AIRWAYS

# Proposed Pricing for the 2026 – 2028 period

## CONSULTATION DOCUMENT

March 2025

Deadline for primary submissions: **2 April 2025**

Please send submissions by email to **submissions@airways.co.nz**

# Contents

# 1 Executive summary

This document sets out Airways' proposed prices for the three-year period from 1 July 2025 to 30 June 2028 (FY26-28).

Safety is at the heart of everything we do. Our primary role is to provide a safe and efficient air traffic service. Our objective is to constantly achieve zero loss of separation incidents.

Airways has sought to offset the impact of cost inflation over the last three years through careful management of our operating cost base and prioritisation of our capital programme. However price increases are now required to sustain the current service and continue investment to maintain a safe operating network into the future.

Ongoing investment in our people and critical infrastructure and advancing our future service initiatives is paramount to ensuring we can continue to meet the expectations of our customers, today and tomorrow.

## 1.1 Impact of price increase on travelling public

While the long-term outlook for New Zealand air traffic is positive, Airways recognises the foreseeable future presents challenges for airlines and the wider industry. In setting its prices for the FY26-28 period, Airways is mindful of the overall system cost and the relative per seat cost increase that Airways charges will drive.

Airways' cost per seat for a commercial flight depends on the aircraft size and capacity. The below examples illustrate the impact of the proposed FY26-28 price increase on a cost per seat basis.

- **Auckland to Sydney** flight is **an increase of $0.79** (total cost per seat of $7.31)
- **Auckland to Christchurch** flight is **an increase of $1.12** (total cost per seat of $9.51)
- **Auckland to Napier** flight is **an increase of $2.80** (total cost per seat of $12.01)

More detailed information on pricing changes is outlined in Section 7 with detailed pricing tables in Appendix A.2.

## 1.2 Proposed prices for Commercial Airlines

Airways is proposing an average annual price increase of 7.7% for airline customers as summarised in Table 1 below.

The increased revenue from the price increase will ensure the continued delivery of safe and efficient services while also undertaking a range of projects to improve system resilience and support future service delivery.

The larger increase in FY26 predominantly relates to a recovery of our current operating costs.

**Table 1. Average price increase**

| | Revenue change $m | | | % change | | | |
|---|---|---|---|---|---|---|---|
| | FY26 | FY27 | FY28 | FY26 | FY27 | FY28 | Total[1] |
| Establishment Revenue | 249.4 | 293.5 | 316.8 | | | | |
| Volume growth | 7.0 | 6.8 | 10.5 | 2.8% | 2.3% | 3.3% | 8.7% |
| **Average price increase** | **37.0** | **16.5** | **5.5** | **14.4%** | **5.5%** | **1.7%** | **22.8%** |
| Target revenue | 293.5 | 316.8 | 332.7 | | | | |

These price increases are slightly above those set in the previous FY23-25 pricing consultation. Airways did not seek full recovery of costs for the previous pricing period in order to support the post pandemic recovery of the industry. During that time, Airways received the support of the New Zealand Government and also significantly reduced expenditure by delaying work or cancelling projects. While these measures were appropriate to support the industry for a period of time, they are not sustainable in the longer term.

## 1.3 Proposed prices for General Aviation

Airways supports General Aviation (GA) customers by providing essential flight information to enable safe operations within controlled airspace. While GA activity accounts for a significant proportion of our flight traffic, it contributes a small share of our Air Navigation Service revenue.

For GA customers operating aircraft less than five tonnes, Airways is proposing a 6.8% price increase for FY26 and a cumulative 10.5% price increase over the FY26-28 period.

GA prices for FY23-25 were set in FY22 based on forecast inflation rates. However, actual inflation has fluctuated over the three-year period. To align GA prices with inflation, an initial adjustment of 4.1% is necessary. This adjustment accounts for the difference between the actual/forecast inflation rate (11.2%) and the previously applied inflation rate (7.1%) for FY23-25.

## 1.4 Proposed Target Revenue

The proposed price increase and volume growth assumption translates to a target revenue increase of $79.2 million over the 2026-2028 pricing period. A summary of the components of the increase in Target Revenue are summarised in Table 2 below.

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

**Table 2. Target Revenue for FY26-28 pricing period**

| | Revenue change $m | | | YOY % Change | | |
|---|---|---|---|---|---|---|
| | FY26 | FY27 | FY28 | FY26 | FY27 | FY28 |
| Opening target revenue | 253.6 | 293.5 | 316.8 | | | |
| Removal of capital support | 4.0 | - | - | 1.6% | | |
| Changes to operating costs | 40.7 | 12.1 | 8.9 | 16.1% | 4.1% | 2.8% |
| Capital plan changes | -4.8 | 11.2 | 7.0 | -1.9% | 3.8% | 2.2% |
| **Total change in target revenue** | **39.9** | **23.3** | **16.0** | **15.8%** | **7.9%** | **5.0%** |
| Target revenue | 293.5 | 316.8 | 332.7 | | | |

Airways' operating cost base has increased above the assumed rate in our FY23-25 pricing consultation, primarily due to the cumulative impact of inflation and a reassessment of the operational headcount required to support a safe and reliable service delivery. As a result, our FY25 forecast operating cost base of $207.2m is $27.4m (15%) above the assumed FY23-25 price path operating cost base. Airways intends to cap growth in its underlying forecast operating cost base to 6.4% in FY26, 5.5% in FY27 and 3.8% in FY28.

The additional revenue will fund the following:

- **Removal of the FY25 capital support ($4.0m)**
- **Improved system resilience ($19.7m)** by maintaining increased staffing levels among Air Traffic Controllers (ATC) in anticipation of retirements and unplanned departures, coupled with an increase in our leave liability and movement through pay grade steps ($9.7m); increased preventative maintenance and repair programmes to minimise unplanned outages ($5.2m); enhanced safety practices to further build our proactive approach to safety management ($1.6m); and upgrades of critical corporate systems and infrastructure ($2.5m).
- **Investing in the future ($2.2m)** investigating remote airport advisory services (RAAS); a redesign of the domestic surveillance airspace; and procedure simplification and standardisation. Once implemented, these initiatives will benefit the current state as well as moving Airways towards a future state.
- Commencing work on further developing an **uncrewed traffic management (UTM) system ($3.0m)** to enable the safe integration of crewed and uncrewed traffic.
- A **carefully considered capital investment plan ($13.4m)** aligned to our strategic objectives, and with a focus on maintaining and improving operational safety and service resilience.
- **Other changes to Airways' operating cost base ($36.8m)** including inflationary uplifts ($23.9m) and judicial changes to treat trainees as employees for the second part of ATC training.

