ACCC preliminary view on Airservices Australia's Draft Price Notification

August 2024

Acknowledgement of country

The ACCC acknowledges the traditional owners and custodians of Country throughout Australia and recognises their continuing connection to the land, sea and community. We pay our respects to them and their cultures; and to their Elders past, present and future.

Australian Competition and Consumer Commission
Land of the Ngunnawal people
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ACCC 08/24
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Contents

Executive summary

The ACCC is seeking stakeholder feedback on its preliminary view that it will not object to Airservices Australia's (Airservices) draft price notification.

Airservices provided the ACCC an amended draft price notification on 10 July 2024 for its notified services: enroute navigation, terminal navigation, and aviation rescue and fire fighting (ARFF). Airservices now proposes a single weighted average price increase of 6%, as per Table 1 below, to be implemented in 2024-25. Prior to providing the amended notification, Airservices had proposed 4 separate price increases cumulatively totalling 19% on a weighted average basis.

Airservices cannot increase the price of its notified services without notifying the ACCC and the Minister of its intentions. The ACCC must decide whether to:

1. object to the proposed price increase
2. not object to the proposed price increase, or
3. not object to a specified price increase which is lower than the proposed increase.

The ACCC's preliminary view is to not object to Airservices' proposed weighted average 6% price increase for its notified services.

Table 1: Weighted average proposed price increase, by service line and total

Service	Airservices' proposed price increase (%)
Enroute navigation	4.5
Terminal navigation	6.7
Aviation rescue and fire fighting	8.9
Weighted average (nominal)	6.0

Source: Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 4.

In reaching its preliminary view, the ACCC has had regard to the statutory criteria, and has assessed the extent to which the price increase proposed by Airservices is commensurate with the efficient costs of providing the notified services. The ACCC's preliminary view is that Airservices' proposed price increase is unlikely to lead to an over recovery of costs, or be above efficient levels, based on the following assessment:

- Having regard to costs and revenues over 2024-25 and 2025-26, Airservices' proposed price increase will allow it to recover its forecast efficient forward-looking costs and earn a reasonable rate of return before its next anticipated price notification in 2026-27. This will assist Airservices to stabilise its balance sheet and continue to focus on service quality improvements, which has been a key issue for industry.
- The average of the 2 activity forecast scenarios developed by Airservices' consultant Tourism Futures International (TFI) is appropriate for application in this price notification. TFI has addressed key issues raised in stakeholder submissions to the ACCC's Issues Paper. TFI's revised forecasts now:
  - incorporate more up-to-date data,
  - clarify the data sources, inputs, assumptions and methodology used, and

  - account more symmetrically for both upward and downward risks to Gross Domestic Product.

- Airservices' revised operating expenditure forecasts are likely to be appropriate. Staff costs represent 73% of operating expenditure and were assessed using benchmarking studies and comparisons, where available. These indicated staff costs are unlikely to be unreasonably high. Similarly, the ACCC understands that Airservices has finalised its enterprise agreements for air traffic controllers and ARFF staff, which are based on extensive negotiations with the union and individual bargaining representatives. Further, the ACCC considers it is not unreasonable for Airservices to defer certain aspects of its savings program to commit resources to improving its front-line service delivery in the short term.
- Any adjustments to the weighted average cost of capital (WACC) used by Airservices will only have a minor impact on overall maximum allowable revenues and pricing. The ACCC notes that the WACC will have a more significant impact on the next anticipated price notification from Airservices, given the extensive capital expenditure projected to be included in the regulated asset base (RAB). This will therefore increase the level of the return on the capital component of the Building Block Model (BBM).

In conducting its assessment for its preliminary view, the ACCC has identified several areas for improvement to support future Airservices' price notification processes. These are discussed throughout this paper.

In particular, the ACCC considers Airservices should improve its stakeholder consultation, including appropriate information sharing. The ACCC welcomes Airservices plan to establish quarterly and bi-annual industry engagement forums. If conducted effectively, this will provide stakeholders with greater input and clarity into how Airservices has developed prices, the timing and delivery of projects, as well as the breakdown of its costs. By improving stakeholder consultation, industry can provide more informed feedback to Airservices (as well as to any future ACCC consultation process), allowing for greater industry oversight.

These areas for improvement are intended to ensure greater transparency and accountability from Airservices. Stakeholders need to be confident that Airservices, as the only declared provider of air traffic control and ARFF services, is operating and investing efficiently, as well as striving to provide and uphold a high level of quality service.

The ACCC also notes that Airservices' amended draft price notification excludes most capital expenditure related to its major investment program, OneSKY Australia (OneSKY). Airservices intends to fund this program on an 'as-commissioned' basis, which means approximately $1.5 billion of capital expenditure is proposed to be included in the regulated asset base in 2026-27 when OneSKY is expected to come online. The assessment of a further draft price notification would likely require careful examination of the prudency and efficiency of OneSKY, including potentially revisiting any costs that may be rolled into the regulated asset base as part of the current draft price notification.

The ACCC is now seeking comments on its preliminary views. As discussed below, consultation will be open until 27 September 2024. Following consultation, and depending on the comments provided during consultation, the ACCC expects Airservices will formally lodge a price notification for the ACCC's assessment shortly after.

1. Introduction

1.1. Airservices Australia's Draft Price Notification

On 10 July 2024, Airservices provided the ACCC with an amended draft price notification covering its notified services: terminal navigation, enroute navigation, and aviation rescue and firefighting services. Airservices is proposing a single 6% price increase.

The purpose of this document is to seek feedback on the ACCC's preliminary view of not objecting to Airservices' amended draft price notification. In considering the ACCC's preliminary view, interested parties should review Airservices' amended draft price notification and supporting documents. These are available at: https://www.accc.gov.au/by-industry/travel-and-airports/airport-and-aviation-price-notification/airservices-australia-2023.

Charges for Airservices' notified services are levied on airlines and other operators of aircraft landing at airports, and flying in airspace, controlled by Airservices.

Section 1.4 sets out the background leading to the amended draft price notification.

1.2. Indicative timeline

Table 2 sets out an indicative timeframe for the next steps in the ACCC's assessment of Airservices' price notification.

Following the 4 week public consultation period on the Preliminary View Paper, the ACCC expects Airservices to formally lodge a price notification pursuant to subsection 95Z(5) of the *Competition and Consumer Act 2010* (CCA). The timing of Airservices' proposed price increase is also dependent on when Airservices notifies the Minister.

Table 2: Indicative timeline for the ACCC's assessment process

Date	Event
29 August 2024	ACCC publishes Preliminary View
27 September 2024	Submissions close to ACCC Preliminary View
Early October 2024	Airservices submits Formal Price Notification to the ACCC
Early November 2024	ACCC publishes Final Decision
Early November 2024*	Airservices consults with Minister
Late November/Early December 2024*	Airservices increases prices

Notes: The timeframes of the last 4 steps are dependent on Airservices providing the ACCC with a formal price notification, as well as consulting with the Minister.

* Airservices may increase its prices only if the Minister approves the proposed prices, or if 30 days have elapsed after receiving the notification from Airservices and the Minister has not approved or disapproved the proposed prices.

1.3. Consultation on the ACCC's Preliminary View

The ACCC invites stakeholders to provide their views on the ACCC's preliminary view and on any other matter relevant to the ACCC's assessment of Airservices' draft price notification.

Please provide submissions to david.barrett@accc.gov.au and adele.chau@accc.gov.au by **27 September 2024.**

1.4. Process undertaken to date

1.4.1. Airservices previously proposed a price path of 19% over 3 years

Airservices provided its initial draft price notification on 27 September 2023 (**the initial draft price notification)**. This notification considered costs and revenues over 2023-24 to 2026-27. It included 4 price increases that cumulatively totalled 19%.

In its initial draft price notification, Airservices proposed to include substantial costs associated with its major capital investment program, OneSKY Australia (OneSKY),[1] in 2026-27. This included $1.5 billion of capital expenditure and the associated cost of debt capitalisation in its RAB (incurred since 2016-17).[2] Given the size and complexity of this investment program, which accounted for over 60% of the proposed RAB in 2026-27, the ACCC would likely have had to undertake a detailed assessment of OneSKY related expenditure. This would likely have significantly extended the time required for the ACCC to assess the initial draft price notification.[3]

Following consultation with the ACCC, Airservices provided a revised draft price notification on 13 November 2023 (**the revised draft price notification**), covering 2023-24 to 2025-26. Removing 2026-27 from the draft price notification means the vast majority of OneSKY related expenditure will be considered in an anticipated future price notification (see section 5.3).

There were no other material differences between the initial and revised draft price notifications, with the same 4 price increases being proposed.

1.4.2. Public consultation on the proposed 19% price path

The ACCC released an Issues Paper on 30 November 2023, seeking submissions on the revised draft price notification.

The ACCC received 11 submissions from stakeholders in response to the Issues Paper:

- Airlines for Australia and New Zealand (A4ANZ),

1 The OneSKY program is a partnership between Airservices and the Department of Defence, replacing 2 current independent civil and military air traffic management systems (the Australian Advanced Air Traffic Management System (TAAATS) and the Australian Defence Air Traffic System (ADATS) respectively) with a single integrated system known as the Civil Military Air Traffic System (CMATS). See: Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 67.

2 Airservices Australia Initial Draft Price Notification 2024, 27 September 2023, p. 47.

3 The revised draft price notification proposes to include $165 million of capital expenditure related to OneSKY in its regulated asset base from 2016-17 to 2025-26. Airservices had accounted for this capital expenditure on an 'as incurred' basis (see Chapter 5).

- Australian Airports Association (AAA),
- Australia Pacific Airports Melbourne,
- Board of Airline Representatives Australia (BARA),
- Bonza Aviation,
- Brisbane Airport Corporation,
- Canberra Airport,
- International Air Transport Association (IATA),
- Perth Airport,
- Qantas Group, and
- Virgin Australia.

Several stakeholders expressed concern over the magnitude of the proposed price increase. Airlines raised concerns that forecast demand for Airservices' services (i.e. industry activity) was too conservative (see section 4.1.2). Qantas Group also raised concerns that Airservices' BBM included costs and revenues incurred prior to the first proposed price increase in April 2024 (see section 5.1.2).[4]

Stakeholder submissions are available on the ACCC's website.[5] Details of stakeholder submissions are set out as relevant throughout this document.

1.4.3. Airservices now proposes a single 6% price increase

On 10 July 2024, Airservices provided further amendments to its draft price notification (the **amended draft price notification**), following stakeholder and ACCC feedback. The amended draft price notification proposes a single 6% price increase to be implemented in 2024-25.[6]

The amended draft price notification updated Airservices':

- **Demand forecasts:** The amended forecasts project a 39% increase in traffic between 2022-23 and 2025-26. Originally, Airservices projected a 30% increase (see Chapter 4).
- **Operating expenditure:** Operating expenditure was revised upwards by 7.7% over 2024-25 and 2025-26. This reflects an increased focus on service performance, as well as different accounting treatment of certain costs (see section 5.2).

Further, Airservices stated that "if the ACCC believes a 6% price increase can most readily be expedited by having regards to costs and revenues over 2024-25 and 2025-26, it is happy for the ACCC to assess its proposal on this basis."[7]

As discussed in section 5.1, the ACCC considers that 2024-25 and 2025-26 are the most relevant financial years over which to assess the costs and revenues of Airservices' amended draft price notification. This is because they represent the period over which the proposed price increase will be implemented (2024-25) and maintained (2025-26). For this reason, the ACCC considers that costs and revenues incurred prior to this period (i.e. 2023-24) are not relevant.

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4 Qantas Group, Issues Paper submission, 31 January 2024, p. 2.

5 See: https://www.accc.gov.au/by-industry/travel-and-airports/airport-and-aviation-price-notification/airservices-australia-2023/issues-paper.

6 Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 4.

7 Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 4.

A comparison between the key elements of the 3 versions of Airservices draft price notification is provided in Table 3 below.

Table 3: Comparison of the key elements of the versions of Airservices draft price notification

	September 2023 notification	November 2023 notification	July 2024 notification
Proposed price increase	19%	19%	6%
Timing of price increases	April 2024, September 2024, July 2025, January 2026	April 2024, September 2024, July 2025, January 2026	Once assessment is complete
Costs and revenues to be considered	2023-24 to 2026-27	2023-24 to 2025-26	2024-25 and 2025-26*
Activity growth between 2022-23 and 2025-26	30%	30%	39%
Operating expenditure proposed over 2024-25 and 2025-26	$1,971 million	$1,971 million	$2,122 million

Source: Airservices Australia Initial Draft Price Notification, 27 September 2023, pp. 5, 42 & 52; Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 5, 42 & 51; Airservices Australia Amended Draft Price Notification, 10 July 2024, pp. 2, 4 & 8.

Notes: * As above, Airservices states that if the ACCC believes a 6% price increase can most readily be expedited by having regards to costs and revenues over 2024-25 and 2025-26, it is happy for the ACCC to assess its proposal on this basis. See: Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 4.

1.5. Confidentiality

The ACCC considers it necessary for the consultation process to be as public and transparent as possible. This is to enable effective participation by all stakeholders.

To foster an informed and consultative process, all submissions will be considered as public submissions and published on the ACCC's website. If interested parties wish to make any claim of confidentiality, they should submit 2 versions of the submission:

a) a **public** submission that can be published on the ACCC's website, in which all confidential material has been removed and replaced with 'c-i-c'. Please ensure that redacted information is not searchable or otherwise able to be viewed.

b) a **confidential** version that clearly identifies the information over which confidentiality is claimed by bookending the confidential material with a marking of 'c-i-c'. Please also highlight the material over which confidentiality is claimed.

Information over which a party claims confidentiality must be limited to ensure full consultation on all relevant material. Please provide a supporting submission that specifically substantiates the confidentiality claim for each item of information over which confidentiality is claimed. Confidentiality claims need to detail why the information is competitively sensitive or otherwise confidential, or why disclosure of the information would be likely to cause significant commercial harm to the person to whom the information is confidential. 'Blanket' claims of confidentiality will not be accepted. The ACCC will notify parties of any additional information required to assess a confidentiality claim.

The ACCC will consider each claim of confidentiality on a case-by-case basis. Where the ACCC proposes to publish information that is the subject of a confidentiality claim, it will provide the submitting party with the right to be heard and to amend or withdraw the information before proceeding to publication with redactions removed.

Where the ACCC proposes to not publish information that is the subject of a confidentiality claim and publishes a redacted submission, it may reconsider that claim at a future date if it becomes evident that the redacted information is important to the ACCC's consultation and needs to be tested with third parties. The ACCC will notify the relevant party and engage with them in relation to how this information can be disclosed.

The ACCC-AER information policy: the collection, use and disclosure of information sets out the general policy of the ACCC and the Australian Energy Regulator (AER) on the collection, use and disclosure of information.

1.6. Further information

If you have questions about any matters raised in this document, please contact:

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2. Legislative framework

2.1. ACCC's role in regulation of Airservices Australia

The *Competition and Consumer (Airservices Australia Prices Surveillance) Declaration 2018* provides that, for the purposes of Part VIIA of the *Competition and Consumer Act 2010* (CCA), Airservices is a declared person, and the following kinds of services are notified services if a charge for the services has been set in a determination that is made under section 53 of the *Air Services Act 1995* and in force at the time the services are supplied:

- terminal navigation
- fire fighting and rescue
- enroute air route and airway facilities;[8] and
- other safety related activities.

This means that Airservices Australia cannot increase the price of its notified services without first notifying the ACCC and the Minister of its intentions. The ACCC's role is to consider Airservices Australia's proposed price increase and decide to:

- not object to the price increase, or
- not object to a price that is less than the proposed increase, or
- object to the price increase.

Airservices Australia is not permitted to increase the price of its notified services until:

- 21 days have elapsed since the formal notification to the ACCC, or the ACCC has decided to not object to the proposed increase (or another lower proposed increase which Airservices has agreed not to exceed), and
- either the Minister has approved the proposed increase or 30 days have elapsed since the notification to the Minister, and the Minister has not approved or disapproved the proposed increase.

Under subsections 95Z(1)-(3) of the CCA, it is an offence for a declared person to supply notified goods or services (unless the supply is exempt supply under section 95B):

- if the declared person has not supplied those goods and services in Australia on the same or substantially similar terms and conditions in the preceding 12 months; or
- where they are supplied at a price above the highest price at which the declared person supplied those services on the same or substantially similar terms and conditions at the relevant location or in Australia (as applicable) in the preceding 12 months.

Subsections 95Z(4)-(8) create a defence if:

- the declared person has given the ACCC notice of the increase,

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[8] Enroute air route and airway facilities are also sometimes referred to by industry as enroute navigation. Fire fighting and rescue is also sometimes referred to as aviation rescue and fire fighting. The ACCC uses these terms interchangeably throughout this document.

- the ACCC has either not objected, or has notified the firm of a lower price that it does not object to (the approved price) and the declared person has agreed to not exceed the approved price, or the applicable period has expired,[9]
- the terms of supply are the same or substantially similar to those proposed in the notice, and
- the actual price at which the notified goods or services are supplied does not exceed the proposed price (or approved price, if applicable).

Subsection 95G(7) of the CCA specifies that in exercising its powers and functions under Part VIIA, such as considering whether or not to object to a proposed price increase for Airservices' notified services, the ACCC must have particular regard to:

- the need to maintain investment and employment, including the influence of profitability on investment and employment
- the need to discourage a person who is in a position to substantially influence a market for goods and services from taking advantage of that power in setting prices, and
- the need to discourage cost increases arising from increases in wages and changes in conditions of employment inconsistent with principles established by relevant industrial tribunals.

Consideration of the above criteria is subject to any direction issued by the Minister under section 95ZH of the CCA.[10]

The ACCC may have regard to other matters it considers relevant on a case-by-case basis.

The ACCC has set out its approach to assessing price notifications under Part VIIA of the CCA in its Statement of Regulatory Approach.[11]

The ACCC's preliminary view relates to Airservices Australia's draft price notification only. Following consultation on this view, we will invite Airservices Australia to submit a formal price notification.

2.2. Ministerial involvement

2.2.1. Minister's role in price setting

The ACCC does not set the prices of Airservices' notified services. Under section 53 of the *Air Services Act 1995* (the Air Services Act), the Board of Airservices may make written determinations setting (amongst other things) the charges for services provided by Airservices. Section 54 of the Air Services Act requires that, before making a price determination under section 53, the Board must notify the Minister of the proposed price.

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9 The applicable period is 21 days, starting on the day on which the notice was given, unless otherwise extended in accordance with section 95ZB of the CCA.

10 The relevant ministerial direction is General Direction 8 made under section 20 of the *Prices Surveillance Act 1983*. The *Prices Surveillance Act 1983* is no longer in force, but the directions under it apply as directions given under subsection 95ZH(1) of the CCA by virtue of Schedule 2, Part 2, Item 45(2) of the *Trade Practices Legislation Amendment Act 2003*. The ACCC's *Statement of regulatory approach to assessing price notifications under Part VIIA of the CCA* sets out how the ACCC applies General Direction 8.

11 See: http://www.accc.gov.au/publications/regulatory-approach-to-price-notifications.

Airservices may increase its price only if the Minister approves of the proposed price or does not approve or disapprove of the proposed price within 30 days after receiving the notification from Airservices.

2.2.2. Minister's directions

Under section 16 of the Air Services Act, the Minister may give written directions to Airservices about the performance of its functions or exercise of its powers. If Airservices satisfies the Minister that it has suffered financial detriment by complying with a direction, the government may provide reimbursement.[12] Ministerial directions given to Airservices are listed in its 2023-24 Corporate Plan.[13]

2.2.3. Minister's Statement of Expectations

Under section 17 of the Air Services Act, the Minister can issue a notice of strategic direction to the Airservices Board. The current Statement of Expectations applies from 1 July 2023 until 30 June 2025.[14]

The current statement provides high level expectations for Airservices, including that Airservices:

- demonstrates it is on track to return to profitability and pay a dividend to the Government in 2027-28, or sooner
- will arrange and pay for independent biennial review to assess Airservices' capital structure
- has in place sufficient, competent staff resources available to provide:
  - air traffic services without regular use of demand management practices due to a lack of staff availability or competency and
  - firefighting services in line with Civil Aviation Safety Regulations and other relevant legislation
- keep stakeholders informed about air traffic service disruptions and action being taken to address the causes of disruption.

2.3. The price notification framework

The ACCC has decades of experience undertaking assessments of price notifications made under Part VIIA of the CCA and predecessor Acts. The price notification regime has been in place since the *Prices Surveillance Act 1983* was introduced. Similar provisions were subsequently incorporated into Part VIIA of the *Trade Practices Act 1974*, and then into the CCA. The framework has remained substantially unchanged throughout this time.

In this context, and based on the ACCC's experience in performing its functions under the price notification framework, the ACCC considers that there are some aspects of the framework that could be improved to reflect this passing of time and changes in the economic analysis required to evaluate price notifications.

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12 Financial detriment is taken to include incurring costs that are greater than would otherwise have been incurred and foregoing revenue that would otherwise have been received.

13 Airservices, *Corporate Plan 2023-24*, p. 36.

14 The current Statement of Expectations can be accessed here: https://www.legislation.gov.au/Details/F2023L00987.

In particular, the ACCC notes that a period of 21 days to assess a formal price notification does not allow the ACCC to apply the necessary rigour it considers is required to undertake a fulsome economic assessment. This includes assessing the level and the efficiency of the declared firm's cost base, as well as a reasonable rate of return. This has led to the development of the pre-notification processes set out in the *Statement of regulatory approach to assessing price notifications under Part VIIA of the Competition and Consumer Act*.[15] This approach includes informal discussions with Government Business Enterprises and consultation with stakeholders before the formal notification is submitted. However, the ACCC has no information gathering powers until a formal price notification has been received.

In addition, the statutory framework and criteria for assessing price notifications has remained broadly the same for over 40 years. The ACCC considers section 95G(7) is no longer reflective of the current and likely future pricing principles that should be applied to monopoly infrastructure under widely-accepted economic theory. For example, those applied in other regulatory settings.[16]

Further, price notifications do not allow the ACCC to make binding decisions; the ACCC can only decide whether or not to object to the prices notified (or to not object to another lower proposed increase which the person has agreed not to exceed). This includes not having the ability to set a binding long-term price path or to build enduring, incentive-based regulatory frameworks. Lodgement of a price notification is the decision of the regulated firm, which can be ad hoc and create uncertainty for industry. The ACCC has no ability to initiate a review of prices, which may result in excessive returns.[17] This can create 'gaps' in which the efficiency of a firms cost base may not be assessed for several years.

The ACCC can only assess the notified goods or services, which does not necessarily represent the appropriate economic regulation of the full suite of services from the Government Business Enterprise or private monopoly.

Government Business Enterprises may be required to make investments for non-economic factors which are not considered by the regime. This can also lead to stochastic capital expenditure programs.

The ACCC considers improvements to these aspects of the regulatory framework (which would require legislative amendment) would likely see better outcomes for industry and consumers overall, moving forward.

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15 Available here: https://www.accc.gov.au/about-us/publications/regulatory-approach-to-price-notifications.

16 See for example, the pricing principles contained in section 44ZZCA of the CCA or the revenue and pricing principles contained in section 7A of the *National Electricity (South Australia) Act 1996* and section 24 of the *National Gas (South Australia) Act 2008*.

17 The decision of the regulated firm of when to submit a price notification has the potential to create perverse incentives. For example, where there is uncertain demand or where forecasts differ from actual outcomes, a regulated firm may have the incentive to submit a new price notification that differs from any longer-term price path previously approved in-principle from the ACCC. A regulated firm may also apply for higher prices during a temporary period of increased activity; with no ability to revise prices downwards, this may lead to long-term over recoveries.

3. Proposed price increase and scope

Airservices is proposing to increase the price of its notified services: enroute navigation, terminal navigation, and ARFF services. The ACCC notes that all values presented throughout this document are in nominal terms, unless otherwise stated.

3.1. Proposed price increase

3.1.1. Airservices' proposal

Airservices is seeking a single 6% price increase as per the amended draft price notification. In the revised draft price notification, Airservices proposed 4 price increases between April 2024 and January 2026, cumulatively totalling 19% in nominal terms.[18] The 6% increase is consistent with the first price increase Airservices proposed for April 2024 in the revised notification.[19]

Airservices states that additional price increases may require further consultation with industry, which it proposes to do following the release of the ACCC Preliminary View Paper and consideration of industry feedback.[20] The ACCC understands that these price increases will form part of a future price notification as part of Airservices' anticipated long-term price path beginning in 2026-27. It is anticipated to include major investment programs such as OneSKY and Western Sydney International Airport (WSIA).[21]

Table 4 below shows Airservices' proposed weighted average price increase for its main service lines and the total proposed weighed average price increase. Airservices' current and proposed prices are set out in Appendix A.

Table 4: Proposed weighted average price increase, by service line and total

Service	Proposed price increase (%)
Enroute navigation	4.5
Terminal navigation	6.7
Aviation Rescue Fire Fighting	8.9
Weighted average (nominal)	6.0

Source: Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 4.

