



Australian
Competition &
Consumer
Commission

Airservices Australia price notification

ACCC decision

June 2012



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ACCC	Australian Competition and Consumer Commission
Airservices	Airservices Australia
ARFF	aviation rescue and fire-fighting
ATM	air traffic management
CCA	<i>Competition and Consumer Act 2010 (Cth)</i>
en route	en route navigation
KPI	key performance indicator
LTPA	long-term pricing agreement
MTOW	maximum take-off weight
TN	terminal navigation
PCC	Pricing Consultative Committee
WACC	weighted average cost of capital

ACCC's decision

The Australian Competition and Consumer Commission (ACCC) has decided to **not object** to proposed price increases by Airservices Australia (Airservices) for its terminal navigation (TN) and aviation rescue and fire-fighting (ARFF) services. Charges for en route navigation (en route) services are proposed to decrease. The new charges are proposed to take effect from 1 July 2012.

This decision responds to a price notification submitted to the ACCC on 8 June 2012 by Airservices pursuant to subsection 95Z(5) of the *Competition and Consumer Act 2010* (CCA). The details of Airservices' proposed prices are set out in its price notification and are reproduced in Appendix A of this decision document.

1 Executive summary

In 2011, Airservices submitted for the ACCC's consideration a long-term pricing agreement (LTPA) that outlined a path of prices for TN, en route and ARFF services for a five-year period (from 2011 to 2016). The ACCC undertook a detailed assessment of Airservices' LTPA and released a decision to not object to the proposed prices in September 2011.

In reaching its decision, the ACCC noted the importance of commitments made by Airservices to improve its consultation with stakeholders on capital expenditure and improve its internal drivers of efficiency. These initiatives were to be implemented through Airservices' Pricing Consultative Committee (PCC), which includes representatives from Airservices and industry (such as airlines and airline representative bodies). The ACCC's view was that the implementation of these initiatives would help to ensure that Airservices continues to invest prudently and efficiently manage its costs.

The ACCC's decision on Airservices' LTPA was formally made only in respect of the first year of Airservices' LTPA. Airservices is legally required to submit a price notification before increasing prices for each of the subsequent years of the LTPA. In its decision on the LTPA, the ACCC noted that Airservices' progress on its LTPA commitments would be an important consideration by the ACCC in reaching its formal decision on these subsequent price notifications.

The current price notification submitted by Airservices is the first of these subsequent annual price notifications and relates to price increases that are to take effect from 1 July 2012. Airservices has proposed price increases that are the same as those proposed in its LTPA, and would put into effect the second year of Airservices' LTPA. In summary:

- TN charges are proposed to increase by between 0.2 per cent and 3.5 per cent at 24 airports, and will decrease by between 1.0 per cent and 5.1 per cent at six airports.
- ARFF charges are proposed to increase by between 2.4 and 10.4 per cent (depending on location and aircraft category) at 21 airports.¹
- En route charges will decrease by between 0.7 per cent and 1.1 per cent.

In support of its price notification, Airservices has outlined the progress it had made in respect of its LTPA commitments. The ACCC has consulted with members of Airservices' PCC to test the extent to which this progress has been made. In general, the PCC members noted a range of noticeable and positive improvements in the level, timeliness and quality of Airservices' consultation on capital expenditure projects. Although the PCC members noted that further development and improvements are needed, they recognised that it would take time to find the right balance of

¹ At two of these airports, one category of ARFF charges will decrease. Category 7 ARFF charges will decrease by 1.0 per cent at Gold Coast Airport and category 8 ARFF charges will decrease by 11.1 per cent at Adelaide Airport.

information and consultation and that Airservices was taking steps in the right direction.

The ACCC has observed that Airservices has taken some significant steps in the implementation of its LTPA commitments, which is important to ensuring that Airservices invests prudently and operates efficiently. The ACCC is therefore satisfied that Airservices has made sufficient progress against its LTPA commitments in the first period of its LTPA, and that the prices proposed by Airservices reflect an efficient cost base and promote an efficient provision and use of services. For these reasons, the ACCC does not object to the price increases proposed by Airservices in its current price notification.

The ACCC does, however, note that Airservices' ongoing implementation of its LTPA commitments will become increasingly important for its future proposals, particularly as higher value and more complex capital projects are expected to commence in the later years of the LTPA.

2 Airservices' long-term pricing agreement

In 2011, the ACCC undertook a detailed assessment of a LTPA submitted by Airservices that covered prices for TN, ARFF and en route services for five years. The assessment involved a significant degree of public consultation and an analysis of Airservices' prices, costs and profits. During the assessment process some commitments were made by Airservices that went towards enhancing economic efficiency.