The drivers of the proposed revenue and price increase are outlined in detail in Section 5.

# 2 About the consultation

On Wednesday 5 March 2025, Airways is commencing consultation with the aviation industry on the proposed prices for the three-year period from 1 July 2025 – 30 June 2028. The initial consultation period will run for four weeks and will be followed by a further two-week period in which cross-submissions can be submitted.

Airways will consider all feedback before making a final pricing decision. The final prices and Airways' response to feedback will be published in May 2025. New pricing will come into effect from 1 July 2025.

All information related to the pricing consultation is available on the Airways website here: https://www.airways.co.nz/airspace-users/industry-consultation/.

As part of its business interactions ahead of this consultation, Airways has engaged with individual customers and stakeholders to share a high-level overview of its strategy, key focus areas and factors that have influenced the proposed price increases, and general pricing structure (as published in the Airways Pricing Framework), including the timings of the pricing consultation as outlined in this document.

## 2.1 Consultation timings:

| Date | Consultation activity |
|---|---|
| **5 March 2025** | Consultation formally begins, proposal document released |
| **2 April 2025** | Closing date for primary submissions to be received by Airways |
| **3 April 2025** | Primary submissions published on Airways' website |
| **16 April 2025** | Closing date for cross-submissions to be received by Airways |
| **17 April 2025** | Cross-submissions published on Airways' website |
| **April/May2025** | Submissions considered and prices finalised |
| **30 May 2025** | Final prices and Airways' response to the submissions published |
| **1 July 2025** | New prices take effect |

## 2.2 Guide to making a submission

Submissions are to be emailed to **submissions@airways.co.nz**. All submissions and cross-submissions will be posted on the Airways website. Please ensure submissions do not contain any commercially sensitive or confidential information, as they will be made public.

Airways is seeking feedback from the industry on the following questions:

1. **Are Airways' forecasted base operating costs appropriate to maintain operational resilience and transition to its future state? Are there trade-offs you would like us to consider?**
2. **Do you consider any adjustments are required to the proposed Airways capital plan for FY26-28? If yes, what adjustments do you suggest need to be made?**
3. **Are the volume growth rates reasonable and are there any other factors that should be considered?**
4. **Are Airways' inflationary assumptions and capital charge inputs appropriate?**
5. **Is there any other relevant information that you want to provide?**

You are welcome to comment on other topics relating to the proposed pricing should you wish to. To further assist in making submissions, a pricing consultation feedback template is available to download from the Airways website.

Airways looks forward to engaging with you on this consultation. We are cognisant of the current operating environment, which is why, with your feedback, we are seeking to strike the right balance with respect to our pricing for the next three-year period and target levels of resilience and future investment.

## 2.3 Customer frameworks and terms and conditions

Airways' Service Framework details the base services that Airways provides to deliver on our primary role and objective. Services are included in the Framework when they:

- contribute to a safe and reliable air traffic service,
- ensure regulatory compliance with relevant CAA Rule Parts, and/or
- align with Airways' other services and air traffic service expertise.

Our operating cost base is dictated by the level of service we provide at each aerodrome aligned to our Service Framework. In some cases, Airways has historically been requested by the airport operator to provide a service level above the level outlined in our Service Framework for an aerodrome of that classification. We provide a detailed list of our total revenue by service for each aerodrome in Appendix A.1.

Where the cost of providing a level of service to an airport outweighs the perceived safety requirements and benefits to our customers, Airways is happy to consult with our customers and airport operators on this.

Prior to commencing this consultation, and as part of our ongoing Customer Strategy, Airways has taken the opportunity to review our Services Framework, Pricing Framework, and Standard Terms and Conditions under which services are supplied to

the industry. As part of that review, no major changes to the Services Framework, Pricing Framework, and Standard Terms and Conditions were identified as being necessary.

Minor changes have been made to each of the Services Framework, Pricing Framework, and Standard Terms and Conditions to bring those documents up to date or to correct inaccuracies. Those minor changes have no bearing on the operational aspects of the services Airways provides.

Updated Services Framework, Pricing Framework, and Standard Terms and Conditions will be individually published on the Airways website prior to coming into effect, at https://www.airways.co.nz/airspace-users/air-navigation-services-and-pricing/

# 3 Background and context

## 3.1 About Airways

Airways is the state-owned enterprise (SOE) that provides New Zealand's air traffic management services. Our core role is to manage safe and efficient air transport through our Flight Information Region, and to invest in the infrastructure and people to support it.

Each year, Airways safely guides around 500,000 aircraft through the 30 million square kilometres of airspace we control, in addition to providing flight information services to thousands of pilots across New Zealand.

As an SOE, Airways is wholly owned by the New Zealand Government. We are governed by an independent Board of Directors, and our aim is to deliver world class services and real value to customers. We do this by having skilled and committed staff and investing in leading technology solutions.

We recognise the important role aviation plays in keeping New Zealanders connected to each other and the world, as well as the importance of working collaboratively across the wider industry both locally and globally.

### 3.1.1 Current Services

Airways provides the following published services:

#### Air Traffic Control services

- **Aerodrome Air Traffic Management Service** - provides clearances, instructions and information for the purpose of preventing aircraft collisions, maintaining runway and wake turbulence separation, expediting and maintaining a safe and efficient flow of traffic.
- **Approach Service** - separating arriving or departing flights, includes air traffic control clearances, instructions and information in accordance with the airspace classification and type of flight.
- **En-route Domestic / Oceanic Service** - separating flights which are in the 'en-route' phase of flight in controlled airspace. This service provides for the issue of air traffic control clearances, instructions, and information, in accordance with the airspace classification and type of flight.

#### Other services

- **Flight Information Service in Uncontrolled Airspace** - this includes meteorological conditions, other atmospheric conditions, changes in serviceability of aerodromes and navigation facilities, known hazardous conditions.

- **Alerting Service in Uncontrolled Airspace** - for all flights in uncontrolled airspace to comply with Civil Aviation Rules.
- **Aerodrome Visual Navigation Aid Service** – includes slope guidance to assist aircraft to position for visual landing, approach and runway lighting (at those airports where Airways currently provides that service), illuminated signage and taxiway markings.

