

Mr Matthew Schroder  
General Manager  
Transport and General Prices Oversight Branch  
Australian Competition and Consumer Commission  
GPO Box 520  
MELBOURNE VIC 3001

Dear Mr Schroder

## Draft Notification of price changes for Airservices' Enroute, Terminal Navigation and Aviation Rescue & Fire Fighting Services: effective 1 July 2013

I am writing to notify the Australian Competition and Consumer Commission (ACCC), in accordance with Part VIIA of the Competition and Consumer Act (2010) of price changes for Airservices Enroute, Terminal Navigation and Aviation Rescue & Fire Fighting (ARFF) services effective 1 July 2013.

The draft locality notice for these services is set out in Attachment 1.

The price changes are consistent with those annual price changes considered by the ACCC as part of the detailed assessment of the five year price path (2011-2016 Long Term Pricing Agreement) as set out in the September 2011 locality notice. On a weighted average basis, the net proposed nominal price increase is 0.6%, which includes increases to ARFF services to fund new services and re-balance recoveries in line with service costs. These are offset by price reductions for Enroute services.

A full schedule of prices supporting this notification for Enroute, Terminal Navigation and ARFF services from 1 July 2013 is contained in Attachment 1. A copy of the September 2011 locality notice is contained at Attachment 2.

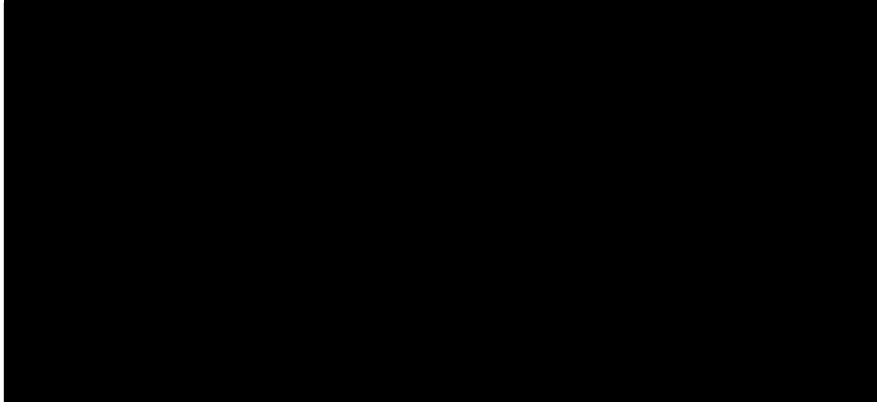
As part of this notification a new charge for ARFF Services at Port Hedland has been included, noting that two new Category 6 ARFF services were factored into the base level service charges over the five years of the 2011 LTPA notification. The Port Hedland service is planned to commence by 1 July 2013 as a Category 6 service and Airservices intends to levy the Category 6 network charge of \$2.25 from that date. Category 7 services are expected to commence later in the calendar year and following further price consultation and forecast traffic volume analysis, a notification for a Category 7 incremental charge will be notified to the ACCC at that time. More detail on the service and supporting pricing information is contained at Attachment 3.

Supporting this notification I also wish to provide an update on our progress against the commitments made in relation to internal drivers of efficiency and management of the capital expenditure program. The ACCC noted in its August 2011 decision that the extent to which Airservices implements improvements in these areas will be

relevant to whether the short form process will be appropriate for the assessment of its annual locality notices.

I have detailed our progress against the various commitments we have made in Attachment 4 and, in the following Attachments 5 to 15, I have included detailed examples of the reports and business cases that are now being provided to the industry.

No	Attachments
3	New Aviation Rescue & Fire Fighting (ARFF) Services (Port Hedland)
4	Information on Airservices progress against LTPA commitments



Should you have any questions in relation to the above, or any other matter, please do not hesitate to contact me on 02 6268 4850.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Andrew Clark', is written over the typed name.

Andrew Clark  
Chief Financial Officer

3 May 2013

# Notification and Details of Prices Proposed by Airservices Australia for Enroute, Terminal Navigation and Aviation Rescue & Fire Fighting Services

Notification of prices pursuant to section 95Z of the Competition and Consumer Act, 2010

Name of the Declared Person:              Airservices Australia  
25 Constitution Avenue  
CANBERRA ACT, 2600

Hereby gives notice that it proposes to supply the goods or services below at the prices detailed, effective from 1 July 2013.

The services, which are the subject of this notification, provide for enroute air navigation services in Australia's flight information region, terminal navigation services at 30 Australian airports and rescue and fire fighting services at 24 Australian airports.

Airservices Australia considers that the proposed price changes do not result in revenues in excess of revenues based on efficient costs and a reasonable rate of return and are consistent with the requirements of section 95G(7) of the Competition and Consumer Act, 2010.

