



Aviation Rescue and Fire Fighting Services

Draft Price Notification-September 2005





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1. Executive Summary

This “Draft Price Notification” contains price increases for Aviation Rescue and Fire Fighting (ARFF) services for the period 1 January 2006 to 30 June 2009.

ARFF services are declared pursuant to section 95X of the Trade Practices Act 1974 (TPA). Under Part VIIA of the TPA, this declaration requires Airservices Australia (ASA) to notify the Australian Competition and Consumer Commission (ACCC) of proposed increases to the prices of these services.

ASA proposed new prices for all its service lines (Enroute, Terminal Navigation and Aviation Rescue and Fire Fighting) for a five year period, which was considered by the ACCC in November 2004.

At that time the ACCC agreed to the overall sum of revenue that ASA was proposing to charge for services, but objected to the charging structure for ARFF.

Subsequent to this interim pricing arrangements were supported by the ACCC and introduced on 1 July 2005 (for a period of six months) whilst ASA committed to pursue, through consultation with industry a permanent alternative to existing pricing models.

ASA developed a charging methodology “Options Paper” which was provided to the ACCC, customers and stakeholders on the 22 August 2005. The Options Paper reviewed three charging options, the basis of charging and a range of risk share arrangements.

Formal consultation was conducted during 5 – 9 September 2005 at the fire stations at each of the following locations: Cairns; Brisbane; Sydney; Melbourne; Adelaide; and Perth.

Of the 87 parties contacted, 22 had provided a formal submission to the ACCC by the date of lodging this Draft Price Notification.

Customers and stakeholders remain polarised around either location-specific pricing or category based pricing and a large diversity of opinion. Accordingly, ASA in selecting its preferred model reviewed the merits of the proposed methodology and customer feedback in developing a solution that ultimately balanced customer needs, particularly with regard to regional airports, regional airlines and low cost carriers.

ASA’s preferred model is the second of the hybrid models “Base Level Service Charge plus Incremental Category Charge” has been selected as ASA’s preferred model.

ASA is strongly of the opinion that this model is likely to promote allocative efficiency better than any other option canvassed and that it addresses the objections previously raised by the ACCC.



Under this model the basic level of service i.e. the category 6 service, is funded by all aircraft, with location-specific costs above this recovered directly from users who contribute to the need to have a higher category service.

Under this model, ASA would charge \$1.70 per tonne to all category 6 and below aircraft irrespective of the airport at which they land. However, the prices for higher category aircraft landing at higher category airports would include a location specific charge to reflect the higher cost of higher category services at that port.

The main features of the proposed charging methodology are as follows:

- Aircraft above 15.1 tonnes will pay a price per tonne based on the category of aircraft. At category 6 airports this price will be the same for all category of aircraft;
- Aircraft between 15.1 – 5.7 tonnes will only pay a price per tonne based on the category 6 price if they carry fare-paying passengers (defined below). ASA will write to aircraft operators in this tonnage range to establish whether they carry fare-paying passengers and charge accordingly;
- Aircraft between 15.1 – 5.7 tonnes that don't carry fare-paying passengers will not be charged;
- Aircraft below 5.7 tonnes are excluded from charges; and
- The price per tonne applies only at those airports that have an ARFF service.



2. Draft Notification

Following the establishment of interim prices for Aviation Rescue and Fire Fighting (ARFF) Services in June 2005; the development of the ARFF “Options Paper”; and consultation and submissions received on the charging methodologies contained in the “Options Paper”, Airservices Australia proposes the following prices from 1 January 2006, based on the charging methodology “Base Level Service Charge plus Incremental Category Charge”.

The price notification period is for three and half years to 30 June 2009 and as such the prices proposed in each subsequent year are detailed at Attachment A.

Table 1: 2005/06 Proposed Pricing (GST inclusive)

ARFF Location	Proposed Price per tonne				Current Interim Prices
	Aircraft Category				Above 15.1 tonnes
	9	8	7	6	
ADELAIDE	\$ 8.63	\$ 8.63	\$ 2.52	\$ 1.70	\$ 3.35
ALICE SPRINGS	\$ 1.70	\$ 1.70	\$ 1.70	\$ 1.70	\$ 8.75
AVALON	\$ 1.70	\$ 1.70	\$ 1.70	\$ 1.70	n/a
BRISBANE	\$ 3.73	\$ 2.41	\$ 1.86	\$ 1.70	\$ 1.76
CAIRNS	\$ 5.33	\$ 5.33	\$ 2.62	\$ 1.70	\$ 4.31
CANBERRA	\$ 6.24	\$ 6.24	\$ 6.24	\$ 1.70	\$ 4.60
COOLANGATTA	\$ 10.13	\$ 10.13	\$ 2.44	\$ 1.70	\$ 5.09
DARWIN	\$ 6.65	\$ 6.65	\$ 6.65	\$ 1.70	\$ 9.28
HAMILTON ISLAND	\$ 1.70	\$ 1.70	\$ 1.70	\$ 1.70	n/a
HOBART	\$ 3.70	\$ 3.70	\$ 3.70	\$ 1.70	\$ 10.16
LAUNCESTON	\$ 1.70	\$ 1.70	\$ 1.70	\$ 1.70	\$ 11.95
MACKAY	\$ 1.70	\$ 1.70	\$ 1.70	\$ 1.70	\$ 12.83
MAROOCHYDORE	\$ 1.70	\$ 1.70	\$ 1.70	\$ 1.70	\$ 16.82
MELBOURNE	\$ 3.10	\$ 2.15	\$ 1.81	\$ 1.70	\$ 1.40
PERTH	\$ 4.80	\$ 2.61	\$ 1.92	\$ 1.70	\$ 2.74
ROCKHAMPTON	\$ 1.70	\$ 1.70	\$ 1.70	\$ 1.70	\$ 12.32
SYDNEY	\$ 2.13	\$ 1.85	\$ 1.74	\$ 1.70	\$ 0.88
TOWNSVILLE	\$ 7.24	\$ 7.24	\$ 7.24	\$ 1.70	\$ 10.37
YULARA	\$ 1.70	\$ 1.70	\$ 1.70	\$ 1.70	\$ 16.82

3. Background

This “Draft Price Notification” contains price increases for Aviation Rescue and Fire Fighting (ARFF) services. ARFF services are declared pursuant to section 95X of the Trade Practices Act 1974 (TPA). Under Part VIIA of the TPA, this declaration requires Airservices Australia (ASA) to notify the Australian Competition and Consumer Commission (ACCC) of proposed increases to the prices of these services.