## 3.2 Current operating context

In 2022, Airways undertook pricing consultation for the period FY23-25, during an uncertain and volatile period as the aviation industry responded to the impact of COVID-19 travel restrictions. During that price period, Airways did not seek full recovery of costs, and this was only possible due to financial support provided by the New Zealand Government as Airways' shareholder. The value of capital support over the period amounted to $50.2m, which had the effect of reducing the impact of price increases to our customers across FY23-25.

Airways has navigated this challenging environment by prioritising investment in areas of our business that improve operational resiliency and enhance future service provision. The expectation is that Airways return to full cost recovery, with a focus on core Air Traffic Control services in New Zealand. The future requires the company to adapt and innovate to ensure services remain safe, efficient and fit for purpose.

We successfully met our service level targets over the last three years. In FY24, Airways' service delivery was 99% or above for all services, and 100% for main trunk and surveillance air traffic services. This was achieved against a backdrop of significant industry constraints including staff shortage, rapid cost inflation, supply chain disruption and an ageing workforce.

While the long-term outlook for the New Zealand aviation industry is positive, the foreseeable future presents challenges as aircraft mechanical issues constrain supply and the fiscal environment remains tight. Airways seeks to balance a prudent approach to cost management while ensuring the provision of safe, reliable service now and in the future.

**Building resilience in our network**

We have continued to attract and retain qualified air traffic controllers within the context of a global staff shortage and a projected retirement bubble from an ageing ATC workforce.

To proactively address this challenge, we have lifted the total level of Air Traffic Service staff to 455, from a 2023 baseline of 425. This allowed us to manage planned retirements and unplanned absences, maintain uninterrupted service levels in New Zealand and adjust operating hours to accommodate customer schedule changes. It has the added advantage of enabling air traffic controllers to work on a range of projects related to both resilience and future services, sharing their expertise and increasing the effectiveness of project delivery.

We have strategically up-weighted our investment in preventative maintenance which has successfully reduced the level of unplanned repairs and system outages. This is outlined in more detail in Section 5.

**Creating the aviation environment of the future**

In 2023, Airways released its ten year strategy, *Safe skies today and tomorrow*, designed to shape the business to meet the needs of the evolving aviation environment. The strategy provides structure and focus to our decision making, and enables us to prioritise resources appropriately. The end state is a more flexible, resilient and efficient service offering that allows for seamless integration of new technologies while maintaining an unwavering focus on safety.

The 2026–2028 "build" phase of the strategy focuses on enhancing capacity, safety, flexibility and sustainability through workforce diversity, modernised work environments and innovative partnerships. Key priorities include:

- **Capability Building**: Delivering customisable solutions for diverse airspace users.
- **Workplace Evolution**: Fostering inclusivity, innovation, and future-ready environments.
- **Enhanced Services**: Improving efficiency, safety, and sustainability.

For FY26-28, strategic projects target modernising air traffic control infrastructure, redesigning the airspace, upgrading surveillance systems and optimising service delivery models.

Airways acknowledges the challenging times the New Zealand aviation industry is facing. However, there is a need to enhance system resilience and modernise the way air navigation services are delivered in New Zealand. We remain committed to aligning our services with the evolving needs of the aviation industry while maintaining an unwavering focus on safety. As the industry adapts, capital investments in critical systems and new technologies are essential to maintaining operational resilience, enhancing safety and fostering innovation across the sector. These investments will drive positive change and ensure Airways continues to meet both sector demands and customer expectations.

Deferring critical upgrades introduces potential service risks and disruptions. Furthermore, failing to invest in people and infrastructure now has the potential to restrict the ability for both Airways and our customers to take advantage of new technologies that will enable new markets to evolve and create future opportunity.

**Inflationary pressure**

Underlying inflation over the last three years has run well ahead of the inflation assumptions in the FY23-25 pricing plan. This has translated into a $6.6m increase in the FY25 operating cost base above the assumption in our current pricing. Our primary focus is to ensure we are able to continue to provide safe and effective services now and in the future. While we have sought to mitigate the impact of inflation where possible, delaying critical infrastructure investment or reducing headcount has the potential to restrict our ability to meet our service obligations and compromise future investments necessary to meet industry demands.

# 4 Summary of pricing factors

The following outlines the key increases in our base operating costs being consulted on, including the benefit of these initiatives to customers and risks associated with these initiatives not being delivered. These initiatives are outlined in further detail in section 5.

| | Increase in base operating cost | Benefit | Trade off |
|---|---|---|---|
| **System resilience** | | | |
| Resilience for anticipated retirement and unplanned departures | $9.7m | Ability to manage resignations, retirements and unplanned leave without service disruption. | Increased risk of tower closures and reduced service levels. |
| Increased preventative maintenance and repair | $5.2m | Reduction in unplanned maintenance and system outages. | Increased risk of system outages and increased capital spend requirement. |
| Enhanced safety practices | $1.6m | Proactive assessment of safety reducing serious harm incidents. | Increased risk of serious harm incidents. |
| Upgrade to key corporate systems and digital infrastructure | $2.5m | Continued ability to operate without disruption to our customers and employees. | As our billing and payroll systems are end of life, increased risk of system outage. |
| Increased insurance premiums | $0.8m | Ability to restore service from significant events. | Reduced ability for Airways to recover from significant insurance events. |
| **Future Services** | | | |
| Airspace architecture | $1.5m | Improved efficiencies and quality of service and greater flexibility and resilience. | Inefficiencies in current system are retained, reduced ability to introduce new technologies or adapt to industry changes. |
| Standardisation of procedures and training | $0.8 | Increased resilience, decreased training times and more consistent customer interaction. | Inefficiencies in current system are retained, resilience opportunities are not realised. |
| **Strategic initiatives** | | | |
| Development of UTM system | $3.0m | Customers able to take advantage of commercial opportunities offered by uncrewed aircraft quicker and more confidently. | Customers are constrained in their ability to adopt uncrewed aircraft technology into their fleet. |

# 5 Changes to base operating costs

Airways is proposing the following changes to operating costs for the three year period

**Table 3. Proposed changes to operating costs FY26-28**

| | FY26 | FY27 | FY28 |
|---|---|---|---|
| Opening operating cost base $m | 179.8[1] | 220.5 | 232.7 |
| Operating cost change $m | 40.7 | 12.1 | 8.9 |
| Year on year % change | 22.7% | 5.5% | 3.8% |

Airways' operating cost base has increased above the assumed rate in our 2023-2025 pricing consultation primarily due to the cumulative impact of inflation and a reassessment of the operational headcount required to support a safe and reliable service delivery ($27.4m of the $40.7m operating cost change in FY26 is to recover our current operating cost base).