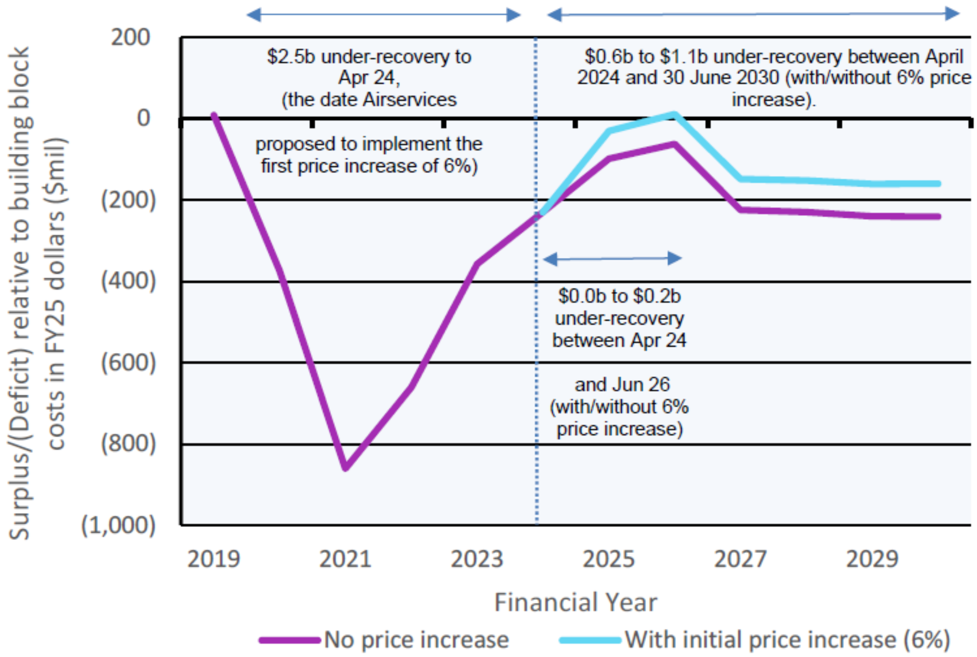
Airservices last increased its prices by 0.4% on 1 July 2015, then reduced its prices by 2% in 2019.[22]

18 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 5.
19 Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 4.
20 Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 4.
21 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 5.
22 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 5.

Cost recovery/shortfall

Figure 1 presents a chart provided by Airservices which shows its surplus/deficit relative to building block costs, with and without the proposed 6% price increase. Figure 1 indicates a 6% price increase significantly reduces the shortfall between April 2024 and June 2026, based on the price increase taking place in April 2024. The ACCC notes that, subject to Ministerial approval of a formal price notification, a price increase is not expected to take effect until late 2024. This will therefore likely result in a greater shortfall than depicted in figure 1 below.

Figure 1: Airservices surpluses/deficit relative to building block costs



Source: Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 3.

Airservices states it was not tenable as a good corporate citizen to seek a price increase to fully recover costs during the worst of the COVID-19-related traffic slump, and that it absorbed over $2 billion of COVID-19-related losses relative to building block costs.[23] Airservices' pricing proposal and financial statements state it received net government funding assistance/equity injections of $1.6 billion over 2019-20 to 2021-22.[24]

3.1.2. Stakeholder views

The ACCC sought stakeholder views, as part of the Issues Paper, on the appropriateness of the timing and magnitude of Airservices' revised draft price notification (4 price increases from April 2024 to January 2026, cumulatively totalling 19%). In general, airlines and airline associations, including Qantas Group, Virgin Australia, A4ANZ, and BARA, did not support Airservices' proposed price increases.[25] Airports' views were mixed.

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23 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 3.

24 This is comprised of: (i) a $250 million assistance package in 2019-20; (ii) a $840 million ($1,382 million) in net (gross) government assistance in 2020-21; and (iii) a $495 million equity injection in 2021-22. See: Airservices, *2019-20 Annual Report*, p. 51; Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 19.

25 Qantas Group, Issues Paper submission, 31 January 2024, pp. 1-2; Virgin Australia, Issues Paper submission, 31 January 2024, p. 1; A4ANZ, Issues Paper submission, 31 January 2024, p. 1; BARA, Issues Paper submission, 2 February 2024, pp. 1-2.

Stakeholders have not had an opportunity to comment on the amended draft price notification that proposes a single 6% increase. The ACCC encourages stakeholders to share any views they may have on the amended draft price notification and the proposed 6% increase.

In respect of stakeholder submissions to the Issues Paper, Qantas Group expressed concerns about the initially proposed price increase of 19% in circumstances where Airservices has provided an inconsistent service and has not delivered on the OneSKY program.[26]

IATA highlighted the International Civil Aviation Organisation Air Navigation Service Charges recommended practices. IATA stated that these practices recommend caution when attempting to compensate for shortfalls in revenue through increased charges, in view of the multiplier effect for aircraft and other end-users.[27]

BARA recommended the ACCC authorise a 'without precedent' (that is, unrelated to the BBM or RAB methodologies) CPI-related increase to Airservices' current charges in 2024-25 and 2025-26. BARA considered this would enable Airservices to increase cash flow as traffic continues to recover, before a more comprehensive 5-year long term pricing agreement in 2026-27.[28]

The AAA accepted the appropriateness of the initial proposed price increases for terminal navigation and ARFF services. However, the AAA also expressed some concern about the impact of the initial proposed ARFF price increases on regional and smaller airport growth plans.[29]

Canberra Airport did not object to Airservices' initial proposed enroute or terminal navigation price increases. However, Canberra Airport sought further justification from Airservices on the difference between its proposed prices for category 7 and 8 ARFF services ($7.72/tonne compared to $23.06/tonne), as the increased cost could be a disincentive for some passengers. Canberra Airport noted that the November 2023 publication of the En Route Supplement Australia (ERSA) allocates Canberra Airport as a Category 8 facility in relation to ARFF capabilities, in contrast to the most recent notification to air men (NOTAM) allocating Canberra as a Category 7 facility between 5:45am and 11:30pm (Sunday to Friday) and 5:45am and 10:15pm (Saturday). Canberra Airport noted that a NOTAM takes precedence over an ERSA, but can be rescinded at any time.[30]

Perth Airport agreed with Airservices' comments from its revised draft price notification that proposed price increases of 19% are the 'minimum necessary' to 'rebalance' prices to account for changes in demand, against a context of persistent decreases in real prices of 35% since 2005 and the recovery from the pandemic.[31]

3.1.3. ACCC preliminary views

The ACCC acknowledges stakeholders' comments on Airservices' revised draft price notification (which proposed price increases cumulatively totalling 19%). In particular, the ACCC acknowledges concerns regarding Airservices' proposed price increases in

26 Qantas Group, Issues Paper submission, 31 January 2024, p. 3.

27 IATA, Issues Paper submission, 1 February 2024, p. 1.

28 BARA, Issues Paper submission, 2 February 2024, p. 2.

29 AAA, Issues Paper submission, 31 January 2024, pp. 1-2.

30 Canberra Airport, Issues Paper submission, pp. 3-4.

31 Perth Airport, Issues Paper submission, 1 February 2024, p. 1.

circumstances where stakeholders consider Airservices has provided inconsistent service (see Chapter 7).

The ACCC notes stakeholders have not yet had the opportunity to comment on Airservices' amended draft price notification (which proposes a single price increase of 6%). The ACCC would welcome feedback from stakeholders on the amended draft price notification.

Under section 95G(7) of the CCA, when assessing a proposed price increase the ACCC must have particular regard to (among other things) the need to maintain investment and employment, and the need to discourage a person who is in a position to substantially influence a market for goods or services from taking advantage of that power in setting prices. Accordingly, in assessing the appropriateness of Airservices' price increase, the ACCC has had regard to whether Airservices' proposed prices reflect an efficient cost base and a reasonable rate of return on capital. This is discussed in Chapter 5.

On an NPV basis, the ACCC notes that Airservices amended draft price notification results in approximately a $25 million under-recovery over the 2024-25 and 2025-26 financial years. The ACCC notes this NPV analysis is based on a 6% price increase being implemented on 1 July 2024. As per section 1.2, the ACCC does not expect Airservices to be able to increase its prices (subject to Ministerial approval) until late 2024. This subsequently means Airservices under-recovery over the course of its price notification will likely be larger than $25 million. Assuming the price increase is delayed to 1 December 2024, the ACCC estimates that the shortfall would be approximately $47 million.[32]

The ACCC's preliminary view is that the proposed price increase of 6% is unlikely to lead to an over recovery of costs or be above efficient levels. This is based on the ACCC's analysis of the air traffic forecasts and the BBM. More detail regarding the ACCC's assessment of the air traffic forecasts and the BBM can be found in Chapters 4 and 5, respectively.

3.2. The period covered by the amended draft price notification

3.2.1. Airservices' proposal

The initial draft price notification covered the period from 2023-24 to 2026-27. The revised draft notification, following engagement with the ACCC, covered the period from 2023-24 to 2025-26, thereby removing 2026-27 and the bulk of OneSKY expenditure.

In the amended draft price notification, Airservices states that "if the ACCC believes that a 6% price increase can most readily be expedited by having regard to costs and revenues over 2024-25 and 2025-26, Airservices is happy for the ACCC to do so."[33]

3.2.2. Stakeholder views

The ACCC's Issues Paper sought stakeholder views on the appropriateness of the length of the period of the revised draft price notification. The revised draft price notification

[32] This figure is an estimate only and was approximated using 2 approaches: (1) modelling the impact of a 1 December 2024 start date; and (2) assuming a proportionate reduction in revenue between months in FY25. Under both approaches several assumptions were made given the inputs and functioning of Airservices' BBM spreadsheet, which may impact the accuracy of the estimate.

[33] Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 4.

proposed 4 price increases cumulatively totalling 19% over a 2.25 year pricing period from April 2024 to June 2026.

Several stakeholders, including A4ANZ, Virgin Australia, Qantas Group, and BARA, noted the shorter duration of the proposed pricing agreement fails to provide sufficient cost certainty for long-term industry planning, or an incentive for greater efficiency of service.[34]

Virgin Australia submitted that a longer-term pricing proposal of 5 years or more would be more appropriate to better support decision making across the aviation sector. In this respect, Virgin Australia noted it makes decisions on its fleet not less than 5 years ahead of aircraft delivery, and that as part of this process it needs a reasonable level of certainty of cost inputs over that timeframe.[35]

Qantas Group did not consider a 2.25 year pricing period provided an incentive to improve operating efficiencies, considering a shorter pricing period risks uncertainty in the long term. Qantas Group did, however, consider Airservices' immediate priority should be service effectiveness, rather than service efficiency. Qantas Group recommended a pricing period expiring in June 2028.[36]

Separately, Qantas Group sought clarification from the ACCC about whether it was appropriate to include the period occurring prior to Airservices' first proposed price increase in April 2024 (from 1 July 2023 to 31 March 2024) as part of the building block model.[37] Qantas Group noted an under-recovery of $151 million over that period, which resulted in a higher proposed price increase than if this period had not been included.

Canberra Airport considered a longer pricing period would provide greater certainty and that Airservices' staffing issues, such as those experienced at Canberra Airport, would be addressed.[38]

BARA noted that the pricing period proposed in the revised draft price notification is inconsistent with what was presented during Airservices' industry consultation process (prior to the lodgement of Airservices' initial draft price notification), namely the removal of 2026-27.[39]

3.2.3. ACCC preliminary views

The revised draft price notification removed 2026-27 from the pricing period. The ACCC notes stakeholder comments on the revised draft notification that a 2.25 year pricing period does not provide sufficient cost certainty for long-term industry planning or incentives for Airservices to improve its efficiency. These comments were provided in the context of Airservices proposing 4 price increases cumulatively totalling 19% over April 2024 to June 2026.

In the amended draft price notification, Airservices states that "if the ACCC believes a 6% price increase can most readily be expedited by having regards to costs and revenues over 2024-25 and 2025-26, it is happy for the ACCC to assess its proposal on this basis."[40] As

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34 A4ANZ, Issues Paper submission, 31 January 2024, p. 1; Virgin Australia, Issues Paper submission, 31 January 2024, p. 3; Qantas Group, Issues Paper submission, 31 January 2024, p. 6; BARA; Issues Paper submission, 2 February 2024, p. 3.

35 Virgin Australia, Issues Paper submission, 31 January 2024, p. 3.

36 Qantas Group, Issues Paper submission, 31 January 2024, pp. 6-7.

37 Qantas Group, Issues Paper submission, 31 January 2024, pp. 6-8.

38 Canberra Airport, Issues Paper submission, 29 January 2024, p. 2.

39 BARA, Issues Paper submission, 2 February 2024, p. 1.

40 Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 4.

discussed in section 5.1, the ACCC's preliminary view is that 2024-25 and 2025-26 are the most relevant financial years to assess the costs and revenue of Airservices' amended price notification. This is because they represent the period over which the proposed price increase will be implemented (2024-25) and maintained (2025-26).[41]

The ACCC 's preference is for long-term pricing agreements that are developed in consultation with industry.[42] The ACCC considers that a longer-term approach can provide greater incentive for a declared firm to reduce its costs and increase productivity beyond the pre-determined level. Further, the ACCC understands long-term pricing agreements provide some certainty for users regarding the timing and size of expected future price increase(s).

However, the ACCC also notes that if the amended draft price notification involved a longer pricing period that included 2026-27 with a price path of several price increases, it would necessitate the assessment of several major capital expenditure projects including OneSKY and WSIA. The ACCC notes that Airservices estimates that OneSKY will account for over 60% of the proposed RAB in 2026-27. Given the size and complexity of this investment program, the ACCC would have to undertake a detailed assessment of OneSKY related expenditure. This would likely have significantly extended the time required for the ACCC to assess the amended draft price notification. Airservices would also be expected to carry out substantial consultation with industry in developing this long-term price path for assessment.

The ACCC has considered these circumstances, in particular that Airservices is now proposing a single 6% price increase to be implemented in 2024-25 and intends to develop a long-term price path from 2026-27 onwards, Therefore, the ACCC's preliminary view is that the assessment of costs and revenues over the 2024-25 and 2025-26 financial years is appropriate.

3.3. Impact of price increase

3.3.1. Airservices' proposal

In the revised draft price notification, Airservices provided estimates of the impact its first proposed price increase of 6% (in April 2024) would have on airlines and passenger ticket prices, for specific aircraft and routes. According to Airservices' estimates, an airline may incur Airservices' charges of several thousands of dollars or more to operate a flight, depending on the route and the size of the aircraft.[43]

The ACCC understands that Airservices' charges typically represent between $5 to $60 on a per passenger basis, depending on the route and size of the aircraft.

Airservices notes that the impact of its proposed 6% price increase on select flights are as follows:

- Airlines flying a Boeing 737-800 from Melbourne to Brisbane currently incur Airservices' charges of $1,549. Under the proposed price change, Airservices' charges would

[41] The ACCC understands that Airservices intends to develop a long-term pricing agreement for its next price notification beginning in 2026-27. Airservices states it will start consulting with industry on its next price notification following consideration of industry feedback to this Preliminary View paper.

[42] ACCC, *Statement of regulatory approach to assessing price notifications under Part VIIA of the Competition and Consumer Act 2010*, March 2017, p. 15.

[43] Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 35.

increase airline costs by $87, which is a per passenger increase of $0.74 (average airfare is increased to $471).

- Airlines flying an Airbus A380 from Singapore to Sydney currently incur Airservices' charges of $11,767. Under the proposed price change, Airservices' charges would increase by $641, which is a per passenger increase of $1.90 (average airfare is increased to $1,768).[44]

Of the select routes/aircraft provided, Airservices estimates that its proposed price increase would equate to an increase of between $0.19 to $2.42 per passenger (or between 0.0% and 0.2% on the price of a plane ticket).[45]

3.3.2. Stakeholder views

As part of the Issues Paper, the ACCC sought stakeholder views on the accuracy of estimates provided by Airservices in its revised draft price notification regarding the likely impact of its April 2024 proposed price increase of 6% on airline fees and passenger ticket prices.

The AAA accepted the accuracy of Airservices' estimates on the impact of the proposed price increase based on the assumptions of the aviation growth scenarios in the notification. However, on ARFF pricing and increases at regional airports, the AAA said it could be detrimental to regional airports' ability to attract new carriers and routes compared to major airports.[46]

Several airlines expressed concerns regarding the presentation of the impact of the price changes as a per-passenger cost.

A4ANZ stated that Airservices fees are a cost incurred by the airlines and that expressing this as a per-passenger cost is not how airline economics work. A4ANZ also considered this minimises the impact of the pricing increase on airlines.[47]

BARA considers that the analysis was simplistic and sought to minimise the cost impost of Airservices' proposed increases to airlines, by comparison to select airfares. BARA considered the increase in Airservices' costs relative to ticket prices is not a relevant comparison.[48]

Virgin Australia asserted that Airservices' estimates of the impact of the proposed price increases on passenger ticket prices (of 0.1% to 0.2%) is a material underestimate, and that passenger ticket decisions are not directly driven by cost increases in the way that Airservices' estimates assume. Virgin Australia also said that the capacity of different airlines to pass through cost increases is not uniform, meaning cost increases can disproportionately impact the competitiveness of the aviation industry.[49]

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[44] Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 35.

[45] Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 35.

[46] AAA, Issues Paper submission, 31 January 2024, p. 2.

[47] A4ANZ, Issues Paper submission, 31 January 2024, p. 2.

[48] BARA, Issues Paper submission, 2 February 2024, p. 5.

[49] Virgin Australia, Issues Paper submission, 31 January 2024, pp. 2-3.

3.3.3. ACCC preliminary views

The ACCC notes that price increases will have an impact on airlines' cost base, and to some extent will impact the prices that passengers pay for air tickets. The ACCC also acknowledges that ARFF price increases for airports may result in higher costs passed through to airlines and to passengers. Stakeholders have also commented that the ARFF price increases may disproportionately affect regional airports.

The ACCC notes stakeholder concerns about Airservices presenting the proposed price increase on a per-passenger cost basis. The ACCC acknowledges that airfares are not set on a cost-plus margin basis. Airlines may have different capacity to pass on the full price increases to passengers, and flights may not be at full capacity (as the estimates assume). The ACCC considers presenting the impact of price changes on a per-passenger basis may assist the public in understanding the significance of Airservices' proposed price increase. However, the ACCC recognises that in certain circumstances it may not be a meaningful measure if it does not reflect the actual costs.

Under section 95G(7)(b) of the CCA, when assessing a proposed price increase, the ACCC must have particular regard to the need to discourage a person who is in a position to substantially influence a market for goods and services from taking advantage of that power in setting prices. As discussed in Chapter 5, the ACCC's preliminary view is that Airservices' forecast revenue from the proposed price increase of 6% is unlikely to result in recovery above forecast efficient costs over the relevant period. Accordingly, whilst the ACCC recognises there will be some impact on customers and passengers, it does not appear that Airservices is taking advantage of its market power in passing on excessive costs through the prices proposed in this draft notification.

3.4. Terminal Navigation Services at Ballina

The Civil Aviation Safety Authority (CASA) issued a direction to Airservices in November 2023 to establish the following terminal navigation services at Ballina Airport:

- approach control service by 12 June 2025
- aerodrome control service by 27 November 2025.[50]

Airservices has informed the ACCC that it intends to supply these services on the same or substantially similar terms and conditions, and at the same (or lower) price, as it has supplied these services elsewhere in Australia. The ACCC, therefore, does not expect Airservices to provide a separate price notification for these services.

The ACCC understands Airservices is currently consulting with stakeholders in relation to these services.[51] The ACCC encourages Airservices to continue to consult on the implementation of these services, including in relation to the pricing of those services prior to them coming into operation.

In CASA's Airspace Review of Ballina, CASA states that Airservices estimates the cost of providing these services as $17 to $20 million, with ongoing annual costs between $2 to $4 million.[52]

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50 See: https://www.avsef.gov.au/consultations/improvements-ballina-airspace-come-effect-2025, accessed 21 August 2024.

51 See https://www.airservicesaustralia.com/airservices-australia-calls-for-community-feedback-on-draft-ballina-airspace-and-flightpath-design-changes/, accessed 1 August 2024.

52 Civil Aviation Safety Authority, *Airspace Review of Ballina, New South Wales*, November 2022, p. 22.

4. Air traffic forecasts and risk sharing arrangements

4.1. Air traffic forecasts

Airservices uses its air traffic forecasts, in conjunction with forecast maximum allowable revenues, to derive its proposed prices.

Forecast activity volumes underpin the estimation of the price increase required to enable Airservices to earn revenue that covers its efficient forward-looking costs, without making excess profits. Higher activity forecasts result in a lower required price increase to recover these costs, and vice versa. If forecasts are overly conservative relative to actual traffic, Airservices could recover a higher level of revenue than that required to cover its efficient forward-looking costs (i.e. over-recover). An over-recovery could negatively impact stakeholders and have flow-on impacts for air traffic activity.

Airservices provided updated air traffic forecasts as part of its amended draft price notification, in response to stakeholder and ACCC feedback. As set out in 4.1.2 of this paper, several stakeholders submitted that Airservices' original demand forecasts were too conservative and based on outdated data. The original forecasts considered data up until March 2023. The updated forecasts consider aviation activity data up until the end of February 2024. Airservices has revised its total traffic forecasts from an increase of 30% between 2022-23 to 2025-26 to 39% over this same period.

4.1.1. Airservices' proposal

Airservices engaged a consultant, TFI, to produce air traffic activity forecasts for its draft price notification. As above, Airservices provided updated air traffic forecasts as part of its amended draft price notification. Airservices stated airway activity volumes have been updated by TFI in its March 2024 report using information up until the end of January 2024. The update reflects the recent economic outlook data, industry forecasts, and the recovery in international traffic growth in the second half of the calendar year 2023.[53] Airservices' updated forecast has used the midpoint of Scenario 1 (high growth) and Scenario 2 (low growth) for both domestic and international travel in TFI's March 2024 report.

In contrast, Airservices' original demand forecasts were based on TFI's earlier modelling which only considered data up until March 2023. Using the 2 scenarios modelled by TFI, Airservices chose to apply the higher growth scenario for domestic traffic and lower growth scenario for international traffic, which are forecast to recover to pre-COVID-19 levels by 2023-24 and 2025-26, respectively.

Table 5 below presents Airservices' original and updated air traffic activity forecasts, for each service and the weighted average growth year-on-year. The ACCC notes that the proposed price increase of 6% in the amended draft price notification is based on the forecast for 2024-25 and 2025-26, using the forecasts for 2023-24 as a starting point. Airservices estimated growth rates for 2023-24 to 2026-27 are based on the actual activity levels for 2022-23.

[53] Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 6.

Table 5: Actual air traffic activity levels in 2022-23 as well as Airservices' original and updated air traffic activity forecasts for 2023-26

Service	2022-23	2023-24		2024-25		2025-26	
	Actuals	*Original*	*Updated*	*Original*	*Updated*	*Original*	*Updated*
Enroute (sq-rt tonnes/kms)	115.9	136.0	139.2	143.6	153.9	153.1	166.8
Terminal navigation (tonnes landed)	48.5	54.7	55.1	59.2	60.5	62.9	65.2
ARFF (tonnes landed)	48.2	54.5	55.2	58.9	60.2	62.7	64.9
Weighted Average growth (year on year)	**-**	**14%**	**17%**	**7%**	**10%**	**6%**	**8%**

Source: Airservices Australia Amended Draft Price Notification, 10 July 2024, pp. 6 & 8; Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 51; Airservices demand forecast modelling spreadsheets provided to the ACCC.

Airservices' forecasting methodology

Airservices' activity forecasts are primarily based on its consultant TFI's modelling and projection of passenger movement, which are then converted to air traffic forecasts in terms of maximum take-off weight (MTOW) per km and Terminal MTOW.

TFI's forecasting methodology involves modelling 2 passenger movement scenarios (referred to as Scenario 1 and Scenario 2 for high and low growth respectively). These scenarios are developed using modelling approaches which estimate passenger volumes informed by economic and aviation cost drivers. The scenarios each have 2 components:

- an ex-COVID-19 component which uses economic forecasts post COVID-19 but excludes the impact of COVID-19 border closures, and
- an assumed recovery path from the COVID-19 impacted passenger levels to the levels outlined above.

TFI also conducts benchmarking to assess the reasonableness of the passenger ranges defined in its scenarios. The benchmarking considers industry forecasts of the domestic and international traffic outlook and forecast recovery, as well as historical performance.

TFI then converts the passenger forecasts to MTOW-km or Terminal MTOW using ratios to available aircraft seat capacity.

TFI's Scenario 1 makes upward adjustments to the economic growth rates forecast by macroeconomic forecasters and assumes a faster recovery path, while Scenario 2 reflects downwards adjustments to the forecast economic growth rates and assumes a slower recovery path.

