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Air Marshal Gavin Davies, AO, CSC  
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Dear Air Marshal Davies *Leo*

As you are aware, in recent weeks Airservices and Defence have been working together to reduce Defence's component of the OneSKY program scope and allow Defence to remain within its specified program budget. Although we have made good progress, the key outstanding option that Defence has not been in a position to accept is the consolidation of Darwin and Townsville approach services into Airservices Brisbane Centre.

I would like to reassure you that Airservices only continues to pursue this option because we are confident that it can be implemented without any impact on Defence service provision and capability. In Airservices experience, the provision of approach services is not location critical and can be safely and effectively provided from any secure facility. There are many examples of this being implemented successfully including: Airservices recent consolidation of its Cairns and Adelaide approach services to Brisbane and Melbourne respectively; Airservices provision of Edinburgh approach services for Defence from our Melbourne facility; and Defence's provision of Pearce approach services from Airservices Perth facility. We also capably manage military exercises using both civil and military controllers from Airservices facilities (for example Exercise Talisman Sabre).

Airservices understands that the option presents some practical issues that Defence is grappling with, but it is essential that this option remains on the table due to the size of the financial benefit to Defence, allowing Defence to remain within its specified budget target of \$521m and for Airservices to offer this as a fixed price.

During our discussion on 28 November, I undertook to provide you with additional detail outlining why this option has such a significant impact on costs and allows Airservices to offer a fixed price to Defence.

Cost reduction benefit

As outlined in my letter dated 15 November, Defence's provision of Darwin and Townsville approach services from Airservices Brisbane Centre is estimated to save Defence \$29m compared to the current Defence position to provide them in-situ.

	Thales Cost Share (Defence share)	Alternate Tower Solution Cost	Estimated Total Cost to Defence (before painshare/contingency)
In-situ Option Brisbane Option	<b>s 47, s 47D</b>		

The majority of Darwin and Townsville air traffic movements are civil (see table below) and the management of air traffic at these locations has a significant impact on the domestic network. With civil operations able to be managed safely, and significantly more efficiently, from a consolidated location, Airservices is able to justify accepting the cost of the required infrastructure into Brisbane and recover this from our existing charges. Feedback from major airlines is that they see a significant benefit in closer alignment with civilian operations and are supportive of any reasonable fee increase to achieve this outcome.

<b>Aircraft Movements – Financial Year 2016-2017</b>			
	Civil Movements	Military Movements	Total
<b>Darwin</b>	81,738 (91.4%)	7,660 (8.6%)	89,398
<b>Townsville</b>	63,004 (86.4%)	9,996 (13.6%)	73,000

### Reduction in risk

The most significant benefit to Defence from the Brisbane Option is Airservices ability to offer a fixed price. As you are aware, Airservices pricing is closely scrutinised by our customers and regulated by the Australian Competition and Consumer Commission (ACCC). Within the constraints of ensuring that Airservices does not cross-subsidise Defence costs, the offer of a fixed price to Defence is made possible for two key reasons.

The first reason is that the inherent program software development risk is directly linked to the number of sites (partitions) and a reduction of two sites directly and significantly reduces risk.

The second is that under the Brisbane Option, Airservices is managing substantially more of the program and taking on responsibility for a greater portion of the common equipment and associated costs. This significantly increases Airservices ability to own and manage the program risk, and therefore enables us to accept this risk and offer a fixed price to Defence.

For these reasons, Airservices can justify offering a fixed price that is not possible if Defence does not agree to the Brisbane Option.

Under the In-situ Option, instead of a fixed price Defence would need to participate in the gainshare/painshare mechanism that we have jointly negotiated under the contract. This exposes Defence to a potential additional cost of approximately \$50m (if the program moves into 'painshare') together with exposure to any price changes through the life of the project, that it would need to plan for.

### Timing considerations

When Defence listed the OneSKY program as a Project of Concern, Ministers set an expectation of Airservices, Defence and Thales that we enter into a contract this calendar year. After substantial negotiation with Thales, Airservices is now in a position to make an investment recommendation to the Airservices Board in mid-December.

It is unfortunate that Defence's submission to Government has not yet been finalised. It is important to understand that any further delay entering into contract is likely to be accompanied by significant cost and risk impacts for both Airservices and Defence, with upward pressure on the negotiated price with Thales when negotiations have not concluded, and likely pressure from Thales for 'time and materials' reimbursement for work that proceeds into 2018.

In this context, Airservices will be proceeding with a proposed investment decision to its 13 December Board meeting and we require clarity on Defence's position as soon as possible.

The OneSKY program has made it this far based on our mutual commitment to its success. I recognise that there are some practical issues that Defence must overcome in accepting the Brisbane Option but it remains critical to achieving significant national benefits that we have long acknowledged will be realised from the OneSKY program.

Yours sincerely

Jason Harfield  
Chief Executive Officer  
30 November 2017

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