As a result, our FY25 forecast operating cost base of $207.2m is $27.4m (15%) above the assumed 2023-2025 price path operating cost base. Airways intends to cap growth in its underlying forecast operating cost base to 6.4% in FY26, 5.5% in FY27 and 3.8% in FY28.

For transparency, Airways breaks down the change in operating costs into the component parts, clearly identifying the changes in underlying operating costs and inflationary uplifts. Table 4 summarises the component parts of the cost increase.

**Table 4. Change in operating costs**

| | Operating costs change $m | | | YOY % change | | |
|---|---|---|---|---|---|---|
| | FY26 | FY27 | FY28 | FY26 | FY27 | FY28 |
| Base operating costs (excluding inflationary uplifts) | 28.4 | 6.5 | 3.0 | 11.2% | 2.2% | 0.9% |
| System resilience | 13.9 | 3.3 | 2.6 | 5.5% | 1.1% | 0.8% |
| Future services | 1.5 | 0.8 | - | 0.6% | 0.3% | - |
| Return to pre-COVID baseline | 4.0 | - | - | 1.6% | - | - |
| Strategic initiatives | 3.0 | - | - | 1.2% | - | - |
| Other | 6.0 | 2.4 | 0.4 | 2.4% | 0.8% | 0.1% |
| Inflationary uplifts over FY23-FY25 pricing period | 6.6 | - | - | 2.6% | - | - |
| Inflationary uplifts over FY26-28 pricing period | 5.7 | 5.7 | 5.9 | 2.3% | 1.9% | 1.9% |
| **Total change to operating costs** | **40.7** | **12.1** | **8.9** | **16.1%** | **4.1%** | **2.8%** |

[1] Note that the FY25 operating cost base is the FY25 price plan value

## 5.1 System resilience

Following the Christchurch earthquake in 2011, Airways embarked on a comprehensive programme of work to increase its system resilience, with the construction of two disaster-resilient operations centres and a transition to a more resilient Air Traffic Control operating platform. The COVID-19 pandemic and significant weather events that occurred in early 2023 reinforced the need to embed further resilience measures to ensure Airways is able to play its part in maintaining safe air travel across New Zealand at all times and particularly in times of crisis. At the same time, the delay to projects as a result of COVID-19 travel restrictions has increased the urgency for some of these initiatives.

We have undertaken a number of initiatives during the FY23-25 pricing period designed to increase the resilience of our systems and workforce. These, coupled with proposed further initiatives in the FY26-28 period are outlined in detail below with the respective increase in base operating costs.

### 5.1.1 Resilience for anticipated retirement and unplanned departures

**Increase in base operating cost of $9.7m**

Airways has an aging workforce, reflecting long employee tenure and strong talent retention. It takes up to two years to train and rate air traffic controllers. At the same time, there is a global shortage of air traffic controllers, and other Air Navigation Service Providers (ANSPs) around the world are able to offer more competitive pay and conditions. As such, we need to take a proactive approach to ensure appropriate future workforce planning to be able to maintain service delivery.

We have a number of sites where we have operated at or below the minimum threshold of staff. This has resulted in a significant leave accrual as well as some slippage in administrative requirements. This goes against our strategic pillar of putting our people first and, if left unresolved, introduces significant risk both to the wellbeing of our people and the delivery of services.

To respond to this risk, Airways has lifted its air traffic workforce FTE (full time equivalent) by 17 over the last three years above the number consulted on in the last pricing consultation. This equates to a proposed increase of $3.8m in the annual operating cost over the FY26-28 price period. In addition, we have seen an increase in our leave liability aligned to the increased headcount and age of our workforce. This, coupled with movement through our pay grade steps has increased our annual operating cost by $6.0m over the FY26-28 price period.

As a result of the action we have taken, we have seen a managed reduction in the age of our workforce and the number of employees aged over 60 years of age, without compromising our service levels. A summary of the average age of our workforce is shown in Table 5 below. This shows the positive impact of introducing additional

headcount, effectively flattening the average age of employees which otherwise would have been increasing.

**Table 5. Average age of employees**

| | Average age | | | % over 60 | | |
|---|---|---|---|---|---|---|
| | FY23 | FY25[1] | FY28[2] | FY23 | FY25 | FY28 |
| Air Traffic Controllers | 48.1 | 47.6 | 47.7 | 21.0% | 18.2% | 19.6% |
| Technology Group | 48.6 | 48.6 | 48.5 | 22.1% | 19.2% | 16.1% |
| **Total Airways** | **48.2** | **47.0** | **46.8** | **18.7%** | **18.4%** | **18.4%** |

Airways continues to review and assess the level of air traffic controllers required across our network to proactively address the retirement bubble and build resilience for unplanned departures.

No additional ATC FTEs are proposed in the FY26-28 pricing period.

### 5.1.2 Increased preventative maintenance and repair

#### Increase in base operating cost of $5.2m

Airways maintains a comprehensive network of navigational aids to assist pilots and air traffic controllers to navigate aircraft safely through our airspace. Many of these are designed to support operations in poor weather or low visibility, allowing airlines to operate a more consistent schedule, reduce delays and cancellations, and maintain vital connections to regional ports year round. For all lifecycle replacement projects, Airways is looking at options that will increase resilience through enhanced features, improved coverage or reduced maintenance requirements.

Over the past three years, our maintenance team has been focused on shifting to a proactive maintenance schedule supported by a modernisation of assets, improved workforce scheduling and greater overall monitoring of equipment. This has enabled a stronger focus on improvement initiatives and delivery of capex projects, and seen Airways deliver 100% service delivery throughout 2024. We plan to continue to increase the level of network engineers and delivery to support our preventative maintenance program.

The increase in base operating cost of $5.2m represents an additional 12 FTEs that Airways has employed over the FY23-25 period, along with a further 7 FTE that are planned to be employed over the FY26-28 period.

[1] Data correct to end Jan 2025
[2] Projected

### 5.1.3 Enhanced safety practices

**Increase in base operating cost of $1.6m**

Airways' purpose is safe skies today and tomorrow – safety is our number one priority and we take our role seriously in both maintaining and improving the safety management system to support aviation as the safest form of transport.