ASA proposed new prices for all its service lines (Enroute, Terminal Navigation and Aviation Rescue and Fire Fighting) for a five year period, which was considered by the ACCC in November 2004.

At that time the ACCC agreed to the overall sum of revenue that ASA was proposing to charge for services, but objected to the charging structure for ARFF.

The charging structure that had been in place until then was based on a location specific pricing model and applied to all aircraft greater than 2.5 tonnes.

The objections raised by the ACCC at the time were that:

- the prices charged to smaller operators did not appear to be related to the impact they had on ASA’s costs;
- the introduction of new ARFF services using the existing basis for charging was likely to have a large negative effect on certain user groups such as training schools and medical aviation services; and
- there may be merit in ASA and airports entering into individual risk sharing arrangements.

In addition to these concerns, the ACCC noted the potential for the negotiation of risk sharing arrangements to address the issue of activity forecasts at particular airports.

At the time of lodging the Final Price Notification (in December 2004), ASA decided not to pursue an interim fix to address the concerns expressed by the ACCC. It was felt that it was not possible to adequately address the price structure issues within the timeframe for developing the price notification and any ‘quick fix’ solution would pre-empt the results of a planned formal review. ASA therefore sought to continue the temporary pricing arrangement for ARFF services until the price structure issues were satisfactorily resolved.

As such pricing for ARFF remained at the pre-existing levels, i.e. 2003-04 prices, and no charges were imposed at Maroochydore or Townsville, despite services being provided.



The interim pricing arrangements were introduced on 1 July 2005. The interim pricing continues to be applied on a location-specific and tonnes landed basis, but is applied differently at the following tonne thresholds:

- Aircraft below 5.7 tonnes Maximum Take-Off Weight (MTOW) are now excluded from charges;
- Aircraft between 5.7 tonnes MTOW and 15.1 tonnes MTOW remain on charges that were in place prior to 1 July 2005; and
- Aircraft above 15.1 tonnes MTOW pay the new charges proposed in December 2004.

The effect of these arrangements was to:

- Provide immediate relief from ARFF charges for light aircraft operations including non-passenger carrying operations such as aeromedical service providers and training schools;
- Maintain the current pricing arrangements (including no charge for Maroochydore and Townsville) for smaller passenger carrying aircraft; and
- Limit price increases that were agreed with industry during the previous consultation to the customer group containing larger Regular Passenger Travel (RPT) aircraft.

The amendments operate until 1 January 2006, when the proposed new permanent charging basis for ARFF services would come into effect and run for three and half years to 30 June 2009, aligning with the end-date of the other two service lines of Tower and Enroute.

4. Why this Proposed Charging Model

Based on the consultation conducted and submissions received there appears to be a broad range of support for each of the charging methodologies. Those parties that indicated a preference for a category model also indicated a preference for one of the hybrids to the extent that the full category model would not be supported by either ASA or the ACCC.

Customers and stakeholders remain polarised around either location-specific pricing or category based pricing.

The larger airports (capital city airports) continue to support location-specific pricing and the smaller airports (regional city airports) and regional airlines support some form of category model. There was some diversity amongst larger airlines, with Qantas supporting a hybrid model and Virgin supporting location-specific pricing.

The Qantas Group provided a submission which, whilst supporting location-specific pricing for Enroute and Tower service lines, suggested that ARFF was different in nature and constituted a network. As such Qantas supported the second of the hybrid models: “Base Level Service Charge plus Incremental Category Charge”. This is



significant, as indicated in their submission, “*Qantas is a substantial contributor to the cost recovery of ARFF services and spends approximately \$50m per annum on these charges. This currently accounts for more than half of all ARFF charges.*”¹

ASA discussed the merits of each methodology and agreed that there was a need to provide a solution that meets the customers’ needs, particularly with regard to regional airports and regional airlines and low cost carriers.

Accordingly, the second of the hybrid models “Base Level Service Charge plus Incremental Category Charge” has been selected as ASA’s preferred model.

Economic Efficiency of the Preferred Option

ASA believes that its preferred model is likely to promote allocative efficiency better than any of the other options canvassed in the Options Paper.

The Theory

Allocative efficiency is maximised when businesses internalise the marginal costs that their actions impose on society. This sends a signal that businesses should only engage in an activity if the value to them is more than the cost to society of accommodating that activity.

In the current context, this means that airlines should pay the incremental/avoidable cost imposed on ASA as a result of their decision to land an aircraft at an airport with ARFF services.²

However, as explained in the Options Paper, at most airports and for most aircraft/tonnes the marginal cost of landing additional aircraft/tonnes is close to zero.³

Where this is the case the most efficient price for ASA’s services is zero dollars per tonne landed. However, this will not recover ASA’s substantial unavoidable costs (costs associated with establishing ARFF services at airports). ASA understands if non-marginal costs are to be recovered through marginal prices it is most efficient to

¹ Qantas Submission – ARFF Charging Options, 23 September 2005, page 2.

² Marginal cost is the change in cost for a marginal change in demand. In the current context, this is the average avoidable/incremental cost associated with a realistically probable change in the pattern of landings at an airport.

³ See section 7 of the Options Paper. This reflects the fact that over realistic changes in landing patterns there will be no change to ARFF costs either because the ARFF costs are completely sunk (e.g. fire stations once built have little value in alternative use) or because they are largely fixed relative to potential change in activity. For example, at most airports there is no realistic probability that ARFF services once established will be removed (this may be due to underlying growth in landings and/or the asymmetrical requirements for removing ARFF services versus establishing them (e.g. lower passenger threshold for disestablishment and the fact that disestablishment requires a safety case be made to, and approved by, CASA). It is also the case that even if disestablishment did occur the avoided costs would be less than the actual costs of establishment (due to sunk costs and other significant costs of disestablishment such as redundancy costs).

set an absolute mark up above marginal cost that is inversely proportional to the price sensitivity⁴ of landing a particular aircraft at an airport.

