AIRWAYS
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CONSULTATION
RESPONSE DOCUMENT

PRICING FOR THE 2022-2025 PERIOD

Contents

1. Consultation process 02

2. Executive summary 05

3. Cost changes impacting target revenue 08
3.1 Operating costs 09

4. Capital plan 19

5. Assumed industry recovery 25

6. Prices for FY23-FY25 29
6.1 Airlines 29
6.2 General Aviation (GA) 31
6.3 Milford services 32

7. Scorecard 34

8. Submissions on other topics 35

Appendix 1 – Pricing tables and examples 36
Appendix 1.1: Target revenue by location 36
Appendix 1.2: Pricing tables 39
Appendix 1.3: Example prices for FY23 42

Appendix 2 – Supporting information 45
Appendix 2.1: Building block components of overall revenue 45
Appendix 2.2: Capital programme 46
Appendix 2.3: Weights used to allocate approach and aerodrome-related overhead 48

1. Consultation process

The consultation period began on 1 April 2022 and the final day for primary submissions was 29 April 2022. Airways received five submissions, which were then posted on the Airways website.

This provided customers, stakeholders and the industry the opportunity to review submissions received and allowed them time to consider lodging a cross-submission. Cross-submissions closed on 13 May 2022.

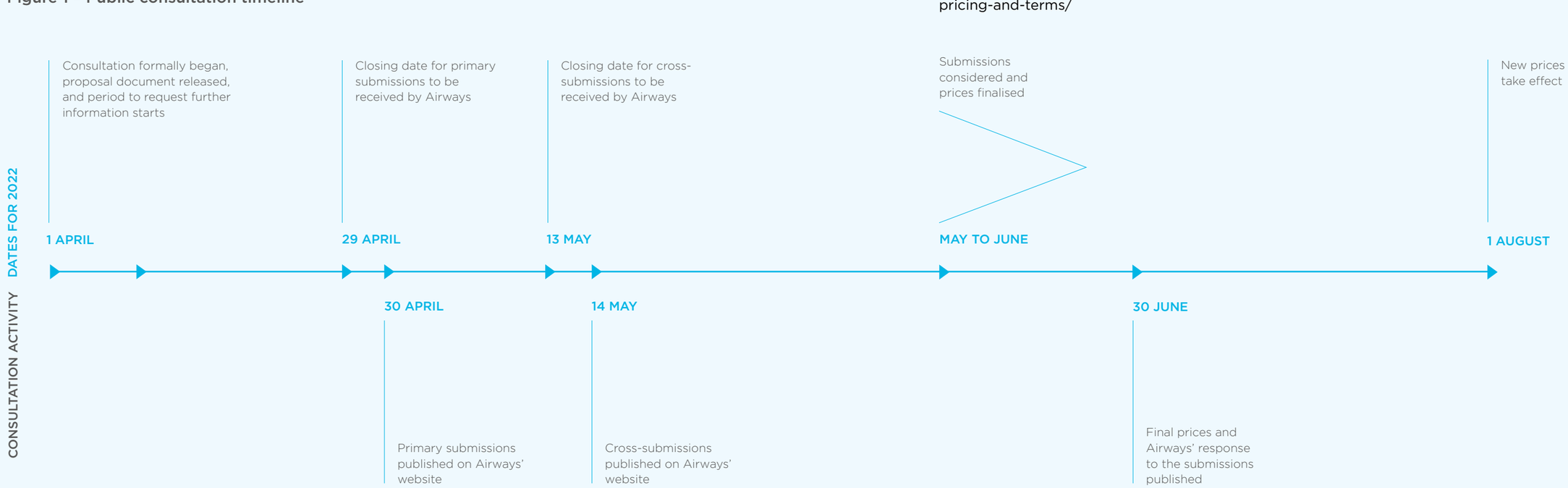
Although no formal cross-submissions were received, submitters requested further information on our operating costs, capital plan and EVA model. Airways provided this additional information on Friday 20 May and allowed submitters until 30 May 2022 to add to their primary submissions if required. Also, a meeting to explain the EVA model was held on Monday, 23 May.

Airways is committed to an open and transparent price-setting process. Stakeholder feedback has provided important guidance to finalise prices and services.

In total, Airways received seven submissions. Copies of these submissions can be found on the Airways website at:

https://www.airways.co.nz/about/performance-and-pricing/air-navigation-services-pricing-and-terms/

Figure 1 – Public consultation timeline



CONTENTS

CONSULTATION PROCESS

EXECUTIVE SUMMARY

COST CHANGES IMPACTING TARGET REVENUE

CAPITAL PLAN

ASSUMED INDUSTRY RECOVERY

PRICES FOR FY23-FY25

SCORECARD

SUBMISSIONS ON OTHER TOPICS

APPENDIX 1 PRICING TABLES AND EXAMPLES

APPENDIX 2 SUPPORTING INFORMATION

2. Executive summary

Overview

Airways acknowledges these are unprecedented times and we are committed to playing our part in the recovery of the industry and building a safe and resilient aviation network for the future. This will see Airways develop and deploy technology that provides flexibility to customers as well as service resilience. Airways will also be transitioning to a greener future by optimising airspace, improving efficiency of flight paths and reducing aircraft fuel burn and carbon emissions.

To the extent reasonably possible, and in discussion with our customers, Airways has assumed a recovering industry over the three-year period. However, it is acknowledged the shape of recovery remains uncertain. To mitigate volume uncertainty and at the request of submitters, Airways intends to amend its Pricing Framework to allow for a one-off six-month volume adjustment within the first year. Airways will consult with customers in due course on this change.

Through continued collaboration and partnership, we are confident we will emerge united and stronger as an industry. To support the recovery of the industry, Airways will not be seeking full recovery of revenue across the FY23-25 period, buffering the effects of inflation and rising funding costs.

Airways has limited our price increases to the extent reasonably possible to stay within our equity and funding parameters. After four years of losses, a pathway back to profit is a requirement for the shareholder as well as external funders.

This document provides the final set of prices that will apply to airlines and General Aviation (GA) from 1 August 2022. It also provides Airways' response to submissions received about prices for the three-year period from 1 August 2022 to 30 June 2025.

Airways thanks all submitters for their feedback on this proposal. All submissions have been taken into account in our response.

Target Revenue

The effects of inflation and rising funding costs have been pronounced over the past three months. This has added an additional $13.2m to Airways' operating costs across the period which is partly offset by the re-phasing of the capital plan.

Figure 1 summarises the changes to Airways' Target Revenue following consultation feedback, revised inflationary inputs, updated commissioning dates, re-phasing of project spend, risk-free rate and using the revised volume forecasts.

CONTENTS

CONSULTATION PROCESS

EXECUTIVE SUMMARY

COST CHANGES IMPACTING TARGET REVENUE

CAPITAL PLAN

ASSUMED INDUSTRY RECOVERY

PRICES FOR FY23-FY25

SCORECARD

SUBMISSIONS ON OTHER TOPICS

APPENDIX 1 PRICING TABLES AND EXAMPLES

APPENDIX 2 SUPPORTING INFORMATION

Figure 1 – Changes to Target Revenue

	Revenue change $m			
	FY23	FY24	FY25	Total
Base operating costs	0.0	(0.1)	0.0	(0.1)
Inflationary uplifts	3.2	2.2	0.7	6.1
Change in treatment of WIP	(4.0)	(0.1)	(0.1)	(4.2)
Capital charge rate movement	2.5	3.4	3.7	9.6
Tax	(0.2)	1.6	0.4	1.8
Operating costs	**1.6**	**6.9**	**4.7**	**13.2**
Capital plan changes	(0.6)	2.3	(3.1)	(1.4)
Total change in target revenue	**1.0**	**9.2**	**1.6**	**11.8**

Figure 2 summarises Airways' updated Target Revenue. Airways will target to under recover revenue of $41.8m in FY23, $4.4m in FY24 and $4.0m in FY25.

Figure 2 –Target Revenue

	Revenue change $m			YOY % Change		
	FY23	FY24	FY25	FY23	FY24	FY25
Opening target revenue	**242.5**[1]	**229.4**	**248.9**			
Changes to operating costs	(0.5)	11.1	7.2	(0.3%)	5.3%	3.3%
Capital plan changes	(12.5)	8.3	1.4	(19.4%)	18.2%	2.4%
Total change in target revenue	**(13.0)**	**19.5**	**8.7**	**(5.4%)**	**8.5%**	**3.5%**
Target revenue	**229.4**	**248.9**	**257.6**			
Airways EVA concession	(41.8)	(4.4)	(4.0)			
Subsidised target revenue	**187.6**	**244.5**	**253.6**			

Airways committed to reviewing the volume forecast prior to setting final prices to reflect information currently available. Airways has taken the updated volume position, in consultation with our customers, which is based on a recovery scenario broadly aligned to recovery patterns observed offshore, once COVID-19 restrictions are lifted.

Figure 3 breaks target revenue into the current establishment revenue (current activity), additional revenue which is assumed from volume growth over the FY23-25 period, and then the revenue contribution from price increases.

1 Proposed during the FY20-22 Pricing Budget. Assumed as the opening position for the FY23-25 price period.

Figure 3 – Target Revenue breakdown

	Revenue change $m			% change			
	FY23	FY24	FY25	FY23	FY24	FY25	Total[2]
Establishment revenue	121.7	187.6	244.5				
Volume growth	50.6	30.2	7.3	41.6%	16.1%	3.0%	69.3%
Average price increase	15.3	26.8	1.7	**8.0%**	**11.3%**	**0%**	**20.2%**
Subsidised target revenue	**187.6**	**244.5**	**253.6**				

Based on the updated volume forecast, prices charged to airlines increase by an average of 8% in FY23 and 20.2% over the three-year period to achieve target revenue. This is 3.3% higher than the proposed uplift of 16.9%. The increase is mostly driven by inflation and rising interest rates.

Airways will increase prices by 8.8% for General Aviation over the period.

Auckland Airfield Power & Lighting

Auckland International Airport Limited and Airways are currently negotiating the sale and purchase of airfield power and lighting assets and expect this to complete in the coming months. In the unlikely event that it does not, costs of $4.0 million per year will need to be reintroduced to our pricing at the reset in six months' time.

Auckland Airport and Airways will coordinate to ensure there is no risk of airlines "double paying".

2 Total % column includes the compounding effect of the changes.

CONTENTS
CONSULTATION PROCESS
EXECUTIVE SUMMARY
COST CHANGES IMPACTING TARGET REVENUE
CAPITAL PLAN
ASSUMED INDUSTRY RECOVERY
PRICES FOR FY23-FY25
SCORECARD
SUBMISSIONS ON OTHER TOPICS
APPENDIX 1 PRICING TABLES AND EXAMPLES
APPENDIX 2 SUPPORTING INFORMATION

3. Cost changes impacting target revenue

This section summaries customer submissions on the cost changes that affect target revenue and provides Airways' response to those submissions.

Target Revenue

Airways' Pricing Framework details the pricing methodologies used to price our services. It was developed and implemented following consultation with customers in 2012 and subsequently reviewed in 2022. The Pricing Framework is part of Airways' commitment to transparent price-setting. You can download the document from our website at:

https://www.airways.co.nz/about/performance-and-pricing/air-navigation-services-pricing-and-terms/

Using the Pricing Framework, Airways sets prices by calculating the overall revenue required (target revenue), allocating the revenue to specific services and calculating unit prices based on forecast volumes. Target revenue has been calculated using the Economic Value Added (EVA) Framework. The EVA framework calculates target revenue as the aggregate of costs and a commercial return (the building blocks). The EVA calculation outlining the building blocks is provided in Appendix 2.1.

Airways acknowledges these are unprecedented times and we are committed to playing our part in the recovery of the industry, and the building of a safe and resilient aviation network for the future.

The effects of inflation and rising funding costs have been pronounced over the past three months. To help buffer the shock, Airways is planning to under-recover revenue over the next three years such that EVA<0. Airways will target to under recover revenue of $41.8m in FY23, $4.4m in FY24 and $4.0m in FY25.