## New Prices for Services: 1 July 2013

Service Price (inc GST)	1 Jul 2013
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### Enroute

20 tonnes or more	\$4.04
Up to 20 tonnes	\$0.90

Service Price (inc GST)	1 Jul 2013
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### Terminal Navigation

Adelaide	\$11.78
Brisbane	\$6.18
Cairns	\$12.20
Canberra	\$11.91
Gold Coast	\$9.28
Melbourne	\$5.49
Perth	\$7.87
Sydney	\$5.60
Albury	\$14.21
Alice springs	\$14.21
Avalon	\$5.03
Broome	\$14.21
Coffs Harbour	\$14.21
Hamilton Island	\$10.30
Hobart	\$9.68
Karratha	\$14.21
Launceston	\$13.68
Mackay	\$12.19
Rockhampton	\$13.33
Sunshine Coast	\$14.07
Tamworth	\$14.21
Archerfield	\$14.21
Bankstown	\$14.21
Camden	\$14.21
Essendon	\$14.21
Jandakot	\$14.21
Moorabbin	\$14.21
Parafield	\$14.21
Darwin	\$1.94
Townsville	\$2.52

Service Price (inc GST)	1 Jul 2013
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### Aviation Rescue & F Category 6 Aircraft & below

Brisbane	\$2.25
Melbourne	\$2.25
Sydney	\$2.25
Perth	\$2.25
Adelaide	\$2.25
Cairns	\$2.25
Darwin	\$2.25
Gold Coast	\$2.25
Canberra	\$2.25
Hobart	\$2.25
Karratha	\$2.25
Townsville	\$2.25
Alice Springs	\$2.25
Avalon	\$2.25
Ayers Rock	\$2.25
Broome	\$2.25
Hamilton Island	\$2.25
Launceston	\$2.25
Mackay	\$2.25
Rockhampton	\$2.25
Sunshine Coast	\$2.25
Port Hedland	\$2.25

Service Price (inc GST)	1 Jul 2013
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### Category 7 Aircraft

Brisbane	\$2.45
Melbourne	\$2.40
Sydney	\$2.36
Perth	\$2.61
Adelaide	\$2.96
Cairns	\$3.05
Darwin	\$4.51
Gold Coast	\$3.89
Canberra	\$8.73
Hobart	\$8.96
Karratha	\$8.16
Townsville	\$11.27

## New Prices for Services: 1 July 2013 (continued)

Service Price (inc GST)	1 Jul 2013
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### Category 8 Aircraft

Brisbane	\$3.33
Melbourne	\$2.91
Sydney	\$2.64
Perth	\$4.01
Adelaide	\$6.50
Cairns	\$6.34
Darwin	\$20.40
Gold Coast	\$5.34

Service Price (inc GST)	1 Jul 2013
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### Category 9 & 10 Aircraft

Brisbane	\$5.04
Melbourne	\$4.12
Sydney	\$3.34
Perth	\$6.92

## New Prices for Out of Hours Services: 1 July 2013 Terminal Navigation Services

Before or after normal hours (inc GST)	1 July 2013
Up to 15 minutes	n/a
Over 15 up to 60 minutes	\$202
Each additional hour or part hour	\$202

## Aviation Rescue & Fire Fighting Services

ARFF Category of Service (inc GST)	Greater than 15 minutes before/ after normal hours & every 15 minutes thereafter (or part thereof)	Recall of Staff Flat Charge*
6	\$90	\$1,081
7	\$110	\$1,317
8	\$114	\$1,730
9/10**	n/a	n/a

\*Recall of Staff Charges apply only where the timing of the out of hours service requires staff to be called in from home to work.

\*\* These are 24 hour locations.

Out of Hours charges are based on the overtime rate for an ATC/ARFF crew to be available to maintain the relevant category. For services extending on from normal operating hours the recovery is made in 15 minute units for ARFF or hourly increments for ATC. Where an ARFF crew is required to be called back after normal hours a minimum of 3 hours overtime is required to be covered.

Notification and Details of Prices Proposed by Airservices Australia for Enroute,  
Terminal Navigation and Aviation Rescue & Fire Fighting Services

Notification of prices pursuant to section 95Z of the Competition and Consumer Act,  
2010

Name of the Declared Person:      Airservices Australia  
25 Constitution Avenue  
CANBERRA ACT, 2600

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prices detailed, effective from 1 October 2011.

The services, which are the subject of this notification, provide for enroute air  
navigation services in Australia's flight information region, terminal navigation  
services at 30 Australian airports and rescue and fire fighting services at 21  
Australian airports.

Airservices Australia considers that the proposed price changes do not result in  
excess revenues based on efficient costs and a reasonable rate of return and are  
consistent with the requirements of section 95G(7) of the Competition and Consumer  
Act, 2010.

## New Prices for Services: 1 Oct 2011 to 30 Jun 2016

Current	Service Price (inc GST)	1 Oct 2011	1 Jul 2012	1 Jul 2013	1 Jul 2014	1 Jul 2015
<b>Enroute</b>						
\$4.18	20 tonnes or more	\$4.10	\$4.07	\$4.04	\$4.03	\$4.03
\$0.93	Up to 20 tonnes	\$0.92	\$0.91	\$0.90	\$0.90	\$0.90

