



Airservices Australia draft price notification 2024-2026

Issues Paper

November 2023

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

23 Marcus Clarke Street, Canberra, Australian Capital Territory, 2601

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ACCC 11/2023

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Executive summary

The ACCC is seeking stakeholder views on a draft price notification provided by Airservices Australia (Airservices) on 13 November 2023. Spanning three financial years, the draft price notification proposes to increase prices for Airservices' terminal navigation, enroute navigation, and aviation rescue and fire-fighting (ARFF) services.

Airservices is proposing 4 price increases for these service lines between April 2024 and January 2026, which collectively would increase the weighted average price by 19% in nominal terms.¹ Airservices last increased its prices (by 0.4%) in 2015 and reduced prices by 2% in 2019.

Table E.1 below shows the proposed weighted average price increases for each of the service lines and the total proposed weighted average price increases.

Table E.1: Weighted average proposed price change by service line

Service	Apr 2024	Sep 2024	Jul 2025	Jan 2026
Enroute navigation	4.5%	4.5%	2.0%	1.0%
Terminal navigation	6.7%	6.2%	4.8%	5.1%
ARFF	8.9%	6.0%	4.5%	3.8%
Weighted average (nominal)	6.0%	5.3%	3.4%	3.0%

Source: Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 5.

Airservices considers price increases are required to align its charges to changes in demand, enabling it to continue to fund front line service delivery and invest in key programs to support industry's ongoing recovery and future growth.² Airservices states, absent any price increases, its revenues will remain below building block costs.³ Airservices considers the proposed pricing changes will allow it to return to a sustainable financial position.⁴

The most recent price increases for terminal navigation, enroute navigation, and ARFF services were implemented in July 2015. The proposed price increases will leave Airservices' real prices 11.3% higher.

An airline may incur Airservices charges of several thousand dollars or more to operate a flight, depending on the route and the size of the aircraft. According to figures provided by Airservices, airlines flying a Boeing 737-800 from Melbourne to Brisbane currently incur a per passenger cost of about \$13 for Airservices' terminal navigation, enroute navigation, and ARFF services. Under the proposed price change, the per passenger cost would increase to approximately \$14 in April 2024.

Airservices is not proposing any changes to the existing price structures of its services. Airservices states it is proposing a price path that gradually aligns revenues and costs over a

¹ In its draft price notification, Airservices Australia indicates its price increases total 18%. While the sum of Airservices price increases equates to approximately 18%, cumulatively the change is approximately 19%.

² Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 4.

³ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 21.

⁴ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 5.

3-year period.⁵ It considers this avoids pricing spikes and swings that would otherwise arise when precisely matching prices to building block costs in each year.

Airservices must notify the ACCC of proposed price increases. This is because terminal navigation, enroute navigation, and ARFF services provided by Airservices are declared under section 95X of the *Competition and Consumer Act 2010*.

In assessing a price notification, the ACCC may decide:

- to not object to the notified increase, or
- not object to an increase lower than that proposed, or
- object to the notified increase.

The ACCC has 21 days to assess a formal price notification. The ACCC therefore asks the relevant companies to provide a draft price notification to allow the ACCC to undertake a comprehensive assessment with stakeholder consultation. Airservices may choose to lodge a formal price notification following the ACCC's assessment of the draft price notification.

Airservices provided an initial draft notification to the ACCC on 27 September 2023 which covered 2023-24 to 2026-27. That draft provided for significant capital expenditure to be rolled into the regulatory asset base in 2026-27 as a result of the commissioning of the major OneSKY Australia program. Inclusion of 2026-27 expenditure associated with the OneSKY program would add complexity to the assessment of the draft price notification. Following consultation with the ACCC, Airservices provided a revised draft price notification on 13 November 2023, which instead covers the period from 2023-24 to 2025-26 and removes the 2026-27 financial year. There are no other material differences between Airservices original and revised notification.

Following the ACCC's assessment of this draft price notification, it is expected that Airservices will prepare a further draft price notification for a period beyond 2025-26. The assessment of a further draft price notification would likely require careful examination of the prudence and efficiency of the OneSKY program, including potentially revisiting any costs that may be rolled into the regulatory asset base as part of the current draft price notification.

⁵ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 40.

1. Introduction

On 13 November 2023, Airservices Australia provided the ACCC with a revised draft price notification covering all its regulated services: terminal navigation, enroute navigation, and aviation rescue and fighting (ARFF) services.

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

The purpose of this issues paper is to seek interested parties' views on the draft price notification.

In considering the matters raised in this issues paper, interested parties should review Airservices' draft price notification and supporting documents. These documents are available at www.accc.gov.au/by-industry/travel-and-airports/airport-and-aviation-price-notification/airservices-australia-2023.

The ACCC has sought additional supporting information from Airservices regarding its draft price notification. The ACCC intends to publish this information on the above webpage once it becomes available.

1.1. Revised draft price notification

Airservices provided an initial draft notification on 27 September 2023. This notification covered 2023-24 to 2026-27. Following consultation with the ACCC, Airservices provided a revised draft price notification on 13 November 2023, covering 2023-24 to 2025-26 only. As such, Airservices revised notification does not include 2026-27.

Removing 2026-27 from the draft price notification means the vast majority of Airservices' major capital investment program, called OneSKY Australia (OneSKY), will be considered in an anticipated future price notification (see section 6.4.3).⁶ There are no other material differences between Airservices original and revised notification.

In its initial draft notification, Airservices proposed to include approximately \$1.5 billion of OneSKY capital expenditure (incurred since 2016-17) and the associated cost of debt capitalisation in its regulatory asset base in 2026-27.⁷ Given the size and complexity of this investment program (which accounted for over 60% of the proposed regulatory asset base 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 Airservices' proposed price increases.⁸

Airservices has stated that once the current price notification process is complete, it will begin consultation on a future price notification for a period beyond 2025-26. This future price notification will consider pricing issues associated with the vast majority of OneSKY expenditure (as well as other investment programs).⁹ The ACCC may need to undertake a detailed assessment of the OneSKY program, as part of this future price notification. If a

⁶ The original and revised draft price notifications are available on the [ACCC's website](http://www.accc.gov.au).

⁷ Airservices Australia Draft Price Notification 2024, 27 September 2023, p. 47.

⁸ Airservices revised price notification proposes to include \$158 million of capital expenditure related to OneSKY in its regulatory asset base from 2016-17 to 2025-26. Airservices has accounted for this expenditure on an 'as incurred' basis (see section 6.4.3).

⁹ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 5.

detailed assessment is required, it will likely require significant stakeholder consultation to inform the ACCC's assessment.

Airservices' original draft notification, revised draft notification, and letter to the ACCC explaining why it submitted a revised draft notification can be found on the [ACCC's website](#).

1.2. Indicative timeline for the assessment process

Table 1.1 sets out an indicative timeframe for the ACCC's assessment of Airservices' price notification.

Table 1.1: Indicative timeline for the ACCC's assessment process

Date	Event
27 September 2023	Airservices submits original draft price notification
12 October 2023	Public release of original draft price notification
13 November 2023	Airservices submits revised draft price notification
20 November 2023	Publication of revised draft price notification
30 November 2023	Publication of ACCC issues paper
19 January 2024	Submissions close to issues paper
Early April 2024	ACCC releases preliminary view
Early May 2024	Submissions close to ACCC preliminary view
Late May 2024	ACCC releases final view on draft price notification
Early June 2024	Airservices lodges formal price notification
Late June 2024	ACCC releases final decision on formal price notification
Late June 2024*	Airservices consults with Minister
Late July 2024*	Airservices increases prices

Notes: As per section 2.2, Airservices may increase its prices only if the Minister approves of the proposed prices, or does not disapprove of the proposed prices within 30 days of receiving the notification from Airservices.

1.3. Making a submission

The ACCC invites stakeholders to provide their views on issues identified in section 6 of this issues paper, and on any other matter relevant to the ACCC's assessment of Airservices' draft price notification. Appendix A lists all questions presented in section 6.

Please provide submissions to david.barrett@acc.gov.au and thithi.nguyentran@acc.gov.au by **19 January 2024**.

1.4. Confidentiality

The ACCC considers that it is 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 posted on the ACCC's website. If interested parties wish to make any claim of confidentiality over material provided to the ACCC during this consultation, 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 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 with 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.

1.5. 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

Under the *Competition and Consumer (Airservices Australia Prices Surveillance) Declaration 2018*, Airservices is a declared person and its provision of terminal navigation, enroute navigation, and ARFF services are notified services for the purposes of section 95X of the *Competition and Consumer Act 2010* (CCA).

Under sections 95Z(1)-(3) of the CCA, it is an offence for a declared person to supply notified services at a price above the highest price at which the declared person supplied those services in the preceding 12 months. Sections 95Z(4)-(7) create a defence if the declared person has given the ACCC notice of the increase and the ACCC has either not objected, or waited for the applicable period before implementing the price increase. The applicable period is 21 days. It follows that a declared person will not commit an offence by supplying goods or services at a price higher than the notified price after the 21 days has ended, irrespective of whether the ACCC objected to the notification.

Section 95G(7) of the CCA specifies that in 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.

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

2.2. 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 Airservices Act), the Board of Airservices may make written determinations setting the charges for services provided by Airservices. Section 54 of the Airservices Act requires that, before making a price determination under section 53, the Board must notify the Minister for Infrastructure, Transport, Regional Development and Local Government of the proposed price.

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

3. The ACCC's approach to applying the legislative framework

The ACCC's approach to applying the legislative framework is set out in its *Statement of regulatory approach to assessing price notifications under Part VIIA of the Competition and Consumer Act 2010*.¹⁰

As explained in Section 2.1, the ACCC is to consider a price notification within the 'applicable period' of 21 days (unless extended). However, as price notifications are often complex, it is beneficial for the ACCC and the declared person to consult with each other (and other parties where appropriate) before a price notification is formally submitted to the ACCC.

The ACCC's suggested process for assessing price notifications includes the submission of a draft price notification by the declared person to the ACCC. This provides the ACCC with sufficient opportunity to consider all relevant issues involved in the pricing proposal at a preliminary stage and to ensure all information requirements supporting the proposal are satisfied.

Broadly, the ACCC considers the matters in section 95G(7) of the CCA will generally be met by economically efficient prices which reflect:

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

A reasonable rate of return on capital addresses the first criterion in section 95G(7) of the CCA by providing incentives to maintain profitable investment. However, in order to address the second criterion in section 95G(7) of the CCA, a declared person, which may have substantial influence in a market for notified goods and services, should not be able to charge prices which reflect a higher than reasonable rate of return or inefficient costs.

In general, the ACCC has used a cost-based 'building block' approach for assessing price notifications from Airservices or other suppliers of declared services. The building block model is used to assess the extent to which the revenue forecast for the prices proposed by a regulated firm are commensurate with the efficient costs of providing those services. The components of the building block model are:

- operating and maintenance expenditure
- return of capital, presenting depreciation of fixed assets
- return on capital, representing the required return on the asset base and
- tax allowances.