Figure 4 summarises Airways' updated Target Revenue following consultation feedback, revised inflationary inputs, updated commissioning dates, re-phased project spend, risk-free rate and the revised volume forecasts.

Figure 4 – Target Revenue

	Revenue change $m			YOY % Change		
	FY23	FY24	FY25	FY23	FY24	FY25
Opening target revenue	**242.5**[3]	**229.4**	**248.9**			
Changes to operating costs	(0.5)	11.1	7.2	(0.3%)	5.3%	3.3%
Capital plan changes	(12.5)	8.3	1.4	(19.4%)	18.2%	2.4%
Total change in target revenue	**(13.0)**	**19.5**	**8.7**	**(5.4%)**	**8.5%**	**3.5%**
Target revenue	**229.4**	**248.9**	**257.6**			
Airways EVA concession	(41.8)	(4.4)	(4.0)			
Subsidised target revenue	**187.6**	**244.5**	**253.6**			

3 Proposed during the FY20-22 Pricing Budget. Assumed as the opening position for the FY23-25 price period.

3.1 Operating costs

This section summarises the drivers of the operating cost changes and Airways' response to submissions.

AIRWAYS PROPOSED

Operating costs represent the largest component of Airways' total costs, accounting for approximately 70% of Target Revenue.

For Airways to continue to provide safe and efficient services, we proposed a forecast of base operating costs of $161.9m in FY23, dropping to $159.7m in FY25.

SUMMARY OF SUBMISSIONS

In terms of Airways' objective to maintain safe and efficient services, there was general support. However, submitters did request further information and clarification on operating costs.

Air New Zealand emphasised the need to remain focused on maintaining services at a sustainable cost, and where possible, to look at leaving innovation expenditure to future periods when the industry is better placed to fund. They also questioned the appropriateness of front-loading operating cost increases.

Qantas consider it would be more appropriate to align consultation timing to when key cost inputs, such as the collective wage agreements, were known.

Virgin Australia stated it would be preferable if operating costs are spread and absorbed more evenly during the next three years.

AIRWAYS' RESPONSE

Submitters requested further breakdown of other operating costs, FTE assumptions and the inflation rates assumed in the forecast. This information was provided to stakeholders on 20 May 2022.

Since the proposed prices were published, the effects of inflation and tightening labour market conditions have impacted the forward view on cost base, particularly labour costs. We now expect wage inflation rates to be much higher than what was assumed in the proposed price increase. As proposed in the additional information provided to submitters, we have inflated labour costs using CPI. Overall this increases Airways' operating costs by $6.1m over the three years.

For transparency, Airways breaks down the cost base into the component parts, clearly identifying the changes in underlying operating costs, inflationary uplifts and changes to the capital charge. The final changes to operating costs are summarised in Figure 5.

CONTENTS
CONSULTATION PROCESS
EXECUTIVE SUMMARY
COST CHANGES IMPACTING TARGET REVENUE
CAPITAL PLAN
ASSUMED INDUSTRY RECOVERY
PRICES FOR FY23-FY25
SCORECARD
SUBMISSIONS ON OTHER TOPICS
APPENDIX 1 PRICING TABLES AND EXAMPLES
APPENDIX 2 SUPPORTING INFORMATION

Figure 5 – Change in operating costs

	Operating costs change $m			YOY % change		
	FY23	FY24	FY25	FY23	FY24	FY25
A. Base operating costs	(7.2)	(0.7)	(1.6)			
B. Inflationary uplifts	9.1	7.0	4.9			
C. Change in treatment of WIP	(4.8)	(1.8)	(2.1)			
D. Capital charge rate movement	3.9	4.8	5.1			
E. Tax	(1.5)	1.9	0.8			
Total change in operating costs	**(0.5)**	**11.1**	**7.2**	**(0.3%)**	**5.3%**	**3.3%**

A. Base operating costs (excluding inflation)

FY22 operating costs are lower than planned which in part is the result of cost adjustments made during the COVID-19 pandemic.

Figure 6 – Base operating costs (excluding inflation)

	$m					YOY % change		
	FY22 Budget	FY22 Forecast	FY23	FY24	FY25	FY23 v FY22 forecast	FY24	FY25
Labour costs	120.9	113.0	116.4	117.0	117.6	3.1%	0.5%	0.5%
Other costs	48.2	39.1	45.5	44.2	42.1	16.3%	(2.8%)	(4.9%)
Total operating costs (excluding inflation)	**169.1**	**152.1**	**161.9**	**161.2**	**159.6**	**6.5%**	**(0.5%)**	**(1.0%)**

Key drivers to the cost increases in FY23 against the FY22 forecast are due to:

- Pressure that has come on staffing levels due to the number of in-flight projects and initiatives, and roster resilience to manage COVID-19
- Contingency to move into the new operational facilities
- An aging operational workforce which requires proactive recruitment due to the comprehensive and intensive training pathway to qualification
- The deferral of maintenance due to COVID-19 restrictions and aging infrastructure which has resulted in a higher level of repairs and maintenance work scheduled over this period

B. Inflationary uplifts

AIRWAYS PROPOSED

Inflation inputs are used to adjust Airways' base operating costs. The inflation rate differs depending on the type of cost it is being applied to. The proposed prices were based on NZIER forecasts from September 2021.

Airways proposed to update labour related inflation assumptions, once known, and other costs (excluding depreciation) based on NZIER's Primary Producers Index (PPI) (inputs) forecast.

SUMMARY OF SUBMISSIONS

Virgin Australia said that their preference would be that Airways confirm an inflationary model prior to submitters providing feedback. Additional clarification on assumptions made in regard to salary increases was requested. Virgin Australia and IATA were in agreement that the NZIER's primary producers index (PPI) was appropriate for general costs increases. IATA also stated that there were too many unknowns for them to provide agreeance and requested further clarification as to when the collective agreements would be finalised and whether or not inflation was normally included in a collective agreement.

BARNZ requested an explanation on the methodology used to calculate labour costs and questioned the non-use of LCI costs in Figure 7 inflation assumptions. They agreed with the approach to refresh inflation rates at the time of setting the final prices and confirmed, along with Air New Zealand, agreement that PPI and LCI were appropriate indices. However, Air New Zealand questioned whether there should be an onus on Airways to manage our operating costs so that productivity gains are made which result in increases at less than inflation. Air New Zealand also highlighted that inflation was a key part of pricing over this period and noted the uncertainty around salary/wage inflation as these were still being negotiated. They questioned why LCI was used for GA but not included in the commercial airline parameters.

AIRWAYS' RESPONSE

Submitters requested further information on the inflation rates assumed in the forecast. This information was provided to stakeholders on 20 May 2022.

The current effects of inflation and tightening labour market conditions have impacted the forward view on cost base, particularly labour costs. While collective settlements are yet to be concluded, we now expect wage inflation rates to be much higher than what was assumed in the proposed price increases.

As proposed in the additional information provided to submitters, we have inflated labour costs using the CPI forecast at the date closest to the contract start date which is in line with current negotiations.

CONTENTS
CONSULTATION PROCESS
EXECUTIVE SUMMARY
COST CHANGES IMPACTING TARGET REVENUE
CAPITAL PLAN
ASSUMED INDUSTRY RECOVERY
PRICES FOR FY23-FY25
SCORECARD
SUBMISSIONS ON OTHER TOPICS
APPENDIX 1 PRICING TABLES AND EXAMPLES
APPENDIX 2 SUPPORTING INFORMATION

As indicated in Airways' proposal and in the further information provided to submitters, we have revised the inflation rates based on the June 2022 forecast from NZIER. The updated rates are outlined in figure 7. The increase in inflation forecasts are contributing an additional $6.1m to the operating costs.

Figure 7 – Average Inflation assumptions

Cost type	Source	Change			
		FY23	FY24	FY25	Cumulative
Labour costs	NZIER CPI / LCI forecast (Jun 22)	5.9%	3.4%	2.3%	12.0%
Other costs	NZIER PPI (inputs) forecast (Jun 22)	8.4%	5.8%	4.0%	19.3%

Contract review periods vary between contract types, we have therefore shown the average uplift during the period.

D. capital charge rate movement

AIRWAYS PROPOSED

Airways proposed a capital charge rate of 7.01% which was developed using the NZCC's Input Methodology for airports and parameter estimates that are reflective of the market.

SUMMARY OF SUBMISSIONS

1. Risk-free rate

IATA and Virgin Australia sought clarification of the risk-free rate that would be used in the final pricing and how this would affect the final capital charge rate.

2. Market risk premium

Air New Zealand considers that 7.0% should be used for the market risk premium instead of Airways' proposed 7.5% until such time as any change is made to the airports' input methodologies. IATA and BARNZ put forward similar positions.

3. Leverage and asset beta

IATA stated that Airways' target leverage was inconsistent with NZCC principles.

Air New Zealand, BARNZ and IATA consider that Airways should adopt the NZCC target leverage for airports of 19% instead of the proposed 57%. IATA and BARNZ stated that if Airways were to be internally consistent in terms of WACC assumptions, and if adopting an airport asset beta, then Airways should adopt the same gearing profile.

Qantas, similar to IATA's position, stated that they consider the proposed capital charges are overstated due to inconsistent application of the leverage value and asset beta.

4. WACC percentile

Air New Zealand states that Airways has provided no evidence to support our proposal of 67% for the WACC percentile and therefore we should reconsider our position to deviate from the 50th percentile. IATA, BARNZ, Virgin Australia and Qantas questioned the setting of the WACC range at 67th percentile and provided feedback that 50% should be adequate.

AIRWAYS' RESPONSE

Airways has considered the submissions on the capital charge and still considers its approach is consistent the New Zealand Commerce Commission's (NZCC) approach to the cost of capital, as set out the Input Methodologies (IMs) it determines for various regulated sectors. Airways' capital charge rate for the 2022-2025 pricing period is 8.03%. This is higher than the proposal as it reflects the increase in the risk-free rate. As Airways is under recovering revenue through this price period, this increase has not fully been passed onto customers. Our implied calculated capital charge is therefore lower.

Figure 8 - Cost of Capital vs capital charge implied by pricing

Year	Implied capital charge	Actual cost of capital
FY23	(3.12%)	8.03%
FY24	7.15%	8.03%
FY25	7.22%	8.03%

1. Risk-free rate

The risk-free rate has increased from the proposed 1.7% to 3.18%. It is consistent with Airways' previous practice to update the risk-free rate to reflect the most recent data available.

2. Market risk premium (MRP)

The tax-adjusted market-risk premium (TAMRP) represents the premium for exposure to market risk. It is a market wide, rather than industry specific parameter that does not differ by sector, service or company, so the NZCC uses a consistent approach across sectors for estimating TAMRP and often estimates the TAMRP for multiple sectors at once. Therefore, Airways considers the best available evidence on the TAMRP is the most up to date estimate from the NZCC. This is the 7.5% TAMRP estimated for the Fibre Input Methodologies in 2020.[4]

While Airways does not consider it should be bound by the TAMRP specified in the Airports IM for the reasons already noted, we note the NZCC has just initiated its review of the IMs for airports (and gas and electricity networks) and is considering using the 7.5% TAMRP from the 2020 Fibre IM:[5]

4 NZCC (2020), Fibre Input Methodologies: Main final decisions - reasons paper, 13 October 2020, para.6.522
5 [IM review 2023 process and issues paper, 2022], para.6.51

CONTENTS
CONSULTATION PROCESS
EXECUTIVE SUMMARY
COST CHANGES IMPACTING TARGET REVENUE
CAPITAL PLAN
ASSUMED INDUSTRY RECOVERY
PRICES FOR FY23-FY25
SCORECARD
SUBMISSIONS ON OTHER TOPICS
APPENDIX 1 PRICING TABLES AND EXAMPLES
APPENDIX 2 SUPPORTING INFORMATION

We are considering using our 2020 estimate of the TAMRP in the current review. The 2020 estimate is an estimate of a market parameter that we expect is relatively stable over time. However, we also intend considering how often the TAMRP should be estimated and how new estimates should be applied across regulated sectors.

