Supplementary information

Airways Pricing Consultation for the period FY26-FY28

June 2025

Introduction

Airways consults with stakeholders on its proposed pricing every three years. Consultation for the FY26-28 period commenced on 5 March 2025. Feedback was received from a number of stakeholders and customers, and Airways responded to a number of questions that were raised in the Response to Requests for Additional Information document first published on 14 March and subsequently updated on 20 March and 27 March. Primary submissions closed on 4 April and were published on 5 April.

Cross submissions were due to close on 22 April. On 17 April, we notified the industry that we had received additional requests for information as part of the submissions process. As such, we would be extending the period for responses.

This document outlines additional information for stakeholders, and responses to the information requested that we consider relevant to enabling stakeholders to provide informed feedback on the proposed pricing.

The revised timeline for the consultation process is outlined below. The updated Services Framework, Pricing Framework, and Standard Terms and Conditions for the FY26-28 pricing period that Airways notified in its consultation document will now take effect from 1 September 2025.

As a result of the delay, we will be holding current pricing until 31 August 2025 and not seek to recover the additional costs from 1 July to 31 August 2025.

We encourage all stakeholders to consider Airways' Pricing Framework, Service Framework and Standard Terms and Conditions, as well as the Proposed Pricing for FY26-28 consultation document and Response to Requests for Additional Information when providing additional feedback.

Next steps

Stakeholders are invited to submit any feedback on the information included in this document, in addition to any feedback on the submissions already received and published on the Airways website.

Feedback should be sent to submissions@airways.co.nz

Airways will consider all feedback before making a decision on pricing for the FY26-28 period.

- All feedback is due by COB **Wednesday 2 July.**
- Feedback considered and prices finalised during July.
- Airways will publish final pricing and decision document by no later than Thursday 31 July.
- New pricing will come into effect on 1 September 2025.

Requests for Information

This section outlines Airways' responses to specific Requests for Information received in the submissions. Each response provides clarification or additional detail.

1. WACC Rate

In one submission, several points were raised regarding the assumptions underpinning the calculation of Airways' WACC. We have considered the substantive points raised in this submission and address these issues below.

Leverage rate

Consistent with prior pricing consultations, Airways calculated a leverage rate of 46% in the proposed pricing, based on forecast average debt requirements.

We have refined our assumptions for debt levels, specifically the level of intercompany debt, and propose to reduce our forecast leverage position to 36%.

This, along with an update in the risk-free rate from 3.8% to 3.7%, reduces the proposed WACC from 8.08% to 7.90%.

Asset beta & Percentile

In the calculation of post-tax WACC rate, Airways had applied an asset beta of 0.6 and the 65% percentile, aligned to the FY23-25 pricing as well as recent guidance from the NZ Commerce Commission for electricity distribution businesses.

In the Commission's final decision for Auckland Airport's (AIAL) recent price setting event (PSE4), which was issued on 31 March 2025, they determined that a 0.715 asset beta and a 50% percentile was the most appropriate rate to be used in the calculation of post-tax WACC for airports. Adopting a higher beta and reducing the percentile would change the WACC rate from 7.90% to 7.88%. We consider that the WACC rate of 7.90% is within a reasonable range of the rate that would apply if the Commission's asset beta and percentile for Auckland Airport were used. We also continue to consider that there remain good reasons for using the asset beta and percentile initially proposed. We are therefore proposing to keep the WACC methodology consistent with our initial consultation at 0.6 asset beta and 65% percentile.

2. RAAS and UTM

Request:

Can Airways provide more detailed timelines, costs and benefits for strategic initiatives like RAAS and UTM?

Airways' response:

Remote Aerodrome Advisory Service (RAAS)

Timelines: The project is still early in the planning stage. The planned Go-live for the project is mid-2027. Subject to receiving any required regulatory support in connection with the RAAS trial, the Go-live will be confirmed at the end of planning stage.

Costs: The total costs for RAAS are planned to be $1.5 m over the next three financial years.

Benefits: Airways is exploring RAAS as a potential option for delivering Aerodrome Flight Information Services (AFIS) remotely using updated procedures and scalable technology options.