The sum of these building blocks represents the revenue required to recover the efficient costs of providing its revenue (also referred to as maximum allowable revenue).

¹⁰ See: <http://www.accc.gov.au/publications/regulatory-approach-to-price-notifications>.

In addition to the building block components, the ACCC may raise other issues which are relevant to the ACCC's assessment, such as the allocation of costs and the structure of prices across services.

The ACCC considers that an examination of pricing structures proposed by a declared person is particularly relevant where several individual goods or services are notified. Market power of regulated firms can be reflected in inefficient or anti-competitive pricing structures. Broad examples of this may be:

- excessively high mark-ups on some services, which result in distorted price signals for purchasing and investment
- pricing below cost in particular areas with the effect of suppressing competition from other potential suppliers.

The ACCC considers it will generally be in the interests of a declared person to set prices which is broadly reflective of costs. In assessing the structure of prices in a pricing proposal, the ACCC will, when relevant, consider the extent to which the pricing structure promotes efficiency.

Efficient pricing requires that consumers be charged the marginal social cost of supply of a good or service. Prices that are not cost reflective will generally adversely affect the efficiency of the resource allocation decisions by the declared person and the users of its services. However, where a declared person has fixed costs, marginal costs may be below average costs and hence strict adherence to marginal cost pricing will result in insufficient revenue for the declared person to recover its total costs. A declared person that supplies multiple goods or services may also have costs common to several of the services it supplies. The ACCC considers it important that fixed and common costs are allocated to services in a reasonable and transparent manner. For example, this may involve allocating costs in a manner that considers the demand sensitivities associated with the services provided.

A future price path involves the declared person proposing prices that extend beyond the forthcoming 12-month period in its price notification. A declared person is only required under Part VIIA of the CCA to submit the single proposed price in a price notification. However, the ACCC prefers price notifications to include future price paths and may consider such a price path to be a relevant consideration in its assessment of the price notification against the criteria.

Changes in the environment affecting the declared person's operations may lead a firm to propose a revised price path. However, the ACCC is unlikely to regard unanticipated/revised changes in future demand (affecting service volumes) as being in and of itself a sufficient reason for a declared person submitting a revised price path in future price notifications. This is because, in setting a long-term price path, it is appropriate for the declared person to bear the normal commercial risk associated with demand volatility.

The ACCC notes that Airservices has not proposed arrangements within the draft price notification that share the risk of under- or over-forecasting future demand for its services. This means that Airservices will benefit from a greater recovery of costs should aviation activity be more than forecast, or recover less costs should activity be less than forecast. These issues are discussed in sections 6.2 and 6.9.

4. About Airservices Australia

Airservices is wholly owned by the Australian Government and governed by a Board of Directors appointed by the Minister for Infrastructure, Transport, Regional Development and Local Government.

It is responsible for the safe and efficient management of Australia's skies and the provision of aviation rescue fire-fighting services at Australia's busiest airports. Airservices works with industry to support the long-term growth of the aviation industry.

While Airservices' regulated terminal navigation, enroute navigation, and ARFF services are its main service offerings, it also provides several non-regulated commercial services such as services to the Department of Defence, to airports, and data sales.

Enroute services manage the provision of all air traffic control services, outside of tower and terminal airspace, over the Australian mainland and on oceanic routes within Australia's flight information region. These services are responsible for managing aircraft operations from surface to 60,000 feet and are provided from Airservices' 2 major centres located in Brisbane and Melbourne.

Terminal navigation services encompass air traffic, aeronautical information, radio navigation, or telecommunications service for the direction and control of air traffic departing and arriving at any one of the 28 controlled aerodromes (plus an Aerodrome Flight Information Service at Port Hedland) in the Australian flight information region. Air traffic controllers apply separation standards to keep aircraft a minimum distance apart in controlled airspace and at airports.

Airservices provides ARFF services at 27 of Australia's busiest airports. It operates a fleet of more than 100 of the largest specialised fire-fighting vehicles in the country and 16 vessels for rescue operations at airports with significant movements over water.

In performing its functions, Airservices is required by section 9 of the Airservices Act to regard the safety of air navigation as its most important consideration. Under section 10 of the Airservices Act, Airservices is required to consult with government, commercial, industrial, consumer and other relevant bodies and organisations (including the International Civil Aviation Organisation and bodies representing the aviation industry).

The Civil Aviation Safety Authority prescribes the level of Airservices' terminal navigation and ARFF services required at an airport. Certain levels of services are required at an airport when passenger or aircraft movements exceed certain thresholds.

4.1. Minister's directions

Under section 16 of the Airservices Act, the Minister may give written direction to Airservices about the performance of its functions. If Airservices satisfies the Minister that it will incur financial detriment by complying with a direction, the government may provide reimbursement. 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.

Table 4.1 shows the 4 Ministerial directions that currently apply to Airservices.¹¹

¹¹ Airservices, [Corporate Plan 2022-23](#), page 32.

Table 4.1: Ministerial directions to Airservices

Date of issue	Subject
29 May 1996	Handling of aircraft noise complaints at Sydney and other federal airports
30 July 1997	Progressive implementation of Sydney Long Term Operating Plan
3 May 1999	Responsibilities in relation to the environmental effects of aircraft
31 August 2004	Provision of approach radar services at specific airports

4.2. Minister's Statement of Expectations

The Minister can issue a Statement of Expectations as a notice of strategic direction to the Airservices Board according to section 17 of the Airservices Act. The current statement applies from 1 July 2023 until 30 June 2025.¹² It replaces the previous statement, which applied from 1 July 2021 until 30 June 2023.¹³ The current statement provides high level expectations for Airservices around several issues including those related to governance, service performance, key initiatives, and stakeholder engagement.

The current statement includes expectations 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's 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, and
- keep stakeholders informed about air traffic service disruptions and action being taken to address the causes of disruption.

¹² The current Statement of Expectations can be accessed here: <https://www.legislation.gov.au/Details/F2023L00987>.

¹³ The previous Statement of Expectations can be accessed here: <https://www.legislation.gov.au/Details/F2021L00930>

5. Airservices Australia's previous price notifications

The ACCC has been assessing formal price notifications from Airservices since 2002. A full list of previous formal price notifications can be found on the public register on the ACCC website.¹⁴

The ACCC last assessed a proposed long-term price path in 2011 when Airservices submitted a price notification for its terminal navigation, enroute navigation, and ARFF services. The ACCC assessed Airservices' proposed 5-year price path (2011-12 to 2015-16) to ensure the proposed prices would allow recovery by Airservices of only the efficient level of costs of providing those services.

The ACCC did not object to the proposed price increases in the first or subsequent years of the price path. The ACCC considered the proposed prices in each price notification were consistent with those assessed by the ACCC in 2011.¹⁵

¹⁴ Available here: https://www.accc.gov.au/public-registers/browse-public-registers?f%5B0%5D=type%3Aacccgov_other_public_register&f%5B1%5D=acccgov_register_type%3A586

¹⁵ These price notifications can be accessed here: <https://www.accc.gov.au/by-industry/travel-and-airports/airport-and-aviation-price-notification>.

6. Matters for consultation

6.1. Proposed price increases and scope of the draft notification

Airservices is proposing 4 price increases between April 2024 and January 2026, which collectively would increase the weighted average price by 19% in nominal terms.¹⁶ The proposed price increases are presented below in table 6.1. Airservices' current and proposed prices are set out in Appendix B.

Table 6.1: Weighted average proposed price change by service line

Service	Apr 2024	Sep 2024	Jul 2025	Jan 2026
Enroute navigation	4.5%	4.5%	2.0%	1.0%
Terminal navigation	6.7%	6.2%	4.8%	5.1%
ARFF	8.9%	6.0%	4.5%	3.8%
Weighted average (nominal)	6.0%	5.3%	3.4%	3.0%

Source: Airservices Australia Draft Price Notification 2024-26, 13 November 2023, p. 5.

Airservices states its prices are currently at 2012 levels on a weighted average basis.¹⁷ Airservices last increased prices in 2015 and voluntarily reduced prices by 2% in 2019.¹⁸

Airservices states its airways activity levels were 20% below pre-COVID levels (2019) at the end of 2022-23. It states the recovery from the impact of COVID-19 is still forecast to impact traffic levels over the coming years. As such, Airservices considers price increases are required to align Airservices' charges to changes in demand as the industry returns to long-term expectations. Airservices considers sufficient cash flow will enable it to:

- fund service delivery programs to improve the consistency of service performance, and
- invest in key programs to support industry's ongoing recovery and growth.¹⁹

Absent any price increases, Airservices states its revenues will remain below building block costs for the foreseeable future, and barring unprecedented traffic growth, forever.²⁰ Further, even with the proposed price increases, Airservices states revenues are expected to fall short of full cost recovery over the pricing period by \$48 million (as of dollar value in 2023-24).²¹

Table 6.2 below sets out the projected net present value (NPV) of revenues net of building block costs over 2025-26 to 2029-30, for alternative scenarios:

- without any price increases, and

¹⁶ In its draft price notification, Airservices Australia indicates its price increases total 18%. While the sum of Airservices price increases equates to approximately 18%, cumulatively the change is approximately 19%.

¹⁷ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 4.

¹⁸ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 5.

¹⁹ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, pp. 4, 21.

²⁰ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 21.

²¹ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 21.

- with the proposed price increases in its draft price notification (with 2026-27 to 2029-30 inclusive of the impacts of OneSKY, new services at Western Sydney International Airport and expanded services for new runways at Perth and Melbourne Airports).

As economic conditions stabilise in the coming years, Airservices will seek to re-engage industry on its commercial priorities to support the development of future charging arrangements (including pricing arrangements for OneSKY, Western Sydney International Airport, new runways at Perth and Melbourne Airport, and Uncrewed Services).²²

Table 6.2: Cost recovery/shortfall for different time periods (starting in 2023-24 to a later year) (NPV)(\$million)

Scenario	2025-26	2026-27	2027-28	2028-29	2029-30
No price increases (current prices)	(319)	(477)	(604)	(725)	(814)
With proposed price increases*	(48)	(68)	(66)	(73)	(58)

Source: Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 5.

Notes: * 2026-27 to 2029-30 includes the impact of OneSKY, Western Sydney International Airport and new runways at Melbourne and Perth.

Airservices states:

- this price notification process is, of necessity, on an expedited timeline that is driven by the large COVID-19 induced losses it is experiencing²³
- it is not seeking to recover losses over the 2020-21 to 2022-23 period through its proposed price increases²⁴
- it is proposing a shorter duration for this agreement given the uncertainty in the business environment and the need to consult more extensively on longer term pricing issues²⁵
- it intends to begin consultation on another price notification process as this agreement expires.²⁶

Airservices is proposing a price path that gradually aligns revenues with costs over a 3-year period (2023-24 to 2025-26), resulting in Airservices under-recovering in the first year and over-recovering in the following years. Airservices considers this avoids price spikes and swings that would arise when precisely matching prices to building block costs in each year.²⁷ Table 6.3 below shows Airservices under-recovery and over-recovery in each financial year. It also shows that Airservices forecasts under-recoveries totalling \$47.6 million (\$2023-24) on a NPV basis.