A summary of the process of assessment and key parts of the proposal are explained below. The full details of the ACCC's assessment of Airservices' LTPA are available on the ACCC's website.²

Draft price notification

In March 2011, Airservices provided the ACCC with a draft price notification as part of the ACCC's informal pre-lodgement process for assessing price notifications under Part VIIA of the CCA.³ The 2011 draft price notification proposed increases to TN and ARFF charges over a five year period. Charges for en route were proposed to remain unchanged.

The ACCC consulted on the 2011 draft price notification, which involved the release of an ACCC issues paper seeking submissions from interested parties.

In July 2011, the ACCC released its view on Airservices' 2011 draft price notification. This view was to object to Airservices' proposed price increases. The ACCC was concerned that Airservices had not undertaken adequate consultation to ensure that its proposed capital expenditure program was prudent and efficient. Further, the ACCC considered that there was scope for Airservices to improve its drivers of efficiency through internal benchmarking and explicit efficiency targets. The ACCC also had concerns about the methodology applied by Airservices in estimating its nominal risk-free rate and cost of debt margin, which the ACCC considered had resulted in a rate of return on capital (WACC) that was too high.

The ACCC indicated that if Airservices could address the ACCC's three main concerns prior to submitting its formal price notification, then the ACCC would be minded to not object to the proposed price increases.

Formal price notification of August 2011

Airservices provided the ACCC with a formal price notification on 22 August 2011. Airservices stated that it had responded to the concerns raised by the ACCC in its view on Airservices' 2011 draft price notification by:

² www.accc.gov.au/aviation > Airservices Australia > Price notifications > Long-term price notification 2011

³ For more information on the ACCC's informal pre-lodgement process, see Appendix C.

- developing a range of measures to improve its consultation on capital expenditure with industry, through project development and ongoing project monitoring phases
- incorporating new cost efficiency performance indicators in its Service Charter
- revising its WACC

For more detail on the commitments made by Airservices, see section 5 of this decision document.

On 8 September 2011, the ACCC released its decision to object to Airservices' proposed price increases for TN and AFFF services. The ACCC considered that the methodology applied by Airservices in estimating its WACC still resulted in a WACC that was too high, despite Airservices' downward adjustment following the ACCC's preliminary view.

The ACCC was satisfied, however, that Airservices had taken steps to address the ACCC's concern that Airservices needed to improve its consultation with stakeholders on capital expenditure and improve its drivers of efficiency.

Formal price notification of September 2011

On 9 September 2011, Airservices provided the ACCC with another formal price notification proposing increased charges for TN and ARFF services from 1 October 2011. En route charges were proposed to decrease.

Airservices' price notification of September 2011 proposed a set of prices that would recover costs based on a methodology that was consistent with that used in its previous LTPA. As a result, the notification incorporated a WACC lower than that in Airservices' price notification of August 2011.

The ACCC released its decision to not object to this price notification on 22 September 2011. The ACCC noted that Airservices would be required to submit annual locality notices to the ACCC, corresponding to price increases for each year covered by the LTPA.

The ACCC's process of assessment is explained in further detail in section 4.

3 Airservices' 2012 price notification

Airservices submitted a price notification to the ACCC on 8 June 2012 proposing price increases for TN and ARFF services. Charges for en route services are proposed to decrease. The prices are the same as those proposed in Airservices' LTPA that was assessed by the ACCC in 2011. In summary:

- TN charges are proposed to increase by between 0.2 per cent and 3.5 per cent at 24 airports, and will decrease by between 1.0 per cent and 5.1 per cent at six airports.
- ARFF charges are proposed to increase by between 2.4 and 10.4 per cent (depending on location and aircraft category) at 21 airports.⁴
- En route charges will decrease by between 0.7 per cent and 1.1 per cent.

A full schedule of the notified prices is available at Attachment A.

In support of its 2012 price notification, Airservices has provided the ACCC with an update of its progress against commitments made as part of the LTPA in 2011. These are outlined in Attachment 3 of Airservices' draft price notification and relate to improvements made by Airservices' to its consultation with industry on capital expenditure as well as internal drivers of efficiency. Airservices also provided a copy of its Services Charter for 2011-12 and its Quarterly Progress Report for December 2011, which further outline Airservices' progress against some of these commitments.