Current	Service Price (inc GST)	1 Oct 2011	1 Jul 2012	1 Jul 2013	1 Jul 2014	1 Jul 2015
<b>Terminal Navigation</b>						
\$11.43	Adelaide	\$11.66	\$11.72	\$11.78	\$11.83	\$11.89
\$5.83	Brisbane	\$6.09	\$6.15	\$6.18	\$6.18	\$6.18
\$10.95	Cairns	\$11.44	\$11.84	\$12.20	\$12.20	\$12.20
\$12.66	Canberra	\$12.28	\$12.03	\$11.91	\$11.80	\$11.68
\$10.82	Gold Coast	\$10.28	\$9.77	\$9.28	\$8.81	\$8.50
\$5.06	Melbourne	\$5.29	\$5.47	\$5.49	\$5.50	\$5.52
\$8.63	Perth	\$8.20	\$8.03	\$7.87	\$7.72	\$7.56
\$5.57	Sydney	\$5.58	\$5.59	\$5.60	\$5.61	\$5.62
\$12.69	Albury	\$13.26	\$13.73	\$14.21	\$14.70	\$15.22
\$12.69	Alice springs	\$13.26	\$13.73	\$14.21	\$14.70	\$15.22
\$4.70	Avalon	\$4.70	\$4.86	\$5.03	\$5.21	\$5.39
\$5.06	Broome	\$13.26	\$13.73	\$14.21	\$14.70	\$15.22
\$12.69	Coffs Harbour	\$13.26	\$13.73	\$14.21	\$14.70	\$15.22
\$9.20	Hamilton Island	\$9.61	\$9.95	\$10.30	\$10.66	\$11.03
\$9.54	Hobart	\$9.64	\$9.68	\$9.68	\$9.68	\$9.68
\$5.06	Karratha	\$13.26	\$13.73	\$14.21	\$14.66	\$14.71
\$12.22	Launceston	\$12.77	\$13.22	\$13.68	\$14.16	\$14.65
\$12.69	Mackay	\$12.44	\$12.31	\$12.19	\$12.07	\$11.95
\$12.69	Rockhampton	\$12.94	\$13.20	\$13.33	\$13.47	\$13.47
\$12.69	Sunshine Coast	\$13.26	\$13.73	\$14.07	\$14.21	\$14.21
\$12.69	Tamworth	\$13.26	\$13.73	\$14.21	\$14.70	\$15.22
\$12.69	Archerfield	\$13.26	\$13.73	\$14.21	\$14.70	\$15.22
\$12.69	Bankstown	\$13.26	\$13.73	\$14.21	\$14.70	\$15.22
\$12.69	Camden	\$13.26	\$13.73	\$14.21	\$14.70	\$15.22
\$12.69	Essendon	\$13.26	\$13.73	\$14.21	\$14.70	\$15.22
\$12.69	Jandakot	\$13.26	\$13.73	\$14.21	\$14.70	\$15.22
\$12.69	Moorabbin	\$13.26	\$13.73	\$14.21	\$14.70	\$15.22
\$12.69	Parafield	\$13.26	\$13.73	\$14.21	\$14.70	\$15.22
\$2.26	Darwin	\$2.15	\$2.04	\$1.94	\$1.84	\$1.75
\$2.94	Townsville	\$2.79	\$2.65	\$2.52	\$2.39	\$2.27

Current	Service Price (inc GST)	2011-12	2012-13	2013-14	2014-15	2015-16
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## Aviation Rescue & Fire Fighting

### Category 6 Aircraft & below

\$1.81	Brisbane	\$1.99	\$2.14	\$2.25	\$2.29	\$2.32
\$1.81	Melbourne	\$1.99	\$2.14	\$2.25	\$2.29	\$2.32
\$1.81	Sydney	\$1.99	\$2.14	\$2.25	\$2.29	\$2.32
\$1.81	Perth	\$1.99	\$2.14	\$2.25	\$2.29	\$2.32
\$1.81	Adelaide	\$1.99	\$2.14	\$2.25	\$2.29	\$2.32
\$1.81	Cairns	\$1.99	\$2.14	\$2.25	\$2.29	\$2.32
\$1.81	Darwin	\$1.99	\$2.14	\$2.25	\$2.29	\$2.32
\$1.81	Gold Coast	\$1.99	\$2.14	\$2.25	\$2.29	\$2.32
\$1.81	Canberra	\$1.99	\$2.14	\$2.25	\$2.29	\$2.32
\$1.81	Hobart	\$1.99	\$2.14	\$2.25	\$2.29	\$2.32
\$1.81	Karratha	\$1.99	\$2.14	\$2.25	\$2.29	\$2.32
\$1.81	Townsville	\$1.99	\$2.14	\$2.25	\$2.29	\$2.32
\$1.81	Alice Springs	\$1.99	\$2.14	\$2.25	\$2.29	\$2.32
\$1.81	Avalon	\$1.99	\$2.14	\$2.25	\$2.29	\$2.32
\$1.81	Ayers Rock	\$1.99	\$2.14	\$2.25	\$2.29	\$2.32
\$1.81	Broome	\$1.99	\$2.14	\$2.25	\$2.29	\$2.32
\$1.81	Hamilton Island	\$1.99	\$2.14	\$2.25	\$2.29	\$2.32
\$1.81	Launceston	\$1.99	\$2.14	\$2.25	\$2.29	\$2.32
\$1.81	Mackay	\$1.99	\$2.14	\$2.25	\$2.29	\$2.32
\$1.81	Rockhampton	\$1.99	\$2.14	\$2.25	\$2.29	\$2.32
\$1.81	Sunshine Coast	\$1.99	\$2.14	\$2.25	\$2.29	\$2.32

Current	Service Price (inc GST)	2012	2013	2014	2015	2016
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### Category 7 Aircraft

\$1.93	Brisbane	\$2.12	\$2.34	\$2.45	\$2.57	\$2.57
\$1.89	Melbourne	\$2.08	\$2.29	\$2.40	\$2.52	\$2.52
\$1.86	Sydney	\$2.05	\$2.25	\$2.36	\$2.48	\$2.48
\$2.01	Perth	\$2.21	\$2.43	\$2.61	\$2.75	\$2.81
\$2.33	Adelaide	\$2.66	\$2.82	\$2.96	\$3.11	\$3.26
\$2.29	Cairns	\$2.52	\$2.77	\$3.05	\$3.35	\$3.69
\$3.39	Darwin	\$3.73	\$4.10	\$4.51	\$4.96	\$5.46
\$4.01	Gold Coast	\$3.97	\$3.93	\$3.89	\$3.85	\$3.79
\$7.91	Canberra	\$8.31	\$8.51	\$8.73	\$8.94	\$9.08
\$8.73	Hobart	\$7.40	\$8.14	\$8.96	\$9.85	\$10.00
\$7.40	Karratha	\$7.77	\$7.96	\$8.16	\$8.37	\$8.37
\$8.47	Townsville	\$9.32	\$10.25	\$11.27	\$12.40	\$13.64