Table 6.3: Services surpluses/(shortfalls) (\$nominal financial years)

Service (\$mil)	2023-24	2024-25	2025-26
Enroute	(35.2)	53.2	118.2
Terminal Navigation	(77.1)	(10.7)	52.9

²² Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 5.

²³ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 21.

²⁴ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 5.

²⁵ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 23.

²⁶ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 23.

²⁷ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 40.

ARFF	(89.7)	(30.1)	(1.5)
Total	(201.9)	12.5	169.5
Net Present Value	(47.6)		

Source: Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 42.

The ACCC has advised Airservices that the proposed timing of April 2024 for its first price increase does not appear achievable based on the time required for the ACCC's assessment of both the draft and formal price notifications, as well as the required consultation by Airservices with the Minister. Indicative timing for these processes can be found in Section 1.1 of this issues paper.

1. The ACCC seeks stakeholder views on the appropriateness of Airservices' proposed price increases, including the timing and magnitude of each of the 4 price increases.
2. The ACCC seeks stakeholder views on the appropriateness of the length of time (that is, April 2024 until June 2026) of Airservices' draft price notification. Specifically does the proposed shorter duration for the long-term pricing agreement:
 - a. provide stakeholders with a sufficient level of pricing certainty
 - b. provide an incentive for Airservices to improve efficiency, and
 - c. balance out uncertainties and less extensive consultation.
3. The ACCC seeks stakeholder views on the proposed price path, including the impacts on stakeholders of the over- and under- recovery of costs resulting from the proposed approach to reduce price volatility.
4. The ACCC seeks stakeholder views on the exclusion of the following investments in the current draft price notification:
 - a. the vast majority of capital expenditure related to the OneSKY program
 - b. new services at Western Sydney International Airport
 - c. expanded services for new runways at Perth and Melbourne airports
 - d. services related to managing uncrewed aircraft in shared airspace.
5. The ACCC seeks stakeholder views on whether there are any other investments or expenditure which have been excluded from this draft price notification, but which stakeholders believe should be included.

6.2. Activity forecasts

Forecast activity levels

Forecast aviation traffic levels at each location are applied in Airservices' proposal to translate its proposed revenue levels into individual prices. Airservices considers that the Australian aviation industry is still in recovery, with ongoing volatility and uncertainty likely to persist. Airservices states the timing and shape of the recovery from the pandemic has been difficult to predict.²⁸

²⁸ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 50

To inform its traffic forecasts, Airservices engaged Tourism Futures International (TFI) to forecast aggregate airways activity volumes. Based on TFI’s interim forecast report, Airservices implements an airways activity volumes projection of 30%, on a weighted average basis, over the term of the draft price notification.²⁹ Airservices states this forecast reflects:³⁰

- a stronger growth rate for domestic airways traffic (forecasted to rebalance to pre-COVID levels in 2023-24), and
- a conservative growth rate for international traffic (forecasted to rebalance to pre-COVID levels in 2025-26).

Table 6.4 below shows the actual and forecast aggregate pricing units of activity of airport tonnes landed and square-root tonnes kilometres.

Table 6.4: Airways activity volumes, actual and forecast

Service	2022-23	2023-24	2024-25	2025-26	Change on 2022-23
Enroute (sq-rt tonnes/kms)	117.9	136.0	143.6	153.1	-
Terminal navigation (tonnes landed)	48.5	54.7	59.2	62.9	-
ARFF (tonnes landed)	48.2	54.5	58.9	62.7	-
Weighted Average growth (year on year)	-	14%	7%	6%	30%

Source: Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 51.

TFI’s report prepared 2 initial aviation traffic scenarios over 2022-23 to 2025-26:

- Scenario 1 is an “optimistic scenario” that assumes economies grow faster than predicted by the International Monetary Fund and other economic forecasters, passenger demand grows, airlines add capacity to meet the demand and airfares and travel costs fall in real terms.
- Scenario 2 is a less optimistic scenario that assumes economies are impacted by rising interest rates and reduced discretionary spending including on travel. For this scenario it is assumed: economies grow at a slower rate than predicted by the International Monetary Fund and other economic forecasters, and passenger demand grows at a slower rate than assumed in Scenario 1.

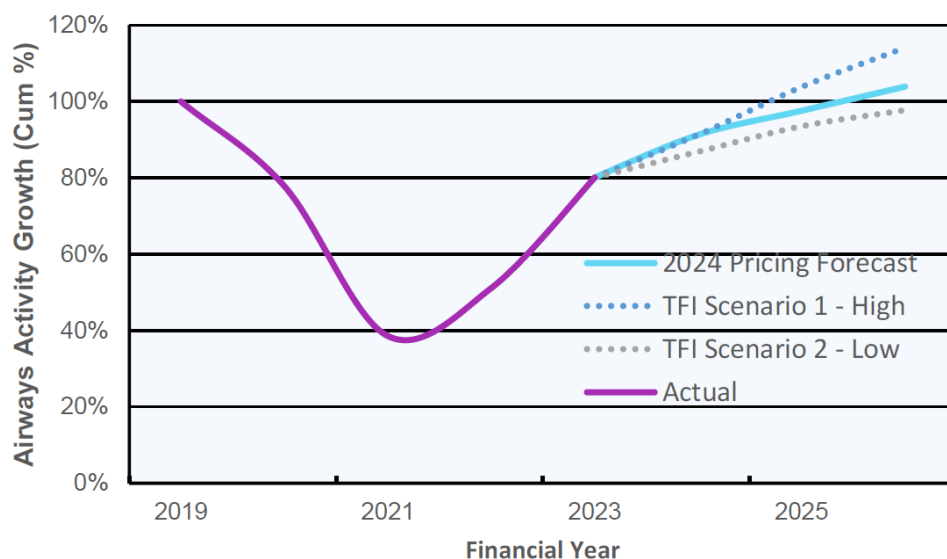
TFI states these 2 scenarios should not be seen as boundary scenarios. Furthermore, TFI notes that it intends to include the actual aviation activity levels for 2022-23 and further review the market response to interest rate rises, in finalising its review.³¹ The results of TFI’s initial high and low forecasts are shown below in figure 6.1, compared to Airservices’ forecast in its pricing proposal.

²⁹ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 50.

³⁰ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 50.

³¹ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, Page 1 of Appendix 6.

Figure 6.1: Actual/forecast airways activity growth, TFI and Airservices forecasts, 2018-19 to 2025-26



Source: Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 51.

The impact of activity volumes on recoverable revenues

The accuracy of traffic forecasts are important as individual prices and revenues recovered appear to be sensitive to these estimates. Higher traffic forecasts reduce individual prices, and vice versa. This has implications for Airservices’ cost recovery in this price notification.

Table 6.5 below shows Airservices’ NPV varies between \$137 million and negative \$186 million over its proposal, based on the high and low traffic forecasts from the notification. Airservices’ proposed traffic forecasts result in a NPV of negative \$48 million over the course of the proposal. Table 6.5 also suggests a plus/minus 6% sensitivity (on a present value basis), on proposed prices across potential traffic and revenue outcomes compared to Airservices’ forecast.

Subsequently, the ACCC considers that the accuracy of Airservices’ traffic forecasts has a material impact on the overall NPV of Airservices’ pricing proposal. The ACCC notes Airservices is not proposing any risk sharing arrangements, citing the importance of providing industry with price certainty through its ongoing recovery and other considerations (see section 6.9 for further details).³²

Table 6.5: Surplus/(shortfall) traffic sensitivity

Scenario (\$ million)	2023-24	2024-25	2025-26	NPV	Percentage of cumulative maximum allowable revenue
High traffic	(203)	91	305	137	4%
Low traffic	(247)	(27)	103	(186)	-6%
Proposed	(203)	11	167	(48)	-2%

Source: Airservices Australia Draft Price Notification 2024-26, 13 November 2023, p. 26.

³² Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 53.

The ability of the ACCC and stakeholders to critically assess Airservices' demand forecasts would be improved with further information about how these forecasts were determined. The ACCC intends to engage with Airservices regarding further information and will seek to publish as much of the information received as possible.

6. The ACCC seeks stakeholder comments on the reasonableness of Airservices' aviation traffic forecasts, including:
 - a. the methodology used by TFI and the accuracy of its forecasts
 - b. how Airservices' forecasts compare to other forecasts being used by the industry
 - c. the degree of volatility expected in aviation traffic forecasts over the next 6-12 months and the term of the draft price notification.

6.3. Impact of price changes

In the draft price notification, Airservices provided estimates of the impact of the first proposed price increase (in April 2024) on enroute navigation, terminal navigation, and ARFF fees, and average passenger ticket prices, for specific aircraft/routes.³³

An airline may incur Airservices charges of several thousand dollars or more to operate a flight, depending on the route and the size of the aircraft. Currently, Airservices charges typically represent between \$5 and \$60 on a per-passenger basis, depending on the route and size of the aircraft.

According to figures provided by Airservices:

- airlines flying a Boeing 737-800 from Melbourne to Brisbane currently incur a per passenger cost of about \$13 for Airservices' terminal navigation, enroute, and ARFF services. Under the proposed price change, the per passenger cost would increase by \$0.74 in April 2024.
- airlines flying an Airbus A380 from Singapore to Sydney currently incur a per passenger cost of \$35 for Airservices' terminal navigation, enroute navigation, and ARFF services. Under the proposed price change, the per passenger cost would increase by \$1.90 in April 2024.³⁴

Airservices estimated that its first price increase would equate to between \$0.19 to \$2.42 per passenger (or between 0.0% and 0.2% on average airfares). The largest estimated impact in percentage terms (0.2%) was for the Brisbane to Cairns return flight on an Airbus A320.³⁵

7. The ACCC seeks stakeholder comments on whether Airservices' estimates of the likely impact of the price changes on airline fees and passenger ticket prices appear accurate.

³³ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 35.

³⁴ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 35.

³⁵ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 35.

6.4. Building block model

Airservices has adopted for the current draft price notification the building block approach applied in previous price notifications.

Table 6.6 sets out Airservices' assessment of allowable revenues as calculated under the building block model.

Table 6.6: Airservices assessment of allowable revenues (\$million)

	2023-24	2024-25	2025-26
Operating Costs	1,043.1	991.8	979.3
Return of Capital	91.7	90.3	89.6
Return on Capital	65.1	70.7	75.9
Tax Allowance	8.2	8.9	9.6
Total Allowable Revenues	1,208.1	1,161.8	1,154.3

Source: Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 42.