If it is the case that:

- the price sensitivity to land tonnes (which is a proxy for passenger numbers) at all airports is the same; and
- the marginal cost of landing tonnes at all airports is the same.

Then it follows that all tonnes landed should pay the same base price.⁵

Practical Application

Why a Single Category 6 'Base Price' is Efficient

In ASA's opinion, the above assumptions are likely to be broadly true and, as a broad principle, we believe that the ideal pricing system would have most aircraft paying the similar prices per tonne irrespective of where they land since most aircraft impose the same marginal cost and have approximately the same price sensitivity of demand to land (per tonne). This is not to say that the above assumptions won't be violated in certain scenarios.⁶ However, it is demonstrable that charging the same base price for all aircraft will result in a more allocatively efficient pricing structure than would a full location-specific pricing option.

For example, under the second location-specific pricing option in the Options Paper, a category 6 plane landing at Sydney would pay \$0.25 per tonne while the same plane landing at Maroochydore would pay \$17.70 (i.e. over 7,000% more). In our opinion, the realistically avoidable costs associated with such landings at each airport are very close to zero.⁷

⁴ Price sensitivity is defined as the percentage change in demand for an absolute change in price. It is worth noting that price sensitivity defined in this manner is not the same as price elasticity of demand. The 'Ramsey rule' states that the efficient (*ad valorem*) tax measured as a **percentage** of final price should be inversely related to the price elasticity of demand. In this context we are discussing the **absolute** mark up on marginal cost and, as such, the relevant measure of price sensitivity is the percentage change in demand for an absolute change in price (rather than for a percentage change in price). See Myles, Gareth D, 1995, *Public Economics*, Cambridge University Press pages 101 to 108.

⁵ Actually, to the extent that airlines already pay above the marginal landing costs (e.g. due to airport landing charges being set to recover the airport's fixed costs) then ASA's prices should ideally take this into account. For example, if landing charges at Melbourne airport were closer to marginal cost than landing charges at Coolangatta airport (reflecting economies of scale at Melbourne Airport) then it would be most efficient for ASA to set a higher mark up on its own costs at Melbourne Airport than at Coolangatta airport.

⁶ For example, the price sensitivity to land a plane at Sydney Airport at peak hour on Friday afternoon is likely to be lower than landing the same plane at the same time on Saturday afternoon. However, ASA does not consider that administration of a pricing regime based on differing price sensitivities is feasible.

⁷ Given current forecast volumes there is no realistic probability of ARFF services being disestablished at either airport (especially not in the period of this pricing notification).



This means that the only way the differential under location-specific pricing could be justified, would be if landing at Sydney was over 7,000 times as price sensitive as landing at Maroochydore.

ASA believes that, if anything, there are credible arguments that the opposite is true and that landing at Sydney is less price sensitive than landing at Maroochydore.

By contrast, under ASA's preferred pricing model, a category 6 plane landing at both airports would pay the same price per tonne. While this may not perfectly take into account all differences in price sensitivity and marginal cost, it will certainly in ASA's opinion, be closer to the efficient price differential than is achieved under location-specific pricing.

Why Higher Category Planes Should Pay Higher Prices per Tonne

ASA's preferred option involves charging higher category planes a higher price per tonne than lower category planes. A primary justification for this is equity considerations (higher category planes, on average, create higher costs for ASA - even if those costs are unavoidable over realistic changes in aircraft usage). However, there are also efficiency justifications.

The higher the category of aircraft (broadly reflecting the size of the aircraft) landing at an airport the higher (and consequently more costly) the category of ARFF services that must be supplied. In some cases, though by no means all, it is realistically possible that airlines could change their landing patterns in a manner that would result in lower category services being supplied at some airports.⁸

For example, take Hobart Airport which is a category 7 airport but with only a small number of category 7 and above aircraft landing. At this airport it may be feasible that a small reduction in category 7 and above aircraft landing could result in ASA being able to downgrade the ARFF service to category 6 – leading to some avoidable costs. In this context, it may well be efficient to set the price for category 7 landings at Hobart Airport above the cost of category 6 landings (both at Hobart and at other airports).

ASA's preferred approach does precisely this. The category 7 pricing is set equal to the common base price for category 6 landings plus an estimate of the average incremental cost of landing category 7 planes at Hobart. This will tend to send an appropriate price signal to airlines concerning the cost of them landing category 7 and above planes at Hobart.

ASA does not pretend that this pricing methodology is a perfect reflection of realistically avoided costs for all higher category plane landings at all airports. Nonetheless, ASA considers that there are, on balance, both equity and efficiency benefits from implementing category based prices at such airports.

⁸ However, at many airports this is not a realistic scenario. For example, it is inconceivable that Sydney Airport will ever cease being a category 9 airport and, as such, there is little efficiency justification for charging a higher price for landing category 9 versus lower category planes at Sydney Airport.

Incentives for (Productive) Cost Efficiency

ASA believes that the primary incentive for cost efficiency comes from ASA receiving a financial benefit of any cost reductions during the current regulatory period. This incentive is the same irrespective of the pricing option chosen and is the same incentive that most Australian regulated businesses operate under.

ASA's major customers (airlines) will also continue to have an incentive to monitor ASA's total costs and to make any views concerning inefficiency known to ASA and ultimately to the ACCC. This will be largely unchanged under all options. However, it is possible that individual airports may have less incentive to monitor ASA's cost efficiency in a move away from location specific pricing.

Nevertheless, ASA believes that Airports incentives to monitor location specific costs are, in any event, weak even under location specific pricing and a third order consideration compared to ASA's own incentives to do so. This is especially true as ASA's location specific costs are, as discussed elsewhere, very strongly determined by safety specifications.

That is, the number of employees, the type of training, and the type of equipment at a particular location are all determined with regard to regulation. This means that the only real scope for ASA to save costs is in its price negotiations with input suppliers (labour and materials) and in its overheads - all of which are non-location specific activities. That is, ASA has limited ability to manage costs on a location specific basis; it only has the ability to manage costs on a network basis.

Other Criteria

The Options Paper set out four criteria by which ASA would assess each pricing methodology:

- prices should have a strong relationship to the cost of providing services;
- prices should encourage economically efficient resource allocation;
- impact of pricing on contestability may be a consideration for Government;
- and
- transparency, equity and simplicity.