On a confidential basis, Airservices provided the ACCC with examples of project business case information that has been presented to the members of the PCC and examples of the PCC members' response to this information to demonstrate its consultation processes. Airservices' 2012 capital expenditure program quarterly reports provided to PCC members were also submitted to the ACCC on a confidential basis. In addition, Airservices confidentially provided the ACCC with the minutes of recent PCC meetings held in August 2011, November 2011 and February 2012.

⁴ At two of these airports, one category of ARFF charges will decrease. Category 7 ARFF charges will decrease by 1.0 per cent at Gold Coast Airport and category 8 ARFF charges will decrease by 11.1 per cent at Adelaide Airport.

4 ACCC's assessment process

The provision of TN, en route and ARFF services by Airservices are declared services under section 95X of the CCA. This means that, under section 95Z of the CCA, Airservices is required to notify the ACCC prior to increasing the prices for these declared services by submitting a price notification.

In assessing price notifications, the ACCC is required to have particular regard to the statutory criteria set out in subsection 95G(7) of the CCA. The statutory criteria broadly relate to the promotion of economically efficient investment and employment throughout the economy. The ACCC applies this legal framework according to the concepts and procedures outlined in the ACCC's *Statement of regulatory approach to assessing price notifications*.⁵ The ACCC's approach to applying this framework in the context of the current price notification is outlined in its assessment in section 5 of this decision document.

Further, as set out in the ACCC's *Statement of regulatory approach to assessing price notifications*, where a declared firm submits a price notification that proposes price increases over a number of years, the ACCC conducts a detailed assessment of the substance of the proposed prices over the full period covered by the LTPA. The ACCC then makes a decision on the proposed prices covering the first year of the period. The declared firm is required to submit to the ACCC price notifications for each of the subsequent years. For those subsequent years, the ACCC may consider it appropriate to conduct a short-form assessment process, which provides scope for the ACCC to conduct an expedited assessment.

Prior to lodgement of its price notification on 8 June 2012, Airservices provided the ACCC with a draft of its proposal. This provided the ACCC with an opportunity to consider all relevant issues, consult with users, ensure that all information requirements were satisfied and determine the appropriate assessment process.

Airservices' 2012 price notification notifies prices for the second period of its LTPA. Given that the proposed prices are identical to those outlined in its LTPA (see section 3), Airservices appears to have made reasonable progress against its LTPA commitments (see section 5) and no new issues have been raised, the ACCC has considered it appropriate to conduct a short-form assessment process in this instance.

This short-form assessment process has involved a shorter period of consultation than was involved for the LTPA. The ACCC has consulted with members of Airservices' PCC as part of its short-form assessment of the 2012 price notification. This consultation was used as a method of substantiating Airservices' outlined progress against its commitments made in its LTPA and to identify areas where progress is still required.

⁵ The *Statement of regulatory approach to assessing price notifications* is available on the ACCC's website at www.accc.gov.au and has been partly reproduced in Appendix C of this decision document.

5 Assessment of price notification

In undertaking its assessment of Airservices' price notification, the ACCC has sought to establish whether Airservices has made sufficient progress in the implementation of its LTPA commitments. This progress is important in ensuring that Airservices invests prudently and operates efficiently.

Airservices' view

Airservices submitted that it had made reasonable progress against its LTPA commitments as outlined in table 5.1 and table 5.2 below. In particular, Airservices noted that it had implemented a number of its LTPA commitments through its PCC meetings held in August 2011, November 2011 and February 2012.

Table 5.1: Airservices' report on its LTPA commitments and progress – consultation on capital expenditure

Consultation element	Commitment by Airservices	Deadline	Progress
Program baseline	<p>A more detailed program baseline will be provided to establish major delivery milestones to enable improved program performance monitoring.</p> <p>The baseline will detail planned project benefits, project costs and project milestones as they were incorporated into the draft price notification in 2011.</p> <p>It will be the original record against which delivery will be measured and risk sharing triggers monitored.</p>	Not specified	The LTPA established a program baseline. Airservices has commenced more detailed reporting of its capital expenditure program to the PCC (see sections below under 'Major project business case options' and 'Projects baseline' for more information on Airservices' reporting against its program baseline).
Major project business case options	<p>Project business case information will be presented to the PCC for all projects greater than \$10m. This information will be provided prior to Airservices Board endorsement to improve transparency over, and industry input to, the determination of a preferred option.</p> <p>At this time, the business case information will be more mature, with refined information on project objectives, scope, benefits, costs and schedules.</p>	Airservices committed to commence formal reporting at the PCC meeting on 16 November 2011.	<p>Airservices has commenced presenting business case information to the PCC for projects greater than \$10 million dollars.</p> <p>At the PCC meeting held in November 2011, three investment proposals were presented to the PCC, due to either their significance to Industry or, that their value exceeded \$10 million (Port Hedland Fire Station and Paraburdoo Secondary Surveillance Radar, and Windshear Alerting Technology).</p> <p>Airservices states that no investment proposals were presented at the February 2012 PCC meeting, however three proposals are planned for presentation at the May 2012 PCC meeting (Navex 2B investment proposal, Paraburdoo Radar business case and Air Traffic Management (ATM) Future System investment update)</p>