In applying TFI's modelled scenarios, Airservices' original forecasts adopted TFI's original Scenario 1 for domestic forecasts and Scenario 2 for international. In Airservices' updated forecasts, it stated that it adopted the average of TFI's updated scenarios 1 and 2 for both domestic and international air traffic, and applied these to its own 2023-24 forecasts (instead of TFI's).

4.1.2. Stakeholder views

The ACCC sought stakeholder views as part of the Issues Paper on the reasonableness of the air traffic forecasts used by Airservices in the revised draft price notification (that is, the original air traffic activity forecasts). As above, Airservices have since updated its demand forecasts to include data up until the end of February 2024, revising its total traffic forecasts from a total weighted average growth of 30% up to 39% from 2022-23 to 2025-26.

The ACCC encourages stakeholders to share any views they may have on the updated forecasts.

In respect of submissions to the Issues Paper, airlines and airline associations considered Airservices' original air traffic forecasts to be too conservative.[54] Qantas said that TFI's forecasts were based on outdated information (that is, information to the first quarter of 2023).[55]

Qantas Group provided further reasons as to why it considered Airservices' demand forecasts may be flawed:

- TFI's methodology to produce demand forecasts is unclear. Qantas Group noted, without access to TFI's models, it is not possible to comment on the appropriateness of the methodology undertaken. For example, it is not clear what assumption TFI has made with regard to demand elasticities and therefore whether TFI has assumed that Airservices' proposed price increases will result in dampened forecast activity.
- TFI placed disproportionate weight on downside risks to central forecasts (for example, for GDP, TFI added 0.5pp per year for Scenario 1 and subtracted 1 percentage point per year for Scenario 2).
- Airservices' approach to applying low activity forecasts for international and high activity forecasts for domestic appeared to be arbitrary. Qantas Group noted the outcomes of this approach appeared inconsistent with the recovery trend as evidenced by actual activity throughout 2023 and the third-party benchmarks set out in section 6 of the TFI report.[56]

Qantas Group provided its actual air traffic figures for 2023-24 and alternative air traffic forecasts (2024-25 to 2027-28), based on analysis by Diio Mi.[57] Qantas Group's forecasts are compared to Airservices updated forecasts in section 4.1.3 below.

Virgin Australia considered Airservices' air traffic forecasts were not appropriate and result in excessively high per-passenger charges for airline customers of domestic carriers.[58]

Virgin Australia noted alternative forecasts proposed by other organisations (IATA, Bain & Company, and BARA) forecast stronger recoveries than Airservices.[59]

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54 As per below, Qantas, Virgin Australia, and BARA considered Airservices original demand forecasts to be too conservative.

55 Qantas Group, Issues Paper submission, 31 January 2024, p. 9.

56 Qantas Group, Issues Paper submission, 31 January 2024, pp. 9-13.

57 Qantas Group, Issues Paper submission, 31 January 2024, pp. 12-13.

58 Virgin Australia, Issues Paper submission, 31 January 2024, pp. 5-6.

59 Virgin Australia notes: Airservices forecasts a 22% recovery in 2025-26 compared to 2022-23; IATA forecasts a recovery in the Asia Pacific region of 40% in 2024-25 compared to 2022-23; Bain & Company forecasts a recovery globally of 37% in 2025-26 compared to 2022-23; BARA forecasts a recovery, specifically at Brisbane Airport, of 75% in 2025-26 compared to 2022-23.

BARA noted the activity forecasts are highly conservative, particularly regarding international activity. BARA notes actual international activity from the second half of 2023 was 21% above TFI's forecasts.[60]

4.1.3. ACCC preliminary views

The ACCC considers it important that air traffic forecasts reflect up-to-date information and reasonable modelling assumptions for the following reasons: the impact of air traffic forecasts on prices, the inherent uncertainty of activity forecasts, and the added challenge of forecasting during a period of considerable uncertainty for the aviation industry (due to the lingering impacts of COVID-19 on air traffic and other global and domestic issues).

The ACCC's analysis of air traffic forecasts involved assessment of:

- Airservices' original forecasts
- Qantas Group's alternative forecasts
- TFI's updated modelling
- Airservices' updated forecasts.

In addition to the published forecasts, the ACCC received the confidential spreadsheet models underpinning each of the forecasts above. The ACCC has reviewed at a high level the modelling and forecasting approaches.

TFI's modelling approach

TFI's modelling and forecasting approach uses multivariate regression with time series data to model passenger movement, with demand drivers including economic growth and cost of travel.[61] Historic data up to 2019 is used for modelling domestic travel by route groups, international visitors and resident returns by source market. The econometric modelling results are used to generate the baseline passenger movement forecasts for the period up to 2025-26 under its high and low growth scenarios, using adjusted demand driver forecasts. The baseline forecasts reflect a long-run growth path that excludes the temporary COVID-19 impact.

TFI then applies alternative recovery profiles under its high and low growth scenarios to the baseline forecasts to incorporate the COVID-19 impact. The assumed recovery profiles differ across sectors (domestic/international) and markets modelled, as well as across the scenarios presented. The passenger movement forecasts are converted to the air traffic forecasts, using assumed per-passenger aircraft ratios.

The ACCC considers TFI's econometric modelling approach is reasonable.

Original Airservices forecasts

The ACCC reviewed Airservices' original forecasts, which used TFI's original Scenario 1 for domestic forecasts and Scenario 2 for international forecasts. The ACCC agrees with stakeholder submissions that TFI's original forecasts were based on information that was out-of-date. The ACCC also notes the lack of information provided by TFI and Airservices to support certain inputs into the forecasts, such as demand driver projection under the 2 scenarios, assumed recovery profiles, and the adjustments made to the parameter

60 BARA, Issues Paper submission, 31 January 2024, p. 4.

61 TFI draft note: Traffic Scenario Development Methodology for Airservices Australia, November 2023, p. 1.

estimates. The ACCC does not consider that Airservices' original forecasts, based on TFI's modelling, is appropriate for application in the amended draft price notification.

Qantas Group's forecasts

The alternative forecasts which Qantas Group submitted in response to the Issues Paper were more optimistic than those provided by TFI. The ACCC understands that Qantas Group used its internal forecasts as a sense check against the provided TFI scenarios. Qantas Group provided its calculation spreadsheet in support of its submission.[62]

The ACCC identified 2 key limitations in Qantas Group's forecasts:

- This included its use of published flight schedules rather than data on operated flights to estimate air traffic for 2023-24. The ACCC believes that these values could overstate actual air traffic.
- The ACCC also considered that Qantas Group's application of the forecast higher growth rates under TFI's Scenario 1 to 2023-24 estimates to develop 2024-25 and 2025-26 forecasts is not well justified. There can be a mismatch between the base and growth rates, noting both are higher under Qantas Group forecasts, as TFI's growth rates are calculated relative to its 2023-24 estimates. Furthermore, Qantas Group did not provide justification for only applying the optimistic scenario from TFI, which is based on applying upward adjustment to economic growth forecasts from reputable macro-economic authorities and assuming a faster recovery path.

The ACCC considers that the resulting forecasts are therefore likely to be overstated, with the associated risk resulting in a price increase that could lead to under-recovery by Airservices.

TFI updated modelling

TFI provided updated activity volumes in its March 2024 report using information up until the end of January 2024.

In June 2024, the ACCC received TFI's confidential modelling underpinning the updated forecasts. The ACCC reviewed the updated model in the context of the issues raised in submissions and considers that the updated modelling addresses most issues raised by stakeholders. For example, TFI's updated forecasts and underpinning modelling:

- reflect more up-to-date information, based on data to the end of 2023
- provided clarifying information on source data, inputs, assumptions, methodology and modelling results which underpin the forecasts
- more appropriately accounted for upward and downward risks through symmetrical positive and negative adjustments to economic growth forecasts
- adopt a faster recovery path for international forecasts reflecting the recent stronger recovery in international resident travel
- reflect a 2023-24 starting point broadly consistent with the forecast recovery path estimated through Bureau of Infrastructure and Transport Research Economics aviation data.

TFI provided information to the ACCC to explain its assumptions and modelling adjustments for international residents, international visitors, and domestic travellers. TFI also adjusted

[62] Qantas Group demand forecasts provided in support of its Issues Paper submission, 12 August 2024.

parameter estimates where the values generated by the models did not match its domestic and international research. While some of these adjustments were not fully transparent, we consider that TFI's modelling appears broadly reasonable.

Updated Airservices forecasts

Airservices' updated forecasts in its amended draft price notification are based on TFI's updated modelling. Airservices states that its updated forecasts adopt the average of scenarios 1 and 2 for both domestic and international travel.

In revising its forecasts, Airservices has responded to stakeholder comments by using up-to-date information and reflecting the industry outlook. The use of the average of the high and low growth scenarios for both domestic and international traffic in the amended price notification demonstrates a more balanced approach to account for upside and downside risk, for both domestic and international air traffic. The ACCC notes that while this revised approach tends to increase international traffic forecasts and decrease domestic traffic forecasts, it has also substantially revised up traffic forecast in Enroute services (measured in terms of square root tonnes of MTOW per km), as international travel is over a longer distance than domestic travel.

Airservices applied TFI's updated models to its own estimate of activity for 2023-24. Airservices used actual data up to and including February 2024, sourced from its financial systems, and applied forecasts for the remaining months of the financial year. Airservices states that it used these estimates to improve the accuracy of the percentage change calculation.[63] Airservices' adjustments generate forecasts which are slightly lower than TFI's forecasts for the years 2023-24 to 2025-26. The ACCC considers that the use of up-to-date actual data, which results in a lower base in 2023-24, is appropriate. However, it remains unclear how further adjustments were made by Airservices to forecasting activities in 2024-25 and 2025-26. The ACCC notes that there are discrepancies in the input data used by Airservices relative to the TFI modelling which cannot be readily reconciled.

Average of TFI's updated Scenario 1 and Scenario 2 is appropriate for application in this price notification

The ACCC's preliminary view is that the average of TFI's updated Scenario 1 and Scenario 2 forecasts is appropriate for application in this price notification. The ACCC notes that:

- the updates to TFI's forecasts and underpinning modelling reflect more up to date information and more appropriately account for upward and downward risks,
- TFI's updated forecasts, which considers aviation activity levels up till January 2024, align with the Bureau of Infrastructure and Transport Research Economics aviation data on recovery,
- Qantas Group's forecasts are likely to be overstated as discussed above,
- Airservices' application of TFI's updated models to generate updated forecasts has resulted in Airservices' forecasts being slightly lower than TFI's forecasts. However, the discrepancies do not affect the assessment of a 6% price increase, as detailed below.

63 Airservices response to ACCC information request, 19 August 2024.

Revenue neutral scenario

As discussed above, forecast activity volumes are used to derive price increases which would be required to enable Airservices to earn revenue that covers its efficient forward-looking costs.

The ACCC's analysis considers the weighted average price increase required for revenue to cover efficient forward-looking costs. Put another way, this revenue neutral scenario is achieved where the net present value (NPV) of the proposed price increase is equal to zero.

Table 6 shows the price increases which reflect the alternative and updated forecasts from Qantas, Airservices and mid-point of TFI's updated scenarios, and which result in a revenue neutral scenario. The NPV analysis considers the 2024-25 to 2025-26 financial years and assumes price increases are implemented on 1 July 2024. In practice Airservices' increased prices, subject to Ministerial approval, will likely not be implemented until late 2024. This means higher price increases would be needed, regardless of the demand forecasts used, to achieve an NPV neutral outcome over the totality of the 2024-25 and 2025-26 financial years.

TFI's updated forecasts indicate that a weighted average price increase of 6.1% will enable Airservices to recover efficient forward-looking costs. This indicates that it is appropriate for the ACCC to assess the proposed price increase of 6% in Airservices' amended price notification. ACCC analysis indicates that Airservices' proposed price increase of 6% would result in an under-recovery of approximately $25 million, if the price increase had of been implemented on 1 July 2024. Assuming the price increase is delayed to 1 December 2024, the ACCC estimates that the shortfall would be approximately $47 million.[64]

Table 6: Weighted average price increase by service line, NPV = 0

	Qantas	Airservices updated	Airservices – average of TFI updated scenarios
Enroute	2.6%	5.3%	4.5%
Terminal Navigation	4.3%	7.7%	6.7%
ARFF	7.9%	11.1%	10.1%
Weighted Average	**4.1%**	**7.1%**	**6.1%**

Source: ACCC analysis, using Airservices 'SPM 0' modelling spreadsheet.

Notes: As table 6 presents the weighted average price increases required for NPV=0 with a 6% price increase implemented on 1 July 2024, Airservices' updated forecasts result in a weighted average price increase greater than that presented in its amended price notification (where it proposes a 6% price increase). As above, a 6% price increase on 1 July 2024 would result in an under-recovery of approximately $25 million, whereas a price increase on 1 December 2024 would result in an under-recovery of approximately $47 million.

4.2. Risk sharing arrangements

There are several risks inherent in establishing a longer-term pricing agreement, including:

64 This figure is an estimate only and was approximated using 2 approaches: (1) modelling the impact of a 1 December 2024 start date; and (2) assuming a proportionate reduction in revenue between months in FY25. Under both approaches several assumptions were made given the inputs and functioning of Airservices BBM spreadsheet, which may impact the accuracy of the estimate.

- changes in air-traffic levels from forecasting errors and unforeseeable exogenous shocks
- the risk of under- and over-runs in operating costs and capital expenditure
- technology obsolescence risks, such as the optimal timing update of new technology
- the risk of changes to government regulation.

It is generally desirable for such risks to be borne by the party that can most efficiently manage those risks. Incorporating explicit risk-sharing arrangements can provide transparency to the level of risk borne by each of the parties.

Previous long-term price notifications from Airservices have contained risk-sharing arrangements between Airservices and its customers.[65] These arrangements involved trigger mechanisms, designed to manage the risk of significant deviation from forecast activity levels and capital expenditure, as well as future regulatory changes. For example, where activity was higher, or costs lower, than expected, Airservices would return earnings to its customers. Where activity was lower, or costs higher, than expected, the arrangements provided an opportunity for Airservices to re-price its services (subject to an ACCC price notification process).

4.2.1. Airservices' proposal

The draft price notification does not contain any arrangements for Airservices to share risk with its customers.[66] Airservices states that while it wishes to highlight its willingness to share excess recoveries with industry in the absence of any risk sharing mechanisms, as was the case when Airservices reduced its prices in 2019, its decision to discontinue these arrangements mainly reflects the:

- shorter duration of the agreement
- inability of previous risk sharing arrangements to effectively manage Airservices' downside risk associated with falls in traffic volumes, and
- need to continue to assess the appropriateness of other risk sharing mechanisms such as levels of investment spend versus the delivery of outcomes, or service capabilities.[67]

4.2.2. Stakeholder views

As part of the Issues Paper, the ACCC sought stakeholder views on the lack of risk-sharing arrangements in Airservices' revised draft price notification. Stakeholders were generally in favour of risk sharing arrangements.

IATA recognised the necessity of establishing specific traffic forecasts and recommended an annual evaluation of revenue forecast and actual revenue. IATA also stated Airservices could consider sharing any surpluses arising out of higher airways activity with airlines on a pro-rate basis, either by providing rebates or credits.[68]

Virgin Australia recommends an annual 'true up' mechanism, such that over and under recoveries are shared.[69] In particular, Virgin Australia notes there continues to be an elevated

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[65] ACCC, *Airservices Australia Draft Price Notification 2011 – ACCC preliminary view*, pp. 10-13.

[66] Airservices Australia Revised Draft Price Notification, 13 November 2023, pp. 40-41.

[67] Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 41.

[68] IATA, Issues Paper submission, received 1 February 2024, p. 2.

[69] Virgin Australia, Issues Paper submission, 5 February 2024, p. 9.

level of uncertainty surrounding forecast air traffic volumes over the coming 6-18 months. Virgin Australia also considers that a 'true-up' mechanism would be simple, fair and equitable for all parties.[70]

BARA supports the concept of more equitable risk-sharing arrangements in commercial negotiations but notes it has yet to find a sensitivity formula with any provider which adequately balances this equation. BARA states Airservices is currently immune to the considerable downstream costs borne by airlines. BARA considers that finding a way to share risks and rewards will require a deeper level of collaboration between Airservices and its customers.[71]

Qantas Group states it seeks a balanced risk framework within this pricing period. Qantas Group considers the simplest way to achieve this in the timeframe available would be the application of a reasonable demand forecast to set unit pricing.[72] As set out in section 4.1 of this paper, Airservices' updated forecasts are more consistent with Qantas Group's alternate forecasts, than its original forecasts.

4.2.3. ACCC preliminary views

The ACCC considers there is merit to an appropriately implemented risk sharing arrangement. However, we understand there are complexities in establishing a symmetric mechanism that balances the risks of Airservices and airlines.

In this regard, we acknowledge and accept the rationale Airservices has provided for not including any risk sharing arrangement in the amended draft price notification, particularly given the short length of this draft price notification.

The ACCC notes that longer agreements inherently introduce additional uncertainty into air-traffic forecasts (and that Airservices' next price notification is expected to be a long-term agreement). If air-traffic volumes are higher than forecasted this could result in customers incurring prices that are inefficiently high (and vice-versa). Therefore, a risk-sharing arrangement that shares upside and downside air-traffic forecast risk may be a desirable outcome for industry in a long-term agreement. The ACCC recommends that Airservices and stakeholders engage on the appropriateness of such an arrangement prior to any future price notifications being submitted to the ACCC for assessment.

70 Virgin Australia, Issues Paper submission, 5 February 2024, p. 2.

71 BARA, Issues Paper submission, 31 January 2024, p. 7.

72 Qantas Group, Issues Paper submission, 31 January 2024, p. 21.

5. Building Block Model

This chapter sets out the ACCC's preliminary views on the BBM used by Airservices in its amended draft price notification.

Description of a building block model

A BBM is used to assess the extent to which prices proposed by a regulated firm reflect the efficient costs of providing those services. The BBM provides a framework for deriving the aggregate level of revenue, which can then be translated into individual prices using activity forecasts. The maximum allowable revenue in a BBM is calculated as the sum of its efficient costs. This comprises the return on capital, return of capital (depreciation), operating expenditure and an allowance for tax. In determining the level of maximum allowable revenue, the ACCC considers:

- the level and the prudency and efficiency of the declared firm's RAB,
- the efficiency of the operating expenditure, and
- the reasonableness of the rate of return on capital that the declared firm is seeking.

In assessing proposed price increases, the ACCC considers whether the revenue generated by the proposed prices would exceed the maximum allowable revenue on an NPV basis and hence result in a return that is not cost reflective.

Airservices has adopted a post-tax revenue BBM. This means the corporate tax allowance is a separate cost block in the model, so the rate of return is the return required after tax has been paid. Qantas Group and Virgin Australia were supportive of the approach used by Airservices, with no other stakeholders raising concerns.[73] However, several stakeholders considered the lack of sufficiently detailed information provided by Airservices in relation to its operating and capital expenditure made it difficult to provide informed feedback.[74]

Airservices revised building block model

The amended draft price notification proposes a single 6% price increase, as opposed to the previously proposed 4 price increases cumulatively totalling 19%. As part of the amended draft price notification, Airservices:

- revised its operating expenditure upwards by $151 million, an increase of 7.7%, and
- stated that if the ACCC believes a 6% price increase is most readily expedited by having regards to costs and revenues over 2024-25 and 2025-26, it would be happy for the ACCC to assess its proposal on this basis.[75]

Table 7 below outlines the building blocks of Airservices proposed maximum allowable revenues. As can be seen, operating expenditure accounts for 86.0% of Airservices proposed maximum allowable revenue. Return of capital (depreciation), return on capital and tax allowances contribute 7.3%, 5.9% and 0.7%, respectively. Relatively small changes in these 3 categories are unlikely to have a significant impact on Airservices' maximum allowable revenue and prices. The ACCC understands future price notifications will include significant

73 Qantas Group, Issues Paper submission, 31 January 2024, p. 1; Virgin Australia, Issues Paper submission, 31 January 2024, p. 1.

74 Section 5.2.2 and 5.3.2 discuss stakeholder feedback on Airservices consultation for its operating and capital expenditure, respectively.

75 Airservices Australia Amended Draft Price Notification, 10 July 2024, pp. 2-4.

capital expenditure, meaning the return on and of capital will make up a greater proportion of maximum allowable revenue.

Table 7: Airservices assessment of maximum allowable revenues ($million)

	2024-25	2025-26	Total	Percentage of revenue
Operating Expenditure	1,036.8	1,085.3	2,122.1	86.0%
Return of Capital	90.3	89.6	179.9	7.3%
Return on Capital	70.7	75.9	146.6	5.9%
Tax Allowance	8.9	9.6	18.5	0.7%
Maximum allowable revenues	**1,206.7**	**1,260.4**	**2,467.1**	**100%**

Source: Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 2.

This section examines each component of Airservices' proposed BBM. It is structured as follows:

- timing of pricing period (section 5.1)
- operating expenditure (section 5.2)
- capital expenditure and regulated asset base (section 5.3)
- return of capital (section 5.4), and
- return on capital (section 5.5).

All references to Airservices' BBM in this chapter refer to the amended draft price notification, unless otherwise indicated. Section 1.4 sets out the updates to the amended draft price notification provided by Airservices, with the amended draft price notification itself available on the ACCC's website.[76]

5.1. The time-period used to assess costs and revenues in the BBM

5.1.1. Airservices' proposal

The amended draft price notification proposes a single 6% price increase to be implemented in 2024-25. In relation to the time-period considered in the BBM, Airservices states that if the 6% price increase is most readily expedited by having regard to costs and revenues over 2024-25 and 2025-26, Airservices would be happy for the ACCC to assess the proposal on that basis.[77]

The amended draft price notification includes an approximate under-recovery of $33 million in 2024-25 and over-recovery of $9 million in 2025-26.[78] On an NPV basis, this results in an under-recovery of $25 million over 2024-25 and 2025-26, if the price increase was

[76] See: https://www.accc.gov.au/by-industry/travel-and-airports/airport-and-aviation-price-notification/airservices-australia-2023/draft-notification.

[77] Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 4.

[78] This NPV analysis assumes a price increase on 1 July 2024. As per section 1.2, the ACCC does not expect Airservices to receive a price increase (subject to Ministerial approval) until late November/early December 2024. This subsequently means Airservices will likely incur a larger under-recovery in 2024-25.

implemented on 1 July 2024. Assuming the price increase is delayed to 1 December 2024, the ACCC estimates that the shortfall would be approximately $47 million.[79]

The revised draft price notification set out 4 separate price increases cumulatively totalling 19% between April 2024 and January 2026.[80] As part of the revised draft price notification, Airservices' BBM considered costs and revenues over the entirety of 2023-24 to 2025-26.[81] The revised draft price notification was estimated to result in, relative to the maximum allowable revenue, an under-recovery of $202 million in 2023-24, an over-recovery of $12 million in 2024-25, and an over-recovery of $170 million in 2025-26.[82] On an NPV basis, this resulted in an under-recovery of $47.6 million over 2023-24 to 2025-26.[83]

5.1.2. Stakeholder views

Stakeholder submissions to the Issues Paper were based on the revised draft price notification. As above, that draft price notification considered 4 price increases, cumulatively totalling 19%, with the NPV analysis extending from 1 July 2023 to 30 June 2026 (i.e. 2023-24 to 2025-26).

Qantas Group was the only stakeholder to comment on the time-period used in the BBM. Qantas Group noted that Airservices included the July 2023 to March 2024 period within its building block calculations, which occurred prior to the first proposed price increase in April 2024.[84] Qantas Group considered this meant Airservices' BBM included a $151 million under-recovery associated with a time period prior to the first proposed price increase coming into effect.[85]

Qantas Group also noted that between April 2024 and June 2024, Airservices was set to under-recover by $50 million.[86] In this respect, the ACCC indicated in its 30 November Issues Paper that a price increase for Airservices could take effect in late July 2024 (subject to Ministerial approval), given the time required for the ACCC to complete its assessment and Airservices to consult with the Minister.[87]

In its submission, Qantas Group calculated alternate cost of capital and demand forecast figures. Qantas Group applied these figures to Airservices' calculations and estimated that cost recovery could be achieved with a total price increase of 9.7% (down from Airservices proposed 17.8% increase).[88] In a separate pricing scenario, Qantas Group then removed July

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79 This figure is an estimate only and was approximated using 2 approaches: (1) modelling the impact of a 1 December 2024 start date; and (2) assuming a proportionate reduction in revenue between months in FY25. Under both approaches several assumptions were made given the inputs and functioning of Airservices BBM spreadsheet, which may impact the accuracy of the estimate.

80 Airservices first price increase was proposed for April 2024. Throughout its assessment the ACCC maintained this was not achievable, based on the time required for the ACCC's assessment, as well as the required consultation with the Minister (see section 1.2 and 6.1 of the ACCC's 30 November 2023 Issues Paper).