Airservices forecasts recovery shortfalls following the end of the proposed price path in 2025-26 (see table 6.7 below). Airservices states the pricing impacts for OneSKY and Western Sydney International Airport, subject to an intended future price notification, are estimated to add additional building block revenue allowances in excess of \$200 million. Airservices states it will begin consultation on another price notification process as this agreement expires in order to rebalance recovery levels.³⁶

Table 6.7: Airservices assessment of cost recovery (\$million)

Recovery Surplus/shortfall (\$mill)	2025-26	2026-27	2027-28	2028-29	2029-30
Annual Nominal	170	(24)	4	(11)	26
Cumulative NPV from 2023-24	(48)	(68)	(66)	(73)	(58)

Source: Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 43.

Notes: 2026-27 to 2029-30 includes the impact of OneSKY, Western Sydney International Airport and new runways at Perth and Melbourne airports.

6.4.1. Operating expenditure

Airservices has forecast operating expenditure based on existing services with allowances for wages and inflation growth, and the impact of its forward change program.³⁷

Airservices states staff costs represent approximately 75% of operating costs. Airservices remaining operating costs relate to asset maintenance and running costs, and project operating expenses required to deliver its investment program.³⁸

³⁶ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 43.

³⁷ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 42.

³⁸ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 43.

Airservices states that while these cost structures have remained largely unchanged over time, they do reflect a gradual shift as some of Airservices' business functions have moved to outsourced or managed services arrangements. Airservices states that while this has improved the capacity and flexibility of its cost base, it has had the impact of shifting some costs from depreciation to supplier costs. It has also meant that some implementation costs associated with managed services arrangements and 'right of use' assets are recognised in the period in which the costs are incurred, rather than amortised over the service life.³⁹

Airservices states its real operating costs have fallen materially since the last price notification (and will fall over the period of its draft price notification), in large part reflecting the business restructuring on staffing.⁴⁰ Some of these reductions were temporary in the wake of the COVID-19 pandemic, but some involve an ongoing reduction in labour intensity as new systems are introduced.

Specifically, Airservices forecast that by 2025-26 real operating expenditure will be 10% lower than the ACCC's allowance in the last long-term pricing agreement. Over the same period tonnes landed is forecast to be 13% higher than in 2019-20.⁴¹

Airservices states it restructured its services in 2016 to deliver savings of 15% across the business, under the Accelerate Program. Airservices states this program was underpinned by implementation of a new business operating model driving significant efficiencies, improved asset and project management, and technology upgrades to support new business processes through automation and digitalisation.⁴²

8. The ACCC seeks stakeholder comments on Airservices' operating costs in the draft price notification, including:
 - a. The appropriateness of estimated operating costs, and
 - b. Airservices' incentives for, and effectiveness in, containing and reducing its operating costs.

6.4.2. Opening asset base

Airservices is proposing an opening asset base of \$699.8 million for 2023-2024.⁴³

Airservices states its opening asset base has been updated since the previous price notification (at \$830.1 million as of 1 July 2011) to take into account actual levels of investment, depreciation and disposal, as well as the impact of asset impairments arising out of business restructuring activities.⁴⁴ Capital expenditures on existing assets have been below replacement costs in anticipation of replacement by OneSKY related infrastructure to be commissioned in 2026-27.⁴⁵

³⁹ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 43.

⁴⁰ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 15.

⁴¹ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 15.

⁴² Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 75.

⁴³ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 47.

⁴⁴ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 46.

⁴⁵ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 16.

The opening asset base excludes the vast majority of investment made for the OneSKY program since 2016-17 totalling \$812.0 million.⁴⁶ See section 6.4.3 for discussion on the specific accounting treatment of capital.

9. The ACCC seeks stakeholder comments on:
 - a. the appropriateness of capital investments driving the change in asset values between the previous (2011) pricing agreement and the present opening value
 - b. the adequacy of Airservices' capital expenditure to date in meeting the needs of users, and
 - c. the efficacy of Airservices' capital expenditure as demonstrated by an increase in capacity, reliability, safety, and quality of services.

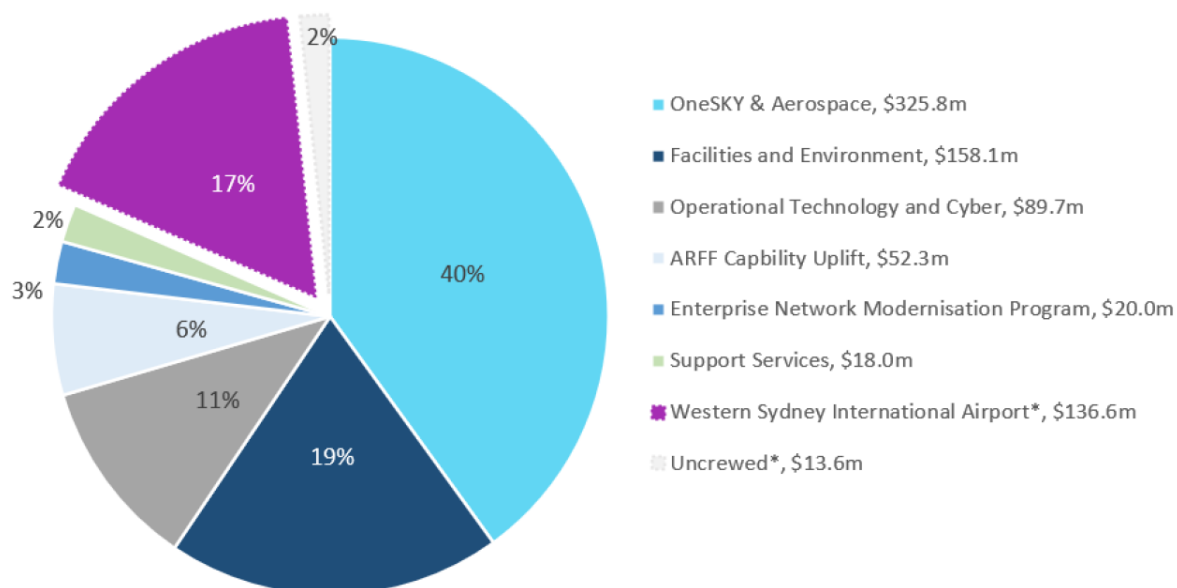
6.4.3. Capital expenditure

Over 2023-24 to 2025-26, Airservices proposes to:

- invest \$814.1 million (nominal) in capital expenditure programs,⁴⁷ and
- include \$445.2 million (nominal) of this capital expenditure in its regulatory asset base.⁴⁸

Airservices capital expenditure program over the course of the current notification is shown below in figure 6.2.

Figure 6.2: Airservices capital investment program, 2023-24 to 2025-26



Source: Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 48.

Notes: Investment for the vast majority of OneSKY, Western Sydney International Airport, New Runways at Perth and Melbourne and Uncrewed Services excluded have been excluded from 2024- 2026 Regulatory Asset Base calculations.

As proposed under the 'as commissioned' approach capital expenditure for new services at Western Sydney International Airport, expanded services for new runways at Perth and

⁴⁶ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 47.

⁴⁷ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 48.

⁴⁸ Based on the sum of capital expenditure figures for 2023-24 to 2025-26 in Table 27 of Airservices 13 November 2023 Draft Price Notification 2024 (p. 47). Over 2016-17 to 2025-26, Airservices proposes to include \$874 million (nominal) of capital expenditure in its regulatory asset base.

Melbourne airports, and the vast majority of the OneSKY program (including those incurred since 2016-17), do not roll into the regulatory asset base until 2026-27 (see below). This capital expenditure, as well as capital expenditure for uncrewed services, is not part of the 2023-24 to 2025-26 regulatory asset base and asset cost calculation, and thus not considered in this draft price notification. Airservices has indicated these investments will form part of future price notifications.⁴⁹

As per section 1.1, Airservices initially included the 2026-2027 financial year in its draft price notification. This would have required the ACCC to assess approximately \$1.5 billion of OneSKY capital expenditure and the associated cost of debt capitalisation in the regulatory asset base.⁵⁰ Given the significance of this cost, 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 Airservices' proposed price increases.

Following consultation with the ACCC, Airservices provided a revised draft price notification, excluding 2026-27 and therefore the vast majority of OneSKY capital expenditure from being considered under the current price notification process.

Regulatory Asset Base: 'as-commissioned' and 'as-incurred' approach

As above, capital expenditure related to Western Sydney International Airport, new runways at Perth and Melbourne airports, uncrewed services, and the vast majority of OneSKY (including those incurred since 2016-17) have been excluded from 2024-2026 regulatory asset base calculations. While Airservices has incurred or is incurring capital expenditure on these projects, it is proposing to roll this expenditure into the asset base when commissioning the assets in 2026-27 or later.⁵¹ Therefore, they are proposed to be subject to future price notifications.

An 'as commissioned' approach to funding capital expenditure is where capital expenditure is recognised in the regulatory asset base 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 regulatory asset base as the expenditure is incurred. Under the 'as commissioned' approach, the efficiency and prudence of the capital expenditure incurred earlier will be examined on an 'ex-post' assessment basis.

The ACCC observes that the application of the 'as commissioned' approach by Airservices would result in the same revenue requirement over the entire life of assets on an NPV basis as the 'as incurred' approach. However, the timing of the cost recovery changes substantially as the alternative accounting approaches change the time that capital expenditure enters the asset base to earn returns and be depreciated over the expected asset lives. Under the proposed 'as commissioned' approach, Airservices is proposing to recover asset costs during the 2016-17 to 2025-26 financial years, which would be recognised as return on and off assets in the relevant years under the 'as incurred' approach, from 2026-27 onwards.

Airservices historical and proposed forecast real regulatory asset base is shown below in figure 6.3. This figure shows Airservices' forecast asset base will substantially increase in 2026-27. This is largely due to using an 'as-commissioned' approach for the vast majority of

⁴⁹ Airservices' Draft Price Notification 2024-2026, 13 November 2023, p 5 & 27.

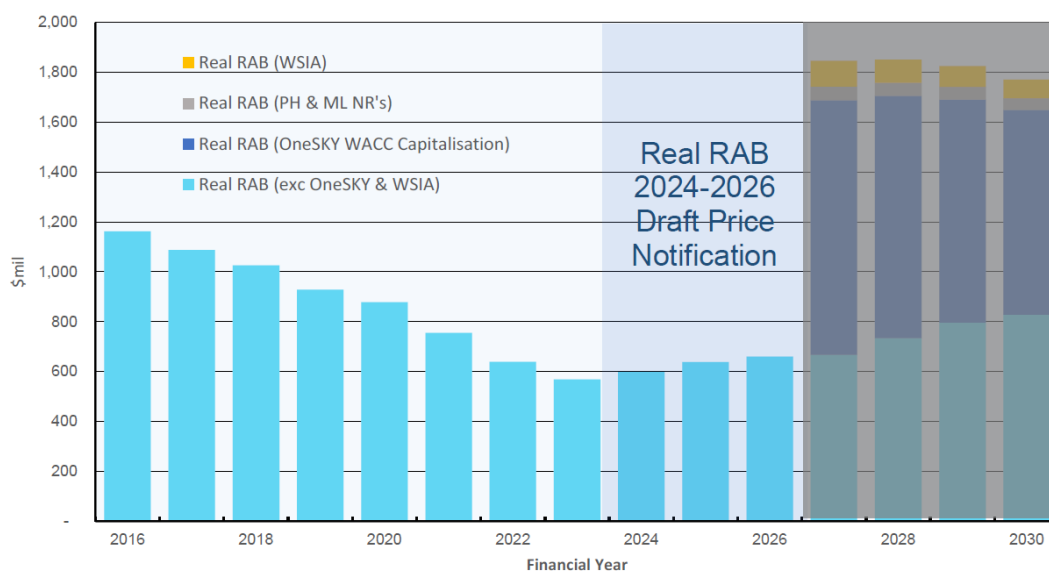
⁵⁰ In its original notification, Airservices proposed to include \$1,026.5 million dollars of capital expenditure related to OneSKY in its asset base in 2026-27. To account for time value of money of work in progress prior to commissioning, Airservices also indexed the investment for cost of debt and capitalised \$426.1m into the asset base in 2026-27. Source: Airservices Australia Draft Notification 2024, p. 47.