Current	Service Price (inc GST)	2012	2013	2014	2015	2016
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### Category 8 Aircraft

\$2.82	Brisbane	\$2.88	\$3.17	\$3.33	\$3.41	\$3.41
\$2.29	Melbourne	\$2.52	\$2.77	\$2.91	\$2.98	\$3.01
\$2.08	Sydney	\$2.29	\$2.52	\$2.64	\$2.64	\$2.64
\$3.01	Perth	\$3.31	\$3.64	\$4.01	\$4.41	\$4.85
\$9.12	Adelaide	\$8.12	\$7.22	\$6.50	\$5.85	\$5.27
\$4.76	Cairns	\$5.24	\$5.76	\$6.34	\$6.97	\$7.67
\$16.06	Darwin	\$17.67	\$19.43	\$20.40	\$21.42	\$21.75
\$4.01	Gold Coast	\$4.41	\$4.85	\$5.34	\$5.87	\$6.46

Current	Service Price (inc GST)	2012	2013	2014	2015	2016
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### Category 9 & 10 Aircraft

\$3.70	Brisbane	\$4.16	\$4.58	\$5.04	\$5.54	\$6.09
\$3.03	Melbourne	\$3.41	\$3.75	\$4.12	\$4.54	\$4.99
\$2.45	Sydney	\$2.76	\$3.03	\$3.34	\$3.67	\$3.67
\$5.08	Perth	\$5.72	\$6.29	\$6.92	\$7.61	\$8.37



## New Aviation Rescue & Fire Fighting (ARFF) Services

### Aviation Safety regulations

Airservices Australia is required to provide rescue and fire fighting services as a result of regulations maintained by the Civil Aviation safety Authority. Where the number of passengers at an airport exceeds 350,000 for any financial year then Airservices is required to provide rescue and fire fighting facilities. The level of rescue and fire fighting services is determined by the highest “Category” of aircraft using the airport in question.

The highest level of Category of an aircraft for which ARFF services need to be supplied is determined by the number of movements, over a threshold, of the highest Category of aircraft that uses the airport. The threshold in use by CASA is 700 movements in the busiest rolling three month period.

The category for ARFF is calculated on the overall length of the longest aircraft normally using the aerodrome and the maximum width of the fuselage. See below table. These dimensions for different categories of aircraft are internationally accepted and published by the International Civil Aviation Organisation (ICAO).

Aerodrome Category	Length of Aircraft	Maximum Fuselage Width
1	0 m up to but not including 9 m	2 m
2	9 m up to but not including 12 m	2 m
3	12 m up to but not including 18 m	3 m
4	18 m up to but not including 24 m	4 m
5	24 m up to but not including 28 m	4 m
6	28 m up to but not including 39 m	5 m
7	39 m up to but not including 49m	5 m
8	49 m up to but not including 61 m	7 m
9	61 m up to but not including 76 m	7 m
10	76 m up to but not including 90 m	8 m

## New ARFF Services for Port Hedland (PHIA)

### Historical context of ARFF services at Port Hedland International Airport

ARFF services were previously provided by Airservices at Port Hedland up until 2003 when services ceased as a result of decreases in mining and aviation activity, pushing annual passenger numbers below the CASA disestablishment criteria.

Over the past 6 years Port Hedland Airport has experienced significant aviation activity growth alongside increases in passenger numbers. The town and the region have experienced significant population growth, due in part to the resurgence of the resources sector, and the corresponding demand for supporting industries. Mining and resources service firms have been flying staff in and out of Port Hedland to support port activity and use it as a transport hub to access the Pilbara region and the large number of resource projects located in the area. This has driven increases in domestic passenger numbers as well as international passengers on board flights which operate on a weekly basis.