81 See section 1.4 for further details on the 3 different versions of Airservices draft price notification.

82 The ACCC notes that as part of the amended draft price notification (July 2024), Airservices provided updated demand activity forecasts. As the surplus/shortfall of a firm is directly related to activity levels (and the proposed price), these figures are not directly comparable between the different versions of the draft price notification. The ACCC has provided the information in this section to illustrate that Airservices' proposed under recovery on an NPV basis in its revised draft notification was primarily driven by 2023-24.

83 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 42.

84 Qantas Group, Issues Paper submission, 31 January 2024, p. 2.

85 Qantas Group, Issues Paper submission, 31 January 2024, p. 6.

86 Qantas Group, Issues Paper submission, 31 January 2024, p. 6.

87 ACCC, *Airservices Australia draft price notification 2024-2026 – Issues Paper*, 30 November 2023, p. 7.

88 This 17.8% growth rate referenced by Qantas Group is equivalent to the cumulative 18.9% growth rate referred to elsewhere in this document. Qantas Group appear to have used the summation of Airservices price increases to determine this growth, whereas the ACCC has calculated the cumulative growth rate in using the 18.9% figure.

2023 to March 2024 from the pricing period; keeping all other parameters the same, this reduced the required increase from 9.7% to 0.4%.[89]

5.1.3. ACCC preliminary views

The ACCC generally considers a firm's prices should reflect the efficient costs incurred and revenues recovered over the relevant pricing period.

The revised draft price notification included costs and revenues Airservices had or expected to incur between July 2023 and June 2026, despite its first price increase not being proposed until April 2024. Relevantly, the ACCC did not expect the April 2024 price increase to come into effect until late July 2024 (subject to Ministerial approval), due to the time it would take for the ACCC to complete its assessment, as well as the time required for Airservices to consult with the Minister.[90] The revised draft price notification would have therefore included approximately one-year of costs and revenues in its BBM prior to implementation of the first price increase.

The choice of the time period used in the BBM for the revised draft price notification had significant implications for the NPV analysis. This is because the revised draft price notification included a $12 million and $170 million over recovery in 2024-25 and 2025-26 respectively, which was offset by a $202 million under recovery in 2023-24. Consequently, removal of 2023-24 would have resulted in a significant over-recovery in the revised draft price notification.[91]

Airservices subsequently provided an amended draft price notification proposing a single 6% price increase. This is expected to come into effect in late 2024, subject to Ministerial approval. Airservices provided revised demand forecasts as part of the amended draft price notification (see Chapter 4). Consequently, the NPV analysis of the amended draft price notification differs significantly from the revised draft price notification in 2024-25 and 2025-26. As per section 5.1.1, these changes to the amended draft price notification result in an under-recovery of $33 million in 2024-25 and over-recovery of $9 million in 2025-26. On an NPV basis, this results in an under-recovery of $25 million over 2024-25 and 2025-26. This NPV analysis assumes the 6% price increase is implemented on 1 July 2024. Given the actual price increase will likely not occur until late 2024 (subject to Ministerial approval), as above the ACCC notes that it estimates a 1 December 2024 price increase, results in a shortfall of approximately $47 million.[92]

The ACCC notes the analysis of 2023-24 in the revised and amended draft price notifications does not differ significantly, given the initial price increase in the revised draft price notification was not factored into the BBM until April 2024 (and there were no changes in the demand forecasts).

The ACCC generally considers price notifications should be forward-looking, assessing a firms' costs and revenues over the time-period over which the increased prices are expected to occur and should not consider historic costs and revenues. Consequently, the ACCC considers the amended draft price notification should not include time periods before the

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89 Qantas Group, Issues Paper submission, 31 January 2024, pp. 5-6.

90 See section 1.2 and 6.1 of the ACCC's [30 November 2023 Issues Paper](#).

91 The ACCC notes that on an NPV basis the revised notification resulted in an under recovery of $47.6 million. This under-recovery assumed a commencement date of the first price increase in April 2024; later commencement dates of the first price increase would have subsequently increased the quantum of the under-recovery.

92 This figure is an estimate only and was approximated using 2 approaches: (1) modelling the impact of a 1 December 2024 start date; and (2) assuming a proportionate reduction in revenue between months in FY25. Under both approaches several assumptions were made given the inputs and functioning of Airservices' BBM spreadsheet, which may impact the accuracy of the estimate.

first proposed price increase. That is, it should not include 2023-24. The ACCC considers this more accurately reflects the costs and revenues Airservices will incur over the period of the proposed price increase. As such, the ACCC's preliminary view is that it is appropriate that only 2024-25 and 2025-26 costs and revenues are considered in the BBM.

The rest of this section is analysed on the basis that 2024-25 and 2025-26 are the relevant financial years to be included within the BBM.

5.2. Operating Expenditure

Operating expenditure plays an important role in determining the maximum allowable revenue in the BBM. Airservices' proposed operating expenditure is estimated to account for 86.0% of its maximum allowable revenue (see table 7). The efficiency of Airservices' operating expenditure is therefore a key consideration of the ACCC's assessment.

Airservices' high proportion of operating expenditure arises from its labour-intensive operation, with a large workforce comprising air traffic controllers, aviation rescue fire fighters, engineering and technical staff, and other staff in supporting roles. Airservices notes that staff costs typically represent 75% of its operating expenditure.[93] Airservices states its remaining operating expenditure relates to asset maintenance and running costs, and project operating expenses required to deliver its investment program.[94]

Airservices revised its operating expenditure forecasts up by 7.7% ($151 million), as part of its amended draft price notification.[95]

5.2.1. Airservices' proposal

Proposed operating expenditure

The amended draft price notification forecasts operating expenditure of $1,037 million and $1,085 million in 2024-25 and 2025-26, respectively. This is an increase from $992 million and $979 million in the revised draft price notification provided in November 2023.[96]

Airservices states that to determine its operating expenditure, forecast expenditure has been based on existing services with allowances for wages and inflation growth, and the impact of its forward change (investment) program.[97]

Figure 2 below shows Airservices' real operating expenditure for the revised draft price notification and the increased operating expenditure as part of the amended draft price notification.

93 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 43.

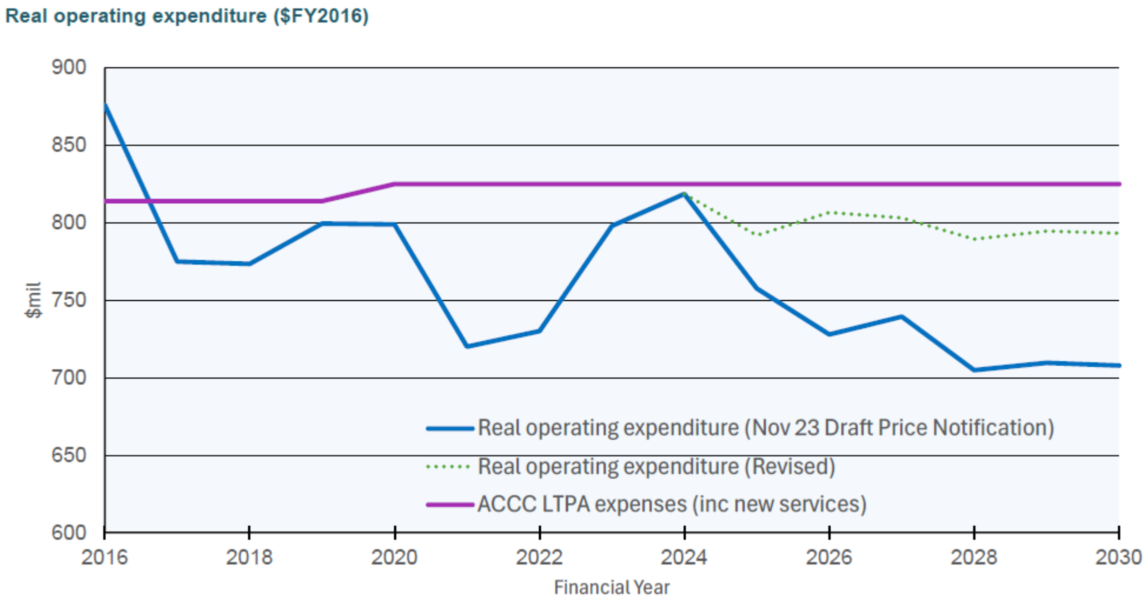
94 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 43.

95 Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 2.

96 Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 2.

97 Change program costs include project delivery operating expenses (which are not capitalised), changes in running costs arising from the commissioning of new assets/services, and savings and benefits enabled by the change program activity; Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 43.

Figure 2: Airservices' real operating expenditure, revised and amended draft price notifications ($2015-16)



Source: Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 3.

Notes: Airservices states the "ACCC LTPA expenses (inc new services)" line represents Airservices real operating expenditure levels used by the ACCC in its 2011-12 to 2015-16 long-term pricing agreement.

As can be seen, Airservices real operating expenditure for the amended draft price notification is proposed to remain relatively steady in 2024-25 and 2025-26, compared to 2022-23 and 2023-24. Airservices states the amended draft price notification will still deliver significant real savings relative to the operating expenditure levels the ACCC used in the 2011-12 to 2015-16 price path.[98] Airservices notes it will deliver these real savings despite tonnes landed forecast to be 20% higher in 2025-26 than in 2015-16.[99]

Airservices states that its historic drivers of cost change were:[100]

- **2014-15 to 2015-16:** Cost increases were driven by ARFF services expansion, increased capital investment growth following underinvestment in the 2000's due to the potential privatisation of parts of Airservices, and the impact of the CASA mandate on ARFF training costs (centralised training with foam).
- **2016-17:** Savings from its Accelerate Program. Airservices state the Accelerate Program, introduced in 2016, was underpinned by the implementation of a new business operating model delivering significant efficiencies, improved asset and project management, and technology upgrades to support new business processes through automation and digitisation. Airservices states this delivered savings of 15% across the business.[101]
- **2018-19 and 2019-20:** Cost increases associated with improved IT capability, including cyber uplift, operationalisation costs for new OneSKY voice switch, and start-up costs for new Brisbane runway and ARFF services at Proserpine.

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98 Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 3.

99 Airservices original demand forecasts indicated this figure was 13%. The ACCC has updated this number to reflect Airservices revised forecasts. Source: Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 15; and Airservices Australia Amended Draft Price Notification, 10 July 2024, pp. 7-8.

100 Airservices response to 18 October 2023 ACCC information request, 15 December 2023, p. 4.

101 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 75.

- **2020-21:** Response to COVID-19 and business restructuring savings.[102]
- **2022-23 and 2023-24:** Cost increases associated with managed services solution (non-capital) implementation costs for Airservices Enterprise Network Modernisation Program.[103] Reduction in short term/one-off (response to COVID-19) savings in line with recovering (post COVID-19) service demand.

Airservices states that drivers of future costs are:

- **2024-25 and 2025-26:** Continuing work to improve its service performance further with a key focus on increasing front-line service delivery staffing, resulting in forecasted increases in operating expenditure (compared to its revised notification).[104] Airservices has established 2 efficiency performance indicators (real price growth less than 0% and return on assets greater than 7%) to reduce costs by 30% compared to 2023-24, as set out in Airservices' 2023-24 Corporate Plan.[105] See Table 18 in Chapter 7 for more information on Airservices' performance indicators.

Operating expenditure amendments

Airservices updated 3 elements of its operating expenditure as part of the amended draft price notification. These updates increase operating expenditure by $151 million, or 7.7%, over 2024-25 and 2025-26 (see Table 8 below):

1) **Front-line service delivery costs:** Front-line service delivery costs attributable to higher forecast staffing for air traffic management and ARFF, to improve service performance and resource ARFF services in line with International Civil Aviation Organisation staffing standards.[106]
2) **Capitalisation of Enterprise Network Modernisation Program costs:** Due to changed accounting treatment, Airservices proposes to change this expenditure from operating to capital expenditure.[107]
3) **Deferral of savings benefit:** A series of 10 programs implemented to help connect Airservices' long-term transformations with its near term COVID-19 recovery plan. Airservices states the rationale for deferring certain aspects of this program is to commit resources to improving its front-line service delivery in the short term.[108]

These updates increase operating expenditure by $151 million, or 7.7%, over 2024-25 and 2025-26, as set out in Table 8 below.

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102 Airservices' state it restructured its business operating model and implemented both short- and long-term savings measures reducing staff, supplier costs and rationalising investment. This resulted in: (1) one off costs of $92 million across 2020-21 and 2021-22 (which have not been included in the building block operating expenses); (2) $148 million lower real operating expenditure in 2020-21 and 2021-22 compared to 2019-20 and 2020-21; and (c) a 10-15% reduction in ARFF and air traffic management staff by 2021-22 compared to 2019-20. See: Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 10.

103 A brief summary of each of Airservices major capital investment programs is provided here: Airservices Australia Revised Draft Price Notification, 13 November 2023, pp. 61-63.

104 Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 2.

105 Airservices, *Corporate Plan 2023-24*, p. 21.

106 Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 9.

107 Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 10.

108 Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 10.

Table 8: Revisions to Operating Expenditure Forecasts, 2024-25 and 2025-26

($mil)	2024-25	2025-26	Total
Original operating expenditure	992	979	1,971
Front-line service delivery cost increases	26	42	68
Capitalisation of ENMP costs	(44)	0	(44)
Deferral of savings benefits	63	64	127
Total revisions	45	106	151
Amended operating expenditure	1,037	1,085	2,122

Source: Airservices Australia Amended Draft Price Notification, 10 July 2024, pp. 2 & 9.

Operating expenditure methodology

Airservices states its forecast operating expenditure is based on existing services with allowances for wages and inflation growth, and the impact of its forward change (investment) program.[109] Airservices states operating expenditure has been modelled using:

- existing workforce and staff cost information grown using wage price index forecasts (where enterprise agreements have expired),
- supplier cost run rates grown using CPI forecasts,
- changes in forward workforce numbers based on workforce plans,
- changes in asset support costs based on service changes and new major infrastructure commissioning/decommissioning in line with its forward change program,
- changes in project operating expenses based on its forward change program investment forecasts, and
- cost savings estimates based on change program strategic business case information and diagnostics.[110]

Staff costs

Airservices states its staff costs typically represent 75% of its operating expenses.[111] This is consistent with the amended draft price notification, where staff costs make up 73% of Airservices' operating expenditure (see Table 9). Staff costs are projected to increase from its current 2023-24 levels at $678 million, to $798 million by 2025-26. At the same time Airservices' operating expenditure is forecast to increase from its current levels of $1,043 million to $1,085 million.

109 Airservices states its change program cost includes project delivery operating expenses (which are not capitalised), changes in running costs arising from the commissioning of new assets or services, and savings and benefits enabled by the change program activity. See: Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 43.

110 Airservices response to 18 October 2023 ACCC information request, 15 December 2023, p. 4.

111 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 43.

Table 9: Airservices staff and operating expenditure ($million), 2023-24 to 2025-26

	2024-25	2025-26	Total costs
Total staff costs	753	798	1,551
Total operating expenditure	1,037	1,085	2,122
Staff costs as a proportion of operating expenditure	73%	74%	73%

Source: Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 9; Airservices response to 18 October 2023 ACCC information request, 15 December 2023, p. 5.

Notes: 1. Staff Forecasts exclude:

a. Agency & contractor impacts predominantly engaged to deliver the capital investment plan

b. Staff costs transferred (capitalised) to the capital investment program

c. Staff cost savings from the change program

2. Oncosts and allowances include, superannuation, leave, payroll tax, and specific duty allowances

As discussed earlier, Airservices states it is continuing work to improve its service performance, with a key focus on increasing front-line service delivery staffing.[112] This includes resourcing its ARFF services in line with International Civil Aviation Organisation staffing standards, as agreed under the 2024 Aviation Rescue & Fire Fighting enterprise agreement.[113]

Capitalisation of Enterprise Network Modernisation Program

Airservices states its Enterprise Network Modernisation Program (ENMP) will allow for a transition to a fully managed service of modern network and communication infrastructure and services.[114]

Airservices states it sought revised accounting advice, allowing $44 million of the ENMP in 2024-25 to be transferred on the balance sheet from operating expenditure to capital expenditure.[115]

Deferral of savings benefit

Airservices states that as part of its transformation and COVID-19 recovery strategy, 10 change programs were established to help connect its long-term transformation with its near-term execution and recovery plan. This aimed to reduce funding requirements to ensure longer term affordability.

Airservices states that to refocus on immediate priorities to improve front line service delivery, the quantum and timing of savings has been deferred.[116] The impact of this over 2023-24 to 2025-26 is shown in Table 10 below.

112 Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 2.

113 Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 9.

114 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 62.

115 Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 10.

116 Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 10.

Table 10: Revised to Gross Program Savings (financial years)

Gross Savings ($m)	2023-24	2024-25	2025-26
Revised draft price notification savings	(46.2)	(120.1)	(137.6)
Amended draft price notification savings	(46.2)	(57.5)	(73.6)
Total change	0.0	62.6	64.0

Source: Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 10.

5.2.2. Stakeholder views

The ACCC's Issues Paper sought comments from interested parties on:

- the appropriateness of Airservices estimated operating expenditure; and
- Airservices incentives and effectiveness in containing and reducing its operating expenditure.

The ACCC notes stakeholders provided submissions on these matters as they related to the revised draft price notification. Stakeholders have not had the opportunity to publicly comment on Airservices amended draft price notification and revised operating expenditure forecasts.

In respect of the revised draft price notification, the AAA stated it accepted Airservices calculation of its estimated operating expenditure. The AAA also noted that for several reasons, including measures taken during the pandemic, there was a significant incentive for Airservices to cut operating expenditure (particularly staff costs), with subsequent effects on operational performance.[117]

BARA stated it generally takes on face value estimates for operating expenditure. BARA noted it is not clear how effective any internal incentives are for Airservices to meet its target of delivering services at a reduced real cost to airlines.[118]

BARA also submitted that Airservices benchmarking was of limited value, and that meaningful conclusions could not be drawn from the top-line international comparisons.[119]

Qantas Group stated it was unable to comment on the appropriateness of Airservices' operating expenditure estimates due to the limited information provided. Qantas Group also considered the 2.25-year pricing period provided almost no incentive for Airservices to reduce its operating expenditure.[120]

Qantas Group also strongly supported additional labour investment where appropriate to maintain and improve services, given Airservices recent operational performance has remained below historical averages. Qantas Group considered Airservices primary focus within this pricing period should be on stabilising operations and improving service levels.[121]

Qantas Group also submitted that it fails to see the relevance of international benchmarking data in relation to costs, as the data does not appear to be varied by service offerings, post

[117] AAA, Issues Paper submission, 31 January 2024, pp. 2-3.

[118] BARA, Issues Paper submission, 2 February 2024, p. 5.

[119] BARA, Issues Paper submission, 2 February 2024, p. 7.

[120] Qantas Group, Issues Paper submission, 31 January 2024, p. 16.

[121] Qantas Group, Issues Paper submission, 31 January 2024, p. 16.

COVID-19 recovery and business structures. Qantas Group considers costs are not benchmarked against efficiency or the level of service provided.[122]

Virgin Australia submitted that Airservices' operating expenditure is, on its face, inappropriate. Given the lack of information, Virgin considered operating expenditure should be the subject of appropriate consultations with relevant stakeholders.[123]

Virgin Australia noted it reviewed Airservices' financial statements, which it stated indicated that:

- Operating expenditure increased by 12% in 2022-23 compared to 2021-22 (and 20% when compared to 2018-19), which is well above CPI.
- Supplier costs increased by 51% in 2022-23, with employee costs remaining largely flat. This, combined with available cost commentary, suggests Airservices has relied more heavily on external suppliers, at greater cost, during 2022-23.[124]

Virgin Australia also considered that Airservices' benchmarking was too narrow, and that Airservices' self-reporting on benchmarks is not an appropriate or effective mechanism for measuring and monitoring performance.[125]

5.2.3. ACCC preliminary views

The ACCC notes that stakeholders considered they had insufficient information to provide detailed comments on Airservices' operating expenditure. In this respect, the ACCC notes:

- The AAA accepted Airservices' operating expenditure.
- BARA accepted Airservices' operating expenditure on face-value.
- Qantas Group considered it did not have enough information to assess Airservices' operating expenditure, but strongly supported additional labour investment, as appropriate.
- Virgin Australia considered Airservices' operating expenditure inappropriate and given the lack of information, considered Airservices should engage in further stakeholder consultation.

Given the above, the ACCC sought additional information from Airservices to better understand the efficiency of Airservices' proposed operating expenditure, in particular staff costs (which account for 73% of Airservices operating expenditure). The ACCC's consideration of these matters is outlined below.

Operating expenditure methodology

The ACCC notes Airservices' methodology to forecast its operating expenditure appears reasonable. In forming this view the ACCC notes Airservices has assumed:

- existing staff costs growth is based on commercial enterprise bargaining agreements (or wage price index forecasts where these are unavailable);
- supplier costs grown using CPI forecasts; and

122 Qantas Group, Issues Paper submission, 31 January 2024, p. 20.
123 Virgin Australia, Issues Paper submission, 31 January 2024, p. 5.
124 Virgin Australia, Issues Paper submission, 31 January 2024, p. 5.
125 Virgin Australia, Issues Paper submission, 31 January 2024, pp. 8-9.

- changes in asset support costs and project operating expenses in line with its forward change program.[126]

The ACCC also notes stakeholders did not raise any concerns regarding Airservices methodology to forecast its operating expenditure.

The ACCC has also assessed Airservices actual costs in 2023-24, given Airservices forecasted costs are based on this initial expenditure. This is considered in the sections below.

Staff costs

Airservices' staff costs are stated to represent 73% of Airservices operating expenses over the course of its proposal.[127] Therefore, in assessing Airservices' proposed operating expenditure, the ACCC considers it important to understand the main drivers of Airservices' staff costs.

Staff numbers

Airservices had a total workforce of 3,299 full time equivalent employees in 2023-24, with this forecast to increase to 3,620 by 2025-26. This is shown in Table 11 below.

Table 11: Airservices forecast full-time equivalent staffing numbers, 2023-24 to 2025-26

Full-time equivalent forecast	2023-24	2024-25	2025-26
Air Traffic Management	1,229	1,350	1,387
Aviation Rescue and Fire Fighting	851	966	1,014
Engineering, Technical and Info Technology	423	423	423
Other	795	795	795
Total	3,299	3,535	3,620

Source: Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 9.

While Airservices has proposed a 10% increase on 2023-24 levels of full-time equivalent staff numbers by 2025-26, the ACCC notes the increase in staff relates entirely to service performance areas (i.e. air traffic management and ARFF staff). In particular, the ACCC notes Airservices statement that it has resourced ARFF services in line with International Civil Aviation Organisation staffing standards (as agreed under the 2024 Aviation Rescue & Fire Fighting enterprise agreement).[128]

Qantas Group strongly supported additional labour investment where appropriate, given Airservices' recent operational performance has remained below historical averages in terms of on-time performance.[129] While other stakeholders did not explicitly comment on Airservices' staffing in the context of operational costs, several stakeholders did comment on Airservices' staffing in the context of expressing dissatisfaction with operational

126 Airservices response to 18 October 2023 ACCC information request, 15 December 2023, p. 4.
127 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 43.
128 Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 10.
129 Qantas Group, Issues Paper submission, 31 January 2024, p. 16.

performance (see Chapter 7). The AAA, BARA, Canberra Airport, and Virgin Australia, all noted concerns regarding reduced service performance due to staffing issues.[130]

Given the above, the ACCC's preliminary view is that Airservices' staffing levels do not appear to be excessive.

Staff salaries

Airservices has provided forecast salaries of its staff to the ACCC on a confidential basis. Airservices also confidentially benchmarked air traffic controller salaries against international comparators. This comparison suggested Airservices air traffic controller salaries were in line with international air navigation service providers. In respect of employment cost per air traffic controller in comparison to international counterparts, in 2021 Airservices' costs sat in the middle of the comparator group.[131] As per the performance benchmarking section below, the ACCC acknowledges that benchmarking is only useful to the extent the benchmarked firms' operations are comparable and performed over an appropriate time-period.

The ACCC notes that annual base salaries for air traffic controllers in 2023-24 ranged from $55,097 for an Ab Initio Trainee,[132] between $112,490 and $210,440 for a level one to nine air traffic controller, and up to $249,161 for a Systems Supervisor Check and Standardisation/Supervisor.[133] Annual base salaries for an Airways Data Team member, Simulation Support Officer or Flight Data Coordinator can range from a low of $75,718 for a trainee, to $164,108 for a supervisor.[134]

The ACCC notes that Airservices' air traffic control and supporting air traffic services staff have voted to approve a new 3-year enterprise agreement. The agreement includes a pay increase of 11.2% over 3 years, in line with the Commonwealth pay offer.[135] This indicates that the above salaries are not excessive.

