

ACCC Information Request

2024 Draft Price Notification

PART 1

Regulated Asset Base (B1 – B3)

B1. Please explain the application of standard costing and straight line depreciation

To determine forecast depreciation and asset written down values Airservices pricing calculations apply a straight line depreciation method on existing asset values and forecast asset commissionings on new investments. To allocate forecast depreciation and written down values to a service locations Airservices applies a standard costing methodology across asset types. The use of standard costing avoids potential unwanted fluctuations in allowable revenues and prices across comparable services and assets that might otherwise arise due to the different ages and written down values.

This standard costing approach does not increase or decrease the quantum of costs across all services. Standard costs have been calculated to ensure that total recovery is unchanged.

For example: applying this methodology for the Aerodrome Landing System asset type in FY2024:

Airservices has forecast a written down value of \$12m and annual depreciation of \$2m across 24 system installations.

Applying a standard costing methodology Airservices pricing model allocates a written down value of \$0.5m and depreciation value of \$0.1m to each system installation.

Standard Costing for Aerodrome Landing Systems

Landing Systems (\$m)	Total	No of Installations	Standard Cost (÷24)
Written Down Value	\$12	24	\$0.5
Depreciation	\$2		\$0.1

At Sydney airport there are 6 landing system installations (1 at each runway end). Applying a standard costing allocation, Sydney is allocated a written down value of \$3m and depreciation \$0.6m for landing systems.

Sydney Standard Costing for Aerodrome Landing Systems

Sydney Landing Systems (\$m)	No of Installations	Standard Cost	Standard Cost (x6)
Written Down Value	6	\$0.5	\$3.0
Depreciation		\$0.1	\$0.6

At Canberra airport there is one landing system installation. Applying a standard costing allocation, Canberra is allocated a written down value of \$0.5m and depreciation \$0.1m for landing systems.

Canberra Standard Costing for Aerodrome Landing Systems

Canberra Landing Systems (\$m)	No of Installations	Standard Cost	Standard Cost (x1)
Written Down Value	1	\$0.5	\$0.5
Depreciation		\$0.1	\$0.1

B2. In relation to Airservices' response to A1 & A2 – Please provide an explanation of the tax allowance formula used in the cost allocation spreadsheet

Airservices applies the ACCC's post tax revenue model to calculate prices. This allows for the recovery of operating costs, depreciation, and a return on assets (based on a weighted average cost of capital - WACC), expressed in nominal, after tax terms.

The weighted average cost of capital comprises the recovery of the cost of equity and the cost debt. Because equity costs are paid from after tax profits, in order to achieve a post tax revenue allowance, Airservices grosses up the cost of equity for tax by including a tax allowance. This calculation creates a circular equation, with the grossed up revenue allowance, inclusive of tax, leading to a higher taxable income, and tax expense which in turn needs to be provided for. To resolve this circular equation, as close as possible to zero Airservices iterates the tax allowance formula five times.

The below table provides an example of the tax allowance calculation applied to Hobart ARFF services:

WACC Parameters

Weighted Average Cost of Capital (WACC)	8.93%
Gearing	21.00%
Interest for tax deduction purposes	6.35%
Tax Rate (Including Imputation)	12.90%

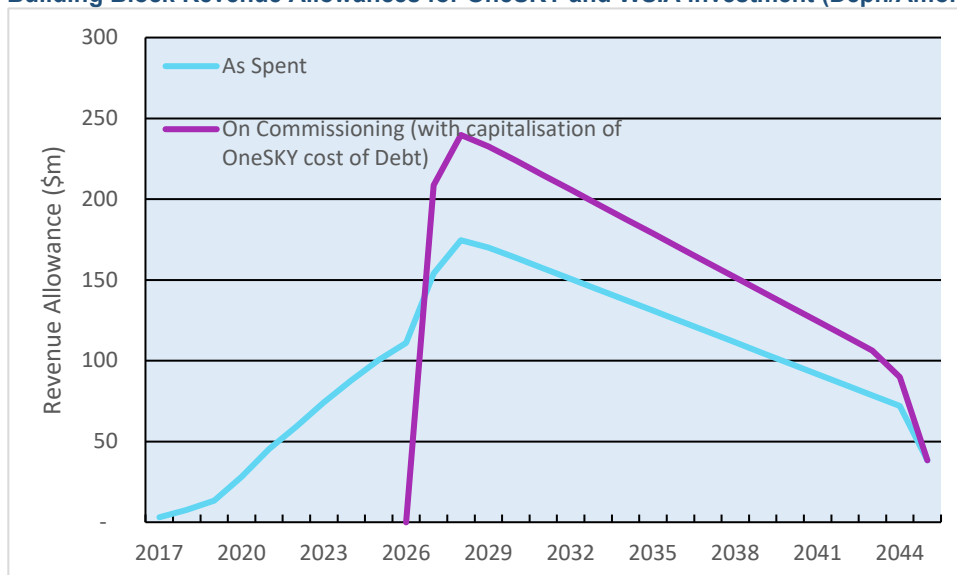
Return on Asset and Tax Allowance Calculations

		\$000's
Return on Assets Calculation:		
Hobart ARFF Service Asset Values		4,338
Weighted Average Cost of Capital (WACC)	8.93%	
Return on Assets	4,338 x 8.93%	387
Comprising (WACC elements):		
Cost of Debt	21.00%	81
Cost of Equity	79.00%	306
Tax Allowance Calculation:		
Cost of Equity		306
Tax Rate (Including Imputation)	12.90%	
Tax Allowance (1st iteration)	\$306 x 12.90%	39.5
Tax Allowance (2nd)	(\$306 + \$39.5) x 12.90%	44.6
Tax Allowance (3rd)	(\$306 + \$44.6) x 12.90%	45.2
Tax Allowance (4th)	(\$306 + \$45.2) x 12.90%	45.3
Tax Allowance (5th)	(\$306 + \$45.3) x 12.90%	45.3
TAX ALLOWANCE		45.3