Furthermore, while the purpose of specifying parameters values in an IM is to provide certainty by setting parameter values up front, the NZCC has previously changed the TAMRP outside of IM reviews where there has been evidence the TAMRP has changed. Indeed, in March 2022 the NZCC reset prices for gas pipeline business and in this reset increased the TAMRP for GPBs from 7.0% to 7.5% to reflect the most recent TAMRP determination for Fibre in 2020.[6] The NZCC justified this as follows:

We consider it appropriate to make this change outside of the statutory review cycle as it does not involve a new policy decision and we have a better estimate available to us. Where a better estimate is not available, we consider it more appropriate to reconsider the TAMRP as part of a statutory IM review.

Airways is therefore of the view that in the context of setting prices, the best estimate of the TAMRP is 7.5% and using this value is consistent with the NZCC's approach to setting prices for regulated businesses.

3. Leverage and asset beta

Asset beta is the ratio of the covariance of a company's returns with the returns on the market, relative to the variance of returns on the market. It is thus a measure of the degree to which the entity's returns move with the market. The asset beta measures the risk of the firm if it had no leverage, whereas the equity beta reflects the impact of leverage on the systematic risk borne by equity holders. The leverage input adjusts for the mix of a company's funding between debt and equity. The NZCC's approach is to estimate asset beta using a sample of comparator companies and then take the average leverage of that comparator sample to "re-lever" the asset beta and get an equity beta.

Submitters have suggested that because Airways has adopted the airports asset beta estimated by the NZCC, the only internally consistent leverage assumption to use is the notional 19% leverage assumption the NZCC uses for airports.

Airways' approach to asset beta is to consider a number of sources of evidence, being the asset beta of comparator providers of ANS and also the beta for New Zealand airports. It is therefore not correct to state Airways has adopted the airports asset beta. Rather Airways has looked at the betas and leverage used for comparator providers of ANS and the New Zealand airports asset beta is used as a cross-check, which informs the selection of the point comparator sample range that is chosen.

6 NZCC (2022), Amendments to input methodologies for gas pipeline businesses related to the 2022 default price-quality paths – weighted average cost of capital Reasons paper, 25 March 2022, para.3.4

As set out in the consultation document,[7] the comparator sample of ANS providers gives an asset beta range of 0.45 – 0.6.[8] As Airways would not be expected to have lower systematic risk than the New Zealand airports, the NZCC estimate of 0.6 for airports supports taking the upper end of the range. And thus, Airways has used an asset beta of 0.6.

As set out in the consultation document,[9] the leverage levels for AirServices Australia and NATS, whom Airways considers to be its closest comparators, are 58.8% and 60% respectively. The adoption of a leverage estimate of 53% is based on Airways' medium-term targeted leverage and is therefore consistent with the comparators used to estimate asset beta. Therefore Airways considers our approach to asset beta and leverage is internally consistent.

4. WACC percentile

The weighted average cost of capital (WACC) is not observable, so it must be estimated. To do this, estimates of the costs of debt and equity are required, both of which are subject to uncertainty and mis-estimation risk. As a result, there is a risk that the WACC calculated may be higher or lower than the 'true' cost of capital.

The NZCC recognises there can be long-term costs to end users from both under and overestimating the WACC:[10]

- If WACC is underestimated, then prices to end users are lower, but this can also disincentivise investment and innovation and may threaten the ability of a company to provide services (and could lead to a deterioration in service quality and safety).
- Conversely, if WACC is overestimated, then this may lead to overinvestment and higher costs to end users.

Since the 'true' cost of capital is not observable, it is not possible to tell if the WACC is being over- or underestimated, additionally, the effects of over or underestimating WACC can be asymmetrical. Therefore, the WACC chosen should balance the probability that WACC is underestimated, and the cost incurred from underestimating WACC against the probability that WACC is overestimated, and the resulting cost incurred from overestimating WACC.

The NZCC's approach to setting WACC is to first estimate a mean and standard error for the cost of capital, and then consider whether WACC should deviate from the mid-point based on the risks of uncertainty and mis-estimation and the potential asymmetrical effects of these risks.

7 Airways (2022), Proposed Pricing for the 2022-2025 Period – Consultation Document, April 2022, pg.44
8 AirServices Australia, NATS, IAA and ENAV are the providers of ANS in Australia, the United Kingdom, Ireland and Italy respectively
9 Airways (2022), Proposed Pricing for the 2022-2025 Period – Consultation Document, April 2022, pg.46
10 NZCC (2020), Fibre IM final decisions reasons paper, 2020, para.6.646

CONTENTS
CONSULTATION PROCESS
EXECUTIVE SUMMARY
COST CHANGES IMPACTING TARGET REVENUE
CAPITAL PLAN
ASSUMED INDUSTRY RECOVERY
PRICES FOR FY23-FY25
SCORECARD
SUBMISSIONS ON OTHER TOPICS
APPENDIX 1 PRICING TABLES AND EXAMPLES
APPENDIX 2 SUPPORTING INFORMATION

To do this, the NZCC assesses the expected effects of overestimating WACC compared to underestimating WACC and what balance of these would best promote the long-term benefit of consumers.[11,12] (I.e., the costs of underinvestment compared to the higher prices to customers from overinvestment or higher returns). In particular, the NZCC considers the expected costs of misestimation with respect to:

- What the consequences of underinvestment are and what the costs to consumers would be if they did occur;
- What the probability/risk of these consequences occurring is;
- If there are any factors that mitigate the cost and/or the risk of these consequences occurring.

The NZCC also notes that the consequences of misestimation will depend on the regulatory context the estimate of WACC will be used in.[13] For example, under information disclosure, the WACC is not actually used to set prices, so the NZCC publishes the mid-point and the standard error and leaves the firm to justify whether a WACC above the mid-point should be used when they set prices.

The 67th percentile WACC is used for electricity and gas networks because the NZCC decided that the potential costs of underinvestment from underestimating WACC are likely to outweigh the harm to consumers from overestimating WACC. The costs considered focused on the effects of underinvestment on service quality, including more frequent or longer supply outages (with the most significant costs likely resulting from major supply outages), and higher maintenance costs.[14] The NZCC considers these costs of underinvestment in this context outweigh the costs resulting from higher pricing in the short term.[15]

By contrast, the mid-point WACC is used for airports and fibre as the NZCC considers that the potential costs of underinvestment from underestimating WACC are lower than that of the electricity and gas networks. In particular, the costs to users from declining service quality differ and there were certain characteristics of the market that mitigated the risk and effects of underinvestment:

- **Service quality:**

- For fibre, quality degradation from underinvestment (e.g., network congestion leading to slower connection speeds or more frequent disruption to services), would be relatively gradual and visible (i.e., easily observed and measured by users). Underinvestment is expected to show up in performance standards more quickly compared to the energy sector (so quality standards are likely more effective to mitigate underinvestment).[16]

11 NZCC (2022) *Part 4 Input Methodologies Review 2023 - Process and Issues paper*, 20 May 2022, para.6.91
12 NZCC (2016), *Input Methodologies Review Decisions - Topic paper 6: WACC percentile for airports*, 2016, para.59
13 NZCC (2010), *Input Methodologies (Electricity Distribution and Gas Pipeline Services) – Reasons paper*, December 2010, para.6.7.9
14 NZCC (2014), *Amendment to WACC percentile for PQ regulation for EDBs and GPBs - Reasons paper*, 2014, para. X18
15 NZCC (2010), *Input Methodologies (Electricity Distribution and Gas Pipeline Services) – Reasons paper*, December 2010, para.H11.62
16 NZCC (2019), *Fibre regulation emerging views: Technical Paper*, May 2019, para.552-553

- For airports, underinvestment is more likely to result in delays to capacity expansion leading to lower quality of service rather than the complete removal of service (e.g. delays at peak time or shifting demand out of peak periods).[17] Therefore, underinvestment that does occur is less likely to result in costly major supply outages (compared to electricity and gas networks). Additionally, the deterioration of quality (i.e. increased congestion) is likely to build up over time and be visible to consumers.[18]

- These consequences of underinvestment are in contrast with electricity and gas networks where underinvestment may not be visible for a longer period of time until it is revealed by an event like a major power outage at large cost to consumers.[19]

- **Ability to mitigate:**

- For airports, the value of complimentary revenue streams associated with airport investment (i.e., unregulated services) reduces the risk that such investment would be constrained by the use of the mid-point WACC.[20]

- For fibre, alternative services (i.e., mobile services) can mitigate some of the cost of outages caused by underinvestment, and potential competition may mitigate the risk of underinvestment. Additionally, the newness of the networks means that there is likely less need for significant investment to maintain quality.[21]

The risk and cost of underinvestment for Airways is likely higher than for airports and fibre, and more similar to the electricity and gas networks. Although the business of Airways is strongly linked to that of the airports, as set out in the consultation paper, Airways considers that the cost of underinvestment by Airways is relatively high:

- A possible outage of ANS services is significant in terms of the costs of disruption or worse an accident. This type of risk is more similar to the risk of major power outages considered for electricity networks than the costs of underinvestment considered for fibre and airports.
- Inefficiently low levels of investment may cause economic cost due to travel delays and reduced levels of travel (as a result of fewer flights). A reduced number of travellers has a wider impact on the economy through lower expenditure on associated goods such as accommodation.
- Airlines may experience higher costs, potentially as a result of less efficient flight times, or aircraft spending longer periods of time on the ground between flights.

Additionally, there are also fewer factors that mitigate the risk of underinvestment in comparison to airports and fibre. In particular, Airways has no complementary commercial activities that are directly linked to air traffic volumes like airports do, and a degradation in service quality may not be obvious until a disruption or accident occurs.

17 NZCC (2016), *Input Methodologies Review Decisions - Topic paper 6: WACC percentile for airports*, 2016, para.150
18 NZCC (2016), *Input Methodologies Review Decisions - Topic paper 6: WACC percentile for airports*, 2016, para.152
19 NZCC (2016), *Input Methodologies Review Decisions - Topic paper 6: WACC percentile for airports*, 2016, para.152
20 NZCC (2016), *IM review - Topic paper 6: WACC percentile for airports*, 2016, para.139
21 NZCC (2022) *Part 4 Input Methodologies Review 2023 - Process and Issues paper*, 20 May 2022, para.6.102

CONTENTS
CONSULTATION PROCESS
EXECUTIVE SUMMARY
COST CHANGES IMPACTING TARGET REVENUE
CAPITAL PLAN
ASSUMED INDUSTRY RECOVERY
PRICES FOR FY23-FY25
SCORECARD
SUBMISSIONS ON OTHER TOPICS
APPENDIX 1 PRICING TABLES AND EXAMPLES
APPENDIX 2 SUPPORTING INFORMATION

Given the large social costs of underinvestment and the lack of mitigants relative to fibre and airports, Airways considers the asymmetry in the costs of under vs. over investment are similar to that for gas and electricity networks. Airways has thus adopted the 67th percentile. The costs of underinvestment and lack of mitigating factors were set out in the consultation paper[22] and no submitters have disputed these specific points. Therefore, Airways continues to believe this assumption is appropriate.

Figure 9 outlines the components of Airways' cost of capital calculation.