	The final format of this business case information was agreed at the PCC meeting on 16 August 2011.		Airservices states that feedback from the PCC has indicated that the level of information presented by Airservices generally meets their information requirements.
Projects baseline	Following the approval of the preferred option, a final project baseline will be provided to the PCC. This baseline will include a final scope, cost/benefit analysis and schedule that will form the basis against which project delivery performance will be measured.	Airservices committed to commence formal reporting at the PCC meeting on 16 November 2011.	<p>Airservices establishes a project baseline through a final business case. The information included in the final project business case sets the financial plan and delivery schedule milestones against which project performance is monitored.</p> <p>Developed from preliminary information provided in the project investment proposal, the final business case incorporates market tested project costs and contractor delivery milestones. Detailed assessment of project costs and benefits enable the accurate quantification of the net benefits that are to be realised through delivering the project. These are reported on an annual basis as part of benefits realisation reporting.</p> <p>To monitor performance against project baselines, major project performance reports are provided to the PCC as part of the quarterly projects reporting pack. This report provides information on projects which have an approved business case and baseline and provides commentary on the health of the project and forecasts spend and schedule comparisons to the project budget/baseline. As new project business cases are approved baseline project budget and schedule information are added to the report.</p>
Quarterly reporting	<p>As part of the quarterly service charter performance reports to the broader industry, high level capital program performance will continue to be reported. These reports will provide indicators on program health against annual targets.</p> <p>More detailed information will be provided to the PCC including a</p>	Airservices stated that reporting commenced at the PCC meeting on 27 May 2011. Enhanced reporting was scheduled to commence at the PCC meeting on 16 November 2011,	<p>Airservices is continuing to provide public information on its capital program and results against established key performance indicators (KPIs).</p> <p>Airservices has commenced more detailed quarterly reporting at its PCC meetings. Airservices states that this reporting commenced at the PCC meeting on 27 May 2011.</p>

	<p>financial analysis and delivery schedule management, as well as information on deviations from the LTPA program baseline.</p> <p>This reporting commenced at the PCC meeting on 27 May 2011, with enhanced reporting scheduled to commence at the PCC meeting on 16 November 2011 following agreement to the elements above.</p>	<p>following agreement to the elements above.</p>	
Benefits realisation	<p>Airservices will report on the benefits realised from capital works projects. The benefits identified will be reported annually and measured against original project baseline benefits realisation plans. Measurement of the benefits will be monitored on an ongoing basis to provide a cumulative picture of the benefits yielded.</p>	<p>Not specified</p>	<p>Airservices states that it has developed a framework to plan, capture and monitor the benefits it is delivering to industry through capital investments and significant operational improvements. Some benefits reflect new and improved service outcomes, others result in optimising current business practices to deliver efficiencies to Airservices' cost base.</p> <p>Through the PCC, Airservices has agreed to provide an annual benefits realisation report to the committee at the end of each financial year. Airservices states that this is planned for August 2012.</p>

Table 5.2: Airservices’ report on its LTPA commitments and progress – internal drivers of efficiency

Internal driver of efficiency	Commitment by Airservices	Deadline	Progress
Development of efficiency measures	<p>Airservices proposed to develop, in consultation with the PCC, a set of measures of unit cost efficiency.</p>	<p>Airservices committed to commence reporting in the 2011-12 financial year.</p>	<p>Airservices states that it has formulated efficiency measures for ATM and ARFF services in consultation with the PCC. These measures have been incorporated into Airservices’ Services Charter for 2011-12.</p> <p>Airservices has also provided the PCC with information on projected performance results for the 2011-12 financial year. This information is intended to promote discussion on Airservices’ cost efficiency performance. This projection will be updated and reported to the PCC each quarter, with the final result published publicly in the Services Charter Progress Report to Industry in June.</p>
Longer term performance incentives	<p>Airservices stated its intention to explore with industry the possibilities for a more sophisticated form of cost benchmarking in the longer term, including how specific financial rewards and penalties for performance against a suite of KPIs might be implemented.</p> <p>Airservices also stated its intention to refine efficiency targets based on analysis of the historical trends, forecast outcomes and international benchmarking over the course of the next 12 months.</p>	<p>The ACCC stated that it considered it reasonable to expect that Airservices will have developed and implemented efficiency targets and corresponding responses within three years from the commencement of the LTPA.</p>	<p>Airservices states that it has begun work on how it might implement an incentive framework.</p> <p>Airservices notes that its incentive framework may need to take into consideration other efficiency measures beyond cost to include other dimensions of performance such as capacity, or environmental efficiency.</p>