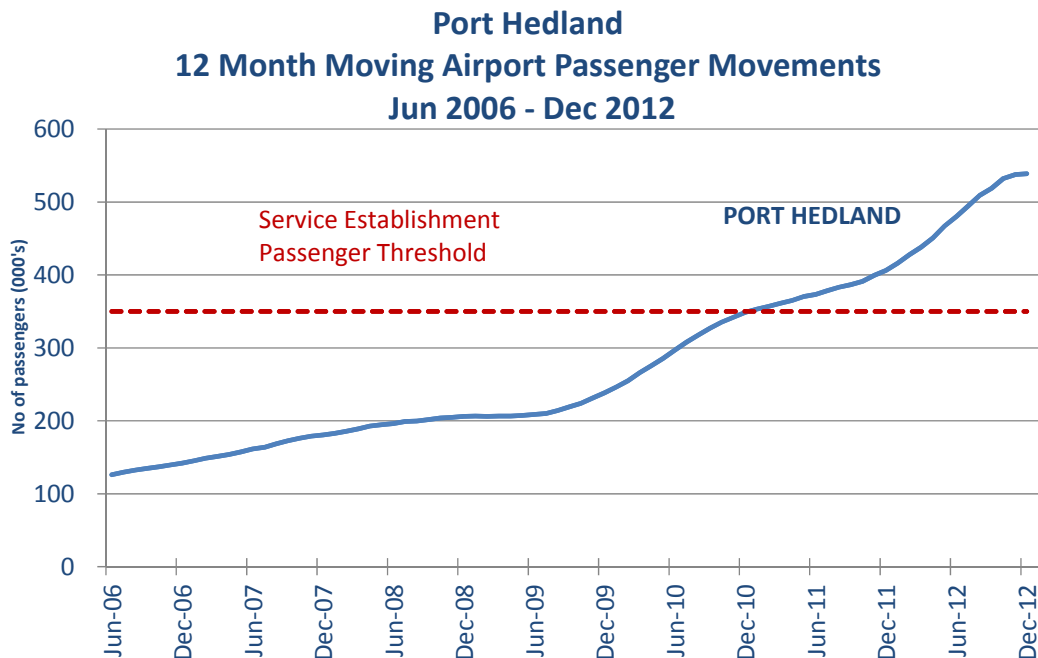


Chart date based on monthly Total On Board RPT passenger data provided to Airservices by BITRE.

### ARFF Service requirement at Port Hedland Airport

In the past 18 months traffic growth and passenger movements at Port Hedland have sustained above the CASA fire service establishment criteria of 350,000 passengers.

- During 2011-12 passenger numbers at Port Hedland Airport exceeded 400,000.
- During the three months to September 2012, the number of Category 7 aircraft movements at Port Hedland exceeded 1,000. The Category 7 aircraft were all exclusively Boeing 737-800 aircraft operated by Qantas and Virgin Australia.

With mining growth projections indicating that activity will remain at these levels for the foreseeable future and as a result of Category 7 aircraft movements at Port

Hedland exceeding 700 in the busiest rolling three month period Airservices will establish a category 7 ARFF service at Port Hedland.

#### Port Hedland ARFF Services Implementation Plan

To establish the ARFF services at Port Hedland Airservices will take an incremental approach with plans to have a Category 6 ARFF service in place around the end of May 2013 with services resources then increased over the following months to provide Category 7 services by 31 December 2013.

To fund these services Airservices intends to levy the Category 6 network charge for all applicable aircraft operations from 1 July 2013. Following the build up of resources to meet Category 7 ARFF service requirements Airservices will then commence charging Category 7 Port Hedland ARFF prices for all aircraft operations exceeding Category 6.

Pre-empting the introduction of these services stakeholders have been provided advice on the proposed services implementation timeline. This has included visits to Port Hedland and direct discussions with the airport operator as well as key clients. The Pricing Consultative Committee have also been briefed on the requirement.

#### Port Hedland Service Costs and Pricing

The ARFF service at Port Hedland will be established initially as a category 6 service and later, increase to category 7. Aviation rescue and fire fighting vehicle requirements, as determined by water carrying requirements for the category of service, require 3 vehicles for Category 6 (2 + 1 reserve) operated by 6 staff per shift.

In Port Hedland the service will operate 7 days a week, 11 hours per day, requiring total resourcing of 14 staff to cover two daily shifts, staff relief and a station commander. In addition to this a dedicated emergency vehicle technician (EVT) will also be attached to the service to maintain the specialised aviation rescue fire fighting vehicles.

Due to the remote locality, Port Hedland will be resourced on a fly-in/fly-out (FIFO) basis. This staffing model is used at other remote ARFF locations such as Karratha, Yulara and Hamilton Island, where there are limited options to accommodate staff on a permanent basis. This fly-in/fly-out model is comparatively higher in cost to other regional ARFF services and the high demand and price of accommodation in the Port Hedland market also makes the service comparatively expensive with respect to other FIFO locations.

Under the 2011 LTPA, provisions were made in forecast costs and activity volumes for two new category 6 ARFF services to be incorporated in the base level category 6 service charge. Using the ACCC post tax revenue building block model, which provides for the recovery of service costs plus a return on the value of the assets, the 2013-14 costs for each of these services in that notification were estimated at \$4.1m.

This compares to updated service costs estimated for Port Hedland which show a cost of \$4.3m per annum for category 6 services. The increases over the original LTPA cost provisions are largely a result of fly-in fly-out accommodation and travel expense that were not considered for either of the new ARFF service locations when the LTPA was developed.

This result is based on the use of standard costing principles and standard asset valuations incorporated in the original LTPA pricing model<sup>1</sup> with the table below detailing the category 6 service cost elements and standard costs for Port Hedland. However, the full cost impact of estimated fire station construction costs and associated infrastructure and equipment at Port Hedland is likely to be in the order of \$18m. If the calculations were based on these estimates, the allowable revenue rises to \$5.7m, reflecting a significantly higher allowance for WACC and depreciation recoveries.

		Category 6 Service Costs (exc GST)
<i>Direct Costs</i>		
Staff Costs	<i>Operational Fire Fighting staff costs</i>	1,710
Supplier Costs	<i>Fire Fighting Consumables, FIFO travel costs,</i>	895
<b>Sub-total</b>		<b>2,605</b>
<i>Indirect Costs</i>		
Engineering Costs	<i>Emergency Vehicle Technician staffing costs, maintenance expenses</i>	487
Indirect Support Costs	<i>Training, Operational Management, Safety &amp; Quality Assurance expense</i>	273
<b>Sub-total</b>		<b>760</b>
Depreciation Costs		486
<b>Total Operating costs</b>		<b>3,851</b>
<i>Standard Asset Values*</i>		
Fire Station & Ancillary Equipment	<i>Fire Station, Fire Control Centre, Comms Equipment, Rescue Equipment</i>	
Fire Vehicles	<i>3 Fire Vehicles</i>	
<b>Total</b>		<b>4,908</b>
<i>Return on Assets</i>		
Cost of Capital (@8.60%)		422
Tax Allowance		48
<b>Total</b>		<b>470</b>
<b>Allowable Revenue</b>		<b>4,321</b>

Air Traffic Volumes (MTOW)	12 months ending 28 Feb 2013
Category 6	83,000
Category 7	144,000
<b>Total</b>	<b>227,000</b>

Under the ARFF pricing framework, as established under the long term pricing agreement<sup>2</sup>, category 6 services costs are recovered under a network charge, levied nationally across all ARFF service locations, whereas category 7 to 10 service costs above this base level are recovered at the specific location.