⁵¹ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, pp. 16-17.

OneSKY expenditure. In comparison, figure 6.4 shows Airservices historic and proposed forecast real capital expenditure, as it was incurred. Incorporating expenditure on an 'as incurred' approach would lead to a higher regulatory asset base from 2023-24 to 2025-26, but a less substantial increase in 2026-27.

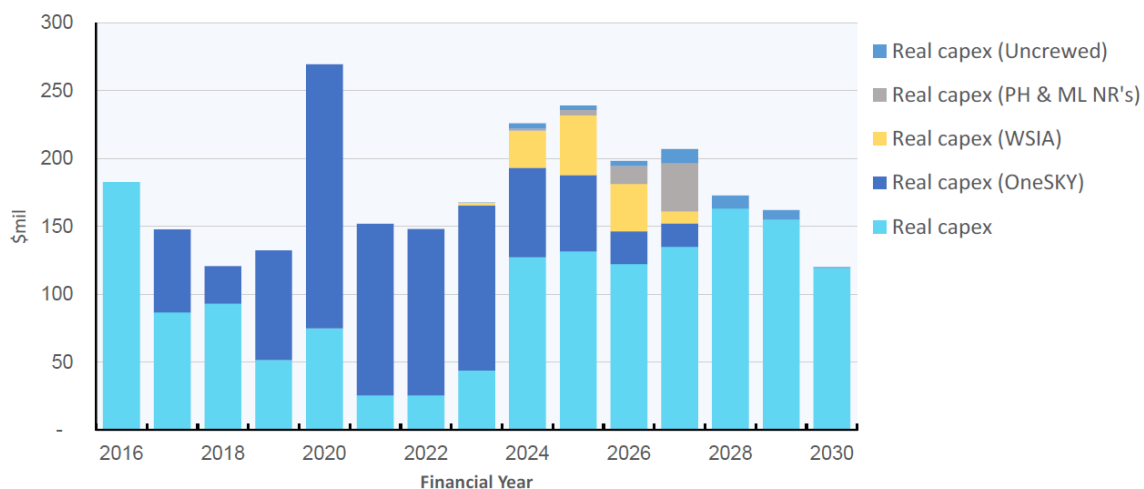
Under the proposed 'as commissioned' approach, Airservices will incorporate historical capital expenditure accumulated since 2016-17 for OneSKY (see figure 6.4), as well as the time value of money through cost of debt capitalisation, into the asset base in 2026-27. That is, asset costs associated with capital expenditure made prior to a future 2026-27 notification period would be recovered from 2026-27 onwards. In contrast, under an 'as incurred' approach, the return on assets and depreciation prior to the notification period cannot be recouped as part of the revenue under this or future price agreements. However, these asset costs for the years 2024-2026 would be recovered within this pricing agreement.

Figure 6.3: Airservices historical and forecast real regulatory asset base



Source: Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 17.

Figure 6.4: Airservices historical and forecast real capital expenditure (as-incurred)



Source: Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 17.

Capital expenditure for OneSKY for 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.⁵²

The scope of the OneSKY program for Airservices includes:

- the CMATS
- Early Voice Communication System
- Bypass CMATS Voice Communication System
- CMATS Air Traffic Services Centres (ATSCs) and TAAATS ATSC Refurbishment
- Training Support Facilities
- Joint Software Support Facility and Support Platform Space
- OneSKY Equipment Rooms
- Technical Operations Centres
- System Integration.⁵³

Some parts of the OneSKY program, such as investments for the Early Voice Communications System, Operational Equipment Rooms, and Facilities Refurbishment Work have been included in the regulatory asset base on an 'as-incurred' basis. This represents \$165 million included in the regulatory asset base from 2016-2017 to 2025-26, including \$45 million over 2023-24 to 2025-26.⁵⁴ The ACCC understands some of these elements of OneSKY are already in use, such as the Early Voice Communications system.⁵⁵ In total, Airservices proposes to include \$874 million (nominal) of capital expenditure in its regulatory asset base over 2016-17 to 2025-26, including \$445 million over 2023-24 to 2025-26.⁵⁶

As per Chapter 1, the ACCC has sought additional supporting information from Airservices regarding its draft price notification. This includes further details on all capital expenditure projects related to OneSKY that are included in the current pricing proposal. The ACCC intends to publish Airservices responses to the information request on the [ACCC website](#) once it becomes available.

As explained above, Airservices has excluded from its regulatory asset base 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 their commissioning in 2026-27.

As part of this price notification process, the ACCC will assess the proposed \$165 million of OneSKY capital expenditure to be included in the regulatory asset base. In assessing future

⁵² Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 67.

⁵³ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, pp. 68-69.

⁵⁴ Based on the sum of total OneSKY expenditure figures for 2016-17 to 2025-26 in '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'.

⁵⁵ Airservices Australia Draft Price Notification, 27 September 2023, pp. 48.

⁵⁶ Based on the sum of total expenditure figures for 2016-17 to 2025-26 (financial years) in Table 27 of Airservices 13 November 2023 Draft Price Notification 2024-2026 (p. 47).

price notifications from Airservices, the ACCC may assess the prudence and efficiency of Airservices' total capital expenditure on the OneSKY program once the full OneSKY project costs are known.

10. The ACCC seeks stakeholder comments on Airservices' proposed capital expenditure projects included in the draft notification, including the:
 - a. appropriateness of the capital projects included
 - b. prudence of estimated capital costs for the capital projects
 - c. appropriateness and effectiveness of the decision-making process undertaken by Airservices in determining the capital projects to be undertaken
 - d. extent to which Airservices' capital expenditure is driven by regulatory requirements, such as requirements by the Civil Aviation Safety Authority or international policies.
11. The ACCC seeks stakeholder comments of Airservices OneSKY capital expenditure program, including the appropriateness of:
 - a. accounting for the vast majority of the program in a future price notification, by using an 'as commissioned' approach to recognising the cost of this capital, as opposed to an 'as incurred' basis
 - b. capital expenditure included in the regulatory asset base in this draft price notification on an 'as incurred' basis (the Early Voice Communications System, Operational Equipment Rooms, and Facilities refurbishment work).

6.4.4. Return of capital (depreciation)

Airservices states its depreciation forecasts have been based on existing assets, valued at cost and per original asset lives and new asset values in accordance with its forward investment plan and projected timing of commission.⁵⁷

Airservices notes that its standard costing method:

- applies a standard asset value and depreciation cost per facility type, and
- smooths variation across time to ensure cost recovery is the same over the asset life.⁵⁸

Further details on Airservices' proposed standard costing method are provided in section 6.5.

12. The ACCC seeks stakeholder comments on Airservices' depreciation forecasts.

6.4.5. Return on capital

Airservices is proposing a nominal vanilla weighted average cost of capital (WACC) of 8.93% for the draft price notification.⁵⁹ Airservices engaged Incenta Economic Consulting to assist with the estimation of the WACC.⁶⁰

⁵⁷ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 44.

⁵⁸ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 55.

⁵⁹ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 45.

⁶⁰ Airservices provided Incenta's report in Appendix 5 (pp.73-88) of its 13 November 2023 Draft Price Notification 2024-2026.

Table 6.7 outlines Airservices' proposed WACC parameter methodology and estimates.

Table 6.7: Proposed WACC parameters

Parameter	Estimation methodology	At 31 July 2023
Gearing	Average gearing of comparator firms – 5 years to 2014 & 2019	21%
Credit rating	Standard assumption for regulated infrastructure	BBB+
Risk free rate	Bloomberg annualised yield, 20 business days to 31 July 2023	4.09%
Asset Beta	Asset beta for comparator firms: Average of W&M estimates to 2014 & 2019	0.70
Equity Beta	Relevered equity beta	0.89
Market Risk Premium	AER Rate of Return Instrument (RORI) estimate	6.20%
Gamma	AER RORI estimate	0.57
Term of debt	AER RORI estimate	10 years
Return on Debt	20 business day average of RBA & Bloomberg interpolated BBB+ yields	6.35%
Return on equity	CAPM formula	9.61%
Inflation forecast	AER (2020) method based on explicit RBA forecast and 2.5% target at 5 years.	2.96%
Nominal Vanilla WACC		8.93%
Real Vanila WACC		5.80%

Source: Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 78-79.

Incenta Economic Consulting used domestic and international comparator firms to estimate both the asset beta and benchmark gearing for Airservices. Incenta Economic Consulting used two 5-year periods ending 2014 and 2019 to determine the benchmark gearing level and asset beta estimates.⁶¹ Incenta Economic Consulting notes that it was instructed by Airservices not to use data post December 2019 due to the ongoing debate and Covid-19 pandemic impacts on airports.⁶²

13. The ACCC seeks stakeholder comments on the reasonableness of:

- a. Airservices' proposed rate of return on capital, as well as each of the individual parameters, and
- b. the methodology Airservices uses to estimate the WACC parameters.

14. The ACCC seeks comments on the appropriateness of:

- a. the selected domestic and international comparators to develop estimates of the parameters, and

⁶¹ Airservices provided Incenta's report in Appendix 5 (pp.73-88) of its 13 November 2023 Draft Price Notification 2024-2026.

⁶² Airservices provided Incenta's report in Appendix 5 (pp.73-88) of its 13 November 2023 Draft Price Notification 2024-2026.

- b. the chosen sample periods, and particularly, the exclusion of the Covid-19 pandemic period from estimating the asset beta and gearing level.

6.5. Allocation of costs

Airservices states it has adopted the same broad cost allocation methodology in the development of this draft notification as it has applied in previous price notifications.⁶³

6.5.1. Cost allocation methodology

Standard costing

Airservices uses a 'standard costing' approach to calculate building block costs.⁶⁴ Standard costing smooths variation in input costs across location and 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 locations and years).