We consider that an assessment of the first two criteria is already covered by the above discussion of economic efficiency. With regard to contestability there a number of models under which it could be introduced. These include models that would operate independently of the pricing option for ARFF (be that location specific or a hybrid approach). The Government has not expressed a preference for any one model of contestability and, as such, ASA does not consider it appropriate to attempt to speculate on the Government's position on the issue in this Draft Pricing Notification.

ASA also considers that it has potentially desirable equity properties, in that it reduces the charging differential between regional and metropolitan locations relative to location-specific pricing.

5. Application of the Proposed Model

The main features of the proposed charging methodology, are as follows:

- Aircraft above 15.1 tonnes will pay a price per tonne based on the category of aircraft. At category 6 airports this price will be the same for all category of aircraft;
- Aircraft between 15.1 – 5.7 tonnes will only pay a price per tonne based on the category 6 price if they carry fare-paying passengers (defined below). ASA will write to aircraft operators in this tonnage range to establish whether they carry fare-paying passengers and charge accordingly;
- Aircraft between 15.1 – 5.7 tonnes that don't carry fare-paying passengers will not be charged;
- Aircraft below 5.7 tonnes are excluded from charges; and
- The price per tonne applies only at those airports that have an ARFF service.

Underpinning Principles

In terms of provision of service, ASA has always had strong consultation processes with airports and onsite affected operators.

ASA has determined that for the initial provision of an ARFF service that it will minimise the capital investment to a level which would sustain the operation at least for the first twelve months whilst a final station requirement is determined.

ASA *undertakes* to discuss the development of any new or replacement fire station with the airport owner/airline operators such that they have input into the overall placement, footprint, and design, the combination of which clearly impact on cost and consequently overall price.

Additionally, ASA *undertakes* not to charge a price for the first three months of operations, whilst a service is established. This is the case at the most recently commissioned service - Avalon Airport.

This philosophy of engaging with stakeholders on capital requirements at each new location and providing a three month price free period will continue to be developed and is our *commitment* to Hamilton Island.

In order to ensure aircraft operators and airport owners have greater visibility of ASA's costs, it is also proposed that annual on-site expenditure forecast reviews will be undertaken at each location.



Key Model Assumptions and Definitions

Assumptions

The key assumptions made in developing the pricing model for the next three and half years were that:

- The base activity (tonnage) data has been built on 2004/05 activity;
- Growth rates applied to the base year (2005/06) are those applied during the development of the long term pricing plan in December 2004;
- Costs relating to the implementation of the A380 have been pushed out from 2005/06 to 2007/08;
- Airport category changes have been forecast;
- Avalon Airport and Hamilton Island have been added; and
- Defence revenue has been incorporated thereby reducing the maximum allowable revenue.

Definitions

There appears to be no clear definition of the term passenger and certainly no clear definition of a fare-paying passenger. Though the Manual of Operating Standards (MOS) Part 139H defines air transport operation as “*An aircraft operation involving the transport of passengers, for hire or reward.*” Accordingly ASA has provided the following definition of a “fare-paying passenger” for the purpose of this price notification and the application of a charge for aircraft between 15.1 – 5.7 tonnes.

Fare-paying passengers - are defined as passengers that have hired (includes charter), paid a fee or purchased tickets to travel on an aircraft, for the purpose of travelling between different locations or in and out of the same location. Therefore, it does not include crew, crew under instruction or non-paying passengers.

Required Adjustment Mechanism

The preferred pricing methodology is transparent with little or no role for ASA to exercise discretion once the pricing methodology is accepted and once it is set will be relatively easy to administer.

Though due to the way in which it derives the starting price for a category 6 aircraft consideration needs to be given to price adjustments should a port be added or more importantly removed. Over the pricing notification period which is three and half years new ports other than those already incorporated (Hamilton Island and Avalon) are unlikely to commence and the identified ports are likely to remain.

In addition, as with the whole long term pricing arrangement, mechanisms to trigger a price review are appropriate. In particular, in the case of ARFF services, a change in regulations, including the implementation of the Government’s competition policy, is likely to have a significant impact on the asset base and recurrent costs of the corporation. In the case of competition, as the model is unknown, it would therefore

be appropriate to review the pricing arrangement to address the changes in the operating environment and the flow on impact on infrastructure ownership and cost structures. The guiding principle to such a review would be that any change in costs as a result of changed number of airports serviced would be reflected in ASA’s revenues.

Accordingly, apart from the existing pricing review triggers established under the long term pricing model, under this notification ASA seeks to reset its prices over the price notification period (1 January 2006 – 30 June 2009) should a service need to be established; disestablished; or transferred to a new provider as a result of competition.

6. Consultation process

ASA conducted a range of individual customer/stakeholder discussions as well as on-site consultations during 5 – 9 September 2005 at the fire stations at each of the following locations: Cairns; Brisbane; Sydney; Melbourne; Adelaide; and Perth.

The consultation sessions provided attendees with an: overview of how the Civil Aviation Safety Regulations (CASR) establish both the category of service but also how the service is to be delivered which in turn drives the cost base; an explanation of each model and its development and a tour of the fire station.

ASA released the charging methodology Options Paper to the Australian Competition and Consumer Commission (ACCC); and customers and stakeholders on the 22 August 2004.

This Options Paper, the Commission’s Issue Paper, invitations to attend consultation sessions on-site, and requests for submissions to the ACCC were sent to 87 parties.

Of the 87 parties contacted, 22 had provided a formal submission to the ACCC by the date of lodging this Draft Price Notification. Responses were received from the following:

Submission made - Customer/Stakeholder	
Linfox (Avalon Airport)	Adelaide and Parafield Airport
Board of Airline Representatives of Australia (BARA)	Rockhampton City Council (Rockhampton Airport)
Department of Transport and Regional Services (DoTARS)	Royal Flying Doctor Service (West Operations)
International Air Transport Association (IATA)	Townsville Airport



Submission made - Customer/Stakeholder	
Australia Pacific Airports (Melbourne Airport)	Singapore Flying College
Mackay Port Authority	Aeromil
Qantas Group	Emirates Airlines
Regional Aviation Association of Australia (RAAA)	Hamilton Island Ltd (Hamilton Island Airport)
Maroochy Shire Council	South Australian Government
Regional Express (Rex)	Virgin Blue
Voyages Resort (Ayers Rock Airport)	Mr Tony Taggart

7. Issues raised in the Consultation

The feedback from the consultation process covered a range of issues. On the whole, the consultations and submissions received were positive and most customers/stakeholders were supportive of the approach taken in developing the Options Paper.