Figure 9 – Capital charge inputs and components

Capital charge components	2020-2022 pricing	2022– 2025 pricing	Approach
Risk-free rate	1.67%	3.18%	The NZCC recommends using a bond rate that matches the period of the pricing agreement. The current estimate is based on the market three-year bond rates.
Asset beta	0.6	0.6	An asset beta of 0.6 is still appropriate when comparing to international ANSPs and the NZCC's estimate for airports (0.6).
Tax adjusted market risk premium	7.0%	7.5%	Based on the NZCC's most recent input methodologies estimate in 2020.
Debt premium	1.09%	1.24%	The current estimate is based on NZCC's five-year calculation for airports. The NZCC uses a five-year premium for three-year pricing periods on the basis that shorter term debt would not be in the long-term interests of end-users.
Debt issuance cost	0.20%	0.33%	Based on the NZCC's input methodologies estimate for a three-year term.
Leverage	58%	53%	Target leverage for Airways' statutory business, as reported in the *Statement of Corporate Intent*. This is consistent with the leverage of relevant and comparator ANSPs.
WACC range	67th percentile	67th percentile	The NZCC has used the 67th percentile for setting gas and electricity prices. The NZCC has used the midpoint as the starting point for airports based on its reasoning that there is a lower risk of underinvestment for airports compared to gas pipeline and electricity distribution businesses. The risk and cost of underinvestment for Airways is likely higher than that of airports, gas pipeline and electricity distribution businesses. Airways has conservatively used the 67th percentile.
Calculated capital charge rate	**6.59%**	**8.03%**	

22 Airways (2022), *Proposed Pricing for the 2022-2025 Period – Consultation Document*, April 2022, pg.47

4. Capital plan

AIRWAYS PROPOSED

For us to advance our strategic objectives, enhance safety and system resilience, while transitioning to digital services over time, Airways proposed a $188.3m capital programme for FY23-25. The programme was summarised by location and service with full details of the programme outlined in the appendices of the Consultation Document.

SUMMARY OF SUBMISSIONS

IATA requested an example in terms of WIP of the new capital charge design to determine if it results in a higher cost-base addition versus being recognised during the development in previous years.

BARNZ supported the strategic objectives and investment programme on enhancing safety and system resilience and requested that cost savings or other efficiencies are equally focussed on for the benefits delivered. BARNZ stated that airlines want to see how invested capital will deliver cost saving and efficiencies benefits as well as enhanced services. To ensure targeted investments are delivered over time, BARNZ suggests a benefits realisation framework approach where investments delivered to customers are measured against the benefits outlined in the original business case.

BARNZ thanked Airways for implementing the new WIP approach, and they requested an example of this approach be provided. Virgin Australia also requested details on how this change would impact the Airways cost-base.

Primary and Secondary Radar Replacement

Air New Zealand requested further details in terms of the split between PSR and SSR. They consider that the SSRs should be funded by the Government and for a review of risks versus cost/benefit for the PSR to better understand if the expenditure is warranted.

IATA's position is that PSR infrastructure costs should be borne by the State's national security budget and not by the air navigation fees for civil aviation. This position is also supported by BARNZ.

Virgin Australia recommends to Airways that investment in satellite surveillance technologies is preferred as radar is old technology.

Qantas requested a focus on modern surveillance technology. They recognise system resilience as being important but requested Airways consider rationalising and minimising costs where possible.

CONTENTS
CONSULTATION PROCESS
EXECUTIVE SUMMARY
COST CHANGES IMPACTING TARGET REVENUE
CAPITAL PLAN
ASSUMED INDUSTRY RECOVERY
PRICES FOR FY23-FY25
SCORECARD
SUBMISSIONS ON OTHER TOPICS
APPENDIX 1 PRICING TABLES AND EXAMPLES
APPENDIX 2 SUPPORTING INFORMATION

Enroute Assets

Air New Zealand and IATA are supportive of the rationalisation of enroute assets and transition to GNSS.

Qantas and BARNZ do not support installation of new ground based navigational aids. They feel that any new installation would be more appropriately funded by the Government than the commercial airlines.

IATA stated they do not support deployment of new VORs and encourage Airways to continue to plan and publish a rationalisation plan of unnecessary VORs under an agreed timeline.

Auckland Tower Replacement

Qantas requested that the expenditure on the tower replacement be delayed, given the significant costs and recent downturn in the aviation industry, until there was more clarity and direction provided regarding the future state of the tower given the aim to provide digital services over time. They requested confirmation as to whether the tower be digital or conventional.

Virgin Australia indicated a global shift to embrace digital technologies and a preference for Airways to look at extending the life of the current tower and explore the opportunity to introduce a digital tower service.

Air New Zealand stated that it was unclear whether this expenditure is included for the basis of pricing or is simply shown here as the year in which it is expended.

IATA's feedback is that there is a preference to maintain the current tower for this pricing period. IATA also requested clarification on the yearly figures stated in the capital plan table in relation to revised WIP treatment.

BARNZ requested clarification that the stated expenditure would not be part of the required revenue recovery for the period. BARNZ indicated support to defer the replacement expenditure in this pricing period as traffic levels recover. They also requested cost/benefit profile of the options being considered and suggested a consultation session to discuss both the Auckland Tower and Digital Towers be arranged.

Regional Tower Services

BARNZ indicated support for the Airways approach to utilise digital technology at regional towers to enable a more flexible and efficient service delivery model.

Drone Management

Air New Zealand, Qantas, BARNZ, Virgin Australia, and IATA consider this should not be a cost imposed on airlines, but instead funded by UAS users or the Government.

Other

IATA has no objection to Airways' divestment of airfield power and lighting asset costs to Auckland Airport.

AIRWAYS' RESPONSE

Submitters requested further information on the proposed capital plan and the treatment of 'work-in-progress' (WIP). This information was provided to stakeholders on 20 May 2022.

Airways addresses the remaining comments and concerns for each item raised in submissions:

Primary and Secondary Radar Replacement

Airways has been working together with all airspace users through the New Southern Sky initiative.

"Approved by Cabinet in early 2014, New Southern Sky gives a clear direction on incorporating new and emerging technologies into the aviation system to ensure the safe, cohesive, efficient and collaborative management of New Zealand's airspace and air navigation to 2023."[23]

In accordance with the New Southern Sky document, The National Airspace and Air Navigation Plan (NAANP), created by airspace users of New Zealand to cover the time period of 2014 through to 2023, New Zealand and Airways have moved away from traditional surveillance methods of radar to modern systems, such as ADS-B.

As of end of 2022, ADS-B becomes the primary source of surveillance in New Zealand and SSR / PSR moves into a contingency surveillance mode, only required to cover the critical infrastructure aerodromes of Auckland, Wellington and Christchurch. Presently the SSR is the primary source or surveillance. Airways completed installation of ADS-B antennas ahead of initial mandate date, of end of 2021. The mandate was subsequently delayed by the Government after user input, due to the effects of COVID 19 on the aviation industry, until end of 2022.

From the end of 2022, SSR and PSR are only required to protect the three critical airports of New Zealand, for contingent surveillance, in accordance with the NAANP. After this date Airways will be able to reduce the number of these surveillance assets from the present six SSRs and three PSRs, to only three PSRs with co-located SSRs at the airports of Auckland, Wellington and Christchurch. GNSS failure and incursions by non-cooperative airspace users was highlighted as a risk in the National Airspace and Air Navigation Plan, particularly at international airports, hence the requirement to continue with SSR and PSR at these locations, at this time.

23 New Southern Sky – www.nss.govt.nz/about/

CONTENTS
CONSULTATION PROCESS
EXECUTIVE SUMMARY
COST CHANGES IMPACTING TARGET REVENUE
CAPITAL PLAN
ASSUMED INDUSTRY RECOVERY
PRICES FOR FY23-FY25
SCORECARD
SUBMISSIONS ON OTHER TOPICS
APPENDIX 1 PRICING TABLES AND EXAMPLES
APPENDIX 2 SUPPORTING INFORMATION

Given the feedback from customers, Airways will engage with the Government regarding the possibility of central funding for the Primary Radar systems. If Government funding can be obtained, assets will be removed from pricing.

Enroute Assets

The Ground-Based Navigation Aid Review Panel was set up by the New Southern Sky Working Group to fulfil the recommendations of the National Airspace and Air Navigation Plan with respect to ground-based navigation aids (GBNAs). In April 2018 the request for the existing GBNA at three airfields be upgraded to DVORs was made by this panel and incorporated into the minimum operating network under the New Zealand Ground-Based Navigation Air Infrastructure Strategy. These requests and decisions were accepted and endorsed by the New Southern Sky members.

The first recommendation of the National Airspace and Air Navigation Plan is to ensure that if there is a GNSS outage, any aircraft in the air at the time can be safely recovered. The aircraft of concern are those flying IFR in the New Zealand FIR, and any aircraft approaching New Zealand that are not able to divert to an area of GNSS coverage. We should also consider the risk from GNSS equipment malfunctions on aircraft or on the ground, or local degradation of GNSS services. In order to safely recover aircraft flying IFR, a network of GBNAs must be sufficient to provide that a GBNA signal is accessible from anywhere an aircraft might be (even if the aircraft has to travel to detect it), and within the flight range of any such aircraft. The New Zealand Ground-Based Navigation Aid Infrastructure Strategy calls a network of GBNAs with this capacity the minimum operating network (MON).

The GBNA panel met again in October 2020 and reconfirmed the 2018 decision for the Airways upgrades to GBNA at three existing attended locations to DVORs. In this meeting other GBNA (DVORs) were requested to be provided, but it was said that Airways is not liable to fund those extra GBNAs.

We have removed five (from eight) DVORs from the pricing plan as these will be funded directly by the Government.

Drone Management

Our focus continues to ensure safe and efficient movement of air traffic. A drone management system provides greater visibility and awareness of cooperating users. Currently there is no ability to identify 'non cooperative' users which continues to pose a risk in our airspace, which we are responsible for. We will continue to identify ways in which we can overcome this.

Given the feedback from customers, Airways will engage with the Government regarding the possibility of central funding for Drone Radar systems. If Government funding can be obtained, assets will be removed from pricing.

Auckland Tower Replacement

The Auckland Tower is an aging asset and is due for replacement by the end of 2026. Any extension to this timeframe will require further investment in the asset.

Airways is currently considering three options to replace the current asset:

- A conventional tower (in new location)
- A hybrid solution, combining a smaller conventional tower augmented through digital technologies
- A fully remote digital tower

All avenues for the development and deployment of these options are currently underway. At the appropriate time, Airways will engage with the industry on the different options.

The Auckland Tower replacement project is not forecast to be complete until FY27 and therefore does not enter our pricing asset base until then.

Capital investment by service and location

Airways has developed a capital investment plan which advances strategic objectives and ensures operational safety and resilience. Airways appreciates the constraints on the industry and that customers only want to pay for investments which are essential and required. However, deferral of investment does introduce service risk and customer disruption which we wish to avoid and minimise to the extent we reasonably can.

Many of the proposed investments are over an extended period of time. The change made to Airways' Pricing Framework removes 'work-in-progress' (WIP) from the asset base and has the effect of only charging customers for new services once they are commissioned, rather than when they are being developed.

The final capital programme is outlined in figure 10, with full details provided in appendix 2.2. The increase in FY23 is due to forecast capital spend in FY22 slipping to FY23. Overall the plan has not increased but spending that was forecast in FY22 has slipped to FY23/24. The commissioning dates have been updated to reflect the reforecast spend.

CONTENTS
CONSULTATION PROCESS
EXECUTIVE SUMMARY
COST CHANGES IMPACTING TARGET REVENUE
CAPITAL PLAN
ASSUMED INDUSTRY RECOVERY
PRICES FOR FY23-FY25
SCORECARD
SUBMISSIONS ON OTHER TOPICS
APPENDIX 1 PRICING TABLES AND EXAMPLES
APPENDIX 2 SUPPORTING INFORMATION

Figure 10 – Capital investment by service and location

	Financial Year			
Service and Location ($m)	**FY23**	**FY24**	**FY25**	**Total**
Major investments	25.2	32.2	28.7	**86.2**
National operations	28.9	13.5	12.2	**54.6**
Christchurch, Wellington, Queenstown	2.4	7.3	8.0	**17.7**
Regional aerodromes	4.4	2.4	7.9	**14.7**
En-route	5.2	4.7	2.0	**11.9**
Auckland	2.7	3.2	0.2	**6.1**
Other (Kapiti, Milford & unattended)	0.5	0.0	0.0	**0.5**
Total	**$69.3**	**$63.3**	**$59.0**	**$191.7**

5. Assumed industry recovery

Airways is mindful of the need to balance our commercial objectives and investment profile with the difficult trading conditions our customers are experiencing. We align Airways' recovery path with that of the broader industry.

Airways committed to reviewing the volume forecast prior to setting final prices to reflect information currently available. We have since increased our volume growth assumption for the Pacific Islands and North America.