Cost allocation across activities

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.⁶⁵

Airservices uses key cost statistics as the basis for allocating costs and asset values to service lines according to 2 broad functions:

- **Direct operational functions:** these are attributed to services using location and service specific key cost statistics. These include direct air traffic control and ARFF service costs and asset costs.
- **Non-operational functions:** these are attributed to services at an aggregated level using broad attribution statistics. These include operational support and safety, environment, and corporate management costs.⁶⁶

Cost allocation to location

Airservices states the costs of providing services at a location, comprise both location specific and non-location specific costs. Airservices' main costs components and their relative size are shown in figure 6.5. How these costs are allocated, is briefly outlined below.⁶⁷

- **Operational staff and supplier costs:** Costs are attributed to service locations based on staff numbers and the standard staffing and supplier costs.
- **Operational support costs:** These are specialist support costs that are service specific, but not location specific (e.g. training and safety and compliance costs). Costs are

⁶³ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 55.

⁶⁴ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 55.

⁶⁵ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 55.

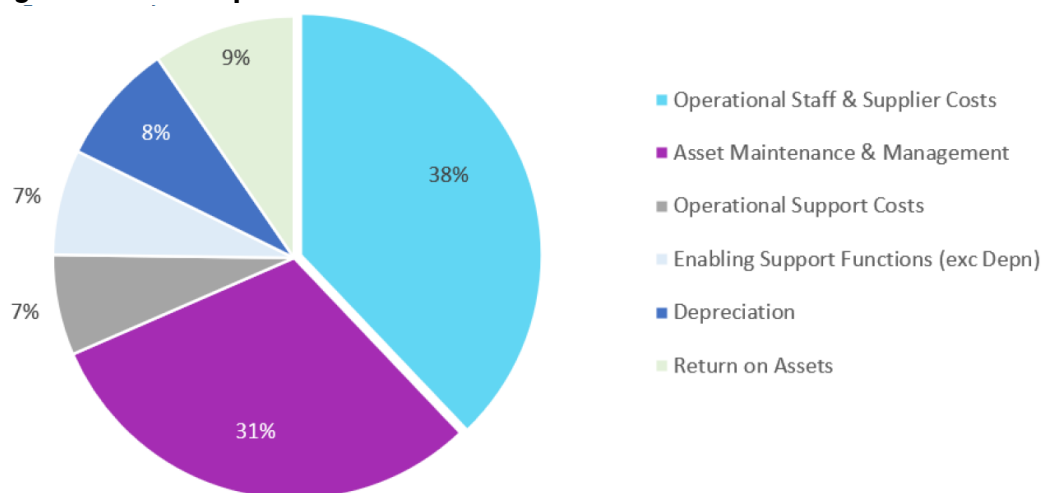
⁶⁶ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 55.

⁶⁷ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, pp. 56-57.

allocated to service locations in proportion to the locations share of location specific costs.

- **Asset maintenance and management costs:** These costs can be both location and non-location specific.
 - Location specific costs include technical equipment and infrastructure (e.g. radars, towers, fire vehicles). These costs are standardised and attributed to each service based on the number of units installed at that location.
 - Non-location specific costs relate to services not involved in the provision of a specific air traffic control or ARFF service (such as engineering management). These costs are attributed across the asset systems they support, and then to individual service locations based on the number of units installed at the location.
- **Depreciation:** Location specific costs are attributed on a standard cost basis to a location. Non-location specific costs are attributed applying the same method as non-location specific Asset Maintenance and Management costs.
- **Enabling support functions:** These non-location specific costs include functions such as safety, human resources, finance, and administration. They are allocated first, to services based on their proportional share of location costs, then secondly to individual service locations based on overall demand.

Figure 6.5: Composition of service costs



Source: Source: Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 56.

Segregation of notified and non-notified services

Where Airservices derives revenues from non-notified services, it uses a ‘dual till’ approach to segregate the costs of its notified services (that is, terminal navigation, enroute navigation and ARFF services) from its non-notified services (for example, services to the Department of Defence, Airports, and data sales).⁶⁸ Both direct and common costs relating to non-notified services are identified, allocated, and excluded from the building block model.

15. The ACCC seeks stakeholder comments on the appropriateness of Airservices adopting the same cost allocation methodology in the development of this draft price notification as it applied in previous price notifications. This includes the appropriateness of:

⁶⁸ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 42.

- a. a 'standard costing' approach to standardising cost inputs across location and time
- b. an activity-based approach in determining the cost of each service at each location
- c. the cost allocators used to attribute costs to each service location
- d. a 'dual till' approach to segregate costs of notified services from non-notified services.

6.5.2. Pricing across services and locations

Airservices states its current pricing structure incorporates elements of network and location specific charges to reduce the risk of distorting efficient investment signals.⁶⁹

Airservices notes 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 extremes and Airservices' challenge is to balance the various competing priorities and subsequent industry impacts over time.⁷⁰

For terminal navigation charges, Airservices states it incorporates capital city basin subsidies between large international airports and their secondary Metro D airports, to recognise the joint services relationship. Airservices lists locations where subsidies are provided.⁷¹

Airservices states that depending on how traffic levels evolve, there may need to be some recalibration of cost recovery levels between Airservices' enroute navigation, terminal navigation, and ARFF services.⁷²

16. The ACCC seeks stakeholder views on the appropriateness of capital city basin pricing approach adopted for terminal navigation charges.

17. The ACCC seeks stakeholder views on the pricing structures across enroute navigation, terminal navigation, and ARFF services.

6.6. Basis of charges

Airservices is not proposing to change the structure of its prices for the current draft price notification.⁷³ Airservices states that the rationale of Airservices' current pricing structure remains unchanged since the 2011-12 to 2015-16 long-term pricing agreement. Airservices however acknowledges the need to continue to review its pricing structures to ensure they continue to deliver a balanced economic outcome over time.⁷⁴

Airservices states future price notifications will consider the pricing impact of the vast majority of OneSKY, as well as pricing structure issues created by Western Sydney

⁶⁹ Airservices Australia Draft Price Notification 2024-26, 13 November 2023, p. 37.

⁷⁰ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 38.

⁷¹ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, pp. 39-40.

⁷² Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 23.

⁷³ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 5.

⁷⁴ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 37.

International Airport, new runway services at Perth and Melbourne airports, and uncrewed services.⁷⁵

Airservices' current and proposed prices, including the charging formulas, are set out in Appendix B.

Weight-based charges across all terminal navigation, enroute navigation, and ARFF services

Aircraft weight is used to calculate Airservices charges for terminal navigation and ARFF services.⁷⁶ Weight and distance flown are used to calculate Airservices charges for enroute navigation services.

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.⁷⁷

Enroute navigation services

Enroute charges are network based and applied to Information Flight Rules operations. Airservices also applies a Chargeable Distance, based on estimates of average actual distances flown over time for city pairs to simplify charging arrangements.⁷⁸

Terminal navigation services

Terminal navigation charges are location specific. Charges are levied on full-stop landings. Charges for a session of 'touch-and-go' training circuits are only levied on the full-stop landing.⁷⁹

Airservices incorporates capital city subsidies for terminal navigation services between large international airports and their secondary Metro D airports (see section 6.5.2).

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)
- an incremental location and category specific charge to reflect the higher level of resources associated with higher category of services.⁸⁰

Interim prices for ARFF service upgrades

⁷⁵ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 5.

⁷⁶ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, pp. 38-39.

⁷⁷ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, pp.38-39.

⁷⁸ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 39.

⁷⁹ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 39.

⁸⁰ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 40.

Airservices is proposing interim prices for locations where ARFF services are required to increase above existing levels to meet regulatory service obligations over the course of this pricing agreement. These interim prices will apply to higher aircraft category operations that necessitated the increase in aerodrome service level.⁸¹

These interim charges are proposed to apply at the effected aerodrome until such time a new pricing agreement is established which fully considers the ongoing cost and traffic impact of these higher aircraft level operations.⁸²

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.⁸³

18. The ACCC seeks stakeholder views on:

- a. Airservices' proposal not to change the structure of its prices for the current draft price notification
- b. the appropriateness of weight-based pricing mechanisms for terminal navigation, enroute navigation, and ARFF services, including whether the charges promote efficient use of the services
- c. the appropriateness of the charging basis for:
 - i. enroute navigation services
 - ii. terminal navigation services
 - iii. ARFF services, and the interim prices for ARFF service upgrades, and
 - iv. general aviation, and other.

6.7. Performance and efficiency

6.7.1. Performance measurement and monitoring

Airservices states that consistent with previous pricing arrangements, the current pricing proposal is underpinned by its services performance commitment. Airservices states its commitment will continue to focus on safety, reliability, and efficiency of its services.⁸⁴

Airservices sets out in its draft price notification and 2023-24 Corporate Plan, longer-term performance outcomes, indicators, baselines, as well as targets regarding safety, capacity,

⁸¹ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 33.

⁸² Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 33.

⁸³ See here for General Aviation Option charges: <https://www.airservicesaustralia.com/industry-info/aviation-charging/general-aviation-option/>

⁸⁴ Airservices Australia Draft Price Notification 2024-26, 13 November 2023, p. 34.

efficiency, engagement, the environment, and community for 2023-24 to 2027-28.⁸⁵ Table 6.8 outlines Airservices' performance metrics.

To ensure transparency in its progress towards delivering the performance outcomes, Airservices states it will continue to share performance information on its website, supported through ongoing operational and commercial meetings with its customers.⁸⁶

Table 6.8: Airservices performance metrics

Performance outcomes	Key performance indicators	Baseline	Targets (2023-24 to 2027-28)
Zero significant attributable safety occurrences	Significant attributable safety occurrences	0	Zero significant attributable safety occurrences
100% Planned aerodrome capacity delivered	Planned capacity delivered as a % of time	82%	Meet planned capacity greater than 85% of time as traffic grows
	Sydney	78%	
	Melbourne	79%	
	Perth	82%	
	Brisbane	93%	
	Airservices attributable cancelations	24	
	Sydney	17	
	Melbourne	0	
	Perth	1	
	Brisbane	6	
	Airservices attributable ground delay	109	Monthly average, year-on-year improvement trending towards zero
	Sydney	70	
	Melbourne	0	
	Perth	1	
	Brisbane	38	
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	221,746	Reduce to 217,359 tCO _{2e} by 2025-26

⁸⁵ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 34; Airservices Australia 2023-24 Corporate Plan, p. 21.

⁸⁶ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 34.

Net zero emissions by 2050		tCO ₂ e	representing a 10% reduction from 2018-19 levels of 241,510 tCO ₂ e
	Significant environmental events	0	Zero significant environmental events
Community acceptance of the value aviation	Total annual change in movements, and complainants	Baseline	Reduce number of complainants relative to movements
	Aircraft noise ombudsman complaints investigations initiated		

Source: Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 34; Airservices Australia 2023-24 Corporate Plan, p. 21.

19. The ACCC is interested in stakeholder views regarding the appropriateness and effectiveness of Airservices' performance measurement and monitoring system, including:

- a. the performance outcomes, indicators, baselines, and targets
- b. reporting of progress towards delivery of performance outcomes, and
- c. mechanisms to ensure progress against its performance metrics.