Airways operates an integrated safety management system (SMS) which brings together all aspects of safety including operational safety, health and safety, security and international quality standards. It encompasses external rules, policies and procedures that we comply with, along with our own expectations, reporting mechanisms, education and promotion for our people.

In 2020, Airways commenced a comprehensive, independent review of our safety culture. While the results were overall positive, the review identified a number of areas where safety can be enhanced. At the same time, the aviation industry is evolving which means its approach to safety needs to evolve as well.

While we are proud of our strong safety record, we recognise the need for a continued focus on safety. As part of our One Airways approach, our current priorities include building our enterprise-wide approach to safety to ensure learnings and best practice are shared across all business units. This includes an enterprise-wide integration of the three lines of defence model – a risk governance framework that defines the responsibilities and accountabilities for managing risks, monitoring compliance and auditing performance. The purpose is to ensure there are no gaps, overlaps or ambiguity when it comes to risk management.

Alongside this is an enterprise-wide approach to safety promotion to embed a consistent approach to safety culture across Airways.

As Airways looks to evolve its service delivery, we are looking to increase our safety function, to ensure we are proactively considering and mitigating all risk factors across our organisation, including people safety and wellbeing, operational safety and security.

The increase in base operating costs of $1.6m represents an additional 6 FTEs that Airways has employed over the FY23-25 period, along with a further 3 FTE that are planned to be employed over the FY26-28 period.

### 5.1.4 Upgrade to key corporate systems and digital infrastructure

**Increase in base operating cost of $2.5m**

Airways has faced an increase in the operating costs related to the ongoing licensing and support for our key enterprise platforms. These platforms are critical to managing jobs logged for service and maintenance for our network, as well as running our key corporate systems. There has also been on-going investment to support our Flight Yield billing system.

Due to funding constraints over the current price period, there has been an under investment in our critical corporate operating systems and digital infrastructure.

To address the technology gap that has been created and support improved system resilience, we have planned for the replacement and/or upgrade of key software systems that support the operational activities of our business in the FY26-28 period. These include on-going investment to support our Flight Yield billing system and upgrades to our service management tool.

### 5.1.5 Increased insurance premiums

**Increase in base operating cost of $0.8m**

Airways has a comprehensive insurance programme to mitigate the financial risk of the unknown occurring. Airways regularly reviews its insurance programme to ensure it is still appropriate in terms of cover and limits. Airways has increased cover and limits for some insurances which has resulted in increased premiums. Additionally actual premiums paid have increased in excess of budgeted amounts for some policies due to external factors including rising reinsurance costs, and climate and geo-political events.

## 5.2 Future services

### 5.2.1 Airspace architecture

**Increase in base operating cost of $1.5m**

While aircraft and technology have evolved, the design of the airspace has not. Changes have been made incrementally in different areas in response to a need, without necessarily considering the system as a whole. By leveraging existing modern Air Traffic Management and aircraft technologies, including communication, navigation and surveillance capabilities, we aim to increase user access, optimise flight paths, reduce air traffic complexities, streamline operations and optimise workload distribution for ATCs.

The airspace architecture review is focused on domestic surveillance services (Area, Approach and Area Flight Information Service (FIS)) and draws on the work commenced in the previous airspace optimisation project in 2020. Project deliverables include reviewing terminal approach and enroute sectors, standardisation of procedures, and any required system changes or training programmes required to support the change.

The airspace architecture review is intended to increase the quality of service delivered and allow for greater flexibility and resilience within our operations as well as a smoother integration of new technology, tools and practices which will enable us to adapt to change more quickly. As the aviation industry evolves, with new technologies and new entrants into our airspace, we need to ensure we are able to serve all airspace users in a safe, efficient, flexible and resilient way now and in the future. For pilots, we are looking to offer a more seamless transition between sectors, increasing the effectiveness of communication between pilots and ATCs, and providing a more efficient service with the potential to reduce delays.

This is a project with a six year time horizon and the increase in base operating costs of $1.5m reflects the operating spend component of the project. Most of the project costs will be capitalised as noted under the capital plan section below.

### 5.2.2 Standardisation of procedures and training

**Increase in base operating cost of $0.8m**

While we have standard procedures across our business, there is always some variation in how these are applied. Historically, decisions have been made in response to a specific site issue without necessarily considering the system as a whole. Over time, we have seen a subtle drift in the way procedures are operationalised at our sites. Our sites may also have different equipment models and varied training approaches. All of this combined has led to different sites having a different solution to the same issue.

While there is no risk to our operational safety in this divergence from the standard, it does result in increased training time for people moving between sites, as well as some inconsistency of service delivery for customers.

The standardisation project team are tasked with working across the system to standardise the way we apply procedures, deliver training and deploy, implement and utilise operational equipment.

This project has a six year time horizon and will set a strong foundation for any future changes to training, procedures and equipment deployment. The increase in base operating costs reflects the operating spend component of the project. Most of the project costs will be capitalised as noted in section 6.

The investment of $0.8m represents an additional 4 FTEs that Airways has employed over the FY23-25 period. No additional FTEs are proposed in the next pricing period.

## 5.3 Return to pre-COVID baseline

**Increase in base operating cost of $4.0m**

When the FY 23-25 prices were set, a number of cost saving initiatives were in place. These short-term savings were appropriate while flight volumes were significantly reduced during the COVID-19 period, however they were not sustainable in the longer term. Examples of these costs are:

- Five engineer and technician positions that were disestablished during the COVID-19 period which have since been re-instated to contribute to the ongoing preventative maintenance and delivery of the capex plan.
- Travel spend within the operational areas including returning to pre-COVID-19 levels of employee relocations.
- During the COVID-19 period, sick leave of operational staff was able to be managed with lower levels of recalls and overtime however, as traffic volumes

have recovered, we have had to return to the normal processes of recalling air traffic controllers to maintain service levels.

The increase in base operating costs of $4.0m includes an additional 5 FTEs that Airways has employed over the FY23-25 period. These are in addition to the disestablished positioned outlined above which was reinstated in the current pricing period. No additional FTEs are proposed in the next pricing period.