Prices are set directly in relation to the volume forecasts. Figure 11 summarises actual air traffic volumes over the pandemic period to April 2022, and the forecast future track.

Figure 11 – Assumed volume forecast

The final prices have been adjusted on the assumed forecast as summarised in figure 12 below.

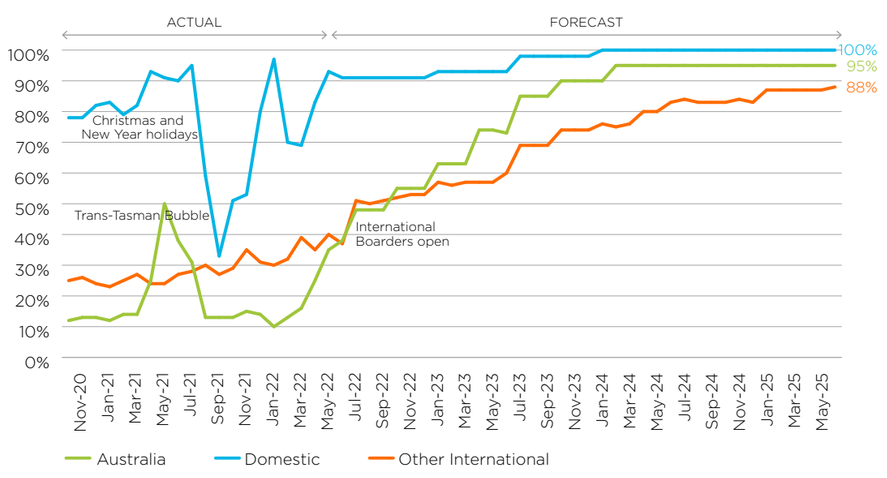


Figure 12 – Assumed volume growth

	Forecast - % of pre-COVID levels			
Region	**June 2022**	**June 2023**	**June 2024**	**June 2025**
New Zealand	91%	93%	100%	100%
Australia	38%	73%	95%	95%
Pacific Islands	46%	71%	94%	97%
Asia	33%	48%	78%	85%
North America	39%	72%	84%	86%
South America	71%	75%	80%	80%

CONTENTS
CONSULTATION PROCESS
EXECUTIVE SUMMARY
COST CHANGES IMPACTING TARGET REVENUE
CAPITAL PLAN
ASSUMED INDUSTRY RECOVERY
PRICES FOR FY23-FY25
SCORECARD
SUBMISSIONS ON OTHER TOPICS
APPENDIX 1 PRICING TABLES AND EXAMPLES
APPENDIX 2 SUPPORTING INFORMATION

Domestic:

AIRWAYS PROPOSED

Domestic travel will recover to 93% of the pre-pandemic level in the first year of the new price round and eventually move to 100% in the second and third years.

SUMMARY OF SUBMISSIONS

BARNZ were of the view that domestic forecast growth will not naturally flatline as indicated by Airways.

Air New Zealand noted the significant uncertainty forecast traffic volumes. They accept that the short-term forecast appeared reasonable at this time, however they consider it pessimistic to assume no growth beyond November 2023.

Qantas consider the forecast appropriate. IATA also did not object to the forecast.

IATA, Air New Zealand, and BARNZ would support an initiative to review the forecast in six months in relation to actuals and known changes to the overall operating environment. They feel that such an approach combined with the +/- 2% risk share model could mitigate the risk of significant over or under forecasting pricing impacts.

AIRWAYS' RESPONSE

Submitters requested Airways consider reviewing forecasts in six months in relation to actuals and known changes to the operating environment. This could mitigate the risk of significantly over or under forecasting volume impacts. To complete an out of cycle price reset would require a change to our Pricing Framework and Standard Terms & Conditions. We are committed to ensuring our forecasts reflect the best information at the time and therefore we will consult with our stakeholders on completing an out of cycle price reset to account for volume information at the end of the 2022 calendar year.

Airways' volume risk sharing mechanism set out in the Pricing Framework also provides an opportunity to reforecast volumes (and reset prices) at the end of FY23 and FY24.

Trans-Tasman:

AIRWAYS PROPOSED

Trans-Tasman travel will have a gradual pick-up over the year as detailed in figure 10 of the Consultation Document.

SUMMARY OF SUBMISSIONS

Qantas considered the forecast consistent with their own assumptions. IATA also did not object to the forecast. BARNZ agreed with the forecast at this time.

Air New Zealand highlighted the significant uncertainty regarding forecasting traffic volumes and given this fact they support a one-off re-forecast in six months' time.

IATA, Air New Zealand, Qantas and BARNZ would support an initiative to review the forecast in six months in relation to actuals and known changes to the overall operating environment. They feel that such an approach combined with the +/- 2% risk share model could mitigate the risk of significant over or under forecasting pricing impacts.

AIRWAYS' RESPONSE

Airways is committed to ensuring our forecasts reflect the best information at the time and therefore we will consult with our stakeholders on completing an out of cycle price reset to account for volume information at the end of the 2022 calendar year.

Airways' volume risk sharing mechanism set out in the Pricing Framework also provides an opportunity to reforecast volumes (and reset prices) at the end of FY23 and FY24.

CONTENTS
CONSULTATION PROCESS
EXECUTIVE SUMMARY
COST CHANGES IMPACTING TARGET REVENUE
CAPITAL PLAN
ASSUMED INDUSTRY RECOVERY
PRICES FOR FY23-FY25
SCORECARD
SUBMISSIONS ON OTHER TOPICS
APPENDIX 1 PRICING TABLES AND EXAMPLES
APPENDIX 2 SUPPORTING INFORMATION

Other international:

AIRWAYS PROPOSED

Other international travel will recover as depicted in figure 10 of the Consultation Document.

SUMMARY OF SUBMISSIONS

Qantas considered the Airways forecast conservative and suggested it should be accelerated by at least six months, and that a reforecast in six months (Dec 2022), as an additional risk sharing mechanism, should lower Airways' WACC percentile.

Air New Zealand again highlighted the significant uncertainty regarding forecasting traffic volumes. They said that another material factor that should be taken into consideration is the potential for significant cost increases in operating to New Zealand, e.g. Airways' price increases could negatively impact demand as international carriers choose to deploy their aircraft to more profitable markets.

IATA indicated that Airways' forecast is consistent with their own latest traffic recovery for New Zealand. BARNZ agreed with the forecast but noted they may be a little conservative. Virgin Australia stated that the forecast was in-line with similar global positions.

IATA, Air New Zealand, Qantas, Virgin Australia, and BARNZ would support an initiative to review the forecast in six months in relation to actuals and known changes to the overall operating environment. They feel that such an approach combined with the +/- 2% risk share model could mitigate the risk of significant over or under forecasting pricing impacts.

AIRWAYS' RESPONSE

Airways is committed to ensuring our forecasts reflect the best information at the time and therefore we will consult with our stakeholders on completing an out of cycle price reset to account for volume information at the end of the 2022 calendar year.

Airways' volume risk sharing mechanism set out in the Pricing Framework also provides an opportunity to reforecast volumes (and reset prices) at the end of FY23 and FY24.

6. Prices for FY23-FY25

This section summarises customer submissions on airline prices and provides Airways' response to those submissions. Customer feedback provided an essential input into the price-setting process; all feedback was carefully considered before finalising prices.

6.1 Airlines

AIRWAYS PROPOSED

To sustain safe and efficient operations at lower volume levels, Airways proposed an average price increase of 16.9% over the three-year period.

SUMMARY OF SUBMISSIONS

All submissions highlight the challenges facing the industry as it looks to recover from the impacts of COVID-19.

IATA and BARNZ acknowledge the support that has been provided by the New Zealand Government.

Air New Zealand, IATA, Qantas, Virgin Australia and BARNZ all called for continued Government support and funding to help stimulate traffic volumes and ensure a timely recovery.

IATA put forward the proposition that to drive growth, ANSPs should consider reducing current charges in order to stimulate flight numbers. IATA's contention is that a combination of lower charge rates with higher numbers of flights would increase ANSP revenue more rapidly. Alternatively, maintaining or increasing charges will potentially result in slower growth in flights as airlines maintain strict cost containment strategies. IATA offers as an example; for a 50% discount, a 5% increase in charges could apply each time movements have increased by another 10%. In this way increases are tied to real increases in traffic as opposed to being applied at arbitrary time periods. IATA stated that even without a charges discount, any proposed introduction of increases should consider a similar approach.

BARNZ supports Airways' move to not recover all required costs via revenue. BARNZ requested additional information, which was supplied with the 23 May Additional Information package. They suggested looking at smoothing the increase over the three-year period and said a 'building blocks model' approach could be the best way to provide more clarity. They also suggested a 1 January 2023 implementation.

Qantas stated that an 8% price increase in FY23 and 16.9% over the three-year period will significantly dampen the recovery of the industry in New Zealand, and that Jetstar's domestic low-cost model will be particularly sensitive to these increases. Qantas recommends a smoother price path that reduces the first-year impact if we raise our prices.

CONTENTS
CONSULTATION PROCESS
EXECUTIVE SUMMARY
COST CHANGES IMPACTING TARGET REVENUE
CAPITAL PLAN
ASSUMED INDUSTRY RECOVERY
PRICES FOR FY23-FY25
SCORECARD
SUBMISSIONS ON OTHER TOPICS
APPENDIX 1 PRICING TABLES AND EXAMPLES
APPENDIX 2 SUPPORTING INFORMATION

Virgin Australia stated that increasing prices for services to Airways' customers dampens recovery efforts, which can result in a slower positive outcome. They said Airways should consider reducing the price increase to allow for greater uptake in the New Zealand market from airlines. They strongly recommend that the price increase is reviewed to support airline customers to recover.

Air New Zealand acknowledged that Airways was not targeting EVA=0 in FY23. They consider it is counter-intuitive to increase unit prices at a time of lower volumes in an effort to return to pre-COVID-19 revenue levels. Air New Zealand suggested that a better approach would be to limit increases, and even reduce prices, in order to facilitate a return to sustainable operations for airlines and that Governments should continue to support air navigation service providers in aid of such an approach.

Air New Zealand supports IATA's proposal that price increases could be linked to real increases in traffic.

AIRWAYS' RESPONSE

Airways acknowledges these are unprecedented times and we are committed to playing our part in the recovery of the industry, and the building of a safe and resilient aviation network for the future.

With the support of our shareholder, Airways has limited price increases to the extent reasonably possible to stay within our funding parameters. A pathway back to profit is a requirement to meet funding obligations. On this basis, Airways is forecast to generate further losses in FY23 before returning to profit in FY24.

After four years of losses, our shareholder and lenders expect the company to return to profit in the 2023/24 financial year in order to maintain safe services and commit to its investment programme.

Airways has updated our Target Revenue following consultation feedback, revised inflationary inputs, commissioning dates, project spend and the current risk-free rate. In determining final prices, Airways has also reviewed the forecast volume growth based on the latest information available.

The average airline price change has increased to 20.2% over the three-year period. The inflationary impact in FY23 has been neutralised by higher volume forecast allowing prices to be held at 8%. FY24 and FY25 have had to be revised upward on account of higher inflation and WACC costs.

Figure 13 – Revenue breakdown

	Revenue change $m			% change			
	FY23	FY24	FY25	FY23	FY24	FY25	Total[24]
Establishment revenue	121.7	187.6	244.5				
Volume growth	50.6	30.2	7.3	**41.6%**	**16.1%**	**3.0%**	**69.3%**
Average price increase	15.3	26.8	1.7	**8.0%**	**11.3%**	**0%**	**20.2%**
Subsidised target revenue	**187.6**	**244.5**	**253.6**				

Airways is operating in a challenging economic environment which is placing pressure on operating costs. The current effects of inflation and tightening labour market conditions has impacted the forward view on cost base, particularly labour costs.

6.2 General Aviation (GA)

AIRWAYS PROPOSED

Airways proposed that all GA prices are increased by inflation to ensure they stay at current levels in real terms. As part of the consultation response in 2013, Airways stated that we would adopt the use of the NZIER forecast sources as standard policy to provide a consistent long-term measure of inflationary impact.

