy
Individual	Pilot, Sophie
Individual	Pollock, C R
Individual	Professor Lucas, Godfrey
Individual	Quinn, Bryan
Individual	Ralph, Michael
Individual	Randall, Anthony
Individual	Rees, Tony
Individual	Reynolds, Warren James
Individual	Richardson, Neil
Individual	Riddel, J L
Individual	Ridders, Antony
Individual	Rodgers, M
Individual	Rosendale, Peter
Individual	Rushton, J. Stuart

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COMPANY	RESPONDENT
Individual	Saacks, Eric
Individual	Sagar, Peter
Individual	Sanbrook, Newton
Individual	Schulz, Matthew
Individual	Sharpe, David John
Individual	Sheil, Matthew
Individual	Shirley, Michael
Individual	Sibly, Richard
Individual	Sieker, Hans
Individual	Simpson, John M
Individual	Smith, Bradley
Individual	Smith, Malcolm
Individual	Smith, Peter R
Individual	Smrk, Adrian
Individual	Smrk, Adrian
Individual	Stewart, Trevor
Individual	Stokes, Roger
Individual	Stott, Doug
Individual	Strange, Craig
Individual	Strout, Graham
Individual	Szymbek, Bernie
Individual	Talerion, K J
Individual	Taylor, Col
Individual	Taylor, David & Camilla
Individual	Terelink, Debbie
Individual	Theo, V L
Individual	Tippett, Peter
Individual	Tomlinson, Catherine
Individual	Tomlinson, Rod
Individual	Tony
Individual	Treloar, Graham
Individual	Trewenack, Doug
Individual	Trewenack, Doug
Individual	Tucker, Wayne
Individual	Tully, Megan
Individual	van Rees, Frans
Individual	Victor
Individual	Videtta, Rocco
Individual	Vin, Thomas
Individual	Vost, Tony
Individual	Waddell, Leonard G
Individual	Ward, Darrin
Individual	Wardman
Individual	Waterhouse, Martin Otto
Individual	Waugh, Bill
Individual	Webb, Darren
Individual	Westbury, John
Individual	Wilson, David M
Individual	Wilson, Ric D T
Individual	Wilson, Ric D T
Individual	Wiltshire, Earle M
Individual	Woodward, Richard
Individual	Wooldridge, Peter
Individual	Woulfe, Ron
Individual	Wright, Mac
Individual	Wright, Trevor
Individual	Yates, Julian
Inland Pacific Air	Bourne, Grahame
J.C.E. & M.L. Kelman	Kelman, John
Jandakot Airport Chamber of Commerce	Braybrook, Michael