## 5.4 Strategic Initiatives

### 5.4.1 Further development of a UTM system

**Increase in base operating cost of $3.0m**

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

We are in the early phases of this project and there is more thinking to do but we are excited by the potential of this opportunity. The approach Airways is taking is to broaden the thinking beyond UTM and to focus on the future airspace, considering the needs of all aircraft and the opportunities presented by digital technologies. The solution we need does not exist in an off-the-shelf product. Fortunately, Airways has extensive experience in working collaboratively with software vendors to develop bespoke solutions – examples include the SkyLine-X platform currently used for surveillance and the AirShare platform.

Taking a proactive approach to UTM ensures Airways can keep step with industry changes and integrate new entrants safely into controlled airspace.

## 5.5 Other

### 5.5.1 Determination that trainees now to be treated as employees

**Increase in base operating cost of $1.1m**

As a result of the consent judgement reached with the Ministry of Business, Innovation and Employment (MBIE), Airways is required from FY25 onwards to treat individuals undertaking Part 2 Air Traffic Controller training as employees, rather than students.

This adds an additional $1.1m per annum from FY26 on average to our annual labour cost and an additional 12 FTE on average.

### 5.5.2 Other incremental cost increases

**Increase in base operating cost of $4.9m**

Historically, Airways has forecast non-labour costs using New Zealand Institute of Economic Research's (NZIER) Primary Producers Index (inputs) (PPI). In addition to the inflation uplift explained in section 5.6 below, we have seen some areas of our cost base increase above actual PPI, specifically in corporate costs and maintenance contracts. We have considered if forecast PPI remains appropriate for future forecasting and are proposing to remain using this measure despite that we generally see cost increases above this level.

## 5.6 Inflation uplift

### 5.6.1 Inflationary uplifts over FY23-FY25 price period

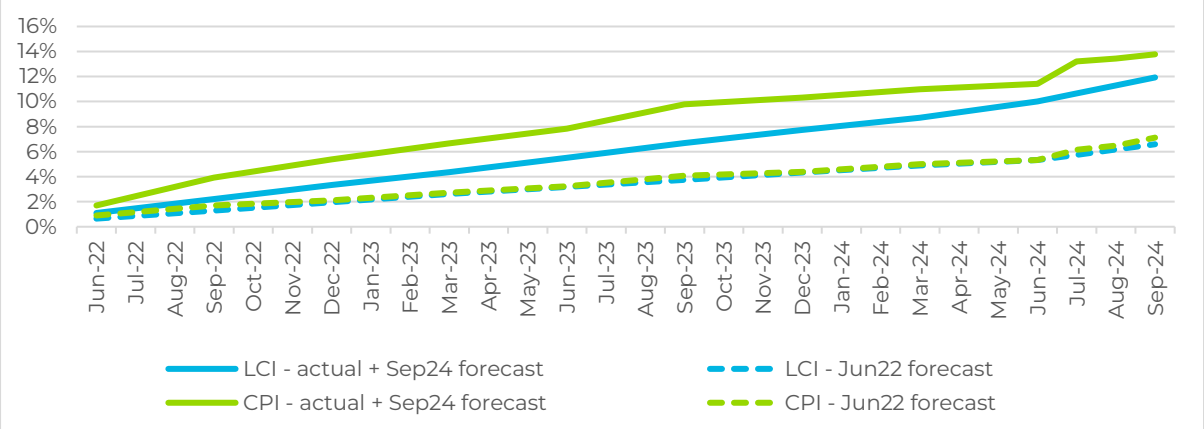
**Increase in base operating cost of $6.6m**

Airways, like other businesses, faced high inflation over the FY23-25 period.

In the FY23-FY25 pricing plan, assumptions for salary uplifts were based on the NZIER Labour Cost Index (LCI) forecast and the NZIER's Consumer Price Index (CPI) forecast. Other cost increases (excluding depreciation) were based on NZIER's Primary Producers Index (inputs) (PPI) forecast or contractual uplifts.

The actual LCI and CPI were higher than the NZIER forecast used for the FY23-FY25 pricing plan. The below graph shows the cumulative effect of the difference in LCI and CPI from the June 22 forecast to the actual indexes.

**Figure 1. LCI and CPI Jun-22 forecast compared with actual indexes**




The actual PPI was lower than the Jun-22 forecast.

The net effect of these movements has resulted in Airways' cost base being $6.6m higher than expected in FY25.

### 5.6.2 Inflationary uplifts over FY26-28 price period

**Increase in base operating cost of $5.7m**

Assumptions for salary uplifts in previous pricing plans have been based on NZIER LCI forecasts. However, the last collective employment agreement settlements with NZALPA and AMEA have been linked to CPI instead of LCI. For the FY26-28 period, labour inflation assumptions have been based on NZIER CPI forecasts only.

In February 2024, Airways and NZALPA signed a Memorandum of Understanding (MoU) and Strategic Partnership. The MoU reflects our shared responsibility and joint commitment to safety and fulfilment of strategic initiatives that will inevitably result in mutually beneficial outcomes. As part of this MoU, Airways agreed to settle the April 2024 salary increase negotiations and future negotiations at CPI plus 1% with a maximum and minimum which varies in each year. The impact of this MoU has been included in the inflationary uplifts for the FY26-28 period.

General cost increases (excluding depreciation) are based on PPI forecast or contractual uplifts.

The net effect of these movements is expected to increase Airways' cost base by $17.3m across the FY26-28 pricing period.

The inflation rates, along with salary and wage expectations, will be updated to reflect the current forecast and market conditions at the time of setting the final prices.

**Table 6. Inflation assumptions**

| Cost type | Source | Change | | | |
|---|---|---|---|---|---|
| | | FY26 | FY27 | FY28 | Cumulative |
| Labour costs | NZIER CPI forecast (Sep 24) | 3.1% | 2.4% | 2.5% | 8.3% |
| Other costs | NZIER PPI (inputs) forecast (Sep 24) | 3.0% | 2.9% | 2.6% | 8.7% |

# 6 Changes to our capital plan

Airways has developed a comprehensive capital investment plan designed to advance its strategic objectives while ensuring operational safety and service resilience. Airways understands customers only wanting to prioritise essential investments. However, deferring critical upgrades introduces potential service risks and disruptions. The capital plan also provisions for supporting key strategic initiatives as outlined in Airways' 10-year strategy.

Airways is proposing the following changes to our capital cost base, driven by a change in our capital investment over the three year pricing period.