SUMMARY OF SUBMISSIONS

Air New Zealand noted the application of the NZIER LCI forecast to inflate GA prices and queried the rationale for not applying this same method, even as an interim measure, for commercial airline pricing.

Submissions from Air Milford and Glenorchy Air/Queenstown Milford User Group (QMUG) both emphasised the very tough economic period that GA is experiencing currently and the potential business impact if Airways were to raise prices prior to international tourists returning to the country.

Other submissions received either had no comment or no objection in relation to proposed GA pricing.

24 Total % column includes the compounding effect of the changes.

CONTENTS
CONSULTATION PROCESS
EXECUTIVE SUMMARY
COST CHANGES IMPACTING TARGET REVENUE
CAPITAL PLAN
ASSUMED INDUSTRY RECOVERY
PRICES FOR FY23-FY25
SCORECARD
SUBMISSIONS ON OTHER TOPICS
APPENDIX 1 PRICING TABLES AND EXAMPLES
APPENDIX 2 SUPPORTING INFORMATION

AIRWAYS' RESPONSE

Airways acknowledges the submission received on the inflationary adjustments and is open to further reviews of GA pricing to ensure user charges are appropriate for the value GA customers derive from Airways' services.

Airways has updated the inflation forecasts to reflect the latest available forecasts (June 2022). The latest inflation forecasts have increased as summarised in Figure 14. The final price increase for GA is 8.8% over the FY23-25 period.

Figure 14 - GA inflationary inputs

	FY23	FY24	FY25	Total[25]
Opening adjustment	1.4%			**1.4%**
NZIER LCI forecast **(June 22)**	3.0%	2.4%	1.7%	**7.3%**
Total	**4.4%**	**2.4%**	**1.7%**	**8.8%**

6.3 Milford services

Airways provides an Aerodrome Flight Information Service (AFIS) to operators at Milford. To ensure Milford remains cost-effective, Airways' approach is to minimise investment as much as possible while ensuring safe services at a fit-for-purpose level.

AIRWAYS PROPOSED

Milford Service prices will be adjusted as detailed in Figure 15 of the Consultation Document.

SUMMARY OF SUBMISSIONS

Air Milford and Glenorchy Air/Queenstown Milford User Group expressed disappointment that Airways was increasing prices at a time when the GA community was struggling with no international tourists and high fuel prices.

The Glenorchy Air/Queenstown Milford User Group submission stated that they consider the current service provided by Airways in Milford is not adequate. The submission raised concerns over any plans to reduce costs at Milford as their view was that current service provision is poor and it was inappropriate to talk of cost cuts until service provision issues had been resolved.

Other submissions received either had no comment or no objection in relation to proposed Milford pricing.

25 Total % column includes the compounding effect of the changes.

AIRWAYS' RESPONSE

The remote location of Milford presents operational challenges for Airways. Currently, staff travel from Queenstown and spend five days at Milford before returning. Short-term accommodation at Milford has been secured and longer-term options are being investigated, but costs are forecast to increase when tourism returns.

In the 2019-2022 pricing period, Milford's prices were expected to increase by 32.5% in FY21 and 4.5% in FY22. Due to COVID-19 these increases were not passed onto customers. In FY23 we are limiting the price increase to 9.7%, this increase is insufficient to cover costs.

The airfield operator, Ministry of Transport, has agreed to continue to fund Airways' cost shortfall for FY23 and partly for FY24. However, the airfield operator expects Airways to restore our funding model and removes the current funding subsidy.

Airways' operating costs at Milford are summarised in figure 15 and the price changes are outlined in figure 16.

Figure 15 – Milford operating costs

$m	FY23	FY24	FY25
Labour	0.4	0.4	0.4
Other operating costs	0.2	0.2	0.2
Depreciation and capital charge	0.0	0.1	0.1
Total costs	**0.6**	**0.7**	**0.7**

Figure 16 – Price changes at Milford

	Minimum Price				Base Rate			
	2021/22	2022/23	2023/24	2024/25	2021/22	2022/23	2023/24	2024/25
Price	$32.36	$35.50	$46.57	$58.40	$88.91	$97.54	$127.96	$160.47
% Increase	-	9.7%	31.2%	25.4%	-	9.7%	31.2%	25.4%

CONTENTS
CONSULTATION PROCESS
EXECUTIVE SUMMARY
COST CHANGES IMPACTING TARGET REVENUE
CAPITAL PLAN
ASSUMED INDUSTRY RECOVERY
PRICES FOR FY23-FY25
SCORECARD
SUBMISSIONS ON OTHER TOPICS
APPENDIX 1 PRICING TABLES AND EXAMPLES
APPENDIX 2 SUPPORTING INFORMATION

7. Scorecard

AIRWAYS PROPOSED

Airways proposed a Scorecard to track Airways' performance against the final pricing plan for the 2022-2025 period as detailed in Appendix 3 of the Consultation Document

SUMMARY OF SUBMISSIONS

Air New Zealand considers the proposed scorecard metrics would provide a very useful and transparent tool for tracking Airways' performance.

IATA, Virgin Australia and Qantas indicated that the information provided in the scorecard would be of value.

BARNZ stated that the proposed scorecard was a good starting point.

BARNZ and Air New Zealand also indicated a willingness to work with Airways going forward with reviews for making additional improvements with scorecard reporting.

AIRWAYS' RESPONSE

A Scorecard will track Airways' performance against the final pricing plan for the 2022-2025 period. This Scorecard, shared with customers on a quarterly basis, will provide transparency and accountability to Airways' service delivery performance. Airways is committed to continuing to work with our customers to ensure the scorecards are useful and to improve reporting.

8. Submissions on other topics

This section summarises and responds to submissions on topics not directly raised in the Consultation Document.

SUMMARY OF SUBMISSIONS

Virgin Australia indicated general support of Airways' initiatives but considered the proposed price increases excessive given the impact COVID-19 is continuing to have on the aviation industry. They suggested that additional government funding is required.

Virgin Australia and IATA said whole of government support was needed for aviation to aid recovery.

Qantas raised concerns as to an insufficient period of consultation and lack of detail available to review. They suggested delaying the new pricing period to start 1 January 2023.

BARNZ suggested the use of a building blocks approach and to reduce the year one price increase.

AIRWAYS' RESPONSE

Airways held workshops with the industry to explain the regulatory pricing model. Airways has attempted to limit price increases to the extent reasonably possible however historic under recovery, external inflationary pressures and rising funding costs have driven higher than anticipated cost increases. After four years of losses, a pathway back to profit is a requirement for the shareholder as well as external funders.

CONTENTS
CONSULTATION PROCESS
EXECUTIVE SUMMARY
COST CHANGES IMPACTING TARGET REVENUE
CAPITAL PLAN
ASSUMED INDUSTRY RECOVERY
PRICES FOR FY23-FY25
SCORECARD
SUBMISSIONS ON OTHER TOPICS
APPENDIX 1 PRICING TABLES AND EXAMPLES
APPENDIX 2 SUPPORTING INFORMATION

Appendix 1 – Pricing Tables and Examples

Airways' required revenue is allocated to specific services and locations based on the cost of providing the service. This is done using the methodologies and costing policies set out in the Pricing Framework.

Revenue for specific services and locations will be influenced by the:

- Underlying cost of each service and location.
- General price adjustments to reflect factors such as inflation, volume adjustments and changes to Airways' cost base.
- Location-specific capital expenditure.

The pricing formula set out in the Pricing Framework charges based on the weight of the aircraft; the heavier the aircraft the higher the price. Specific unit prices are set at a level that will collect the target revenue given expected volume forecast. The volume forecast provides the expected number of flights at each weight and distance category.

The unit prices are detailed in Appendix 1.2 along with example price calculations in Appendix 1.3.

An online price calculator to calculate the price of a journey using several of Airways' services is available at:

https://www.airways.co.nz/about/performance-and-pricing/air-navigation-services-pricing-and-terms/

Appendix 1.1 Target revenue by location

Airways sets prices by calculating the overall target revenue to deliver services by location and dividing that by expected volume. Revenue is calculated using the Economic Value Added (EVA) Framework and represents the aggregate of costs and a commercial return on the assets invested. The EVA calculation outlining the building block inputs is provided in Appendix 2.1.

To support recovery of the industry, Airways will not seek to fully recover its costs in FY23 but is targeting a return to profit in FY24. The table below sets out the target revenue for specific services and locations for the FY23-25 period.

Revenue change for service by location ($m)

Service	2022 Target revenue	2023 Target revenue	2024 Target revenue	2025 Target revenue	Comments
Aerodrome services					
Auckland	24.0	12.2	13.8	14.5	FCR, AFPL & Digital Tower removed
Christchurch	8.9	9.2	9.7	9.7	Inflationary changes
Wellington	11.0	10.2	10.3	10.4	Reduced capex spend
Queenstown	4.1	3.7	3.8	3.9	Flight Service removed lowering labour and OH
Nelson	2.6	2.5	2.5	2.6	Lower capex spend
Hamilton	2.2	1.5	1.6	1.6	Pilots training school closed reducing labour
Tauranga	1.8	1.7	1.8	1.8	Inflationary changes
Palmerston North	1.8	1.7	1.8	2.0	Inflationary changes
Napier	1.2	1.1	1.2	1.2	Inflationary changes
Dunedin	1.6	1.6	1.8	1.8	CCR & Power Centre MSB Upgrade
New Plymouth	1.3	1.2	1.2	1.2	Inflationary changes
Woodbourne	1.6	1.5	1.5	1.5	Lower labour costs due to change in staffing mix
Invercargill	2.1	1.1	1.1	1.1	Digital Tower project removed
Gisborne	0.8	0.8	0.9	0.9	Power upgrade project
Rotorua	1.3	1.1	1.2	1.2	Inflationary changes
Aerodrome services total	**66.3**	**51.2**	**54.2**	**55.5**	
Flight information services					
Milford	0.6	0.6	0.7	0.7	Accommodation required
Kapiti	0.6	0.6	0.6	0.6	Inflationary changes
Flight information total	**1.1**	**1.2**	**1.3**	**1.4**	
Approach services					
Auckland	36.7	36.5	40.8	44.2	Increased coverage, PSR/SSR replacement
Christchurch	15.1	15.0	17.7	19.8	PSR/SSR replacement
Wellington	12.3	13.0	14.3	15.3	Increased coverage, PSR/SSR & ILS replacement
Queenstown	2.9	3.0	3.5	4.3	MLAT Lifecycle
Nelson	1.9	2.0	2.1	2.2	Inflationary changes
Hamilton	1.3	1.3	1.4	1.5	Inflationary changes
Tauranga	1.2	1.3	1.4	1.4	Inflationary changes
Palmerston North	1.3	1.3	1.5	1.5	Inflationary changes
Napier	1.3	1.4	1.5	1.5	Inflationary changes
Dunedin	1.9	2.0	2.1	2.4	ILS Replacements

CONTENTS
CONSULTATION PROCESS
EXECUTIVE SUMMARY
COST CHANGES IMPACTING TARGET REVENUE
CAPITAL PLAN
ASSUMED INDUSTRY RECOVERY
PRICES FOR FY23-FY25
SCORECARD
SUBMISSIONS ON OTHER TOPICS
APPENDIX 1 PRICING TABLES AND EXAMPLES
APPENDIX 2 SUPPORTING INFORMATION

Service	2022 Target revenue	2023 Target revenue	2024 Target revenue	2025 Target revenue	Comments
New Plymouth	1.1	1.1	1.2	1.2	Inflationary changes
Woodbourne	0.7	0.7	0.8	0.8	Inflationary changes
Invercargill	0.8	0.9	1.0	1.0	Higher labour due to customer requirements
Gisborne	0.7	0.8	0.9	0.9	Higher labour costs due to change is staffing mix
Rotorua	1.2	1.2	1.3	1.3	Inflationary changes
Approach services total	**80.4**	**81.5**	**91.6**	**99.4**	
Domestic en-route	**57.4**	**58.0**	**62.8**	**62.6**	Inflationary changes, movement in capex plan
Oceanic en-route	**29.0**	**28.3**	**29.2**	**28.7**	Inflationary changes, lower overheads
Unattended services					
Taupo	0.2	0.2	0.2	0.2	Inflationary changes
Timaru	0.2	0.2	0.2	0.2	Main Switchboard Replacement
Whanganui	0.1	0.1	0.2	0.2	Inflationary changes
Hokitika	0.1	0.1	0.1	0.1	Inflationary changes
Whangarei	0.1	0.1	0.2	0.2	Inflationary changes
Kerikeri	0.1	0.1	0.1	0.1	Inflationary changes
Kapiti	0.1	0.1	0.1	0.1	Inflationary changes
Whakatane	0.1	0.1	0.1	0.1	Inflationary changes
Westport	0.0	0.0	0.0	0.0	Inflationary changes
Kaitaia	0.0	0.0	0.0	0.0	Inflationary changes
Great Barrier	0.0	0.0	0.0	0.0	Inflationary changes
Oamaru	0.0	0.0	0.0	0.0	Inflationary changes
Wanaka	0.0	0.0	0.0	0.0	Inflationary changes
Wairoa	0.0	0.0	0.0	0.0	Inflationary changes
Unattended approach total	**1.1**	**1.0**	**1.1**	**1.2**	
Other revenue [26]	**7.0**	**8.3**	**8.7**	**8.8**	
Total revenue	242.5	229.4	248.9	257.6	
Reduced target revenue		**(41.8)**	**(4.4)**	**(4.0)**	
Subsidised target revenue		**187.6**	**244.5**	**253.6**	

[26] Other revenue includes Airway' contract with the Royal New Zealand Air Force (RNZAF), and other minor revenue streams, which are not covered in Airways' Standard Terms and Conditions.