To determine the proportion of costs attributed to category 7 services an average incremental category 7 cost is applied and this is divided by forecast traffic volumes to determine the category 7 charge. Airservices will consult with the industry on the additional costs and forecast traffic levels prior to the introduction of category 7 services later this year.

As outlined in the 2011 Long Term Pricing Agreement (and notified under this notification) Airservices proposes to levy a category 6 charge of \$2.25 (including GST) from 1 July 2013.

<sup>1</sup> Pages 45 of the Airservices Australia Draft price notification - 2011

<sup>2</sup> Pages 41-43 of the Airservices Australia Draft price notification - 2011

## Long Term Pricing Agreement (LTPA) commitments and progress

### Capital Expenditure Consultation

#### Consultation Element: Capital Program Baseline

Commitment by Airservices	Progress achieved in 2011-12
<p>A more detailed program baseline will be provided to establish major delivery milestones to enable improved program performance monitoring. The baseline will detail planned project benefits, project costs and project milestones as they were incorporated into the draft price notification. It will be the original record against which delivery will be measured and risk sharing triggers monitored.</p>	<p>The LTPA established a program baseline. Further, as outlined in 'Major Project Business Case Options' and 'Projects Baseline', Airservices has commenced more detailed reporting of its capital expenditure program to the PCC</p>

The investment program, as incorporated in the pricing building blocks for the LTPA, was based on five year capital program developed for 2011-12 to 2015-16. Its size and composition was refined and shaped with the help of feedback received from Industry.

To monitor Airservices investment performance against the commitments incorporated in the pricing agreement, this five year program is used as the benchmark against which performance is measured and risk sharing thresholds are monitored. Depending on the maturity of the project, information on project objectives and milestones were originally provided to the PCC in March 2011 for all major projects across the program.

Each year Airservices has updated its rolling five year capital program to reflect the progress of projects across the year and the impact of the changing operating environment on the investment priorities. From this review, a revised annual plan is developed to establish the resourcing and funding requirements for that year.

As part of this update, revised project milestones for major projects are provided along with a reconciliation of the updated program for that year against the baseline established for that year in the original LTPA. Where there are major variations to original LTPA assumptions commentary and analysis is provided.

The 2012-13 update was provided to the committee in November. This included a reconciliation of the program to the LTPA as shown in Attachment 5– *“2012 Capital Program Annual Budget Reconciliation to the LTPA”*.

Updated project milestones for major projects 2012-13 were also provided to the committee as part of the 2012-13 Services Charter (see Attachment 6 – *“Service Improvement Programs/projects”* and *“Major Projects – asset replacements and upgrades”*).

To track Airservices investment performance against LTPA risk sharing thresholds the committee was also provided information on current and projected capital

expenditure levels over the LTPA, up until 2015-16. (see Attachment 7 – Presentation to the PCC in August 2012)

The table below provides our latest capital expenditure program forecast (as incorporated in our current draft Corporate Plan) in comparison to the agreed LTPA program and risk sharing thresholds. The major projected increases relate to the addition of three new fire stations and the replacement of Sydney tower as required by the redevelopment at Sydney Airport.

## Capital Expenditure

		\$mil			
	2012 Actual				
a) LTPA - single year	206				
<b>Actual/Forecast spend</b>	<b>178</b>				
<i>Single year lower risk sharing threshold (-20%)</i>	<i>165</i>				
<i>Forecast variance to risk sharing threshold</i>	<i>13</i>				
b) LTPA - Cumulative Spend					
<b>Cumulative Actual/Forecast spend</b>					
<i>Cumulative lower risk sharing threshold (-10%)</i>					
<i>Forecast variance to risk sharing threshold</i>					

## Consultation Element: Major Project Business Case Options

Commitment by Airservices	Progress achieved in 2011-12
<p>Project business case information will be presented to the PCC for all projects greater than \$10m. This information will be provided prior to Airservices Board endorsement to improve transparency over, and industry input to, the determination of a preferred option.</p> <p>At this time, the business case information will be more mature, with refined information on project objectives, scope, benefits, costs and schedules.</p> <p>The final format of this business case information was agreed at the PCC meeting on 16 August 2011 and the formal reporting will commence from the PCC meeting scheduled for 16 November 2011.</p>	<p>Airservices has commenced presenting business case information to the PCC for projects greater than \$10 million dollars.</p> <p>At the PCC meeting held in November 2011, three Investment Proposals were presented to the committee. Airservices stated that two of the proposals were presented due to their value exceeding \$10 million (Port Hedland Fire Station and Paraburdoo Secondary Surveillance Radar). The third project (Windshear Alerting Technology) was presented due to its significance to industry.</p> <p>Airservices states that no investment proposals were presented at the February PCC meeting, however three proposals are planned for presentation at the May PCC meeting (Navex 2B investment proposal, Paraburdoo Radar business case and ATM Future System investment update)</p>

As agreed by the PCC in May 2011, to improve consultation on capital expenditure Airservices agreed to provide business case information to industry for projects exceeding \$10 million in value, showing information on benefits, costs and timing.