For convenience the feedback has been summarised into six main themes as follows:

- Charging methodology** issues that relate to each of the presented pricing models in terms of economic and customer impact.
- Basis and application of charging** issues that relate to how the selected charging model should be applied in terms of driver i.e. tonnes, passengers, category and thresholds.
- Regulation reform** issues that relate to the quantum and extent of service and drivers of cost.
- Funding of the service** issues that relate to who should fund the service regarding perception of public good.



- Competition**

issues that relate to whether competition would bring better outcomes, performance and price.

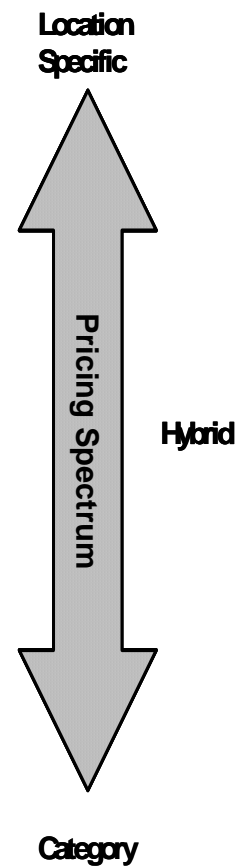
- Contracting arrangements**

issues that relate to who is the primary customer and the application of risk share arrangements.

The issues raised and the associated categorisation are summarised at Attachment B.

Most respondents also indicated a preferred charging methodology. Of the 22 submissions received the following is a summary of each respondent’s preferred charging methodology:

Charging Methodology	Customer/Stakeholder
Location-specific	BARA Australia Pacific Airports Virgin Blue
Location-specific, Incremental Category Charge	Emirates Airlines IATA
Location-specific, Incremental Aircraft Category Charge ≤ 6 million passengers	Maroochy Shire Council
Base Level Service Charge plus Incremental Category Charge	Qantas Group Rockhampton City Council Voyages Resort Regional Express
Category	Linfox (Avalon Airport) Adelaide and Parafield Airport Mackay Port Authority Townsville Airport RAAA Hamilton Island Ltd South Australian Government
Full Network	RFDS Western Operations
Not Stated	DoTARS Mr Tony Taggart Aeromil Singapore Flying College



8. Airservices Response

The maximum allowable revenue (MAR) was assessed by the ACCC within the context of its 2004 assessment of ASA’s long-term pricing proposal. At that time the ACCC accepted that the overall level of revenue that ASA sought to recover from these services was appropriate.

Accordingly, whilst ASA appreciates that industry is expecting that ASA will review overall revenue since the new prices were established, the long term charging methodology for ARFF will establish the basis of charging.

Therefore the focus is on agreeing a long term charging methodology, its application and associated commercial arrangements, not on the total amount of revenue or the agreed return. Both of these have been previously agreed under the long term price notification in November 2004.

In relation to the risk share arrangements proposed in the Options Paper it is ASA’s view that these will be pursued further with individual customers. However, in order to do so the charging methodology and the base price first need to be established. Additionally, there didn’t appear to be a great deal of interest in any of the risk sharing options posed except location-specific volume based adjustments.

When airports were asked whether they would like the opportunity to have a direct contract with ASA for the provision of the service, they did not appear interested stating that they: received a good service; the interaction with the ARFF was good; and that they didn’t want to bear the cost nor the risk of service provision. Most airlines did not support ASA having a direct contract with the airports for this ARFF service.

The issues that were raised in the submissions, as summarised at Attachment B, are explored below and should be read in conjunction with that presented in Section 4 “Why this Proposed Charging Methodology”.

Charging Methodology

Issue: The current charging methodology i.e. location-specific pricing is not the appropriate charging methodology for ARFF.

Response: See Section 4 “Why this Proposed Charging Methodology”.

BARA in its submission⁹ indicated that *“the real challenge for this pricing option, therefore, is to accurately assess the incremental and/or avoidable costs associated with aircraft category change at each specific location. This is a very complex exercise and BARA*

⁹ Board of Airline Representatives of Australia Inc (BARA) – Submission – 14 September 2005, pg 7.



maintains that ASA’s application of incremental/avoidable cost considerations is incorrect.”

The calculation of the incremental cost between category at location can be achieved and as BARA states can be complex. Though due to the nature of the service and the impact of regulations on the service, costs at the same category stations tend to be very similar, particularly when assuming the same operational context i.e. hours of operation etc.

In calculating a location-specific incremental cost, a range of assumptions would have to be made and these would be based around the regulations, known environmental issues and ultimately averages. Accordingly, ASA feels that the method of calculation yields a reasonable incremental location price.

Basis and application of charging

Issues: The existing basis of charging i.e. maximum take off weight (MTOW) is not appropriate and charges should not apply to non-RPT operators.

Response: In reviewing the basis of charging there are two questions that need to be addressed: what is an appropriate driver? and should all aircraft pay for an ARFF service?

There are three drivers (i.e. the basis for charging) that ASA has identified and discussed above and these include: tonnes (using the MTOW); passenger numbers; and aircraft category.

The basis for charging, for ARFF, was a concern for the ACCC particularly as it related to aircraft that are not regular passenger transport (RPT), since an ARFF charge was applied to all aircraft by tonne above the threshold tonnes of 2.5 tonnes.

ASA believes that the driver (tonnes) is appropriate however the way that it is applied is a problem. In particular, ASA believes that tonnes is a simple and transparent basis for charging and that, above a certain threshold, tonnes is a reasonable proxy for passenger numbers.

Consequently, ASA has decided to maintain maximum take off weight (MTOW) as the basis of charging, though prices only apply to those aircraft greater than 15.1 tonnes and only to RPT operators between 15.1 – 5.7 tonnes i.e. those operators who carry fare-paying passengers.

All other aircraft between 15.1 – 5.7 tonnes i.e. those not carrying fare-paying passengers incur no charge and below 5.7 tonnes aircraft are excluded from charges.