Appendix 1.2: Pricing tables

This Appendix provides the formula and pricing tables used to calculate Airways' unit prices. Prices are calculated by applying the inputs from the pricing tables into the pricing formula. Appendix 1.3 provides some examples of prices for different aircraft types.

The pricing formulas are presented below, and the pricing tables are provided on the following pages

Pricing formula for Aerodrome, Approach and Unattended Approach

The Aerodrome Price is the greater of the Minimum Price or:	
= base rate x MCTOW / 5	for aircraft < 5 tonnes
= base rate + weight rate x (MCTOW – 5)	for aircraft 5-30 tonnes
= base rate + weight rate x 5 x sqrt of (MCTOW -5)	for aircraft > 30 tonnes
The Minimum Price, Base Rate and Weight rate are provided by the applicable pricing tables below.	
MCTOW is an aircraft's maximum certified take-off weight measured in tonnes.	

Pricing formula for En-route

The En-route Price is the greater of the Minimum Price or:	
= Base Rate x Nautical Miles / 100	for aircraft < 5 tonnes
= [Base Rate + Weight Rate x (MCTOW – 5)] x Nautical Miles / 100	for aircraft 5-30 tonnes
= [Base Rate + Weight Rate x 5 x Sqrt of (MCTOW -5)] x Nautical Miles/ 100	for aircraft > 30 tonnes
The Minimum Price, Base Rate and Weight Rate are provided by the applicable pricing tables.	
MCTOW is an aircraft's maximum certified take-off weight measured in tonnes.	
For Domestic flights, Nautical Miles is the distance between the origin and destination aerodromes, less the terminal navigation radius at both aerodromes.	
For International flights, see Airways Standard Terms and Conditions for definition wording.	

CONTENTS
CONSULTATION PROCESS
EXECUTIVE SUMMARY
COST CHANGES IMPACTING TARGET REVENUE
CAPITAL PLAN
ASSUMED INDUSTRY RECOVERY
PRICES FOR FY23-FY25
SCORECARD
SUBMISSIONS ON OTHER TOPICS
APPENDIX 1 PRICING TABLES AND EXAMPLES
APPENDIX 2 SUPPORTING INFORMATION

Aerodrome charges

	Minimum Price			Base Rate			Weight Rate >5 tonnes		
	2022/23	2023/24	2024/25	2022/23	2023/24	2024/25	2022/23	2023/24	2024/25
Auckland	$12.42	$12.72	$12.94	$16.13	$16.52	$16.80	$4.61	$4.16	$4.13
Christchurch	$12.42	$12.72	$12.94	$16.13	$16.52	$16.80	$8.12	$8.15	$8.05
Wellington	$12.42	$12.72	$12.94	$16.13	$16.52	$16.80	$11.49	$9.84	$9.79
Queenstown	$8.68	$8.89	$9.04	$16.13	$16.52	$16.80	$9.92	$9.93	$9.81
Regional airport (Group 1)	$8.68	$8.89	$9.04	$16.13	$16.52	$16.80	$16.94	$16.07	$16.55
Regional airport (Group 2)	$8.68	$8.89	$9.04	$16.13	$16.52	$16.80	$15.68	$15.24	$15.53
Milford	$35.50	$46.57	$58.40	$97.54	$127.96	$160.47	Not Applicable		
Kapiti	$8.68	$8.89	$9.04	$16.13	$16.52	$16.80	$70.52	$78.49	$79.83

Group 1 includes Nelson, Palmerston North, Tauranga and Hamilton.
Group 2 includes Dunedin, Gisborne, New Plymouth, Napier, Invercargill, Rotorua and Woodbourne.
Milford prices are required to offset low and declining traffic volumes.

Approach charges

	Minimum Price			Base Rate			Weight Rate >5 tonnes		
	2022/23	2023/24	2024/25	2022/23	2023/24	2024/25	2022/23	2023/24	2024/25
International towers	$6.21	$6.36	$6.47	$24.89	$25.49	$25.92	$10.18	$13.30	$13.98
Regional towers	$6.21	$6.36	$6.47	$24.89	$25.49	$25.92	$8.66	$11.50	$12.25
Additional Auckland CAT III weight rate (added to the international tower price for aircraft over 30 tonnes.)	Not Applicable						$0.43	$0.48	$0.45
Additional Queenstown Multilat weight rate (added to the regional tower price for aircraft over 5 tonnes.)	Not Applicable						$1.77	$1.69	$1.64

International towers includes Auckland, Wellington, and Christchurch.
Regional towers includes Queenstown, Nelson, Palmerston North, Tauranga, Hamilton, Dunedin, Gisborne, New Plymouth, Napier, Invercargill, Rotorua and Woodbourne.

Unattended charges

	Minimum Price			Base Rate			Weight Rate >5 tonnes		
	2022/23	2023/24	2024/25	2022/23	2023/24	2024/25	2022/23	2023/24	2024/25
Taupo	$3.79	$3.88	$3.95	$21.23	$21.74	$22.11	$12.15	$13.52	$13.75
Timaru	$3.79	$3.88	$3.95	$21.23	$21.74	$22.11	$18.66	$20.77	$21.12
Whanganui	$3.79	$3.88	$3.95	$21.23	$21.74	$22.11	$11.30	$12.58	$12.79
Hokitika	$3.79	$3.88	$3.95	$21.23	$21.74	$22.11	$12.03	$13.39	$13.62
Whangarei	$3.79	$3.88	$3.95	$21.23	$21.74	$22.11	$5.54	$6.17	$6.27
Kerikeri	$3.79	$3.88	$3.95	$21.23	$21.74	$22.11	$3.26	$3.45	$3.23
Kapiti	$3.79	$3.88	$3.95	$21.23	$21.74	$22.11	$4.54	$5.05	$5.14
Whakatane	$3.79	$3.88	$3.95	$21.23	$21.74	$22.11	$11.45	$12.74	$12.96
Westport	$3.79	$3.88	$3.95	$21.23	$21.74	$22.11	$9.80	$10.91	$11.10
Kaitaia	$3.79	$3.88	$3.95	$21.23	$21.74	$22.11	$14.93	$16.62	$16.90
Great Barrier	$3.79	$3.88	$3.95	$21.23	$21.74	$22.11	$17.67	$19.67	$20.00
Oamaru	$3.79	$3.88	$3.95	$21.23	$21.74	$22.11	$18.66	$20.77	$21.12
Wanaka	$3.79	$3.88	$3.95	$21.23	$21.74	$22.11	$18.66	$20.77	$21.12
Wairoa	$3.79	$3.88	$3.95	$21.23	$21.74	$22.11	$18.66	$20.77	$21.12
Other unattended aerodromes	No charge								

En-route charges

	Minimum Price			Base Rate			Weight Rate >5 tonnes		
	2022/23	2023/24	2024/25	2022/23	2023/24	2024/25	2022/23	2023/24	2024/25
Domestic	$7.25	$7.42	$7.55	$7.20	$7.37	$7.50	$3.40	$3.55	$3.41
Oceanic	$21.75	$22.27	$22.65	$7.20	$7.37	$7.50	$0.82	$1.03	$0.94

Other charges

	2022/23	2023/24	2024/25
Circuit charge	$4.08	$4.18	$4.25
Vicinity landing charge	$4.08	$4.18	$4.25
Controlled VFR transit charge	$4.08	$4.18	$4.25
VFR flight plans filed online	$5.52	$5.65	$5.75
VFR flight plans filed by other means	$7.93	$8.12	$8.26
Overdue SAR Time	$42.73	$43.76	$44.50
Out-of-hours – ATC	$426.79	$437.03	$444.46
Out-of-hours – FIS - AFIS	$256.07	$262.22	$266.68

CONTENTS
CONSULTATION PROCESS
EXECUTIVE SUMMARY
COST CHANGES IMPACTING TARGET REVENUE
CAPITAL PLAN
ASSUMED INDUSTRY RECOVERY
PRICES FOR FY23-FY25
SCORECARD
SUBMISSIONS ON OTHER TOPICS
APPENDIX 1 PRICING TABLES AND EXAMPLES
APPENDIX 2 SUPPORTING INFORMATION

Parachute charges

	Airspace Complexity								
	Low			Medium			High		
Aircraft weight	2022/23	2023/24	2024/25	2022/23	2023/24	2024/25	2022/23	2023/24	2024/25
Low (<1,700 kg)	$2.41	$2.47	$2.51	$3.06	$3.13	$3.18	$12.20	$12.49	$12.70
Medium (1,700-2,500 kg)	$3.67	$3.76	$3.82	$4.90	$5.02	$5.11	$12.20	$12.49	$12.70
Heavy (>2,500 kg)	$4.90	$5.02	$5.11	$7.30	$7.48	$7.61	$12.20	$12.49	$12.70

Appendix 1.3: Example prices for FY23

This appendix provides examples of Airways' price calculation for a range of different flights. The prices in these examples exclude GST and are for the 2022/23 Financial Year. These prices are examples only and may differ from actual prices charged.