PCC members' view

The ACCC invited consultation with 11 of the 17 members of the PCC (see Appendix B). These eleven members were identified as having attended at least one of the three most recent PCC meetings since the ACCC accepted Airservices' LTPA in 2011. These PCC meetings occurred in August 2011, November 2011 and February 2012.

Two of the 11 members elected to provide written comments, while the ACCC individually spoke with eight of the members.

The ACCC invited PCC members' views on Airservices' progress against its commitments as part of the LTPA. In particular, PCC members were asked to comment on Airservices' progress on improving elements of its consultation processes and development of efficiency measures.

Overall, PCC members recognised and acknowledged a range of noticeable improvements in the level, timeliness and quality of information provided by Airservices' for consultation with PCC members, in particular on capital expenditure issues.

In general, PCC members regarded the changes to Airservices' consultation as in their 'early days', but have expressed satisfaction with the trend in changes and the nature of the initiatives now in place. There was general agreement that there is now greater transparency and improved scope for industry input into Airservices' capital expenditure decisions.

In addition, PCC members noted that Airservices is generally very responsive to their questions and comments. For example, it was reported that Airservices takes some information requests from PCC members on notice, and subsequently schedules an expert on the matter to attend the next PCC meeting to address the information request. That said, it was also noted that the level of detail and responsiveness to PCC members' questions varied depending upon the level of seniority and authority of Airservices' staff that were in attendance at any given meeting. In particular, it was noted that information provided was more open when Airservices' CFO was in attendance.

Some improvements by Airservices were noted by some users as a 'step change', with further room to improve on the detail and timeliness of explanation of cost and performance variances for some major capital works projects.

It was also noted that to date there has not been a significant issue that has fully tested the new consultation arrangements. However, this was not seen as a cause for concern. Rather, it provided some context around any judgements about the effectiveness of the recent changes. The financial significance of major projects such as Airservices' ATM Future System is expected to test Airservices' consultative mechanisms in future years.

With regard to the development of internal drivers of efficiency, PCC members acknowledged that further work is required to refine the indicators and identify appropriate targets. However, users acknowledged Airservices' effort and progress so

far, and noted that it is unreasonable to expect Airservices to fully satisfy all of its commitments at this early stage of the LTPA. Rather, it is expected that addressing these commitments will be an iterative process of development, with objectives fine-tuned over time.

ACCC's view

The ACCC has decided to not object to the price increases proposed by Airservices for its TN and ARFF services. The ACCC considers that the proposed prices reflect an efficient cost base that includes a reasonable rate of return, and promote an efficient provision and use of services.

In reaching its decision, the ACCC has assessed Airservices' tangible progress against its LTPA commitments, as well as giving consideration to comments by PCC members about the state of, and recent changes to, Airservices' consultation processes.

The ACCC is satisfied that Airservices has made reasonable progress on improving its consultation on capital expenditure, especially in light of the relatively short amount of time since the ACCC's assessment of the LTPA.

The ACCC has observed that Airservices is now presenting PCC members with business case options for major projects. Based on the views of stakeholders, the ACCC considers that the level and quality of information provided in these business case options is close to a level that satisfies PCC members' requirements. In addition, PCC members appear generally satisfied with the response they receive to input and questions in relation to the business case information as well as quarterly reporting, which now occurs at each PCC meeting.

The ACCC notes, however, that it will be important for Airservices to ensure that staff with the appropriate level of authority to disclose information continue to be in attendance at the PCC meetings going forward. This will ensure that discussions at PCC meetings continue to represent effective consultation.

Importantly, the ACCC considers that there remains scope for Airservices to improve its timeliness in distributing this information to PCC members. It was noted during consultation that some stakeholders require several weeks to review information internally and develop input and comments. This is particularly important as the business case information often includes technical and complex information. Stakeholders highlighted that they are in a good position to provide comments that can benefit Airservices' planning and development of capital expenditure projects if information is provided with ample time to review.