6.7.2. Internal drivers of efficiency

Internal drivers of efficiency encompass the incentives for, and accountability of, staff and decisions makers within a firm.⁸⁷ This may include:

- budget processes to drive cost savings
- formal decision-making processes to drive productivity
- a robust performance management system incorporating appropriate key performance indicators for staff and managers, and effective rewards and processes for accountability
- efficiency benchmarking and targets
- reporting requirements to shareholder(s), and
- consultation with stakeholders.

Airservices has established two efficiency performance indicators to reduce costs by 30%, as set out in Airservices' 2023-24 Corporate Plan.⁸⁸ See Table 6.8 above for more information on the performance indicators.

20. The ACCC seeks stakeholder comments on the appropriateness and adequacy of Airservices' internal drivers of efficiency, including:

⁸⁷ Airservices Australia Draft Price Notification 2011, ACCC preliminary view, p. 19.

⁸⁸ Airservices Australia 2023-24 Corporate Plan, p. 21.

- a. budget processes to drive cost savings
- b. formal decision-making processes to drive productivity
- c. a robust performance management system
- d. efficiency benchmarking and targets
- e. reporting requirements to its shareholder, and
- f. consultation with stakeholders.

21. The ACCC is also interested in stakeholder views on Airservices' ability to balance service capacity, reliability, safety, and quality, with driving business efficiency.

6.7.3. International benchmarking

Airservices provides some comparative information on Airservices and other select Air Navigation Service Providers (ANSPs).

Firstly, Airservices compares its 2016 price, 2021 price and proposed 2024 price (both terminal navigation and enroute charges) with 12 other ANSPs from around the world with respect to an A320 aircraft travelling 1,000km.⁸⁹ Airservices states that its proposed charges for 2021 would rank 3rd lowest.

Airservices also compares its 2019 and 2021 charges per Instrument Flight Rule flight hour with 16 other ANSPs.⁹⁰ Airservices states that even with the proposed price increase, its charges would remain low compared to its international counterparts (assuming the same flight hour intensity and no price changes at comparator ANSPs).

Separately, Airservices provides information about how it compares to 2 other ANSPs Airways New Zealand and Nav Canada with respect to various characteristics including aircraft movements, size of airspace, staff numbers, costs and assets.⁹¹

The ACCC observes that the benchmarking is relatively narrow and provides only limited insight into how Airservices compares with other ANSPs around the world.

22. The ACCC is interested in stakeholder views regarding the international benchmarking information provided by Airservices, including:

- a. the appropriateness of the comparison Air Navigation Service Providers
- b. the appropriateness of the comparison pricing metrics, and
- c. conclusions drawn from the international comparisons.

⁸⁹ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 24.

⁹⁰ Instrument Flight Rule hours are a measure of the number of hours aircraft are operating under air traffic management control.

⁹¹ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 76.

6.8. Stakeholder consultation

6.8.1. Stakeholder consultation on the pricing proposal

Airservices states 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, through multi- and bi-lateral industry meetings.⁹²

Following consultation, Airservices states it made several revisions to its draft price notification, including:

- revised activity growth forecasts reflecting feedback on strong traffic outlook for domestic services
- updated expenditure and investment forecasts to prioritise key service delivery programs
- updated timing and pricing impacts for OneSKY to align with later projected commissioning, and
- updated WACC estimates based on a review by Incenta Economic Consulting.⁹³

23. The ACCC seeks comments on the effectiveness of Airservices' consultation processes in the development of its draft price notification. In particular, the extent to which Airservices has:

- a. provided industry with sufficient information and opportunity to give feedback on the proposal during its consultation process, and
- b. made appropriate revisions to the draft price notification in response to stakeholder feedback.

6.8.2. Stakeholder consultation on pricing and commercial matters

Airservices states 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).⁹⁴ 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.⁹⁵

Airservices has provided an outline of its PCC meetings and associated agenda items between March 2015 and April 2020.⁹⁶

24. The ACCC seeks stakeholder views on Airservices' future engagement models, including:

⁹² Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 28.

⁹³ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 28.

⁹⁴ The PCC is comprised of representatives from major domestic and regional carriers, international airlines and associations, and general aviation operators; Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 58.

⁹⁵ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 58.

⁹⁶ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, pp. 58-60.

- a. the extent to which Airservices has engaged with its customers on these models
- b. what model should be implemented, and
- c. the extent to which the model(s) would allow stakeholders to consider whether capital expenditure is undertaken prudently and efficiently.

6.9. Risk sharing arrangements

The draft price notification does not contain any arrangements for Airservices to share risk with its customers.⁹⁷

Previous price notifications from Airservices have contained risk-sharing arrangements.⁹⁸ 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).

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.⁹⁹

25. The ACCC seeks stakeholder views on the lack of arrangements for Airservices to share downside risk or excess recoveries with its customers.

⁹⁷ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, pp. 40-41.

⁹⁸ Airservices Australia Draft Price Notification 2011, ACCC preliminary view, pp. 10-13.

⁹⁹ Airservices Australia Draft Price Notification 2024-2026, 13 November 2023, p. 41.

Appendix A: Issues for consultation

Appendix A lists all questions from section 6 of this Issues Paper. The ACCC invites stakeholders to provide their views on any of these issues, and/or on any other matter relevant to the ACCC's assessment of Airservices' draft price notification.

Proposed price increases and scope of the draft notification

1. The ACCC seeks stakeholder views on the appropriateness of Airservices' proposed price increases, including the timing and magnitude of each of the 4 price increases.
2. The ACCC seeks stakeholder views on the appropriateness of the length of time (that is, April 2024 until June 2026) of Airservices' draft price notification. Specifically does the proposed shorter duration for the long-term pricing agreement:
 - a. provide stakeholders with a sufficient level of pricing certainty
 - b. provide an incentive for Airservices to improve efficiency, and
 - c. balance out uncertainties and less extensive consultation.
3. The ACCC seeks stakeholder views on the proposed price path, including the impacts on stakeholders of the over- and under- recovery of costs resulting from the proposed approach to reduce price volatility.
4. The ACCC seeks stakeholder views on the exclusion of the following investments in the current draft price notification:
 - a. the vast majority of capital expenditure related to the OneSKY program
 - b. new services at Western Sydney International Airport
 - c. expanded services for new runways at Perth and Melbourne airports, and
 - d. services related to managing uncrewed aircraft in shared airspace.
5. The ACCC seeks stakeholder views on whether there are any other investments or expenditure which have been excluded from this draft price notification, but which stakeholders believe should be included.

Activity forecasts

6. The ACCC seeks stakeholder comments on the reasonableness of Airservices' aviation traffic forecasts, including:
 - a. the methodology used by TFI and the accuracy of its forecasts
 - b. how Airservices' forecasts compare to other forecasts being used by the industry, and
 - c. the degree of volatility expected in aviation traffic forecasts over the next 6-12 months and the term of the draft price notification.

Impact of price changes

7. The ACCC seeks stakeholder comments on whether Airservices' estimates of the likely impact of the price changes on airline fees and passenger ticket prices appear accurate.

Operating expenditure

8. The ACCC seeks stakeholder comments on Airservices' operating costs in the draft price notification, including:
 - a. The appropriateness of estimated operating costs, and
 - b. Airservices' incentives for, and effectiveness in, containing and reducing its operating costs.

Opening asset base

9. The ACCC seeks stakeholder comments on:
 - a. the appropriateness of capital investments driving the change in asset values between the previous (2011) pricing agreement and the present opening value
 - b. the adequacy of Airservices' capital expenditure to date in meeting the needs of users, and
 - c. the efficacy of Airservices' capital expenditure as demonstrated by an increase in capacity, reliability, safety, and quality of services.

Capital expenditure

10. The ACCC seeks stakeholder comments on Airservices' proposed capital expenditure projects included in the draft notification, including the:
 - a. appropriateness of the capital projects included
 - b. prudence of estimated capital costs for the capital projects
 - c. appropriateness and effectiveness of the decision-making process undertaken by Airservices in determining the capital projects to be undertaken, and
 - d. extent to which Airservices' capital expenditure is driven by regulatory requirements, such as requirements by the Civil Aviation Safety Authority or international policies.
11. The ACCC seeks stakeholder comments of Airservices' OneSKY capital expenditure program, including the appropriateness of:
 - a. accounting for the vast majority of the program in a future price notification, by using an 'as commissioned' approach to recognising the cost of this capital, as opposed to an 'as incurred' basis
 - b. capital expenditure included in the regulatory asset base in this draft price notification on an 'as incurred' basis (the Early Voice Communications System, Operational Equipment Rooms, and Facilities refurbishment work).

Return of capital (depreciation)

12. The ACCC seeks stakeholder comments on Airservices' depreciation forecasts.

Return on capital

13. The ACCC seeks stakeholder comments on the reasonableness of:

- a. Airservices' proposed rate of return on capital, as well as each of the individual parameters, and
- b. the methodology Airservices uses to estimate the WACC parameters.

14. The ACCC seeks comments on the appropriateness of:

- a. the selected domestic and international comparators to develop estimates of the parameters, and
- b. the chosen sample periods, and particularly, the exclusion of the Covid-19 pandemic period from estimating the asset beta and gearing level.

Allocation of costs

15. The ACCC seeks stakeholder comments on the appropriateness of Airservices adopting the same cost allocation methodology in the development of this draft price notification as it applied in previous price notifications. This includes the appropriateness of:

- a. a 'standard costing' approach to standardising cost inputs across location and time
- b. an activity-based approach in determining the cost of each service at each location
- c. the cost allocators used to attribute costs to each service location, and
- d. a 'dual till' approach to segregate costs of notified services from non-notified services.

16. The ACCC seeks stakeholder views on the appropriateness of capital city basin pricing approach adopted for terminal navigation charges.

17. The ACCC seeks stakeholder views on the pricing structures across enroute navigation, terminal navigation, and ARFF services.

Basis of charges

18. The ACCC seeks stakeholder views on:

- a. Airservices' proposal not to change the structure of its prices for the current draft price notification
- b. the appropriateness of weight-based pricing mechanisms for terminal navigation, enroute navigation, and ARFF services, including whether the charges promote efficient use of the services
- c. the appropriateness of the charging basis for:
 - i. enroute navigation services
 - ii. terminal navigation services
 - iii. ARFF services, and the interim prices for ARFF service upgrades, and
 - iv. general aviation, and other.

Performance and efficiency

19. The ACCC is interested in stakeholder views regarding the appropriateness and effectiveness of Airservices' performance measurement and monitoring system, including:

- a. the performance outcomes, indicators, baselines, and targets
- b. reporting of progress towards delivery of performance outcomes, and

- c. mechanisms to ensure progress against its performance metrics.
20. The ACCC seeks stakeholder comments on the appropriateness and adequacy of Airservices' internal drivers of efficiency, including:
- a. budget processes to drive cost savings
 - b. formal decision-making processes to drive productivity
 - c. a robust performance management system
 - d. efficiency benchmarking and targets
 - e. reporting requirements to its shareholder, and
 - f. consultation with stakeholders.
21. The ACCC is interested in stakeholder views on Airservices' ability to balance service capacity, reliability, safety, and quality, with driving business efficiency.
22. The ACCC is interested in stakeholder views regarding the international benchmarking information provided by Airservices, including:
- a. the appropriateness of the comparison Air Navigation Service Providers
 - b. the appropriateness of the comparison pricing metrics, and
 - c. conclusions drawn from the international comparisons.