**Table 7. Changes to capital plan FY26-28**

| | FY26 | FY27 | FY28 |
|---|---|---|---|
| Capital plan cost base $m | 77.8 | 73.0 | 84.1 |
| Capital plan cost base change $m | -4.8[1] | 11.2 | 7.0 |
| YOY % Change | -6.2% | 15.3% | 8.4% |

Airways' capital investments span a multi-year period, ensuring a long-term, sustainable approach. Following changes in 2022, Airways' Pricing Framework ensures customers only pay for services once they are 'fully commissioned', rather than during their development phase, further aligning investment costs with service delivery outcomes.

Airways is committed to aligning its services with the evolving needs of the aviation industry while maintaining an unwavering focus on safety. As the industry adapts, capital investments in critical systems and new technologies are essential to maintaining operational resilience, enhancing safety and fostering innovation across the sector. These investments will drive positive change and ensure Airways continues to meet both sector demands and customer expectations.

Over the FY26-28 period, Airways proposes to invest $211.9m[2] in capital projects:

- $142.4m for 'fully commissioned' services has been included in our pricing calculations for this period; and
- The remaining $69.5m is not included is our pricing calculations for this period. These investments will form part of future pricing calculations.

The detailed list of capital expenditure with the estimated commission dates are set out in Appendix B.2.

[1] Note that the FY25 capital plan cost base is the FY25 price plan value
[2] The capex investments exclude funding provided by Ministry of Transport (MoT) to support the doppler very high frequency omni-directional range navigational aids (DVOR) project. Furthermore, it excludes any capital investments needed to support Airways' commercial business.

### 6.1.1 Major investments

Table 8 summarises Airways' major capital investments agnostic of the commissioning dates over the next three years:

**Table 8. Major capital investments**

| Major capital investments ($'m) | FY26 | FY27 | FY28 | Total (FY26-28) |
|---|---|---|---|---|
| Auckland Tower replacement | 3.7 | 14.1 | 18.7 | **36.5** |
| Regional Tower Services | 8.1 | 3.4 | 1.5 | **13.0** |
| Airspace Architecture | 3.8 | 7.6 | 6.2 | **17.6** |
| Primary and Secondary Radar Replacement | 10.9 | 0.9 | - | **11.8** |
| Southern & Auckland surveillance upgrade | 0.8 | 12.4 | 9.7 | **23.0** |
| **Total** | **27.3** | **38.4** | **36.0** | **101.9** |

#### Auckland Tower replacement

The current Auckland Tower, built in the early 1960s, is due for replacement and is located on a site earmarked for future passenger terminal development. In 2022, Airways undertook industry consultation, the outcome of which was to develop a hybrid solution with digital contingency. At that time, Airways indicated it would first investigate digital contingency and reconfirm the proposed approach prior to physical construction.

Having undertaken significant work and due diligence on digital solutions, Airways consulted with the industry in November 2024 on its proposal to construct a replacement physical tower as the most appropriate solution to maintain consistent service at New Zealand's largest airport.

Airways is continuing to engage with the industry to determine the most appropriate outcome. The costings outlined in this document reflect the relevant costs for the FY26-28 pricing period as they relate to the preferred approach outlined to customers as part of the November 2024 consultation. This costing has been included to reflect the current costings available for this project and does not indicate a confirmed outcome from that consultation. Costs will be revised following a confirmed outcome from the industry consultation which is due to be completed in March 2025, and ahead of any confirmed pricing for the FY26-28 pricing period. Please note, under the proposal being consulted on, the Auckland tower replacement is not forecast to be completed until FY29 and, as set out in the Airways Pricing Framework, would not enter our pricing asset base until then.

**Benefit:** The priority for the Auckland Tower replacement project is to ensure safe, efficient and continuous service at Auckland Airport now and in the future.

### Regional Tower Services

Investment in regional tower services aims to implement more flexible, efficient delivery models by leveraging new technologies. With the ADS-B mandate, there is an opportunity to transition from procedural approaches to more efficient surveillance-based services. Additionally, the introduction of 'limited surveillance' in towers and remote aerodrome advisory service (RAAS) is being investigated to provide a more flexible service delivery to smaller aerodromes such as Milford, beyond that of the traditional Surveillance Approach/Aerodrome Control model.

**Benefit:** Enhanced surveillance capabilities and digital technologies have the potential to deliver improvements in safety, cost efficiencies, flexibility and resilience, while also providing a platform for future technological advancements.

### Airspace architecture

As outlined in section 5.2.1 the airspace architecture review is focused on domestic surveillance services (Area, Approach and Area FIS) and draws on the work commenced in the previous airspace optimisation project in 2020. The project has a six-year time horizon. It is expected to take around three years to complete the requirements, concepts and validation process.

**Benefit:** This project is intended to increase the standardisation and quality of service delivered and allow for greater flexibility and resilience within our operations. This includes providing a service that allows for reduced delays, provides more efficient flight paths and increases the potential capacity of our airspace.

### Primary and Secondary Radar Replacement

Airways operates three Primary Surveillance Radars (PSR) and six Monopulse Secondary Surveillance Radars (MSSR), which were installed in the 1990s and underwent midlife upgrades in the 2000s. Following the completion of the ADS-B system implementation in 2019, Airways is introducing three new combined PSR and MSSR systems. These will replace the existing six MSSRs and three PSRs that provide our current co-operative and non-cooperative surveillance service.

**Benefit:** This initiative will enhance resilience by providing contingent surveillance along the Main Trunk and ensure continued non-cooperative surveillance capabilities at key airports in the case of a GNSS outage. Reducing from eight radar sites to three will also lower operating costs, while replacing end-of-life infrastructure ensures long-term operational continuity.

### Southern & Auckland surveillance upgrade

This project is a lifecycle replacement of Multilateration (MLAT) service across Queenstown and Auckland. The project also includes very high frequency (VHF) communications-related enhancements to be implemented concurrently with ADS-B work at some remote southern sites. The scope includes decommissioning and disposing of existing MLAT equipment only and where necessary to enable installation of the new system.

**Benefit:** The project will provide service continuity after decommissioning of end-of-life MLAT equipment. Furthermore, it will improve VHF communications coverage in the Southern region.