Aircraft: Boeing 777-300 **Weight: 344,500kg** **Seats: 342**

From\To	Sydney	Los Angeles	Auckland	Christchurch
Sydney		1,130	2,250	2,447
Los Angeles	861		3,658	3,902
Auckland	807	2,139		2,849
Christchurch	721	2,175	2,565	

Aircraft: Airbus 320-200 **Weight: 77,000kg** **Seats: 168**

From\To	Nadi	Sydney	Auckland	Christchurch	Dunedin	Queenstown	Wellington
Nadi		248	1,145	1,464	1,775	1,477	1,538
Sydney	248		1,079	1,166	1,357	1,223	1,354
Auckland	458	393		1,348	1,878	1,678	1,275
Christchurch	647	349	1,217		1,279	1,125	1,132
Dunedin	701	293	1,491	1,023		981	1,413
Queenstown	573	319	1,461	1,039	1,151		1,421
Wellington	577	394	1,002	989	1,526	1,365	

Aircraft: Bombardier Dash-8 Q300 **Weight: 19,500kg** **Seats: 50**

From\To	Auckland	Christchurch	Dunedin	Gisborne	Hamilton	Invercargill	Napier	Nelson	New Plymouth	Palmerston North	Queenstown	Rotorua	Tauranga	Wellington	Woodbourne
Auckland		504	694	473	422	728	471	540	441	503	625	426	436	473	528
Christchurch	459		471	585	592	512	546	465	528	521	418	577	610	419	448
Dunedin	562	383		689	696	423	650	568	631	627	365	682	715	524	553
Gisborne	341	497	689		470	732	416	547	477	478	635	424	456	454	523
Hamilton	271	487	678	451		714	444	523	426	478	612	404	422	450	509
Invercargill	596	424	423	732	733		692	605	666	668	367	721	753	565	593
Napier	339	458	650	416	462	692		508	449	438	595	425	461	415	483
Nelson	389	359	550	528	523	587	489		458	465	486	511	543	373	401
New Plymouth	309	440	631	477	444	666	449	476		453	343	441	468	412	464
Palmerston North	353	415	609	460	478	649	420	465	435		552	454	488	372	440
Queenstown	550	389	423	693	688	425	653	562	401	628		679	710	527	553
Rotorua	294	489	682	424	422	721	425	530	441	472	621		419	448	511
Tauranga	285	504	697	437	422	735	442	543	449	488	634	401		464	526
Wellington	379	370	563	493	507	604	453	430	451	429	508	487	521		401
Woodbourne	396	361	553	523	527	593	483	419	464	458	495	511	544	362	

CONTENTS
CONSULTATION PROCESS
EXECUTIVE SUMMARY
COST CHANGES IMPACTING TARGET REVENUE
CAPITAL PLAN
ASSUMED INDUSTRY RECOVERY
PRICES FOR FY23-FY25
SCORECARD
SUBMISSIONS ON OTHER TOPICS
APPENDIX 1 PRICING TABLES AND EXAMPLES
APPENDIX 2 SUPPORTING INFORMATION

Aircraft: Cessna Grand Caravan 208B Weight: 3900 Seats: 12

From\To	Auckland	Christchurch	Dunedin	Gisborne	Hamilton	Invercargill	Paraparaumu	Napier	Nelson	New Plymouth	Palmerston North	Queenstown	Rotorua	Tauranga	Wellington	Woodbourne
Auckland		57	70	42	39	75	43	42	48	39	44	69	39	39	47	49
Christchurch	57		42	56	55	47	40	51	39	49	46	43	55	57	40	39
Dunedin	70	42		70	68	39	54	65	52	62	59	39	69	71	54	52
Gisborne	42	56	70		39	75	41	39	49	43	40	70	39	39	45	48
Hamilton	39	55	68	39		73	40	39	46	39	40	67	39	39	44	47
Invercargill	75	47	39	75	73		59	70	57	67	65	39	74	75	59	57
Paraparaumu	46	43	56	44	43	62		39	39	39	39	57	43	45	39	39
Napier	42	51	65	39	39	70	36		44		39	65	39	39	40	43
Nelson	49	39	52	49	46	57	36	44		40	39	51	39	47	39	39
New Plymouth	39	49	62	43	39	67	36	39	40		39	39	39	39	39	41
Palmerston North	44	46	59	40	40	65	36	39	39	39		59	40	42	39	39
Queenstown	69	43	39	70	67	39	54	65	51	39	59		68	70	54	52
Rotorua	39	55	69	39	39	74	40	39	47	39	40	68		39	44	47
Tauranga	39	57	71	39	39	75	42	39	49	39	42	70	39		46	49
Wellington	47	40	54	45	44	59	36	40	39	39	39	54	44	46		39
Woodbourne	49	39	52	48	47	57	36	43	39	41	39	52	47	49	39	

Appendix 2 – Supporting information

Appendix 2.1: Building block components of overall revenue

Overall revenue is calculated using the Economic Value Added (EVA) framework. EVA measures the extent to which a business is performing above or below expectations. Over the last three years, due to the impact of COVID-19, we have recorded negative EVA.

In the FY2022/23 year we have an average price increase of 8%. This increase is insufficient to cover costs and results in the negative EVA for that year. In FY2024 and FY2025 Airways is targeting to under recover revenue to help mitigate the price increase driven by inflation and rising interest costs.

Economic value added

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
$m	Actual	Actual	Forecast	Plan	Plan	Plan
REVENUE						
Airways' charges	172.8	122.0	120.0	187.6	244.5	253.6
Other revenue	6.4	5.5	4.4	0.4	0.4	0.4
	179.2	**127.5**	**124.4**	**188.0**	**244.8**	**253.9**
Building Blocks						
Operating costs – labour	115.2	106.0	113.0	122.7	127.4	131.1
Operating costs – other	37.5	37.6	39.1	47.9	49.4	49.1
Depreciation	29.6	23.1	25.9	29.1	35.4	37.9
Income tax	0.2	(3.6)	(15.1)	(3.3)	9.1	10.0
EVA Net Profit / (Loss)	**(3.3)**	**(35.7)**	**(38.6)**	**(8.5)**	**23.5**	**25.8**
Capital charge (Commercial return)	16.3	17.2	19.0	21.7	26.3	28.7
EVA	**(19.6)**	**(52.9)**	**(57.5)**	**(30.1)**	**(2.9)**	**(2.9)**

Other revenue: includes flight inspection income. Other revenue is offset against operating expenses. Other revenue in 2019 to 2022 includes the wage subsidy Airways received.

Operating costs - labour: includes all employee remuneration and related employment costs.

Operating cost - other: includes all operating costs excluding labour and depreciation.

Depreciation: Airways calculates fixed asset depreciation on a straight-line basis. Depreciation will increase with any increase in the capital programme. Under EVA, amortisation is also recognised for leases.

Income tax: calculated at New Zealand's company tax rate of 28%.

Cost of capital: the cost of capital is calculated as the capital charge rate multiplied by the historical asset base, adjusted for depreciation. Airways did not revalue its assets for pricing purposes.

CONTENTS
CONSULTATION PROCESS
EXECUTIVE SUMMARY
COST CHANGES IMPACTING TARGET REVENUE
CAPITAL PLAN
ASSUMED INDUSTRY RECOVERY
PRICES FOR FY23-FY25
SCORECARD
SUBMISSIONS ON OTHER TOPICS
APPENDIX 1 PRICING TABLES AND EXAMPLES
APPENDIX 2 SUPPORTING INFORMATION

Appendix 2.2: Capital programme

The figure below summaries all of Airways' capital expenditure outlined in this document.

	Financial Year			
Capital Programme ($m)	**FY23**	**FY24**	**FY25**	**Total**
Major investments	**25.2**	**32.2**	**28.7**	**86.2**
Primary / secondary radar replacement	12.2	14.7	8.2	35.1
Auckland Tower Replacement	7.2	10.0	10.0	27.2
ATC transition (IL4'S + tower upgrades)	4.3	5.0	4.2	13.5
Drone Management	1.5	1.5	3.3	6.3
Regional Digital Tower	–	1.0	3.0	4.0
Auckland	**2.7**	**3.2**	**0.2**	**6.1**
MLAT Lifecycle	–	3.1	–	3.1
AAOC Site Complex - life extension	1.0	–	–	1.0
Minor capital works, less than $0.75m	1.7	0.1	0.2	2.0
Christchurch, Wellington, Queenstown	**2.4**	**7.3**	**8.0**	**17.7**
QN Area MLAT Lifecycle	–	–	6.8	6.8
ILS Replacements (WN)	–	4.3	–	4.3
MLAT Network Lifecycle	0.5	0.5	0.5	1.5
1kV Infrastructure -Switchgear, transformers and power cable replacement	0.5	0.8	–	1.3
Generators for new Radar Sites	0.4	0.8	–	1.1
Minor capital works, less than $0.75m	1.1	0.9	0.7	2.7
Regional Aerodromes	**4.4**	**2.4**	**7.9**	**14.7**
ILS Replacements (DN)	–	–	4.3	4.3
Regional Tower UPS Replacements	–	–	1.7	1.7
Reils Replacement at NV, PM, GS,	0.4	0.7	0.5	1.6
Runway Edge Lights replacement (NV, NS, AP)	0.3	0.4	0.4	1.1
Windsock Replacements	0.8	–	–	0.8
Minor capital works, less than $0.75m	3.1	1.3	1.0	5.3
En-route	**5.2**	**4.7**	**2.0**	**11.9**
New DVOR/ DME Construction at Kaitaia, Hokitika and Tauranga.	2.4	2.4	–	4.9
DB upgrade of 58 Nav sites around NZ	0.3	0.4	0.5	1.2
Radio Links (Microwave) Lifecycle	0.3	0.6	–	0.9
Field Test Equipment Lifecycle	0.3	0.3	0.3	0.8
Minor capital works, less than $0.75m	1.9	1.0	1.3	4.1
National Operations	**28.9**	**13.5**	**12.2**	**54.6**
AIM Replacement HW/SW	5.0	–	–	5.0
National ATM System Enhancements Lifecycle	1.5	1.5	1.6	4.6
MPLS Network Lifecycle	2.0	1.1	–	3.1
ATM System Implementation	1.8	0.7	0.4	2.8
Networks and Security	–	0.6	1.6	2.2
Christchurch Campus Refresh (Buildings)	2.0	–	–	2.0
IP MUX Lifecycle	–	–	2.0	2.0
IT & SM Asset Update	1.1	0.4	0.4	1.9
IT & SM Desktop Refresh	0.6	0.6	0.7	1.8
IFP Procedure Design	0.7	0.5	0.5	1.7
Enterprise Network Lifecycle (Corporate)	–	1.7	–	1.7
NOC Network Lifecycle	1.1	0.5	–	1.6
Maintenance Vehicle Replacement Lifecycle	0.5	0.3	0.5	1.2
SkylineX – Oceanic Hardware Refresh	0.5	0.7	–	1.2
Network Lifecycle (Operations)	0.5	0.5	–	1.0
Electronic briefing system for operational staff (OIDS)	1.0	–	–	1.0
Enhanced Contingency / Hot Standby Capability (Interim)	0.9	–	–	0.9
Consolidated Access Network	0.9	–	–	0.9
SDWAN - Implementation	0.3	0.3	0.3	0.8
PAM Lifecycle	0.1	0.2	0.5	0.7
EBS Infrastruture refresh	0.6	–	–	0.6
Campus Network Lifecycle	–	–	0.6	0.6
Edge Network Lifecycle	–	–	0.6	0.6
Zero Trust. Deploy Clearpass and replace non-802.1x switches	0.2	0.2	0.3	0.6
DCIM Solution Implementation	0.6	–	–	0.6
EBS Server Upgrades	0.3	–	0.3	0.5
EBS Security Monitoring Lifecycle	0.3	–	0.3	0.5
Digital NOTAM Implementation	–	0.5	–	0.5
Skyview System Refresh (ATAC)	–	0.5	–	0.5
Remote Access to network devices	0.3	0.3	–	0.5
Minor capital works, less than $0.5m	6.6	2.6	1.9	11.0
Other (Kapiti, Milford, Unattended)	**0.5**	**0.0**	**0.0**	**0.5**
Milford Tower Operations	0.3	0.0	0.0	0.4
Unattended Aerodromes	0.2	–	–	0.2
TOTAL	**69.3**	**63.3**	**59.0**	**191.7**

CONTENTS
CONSULTATION PROCESS
EXECUTIVE SUMMARY
COST CHANGES IMPACTING TARGET REVENUE
CAPITAL PLAN
ASSUMED INDUSTRY RECOVERY
PRICES FOR FY23-FY25
SCORECARD
SUBMISSIONS ON OTHER TOPICS
APPENDIX 1 PRICING TABLES AND EXAMPLES
APPENDIX 2 SUPPORTING INFORMATION

Appendix 2.3: Weights used to allocate approach and aerodrome-related overhead

Aerodrome	Actual 18/19 tonnes landed
Auckland	8,289,414
Christchurch	2,149,026
Wellington	1,674,390
Queenstown	670,602
Dunedin	275,608
Nelson	258,728
Palmerston North	194,180
Napier	179,204
Tauranga	135,124
Hamilton	124,794
New Plymouth	120,742
Woodbourne	99,038
Rotorua	81,105
Invercargill	77,846
Gisborne	62,473
Paraparaumu	16,936