RAAS effectively removes the requirement for Flight Service Specialists to be located at an aerodrome. Airways is currently working towards a RAAS trial for its Milford AFIS operations.

RAAS is being explored to assess improved service reliability and resilience, especially in isolated locations like Milford.

UTM (Uncrewed Traffic Management) system

Please note that the UTM system was not included in the proposed FY26-28 Capital Plan, however it was proposed to be one of the strategic initiatives to be funded within the FY26-28 operating costs.

Timelines: As per the pricing consultation document, we are in the early discovery phases of this initiative and there is more thinking to do.

Costs: As per the pricing consultation document, the proposed operating cost allocated for this initiative was $3.0m. We are reassessing how we fund this strategic initiative.

Benefits: Uncrewed aircraft are becoming more prolific but also add complexity and risk to the airspace. There is also an opportunity to unlock significant potential for not only the aviation industry but wider business community by enabling safe integration of uncrewed traffic in and around controlled airspace. Taking a proactive approach to UTM ensures Airways can keep step with industry changes and integrate new entrants safely into controlled airspace. Doing so maintains confidence in air travel in New Zealand and enable operators to take full advantage of the opportunities offered by emerging technologies.

The previous industry collaboration on UTM within New Zealand creates a foundation from which to consider a wider industry collaboration approach across geographic regions. ANSPs across the globe are facing a similar challenge of responding to a fast-moving segment of the aviation sector in a way that unlocks the opportunities presented by uncrewed aircraft while maintaining the strong focus on safety for both conventional aircraft and new entrants.

3. Timing and funding of Auckland Tower Replacement

Request:

Please provide further information on the timing and necessity of funding for projects like Auckland Tower Replacement

Airways' response:

Auckland Tower Replacement

Necessity of funding: The Auckland Air Traffic Control (ATC) Tower, constructed in the mid-1960s, has reached the end of its operational life due to aging infrastructure, limited functionality and ongoing maintenance challenges. The current tower is also situated on land slated for redevelopment by Auckland International Airport Limited (Auckland Airport).

Several wellbeing concerns require increased attention, with future interventions likely to be more complex and costly to ensure compliance. These necessary efforts also carry the risk of service disruptions or performance degradation.

Considering these challenges, Airways considers that it is necessary to take a proactive approach to ensure the continued safe and efficient operation of New Zealand's largest airport.

Timing of funding: The option preferred by Airways proposes an investment of $40.6m in capital for the build of a new conventional ATC Tower. Through significant work, this cost has been reduced from the 2022 industry consultation estimates of $45.8m. This spend is spread across three pricing periods, as shown below in Table 1 (detailed by Financial Year) and Table 2 (across Pricing period).

Table 1. Estimated cost by FY

$m	FY23	FY24	FY25	FY26	FY27	FY28	FY29	Total project
Auckland replacement primary tower	0.0	1.2	2.6	3.7	15.5	16.4	1.2	**40.6**
Previous Consultation	2.8	4.5	16.1	22.4	0.0	0.0	0.0	**45.8**
Variance	(2.8)	(3.3)	(13.5)	(18.7)	15.5	16.4	1.2	**-5.2**
Transition & operating costs	0.0	0.0	0.0	0.0	0.0	0.0	1.2	**1.2**

Table 2. Estimated cost by pricing period

$m	Pricing period			Total project
	2023-2025	2026-2028	2029-2031	
Auckland replacement primary tower	3.8	35.6	1.2	**40.6**
Previous Consultation	23.4	22.4	0	**45.8**
Variance	(19.6)	13.2	1.2	**-5.2**
Transition & operating costs	0.0	0.0	1.2	**1.2**

4. Airfield Power and Lighting Exit

Request:

Disclosure of changes in the scope of Airways services and the specific cost reductions achieved by transferring Airfield Power and Lighting responsibilities to airports.

Airways' response:

Airways has divested assets relating to Airfield Power and Lighting for airports in Tauranga, Hamilton, Napier and Dunedin between July 2023 and November 2024 totalling $2.0m. The costs of these assets and ongoing maintenance costs were removed from the proposed pricing.