List of submissions

COMPANY	RESPONDENT
Jandakot Airport Holdings Pty Ltd	Watson, Anne
Jandakot Hangars	Collingridge, Brian
Jandakot Instruments	Chappell, A
John Berends Implements Pty Ltd	Berends, John
Joroda Pty Ltd	Reid, David A
Kevin Kemp Electrical Service	Kemp, K
KeyStar Aviation	Stark, Bruce
Kincrome Australia	Rivers, Franklin
Kirkhope Aviation Pty Ltd	Kirkhope, A P
Launceston Airport	Best, Robert
Leg Vein Clinic Noosa Brisbane	Kornfeld, Michael (Dr)
Lincoln Air Charter	Catt, Malcolm
Linfox Airports Pty Ltd	Andersen, Tim
Lisa Aviation Pty Ltd	Signature unreadable
Living Habitat	Little, Bryon
Lockland Group	Loccisano, Michael
M.A. Jones & Co	Jones, Mark Anthony
Mackay Port Authority	Taylor, John
MacPerin Hemins Meertens	Signature unreadable
Manager Aviation Bankstown A'port	Rowe, Michael
MAP Transport	Signature unreadable
Maroochy Aero Club	Morrison, Stephen
Maroochy Business Group	Preston, Graeme
Mayor, Mackay City Council	Boyd, Cr. Julie
Medicinal Massage	Booker, B. J.
Medisys Australia Pty Ltd	Dunstan, Brian
Melbourne Airport	Carter, Christine
Melbourne Aviation Group P/L	Vandeth, Sander
Metropolitan Ambulance Service	Patrick, Ian
Metropolitan Ambulance Service	Sassella, Greg
Mid-North Flying Group Pty Ltd	
Midstate Express	Sawyer, Paul
Midware Limited	Dews, Robert
Midwest Mufflers	Nash, Bob
Minovation Pty Ltd	Baxter, Trevor Russell
Minovation Pty Ltd	Signature unreadable
Minovation Pty Ltd	Stokes, Min
Moorabbin Airport	McConnell, Philip
Moorabbin Flight Training Academy Pty Ltd	Talman, Scott
Moorabbin Flying Services	Johnson, Andrew
ND Training	Sheedy, Peter
Net Supplies Australia Pty Ltd	Cooley, Russell
Netcrest	Signature unreadable
Ningaloo Reef Resort	Signature unreadable
Noosa, Maroochy & Rainbow Flying Services	Stagg, D
Northair Surveys	Rudd, Richard
Northern Territory Tourist Commission	Tetlow, Maree
NSW Air Ambulance Service	Field, Graeme
Off mailing list request	Cochrane, Lyell
Off mailing list request	Dickson, Malcolm
Off mailing list request	McNeminam
Opera Queensland	Free, Murray
OSS Enterprises Pty Ltd	Osselaer, Pierre Van (Dr)
Ossucton Services Pty Ltd	McDougall, Philip
Pagani Air	Pagani, Damon
Panana Jacks	Marshall, K
Partition	26 signature against Moorabbin increase
Partition	31 signature against Moorabbin increase
Paul Ijong Aviation	Signature unreadable
PCS Consultants	Cossins, Peter

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COMPANY	RESPONDENT
Pearson Aviation Pty Ltd	Pearson, Guy
Peter Bini Advanced Flight Training Pty Ltd	Bini, Margery
Peter Bini Advanced Flight Training Pty Ltd	Pearce, Stephen Robert
Philip Abrahams	Abrahams, Philip
Phoenix Aviation	Signature unreadable
Port Lincoln Flying Club Inc	Chappell, Suzanne
Princehorn & Newton	Princehorn, Cliff
Princeton University	Burke, Ezekiel
Private Pilot	Morrison, C
Private Pilot	Signature unreadable
Private Pilot	Signature unreadable
Private Pilot	Signature unreadable
Private Pilot	Signature unreadable
Proteus Corp	Kimeklis, Roger
Qantas	Signature unreadable
Queensland Aviation Services	Eglen, Keith
R. H. Lewis Pty Ltd	Lewis, R. H.
Ranftl, Erny	Ranftl, Erny
Recreational Aviation Australia	Middleton, Paul
Reith General Aviation Consulting Pty Ltd	Reith, Sandy
Rivergum Marketing	Moore, John
RJC Evans & Co Pty Ltd	Evans, Stephen
Rockhampton Aero Club	Keating, Michael G
Rockhampton Airport	Blackwell, David
Rosian Marketing P/L	Richards, Ian
Ross Hewett & Assoc Illustrators	Hewett, Ross
Rotors	Ellis, D
Royal Aero Club	Douglas, John
Royal Aero Club of WA	Capone, Carmel
Royal Aero Club of WA	Del Borrello, K
Royal Aero Club of WA	Hemgley, B
Royal Aero Club of WA	Herding, M O
Royal Aero Club of WA	Horse, P
Royal Aero Club of WA	Lawson, Michael
Royal Aero Club of WA	Lawson, Michael
Royal Aero Club of WA	Murray, M
Royal Aero Club of WA	Newell, J
Royal Aero Club of WA	Ng, Patrick
Royal Aero Club of WA	Share, J
Royal Aero Club of WA	Share, M
Royal Aero Club of WA	Shields, Brian
Royal Aero Club of WA	Signature unreadable
Royal Aero Club of WA	Signature unreadable
Royal Aero Club of WA	Signature unreadable
Royal Aero Club of WA	Signature unreadable
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Royal Aero Club of WA	Signature unreadable
Royal Aero Club of WA	Signature unreadable
Royal Aero Club of WA	Signature unreadable
Royal Aero Club of WA	Spartalis, C
Royal Aero Club of WA	Swain, A J
Royal Aero Club of WA	Thomas, M
Royal Flying Doctor Service (QLD)	Davies, Rick
Royal Flying Doctor Service (QLD)	Davies, Rick
Royal Flying Doctor Service (QLD)	Maguire, Bruce
Royal Flying Doctor Service (Western)	Papaelias, Liane