In addition, the ACCC sees Airservices' commitment to report on benefits realised from capital expenditure as an area with significant scope for improvement in future periods. The importance of accountability for capital expenditure projects was noted during consultation, and part of this is recognition and communication of the financial, operational or environmental benefits of projects.

Given the limited time since the assessment of the LTPA, the ACCC is also satisfied that Airservices is taking steps to progress its development of internal drivers of efficiency. The ACCC understands that Airservices has developed a set of efficiency measures in consultation with the PCC, which have been incorporated in Airservices' Services Charter for 2011-12.

However, the ACCC acknowledges that Airservices' exploration of a longer-term, more sophisticated form of cost benchmarking is still at a very early stage. The ACCC expects to see further progress by Airservices against this commitment in future periods, and to see it further explore how financial rewards and penalties for performance against specific KPIs could be implemented.

In summary, the ACCC's view is that Airservices has, to date, made sufficient progress in the implementation of its LTPA commitments. Importantly, these commitments promote economic efficiency by providing incentives for Airservices to invest prudently and efficiently manage its costs. Furthermore, Airservices' notified prices will ensure that it continues to receive sufficient revenue to cover the efficient costs of providing services—noting that the level and structure of the notified prices were considered in detail by the ACCC in its assessment of the LTPA. For these reasons, the ACCC considers that Airservices' 2012 price notification satisfies the statutory criteria for price notifications under subsection 95G(7) of the CCA.

6 ACCC's decision

The ACCC has decided to **not object** to the proposed price increases by Airservices for its TN and ARFF services. Charges for en route services are proposed to decrease. The new charges are proposed to take effect from 1 July 2012.

The decision responds to a price notification provided to the ACCC on 8 June 2012 by Airservices pursuant to subsection 95Z(5) of the CCA. The details of Airservices' notified prices are set out in its price notification and are provided in Appendix A of this decision document.

Appendix A: Airservices Australia's current and proposed prices

A.1 En route navigation services

Charging formula for en route navigation (en route) services:

- 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 up to 20 tonnes:

$$price \times \frac{distance}{100} \times MTOW$$

Table A1: Airservices' current and proposed prices for en route services

En route service	Current price	Proposed price (from 1 July 2012)
20 tonnes or more	\$4.10	\$4.07
Up to 20 tonnes	\$0.92	\$0.91

A.2 Terminal navigation services

Charging formula for terminal navigation (TN) services:

- For all aircraft:

$$price_{location} \times MTOW$$

Note: MTOW shall not exceed 500 tonnes.

Table A2: Airservices' current and proposed prices for TN services

TN service location	Current price	Proposed price (from 1 July 2012)
Adelaide	\$11.66	\$11.72
Brisbane	\$6.09	\$6.15
Cairns	\$11.44	\$11.84
Canberra	\$12.28	\$12.03
Coolangatta (Gold Coast)	\$10.28	\$9.77
Melbourne	\$5.29	\$5.47
Perth	\$8.20	\$8.03
Sydney	\$5.58	\$5.59
Albury	\$13.26	\$13.73
Alice Springs	\$13.26	\$13.73
Avalon	\$4.70	\$4.86
Broome	\$13.26	\$13.73
Coffs Harbour	\$13.26	\$13.73
Hamilton Island	\$9.61	\$9.95
Hobart	\$9.64	\$9.68
Karratha	\$13.26	\$13.73
Launceston	\$12.77	\$13.22
Mackay	\$12.44	\$12.31
Rockhampton	\$12.94	\$13.20
Maroochydore (Sunshine Coast)	\$13.26	\$13.73
Tamworth	\$13.26	\$13.73
Archerfield	\$13.26	\$13.73
Bankstown	\$13.26	\$13.73
Camden	\$13.26	\$13.73
Essendon	\$13.26	\$13.73
Jandakot	\$13.26	\$13.73
Moorabbin	\$13.26	\$13.73
Parafield	\$13.26	\$13.73
Darwin	\$2.15	\$2.04
Townsville	\$2.79	\$2.65

A.3 Aviation rescue and fire-fighting services

Charging formula for aviation rescue and fire-fighting (ARFF) services:

- For all aircraft greater than 15.1 tonnes and target aircraft between 5.7 and 15.1 tonnes:

$$price_{category,location} \times MTOW$$

Note: MTOW shall not exceed 500 tonnes.