Some thought was given to charging a nominal call-out fee to this group of aircraft or a flat annual charge in recognition that they receive some benefit. However, ASA decided against this because: ASA wants to encourage safe practices i.e. notification of potential incidents; the financial contribution from this group would be minimal; and some operators may not fly into ARFF serviced ports.

The 15.1 tonne weight threshold is still considered appropriate and was chosen after consideration of:

- Operation of the Federal Aviation Administration (FAA) ‘*Part 139 Airport Certification*’.

This regulation separates ‘large air carrier aircraft’ from ‘small air carrier aircraft’ using the seat capacity of the aircraft. The seating capacity applied by the FAA is 30 seats per aircraft.

- Operation of the ‘*Payment Scheme for Airservices Australia’s Enroute Charges*’ administered by the Department of Transport and Regional Services (DoTARS).

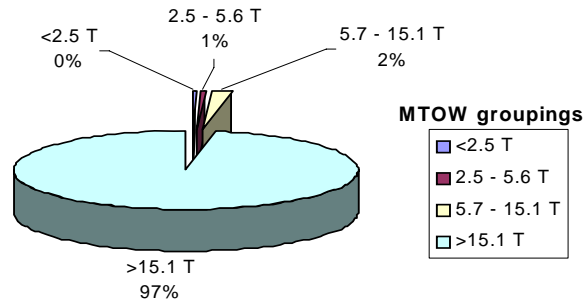
This scheme is available to aircraft below 15 tonnes and is designed to pick up RPT operators below the Dash-8 level. DoTARS state on their web site ¹⁰ that the scheme has been established to subsidise “enroute air traffic control charges incurred by approximately 45 small regular public transport airlines and airlines which provide aeromedical services”. This is essentially the same customer group we are trying to isolate.

Additionally, it is worth noting that the customer demographic analysis conducted during the development of the charging methodology options showed that 95% of all tonnes landed were comprised of 23 different aircraft types. Of the 23 different aircraft types, 91% (or 21 aircraft types) had an MTOW heavier than 15.1 tonnes.

¹⁰ <http://www.dotars.gov.au/transprog/asaec.htm>

Out of all the aircraft which arrived at ports with an ARFF presence (or prospective presence) during last financial year, 97.2% exceed a Maximum Take-Off Weight (MTOW) of 15.1 tonnes.

2004/05 ARFF Tonnage Summary



The correlation between persons-on-board and an aircraft's landed weight, with 92.5% MTOW figures indicating approximately 90% persons-on-board.

Accordingly, a per tonne charge is, in effect, a proxy for a per passenger charge and, consequently, tends to charge a higher price *per landing* for aircraft that carry more passengers. This is likely to be consistent with efficient recovery of non-incremental/non-avoidable costs – as compared to a flat landing charge. It is therefore, less likely to distort landings by small aircraft vis-à-vis large aircraft.

The International Civil Aviation Organisation (ICAO) provides guidance on the charging of ARFF services in its *Policies on Charges for Airports and Air Navigation Services*. Where ARFF is provided by an airport, the policy states that the costs should be included under the category of “*approach, landing and take-off facilities and services*.”¹¹ It also states that landing charges:¹²

“should be based on the weight formula, using the maximum certificated take-off weight ... as the basis for assessment. However, allowance should be made for the use of a fixed charge per aircraft, or a combination of a fixed charge with a weight-related element, in certain circumstances, such as at congested airports during peak periods. The landing charge scale should be based on a constant rate per 1 000 kilograms or pounds in weight, but the rate may be varied at a certain level or levels of weight if considered necessary.”

¹¹ ICAO's *Policies on Charges for Airports and Air Navigation Services (Seventh Edition – 2004)*, Appendix 1.

¹² *op.cit.*, pp 9-10.



Regulation Reform

Issues: A review is required of the trigger for the commencement of an ARFF service and the requirement for and standards of a service.

Response: The Civil Aviation Safety Regulations 1998 (CASR), made under authority of the Civil Aviation Act, provide for general regulatory controls for the safety of air navigation. The applicable CASR for ARFF is 139 subpart H, which sets out the obligations, requirements and functions for the ARFF.

The regulations indicate when an ARFF service must be provided i.e. once passenger numbers reach 350,000 or if there are international passenger air services. They also provide for the number of staff per shift by category of fire station; the number of fire vehicles required and the performance of those vehicles in terms of foam discharge rates; the required training regime which requires staff to conduct training every 90 days; and capital requirements such as training grounds and fire control centres.

Therefore the regulations by their very nature therefore are prescriptive and drive the vast majority of a fire station's costs.

ASA would support regulation reform that looks at performance based regulations, though this issue is not one that ASA is able to consider as part of this Draft Price Notification.

Funding

Issues: The government should either fund or subsidise the service and the responsibility for delivery should rest with the government.

Response: As identified in the Options Paper it appears that the provision of ARFF in Australia may be unique in the respect that:

- ASA has the responsibility to provide ARFF services directly to airlines rather than that responsibility falling to individual airports; and
- Costs are recovered directly from airlines (rather than the airport acting as an intermediary) as a specific charge.

Additionally, a number of international service delivery models identify that internationally there is some form of government



assistance, though not complete cost coverage, and the trend would also appear to be for the airports to deliver the service.

This issue is not one that ASA is able to consider as part of this Draft Price Notification.

Competition

Issues: Whilst it is government policy to introduce competition, will this lead to better outcomes and can charging methodologies other than location-specific pricing, support competition?

Response: It is currently Government policy that, where efficient and feasible, contestable supply of ARFF services should be introduced, though how this would apply to existing services is yet to be established.

There are a range of ways contestability can be achieved under the preferred charging model without affecting the set prices. An example as provided by the South Australian Government¹³ would be the selection of tenderers by an independent agency such that the preferred tenderer is selected, presumably, on the basis of lowest cost at each location.

However, as the final contestable model has yet to be articulated the adjustment mechanism is required to allow for a repricing at location/s depending on the final competition outcome.

Contracting Arrangements

Issues: Activity forecasts should regularly be revised on a location basis and Defence should be charged where it flies into locations with an ARFF service.

Response: ASA has recently entered into a commercial arrangement with Defence for the provision of ARFF services at Townsville Airport. The revenue generated at this location through this arrangement contributes to the maximum allowable revenue pool, thereby reducing price. ASA intends to continue to explore such commercial arrangements with Defence at other port locations.