For confidentiality reasons, we are unable to specify a breakdown of the cost reductions (related to any price adjustment notified by Airways as part of Airfield Power and Lighting divestments) by airport in our pricing consultation but can provide reassurance that these costs in total have been removed from our proposed pricing.

Airways' FY26 – 28 pricing reflects assets related to Airfield Power and Lighting with an estimated book value of $12.3m in the pricing asset register. Some of these assets have been recently sold (Wellington Aerodrome Airfield Power and Lighting Assets) or are intended to be sold by 1 July 2025 (Queenstown Aerodrome Airfield Power and Lighting Assets), therefore the final pricing asset register will reflect these divestments. FY26 Final Prices will be adjusted to reflect the removal of costs of any recent divestments as well as any divestments taking place from 1 July 25.

In line with previous divestments, Airways will notify customers as divestments occur and adjust pricing to reflect Airfield Power and Lighting divestments during the FY26-28 Pricing period.

5. Constraints on regional aircraft availability

Request:

Clarity on whether Airways has accounted for continued constraints on regional aircraft availability and potential further reductions in regional air services.

Airways' response:

To ensure the final prices are fair and accurate, we will refine our domestic and international volume assumptions prior to communicating our final pricing by 31 July 2025. This refinement will incorporate all additional information gathered through the consultation process, carefully considered to inform our decision. Further announcements in domestic and regional services post-November 2024 will be reflected in updated schedules used for modelling final pricing.

6. Cost allocation

Request:

Request for more detailed information on cost allocation to ensure fair pricing and avoid cross-subsidisation.

Airways' response:

Airways' Air Navigation Service (ANS) price setting process includes costs that relate to the provision of regulated services as described in the Service

Framework. Air Navigation Target Revenue is calculated by Service and Location in accordance with the allocation rules in the Pricing Framework.

As part of this process, total ANS target revenue is calculated and then split into the portion that is charged to non-commercial airlines (including military groups) and the portion that is charged to customers based on flight movements. Hence total target revenue is not double counted. Appendix A.1 Target revenue by location of the consultation document breaks down the target revenue charged to customers by location (based on flight movements) and other ANS revenue separately charged to non-commercial airlines.

7. Cost allocation methodology for General Aviation

Request 1:

How will Airways demonstrate transparency in its cost allocation methodology for General Aviation?

Request 2:

Airways to fully disclose its General Aviation cost methodology to ensure charges are proportionate to service usage.

Airways' response:

As outlined in Section 7.2 of the Consultation Document, Airways' methodology of pricing for GA is as follows:

Airways supports general aviation (GA) by providing essential flight information to ensure safe operations in controlled airspace. While GA represents a large share of flight activity, it contributes less to Air Navigation Service revenue.

Since 2013, Airways has used NZIER forecasts to consistently measure long-term inflation impacts. GA prices for FY23–25 were set in FY22 based on forecast inflation, but actual inflation has varied. To realign prices, a 4.1% adjustment is needed reflecting the gap between actual/forecast inflation (11.2%) and the previously applied rate (7.1%).

For FY26, Airways proposes a 6.8% price increase, with a cumulative 10.5% increase over FY26–28 to reflect underlying costs. Inflation inputs will be updated before final pricing is confirmed.

During FY26-28, GA prices may only be adjusted in accordance with the Airways' Pricing Framework.

Table 3. Proposed GA inflationary inputs

	FY26	FY27	FY28	Total[1]
Opening adjustment	4.1%			4.1%
NZIER LCI forecast (Sep 24)	2.7%	1.8%	1.9%	6.4%
Total	**6.8%**	**1.8%**	**1.9%**	**10.5%**

Table 4. Price change examples per seat for GA Flights

Price Change Examples	Current FY25 Price Per Seat	Proposed FY26 Price Per Seat	Change	% Change
Auckland to Christchurch C208	$4.63	$4.94	$0.31	6.8%
Hamilton to Gisborne C208	$3.20	$3.41	$0.22	6.8%
Palmerston North to Auckland C208	$3.54	$3.78	$0.24	6.8%

8. Transparency in the actual outcomes of costs

Request:

Provide transparency in presenting the actual outcomes of costs for the past three financial years so that industry can understand the cumulative impact.