Based on the relevant enterprise agreement, annual salaries for ARFF staff range from $50,567 for a recruit, up to $105,218 for a Lead Aviation Firefighter, and up to $122,571 for a Station Officer.[136] The ACCC notes that Australian metropolitan fire and emergency services staff salaries vary by state and territory. However, firefighting salaries across Australia currently range from $59,932 to $84,833 for a recruit fire fighter, $101,315 to $115,799 for a leading fire fighter, and $112,497 to $139,099 for a station officer.[137]

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130 AAA, Issues Paper submission, 31 January 2024, p. 1; BARA, Issues Paper submission, 2 February 2024, p. 6; Canberra Airport, Issues Paper submission, 29 January 2024, p. 2; Virgin Australia, Issues Paper submission, 31 January 2024, p. 8.

131 Global Air Navigation Services Performance Report – 2017-2021, p. 85.

132 A field trainee's salary is $82,646.

133 Airservices Australia Air Traffic Control & Supporting Services Administrative Decision (Remuneration) 2023/01, p. 5. See: https://www.airservicesaustralia.com/wp-content/uploads/2024/03/Airservices-Australia-Air-Traffic-Control-Supporting-Services-Administrative-Decision-Remuneration-2023_01.pdf.

134 Airservices Australia air traffic control & supporting services administrative decision (remuneration) 2023/01, 3 April 2023, pp. 5-6. See here: https://www.airservicesaustralia.com/wp-content/uploads/2024/03/Airservices-Australia-Air-Traffic-Control-Supporting-Services-Administrative-Decision-Remuneration-2023_01.pdf.

135 Airservices, Air Traffic Control Enterprise Agreement declared, accessed 5 August 2024. Available here: https://www.airservicesaustralia.com/air-traffic-control-enterprise-agreement-declared/.

136 Airservices Australia (Aviation Rescue and Fire Fighting) Enterprise Agreement 2024-2027, 17 July 2024, p. 72. See here: https://ufuav.asn.au/airservices-australiaaviation-rescue-and-fire-fightingenterprise-agreement-2024-2027/.

137 The ACCC notes that this comparison has been made across all major states and territories, except Victoria (where publicly available information on staff salaries were unable to be ascertained). It is also noted that the duties and responsibilities across classification levels may differ between states. Sources: Northern Territory public sector fire and rescue service 2021-2025 enterprise agreement, 23 October 2023, p. 100; ACT public sector act fire & rescue agreement 2020-2024, 28 February 2024, p. 157; Crown employees (fire and rescue NSW permanent firefighting staff) award 2023, p. 97; Queensland Fire and Emergency Services Certified Agreement 2022, 24 May 2023, p. 56; South Australian metropolitan fire service enterprise agreement 2022, 22 December 2022, p. 30; Firefighting industrial agreement 2022, 1 March 2023, pp. 68-72; Western Australian fire service enterprise bargaining agreement 2023, 6 December 2023, p. 89.

The ACCC's preliminary view is that Airservices' staff salaries do not appear to be unreasonable, taking into consideration the comparison of national and international salaries, and that Airservices' staff salaries represent a negotiated enterprise agreement in line with the Commonwealth's pay offer.

Performance benchmarking

The ACCC considers that benchmarking can be an important instrument for comparing and evaluating performance on an objective basis. By providing information about the comparative performance of a firm relative to its peers, benchmarking can also provide an incentive for improvement in performance. However, benchmarking is only useful to the extent that the benchmarked firm's operations are comparable and conducted over an appropriate time-period.

The ACCC notes that stakeholders considered the international benchmarking data provided by Airservices to be of limited use in informing analysis of the efficiency of Airservices' operation and costs.[138]

The ACCC notes that Airservices' benchmarking against 2 other international air navigation service providers appears to be rather narrow and selective, and fails to demonstrate the comparison has been undertaken on a like-with-like basis or how Airservices performed comparatively.[139]

Notwithstanding this, the ACCC considers that the international comparisons from the Global Air Navigation Services Performance Report 2017-2021 are of some value, as any large or obvious differences in Airservices' results compared to other similar air navigation service providers may highlight potential areas of concern.

In this respect, the ACCC has considered the historical cost efficiency of other air navigation service providers, as reported in the Global Air Navigation Services Performance Report 2017-2021. The report notes that among a comparison group of 6 other international air navigation service providers:

- Airservices Australia had the second lowest total cost per instrument flight rules (IFR) flight hour,[140] a measure of cost efficiency, and
- air traffic control operator productivity per hour was third highest and 45% above the median performance.[141]

It is noted the COVID-19 pandemic likely impacted the comparability of the results.[142]

The ACCC considers this report did not indicate concerns regarding Airservices' cost efficiency. The ACCC notes that benchmarking can be a useful tool to indicate the efficiency of a firm. However, in this case the ACCC acknowledges limitations affecting the comparability of these results. This includes varied reporting periods across air navigation service providers with different impacts from the COVID-19 pandemic, and different scopes of services (e.g., Airservices provide ARFF services, while other air navigation service providers may not). The ACCC notes that benchmarking comparisons for future price

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138 See section 5.2.2 for BARA, Qantas Group and Virgin Australia's comments on the benchmarking data provided by Airservices.

139 See Airservices Australia Revised Draft Price Notification, 13 November 2023, Appendix 8, p. 76.

140 Total cost per IFR flight hour is a measure used to indicate performance on cost efficiency.

141 Global Air Navigation Services Performance Report – 2017-2021, p. 85.

142 In particular, CANSO notes that the reporting periods for air navigation service providers submitting data varied, with some air navigation service providers including data within the 2020 calendar year, some for the 2021 calendar year and others include some of 2022. See: Global Air Navigation Services Performance Report – 2017-2021, pp. 5-6.

notifications are likely to be more useful, given they are unlikely to be compared air navigation service providers over COVID-19.

Changing proportion of operating expenses in 2022-23

The ACCC notes Virgin Australia's comments that Airservices':

- nominal operating expenditure in 2022-23 was 12% and 20% higher compared to 2021-22 and 2018-19 respectively, and
- supplier costs increased by 51% in 2022-23, with employee costs remaining flat, suggesting Airservices has relied more heavily on external suppliers (at a greater cost), during 2022-23.[143]

The ACCC notes Airservices nominal operating expenditure increased by $114 million and $174 million in 2022-23 compared to 2021-22 and 2018-19 respectively.[144] However, as per Figure 2, Airservices' real operating expenditure between 2022-23 to 2029-30 has been (and is projected to) remain relatively consistent since 2016-17. Further, Figure 2 also shows that Airservices incurred reduced real operating expenditure over the COVID-19 period (i.e. 2020-21 and 2021-22).

As per section 5.2.1, Airservices states that in 2022-23 and 2023-24 it has experienced a gradual shift as some of its business functions have moved to outsourced, or managed service arrangements. Airservices considers this has given rise to one-off cost increases, most notably in relation to the implementation of its Enterprise Network Modernisation Program. Airservices states this program incurred implementation costs of $79 million in 2022-23.[145]

Capitalisation of Enterprise Network Modernisation Program

The ACCC notes Airservices has transferred $44 million of Enterprise Network Modernisation Program expenditure in 2024-25 from operating to capital expenditure on its balance sheet, following updated accounting advice. The ACCC considers this balance sheet transfer reasonable, given it is based on relevant accounting standards. The ACCC also notes this transfer of costs has a minor impact on the amended draft price notification.

Deferral of savings benefit

The ACCC notes Airservices has deferred aspects of its Change Programs, in order to focus on its immediate priority of improving front line service delivery. The ACCC notes several stakeholders expressed concerns regarding Airservices' service performance (see Chapter 7). In particular, Qantas Group considered Airservices' primary focus within this pricing period should be on stabilising operations and improving service levels.[146]

The ACCC acknowledges that Airservices delay of elements of its savings program will reduce estimated savings by $62.6 million and $64.0 million in 2024-25 and 2025-26, respectively.[147] However, given stakeholders concerns regarding Airservices' performance, the ACCC's preliminary view is that the deferral of this savings program is not unreasonable.

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143 Virgin Australia, Issues Paper submission, 31 January 2024, p. 5.

144 Airservices, *2022-23 Annual Report*, p. 44; Airservices, *2019-20 Annual Report*, p. 42.

145 Airservices response to 18 October 2023 ACCC information request, 15 December 2023, p. 6.

146 Qantas Group, Issues Paper submission, 31 January 2024, p. 16.

147 Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 10.

The ACCC notes Airservices' performance has improved throughout 2024, with the proportion of monthly ground delays attributable to Airservices ranging between 11% and 23% from May 2023 to January 2024, compared to 2% to 12% from February 2024 to July 2024.[148]

Pricing period

The ACCC acknowledges Qantas Group's and Virgin Australia's concerns that a 2-year pricing proposal reduces the incentive for Airservices to efficiently manage its operating expenditure.

In this respect, the ACCC notes that Airservices updated its forecast operating expenditure by 7.7% between November 2023 and July 2024. This may suggest inefficiencies in Airservices' estimates, or that forecast expenditure was not well understood ahead of time. However, the ACCC notes that Airservices' revised expenditure appears to largely reflect efforts to improve its immediate service performance, a key issue raised by stakeholders, both by increasing staffing levels and re-prioritising business outcomes.

As per section 3.2, the ACCC generally considers longer term price paths under the price notification regime provide more certainty to users and greater incentives for a firm to reduce its costs beyond the pre-determined level. However, in this instance the ACCC would be inclined to not object to a proposal that is part of a shorter-term price path. In part, this is due to the expected significant future investment that will be included in a future price notification and that will require detailed consultation with industry.

Conclusion

Airservices' real operating expenditure is proposed to remain relatively steady with historical levels, excluding the COVID-19 period where cost saving measures were introduced (see Figure 2). The ACCC notes Airservices' comments that this is the case, despite tonnes landed forecast to be 20% higher in 2025-26 than in 2015-16.[149]

The ACCC notes staff costs represent 73% of operating expenditure over the proposal. The ACCC has assessed the level of Airservices' staff costs using benchmarking studies and comparisons, where available. These indicate staff costs are not unreasonable. The ACCC would encourage Airservices to further consider the use of internal and external efficiency benchmarking and targets to drive efficient costs and to make this information available to stakeholders (and the ACCC as part of future price notifications).

The ACCC acknowledges that several stakeholders commented that there was a lack of detailed data provided on operating expenditure. As per Chapter 8, Airservices is working to establish a customer engagement model. The ACCC considers that Airservices establishing a transparent consultation framework will provide greater accountability for future price notifications.

In particular, Airservices' commitment to improving its service performance by establishing formal efficiency targets and KPIs with customers (see Chapter 7), will provide incentives for Airservices to operate efficiently and ensure its operating expenditure does not increase beyond reasonable levels.

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[148] Airservices, *Australian Aviation Network Overview*, July 2024, slide 18; Airservices, *Australian Aviation Network Overview*, September 2023, slide 18.

[149] Airservices original demand forecasts indicated this figure was 13%. The ACCC has updated this number to reflect Airservices' revised forecasts. Source: Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 15; and Airservices Australia Amended Draft Price Notification, 10 July 2024, pp. 7-8.

The ACCC's preliminary view is that the proposed level of operating expenditure appears to be reasonable. However, the ACCC recommends that Airservices commits to establishing a transparent consultation framework with its customers. The ACCC considers Airservices should use such a forum to not only discuss pricing and investment matters, but also to establish formal efficiency targets and KPI's with its customers.

5.3. Capital expenditure and regulated asset base

The value of assets, including the initial valuation of the asset base, underpins the calculation of both the return on and of capital used in the maximum allowable revenue calculations. Therefore, it is important that the ACCC ensures that capital expenditure is prudent and efficient.

5.3.1. Airservices' proposal

Opening regulated asset base

Airservices proposes an opening RAB of $758.1 million for 2024-25. This represents a substantial decline from the opening balance of $1,162.3 million in 2016-17, the year following Airservices' previous long-term 2011-12 to 2015-16 price notification.[150]

Consistent with its 2011 price notification, Airservices has not indexed its RAB for inflation. In establishing the opening RAB, Airservices takes into account existing assets and depreciation, valued at cost and per original asset lives. Subsequent asset roll-forward considers new asset and depreciation values in accordance with the forward investment plan and projected timing of asset commissioning.[151]

Appendix 3 and 4 of Airservices' amended draft price notification details:

- capital investment figures since 2016-17,[152]
- service improvements and expansions since 2016-17, and
- customer engagement, including Pricing Consultative Committee Meeting updates, between March 2015 and April 2020.

Airservices' opening asset base excludes most investment made for the OneSKY program since 2016-17. It also excludes investments related to WSIA, New Runways, as well as Uncrewed Services.[153]

Capital expenditure program

Over 2024-25 and 2025-26, Airservices proposes to:

150 Airservices Australia Revised Draft Price Notification, 13 November 2023, pp. 46-47.

151 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 46; Airservices response to 18 October 2023 ACCC information request, 15 December 2023, p. 1.

152 Airservices has included $135 million of OneSKY capital expenditure in its Regulated asset base from 2016-17 to 2023-24 (and an additional $30 million in 2024-25 and 2025-26). See here for 'Airservices response to 16/11/23 ACCC information request – OneSKY's inclusion in the Regulated asset base in the 13/11/23 draft price notification'.

153 Airservices provided an annual breakdown of its opening RAB, as well as excluded capital expenditure investments on page 46-47 of Airservices Australia Revised Draft Price Notification, 13 November 2023. It is noted $896.3 million of OneSKY (CMATS & Facilities) expenditure has been excluded from the opening regulated asset base.

- invest $582.1 million (nominal) in capital expenditure programs,[154] and
- include $339.1 million (nominal) of this capital expenditure in its RAB.[155]

Table 12 summarises Airservices' proposed capital expenditure program for its RAB.

Table 12: Summary of Airservices proposed capital expenditure included in its RAB, 2024-25 and 2025-26

	2024-25	2025-26	Total
Opening regulated asset base balance	758.1	870.1	-
Capital expenditure (included in RAB)	202.4	136.7	339.1
Depreciation	90.4	89.7	180.1
Closing regulated asset base balance	870.1	917.1	-

Source: Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 47.; Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 10.

Notes: 2024-25 capital expenditure is inclusive of Airservices Enterprise Network Modernisation Program which has been re-classified as capital expenditure in the amended draft price notification. This reclassification was based on updated accounting advice (see section 5.2.1 and 5.2.3 for further details).

Table 13 details Airservices capital expenditure programs that are proposed to be included and excluded from the RAB.

Table 13: Capital expenditure programs included/excluded from the RAB, 2024-25 and 2025-26

	2024-25	2025-26	Total
Capital expenditure (included in regulated asset base)	202.4	136.7	339.1
Facilities and Environment	*51.6*	*48.9*	*100.5*
Operational Technology and Cyber	*25.9*	*31.9*	*57.8*
Enterprise Network Modernisation Program	*54.0**	*0*	*54.0*
ARFF capability uplift	*18.4*	*26.8*	*45.2*
Aerospace	*31.5*	*8.1*	*39.6*
*OneSKY***	*15*	*15*	*30.0*
Support Services	*6*	*6*	*12.0*
Capital expenditure (excluded from regulated asset base)	140.8	102.2	243.0
OneSKY (CMATS and Facilities)	*73.8*	*32.3*	*106.1*
Western Sydney International Airport	*57.5*	*47.2*	*104.7*
New Runways	*5.2*	*17.8*	*23.0*

[154] Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 47; Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 10.

[155] Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 47.; Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 10.

	2024-25	2025-26	Total
Uncrewed Services	*4.3*	*4.9*	*9.2*
Total Capital Expenditure	343.2	238.9	582.1

Source: Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 61; Airservices response to 15 November 2023 ACCC information request, 16 November 2023; Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 2; Airservices response to ACCC 18 July 2024 information request, 9 August 2024, p. 5.

Notes: * The $54 million figure for Airservices Enterprise Network Modernisation Program includes $44 million in expenditure that has been re-classified as capital expenditure in Airservices amended draft price notification. This reclassification was based on updated accounting advice (see section 5.2.1 and 5.2.3 for further details).

** OneSKY capital expenditure over 2024-25 to 2025-26 predominantly relates to facilities refurbishment work. See: Airservices response to ACCC 15 November 2023 information request, 16 November 2023.

Capital expenditure not included in the RAB in this draft price notification is intended to be recovered on an 'as-commissioned' basis. Airservices' accounting approach to using an 'as-spent' or 'as-commissioned' approach is explained below.

Regulated asset base: 'as-commissioned' and 'as-incurred' approach

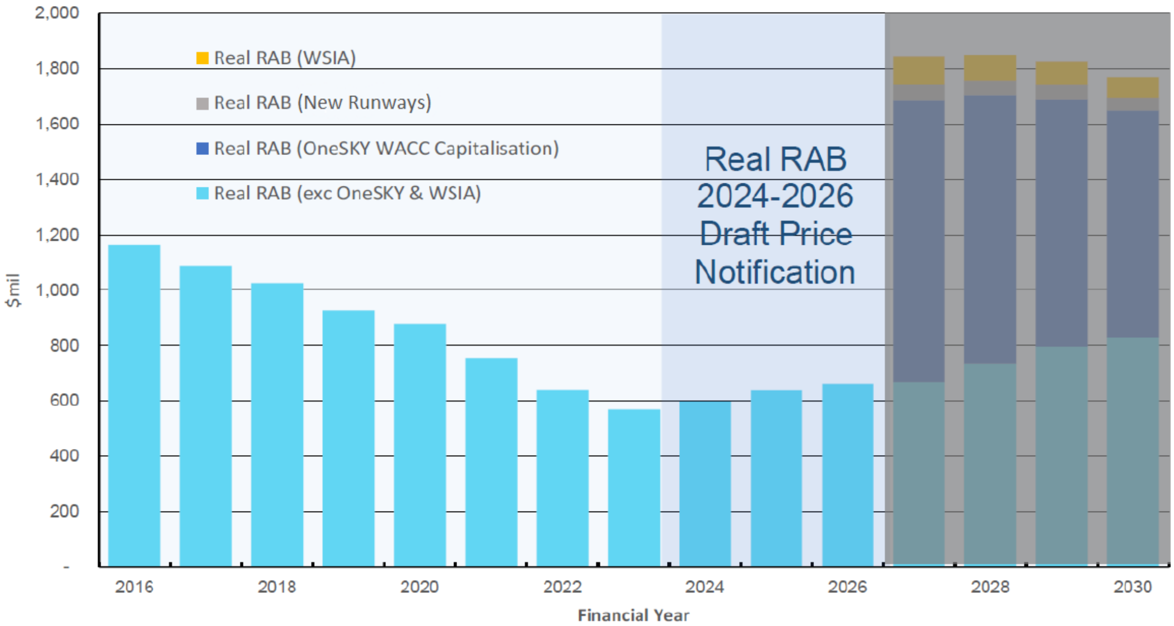
An 'as commissioned' approach to funding capital expenditure is where capital expenditure is recognised in the RAB when a project is commissioned (that is, as the investment becomes available to users). An 'as-incurred' approach is where capital expenditure is recognised in the RAB as the expenditure is incurred.

Figure 3 shows Airservices forecast real RAB will increase substantially in 2026-27. This is largely due to using an 'as-commissioned' approach for the vast majority of OneSKY expenditure. Under the proposed 'as commissioned' approach, Airservices will incorporate historical capital expenditure accumulated since 2016-17 for OneSKY, as well as the time value of money through cost of debt capitalisation, into the asset base in 2026-27.

The ACCC's Issues Paper further discusses the 'as-commissioned' and 'as-incurred' approach.[156]

[156] See: ACCC, *Airservices Australia draft price notification 2024-2026 Issues Paper*, 30 November 2023, pp. 24-27.

Figure 3: Airservices historical and forecast real regulated asset base, 2015-16 to 2029-30



Source: Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 17.

Capital expenditure for OneSKY in this price notification

The OneSKY program is a partnership between Airservices and the Department of Defence, replacing 2 current independent civil and military air traffic management systems (the Australian Advanced Air Traffic Management System (TAAATS) and the Australian Defence Air Traffic System (ADATS) respectively) with a single integrated system known as the Civil Military Air Traffic System (CMATS). Both existing systems are reaching end of life and have had software and hardware upgrades to extend their use.[157]

Some parts of the OneSKY program have been included in the RAB on an 'as-incurred' basis.[158] This represents $209 million included in the RAB from 2015-16 to 2025-26, including $30 million over 2024-25 and 2025-26.[159] Additionally, the ACCC understands some elements of OneSKY are already in use, such as the Early Voice Communications system.[160]

As explained above, Airservices has excluded from its RAB the vast majority of the OneSKY investments and associated cost of debt capitalisation relating to the CMATS and Air Traffic Service Centre upgrades at Melbourne and Perth airports (approximately $1.5 billion) until commissioning in 2026-27.

157 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 67

158 This includes investments for the Early Voice Communications System, Equipment Rooms, Existing ATSC's refurbishments, Training Support Facilities, Technical Operations Centres, and Joint Software Support Facility and Support Platform Space. See: *Airservices response to 18 October 2023 ACCC information request*, 15 December 2023, p. 8.

159 Airservices, *Airservices – Response to 16/11/23 ACCC information request – OneSKY's inclusion in the Regulatory Asset Base in the 13/11/23 draft price notification*, 13 November 2023, p. 1.

160 Airservices Australia Initial Draft Price Notification, 27 September 2023, pp. 48.

5.3.2. Stakeholder views

The ACCC's Issues Paper sought comments from interested parties on the following aspects of the revised draft price notification (which remains largely unchanged in the amended draft price notification):

- the appropriateness of the opening asset base value,
- the appropriateness of capital projects and the prudency of their estimated costs,
- Airservices' process for determining which capital projects are undertaken,
- the extent capital expenditure projects are driven by regulatory requirements, and
- how Airservices has applied an 'as commissioned' and 'as incurred' basis.

Submissions did not comment directly on Airservices' opening RAB, discussing capital expenditure more broadly.

Capital expenditure projects

Stakeholders were generally supportive of Airservices' proposed capital expenditure at a high-level, though noted Airservices' could improve stakeholder consultation.

Qantas Group supported in principle Airservices capital expenditure projects included in the draft notification. Qantas Group, while considering Airservices consults well on capital proposals, did consider it remains difficult to assess the adequacy and effectiveness of capital projects in the absence of detailed information.[161]

Qantas Group also stated it:

- welcomed Airservices CMATS Remediation Plan but seeks independent oversight of this plan to ensure timely delivery[162]
- largely accepts CASA is a key driver of Airservices' capital expenditure, though considered regulatory requirements should transition from a prescriptive approach towards risk-based and outcome-focused regulation, more closely aligned with international standards.[163]

Virgin Australia was broadly supportive of Airservices' capital expenditure plan. Virgin Australia also considered that:

- specific projects that do not deliver direct benefits to airlines should not be recoverable through increased charges
- Airservices consultation process lacked transparency on the efficient management of capital projects, in particular the OneSKY program and its associated delays
- the revised draft price notification does not contain any mechanisms which effectively incentivise the timely and efficient delivery of capital projects
- the short term of the revised draft price notification disincentivises Airservices from taking action to contain increases in its cost base.[164]

161 Qantas Group, Issues Paper submission, 31 January 2024, p. 14.

162 Qantas Group, Issues Paper submission, 31 January 2024, p. 14.

163 Qantas Group, Issues Paper submission, 31 January 2024, p. 14.

164 Virgin Australia, Issues Paper submission, 31 January 2024, pp. 4-6.

BARA stated it generally takes on face value Airservices' estimates for agreed capital expenditure projects. BARA stated it is not clear how effective any internal incentives are for Airservices to meet its target of delivering services at a reduced real cost to airlines.[165]

The AAA considered that some capital investment shifts costs to the aviation sector. AAA state that Ballina-Byron airport have raised concerns on this issue as part of its transition of terminal navigation management to a 'digital' ATC tower by 2025.[166]

The AAA also noted that the short duration of the revised draft price notification ringfences major capital expenditure (OneSKY, WSIA and runways) by pushing them beyond 2025-26.[167]

'As-commissioned' vs 'as-incurred' approach

BARA, Qantas Group and Virgin Australia all supported Airservices use of an 'as-commissioned' approach to funding the vast majority of its capital expenditure projects.[168] No other stakeholders commented on the issue.

BARA however stated that it would be supportive of some capital expenditure being charged on an as-incurred basis for large projects such as OneSKY, provided there is agreement between all stakeholders. BARA considered this would avoid more pronounced changes in charges in future pricing agreements.[169]

Qantas Group agrees with Airservices' proposed approach of only charging customers for investments that have been completed and are ready for use.[170]

5.3.3. ACCC preliminary views

Opening regulated asset base

Airservices' proposed opening RAB has decreased from $1,162.3 million in 2016-17 to $758.1 million in 2024-25. This reflects Airservices' 'as commissioned' accounting approach to funding the majority of its OneSKY investment, which is not expected to be commissioned until 2026-27.