In relation to activity forecasts, ASA has previously indicated that the 5 year activity base for the long term pricing agreement was established and endorsed by the industry as part of the previous pricing proposal. This was in full recognition that activity is volatile, and that

¹³ Department for Transport, Energy and Infrastructure – Submission – 21 September 2005, pg 3



Airservices should carry the risk over this period subject to the separate negotiation of risk sharing agreements which are yet to be concluded.

Although traffic levels have recovered faster than anticipated, the long term price agreement is in its infancy, and a corresponding correction could occur at any time over the ensuing years.

For example, higher oil prices, slowing economic growth, and continuing global security issues are realistic threats to this recovery.

Therefore, any adjustment for higher or lower activity levels should therefore be dealt with as part of negotiated risk sharing arrangements with both customers and airports. ASA is still of this opinion, though recognises that under its discussion on risk sharing arrangements that for the purposes of ARFF, location-specific volume based adjustments would benefit regional locations.

For the purpose of establishing the first year's price under our preferred charging methodology, 2004/05 activity data was used.



Attachment A Pricing Tables for 2006/07 – 2008/09

2006/07 Proposed Prices

ARFF Location	Price Per Tonne Aircraft Category			
	9	8	7	6
ADELAIDE	\$ 8.68	\$ 8.68	\$ 2.57	\$ 1.76
ALICE SPRINGS	\$ 1.76	\$ 1.76	\$ 1.76	\$ 1.76
AVALON	\$ 1.76	\$ 1.76	\$ 1.76	\$ 1.76
BRISBANE	\$ 3.75	\$ 2.40	\$ 1.94	\$ 1.76
CAIRNS	\$ 5.39	\$ 5.39	\$ 2.67	\$ 1.76
CANBERRA	\$ 8.11	\$ 8.11	\$ 8.11	\$ 1.76
COOLANGATTA	\$ 10.19	\$ 10.19	\$ 2.49	\$ 1.76
DARWIN	\$ 7.66	\$ 7.66	\$ 7.66	\$ 1.76
HAMILTON ISLAND	\$ 1.76	\$ 1.76	\$ 1.76	\$ 1.76
HOBART	\$ 2.57	\$ 2.57	\$ 2.57	\$ 1.76
LAUNCESTON	\$ 1.76	\$ 1.76	\$ 1.76	\$ 1.76
MACKAY	\$ 1.76	\$ 1.76	\$ 1.76	\$ 1.76
MAROOCHYDORE	\$ 1.76	\$ 1.76	\$ 1.76	\$ 1.76
MELBOURNE	\$ 3.12	\$ 2.16	\$ 1.88	\$ 1.76
PERTH	\$ 4.82	\$ 2.59	\$ 2.01	\$ 1.76
ROCKHAMPTON	\$ 1.76	\$ 1.76	\$ 1.76	\$ 1.76
SYDNEY	\$ 2.27	\$ 1.93	\$ 1.81	\$ 1.76
TOWNSVILLE	\$ 5.67	\$ 5.67	\$ 5.67	\$ 1.76
YULARA	\$ 1.76	\$ 1.76	\$ 1.76	\$ 1.76

2007/08 Proposed Prices

ARFF Location	Price Per Tonne Aircraft Category			
	9	8	7	6
ADELAIDE	\$ 8.73	\$ 8.73	\$ 2.62	\$ 1.80
ALICE SPRINGS	\$ 1.80	\$ 1.80	\$ 1.80	\$ 1.80
AVALON	\$ 1.80	\$ 1.80	\$ 1.80	\$ 1.80
BRISBANE	\$ 3.77	\$ 2.36	\$ 1.97	\$ 1.80
CAIRNS	\$ 5.43	\$ 5.43	\$ 2.72	\$ 1.80
CANBERRA	\$ 9.04	\$ 9.04	\$ 9.04	\$ 1.80
COOLANGATTA	\$ 10.24	\$ 10.24	\$ 2.54	\$ 1.80
DARWIN	\$ 8.82	\$ 8.82	\$ 8.82	\$ 1.80
HAMILTON ISLAND	\$ 1.80	\$ 1.80	\$ 1.80	\$ 1.80
HOBART	\$ 1.67	\$ 1.67	\$ 1.67	\$ 1.80
LAUNCESTON	\$ 1.80	\$ 1.80	\$ 1.80	\$ 1.80
MACKAY	\$ 1.80	\$ 1.80	\$ 1.80	\$ 1.80
MAROOCHYDORE	\$ 1.80	\$ 1.80	\$ 1.80	\$ 1.80
MELBOURNE	\$ 3.06	\$ 2.13	\$ 1.91	\$ 1.80
PERTH	\$ 4.83	\$ 2.52	\$ 2.04	\$ 1.80
ROCKHAMPTON	\$ 1.80	\$ 1.80	\$ 1.80	\$ 1.80
SYDNEY	\$ 2.50	\$ 2.00	\$ 1.87	\$ 1.80
TOWNSVILLE	\$ 4.16	\$ 4.16	\$ 4.16	\$ 1.80
YULARA	\$ 1.80	\$ 1.80	\$ 1.80	\$ 1.80