Airways' response:

Table 15 in the consultation document showed a breakdown of the Building Blocks used in the EVA and is shown below for reference.

In addition, additional detail was provided in question 7 of the Response to requests for additional information document, showing a further breakdown of Operating costs and FTE numbers.

[1] Total % column includes the compounding effect of the changes

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Table 5. Economic value added

	Actual		Forecast		Plan	
	FY23	FY24	FY25	FY26	FY27	FY28
Revenue						
Airways' charges	198.7	249.2	249.4	293.5	316.8	332.7
Other revenue	3.0	3.0	0.3	0.0	0.0	0.0
Total	201.8	252.3	249.7	293.5	316.8	332.8
Building Blocks						
Operating costs – labour	129.9	143.9	152.1	156.6	164.0	170.9
Operating costs – other	42.6	53.3	55.4	64.0	68.7	70.7
Depreciation	25.5	30.5	33.7	37.3	42.5	46.9
Income tax	0.7	11.9	2.4	10.0	11.7	12.4
Cost of capital	19.5	24.0	25.6	25.7	30.0	31.9
Total	218.1	263.6	269.2	293.5	316.8	332.8
EVA	-16.3	-11.4	-19.4	-	-	-

Table 6. Breakdown of operating costs -other

	Actual			Forecast		Plan	
	FY22	FY23	FY24	FY25	FY26	FY27	FY28
Operating costs – labour	115.9	129.9	143.9	152.1	156.6	164.0	170.9
FTE	678	712	746	769	769	774	779
Equipment costs	16.5	16.7	21.1	22.6	24.1	25.9	26.5
Student Costs	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Travel costs	1.3	2.9	3.3	3.7	4.1	4.3	4.4
Occupancy costs	3.5	3.3	4.6	5.4	5.0	5.3	5.5
Information costs	4.4	5.2	6.8	7.1	7.5	7.9	8.1
Professional services	3.6	5.1	4.3	6.1	10.2	10.5	11.0
Corporate costs	1.7	0.9	1.4	1.1	1.5	1.6	1.6
Intercompany charges (net)	6.1	8.0	9.5	9.4	11.4	13.4	13.7
Asset impairment	1.4	0.4	2.3	0.0	0.0	0.0	0.0
Total operating costs - other	**38.6**	**42.6**	**53.3**	**55.4**	**64.0**	**68.7**	**70.7**

9. GST on international flights transiting New Zealand airspace

Request:

How will GST on international flights transiting New Zealand airspace be clarified and potentially zero-rated?

Airways' response:

Airways provides essential air navigation services to international airlines operating flights through New Zealand's airspace. The GST treatment of these services depends on whether the flight involves a landing or departure within New Zealand.

International overflights (no take-off or landing in New Zealand):
Where an international flight transits New Zealand airspace without taking off from or landing in New Zealand, the services supplied by Airways are generally treated as zero-rated for GST purposes. Although the service is performed within New Zealand, it is supplied to non-resident airlines and consumed entirely outside New Zealand's territorial limits, supporting the position that the supply qualifies for zero-rating.

Flights involving a New Zealand aerodrome (take-off or landing):
Where the international flight departs from or lands at a New Zealand aerodrome, GST applies at the standard rate (15%) to air navigation services provided by Airways. Inland Revenue guidance (QB 22/05) indicates that such services, even when connected with international air travel, are not zero-rated unless they meet narrow legislative criteria. The services are performed in New Zealand and are not regarded as being directly in connection with the transport of passengers or goods in the way required to qualify for zero-rating under section 11A.

10. Business cases for proposed cost increases

Request:

Can Airways provide detailed business cases for the proposed cost increases?

Airways' response:

Information on the proposed operating cost increases including the benefits expected was outlined in the Pricing Consultation document in sections 4 and 5.

Detailed business cases are not prepared for proposed operating cost increases. However, Airways provides information in its price consultation process on the proposed increases and the benefits that the proposed increases will provide.