Airservices states its opening RAB has been updated since its 2011-12 to 2015-16 long-term price notification. Airservices has derived nominal RAB values, which include existing assets and depreciation valued at cost and per original asset lives, and new asset and depreciation values in accordance with the forward investment plan and projected timing of asset commissioning. The asset values are not indexed for inflation.[171]

The ACCC notes stakeholders did not express any concerns regarding Airservices opening RAB, or the methodology used.

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165 BARA, Issues Paper submission, 2 February 2024, p. 5.

166 AAA, Issues Paper submission, 31 January 2024, p. 4.

167 AAA, Issues Paper submission, 31 January 2024, p. 2.

168 BARA, Issues Paper submission, 2 February 2024, p. 5; Qantas Group, Issues Paper submission, 31 January 2024, p. 14; Virgin Australia, Issues Paper submission, 31 January 2024, p. 6.

169 BARA, Issues Paper submission, 2 February 2024, p. 5.

170 Qantas Group, Issues Paper submission, 31 January 2024, p. 8.

171 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 46; Airservices response to 18 October 2023 ACCC information request, 15 December 2023, p. 1.

On this basis, the ACCC's preliminary view is that Airservices' opening RAB, as well as the methodology used to determine it, does not appear to be unreasonable. In reaching this view, the ACCC has also considered a number of Airservices' confidentially provided business cases on investments made since the end of its 2011-12 to 2015-16 long-term price notification.

As discussed below, the ACCC notes stakeholders have raised concerns about Airservices' stakeholder consultation since the COVID-19 pandemic, including in relation to investment projects. The ACCC expects Airservices to reengage with stakeholders in a way that provides meaningful and timely engagement, as well as greater transparency.

Additionally, for future price notifications, the ACCC expects Airservices to provide a detailed reconciliation of its proposed opening RAB. In particular, the ACCC expects Airservices to demonstrate how actual capital expenditure (and associated depreciation) compares to that projected in the amended draft price notification. The ACCC will consider whether these costs have been incurred prudently and efficiently.

Capital expenditure projects

Airservices have proposed $339.1 million of capital expenditure in its RAB, accounting for 13.2% of Airservices' proposed maximum allowable revenue (via the return on and off capital).[172] Given several large capital projects are expected to be commissioned from 2026-27 onwards, it is expected the return on and of capital will account for a significant proportion of maximum allowable revenue in any potential future price notification.

The ACCC acknowledges stakeholders' comments that they:

- are supportive of Airservices' capital expenditure at a high-level, and
- hold concerns regarding Airservices' consultation on capital expenditure projects.

The ACCC requires assurance that capital expenditure projects for the current (and future) price notifications are appropriate and represent an efficient and prudent allocation of resources. The ACCC also requires assurance that Airservices is accountable for the delivery of projects.

The ACCC also acknowledges comments by Virgin that the short duration of the agreement disincentivises Airservices from reducing its cost base.[173] This is discussed further in section 3.2.

Regarding stakeholders' concerns about Airservices' consultation on capital expenditure projects, the ACCC notes that Airservices previously held Pricing Consultative Committee (PCC) meetings, which provided a forum for stakeholders to provide feedback on capital expenditure projects.[174] The ACCC notes Airservices' comments that these meetings ceased at the onset of COVID-19 with industry restructuring impacting engagement, and much of the

172 Airservices proposed $339.1 million of capital expenditure includes the $44 million of expenditure related to the ENMP, which Airservices proposed to update from operating to capital expenditure on its balance sheet as part of its amended draft notification. As per section 5.2.3, the ACCC considers this balance sheet transfer reasonable, given it is based on relevant accounting standards. The ACCC also notes this transfer of costs has a minor impact on the amended draft price notification.

173 Virgin Australia, Issues Paper submission, 31 January 2024, p. 4.

174 The PCC was comprised of representatives from major domestic and regional carriers, international airlines and associations, and general aviation operators; Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 58.

dialogue at the time focused on priority issues of liquidity and the administration of the Government's COVID-19 assistance package.[175]

Stakeholders have raised concerns over Airservices' stakeholder consultation since the COVID-19 pandemic (see section 8.3). In particular, the PCC, or a version of it, is yet to be resumed. The ACCC notes that Airservices plan to establish a quarterly and bi-annual stakeholder engagement forum (which will respectively discuss performance and investment matters, as well as the development of future long-term pricing plans). If conducted effectively, this will likely increase Airservices' incentive to undertake prudent and efficient investment, as well as increase the level of accountability for delivering on agreed capital expenditure projects.

The ACCC considers transparency and accountability to be a key consideration for assessing future price notifications.

The ACCC's preliminary view is that Airservices' proposed level of capital expenditure does not appear unreasonable, based on its assessment that includes consideration of a number of confidential business cases.

However, for the reasons described above, the ACCC recommends that Airservices establish its consultation framework with its customers.

'As-commissioned' vs 'as-incurred' approach

Airservices states it has received consistent feedback from customers that prices should not seek to recover costs associated with services until those services are available for use.[176] This is consistent with feedback received to the Issues Paper.

The ACCC observes that use of an 'as commissioned' approach for the majority of OneSKY (and other investment) expenditure allows Airservices to include historical capital expenditure accumulated since 2016-17, as well as the time value through cost of debt capitalisation, into the asset base in 2026-27. This results in a different time profile of asset costs to be recovered from users than under an 'as incurred' approach, as this would recognise relevant return on and of assets in the years 2016-17 to 2025-26 (as opposed to 2026-27 onwards).

The ACCC acknowledges that stakeholders are supportive of the proposed 'as commissioned' approach to the majority of OneSKY and other major capital expenditure. The ACCC also notes the importance of assessing the prudency and efficiency of the OneSKY expenditure in totality, considering it better undertaken upon the completion of the project. Therefore, the ACCC considers Airservices use of an 'as commissioned' approach to funding its major capital expenditure investments for the amended draft price notification to be reasonable.

The ACCC notes that $209 million of OneSKY capital expenditure has been included in the RAB between 2015-16 and 2025-26 on an 'as incurred' basis, including $30 million over 2024-25 and 2025-26. The ACCC understands most of this expenditure relates to systems

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175 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 58.

176 Airservices response to 18 October 2023 ACCC information request, 15 December 2023, p. 2.

currently in use.[177] As such, the ACCC's preliminary view is that it is comfortable with this expenditure being included in the RAB.

The ACCC notes approximately $1.5 billion of capital expenditure will be included in the RAB in 2026-27 when OneSKY is expected to come online. The assessment of a further draft price notification would likely require careful examination of the prudency and efficiency of OneSKY. This includes potentially revisiting any OneSKY related costs that may be rolled into the RAB as part of the current draft price notification.

5.4. Return of capital

The return of capital (depreciation) on an asset is determined by the interaction between the asset value and the life of the asset. The above discussion regarding the opening RAB and capital expenditure therefore has implications for determining the appropriate return of capital.

5.4.1. Airservices' proposal

Depreciation expenses and methodology

Airservices proposes a return of capital of $179.9 million, as per Table 14 below. Airservices states it uses a straight-line method to calculate depreciation, based on the original lives and its accounting policies for useful asset lives.[178]

Table 14: Depreciation (return of capital) analysis, 2024-25 and 2025-26

Depreciation ($million)	2024-25	2025-26	Total
Existing Assets	80.1	70.4	150.5
New Investment (2024-25 and 2025-26)*	10.2	19.3	29.5
Total	90.3	89.6	179.9

Source: Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 27.

Notes: * This excludes spending relating to OneSKY, WSIA, New Runways and Uncrewed Services.

Airservices states its standard costing method:

- applies a standard asset value and deprecation cost per facility type, and
- smooths variation across time to ensure cost recovery is the same over the asset life.[179]

Airservices' proposed cost allocation methodology is discussed in Chapter 6.

Useful asset lives

177 Airservices response to 18 October 2023 ACCC information request, 15 December 2023, p. 8; Airservices response to 15 November 2023 ACCC information request, 16 November 2023, p. 1.

178 Airservices response to 18 October 2023 ACCC information request, 15 December 2023, p. 11.

179 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 55.

Airservices' average useful lives are shown in Table 15 below.[180]

Table 15: Airservices' regulated asset base asset lives

2023-24 Opening regulated asset base balance by class	Opening Balance ($m)	Remaining Life (yrs)	Average Useful Life (yrs)
Airways Technical Equipment	260.9	4	12
Vehicles	32.5	6	17
Office and ADP Equipment	1.9	2	8
Control Towers & Equipment	48.9	8	17
Buildings & Amenities	175.6	10	18
Applications & Operational Software	52.0	10	17
Sub-total	571.9	6	14
Land	10.5	-	-
Assets Under Construction	117.4	-	-
Total	699.8	-	-

Source: Airservices response to ACCC 18 October 2023 information request, 15 December 2023, p. 11.

Airservices states its useful asset lives are based on Financial Accounting Book fixed asset depreciation rates/lives. Airservices does not benchmark its assets' useful lives against other air navigation service providers. These asset lives are a calculated weighted average, which aggregates the useful lives of the different sub-ordinate asset classes belonging to the summary asset class.[181]

Airservices' useful lives applied to forward capital investments and assets, commissioned during the term of the price notification, have a weighted average life of 20 years. Airservices states the commissioning dates are based on project schedules and forecast information.[182] As per table 14, this represents $29.5 million of Airservices depreciation expenses.

5.4.2. Stakeholder views

Qantas Group and Virgin were the only stakeholders to provide views on the return of capital.

Qantas Group considered Airservices' depreciation forecasts appeared reasonable, on the basis it used existing asset cost, existing asset useful life, and depreciates these assets on a straight-line basis. Qantas Group stated new assets are in accordance with Airservices forward investment plan, with depreciation beginning at its projected date of commission (which Qantas Group considers appropriate).[183]

Virgin Australia noted a portion of Airservices' depreciation expenses is based on the completion of proposed capital projects. Virgin Australia considered that potential delays to

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180 Airservices response to the ACCC's 24 January 2024 information request provides a full breakdown of its useful asset lives.

181 Airservices response to ACCC 24 January 2024 information request, 12 February 2024, p. 4.

182 Airservices response to ACCC 24 January 2024 information request, 12 February 2024, p. 11.

183 Qantas Group, Issues Paper submission, 31 January 2024, p. 15.

these projects could result in airlines contributing to the depreciation (and return on capital) of these projects twice, given they could also be included in future price notifications.[184] Virgin Australia therefore considered depreciation expenses should be accompanied by an over-recovery mechanism, in case there are delays to these projects that result in them being included across the current and future pricing plans.[185]

5.4.3. ACCC preliminary views

Depreciation expenses and methodology

The ACCC notes that Airservices' depreciated assets on a straight-line basis. Qantas Group was the only stakeholder to comment on this issue, supporting the methodology.

The ACCC notes Virgin Australia's comments that $29.5 million of Airservices' depreciation expenses (of the $179.9 million in total) is based on forward investment projects. The ACCC acknowledges delays to these capital expenditure projects could result in airlines being charged for the same depreciation expenses in 2 separate long term price notifications.

The ACCC considers that depreciation expenses associated with capital expenditure projects included as part of the amended draft price notification, should not form part of future price notifications.

Useful asset lives

The ACCC acknowledges that Airservices' asset useful lives are based on Financial Accounting Book fixed asset depreciation rates/lives. The ACCC also notes that Airservices does not benchmark its useful asset lives against other air navigation service providers.

The ACCC's preliminary view is that Airservices' useful asset lives do not appear unreasonable. As part of future price notifications, the ACCC would expect to be provided comparator information on useful asset lives.

Conclusion

Given the above, the ACCC's preliminary view is that Airservices' depreciation expenses appear reasonable.

5.5. Return on capital (WACC)

In assessing Airservices' amended draft price notification, the ACCC has had regard to whether the estimated revenue generated is required to recover the efficient costs of providing its services, including a return on capital.

The return on capital is calculated by applying the weighted average cost of capital (WACC) to the average written down value of assets. The WACC reflects the opportunity cost to investors and lenders of investing capital in Airservices. The WACC is calculated through the return on debt and equity, weighted by the amount of debt and equity held by the firm.

184 Virgin Australia, Issues Paper submission, 31 January 2024, pp. 6-7.

185 Virgin Australia, Issues Paper submission, 31 January 2024, pp. 6-7.

The assessment of the WACC needs to consider the assumptions underpinning the estimates of the key parameters, as this has implications for determining the appropriate return on capital.

5.5.1. Airservices' proposal

Airservices engaged Incenta Economic Consulting (Incenta) to estimate the WACC for its notified services. Incenta used a benchmarking approach to estimate WACC parameters based on a group of 19 comparator airports over a 10-year window up to 2019.[186]

Table 16 summarises the proposed parameters from Incenta's assessment and the proposed nominal vanilla WACC.

Table 16: Proposed WACC Parameters

WACC parameter	Airservices' proposal	Summary of Estimation Method
Risk free rate	4.09%	The risk-free rate was estimated using the average annualised yield on 10-year Commonwealth Government Securities over a 20-day period ending 31 July 2023.
Market risk premium	6.20%	The Market risk premium estimate was adopted from the AER's Rate of Return Instrument 2022.[187]
Gamma (imputation factor)	0.57	The gamma value was adopted from the AER's Rate of Return Instrument 2022.[188]
Asset beta (β_a)	0.70	Asset beta estimated using Bloomberg equity betas at weekly and monthly return frequencies, over two 5-year estimation windows ending in December 2014 and December 2019. The combined sample average for both time periods and return frequencies were used to prepare the estimate. Airports were used as comparator industry to Airservices via first principles analysis. After applying a 0.5% bid-ask spread liquidity filter, the comparator sample was comprised of 19 firms.
Equity beta (β_e)	0.89	The equity beta was estimated using the gearing ratio estimate to re-lever the asset beta estimate.
Gearing ratio (D/V)	21.00%	The gearing ratio was benchmarked using the average of the sample averages over the 2 separate 5-year periods used to estimate the asset beta (up to December 2014 and December 2019).
Cost of equity	9.61%	The cost of equity is the sum of the risk-free rate and the market risk premium, weighted by the equity beta.
Cost of debt	6.35%	10-year term issuance BBB+ rated bonds were used to estimate the cost of debt, in line with the AER's Rate of Return Instrument 2022.[189]

186 Airservices Australia Revised Draft Price Notification, 13 November 2023, Appendix, p. 2.

187 Australian Energy Regulator, Rate of Return instrument – Explanatory Statement, 24 February 2023, p. 130.

188 Australian Energy Regulator, Rate of Return instrument – Explanatory Statement, 24 February 2023, p. 240.

189 Australian Energy Regulator, Rate of Return instrument – Explanatory Statement, 24 February 2023, p. 193.

WACC parameter	Airservices' proposal	Summary of Estimation Method
Nominal vanilla WACC	**8.93%**	Sum of the cost of equity and cost of debt, weighted according to the gearing ratio.

Source: Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 45.

Based on this value of WACC, Airservices' estimate of the return on capital is $147 million over 2024-25 and 2025-26,[190] accounting for 5.9% of Airservices proposed maximum allowable revenue.

5.5.2. Stakeholder views

The ACCC's Issues Paper sought comments from interested parties on:

- The reasonableness of Airservices' proposed WACC, as well as each of the individual parameters and the methodology Airservices used to estimate the WACC parameters.
- The appropriateness of the selected domestic and international comparators used to develop estimates of the parameters.

WACC estimate

Qantas Group considered the WACC estimate of 8.93% to be too high. As part of its submission, Qantas Group engaged Cambridge Economic Policy Associates (CEPA) to prepare a report analysing Airservices' WACC. CEPA's WACC estimate was 7.57%.[191] Virgin, IATA and BARA also considered Airservices' proposed WACC estimate was too high but did not provide an alternative value.[192]

Perth Airport stated that it thought the estimate of the WACC was 'unduly conservative' and could be higher. Perth Airport stated that the most up to date empirical evidence of the pandemic justified a higher risk-adjusted rate of return.[193] PAPL did not provide an alternative to Airservices' proposed WACC estimate.

Comparator sample

IATA stated that it believes Airservices should be benchmarked against air navigation service providers, and not airports as used by Incenta, as it considered that air navigation service providers carry significantly lower risk compared to airports. IATA noted that the Airservices' proposed WACC is higher than Sydney Airport Holdings' WACC of 8%.[194]

BARA considered that airports are more exposed to commercial risk than air navigation service providers generally, and Airservices specifically. BARA subsequently considered that Airservices' sample has limited value in ascertaining appropriate values of WACC input parameters.[195]

190 Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 2.

191 Qantas Group, Issues Paper submission, 31 January 2024, p. 15.

192 Virgin Australia, Issues Paper submission, 31 January 2024, p. 4; IATA, Issues Paper submission, 1 February 2024, pp. 1-2; BARA, Issues Paper submission, 2 February 2024, p. 1.

193 Perth Airport, Issues Paper submission, 1 February 2024, p. 2.

194 IATA, Issues Paper submission, 1 February 2024, p. 2.

195 BARA, Issues Paper submission, 2 February 2024, p. 6.

Qantas Group submitted a report prepared by CEPA, which proposed a different comparator sample. CEPA agreed that airports were an appropriate comparator. However, CEPA applied liquidity and development filters to an initial set of 40 comparators to arrive at a final sample of 10 airports plus ENAV, an air navigation service provider based in Italy, which CEPA considered is the closest listed comparator to Airservices.[196]

Perth Airport agreed with Incenta's 'broad' sample selection, which it considered 'is best regulatory practice.'[197]

Asset beta

Including those that commented on the comparator sample, 4 submissions commented on the asset beta parameter in the WACC estimation.

IATA recommended an asset beta of 0.4 (instead of Incenta's suggested asset beta of 0.7) based on a 2022 McKinsey report estimating the asset beta for air navigation service providers internationally.[198]

Qantas Group considered a lower asset beta parameter was appropriate given CEPA's analysis. CEPA's report advocated for an asset beta of 0.5 based on the analysis of its comparator sample, and a comparison to the ACCC's last decision in 2011.[199] Qantas Group also stated it supported the exclusion of the COVID-19 period for calculating asset betas.[200]

BARA also agreed with the exclusion of data from the COVID-19 pandemic period.[201]

Perth Airport stated that by not considering the COVID-19 period it was likely that the assessment of the required rate of return would understate the systemic risks of Airservices' exposure to aviation traffic risk. Perth Airport considered the pandemic served as an example of downside risk faced by the aviation industry. Perth Airport referenced methodologies and decisions made in the New Zealand Commerce Commission's 2023 Input Methodology Review and the Heathrow Airport H7 price determination process as international precedents where COVID-19 adjustments were made to pre-pandemic asset betas to account for this risk exposure.[202]

Gearing

Qantas Group supported a benchmarking approach to develop the gearing ratio estimate but arrived at a different estimate than Incenta due to CEPA's comparator sample.[203]

Perth Airport supported the approach used by Airservices to determine the gearing ratio. However, it noted that the 21% estimate was lower than the actual gearing for Airservices and the 45% gearing ratio endorsed in Airservices' 2011-12 to 2015-16 long term price notification.[204]

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196 Qantas Group, Issues Paper submission, 31 January 2024, pp. 34-45.

197 Perth Airport, Issues Paper submission, 1 February 2024, pp. 2-5.

198 IATA, Issues Paper submission, 1 February 2024, p. 1.

199 Qantas Group, Issues Paper submission, 31 January 2024, pp. 50-51.

200 Qantas Group, Issues Paper submission, 31 January 2024, p. 16.

201 BARA, Issues Paper submission, 2 February 2024, p. 6.

202 Perth Airport, Issues Paper submission, 1 February 2024, p. 6.

203 Qantas Group, Issues Paper submission, 31 January 2024, p. 51.

204 Perth Airport, Issues Paper submission, 1 February 2024, p. 7.

Cost of debt

Qantas Group agreed with CEPA's approach to estimating the cost of debt. CEPA's report used the comparator sample to determine a range of benchmarked credit ratings. CEPA's comparator sample had a credit rating range of A- to A+, with CEPA suggesting a credit rating of A would be most appropriate for estimating Airservices WACC.[205]

BARA submitted that it would be appropriate to use Airservices' actual credit rating of AAA in determining a cost of debt estimate.[206]

Perth Airport agreed with the use of BBB+ for the cost of debt parameter.[207]

Other parameter estimates

Submissions were generally supportive of the method used by Airservices to determine the risk-free rate, market risk premium and gamma parameters.

5.5.3. ACCC preliminary views

The ACCC has reviewed the methodology for estimating the WACC parameters as proposed by Airservices and acknowledges the various stakeholder perspectives on the WACC value and approach to estimation. The ACCC acknowledges that estimating the WACC is a complex exercise, and that there are varying perspectives and approaches.

Table 7 shows that the return on capital contributes 5.9% to the total allowable revenues for Airservices. Given this, the ACCC considers that changes to the WACC will affect the return on capital but will not materially impact the need for a price increase under the amended draft price notification.

The ACCC recognises that the next price notification is expected to include a significant capital expenditure component, as it will include significant investments related to the OneSKY investment, WSIA, and the new runway developments. The value of the WACC and the resulting estimate of the return on capital will therefore have a greater impact in an expected future price notification.

In developing an appropriate estimate of the WACC for the amended draft price notification, the ACCC notes the importance of selecting an appropriate comparator sample. The ACCC prefers the use of a benchmark approach as it creates appropriate incentives for a regulated entity. The choice of the comparator sample affects the estimate of asset beta, equity beta, gearing ratio and the credit rating for the estimation of the cost of debt.

The estimation window is another important consideration. An appropriate estimation window balances the need of using recent data, with the importance of having a sufficient sample size to minimise the impact of any noise within the data. The amended draft price notification immediately followed the COVID-19 period, which was a period of uncertainty for the aviation industry. This was reflected in the asset betas, which were at levels higher than historical averages before the COVID-19 pandemic and may not be indicative of future trends. International regulators have considered various approaches to estimating asset beta in the context of the COVID-19 disruption and the ACCC will continue to monitor developments leading up to the next price notification.

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205 Qantas Group, Issues Paper submission, 31 January 2024, p. 52.

206 BARA, Issues Paper submission, 2 February 2024, pp. 5-6.

207 Perth Airport, Issues Paper submission, 1 February 2024, p. 7.

The ACCC acknowledges that variability in risks at different points in time will affect the value of estimates of market parameters.

Given the changing industry environment and business risk, the ACCC will closely consider the appropriateness of both Airservices' approach to estimating the WACC parameters and its proposed value of WACC in the next price notification, where the return on capital will have a greater impact on the maximum allowable revenue. At this time, we also expect that a clearer picture of demand recovery following COVID-19 will be available to support the analysis.

6. Basis of charges and allocation of costs

6.1. Basis of charges

6.1.1. Airservices' proposal

Pricing structure

Airservices is not proposing to change its current pricing structure, which remains unchanged since the 2011-12 to 2015-16 long-term pricing agreement.[208] Accordingly, the basis of calculating charges for terminal navigation, enroute navigation, ARFF services, and general aviation charges, are proposed to remain the same in the amended draft price notification. Airservices' current charging formulas are set out in Appendix A.

Aircraft weight is used to calculate Airservices' charges for terminal navigation and ARFF services.[209] Airservices applies a Chargeable Weight for each aircraft type/series up to a maximum of 500 tonnes. These weights are broadly based on average aircraft maximum take-off weights (MTOW), for the aircraft type/series.[210]

Terminal navigation charges

Terminal navigation charges are location specific. Charges are levied on full-stop landings.[211] Charges for a session of 'touch-and-go' training circuits are only levied on the full-stop landing.[212] Airservices incorporates capital city subsidies for terminal navigation services between large international airports and secondary Metro D airports.

Enroute navigation services

Enroute charges are network based and applied to Instrument Flight Rules operations.[213] In addition to Chargeable Weight, Airservices also applies a Chargeable Distance, based on estimates of average actual distances flown over time for city pairs.[214]

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208 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 5.

209 Airservices Australia Revised Draft Price Notification, 13 November 2023, pp. 38-39.

210 Airservices Australia Revised Draft Price Notification, 13 November 2023, pp. 38-39.

211 Full-stop landings are when an aircraft intends to land and exit the runway. A touch-and-go landing is a landing followed by an immediate take-off without exiting the runway.

212 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 39.

213 Instrument flights rules set out the rules and procedures for the operation of an aircraft when flights are conducted under instrument meteorological conditions i.e. not under visual meteorological conditions. See: CASR General Operating and Flight Rules Plain English Guide, February 2024, https://www.casa.gov.au/sites/default/files/2021-08/plain-english-guide-part-91-new-flight-operations-regulations-interactive-version.pdf.

214 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 39.

ARFF services

ARFF charges are applied to commercial passenger aircraft operations weighing between 5.7 and 15.1 tonnes, and all aircraft over 15.1 tonnes. ARFF charges consider both the aerodrome and aircraft category of service. They are comprised of 2 components:

- a base level service network charge (the same charge for all Category 6 aircraft and at all locations)[215]
- an incremental location and category specific charge to reflect the higher level of resources associated with higher category of services.[216]

Airservices states that "the proposed price increase for ARFF services takes into account the current aerodrome category service level."[217] The current and proposed prices for each location (as well as the interim prices) are set out in Appendix A.

