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Mr Anthony Wing
General Manager
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Australian Competition & Consumer Commission
Level 35
360 Elizabeth Street
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Dear Mr Wing

Price Notification - Terminal Navigation services at Avalon

Pursuant to Part VIIA of the Trade Practices Act (TPA), this price notification seeks the endorsement of the Australian Competition and Consumer Commission (Commission) for the pricing of a terminal navigation service that will apply to aircraft landing at Avalon aerodrome.

Airservices Australia is required to provide these services at Avalon to meet the Civil Aviation Safety Authority's (CASA's) regulatory requirement. The service was first introduced at Avalon in March 2009 though price notification has been delayed to allow for a post-implementation review by CASA which is due to be publicly released on Monday 21 December 2009.

Airservices intends to commence charging for this service on 1 February 2010 with a charge of $5.49 (incl. GST) per tonne at Avalon for terminal navigation facilities. Airservices standard terms and conditions will apply for this service and these can be found at: http://www.airservicesaustralia.com/pilotcentre/avcharge/price/charges.asp.

Further background information, including cost details, to support this notification is provided in Attachment 1. Note that Table 3 is commercial-in-confidence and not for release.

Given the lengthy ongoing consultation over the last 12 months with both the Avalon Airport and operators at the airport, and as this notification adopts the parameters and methodologies adopted under Airservices current long term arrangement, we are seeking a 21 day assessment of this notification.

Yours sincerely

Andrew Clark
Chief Financial Officer
18 December 2009

Attachment 1

ADDITIONAL INFORMATION SUPPORTING PRICE NOTIFICATION

The Requirement for the Service

On the 15th of May 2008 the Civil Aviation Safety Authority's Office of Airspace Regulation (OAR) released its Aeronautical Study of Avalon. As a result of this study's findings, the OAR made a determination "that Class C airspace, with the associated ATC services, be activated around Avalon Airport at appropriate times to accommodate passenger transport operations."

The details of the aeronautical study are found on CASA's website at:
http://www.casa.gov.au/wcmswr/_assets/main/oar/download/avalon_study08.pdf

In meeting this requirement, Airservices determined that a refurbishment and reactivation of the air traffic control tower was needed to deliver the increase in air traffic service provision.

A post implementation review of Avalon has now been completed by CASA and the service model has been altered to now require Class D airspace in the Avalon Control Zone (tower), with Class E airspace around it.

This brings Avalon airport into line with air traffic service provision at other Class D towered airports around Australia.

The Services to be provided at Avalon

The service at Avalon will be established as a class D service and will operate as per other class D services which are found at Albury, Alice Springs, Coffs Harbour, Hamilton Island, Hobart, Launceston, Mackay, Maroochydore, Rockhampton, and Tamworth.

The Class D aerodrome service will be provided by 4 staff based at Avalon tower. The service will operate 7 days a week, 14 hours per day.

The following Annex (p. 45 of CASA's *Aeronautical Study of Avalon* referenced above) sets out the description, services procedures and rules associated with the different airspace classifications:

Annex F – Australian Airspace Structure

Airspace Classification	Description	Services/Procedures/Rules
Class A	All airspace above FL180 (East Coast) or FL245	IFR only, all separated by ATC
Class B	None in Australia	
Class C	Major aerodromes such as Adelaide and Sydney	IFR separated from IFR and VFR by ATC VFR receive traffic on other VFR but not separated from each other by ATC Transponder required within radar coverage
Class D	Regional locations such as Hobart and Alice Springs	IFR separated from IFR and traffic information provided on all VFR VFR receive traffic on all other aircraft but not separated by ATC
Class D (GAAP)	High density General Aviation airports	General Aviation Airport Procedures (GAAP): • In visual meteorological conditions all operations are VFR, traffic information only • In instrument meteorological conditions, IFR separated from all traffic
Class E	Controlled airspace not covered in classifications above (above 8,500ft or FL180)	IFR separated from IFR by ATC, traffic information on known VFR VFR provided with search and rescue, weather update service and traffic information, on request, within radar coverage and workload permitting Transponder required for VFR aircraft with continuous electrical power
Class F	None in Australia	
Class G	Non-controlled	IFR receives traffic information on IFR and known VFR traffic VFR provided with search and rescue, weather update service and Radar Information Service subject to availability

Method for Determining the Price

The determination of the price for Avalon is in line with the current long term pricing arrangement. The price has been calculated using the building block model to estimate maximum allowable revenue (calculated as the sum of operating costs, depreciation, a return on the value of the assets and taxes) divided by a chargeable unit activity forecast.

The building block parameters of weighted average cost of capital, gearing, cost of debt, tax and dividend imputations credits are the same as those applied and endorsed by the ACCC in the current long term pricing arrangement. Asset values are based on the valuation under the current long term pricing arrangement endorsed by the ACCC, with the addition of relevant actual capital expenditure incurred over the last 5 years.

The activity volume forecast has been estimated using recent historical data.

The price of $5.49 per tonne will be fixed until at least June 2011, when Airservices intends to implement a new long term pricing arrangement that will cover all services.

Attachment 2 provides details on costs and associated pricing calculations.