Table A3: Airservices' current and proposed prices for ARFF services

ARFF service location	Current price	Proposed price (from 1 July 2012)
Category 6 aircraft and below		
Brisbane	\$1.99	\$2.14
Melbourne	\$1.99	\$2.14
Sydney	\$1.99	\$2.14
Perth	\$1.99	\$2.14
Adelaide	\$1.99	\$2.14
Cairns	\$1.99	\$2.14
Darwin	\$1.99	\$2.14
Coolangatta (Gold Coast)	\$1.99	\$2.14
Canberra	\$1.99	\$2.14
Hobart	\$1.99	\$2.14
Karratha	\$1.99	\$2.14
Townsville	\$1.99	\$2.14
Alice Springs	\$1.99	\$2.14
Avalon	\$1.99	\$2.14
Ayres Rock	\$1.99	\$2.14
Broome	\$1.99	\$2.14
Hamilton Island	\$1.99	\$2.14
Launceston	\$1.99	\$2.14
Mackay	\$1.99	\$2.14
Rockhampton	\$1.99	\$2.14
Maroochydore (Sunshine Coast)	\$1.99	\$2.14
Category 7 aircraft		
Brisbane	\$2.12	\$2.34
Melbourne	\$2.08	\$2.29
Sydney	\$2.05	\$2.25
Perth	\$2.21	\$2.43
Adelaide	\$2.56	\$2.82
Cairns	\$2.52	\$2.77
Darwin	\$3.73	\$4.10
Coolangatta (Gold Coast)	\$3.97	\$3.93
Canberra	\$8.31	\$8.51
Hobart	\$7.40	\$8.14
Karratha	\$7.77	\$7.96
Townsville	\$9.32	\$10.25
Category 8 aircraft		
Brisbane	\$2.88	\$3.17
Melbourne	\$2.52	\$2.77
Sydney	\$2.29	\$2.52
Perth	\$3.31	\$3.64
Adelaide	\$8.12	\$7.22
Cairns	\$5.24	\$5.76
Darwin	\$17.67	\$19.43
Coolangatta (Gold Coast)	\$4.41	\$4.85
Category 9 aircraft		
Brisbane	\$4.16	\$4.58
Melbourne	\$3.41	\$3.75
Sydney	\$2.76	\$3.03
Perth	\$5.72	\$6.29

Appendix B: List of Pricing Consultative Committee members

Airservices holds Pricing Consultative Committee (PCC) meetings with industry stakeholders every quarter.

The industry representatives that comprise the PCC membership are listed below. These include domestic and international airlines, airline representative associations, general aviation and recreational flying associations and an airport representative association.

PCC members

Australian Airports Association (AAA)

Air Canada

Air New Zealand

Aircraft Owners and Pilots Association of Australia (AOPA)

Board of Airline Representatives of Australia (BARA)

Cathay Pacific

Emirates

Etihad

International Air Transport Association (IATA)

Jetstar

Qantas

Regional Aviation Association of Australia (RAAA)

Regional Express (REX)

Royal Federation of Aero Clubs of Australia (RFACA)

Singapore Airlines

United

Virgin Australia Group of Airlines (VAA)

Appendix C: Legislative framework

The provision of TN, en route and ARFF services by Airservices are declared to be notified services under section 95X of the *Competition and Consumer Act 2010* (CCA).⁶ The relevant declaration, Declaration no. 66, is available on the ACCC's website at: www.accc.gov.au/aviation.⁷

C.1 The ACCC is responsible for assessing Airservices Australia's price notifications

A declared firm cannot raise the price of declared services beyond its peak price of the previous 12 months unless it first notifies the ACCC of a proposed price increase and the terms and conditions of supply. Following the lodgement of the price notification, there is a price-freeze period of 21 days. The ACCC is then responsible for assessing the proposed price increase.

The price-freeze period ceases when:

- the ACCC advises it does not object to the proposed price increase
- the declared firm agrees to implement a lower price specified by the ACCC⁸
- the prescribed period – initially 21 days – expires⁹.

The ACCC has the option of recommending an inquiry to the Minister if the outcome of the procedure is perceived to be unsatisfactory.

As set out in section 95ZB of the CCA, there is an 'applicable period' of initially 21 days within which the ACCC is to make its assessment, starting on the day on which the formal price notification is lodged.

However, price notifications are often complex. Therefore, the ACCC suggests that a declared firm submit a draft price notification for consideration prior to lodgement of a formal price notification. This provides the declared firm and the ACCC with sufficient opportunity to consult with each other (and other parties where appropriate) to consider all relevant issues involved in the price proposal, and to ensure that all information requirements supporting the proposal are satisfied.

Although a declared firm is only required under Part VIIA of the CCA to submit a proposed price in its price notifications, the ACCC has encouraged Airservices to also include future price paths (see section 6.1), which it considers to be relevant in its assessment of the price notification against the relevant criteria in the CCA (see section 3.2).