Airservices' revised draft price notification (November 2023) sets out proposed price increases for April 2024, September 2024, July 2025 and January 2026. The amended draft price notification proposes a single weighted average price increase of 6%, equivalent to the first April 2024 increase proposed in the November 2023 revised draft price notification.

In addition to the proposed price increase to ARFF services for each location at its current service category level, Airservices has proposed 'interim' prices if "location services are required to increase above current service category levels to meet new regulatory service obligations".[218] An interim price will apply to service upgrades to a category 7 service ($13.64/tonne for new services), and a separate interim price will apply to a service upgrade to a category 8 service and above ($23.06/tonne for new services). For an upgraded ARFF service category, the interim price has been set in line with the highest priced location (for example, new category 7 ARFF services prices have been set equivalent to the charge for Townsville).

As an example, Hobart Airport and Townsville Airport are currently both Category 7. Hobart's current charging rate is $10.00/tonne and Townsville's is $13.64/tonne. If these airports are required to be upgraded to Category 8 after the proposed price increases under this price notification come into effect, then the interim charge for the new services for both airports will be $23.06/tonne.[219]

Airservices states that these interim charges are proposed to apply at the affected aerodrome until such time as a new pricing agreement is established which fully considers the ongoing cost and traffic impact of these higher aircraft level operations.[220] The ACCC also notes that once a location necessitates a service upgrade, then the 'interim' charges will apply until the new pricing agreement. Airservices can set a lower price before this occurs. However, if Airservices intends to increase the 'interim' charges, above the proposed prices in the amended draft price notification, then it will be required to notify the ACCC.

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215 An explanation of the different ARFF service category levels, including which category each airport falls under, can be found here: https://www.airservicesaustralia.com/about-us/our-services/aviation-rescue-fire-fighting-service/arff-levels-of-service/#:~:text=Our%20level%20of%20service%20ranges,26%20of%20Australia's%20busiest%20airports.

216 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 40.

217 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 33.

218 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 33.

219 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 33.

220 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 33.

General aviation charges

General aviation charges apply to aircraft weighing less than 5.7 tonnes as follows:

- Users who incur $500 or less in general aviation charges in the previous financial year (based on activity) are not required to pay those charges in the new financial year. That is, they receive a 100% discount on charges normally applied.
- Users incurring charges greater than $500 in the previous financial year will be liable for charges as per the General Aviation option in the new financial year.

6.1.2. Stakeholder views

Pricing structure

Qantas Group supported the proposed pricing structure[221] and considered the current weight-based pricing methodology to be largely balanced and equitable.[222]

Virgin Australia considered that in principle tiered pricing across airports is appropriate, and more reflective of flight arrival volumes.[223] However, Virgin Australia submitted that deemed MTOW rates should be reviewed through consultation and adjusted to align with the minimum MTOW averages for Australian domestic carriers on a per fleet type basis.[224]

AAA submitted that the proposed changes to ARFF charges could provide a competitive disadvantage to regional airports in attracting new carriers and routes compared to major airports due to uncompetitive costs for ARFF and terminal navigation charges.[225]

BARA submitted that enroute charges subsidise terminal navigation and ARFF services, which disproportionately impacts international airlines.[226]

Interim prices for ARFF service upgrades

Canberra Airport noted the November 2023 publication of the ERSA allocates it as a category 8 facility, while the most recent NOTAM allocates Canberra as a category 7 facility between the hours of 5:45am and 11:30pm (Sunday to Friday) and 5:45am and 10:15pm (Saturday). Canberra Airport noted a NOTAM takes precedence over an ERSA, though a NOTAM can be rescinded at any time. In this respect, Canberra Airport notes there will be a substantial ARFF charge imposed on airlines using the airport due to the category 8 classification.[227]

While Canberra Airport noted the significant benefits for passengers, the airports, and the aviation sector of a category 8 classification, it sought further justification from Airservices on the difference between its proposed prices for category 7 and 8 ARFF services ($7.72/tonne compared to $23.06/tonne).[228]

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221 Qantas Group, Issues Paper submission, 31 January 2024, p. 20.

222 Qantas Group, Issues Paper submission, 31 January 2024, p. 20.

223 Virgin Australia, Issues Paper submission, 31 January 2024, p. 8.

224 Virgin Australia, Issues Paper submission, 31 January 2024, p. 8.

225 AAA, Issues Paper submission, 31 January 2024, p. 2.

226 BARA, Issues Paper submission, 2 February 2024.

227 Canberra Airport, Issues Paper submission, p. 3.

228 Canberra Airport, Issues Paper submission, pp. 3-4.

The AAA notes that significant concern has been raised over ARFF price increases at some of the 26 airports in the draft price notification. The AAA notes these increases reflect decisions by Airservices on the levels of service provided at these airports, which are determined by regulatory requirements from CASA and the International Civil Aviation Organisation (ICAO).

The AAA notes that the proposed rates may provide a competitive disadvantage to regional airports in attracting new carriers and routes compared to major airports, with airlines potentially deciding to discontinue, reduce or not start a service into a regional airport due to these charges.[229]

6.1.3. ACCC preliminary views

The ACCC notes that Airservices is not proposing to change its current pricing structure, with Qantas Group and Virgin Australia both considering the structure to be appropriate.

The ACCC acknowledges stakeholder comments on the potential for substantial increases in ARFF service pricing at certain airports, in particular regional airports. The ACCC notes if an ARFF service is required to increase to the next service category, ARFF charges at an airport could increase significantly above 6%. This could mean ARFF charges at:

- regional airports such as Hamilton Island, Launceston and Mackay, that are currently category 6, could increase 488% to take category 7 aircraft (from $2.32/tonne to $13.64/tonne), while Sunshine Coast could face a 222% increase to accommodate category 7 aircraft.
- Canberra airport, which is currently category 7, could increase 154% to take category 8 aircraft (from $9.08/tonne to $23.06/tonne), and Adelaide airport 68% to take category 9/10 aircraft (from $5.27/tonne to $8.87/tonne).

The ACCC acknowledges certain airports may face substantial price increases if its ARFF service category is upgraded. However, the ACCC also acknowledges that increases to a service category are regulatory requirements determined by CASA and ICAO, as well as the need for different levels of service at individual airports.

Further, the ACCC notes Airservices' comments that these charges would apply on an interim basis at the affected aerodrome, until either a new pricing agreement is established which fully considers the ongoing costs of these operations,[230] or Airservices sets a lower price.

The ACCC also acknowledges that the proposed price increases will occur whilst Airservices' proposed ARFF capability and uplift program is in progress,[231] as well as ongoing proposed ARFF legislative reforms.[232]

The ACCC expects Airservices to work with industry:

- in a timely manner to ensure interim ARFF charges at airports progressing to an increased service category level are updated to reflect the ongoing costs of providing ARFF services

229 AAA, Issues Paper submission, 31 January 2024, p. 2.

230 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 33.

231 Airservices states that key elements of this program include emergency vehicle fleet replacement, upgraded centralised technology (including fire control centres and integrated monitoring), and training modernisation. See: Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 62.

232 See here for further information: https://consultation.casa.gov.au/regulatory-program/pp-2101as/.

- to understand the implementation of Airservices ARFF capability and uplift program, and
- how Airservices intends to respond to any legislative reforms.

The ACCC's preliminary view is that the basis of charges proposed by Airservices appear to be appropriate.

6.2. Allocation of costs

6.2.1. General cost allocation methodology

Airservices' proposal

Airservices states it has adopted the same broad cost allocation methodology in the development of the amended draft price notification as it applied in previous price notifications.[233]

Airservices' cost allocation model reflects its organisation and accounting cost centre hierarchies, which are structured functionally. Airservices notes that its cost accounting and allocation principles are governed by Australian Accounting Standards Board accounting standards and an internal framework of financial management policies and management instructions.[234]

Airservices states discrete accounting cost centres are used to collect direct costs (staff, supplier, and asset costs) associated with notified and non-notified services under dual-till accounting processes. Airservices states that costs associated with non-notified services and the costs excluded from this draft price notification were separately accounted for to ensure there is no cross-subsidisation between these activities.[235]

Airservices has also provided to the ACCC, on a confidential basis, its service cost allocation model, which details specific cost allocation statistics used.

Stakeholder views

Qantas Group and Virgin Australia were broadly supportive of Airservices' methodology. Both, however, considered that there was insufficient cost allocation information provided by Airservices to comment on specific matters.[236] BARA also noted the complexity in understanding Airservices' cost allocation methodology.[237]

Qantas Group noted a dual-till approach can be problematic in the context of airport authorities, where passengers provided by airlines under one till deliver high margin revenue to airports under a second till. Qantas Group stated that activities covered by the second till for Airservices appear to be generally clearly separable from aviation services provided to airlines, and on this basis supported a dual-till approach for Airservices.[238]

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233 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 55.

234 Airservices response to 18 October 2023 ACCC information request, 15 December 2023, p. 14.

235 Airservices response to 18 October 2023 ACCC information request, 15 December 2023, pp. 14-15.

236 Qantas Group, Issues Paper submission, 31 January 2024, p. 19. Virgin Australia, Issues Paper submission, 31 January 2024, p. 7.

237 BARA, Issues Paper submission, 31 January 2024, p. 6.

238 Qantas Group, Issues Paper submission, 31 January 2024, p. 16.

Qantas Group stated it was unable to comment on the reasonableness of cost allocations between tills without further information on how costs are specifically allocated to the non-notified services.[239]

Virgin Australia noted the dual-till pricing methodology is broadly consistent with the approach adopted by the International Civil Aviation Organisation. Virgin Australia also noted the draft price notification contained insufficient information to assess the specific application of those methodologies.[240]

Virgin Australia considered that changes to the route-mix and the increasing use of larger aircraft with greater capacity at particular airports has not been appropriately reflected in the notification.[241]

ACCC preliminary views

Airservices has largely retained the approach to cost allocation used in its 2011-12 to 2015-16 long-term pricing agreement.[242] The ACCC's preliminary view is that Airservices' approach to cost allocation is reasonable, including its dual-till approach to excluding direct and common costs relating to its non-notified services. The ACCC notes notified services account for 98% of Airservices costs.[243] As such, the ACCC considers there is relatively little risk of cross-subsidisation between its notified and non-notified services.

The ACCC notes that stakeholders did not raise any concerns with Airservices' general cost allocation methodology. The ACCC's preliminary view is that Airservices' overall approach is appropriate based on its cost allocation principles adhering to Australian Accounting Standards Board accounting standards and its own internal accounting frameworks.

6.2.2. Cost allocation across services and locations

Airservices' proposal

Airservices states it uses a 'standard costing' approach to calculate building block costs.[244] Standard costing smooths variation in input costs by location and across time. That is inputs, such as staff and assets, providing the same functionality are costed at the same rate (for example, a single standard salary cost for an air traffic controller across all locations and all years). Airservices states the use of standard costing avoids potential unwanted fluctuations in maximum allowable revenues and prices across comparable services and assets that might otherwise arise due to the different ages and written down values.[245]

Airservices applies an activity-based approach in determining the cost of each service at each location. Airservices considers this methodology provides for location specific pricing, underpinning the principle of 'user pays' and supports efficient resource allocation, particularly around capital investment decision making.

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239 Qantas Group, Issues Paper submission, 31 January 2024, p. 16.

240 Virgin Australia, Issues Paper submission, 31 January 2024, p. 7.

241 Virgin Australia, Issues Paper submission, 31 January 2024, p. 7.

242 Airservices response to 18 October 2023 ACCC information request, 15 December 2023, p. 16.

243 Airservices response to 18 October 2023 ACCC information request, 15 December 2023, p. 15.

244 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 55.

245 Airservices response to ACCC 24 January 2024 information request, 12 February 2024, p. 1.

Airservices states its current pricing structure incorporates elements of network and location specific charges to reduce the risk of distorting efficient investment signals.[246]

Airservices states there is disagreement as to whether terminal navigation and ARFF costs should be recovered on a network basis, or whether location (airport) specific arrangements should be adopted. Airservices states there are proponents for both approaches and Airservices' challenge is to balance the various competing priorities and subsequent industry impacts over time.[247]

Price caps

Airservices' proposed prices also include price caps across all service locations, per Table 17 below.[248] The price caps contribute to terminal navigation and ARFF subsidies between major capital city airports, secondary Metro-D airports and regional locations.[249] These capital city subsidies recognise the joint services and traffic management relationships between these airports.[250]

Table 17: Maximum price increases

Service	Maximum price increase (%)
Enroute	4.5
Terminal navigation	7.5
ARFF*	6.1**

Source: Airservices Australia Revised Draft Price Notification, 13 November 2023, pp. 29-31 & 53.

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

** Airservices indicates a maximum price increase for ARFF services of 6.0%, excluding service upgrade impacts (per page 53 of its November 2023 revised draft price notification). Page 31 of the revised draft price notification indicates this is slightly higher, at 6.1%.

The ACCC notes maximum price increases across all service locations are distinct from the price increases presented in Table 17. Specifically, Table 17 considers the average price increase for a service across all locations, whereas the maximum price increase is the upper bound of the price increases within that service. The average price increase proposed by Airservices for its enroute, terminal navigation and ARFF services are 4.5%, 6.7%, and 8.9% respectively, compared to the proposed price caps for the 3 services at 4.5%, 7.5% and 6%, respectively. While Airservices have generally applied the price cap to individual service locations, the average price change differs from the applicable price cap for 2 reasons:

- Where the application of the maximum price increase leads to cumulative over-recoveries for a service location, the rate of increase has been adjusted to align with service location allowable revenue levels.
- Where the service is new (e.g., an upgraded ARFF service category), the maximum price has been set in line with the highest priced comparative service.[251]

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246 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 37.

247 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 38.

248 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 53.

249 Airservices response to 18 October 2023 ACCC information request – Received 15 December 2023, p. 19.

250 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 39.

251 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 54.

As such, the average price increase for ARFF services is greater than the maximum price increase presented in Table 17. This is because the increase presented in Table 17 excludes the impact of price increases related to ARFF service upgrades (e.g. an upgrade of a service from category 6 to category 7), whereas the average price increase accounts for the service upgrade as a price change.

Stakeholder views

Qantas Group supported Airservices' standard costing approach of using an activity-based model for assessing costs at each location. Qantas Group noted this approach is appropriate for a business such as Airservices as its costs are mostly labour driven. Further, Qantas Group noted activity-based models generally provide an opportunity to assess how high and low maturity drivers have changed over time.[252]

Qantas Group expressed support for the pricing structure across Airservices' enroute navigation, terminal navigation and ARFF services, including the recovery of terminal navigation and ARFF costs on a network basis. Qantas Group noted the approach to allocating the costs of providing services to the aviation industry should reflect an integrated approach to all aspects of the service model and not solely focus on cost recovery on a geographical basis.[253]

Qantas Group, Virgin Australia, AAA, and BARA sought further consultation by, or information from, Airservices regarding the application of its cost allocation methodology to services and locations.[254] This included further detail on:

- activity drivers, to enable benchmarking and analysis of appropriateness
- how changes to the route-mix and use of larger capacity aircraft at particular airports has been reflected in the draft price notification
- allocation factors by location for the capital city subsidies
- merits of the current cost allocation.

Brisbane Airport stated it had sought confirmation from Airservices on how it seeks to structure the costs of its ARFF activities.[255]

Bonza noted the potential for the cost allocation approach to exacerbate airfares to regional Australia, particularly in regions requiring additional infrastructure and resourcing.[256] Similarly, BARA noted that the pricing structures for en route navigation and ARFF services had a disproportionate effect on international carriers.[257]

The AAA stated it recognises the joint-service relationship between capital city major and 'metro' airports, but finds it difficult to draw the conclusion reached from the draft notification on subsidises for capital city 'metro' airport terminal navigation costs. The AAA noted Metro D airports costs will rise by 7.5% in April 2024, similar to almost all airports including major capital city airports in the basins, such as Adelaide, Brisbane, Perth, and Sydney, as well as the majority of regional airports. The AAA recommended that in future

252 Qantas Group, Issues Paper submission, 31 January 2024, p. 16.

253 Qantas Group, Issues Paper submission, 31 January 2024, p. 17.

254 Qantas Group, Issues Paper submission, 31 January 2024, p. 16; Virgin Australia, Issues Paper submission, 31 January 2024, p. 7; BARA, Issues Paper submission, 31 January 2024, p. 6.

255 Brisbane Airport Corporation, Issues Paper submission, 22 January 2024, p. 2.

256 Bonza, Issues Paper submission, 31 January 2024, pp. 1-2.

257 BARA, Issues Paper submission, 9 February 2024, p. 6.

draft price notifications the ACCC request that Airservices better quantify its subsidies to metro airports.[258]

ACCC preliminary views

The ACCC notes there is limited transparency on the derivation of individual allocation statistics provided in Airservices' cost allocation model. However, it appears that Airservices have appropriately applied its cost allocation methodology across services and locations to its financial model approximately in the way it has described.

The ACCC considers that there is a balance between recovery of economically efficient prices and service delivery in regional and remote communities. The ACCC's preliminary view is that Airservices' proposal of maximum price increases is appropriate to support service delivery in regional areas and as traffic management at capital city airports. The ACCC also notes that Airservices is well placed to consider structures that best recover costs and maximise network usage. An approach that simply increases prices directly in response to increases in total costs does not necessarily reflect the commercial judgements required, or the sensitivity of different users to price changes (i.e. price elasticity of demand).

The ACCC's preliminary view is that Airservices' approach to cost allocation across locations and services appears reasonable.

6.2.3. Cost allocation for OneSKY

Airservices notes the sharing and allocation of OneSKY costs between Airservices and the Department of Defence is managed through a formal 'On Supply Agreement.' Airservices notes all current OneSKY related investments included in the amended draft price notification reflect Airservices share of costs only.[259]

The ACCC did not receive submissions from stakeholders on the cost allocation for OneSKY.

The ACCC notes it intends to consider the cost allocation between Airservices and the Department of Defence for the OneSKY program, alongside the prudency and efficiency of the CMATS component of the OneSKY program, as part of the assessment of Airservices' anticipated future price notification (see section 5.3 for further details on OneSKY).

[258] AAA, Issues Paper submission, 31 January 2024, p. 3.

[259] Airservices response to 18 October 2023 ACCC information request, 15 December 2023, p. 16

7. Performance measurement and monitoring

Explicit performance measures and monitoring tools provide transparency and accountability to stakeholders for a firm to meet efficient operating targets.

7.1. Airservices' proposal

Airservices states that consistent with previous pricing arrangements, the current pricing proposal is underpinned by its services performance commitment which will continue to focus on the safety, reliability, and efficiency of its services.[260]

Airservices states that it has established key performance indicators that are reflected in its 2023-24 Corporate Plan. It sets out longer-term performance outcomes, indicators, baselines, as well as targets regarding safety, capacity, efficiency, engagement, the environment, and community for 2023-24 to 2027-28.[261] Table 18 outlines Airservices' performance indicators that are set out in its 2023-24 Corporate Plan. The amended draft price notification did not update these performance indicators but restated the first 4 indicators in Table 18.

Airservices states it will continue to share performance information on its website to ensure transparency in its progress towards delivering the performance outcomes, supported through ongoing operational and commercial meetings with its customers.[262] Airservices reports on its performance metrics in its annual reports and in its monthly network performance reports. It also provides services reports on its website via its Air Traffic Management Network Performance Dashboard.

Airservices states it is planning to establish a quarterly customer engagement forum on service outcomes, investments and financial performance.[263]

Table 18: Airservices performance indicators

Performance outcomes	Key performance indicators	Baseline 2024	Targets (2023-24 to 2027-28)
Zero significant attributable safety occurrences	Significant attributable safety occurrences	0	No significant attributable safety occurrences
100% Planned aerodrome capacity delivered	**Planned capacity delivered as a % of time**		Meet planned capacity greater than 85% of time as traffic grows
	Sydney	78%	
	Melbourne	79%	
	Perth	82%	
	Brisbane	93%	

260 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 34.

261 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 34; Airservices Australia 2023-24 Corporate Plan, p. 21.

262 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 34.

263 Airservices Australia Amended Draft Price Notification, 10 July 2024.

Performance outcomes	Key performance indicators	Baseline 2024	Targets (2023-24 to 2027-28)
	Total	82%	
	Airservices attributable cancelations* Sydney Melbourne Perth Brisbane Total *to be confirmed by an independent audit	 17 0 1 6 24	Monthly average, year-on-year improvement trending towards zero
	Airservices attributable ground delay (hours) Sydney Melbourne Perth Brisbane Total	 70 0 1 38 109	Monthly average, year-on-year improvement trending towards zero
30% reduction to cost to serve	Real price growth (5 year trend)	<0%	Less than 0%
	Return on assets	>-7.0%	Improve our return to match a reasonable rate over time
80% people engagement	People engagement	70%	Improve engagement to be greater than 80% over time
Fostering the drive towards zero harm	Total recordable injury frequency rate	10	Less than 4
	Lost time injury frequency rate	4	0
Net zero emissions by 2050	Net zero emissions by 2050	221,746 tCO2e	Reduce to 217,359 tCO_2e by 2025-26 representing a 10% reduction from 2018-19 levels of 241,510 tCO_2e
	Significant environmental events	0	Zero significant environmental events
Community acceptance of the value aviation	Total annual change in movements, and complainants		Reduce number of complainants relative to movements
	Aircraft noise ombudsman complaints investigations initiated		

Source: Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 34; Airservices Australia 2023-24 Corporate Plan, p. 21; Airservices Australia Amended Draft Price Notification,10 July 2024, p. 5.

7.2. Stakeholder views

The ACCC notes that the submissions received in relation to these issues were provided in response to the ACCC Issues Paper relating to the revised draft price notification. However, the amended draft price notification did not propose any changes to the performance indicators referred to in Table 18.

In response to the Issues Paper, several stakeholders raised issues with Airservices' performance and the need for improvements to operational performance and current monitoring and reporting mechanisms. The AAA, BARA, Canberra Airport, and Virgin Australia, all noted concerns regarding reduced service performance due to staffing issues.[264]

A4ANZ's submission raised issues with Airservices' performance causing operational disruption and expense to airlines. A4ANZ also states that airlines have raised issues without satisfactory or timely responses, including the incidence of Traffic Information Broadcast by Aircraft (TIBA)[265] being "far outside" an acceptable range. A4ANZ noted the lack of a link between price increases and KPIs.[266]

BARA commented that Airservices operational performance is below industry standard.[267] BARA considered that while Airservices stakeholder engagement is improving several outstanding issues remain, including the incidence of TIBA beyond acceptable levels.[268]

Qantas Group noted Airservices' performance stabilised following introduction of Airservices' Performance and Customer Experience (PACE) Program in April 2023, but that performance has plummeted since November 2023. Qantas Group notes that the inconsistency of service is demonstrated by the sustained increase in TIBA events, with 247 TIBA events impacting 1,599 Qantas flights.[269] Further, it considered performance targets and criteria are not sufficient to drive meaningful change or improved efficiencies.[270]

Qantas Group encourages Airservices to undertake further consultation on the performance metrics with industry to outline root cause analysis of performance issues and develop solutions to develop appropriate efficiency benchmarking targets for all capital programs.[271] Qantas Group submitted that it fails to see the relevance of international benchmarking data, as Airservices has not varied its service offerings, post COVID-19 recovery and business structures, and costs are not benchmarked by efficiency and level of service provided.[272]

Virgin Australia submitted that the mechanisms for measuring and monitoring performance are not appropriate. It states that Airservices should also be subject to monitoring by the

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264 AAA, Issues Paper submission, 31 January 2024, p. 1; BARA, Issues Paper submission, 2 February 2024, p. 6; Canberra Airport, Issues Paper submission, 29 January 2024, p. 2; Virgin Australia, Issues Paper submission, 31 January 2024, p. 8.

265 Traffic Information Broadcast by Aircraft (TIBA) procedures are enacted as the internationally recognised procedure for pilots to maintain situational awareness when a published air traffic control (ATC) service is temporarily not available. Source: Airservices, *Procedures during variations to published ATS in Australian airspace*, accessed 22 August 2024 via: https://www.airservicesaustralia.com/wp-content/uploads/Variation-to-published-services-airspace_fact-sheet.pdf.