This process aligns with Airservices project governance processes where investment proposals and business cases are developed and approved in the initiating and planning phases of the project business cases are provided at project initiation.

In the last 12 months Airservices has presented and discussed 8 business cases and investment proposals with the PCC (see Attachment 8 - Project Business Cases). Some of the projects presented have been brought to the PCC based on their high monetary value, whilst some lower value projects have been presented because of their importance to the industry.

In presenting project business cases the committee has continued to engage strongly with Airservices, with discussions involving such things as:

- The validation of project cost estimates;
- The extent of the project scope;
- The schedule of asset delivery;
- The impact of unprogrammed projects on the overall program; and
- The priority of industry important projects.

Moreover, productive discussions with the committee are continuing to develop. During these discussions it is evident that interests have begun to shift with focus increasing on key industry priorities and areas which improve service delivery.

Whilst industry still wants to maintain oversight of asset replacement programs for aging assets and non-airways asset programs it has been acknowledged that their involvement in justifying business cases and investment priorities in this area is more related to an assurance and governance role in relation to the management of the program and efficacy of the process.

The committee recognises the need to review the capital program to meet emerging business needs, but only to the extent that it does not displace key industry projects which deliver service improvement and new commercial benefits to customers.

## Consultation Element: Project Baseline

Commitment by Airservices	Progress achieved in 2011-12
<p>Following the approval of the preferred option, a final project baseline will be provided to the PCC. This baseline will include a final scope, cost/benefit analysis and schedule that will form the basis against which project delivery performance will be measured. Formal reporting will commence at the PCC meeting scheduled for 16 November 2011.</p>	<p>Airservices establishes a project baseline through a final Business Case. The information included in the final project business case sets the financial plan and delivery schedule milestones against which project performance is monitored.</p> <p>Developed from preliminary information provided in the project investment proposal, the final business case incorporates market tested project costs and contractor delivery milestones. Detailed assessment of project costs and benefits enable the accurate quantification of the net benefits that are to be realised through delivering the project. These are reported on an annual basis as part of benefits realisation reporting.</p> <p>To monitor performance against project baselines major project performance reports are provided to the PCC as part of the quarterly projects reporting pack. This report provides information on projects which have an approved business case and baseline and provides commentary on the health of the project and forecasts spend and schedule comparisons to the project budget/baseline. As new project business cases are approved baseline project budget and schedule information are added to the report.</p>

Attachment 9 provides a copy of the major projects performance report that have been provided to the PCC as part of the quarterly projects reporting pack over the last 12 months. This report provides information on projects which have an approved business case and baseline and provides commentary on the health of the project and forecasts spend and schedule comparisons to the project budget/baseline. As new project business cases are approved, baseline project budget and schedule information are added to the report.

In improving reporting in this area Airservices has provided additional information to industry showing longer term project performance and forecasts in comparison to the original 5 year LTPA capital program delivery assumptions. This has been important in showing industry where project funding is being reallocated. It has also provided transparency where programs are schedules are reviewed and spending forecasts and delivery timelines are adjusted.

Revisions to reporting to separately identify industry important projects, as distinct from asset renewal programs and upgrades has also helped focus discussions on key areas of interest. It has also helped validate what investment is most important to industry, particularly where it is difficult to collectively distil what is important given the diversity of Airservices customer base.



## Consultation Element: Quarterly Reporting

Commitment by Airservices	Progress achieved in 2011-12
<p>As part of the quarterly service charter performance reports to the broader industry, high level capital program performance will continue to be reported. These reports will provide indicators on program health against annual targets.</p> <p>More detailed information will be provided to the PCC including a financial analysis and delivery schedule management, as well as information on deviations from the LTPA program baseline.</p> <p>This reporting commenced at the PCC meeting on 27 May 2011, with enhanced reporting scheduled to commence at the PCC meeting on 16 November 2011 following agreement to the elements above.</p>	<p>Airservices is continuing to provide public information on its capital program and results against established key performance indicators.</p> <p>Airservices has commenced more detailed quarterly reporting at its PCC meetings. Airservices states that this reporting commenced at the PCC meeting on 27 May 2011.</p>

As part of the quarterly progress reporting Airservices continues to provide a detailed project report pack to the Pricing Consultative Committee. The content of the report has been regarded well by the committee and continues to evolve as reporting discussions mature. Reflecting this, revisions to some of the structure and content of the report have been incorporated based on feedback received from the committee over the last 18 months.

## Consultation Element: Benefits Realisation

Commitment by Airservices	Progress achieved in 2011-12
<p>Airservices will report on the benefits realised from capital works projects. The benefits identified will be reported annually and measured against original project baseline benefits realisation plans. Measurement of the benefits will be monitored on an ongoing basis to provide a cumulative picture of the benefits yielded.</p>	<p>Airservices states that it has developed a framework to plan, capture and monitor the benefits it is delivering to industry through capital investments and significant operational improvements. Some benefits reflect new and improved service outcomes, others result in optimising current business practices to deliver efficiencies to Airservices' cost base.</p> <p>Through the PCC, Airservices has agreed to provide an annual benefits realisation report to the committee at the end of each financial year. Airservices states that this is planned for August 2012.</p>

Over the past 12 months Airservices has continued to engage with the committee in discussions on the realisation of benefits from investment in its capital program. Under its benefits reporting framework Airservices ascribes benefit statements to all new major project business cases to measure the realisation of benefits that underpin the business investment decision.