⁶ The declaration originally had effect under section 21 of the *Prices Surveillance Act 1983* (PS Act). On 1 March 2004, the PS Act was repealed and the declaration was taken to have effect under Part VIIA of the *Trade Practices Act 1974* (TPA). On 1 January 2011, the TPA was renamed the *Competition and Consumer Act 2010*.

⁷ www.accc.gov.au/aviation > Airservices Australia > Declaration No. 66.

⁸ In circumstances where the ACCC has given a response notice under subsection 95Z(6)(c) of the CCA the price-freeze period is extended by 14 days.

⁹ Pursuant to subsection 95ZB(2) of the CCA the ACCC may specify a longer price-freeze period with the consent of the person who gave the locality notice. In circumstances where the ACCC has given a response notice under subsection 95Z(6)(c) the period is also extended by 14 days.

Where a declared firm first submits a price notification that includes a long-term price path, the ACCC will conduct a detailed assessment of the substance of the proposed prices over the full period covered by the price path. The ACCC will then make a decision on the proposed prices covering the first year of the period. The declared firm will be required to submit locality notices for each of the subsequent years covered by the price path. For those subsequent years, the ACCC may consider it appropriate to conduct a short-form assessment process.

A detailed outline of the ACCC's suggested process for all price notifications, including a discussion of short-form assessments, is contained in the ACCC's *Statement of regulatory approach to assessing price notifications* (June 2009), which is available on the ACCC's website at: www.accc.gov.au.¹⁰

C.2 The statutory criteria for assessing price notifications

In exercising its powers and performing its functions, subsection 95G(7) of the CCA requires the ACCC to have particular regard to the need to:

- a) maintain investment and employment, including the influence of profitability on investment and employment
- b) 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
- c) discourage cost increases arising from increases in wages and changes in conditions of employment inconsistent with principles established by relevant industrial tribunals.

In assessing the price notification against the statutory criteria, the ACCC has interpreted the criteria in subsections 95G(7)(a) and (b) as seeking to promote economically efficient investment and employment throughout the economy. This is broadly consistent with the objectives outlined by the Government for pricing infrastructure services under the national access regime.

Economic efficiency encompasses the following elements:

- productive efficiency, which is achieved when firms have the appropriate incentives to produce goods or services at least cost, and production activities are distributed between firms in a manner that minimises industry-wide costs.
- allocative efficiency, which is achieved when firms employ resources to produce goods and services that provide the maximum benefit to society.
- dynamic efficiency, which is achieved when firms have appropriate incentives to invest, innovate and improve the range and quality of goods and services, increase productivity and reduce costs over time.

In an open and competitive economy, efficient provision of services underpins investment and employment opportunities. Welfare enhancing investment and employment in the national economy will be promoted when firms produce goods or services at least cost and charge prices that correspond as closely as possible to competitive levels. Although a competitive benchmark may be lacking in industries subject to prices surveillance, economically efficient prices would, as in competitive

¹⁰ www.accc.gov.au > For regulated industries > Multi-industry documents and submissions > Regulatory approach to price notifications.

areas, reflect least-cost production and include profit margins reflecting a return on capital commensurate with the risks faced by the firm.

Prices above efficient levels result in a loss of allocative efficiency as they discourage some marginal purchases which would have had a value to the purchaser above the cost of supply. As excessive prices are passed on in higher costs for other industries using the services, they lead to lower profits and potentially a loss of investment and employment opportunity in the competitive sectors of the economy.

Accordingly, the ACCC considers that the criteria in subsections 95G(7) will generally be met by economically efficient prices which reflect:

- an efficient cost base
- a reasonable rate of return on capital.

Including a reasonable rate of return on capital addresses the criterion in paragraph 95G(7)(a) by providing incentives to maintain profitable investment. At the same time, discouraging a declared firm from charging prices based on profits greater than the reasonable rate of return, as per criterion in paragraph 95G(7)(b), addresses issues relating to market power that the firm may have in the market for notified goods and services.

With regard to the criterion in paragraph 95G(7)(c), in assessing a price notification the ACCC will usually treat the level of wages and conditions as part of its broader concern for an efficient cost base.

There are also a range of non-commercial incentives that influence Airservices' incentives and behaviour, and these will be taken into account in assessing the price notification where applicable.

More detailed information on the ACCC's approach to the interpretation of the statutory criteria is contained in the ACCC's *Statement of regulatory approach to assessing price notifications* (June 2009), which is available on the ACCC's website.