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COMPANY	RESPONDENT
Royal Victorian Aero Club	Canavan, Paul
Royal Victorian Aero Club	Rushton, J. Stuart
RRDS	Burrows, R
RWV Enterprises Pty Ltd	White, Ray E
Samotite Aviation	Signature unreadable
Schofields Flying Club	Hook, John
Scotch College	Signature unreadable
SEU International Pty Ltd	Lennox, Peter
Shorland Developments Pty Ltd	Shorrock, Neil
Shortstop Jet Charter Pty Ltd	Falls, Mike
Singapore Flying College	Leiw, Kwok Wah (Capt)
Skycraft	Signature unreadable
Skylines Aviation Supply Pty Ltd	Limon, Kevin
Skyways Australia	Moss, Rob
Skyways Australia	Moss, Rob
Skyworx Aviation	Baxter, Paul
Skyworx Aviation	Signature unreadable
Skyworx Aviation	Warren, M J
Softbiz Pty Ltd	Csikos, George
Solitair Helicopters	Rumble, Tim
South West Sheds	Golding, B
South West Sheds	Golding, R
Southern Cross Gliding Club	Boulter, Dave
Startech Aviation Industries	Shennan, Anthony
Sunland Aviation	Maltby, Steve
Sunshine Aviation	Stagg, D
Sunshine Express	Laffer, Philip
Sydney Metropolitan Airports Business Council	Thompson, Barry
Sydney Skydivers	Bennett, John
Sydney Skydivers	Hatcher, Rory
Sydney Skydivers	Hill, Grahame
T Cox Welding	Box, P U
Tamworth Regional Council	Dubois, Michael
Tasfast Airfreight Pty Ltd	Tucker, Michael
Telstra	Signature unreadable
The Aeroplane Company	Colin, Jothe
The Aeroplane Company	Morimoto, Go
The Aeroplane Company	Pell, J. I.
The Aeroplane Company	Signature unreadable
The Aeroplane Company	Walcher, Serge
The Convention of Ambulance Authorities	Pickering, Ian
The Eye Care Clinic	Novakovic, P
The Helicopter Service	Vernon, Mitch
The MOTH Flying Syndicate Inc	Allen, Peter C
The Plastic Sandwich Company	Lewis, R
The Royal Federation of Aero Clubs of Aust	Davis, Marj
Tish Pty Ltd	Owen, John R
Townsville Aero Club	Marriot, F W
Tristar Aviation	Bradshaw, Anthony
TTF Australia Ltd	Hobbs, Matthew
Ultimate Finance Solutions	Mazzarinno, Sal
University Flying Club	Beveridge, Andrew
Vanbreeze Pty Ltd	Jones, Delia
VH-WJA Pty Ltd	Andrews, Bill
Victorian Regional Air Charter Pty Ltd	Taggart, Tony
Voyages Hotels & Resorts Pty Ltd	Bennett, David
W.E. Schranz Pty Ltd	Schranz, Walter
WA Skydiving Academy	O'Neill, Robin
WAN Professional Services	Signature unreadable
Wesair Pty Ltd	Davidson, W

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COMPANY	RESPONDENT
Western Airmotive	Hollands, R
Westralia Airports Corporation	Muir, Graham
Whitsunday Airport	Midgley, Alan
Wing-Away Air Tours Pty Ltd	Mussen, Gerry
Wings Air (also Email)	Neilson, Brian
Wingz North Aviation (QLD) P/L	Signature unreadable
Yarra Valley Conference Centre	Ward, John