**2008/09 Proposed Prices**

ARFF Location	Price Per Tonne			
	Aircraft Category			
	9	8	7	6
ADELAIDE	\$ 8.76	\$ 8.76	\$ 2.66	\$ 1.84
ALICE SPRINGS	\$ 1.84	\$ 1.84	\$ 1.84	\$ 1.84
AVALON	\$ 1.84	\$ 1.84	\$ 1.84	\$ 1.84
BRISBANE	\$ 3.79	\$ 2.33	\$ 1.99	\$ 1.84
CAIRNS	\$ 5.47	\$ 5.47	\$ 2.76	\$ 1.84
CANBERRA	\$ 8.64	\$ 8.64	\$ 8.64	\$ 1.84
COOLANGATTA	\$ 10.28	\$ 10.28	\$ 2.58	\$ 1.84
DARWIN	\$ 9.65	\$ 9.65	\$ 9.65	\$ 1.84
HAMILTON ISLAND	\$ 1.84	\$ 1.84	\$ 1.84	\$ 1.84
HOBART	\$ 1.99	\$ 1.99	\$ 1.99	\$ 1.84
LAUNCESTON	\$ 1.84	\$ 1.84	\$ 1.84	\$ 1.84
MACKAY	\$ 1.84	\$ 1.84	\$ 1.84	\$ 1.84
MAROOCHYDORE	\$ 1.84	\$ 1.84	\$ 1.84	\$ 1.84
MELBOURNE	\$ 3.24	\$ 2.16	\$ 1.95	\$ 1.84
PERTH	\$ 4.82	\$ 2.47	\$ 2.05	\$ 1.84
ROCKHAMPTON	\$ 1.84	\$ 1.84	\$ 1.84	\$ 1.84
SYDNEY	\$ 2.60	\$ 2.04	\$ 1.91	\$ 1.84
TOWNSVILLE	\$ 3.09	\$ 3.09	\$ 3.09	\$ 1.84
YULARA	\$ 1.84	\$ 1.84	\$ 1.84	\$ 1.84



Attachment B

Summary of Issues Raised

Entity	Issues	Issue Group
Emirates Airlines	Do not support weight or passenger based charging.	Basis and application of charging
Adelaide and Parafield Airport	Location-specific pricing creates a competitive disadvantage.	Charging methodology
	Driver should be passengers on a network basis.	Basis and application of charging
	Should consider the triggers for ARFF more i.e. the regulation.	Regulation reform
Linfox (Avalon Airport)	Location-specific pricing creates a competitive disadvantage; creates anti-competitive behaviour; and impacts on activity at location.	Charging methodology
Board of Airline Representatives of Australia (BARA)	Models other than location-specific have a negative impact on productive efficiency; the service doesn't exhibit the key characteristics of a network.	Charging methodology
	Regional airports or government should subsidise the cost of services at regional locations.	Funding of the service
	Remove the charges for non-RPT airlines	Basis and application of charging
Department of Transport and Regional Services (DoTARS)	It is government policy to introduce contestability.	Competition
	Pricing should be set to ensure affordability in rural and regional locations.	Charging methodology
International Air Transport Association (IATA)	Costs should reflect true cost at location.	Charging methodology
	ARFF is no different to other fire services and therefore should rest with government.	Funding
	Network charges impede contestability.	Competition
Mackay Port Authority	Location-specific subsidises international operators, whilst a category based approach aligns with the cost of providing the service.	Charging methodology
	Regulations drive the service levels.	Regulation reform
	Contestability could occur on the basis of excluding capital.	Competition
Australia Pacific Airports (Melbourne Airport)	Maintain the status quo though would support non-RPT being excluded.	Charging methodology



Entity	Issues	Issue Group
	Not convinced that contestability will lead to better outcomes as the service is provided in an efficient way both economically and operationally.	Competition
	Support a move to category based charging	Basis and application of charging
Rockhampton City Council (Rockhampton Airport)	Location-specific pricing leads to a cost which has a direct impact on airports and can't compete with capital city locations.	Charging methodology
	Under competition asset ownership needs to be considered.	Competition
	Require location-specific volume adjustments and should be able to bill for Defence activity.	Contracting arrangements
Voyages Resort (Ayers Rock)	Location-specific pricing leads to a disproportionate increase in ticket price. Costs should be shared by all users equally and the ACCC should protect the consumers.	Charging methodology
	Support airline direct lump sum model	Contracting arrangements
Townsville Airport	Airports with higher volumes are more price elastic and the current charges limit growth.	Charging methodology
	The government has an obligation to develop a universal service obligation for regional aviation, like telecommunications services.	Funding
	Competition will provide better cost control.	Competition
Regional Aviation Association of Australia (RAAA)	Smaller operators do not trigger the requirement for the provision of an ARFF service.	Charging methodology
Mr Tony Taggart	Maximum take off weight (MTOW) is a flawed driver.	Basis and application of charging
Aeromil	Charge should be levied on those greater than 15.1 tonnes and those not carrying fare-paying passengers should not have to pay.	Basis and application of charging
Maroochy Shire Council	Price of a ticket has a major impact on demand and the Standing Committee on Transport and Regional Services (Nov 2002) states that the price of aviation safety should be a matter of equity and universality.	Charging methodology
	Latest tonnage data should be used in setting a price.	Contracting arrangements
	A tonnage threshold is appropriate	Basis and application of charging



Entity	Issues	Issue Group
Virgin Blue	Location specific pricing; leads to fairest and most equitable pricing methodology and support a user-pays ethos.	Charging methodology
	Fully supports MTOW as the basis of charging and rejects passenger based charging.	Basis and application of charging
Hamilton Island Ltd (Hamilton Island Airport)	A cost effective service is essential and location-specific pricing does not address service efficiency and productivity.	Charging methodology
	The Islands local fire brigade could deliver efficiency.	Competition
Regional Express (Rex)	The current pricing structure does not relate to the impact on smaller operators and places an unfair cost burden on smaller operators.	Charging methodology
	If location-specific is maintained then category needs to be taken into account.	Basis and application of charging
South Australian Government	Location-specific pricing is opposed and the Productivity Commission objected to the ASA charges.	Charging methodology
	Review the requirements for and standards of services in line with the introduction of competition.	Regulation reform
	Location-specific is not required to support competition as tenders can be managed through a central agency. As ASA already has access to large economies of scale this won't be gained through competition i.e. reflected in the price.	Competition
Singapore Flying College	There is a need to strike the balance between economic, environmental and infrastructure costs.	Charging methodology
	The use of 15.1 tonnes would effectively limit the charges to those RPT aircraft for which the service was created and MTOW is more an indication of capacity.	Basis and application of charging
RFDS Western Operations	Fire services should be viewed as an essential service producing no economic value and it is in the public interest to open more fire services.	Funding
Qantas Group	Location-specific pricing is supported for the other two service lines though its is timely to review the services as it acts as a safety net and benefit a range of users and as such all potential users must contribute to the cost. It	Charging methodology



Entity	Issues	Issue Group
	displays strong network features. ACCC needs to consider the inequitable way charges at secondary and regional airports are applied.	
	Establishment criteria should be reviewed. Once 350,000 reached ARFF is delivered which impacts on airline competition and materially affects consumers.	Regulation reform