Table 1 - Comparison of Avalon with Other Services
(2004 Price Notification Data for 2008/09 Financial Year)

Service Class	ATC's Staff No	Terminal Navigation Service	Staff Costs ($mil)	Costs ($mil)	WDV Assets ($mil)	Activity (mil tonnes)	Price $	Revenue ($mil)
C	36	Adelaide	8.0	17.8	16.8	2.1	$ 11.43	21.6
D	5	Albury	0.9	1.5	0.3	0.1	$ 12.69	0.8
D	5	Alice springs	1.1	2.9	1.2	0.3	$ 12.69	2.9
GAAP	8	Archerfield	1.4	2.2	1.3	0.0	$ 12.69	0.4
GAAP	13	Bankstown	2.3	3.4	4.9	0.1	$ 12.69	1.0
C	57	Brisbane	11.9	29.9	28.6	6.5	$ 5.83	34.4
C	35	Cairns	7.6	16.5	15.4	1.9	$ 10.95	18.5
GAAP	1	Camden	0.2	0.6	0.4	0.0	$ 12.69	0.1
C	20	Canberra	4.4	9.7	9.5	0.9	$ 12.66	10.7
D	4	Coffs Harbour	0.8	1.6	0.7	0.1	$ 12.69	0.9
C	17	Coolangatta	3.8	8.2	10.1	0.9	$ 10.82	9.2
RAAF	-	Darwin	-	1.1	1.6	0.6	$ 2.26	1.2
GAAP	8	Essendon	1.8	3.3	2.9	0.1	$ 12.69	0.8
D	3	Hamilton Island	0.6	1.0	0.1	0.1	$ 9.20	1.0
D	6	Hobart	1.2	2.8	5.1	0.4	$ 9.54	3.4
GAAP	9	Jandakot	1.6	2.4	1.3	0.1	$ 12.69	0.9
D	5	Launceston	1.0	2.3	1.8	0.2	$ 12.22	2.5
D	6	Mackay	1.1	2.3	1.7	0.2	$ 12.69	2.2
D	7	Maroochydore	1.4	2.1	0.6	0.1	$ 12.69	1.7
C	62	Melbourne	13.5	35.8	27.2	9.4	$ 5.06	43.1
GAAP	8	Moorabbin	1.5	2.1	0.3	0.1	$ 12.69	0.7
GAAP	8	Parafield	1.5	2.2	1.3	0.0	$ 12.69	0.4
C	39	Perth	8.7	21.7	19.1	3.3	$ 8.63	25.6
D	6	Rockhampton	1.1	2.3	2.3	0.2	$ 12.69	2.1
C	110	Sydney	24.7	70.4	37.7	15.4	$ 5.57	78.2
D	8	Tamworth	1.4	2.4	1.0	0.1	$ 12.69	0.9
RAAF	-	Townsville	-	1.0	1.1	0.4	$ 2.94	1.1
D	4	Avalon (2009/10)	0.7	1.2	1.2	0.3	$ 5.49	1.3

*Note Avalon costs, assets, prices are estimated 2009/10 annual costs.

Table 2 - Avalon Terminal Navigation Services Costs, Activity and Price

Building Block Parameters	$'s
Estimated Annual Operating Expenditure (2009/10) [1]	1,161,678
Estimated Written Down Value of Assets (2009/10) [1]	1,158,442
WACC, Gearing, Interest & Tax:	
Weighted Average Cost of Capital (WACC)	8.95%
Gearing	45%
Interest for tax deduction purposes	6.56%
Tax Rate (Including Imputation)	15%

Allowable Revenue Calculation	$'s
Operating & Maintenance Costs	1,161,678
Return on Capital (WACC x Asset Written Down Value)	103,681
Tax Allowance	12,261
Estimated Allowable Revenuec (2009/10) [2]	**1,277,620**

Price Calculation & Revenue		
Activity-Tonnes Landed[3]		256,000
GST Exclusive Price	$	4.99
Estimated GST Inclusive Price (2009/10)	**$**	**5.49**
Revenue = Price x Tonnage ($5.49 x 256,000)		**1,277,620**

Notes:

1. Assumes 14 hour/ 7 day a week service. Includes long term sustainable operational and support costs for such things as ATC staff, facilities (including depreciation), training, safety, systems integration, procedures design and management. See detailed breakdown of costs in Table 3 below.

   The costing applies the same principles of attribution as were applied in the price notification endorsed by the ACCC in 2004.

   Assets values relate to whole of life asset costs for operations and support infrastructure and overall program management. They include such assets as tower buildings, and comms equipment, ATM system and other national airways system infrastructure.

   The attribution of asset values to the location applies the same principles as were applied in the price notification endorsed by the ACCC in 2004, with the addition of relevant actual capital expenditure incurred over the last 5 years.

2. Estimated allowable revenue is Airservices estimate of the revenue that would be allowable under the ACCC's post tax revenue building block model. This model is the basis for Airservices current prices. Calculation:

   = (Operating & Maintenance Expenses) + (Assets x WACC) + [(Assets x WACC - Assets x Gearing x Interest) x (Tax)]

   The building block parameters of weighted average cost of capital, gearing, cost are the same as those applied and endorsed by the ACCC in the current long term pricing arrangement.

3. Activity of 256,000 tonnes landed has been based on annualised IFR flight data for the 5 months ending November 2009, adjusted for VFR flights and potential growth in 2010-11. The tonnes landed for the 5 months ending November 2009 was 100,651 which equates to an annualised activity of 240,116. This figure has been increased by approximately 4,000 tonnes (1.6%) for VFR flights and 12,000 tonnes (5%) for growth on existing traffic levels.

   Aircraft transiting Avalon airspace without landing would not be charged for Avalon Terminal Navigation Services, however transiting IFR aircraft would still be subject to enroute charges that currently apply.