It has been acknowledged by the committee that it is often difficult to quantify and measure benefits in a meaningful way. To this point, in a large number of cases much of the benefits identified in project business cases relate to the avoidance of future costs and the avoidance of services interruption that inevitably arise as assets approach their end of life. Equally, where investment decisions are based on regulatory compliance (e.g. the construction of a fire station to provide a new ARFF service) discussions on benefits are less relevant.

To date the majority of the capex program has been focussed on asset replacement to avoid future escalation of costs due to projected service outages and/or equipment obsolescence. The first major project with a benefits statement that sought significant service delivery improvements is the Radar Installation at Paraburdoo. A benefits realisation report in relation to the outcomes of this project is scheduled to be presented at the PCC meeting in May 2013.

## Internal Drivers of Efficiency

### Consultation Element: Development of efficiency measures

Commitment by Airservices	Progress achieved in 2011-12
<p>Airservices proposed to develop, in consultation with the PCC, a set of measures of unit cost efficiency.</p>	<p>In consultation with the PCC, Airservices formulated efficiency measures for Air Traffic Management and ARFF services. These measures have been incorporated into the Airservices 2011-12 Services Charter.</p> <p>Airservices has provided the PCC with information on projected performance results for the 2011-12 financial year. This information is intended to promote discussion on Airservices' cost efficiency performance. This projection will be updated and reported to the PCC each quarter, with the final result published publicly in the Services Charter Progress Report to Industry in June.</p>

In its preliminary view, the ACCC considered that there was scope for Airservices to improve its drivers of efficiency through internal benchmarking and setting of explicit efficiency targets. In its final decision, the ACCC detailed the specific commitments and deadlines that Airservices needs to address on these matters.

In consultation with the Pricing Consultative Committee Airservices formulated efficiency measures for Air Traffic Management and ARFF services. These measures have been incorporated in Airservices Services Charter.

To progress discussions on cost efficiency performance, Airservices has continued to provide the PCC with business performance information and established target rates of performance for the 2012-13 financial year based on the trend in the previous year (see Attachment 6, 2012-13 Services Charter). Against these targets Airservices has reported its actual and forecast results to the PCC each quarter, with the final result published in the Services Charter Progress Report to Industry in June.

An extract of the report provided to the PCC in November for the 2011-12 Financial Year is shown at Attachment 9. This attachment includes a copy of the latest performance report showing progress, as provided to the committee in February 2013.

Airservices continues to optimise its cost base through business improvement programs and projects to improve unit cost efficiency. As discussed with the PCC, after adjusting the results for a one-off non-cash accounting revaluation of employee entitlements, Airservices expenses for 2011-12 tracked closely to LTPA cost projections. On this basis Airservices costs are on track to deliver real weighted average price reductions of 1.9% as forecast under the 2011 LTPA.

Increasingly however, the committee's discussion on performance outcomes has focused on cost effectiveness and service capacity issues, rather than Airservices cost efficiency per se. In this area the cost imposition of services delay, system capacity constraints and route flexibility has been discussed and work is underway following the February Services Charter industry workshop and February PCC meeting to develop improved operating performance indicators.

### Consultation Element: Longer Term Performance Incentives

Commitment by Airservices	Progress achieved in 2011-12
<p>Airservices stated its intention to explore with industry the possibilities for a more sophisticated form of cost benchmarking in the longer term, including how specific financial rewards and penalties for performance against a suite of KPIs might be implemented.</p> <p>Airservices also stated its intention to refine efficiency targets based on analysis of the historical trends, forecast outcomes and international benchmarking over the course of the next 12 months.</p>	<p>Airservices states that it has begun work on how it might implement an incentive framework.</p> <p>Airservices notes that its incentive framework may need to take into consideration other efficiency measures beyond cost to include other dimensions of performance such as capacity, or environmental efficiency.</p>

Airservices has undertaken further work on performance incentive frameworks that Airservices may implement over a longer term time horizon.

Using the Services Charter as the foundation, the PCC has highlighted Capacity, Cost Efficiency, Cost Effectiveness and Flight Efficiency as the performance areas as the major areas of interest to industry.

Through these discussions, it has been recognised that it is unlikely that any single or even a small number of measures will be capable of perfectly measuring the overall efficiency with which Airservices provides its services. Further, seeking the right KPIs also needs to ensure that it does not create an incentive framework that either runs contrary to Airservices primary statutory duty of safety or rewards generic performance at the expense of allowing the occurrence less frequent and localised significant events that can have a substantial industry impact.

In progressing this work, it has been acknowledged that the Services Charter KPI's in their existing form are not yet fit to support a performance incentive regime. To address this, a special PCC workshop was held in February this year to discuss proposed performance measurement reporting improvements (see Attachment 14).

In these discussions it was identified that:

- Measures need to accurately detect where variations in performance exist.
- In some instances generic performance targets could be met, whilst underlying localised performance existed. There is a need to identify critical locations/peaks/events and how these can be measured objectively.
- Improvements in a single performance area can sometimes lead to poor performance results in other services areas. There is a need to balance the interaction of different/opposing performance indicators to incentivise a balanced outcome.

The performance indicators are now being reviewed and revised to reflect these discussions and determine the availability of relevant data. The outcome is expected to be presented to the PCC in July in the form of a new Services Charter for 2013/14.