266 A4ANZ, Issues Paper submission, 31 January 2024, p. 3.

267 BARA, Issues Paper submission, 31 January 2024, p. 2.

268 BARA, Issues Paper submission, 31 January 2024, p. 7.

269 Qantas Group, Issues Paper submission, 31 January 2024, p. 3.

270 Qantas Group, Issues Paper submission, 31 January 2024, p. 17.

271 Qantas Group, Issues Paper submission, 31 January 2024, p. 18.

272 Qantas Group, Issues Paper submission, 31 January 2024, p. 20.

ACCC to ensure adequate transparency of its operations and to support the development of more appropriate benchmarking and incentive mechanisms.[273] Virgin Australia also noted there has been over 450 activations of TIBA since January 2022.[274]

The AAA recommended the ACCC:

- ensure an expanded reporting framework is embedded and reported on as a condition of approval of the Draft Proposal
- regularly monitor Airservices performance against quality-of-service metrics.[275]

The AAA submitted that increased fees should be linked to Airservices' operational performance. [276]

IATA recommended Airservices provide specific outcomes or agreed KPIs, linked to operational performance, efficiency, and charges.[277]

7.3. ACCC preliminary views

The ACCC acknowledges stakeholders' views on Airservices' decline in operational performance and dissatisfaction with performance monitoring. The ACCC notes Airservices' stated commitment to improving service performance and that it has been transparent in taking steps such as increasing staffing levels. As discussed in Chapter 5, Airservices' staff costs are projected to increase over the course of its amended draft price notification from its current 2023-24 levels at $678 million, to $798 million by 2025-26.

The ACCC considers transparency and accountability are important aspects to drive internal efficiency and performance.

Airservices has published key performance indicators and measures to drive internal efficiency, including budget processes to drive cost savings. This transparency provides a level of incentive to drive efficiency. However, given stakeholder feedback, the ACCC considers Airservices should improve the transparency and accountability of its performance monitoring. Airservices proposed quarterly customer engagement forum could address many issues raised by stakeholders and enable transparency and accountability around service outcomes. The ACCC's preliminary views on stakeholder consultation are discussed further in Chapter 8. The ACCC would encourage Airservices to continue to share performance information with customers via its monthly network performance reports and Air Traffic Management Network Performance Dashboard. This assists customers in understanding causes of flight delays and cancellations attributable to Airservices and increases transparency and accountability.

The ACCC notes that Airservices has not set out what its response will be if it does not meet its performance targets. Many stakeholders expressed concerns around Airservices' level of performance, and issues in relation to monitoring and reporting. Several stakeholders considered there was no link between KPIs and the efficiency or productivity of Airservices' operations.

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273 Virgin Australia, Issues Paper submission, 31 January 2024, pp. 8-9.

274 Virgin Australia, Issues Paper submission, 31 January 2024, p. 8.

275 AAA, Issues Paper submission, 31 January 2024, pp. 3-4.

276 AAA, Issues Paper submission, 31 January 2024, p. 2.

277 IATA, Issues Paper submission, 1 February 2024, p. 2.

The ACCC considers that Airservices' KPIs should be measurable and accompanied by a set of clear guidelines that outline Airservices' response if it does not meet the performance targets. A response could include any financial consequences for Airservices not meeting an agreed number of KPIs within a period. On the information available to the ACCC, it is unclear how the metrics and responses contained in Airservices' performance reports are linked to Airservices' performance indicators. For example, in its Airservices Australian Aviation Network Overview Financial Year 2024,[278] Airservices reports that in June 2024, ground delay minutes attributable to Airservices were 82% lower than the start of the financial year. It is unclear how this links to its performance metrics other than "year-on-year improvement." It also notes variable performance outcomes in December 2023 and May 2024 and a "continued focus on strengthening capacity planning and limiting tactical traffic management measures to protect network reliability".[279] The ACCC considers that this does not provide a measurable response in relation to how it addresses poor performance and proposes to meet its performance indicators. The ACCC encourages Airservices to consider measurable mechanisms for its future price notifications.

Airservices has set each of its performance targets using a baseline of 2023-24's performance. The ACCC considers that internal benchmarking can be a useful instrument for comparing and evaluating performance, costs, expenditures, prices, capacity and activity over time, and provide an incentive for driving internal efficiency and performance. However, the ACCC's preliminary view is that the use of 2023-24 may not be an appropriate baseline or benchmark for driving overall operational efficiency. It appears that 2023-24 was a year of particularly poor performance and may not be an appropriate measure to drive overall improved performance in the longer term. Similarly, the ACCC considers that observing longer run patterns will be relevant to the ACCC's assessment of future price notifications, in particular in relation to larger capital investments. The ACCC would encourage Airservices to consider more appropriate internal benchmarking ahead of future price notifications.

In respect of external benchmarking, the ACCC's preliminary view is that it may be a useful tool as any large or obvious differences in Airservices' results compared to other similar air navigation service providers may highlight potential areas of concern. Benchmarking in relation to staffing costs is discussed in Chapter 5. The ACCC notes that the Civil Air Navigation Services Organisation, a global air traffic management industry association, uses total cost per IFR flight hours (USD) to indicate performance on cost efficiency. The Global Air Navigation Services Performance Report 2017-2021 notes that on cost efficiency, in 2021 Airservices Australia had a relatively low total cost per IFR flight hours compared to a group of 6 other air navigation service providers.[280] The ACCC notes this benchmarking can be useful if benchmarked firms' operations are comparable and conducted over an appropriate time-period. Given the current benchmarked data in this report was considered over COVID-19, the ACCC expects future benchmarking studies to provide a greater indication of Airservices efficiency.

The ACCC encourages Airservices to further consider the use of internal and external efficiency benchmarking and targets and to make this information available to stakeholders.

The AAA and Virgin Australia sought external monitoring of Airservices' performance and suggested the ACCC have a role in this monitoring. The ACCC notes that it does not currently have a role in relation to monitoring Airservices' performance. However, we would

278 Australian Aviation Network Overview Financial Year 2024, June 2024, p. 19. https://www.airservicesaustralia.com/wp-content/uploads/2024/07/Australian-Aviation-Network-Overview-Financial-Year-2024-1.pdf accessed 30 July 2024.

279 Australian Aviation Network Overview Financial Year 2024, June 2024, p. 19. https://www.airservicesaustralia.com/wp-content/uploads/2024/07/Australian-Aviation-Network-Overview-Financial-Year-2024-1.pdf accessed 30 July 2024.

280 Global Air Navigation Services Performance Report 2017-2021, p. 85.

expect Airservices to keep customers informed and to collaborate with customers on improving its service performance.

The ACCC considers the measures Airservices has in place to monitor and drive improved performance are reasonable. However, the ACCC considers that there is still scope for Airservices to improve its level of transparency and accountability in relation to its performance. This is further discussed in Chapter 8 – Stakeholder consultation. The ACCC would strongly encourage Airservices to make these improvements for future notifications.

8. Stakeholder consultation

Airservices' stakeholder consultation model is a significant consideration in the ACCC's assessment of the amended draft price notification. The ACCC considers that Airservices' stakeholders are in a strong position to provide guidance on if Airservices' proposed capital expenditure is prudent and efficient. Accordingly, it is important for the ACCC to understand the extent to which Airservices has consulted on its draft price notification with its stakeholders. The ACCC also considers it is important to understand whether Airservices has in place formal processes for ongoing consultation with its stakeholders, as this provides ongoing transparency and accountability for its performance.

8.1. Stakeholder consultation on the pricing proposal

Airservices stated it consulted with industry on a "FY2024-FY2026 Draft Pricing Proposal" to inform the development of the draft price notification. Airservices conducted consultation over a 3-month period, including through multi- and bi-lateral industry meetings.[281]

Following this consultation, Airservices made several revisions to its proposal including revised activity growth forecasts, updated expenditure and investment forecasts, and updated WACC estimates.[282] Stakeholders had an opportunity to submit views in response to the ACCC issues paper which discussed the revised draft price notification.

In the amended draft price notification provided in July 2024, Airservices updated its traffic forecasts and expenditure in response to feedback from stakeholders and the ACCC. At the time of providing this to the ACCC, Airservices had not consulted with stakeholders on the updated information. However, the ACCC understands that since providing the amended draft price notification to the ACCC, Airservices has written to its customers and spoken with several customers.

Airservices has proposed to engage in further consultation with industry over future price increases beyond the initial 6% in its amended draft price notification.[283]

8.2. Stakeholder consultation on pricing and commercial matters

Airservices stated that prior to the COVID-19 pandemic, it consulted regularly with customers and industry associations on pricing and other commercial matters, via the Pricing Consultative Committee (PCC).[284] PCC meetings ceased through the pandemic, with industry restructuring impacting engagement and much of the dialogue at the time focusing on priority issues of liquidity and the administration of the Governments' COVID-19 assistance package. Airservices has discussed future commercial engagement models with its customers – the model to be implemented is still to be finalised.[285]

281 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 28.

282 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 28.

283 Airservices Australia Amended Draft Price Notification, 10 July 2024, p. 4.

284 The PCC is comprised of representatives from major domestic and regional carriers, international airlines and associations, and general aviation operators; Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 58.

285 Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 58.

Airservices has provided an outline of its PCC meetings and associated agenda items between March 2015 and April 2020.[286] The agenda items listed contain frequent CMATS and OneSKY matters, and business cases for upcoming developments, among other subjects for discussion.

Airservices states that it will continue to publish performance information on its website. Additionally, it states it is planning to establish regular engagement channels with its customers on commercial matters, linking together service outcomes, capital investments and financial performance. Airservices is working to introduce:

- Quarterly bilateral meetings with its major customers, which will focus on service performance, and strategic issues around prioritisation and benefits realisation from its ongoing investments. Airservices intends to begin these meetings later this year.
- Six-monthly industry-wide Price Consultation Forum, on the development of parameters for future long term pricing agreements. This is expected to commence by February 2025.[287]

Airservices states its major customers are supportive of these 2 forums.[288] The ACCC also understands that Airservices has recently commenced meeting with customers to discuss aspects of its performance.

8.3. Stakeholder views

Stakeholder submissions were provided based on the revised draft price notification.

The ACCC encourages stakeholder to provide further views on the level of improvement and effectiveness of Airservices' consultation processes.

In response to the Issues Paper, A4ANZ noted that Airservices has taken steps to improve engagement with industry, such as Aviation Network Roundtables. However, the consultative committee has not resumed.[289]

Brisbane Airport submitted that it would encourage greater transparency and accountability from Airservices in planning, managing and delivering programs on time, and to allocated budgets.[290] In relation to the proposal for the Capability Uplift Program for ARFF services, Brisbane Airport stated that the proposed changes are not clear in the Pricing Proposal, and therefore continue to present commercial and operational risks to the sector. [291]

Canberra Airport recommended greater transparency or stakeholder consultation regarding ARFF charges.[292] Canberra Airport stated it acknowledged Airservices undertook considerable consultation on this draft price notification. However, it also stated Airservices should engage in broader airport stakeholder consultation for future notifications, noting it was not contacted by Airservices despite the potential for ARFF charges to increase exponentially at Canberra.[293]

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286 Airservices Australia Revised Draft Price Notification, 13 November 2023, pp. 58-60.

287 Airservices response to ACCC 18 July 2024 information request, 9 August 2024, pp. 6-7.

288 Airservices response to ACCC 18 July 2024 information request, 9 August 2024, p. 7.

289 A4ANZ, Issues Paper submission, 31 January 2024, p. 3.

290 Brisbane Airport, Issues Paper submission, 22 January 2024, p. 1.

291 Brisbane Airport, Issues Paper submission, 22 January 2024, p. 2.

292 Canberra Airport, Issues Paper submission, 29 January 2024, p. 5.

293 Canberra Airport, Issues Paper submission, 29 January 2024, p. 6.

Australia Pacific Airports Melbourne stated that during engagement of Airservices draft pricing proposal, Airservices discussed its intention to bring 'major' airports into its customer cohort. Australia Pacific Airports Melbourne strongly supported this initiative and encourages Airservices to explicitly detail this commitment in its official strategies.[294]

Virgin Australia commented that Airservices' consultation with Virgin Australia has been protracted and ineffective.[295] Virgin Australia commented that Airservices' consultation with Virgin Australia on capex has lacked transparency as to the efficient management of projects. Virgin Australia cited a number of examples, including Airservices not engaging in detailed communication with Virgin Australia regarding the 2-year delay to realising the benefits of OneSKY.[296]

BARA commented that Airservices is working to improve industry engagement, though given significant upcoming investments, such as OneSKY, more open and extensive consultation is required. BARA states industry engagement to date has involved more information sharing and advising, rather than collaborating.[297]

Qantas Group commented that it does not consider sufficient detail has been provided as part of Airservices' consultation processes, in relation to capex program costings and benefits realisations. [298]

8.4. ACCC preliminary views

The ACCC considers that transparency and consultation on proposed price increases are important for an effective price notification assessment process, and it supports Airservices' development of constructive relationships with customers. Transparency with customers on commercial and pricing matters can ensure that Airservices is held accountable to deliver projects on time and within budget, allows stakeholders to comment on expenditure and efficiency and provides appropriate incentives to drive performance.

The ACCC expects Airservices to have formal mechanisms for consultation with stakeholders that provide ongoing transparency and accountability. The ACCC is not satisfied that the level of customer consultation, that has occurred from 2021 to the date of the amended draft price notification, has provided appropriate transparency and accountability.

The ACCC observes that Airservices has historically consulted with its customers and other stakeholders, for example through its PCC between 2015 and 2020. Submissions to the ACCC's Issues Paper indicate that Airservices' stakeholder consultation has declined in recent years, notably with the ending of the PCC during the COVID-19 pandemic. Stakeholders commented on the lack of transparency and sought improved consultation and collaboration, in particular on upcoming capital expenditure.

In August 2023, Airservices commenced publishing its monthly Australian Aviation Network Overviews, a monthly publication that reports on several metrics including delays attributable to Airservices. The ACCC welcomes Airservices' initiative in publishing this information. The ACCC encourages Airservices to continue making this information available to stakeholders and considers that there is further scope to improve consultation

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294 Australia Pacific Airports Melbourne, Issues Paper submission, 2 February 2024, p. 2.

295 Virgin Australia, Issues Paper submission, 31 January 2024.

296 Virgin Australia, Issues Paper submission, 31 January 2024, p. 6.

297 BARA, Issues Paper submission, 2 February 2024.

298 Qantas Group, Issues Paper submission 31 January 2024, p. 20.

on these performance metrics, as discussed in Chapter 7. The ACCC encourages Airservices to continue to share performance information and consult with customers on an ongoing basis.

Airservices states it is establishing a quarterly customer engagement forum (to discuss performance and investment matters), as well as a 6-monthly industry-wide forum (to discuss the development of future long-term pricing agreements).[299] The ACCC also understands that Airservices has recently commenced meetings with stakeholders on aspects of its performance. The ACCC welcomes these developments and considers that appropriate forums improve transparency and accountability to stakeholders. The ACCC would encourage stakeholders to provide views on the development of this engagement plan (including the appropriateness of the frequency of these meetings), as well as the effectiveness of Airservices' forums or meetings with stakeholders.

The ACCC notes stakeholder concerns regarding consultation on operating and capital expenditure projects, including the timeliness and level of information provided in stakeholder consultation processes (see Chapter 5). The ACCC also notes stakeholder comments around transparency regarding the interim ARFF charges and uncertainty around legislative reforms. As per Chapter 5, the ACCC expects Airservices to engage with industry to ensure that customers are fully informed of any pricing impacts, including the interim ARFF charges.

The ACCC's preliminary view is that the consultation mechanisms Airservices proposes to establish appear reasonable. The ACCC considers that Airservices' consultation with stakeholders appears to be improving, with monthly network overviews and 2 regular engagement channels expected to commence shortly. For these channels to be effective, the ACCC expects they include an opportunity for customers to provide feedback on whether Airservices' proposed expenditure is prudent and efficient, as well as provide scrutiny over performance metrics. The ACCC recommends Airservices consider and respond to customer feedback in a timely manner.

Further, the ACCC considers that the extent to which Airservices improves its consultation with stakeholders on future capital expenditure projects will be relevant to the ACCC's assessment of future price notifications. Transparency and accountability will be relevant considerations when the ACCC assesses the efficiency of the provision of services. The ACCC expects that users would be provided with greater opportunities to comment on the prudency and efficiency of expenditure, prior to Airservices seeking to recover that expenditure. Similarly, this opportunity for stakeholders to provide informed submissions about proposed investments will assist the ACCC in engaging with the relevant issues and examining the prudency and efficiency of the projects.

[299] Airservices response to ACCC 18 July 2024 information request, 9 August 2024, pp. 6-7.

9. ACCC recommendations for future price notifications

While assessing Airservices' draft price notification, we have identified several areas for improvement relating to the information and processes relied upon by Airservices. Below are our recommendations to support any future price notification processes.

9.1. More robust stakeholder engagement

As noted throughout this paper, stakeholders have reiterated that Airservices need to engage in more robust and ongoing consultation processes.

Stakeholders said that they were unable to provide meaningful comments on Airservices' operating and capital expenditure, given the timeliness, lack of information, transparency, and consultation of the proposed costs.

The ACCC understands that Airservices previously held Pricing Consultative Committee (PCC) meetings with stakeholders to discuss its investment program and financial outcomes, prior to COVID-19.

In this respect, the ACCC welcomes Airservices plan to establish a quarterly and bi-annual customer engagement model (to discuss performance and investment matters, and the development of future long-term pricing plans respectively). If conducted effectively, this will enable stakeholder input into pricing and operational matters, as well as ensuring stakeholders are informed about timing for the delivery of projects and any cost overruns. This will be particularly important for the assessment of the efficiency and prudency of the OneSKY program. The ACCC recommends that Airservices consider feedback in a timely manner and ensure the engagement models are continually refined in response to stakeholders needs.

Further, the ACCC would encourage Airservices to share more detailed information in relation to its pricing models with stakeholders prior to submitting future price notifications to the ACCC. The ACCC considers this would provide stakeholders greater scrutiny and oversight on pricing matters. The ACCC considers that the more issues that can be resolved with stakeholders prior to it receiving a future price notification, the timelier and more efficient its assessment process is likely to be.

9.2. More robust and transparent key performance indicators

As set out in Chapter 7, Airservices reports on its performance metrics in its annual reports and in its monthly network performance reports, and provides services reports on its website via its Air Traffic Management Network Performance Dashboard.

The ACCC recommends Airservices continues to share performance information with stakeholders and consult with stakeholders about its proposed metrics on an ongoing basis.

The ACCC recommends that Airservices sets an appropriate baseline to benchmark its performance. The ACCC considers that using 2023-24 as the proposed baseline may not be appropriate given the diminished service quality provided by Airservices during that financial year. Further, the ACCC recommends Airservices provide clear guidelines that outline Airservices’ response if it does not meet its performance metrics.

Appendices

Appendix A: Airservices Australia's current and proposed prices and price structure

A.1. Enroute services

The charging formula for enroute services is, with the price listed as per Table 19:

- for IFR aircraft with an MTOW of 20 tonnes or more:

$$price \times \frac{distance}{100} \times \sqrt{MTOW}$$

- for IFR aircraft with an MTOW of up to 20 tonnes:

$$price \times \frac{distance}{100} \times \mathrm{MTOW}$$

Table 19: Airservices proposed enroute charging rates ($/tonne)

Enroute service	Current price	Proposed price
20 tonnes or more	$3.87	$4.04
Up to 20 tonnes	$0.86	$0.90

Source: Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 29.

A.2. Terminal navigation services

The charging formula for all aircraft is: $price_{location} \times MTOW$. With the price listed as per Table 20.

Table 20: Airservices proposed terminal navigation charging rates ($/tonne)

Location	Current price	Proposed price
Adelaide	$11.89	$12.78
Albury	$15.22	$16.36
Alice Springs	$15.22	$16.36
Archerfield	$15.22	$16.36
Avalon	$5.39	$5.79
Bankstown	$15.22	$16.36
Brisbane	$6.18	$6.64
Broome	$15.22	$16.36
Cairns	$12.20	$13.12

Location	Current price	Proposed price
Camden	$15.22	$16.36
Canberra	$11.68	$12.56
Coffs Harbour	$15.22	$16.36
Darwin	$1.75	$1.86
Essendon	$15.22	$16.36
Gold Coast	$8.50	$9.14
Hamilton Island	$11.03	$10.37
Hobart	$9.68	$9.10
Jandakot	$15.22	$16.36
Karratha	$14.71	$14.71
Launceston	$14.65	$13.77
Mackay	$11.95	$12.85
Melbourne	$5.52	$5.85
Moorabbin	$15.22	$16.36
Parafield	$15.22	$16.36
Perth	$7.56	$8.13
Port Hedland	$0.00	$6.85
Rockhampton	$13.47	$14.48
Sunshine Coast	$14.21	$13.36
Sydney	$5.62	$6.04
Tamworth	$15.22	$16.36
Townsville	$2.27	$2.41

Source: Airservices Australia Revised Draft Price Notification, 13 November 2023, p. 30.

A.3. ARFF charges

The ARFF charging formula for all aircraft greater than 15.1 tonnes and target aircraft between 5.7 and 15.1 tonnes is: $price_{Category\ Location} \times MTOW$.

The category and location prices are listed in Table 21 below. Where a service is upgraded to a new higher category, an interim price will apply to that higher category. The interim price for a new category 7 service is $13.64/tonne; for category 8 and above it is $23.06/tonne.

For ARFF and TN services Airservices proposes increases to its out of hours charges where services are required before services commence or after services close, based on operational service times contained in ERSA or NOTAMs. Details of these charges are available on page 32 of Airservices revised draft price notification.

Table 21: ARFF current, proposed and 'interim' prices ($/tonne)

	Current price	Proposed price	Interim price
Category 6 Aircraft and below			
All locations	$2.32	$2.46	
Category 7 Aircraft			$13.64
Adelaide	$3.26	$3.46	
Brisbane	$2.57	$2.72	
Cairns	$3.69	$3.91	
Canberra	$9.08	$7.72	
Darwin	$5.46	$5.79	
Gold Coast	$3.79	$4.02	
Hamilton Island	n/a	$13.64	
Hobart	$10.00	$8.50	
Launceston	n/a	$13.64	
Mackay	n/a	$13.64	
Melbourne	$2.52	$2.67	
Perth	$2.81	$2.98	
Sunshine Coast	n/a	$7.48	
Sydney	$2.48	$2.63	
Townsville	$13.64	$13.64	
Category 8 Aircraft			$23.06
Adelaide	$5.27	$5.59	
Brisbane	$3.41	$3.61	
Cairns	$7.67	$8.13	
Canberra	n/a	$23.06	
Darwin	$21.75	$23.06	
Gold Coast	$6.46	$6.85	
Melbourne	$3.01	$3.19	
Perth	$4.85	$5.14	
Sydney	$2.64	$2.80	
Category 9 and 10 Aircraft			$23.06
Adelaide	n/a	$8.87	
Brisbane	$6.09	$6.46	

	Current price	Proposed price	Interim price
Melbourne	$4.99	$5.09	
Perth	$8.37	$8.87	
Sydney	$3.67	$3.89	

Source: Airservices Australia Revised Draft Price Notification, 13 November 2023, pp. 31-33.

Appendix B: Glossary of terms

Term	Meaning
AAA	Australian Airports Association
A4ANZ	Airlines for Australia and New Zealand
ARFF	Aviation rescue and fire fighting
BARA	Board of Airline Representatives of Australia Inc
Basin	When a general aviation airport is located near a larger airport, the general aviation airport is said to be in the basin of the larger airport (for example Avalon airport is in the basin of Melbourne airport).
BBM	Building Block Model
capex	Capital expenditure
CASA	Civil Aviation Safety Authority
CCA	*Competition and Consumer Act 2010*
CEPA	Cambridge Economic Policy Associates
ENMP	Enterprise Network Modernisation Program.
IATA	International Air Transport Association
ICAO	International Civil Aviation Organisation
IFR	Instrument flight rules. Instrument flights rules set out the rules and procedures for the operation of an aircraft when flights are conducted under instrument meteorological conditions i.e. not under visual meteorological conditions.[300]
MTOW	Maximum take-off weight
NPV	Net present value
PCC	Pricing Consultative Committee[301]
Qantas Group	Qantas Domestic, QantasLink and Jetstar Domestic airlines.
RAB	Regulated Asset Base
TFI	Tourism Futures International
TIBA	Traffic Information Broadcast by Aircraft. These are the internationally recognised procedure for pilots to maintain situational awareness when a published air traffic control service is temporarily not available.[302]
Vanilla WACC	The weighted average of the post-tax return on equity and the pre-tax cost of debt

300 CASR General Operating and Flight Rules Plain English Guide, February 2024. See: https://www.casa.gov.au/sites/default/files/2021-08/plain-english-guide-part-91-new-flight-operations-regulations-interactive-version.pdf.

301 The PCC was a committee established by Airservices comprised of representatives from major domestic and regional carriers, international airlines and associations, and general aviation operators. PCC meetings ceased at the onset of COVID-19.

302 Source: Airservices, *Procedures during variations to published ATS in Australian airspace*, accessed 22 August 2024 via: https://www.airservicesaustralia.com/wp-content/uploads/Variation-to-published-services-airspace_fact-sheet.pdf.

Term	Meaning
Virgin Australia	Virgin Australia domestic passenger airlines that include Virgin Australia and Virgin Australia Regional Airlines (VARA). Virgin Australia also operated Tigerair until March 2020.
WACC	Weighted average cost of capital
WSIA	Western Sydney International Airport