B3. In relation to Airservices' response to A3 – Please provide the exact figures used in the chart labelled 'Building Block Revenue Allowances for OneSKY and WSIA investment (Depn/Amort and RoA)'

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

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



Financial Year (\$m)	As Spent	On Commissioning
2017	3	-
2018	8	-
2019	13	-
2020	28	-
2021	45	-
2022	59	-
2023	74	-
2024	88	-
2025	100	-
2026	111	-
2027	154	209
2028	175	240
2029	170	233
2030	164	224
2031	157	215
2032	151	206
2033	144	197
2034	138	188
2035	131	179
2036	124	170
2037	118	161
2038	111	152
2039	105	143

Financial Year (\$m)	As Spent	On Commissioning
2040	98	133
2041	92	124
2042	85	115
2043	79	106
2044	72	90

Capital Expenditure (B4)

B4. Please confirm which projects included in Airservices' response to the ACCC's 18 October 2023 information request fall under 'Other Facilities Work (inc. existing refurbishments)' and 'Advanced Work Order' (as listed in Airservices' response to the ACCC's 16 November 2023 information request).

OneSKY Other Facilities Work (including refurbishments)

OneSKY Other Facilities Work (including refurbishments) includes:

- refurbishment of the existing Air Traffic Services Centres,
- fit out of the Technical Operations Centre,
- construction of the Joint Software Support Facility, and
- fit out of the Training Support Facilities

With the exception of the equipment rooms, Other Facilities Work predominantly describes all other facilities work not related to the construction of the CMATS Air Traffic Services Centres in Brisbane, Melbourne and Perth.

OneSKY Advanced Work Order

The Advanced Work Order project was established prior to entering into contract with Thales to deliver CMATS and was delivered under the previous long term pricing agreement. The work activities predominantly supports the delivery of the new air traffic management system (CMATS).

Return of Capital (B5)

B5. In relation to Airservices response to A12 & A13 – Please explain and describe how Airservices derived the average useful life of each of the assets listed, including:

- a. Whether Airservices has benchmarked the average useful life of assets against other ANSPs (and if so, how).*
- b. The sources for the values used, including if the average useful asset life is an industry standard*

Airservices asset useful lives are based on Financial Accounting Book fixed asset depreciation rates/lives (these differ to Tax Book rates). These are determined in accordance with Australian Accounting Standards, which take into account expected asset usage and wear and tear, based on judgement and experience. Airservices does not benchmark asset useful lives against other ANSP's.

The average useful lives shown in the table below is a calculated weighted average, which aggregates the useful lives of the different sub-ordinate asset classes belonging to the summary asset class.

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

The table below provides further information on useful lives Airservices applies to asset classes:

Asset Class	Useful Life (years)
Buildings & Amenities	
Residences	40
Non Residences	40
Pavements & Drains	20
Ducts & Pits	20
Tanks	13
Fencing & Minor Structures	10
Water Reticulation	13
Landscaping	10
Building Electrical Reticulation	20
Lifts	16
Building A/C	13
Room A/C	10
Building Pumps	20
Sewerage	20
Hot Water	20
Signs	20
Amenities Equipment	3
Amenities Fittings	3
Gym Equipment	10
Fittings	13
Floor Coverings	10
Sanitary Ware	20
Fire Alarm	20
Security	6
Lighting	20
Control Towers & Equipment	
Control Towers	20
Tower Services	13
Fire Alarm	20
Security - Control Towers	6
Lighting - Control Towers	20

Asset Class	Useful Life (years)
Electrical - Control Towers	20
Airways Technical Equipment	
Radio HF	15
Radio VHF	15
Satellite Bearer Equipment	15
Terrestrial Bearer Equipment	10
Operations Computers/Cards	10
Electronic Others	10
Voice System (ex Voice Switch)	10
Multiplexer Equipment	15
Noise Monitoring Equipment	15
Network Equipment	6
Local Area Networks	6
Masts & Tower	20
PRM	15
SMR	15
RSR/TAR	15
ADSB	15
ILS	15
NDB	15
VOR	15
DME	15
Strobes	15
Visual Aids (ex Aerodrome Beacons)	15
Operations Consoles	15
Multipair Copper Control Cable	40
Optical Fibre Cable	20
Coaxial Cable	20
Power Cable	20
Pressurisation and Alarms	15
Power Generation	15
Power Reticulation	20
Electrical - Non Property related	20
Station Battery	10
Portable Generators	15
Visual Aids (ex Lighting - non Property related)	20
Equipment and Tools	10
Vehicle Repair Equipment	10
Cranes	20
Fume, Dust, Exhaust Extrac. System	10
Precision Equipment	10
Test & Measuring Equipment	10
Mechanical	10
Tower Services - Non Property related	13
Service for Shelters and Specialised Structures	15
Pumps	10
ARFF - Rescue Equipment	5
ARFF - Training Aids	5

Asset Class	Useful Life (years)
ARFF - Rescue Boats	13
ARFF - Fire Alarm - Non Property related	20
ARFF - Fire Fighting	10
ARFF - Security - Non Property related	6
Vehicles	
Flight Inspection Equipment	10
Vehicle Light	6
Vehicle Heavy	6
Trailer	10
Vehicle Spec Purpose	10
Fire Vehicle	15
Office and ADP Equipment	
Office & ADP Equipment	10
General Computing Network	3
Computers	5
Office Furniture	13
Applications & Operational Software	
Air Traffic Management Operational Software	5
Support & Office Software	3
TAAATS	10
Specialist Procedure Documentation	4
Other Intangibles	5