Stakeholder consultation

23. The ACCC seeks comments on the effectiveness of Airservices' consultation processes in the development of its draft price notification. In particular, the extent to which Airservices has:
- a. provided industry with sufficient information and opportunity to give feedback on the proposal during its consultation process, and
 - b. made appropriate revisions to the draft price notification in response to stakeholder feedback.
24. The ACCC seeks stakeholder views on Airservices' future engagement models, including:
- a. the extent to which Airservices has engaged with its customers on these models
 - b. what model should be implemented, and
 - c. the extent to which the model(s) would allow stakeholders to consider whether capital expenditure is undertaken prudently and efficiently.

Risk sharing arrangements

25. The ACCC seeks stakeholder views on the lack of arrangements for Airservices to share downside risk or excess recoveries with its customers.

Appendix B: Airservices Australia's current and proposed prices

The following **Tables** set out Airservices proposed price increases for the next three financial years. Airservices notes that the 2023/24 price increase will only be implemented part way through the financial year and there will be no attempt to retrospectively recover the higher prices on services provided prior to the price increase being approved.

Table B.1 – Enroute Services charging rates

Current	Service Price (inc GST)	Apr 24	Sep 24	Jul 25	Jan 26
Enroute:					
\$3.87	20 tonnes or more	\$4.04	\$4.23	\$4.31	\$4.35
\$0.86	Up to 20 tonnes	\$0.90	\$0.94	\$0.96	\$0.97

Charging formula for Enroute 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 B.2 – Terminal Navigation charging rates

Current	Service Price (inc GST)	Apr 24	Sep 24	Jul 25	Jan 26
Terminal Navigation:					
\$11.89	Adelaide	\$12.78	\$13.74	\$14.56	\$15.51
\$15.22	Albury	\$16.36	\$17.59	\$18.64	\$19.86
\$15.22	Alice Springs	\$16.36	\$17.59	\$18.64	\$19.86
\$15.22	Archerfield	\$16.36	\$17.59	\$18.64	\$19.86
\$5.39	Avalon	\$5.79	\$6.23	\$6.60	\$7.03
\$15.22	Bankstown	\$16.36	\$17.59	\$18.64	\$19.86
\$6.18	Brisbane	\$6.64	\$7.14	\$7.57	\$8.06
\$15.22	Broome	\$16.36	\$17.59	\$18.64	\$19.86
\$12.20	Cairns	\$13.12	\$14.10	\$14.94	\$15.92
\$15.22	Camden	\$16.36	\$17.59	\$18.64	\$19.86
\$11.68	Canberra	\$12.56	\$13.50	\$14.31	\$15.24
\$15.22	Coffs Harbour	\$16.36	\$17.59	\$18.64	\$19.86
\$1.75	Darwin	\$1.86	\$1.97	\$1.97	\$1.97
\$15.22	Essendon	\$16.36	\$17.59	\$18.64	\$19.86
\$8.50	Gold Coast	\$9.14	\$9.82	\$10.41	\$11.09
\$11.03	Hamilton Island	\$10.37	\$9.75	\$9.16	\$8.61
\$9.68	Hobart	\$9.10	\$8.55	\$8.55	\$8.55
\$15.22	Jandakot	\$16.36	\$17.59	\$18.64	\$19.86
\$14.71	Karratha	\$14.71	\$14.71	\$14.71	\$14.71
\$14.65	Launceston	\$13.77	\$12.94	\$12.17	\$11.44
\$11.95	Mackay	\$12.85	\$13.81	\$14.64	\$15.59
\$5.52	Melbourne	\$5.85	\$6.20	\$6.39	\$6.45
\$15.22	Moorabbin	\$16.36	\$17.59	\$18.64	\$19.86
\$15.22	Parafield	\$16.36	\$17.59	\$18.64	\$19.86
\$7.56	Perth	\$8.13	\$8.74	\$9.26	\$9.86
\$0.00	Port Hedland	\$6.85	\$7.36	\$7.81	\$8.31
\$13.47	Rockhampton	\$14.48	\$15.57	\$16.50	\$17.57
\$14.21	Sunshine Coast	\$13.36	\$12.56	\$11.80	\$11.09
\$5.62	Sydney	\$6.04	\$6.49	\$6.88	\$7.33
\$15.22	Tamworth	\$16.36	\$17.59	\$18.64	\$19.86
\$2.27	Townsville	\$2.41	\$2.53	\$2.53	\$2.53

Charging formula for Terminal Navigation services:

For all aircraft: $price_{Location} \times MTOW$

Terminal Navigation Call-out charges are set out on page **Page 46**

Table B.3: Aviation Rescue & Fire Fighting (ARFF) Services charging rates

Current	Service Price (inc GST)	Apr 24	Sep 24	Jul 25	Jan 26
Aviation Rescue & Fire Fighting:					
Category 6 Aircraft and below					
\$2.32	All locations	\$2.46	\$2.63	\$2.76	\$2.90
Category 7 Aircraft					
\$3.26	Adelaide	\$3.46	\$3.70	\$3.88	\$4.08
\$2.57	Brisbane	\$2.72	\$2.91	\$3.06	\$3.21
\$3.69	Cairns	\$3.91	\$4.19	\$4.39	\$4.61
\$9.08	Canberra	\$7.72	\$6.95	\$6.25	\$5.63
\$5.46	Darwin	\$5.79	\$6.19	\$6.50	\$6.83
\$3.79	Gold Coast	\$4.02	\$4.30	\$4.51	\$4.74
n/a	Hamilton Island	\$13.64	\$14.59	\$15.32	\$16.09
\$10.00	Hobart	\$8.50	\$7.99	\$7.51	\$7.29
n/a	Launceston	\$13.64	\$14.59	\$15.32	\$16.09
n/a	Mackay	\$13.64	\$14.59	\$15.32	\$16.09
\$2.52	Melbourne	\$2.67	\$2.86	\$3.00	\$3.15
\$2.81	Perth	\$2.98	\$3.19	\$3.35	\$3.51
n/a	Sunshine Coast	\$7.48	\$7.48	\$7.85	\$8.25
\$2.48	Sydney	\$2.63	\$2.81	\$2.95	\$3.10
\$13.64	Townsville	\$13.64	\$13.64	\$13.91	\$14.61
Category 8 Aircraft					
\$5.27	Adelaide	\$5.59	\$5.98	\$6.28	\$6.59
\$3.41	Brisbane	\$3.61	\$3.87	\$4.06	\$4.26
\$7.67	Cairns	\$8.13	\$8.70	\$9.13	\$9.59
n/a	Canberra	\$23.06	\$24.67	\$25.90	\$27.20
\$21.75	Darwin	\$23.06	\$24.67	\$25.90	\$27.20
\$6.46	Gold Coast	\$6.85	\$7.33	\$7.69	\$8.08
\$3.01	Melbourne	\$3.19	\$3.41	\$3.58	\$3.76
\$4.85	Perth	\$5.14	\$5.14	\$5.14	\$5.14
\$2.64	Sydney	\$2.80	\$2.99	\$3.14	\$3.30
Category 9 and 10 Aircraft					
n/a	Adelaide	\$8.87	\$9.49	\$9.97	\$10.47
\$6.09	Brisbane	\$6.46	\$6.91	\$7.25	\$7.62
\$4.99	Melbourne	\$5.09	\$5.09	\$5.09	\$5.09
\$8.37	Perth	\$8.87	\$9.05	\$9.05	\$9.05
\$3.67	Sydney	\$3.89	\$4.16	\$4.37	\$4.59

Charging formula for Aviation Rescue & Fire Fighting services:

For all aircraft >15.1 tonnes and target aircraft between 5.7 and 15.1 tonnes

$$price_{Category\ Location} \times MTOW$$

Aviation Rescue & Fire Fighting Call-out charges are set out on **Page 46**.

Out of Hours Charges (unscheduled)

For terminal navigation and ARFF services out-of-hours charges will apply where services are required before services commence or after services close, based on operational service times contained in ERSA or NOTAMs.

Out-of-hours charges are calculated to cover the cost of holding back or recalling staff on overtime and are applied in addition to the normal terminal navigation and ARFF charges levied during normal hours of operations.

The **Tables** below provide details of out-of-hours charging rates applicable to each financial year up to 2026-27.

Table B.4: Terminal Navigation out of hours charging rates

Before or After Normal Hours (inc GST)	Charges		
	2023-24	2024-25	2025-26
Up to 15 minutes	n/a	n/a	n/a
Over 15 up to 60 minutes	\$244	\$254	\$261
Each additional hour or part hour	\$244	\$254	\$261

Table B.5: Terminal Navigation recall of service charging rates¹

Per call out (inc GST)	Recall of Staff (flat rate)		
	2023-24	2024-25	2025-26
	\$732	\$761	\$784

1. Recall of service charges apply only where the timing of the out of hours service requires staff to be called in from home to work.

Table B.6: ARFF out of hours charging rates recall of service (greater than 15 minutes)

Aircraft Category (inc GST)	Charges		
	2023-24	2024-25	2025-26
6 (and below) ²	\$117	\$122	\$126
7	\$143	\$149	\$153
8 (and above) ³	\$188	\$195	\$201

1. If more than 15 minutes, charges apply every 15 minutes thereafter, or part thereof

2. Out of Hours services provided to aircraft operations less than Category 6 will be charged at the Category 6 rate

3. Out of Hours services provided to aircraft operations greater than Category 8 will be charged at the Category 8 rate.

Table B.7: ARFF recall of service charging rates¹

Aircraft Category (inc GST)	Recall of Staff (flat rate)		
	2023-24	2024-25	2025-26
6 (and below)	\$1,407	\$1,463	\$1,507
7	\$1,719	\$1,788	\$1,841
8 (and above)	\$2,254	\$2,345	\$2,415

1. Recall of service charges apply only where the timing of the out of hours service requires staff to be called in from home to work.

Interim Prices for ARFF Services Upgrades

Proposed prices for ARFF services take into account the current aerodrome category service level provided, ranging from category 6 through to category 9/10.

Over the course of this agreement, where location services are required to increase above these levels to meet regulatory service obligations the following service prices shall apply to higher aircraft category operations that necessitated the increase in aerodrome service category.

Table B.8: Interim prices for ARFF services upgrades

Service Price (inc GST)	Apr 24	Sep 24	Jul 25	Jan 26
Category 7 Service	\$13.64	\$14.59	\$15.32	\$16.09
Category 8 Service and above	\$23.06	\$24.67	\$25.90	\$27.20

These charges shall apply on an interim basis at the effected aerodrome, until such time a new pricing agreement is established which fully considers the ongoing cost and traffic impact of these higher aircraft category operations.