### 6.1.2 Investments by service and location

The major capital investments by service and location are summarised in Table 9 below:

**Table 9. Investments by service and location**

| Service and Location ('$m) | FY26 | FY27 | FY28 | Total (FY26-28) |
|---|---|---|---|---|
| Auckland | 13.9 | 15.3 | 18.9 | **48.1** |
| Christchurch, Queenstown and Wellington | 13.0 | 14.4 | 10.0 | **37.4** |
| Regional Aerodromes | 12.2 | 6.0 | 4.0 | **22.2** |
| National Operations | 28.4 | 29.5 | 23.8 | **81.7** |
| Enroute | 5.0 | 5.2 | 3.2 | **13.4** |
| Unattended[1] | 0.2 | 0.1 | - | **0.3** |
| Other Capital Investment | 2.6 | 3.0 | 3.2 | **8.8** |
| **Total** | **75.3** | **73.5** | **63.1** | **211.9[2]** |

#### Auckland

The key projects related to Auckland are the Auckland Control Tower replacement project and the replacement of the PSR and MSSR radars, both of which are outlined above.

Additionally, a replacement of MLAT surveillance system is scheduled. Auckland International Airport Limited's plans for the new domestic processor (Pier A1) will impact the current control tower's visual coverage, requiring a cab redesign and integration of new technologies. The construction will also render the existing Contingency Tower inoperable, necessitating its replacement.

These necessary remedial works will ensure that the control tower structure, cladding, and systems remain safe and operational, avoiding potential disruptions. The cab

[1] Unattended includes investments for capital works for Whanganui Airport Beacon replacement
[2] The capex investments exclude funding provided by MoT to support the DVOR project. Furthermore, it excludes any capital investments needed to support Airways' commercial business.

refurbishment and Contingency Tower replacement will enable the safe and resilient continuation of air traffic services throughout and following the Pier A1 construction.

**Christchurch, Wellington, Queenstown**

Planned investments across the portfolio focus on critical system upgrades. There are upgrades to power infrastructure and lifecycle replacements to radar and navigation aids, and replacement of Instrument Landing System (ILS) and airfield navigation aids, along with the provision of alternative contingency tower facilities. Other areas of focus include replacing the MLAT system and support networks, as well as CCRs (Constant Current Regulators) and runway edge lights replacement.

These lifecycle projects are essential to maintaining the reliability and resilience of power, surveillance and navigation systems. By proactively addressing these needs, the future service disruptions can be prevented, and continued operational safety and efficiency ensured.

## Regional Aerodromes

A technological refresh will be implemented across regional aerodromes following the deployment of Skyline-X as part of the ATS Systems Programme. The upgraded Voice Switch System and Electronic Flight Strips, including digital clearance (DCL), will be rolled out to all regional towers. Cab refurbishments will standardise layouts. Airways is investigating a RAAS for its Milford operations to reduce personnel risks and assess viability for other aerodromes.

The technology refresh will improve operational safety and standardisation across regional aerodromes, optimising communication, and workflow. RAAS deployment will reduce personnel risks and act as a pilot for broader implementation, potentially contributing to safer and more efficient air traffic management.

## National Operations

Nationally, key projects include the National ATM System Enhancements, Domestic CPDLC, Oceanic System Hardware Refresh, System Wide Information Management (SWIM), WAN Network Equipment lifecycle and Enhanced Collaborative Arrival Manager (eCAM). The other key project includes Aeronautical Information Management (AIM) required on aircraft flight decks for air traffic control.

These national projects will strengthen system security, improve hardware and software supportability, and modernise infrastructure. This will lead to increased operational efficiency, system resilience and future-readiness, ensuring compliance with evolving industry standards and sustained excellence in service delivery.

## Enroute

Key enroute projects include the installation of ground-based radio navigational aids (DVORs) for bearing information and Distance Measuring Equipment (DME) to calculate aircraft distance. The DVOR/DME project has five sites funded by MoT (Ministry of Transport) and the remaining three sites funded by Airways. For our pricing calculations

we have excluded the MoT sites and just the capital charges for the three Airways sites have been included.

These upgrades are necessary to maintain the high level of operational service, safety and system resilience in enroute operations, ensuring consistent and reliable navigation support.

### 6.1.3 Other Capital Investments

Other capital investments include routine capital spend across buildings, property and hardware items e.g. building maintenance works and hardware purchases. Some of the projects within this category include unmanned site security upgrade and Christchurch main campus building refurbishment.

These capital purchases and investments ensure our corporate and regional offices are able to support the necessary services. Various building, engineering and maintenance services help in ensuring the right level of service is provided by Airways. The investments are also used for maintaining security across various locations e.g. our manned and unmanned sites.

# 7 Proposed price changes

## 7.1 Proposed price changes for airlines

Airways is proposing an average price increase to airlines of 14% in FY26, 5% in FY27, and 2% in FY28. This equates an annual average price increase of 7.7% over the three-year period.

Table 10 shows example price changes per seat for commercial flights. The full pricing tables are shown in Appendix A.2.

**Table 10. Price change examples per seat for commercial fights**

| Price Change Examples | Current FY25 Price Per Seat | Proposed FY26 Price Per Seat | Change | % Change |
|---|---|---|---|---|
| Auckland to Napier AT76 | $9.21 | $12.01 | $2.80 | 30.4% |
| Auckland to Christchurch A320 | $8.39 | $9.51 | $1.12 | 13.3% |
| Auckland to Wellington A320 | $7.70 | $9.07 | $1.37 | 17.8% |
| Sydney to Auckland A21N | $6.52 | $7.31 | $0.79 | 12.1% |
| San Francisco to Auckland B789 | $15.51 | $17.05 | $1.54 | 10.0% |

## 7.2 Proposed price changes for GA

Airways supports GA customers by providing essential flight information, enabling safe operations within controlled airspace. While GA activity accounts for a significant proportion of our flight traffic, it contributes a smaller share of our Air Navigation Service revenue.

Since 2013, Airways has committed to using NZIER forecast sources as our standard approach for consistently measuring long-term inflationary impacts. The proposed inflation rates outlined in Table 9 reflects this methodology.

GA prices for FY23-25 were set in FY22 based on forecast inflation rates. However, actual inflation has fluctuated over the three-year period. To align GA prices with inflation, an initial adjustment of 4.1% is necessary. This adjustment accounts for the difference between the actual/forecast inflation rate (11.2%) and the previously applied inflation rate (7.1%) for FY23-25.

Airways is proposing a 6.8% price increase for FY26 and a cumulative 10.5% price increase for GA services over the FY26-28 period. This increase reflects our underlying costs. Please note that inflationary inputs will be updated before final prices are confirmed.

**Table 11. Proposed GA inflationary inputs**

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

**Table 12. Price change examples per seat for GA Flights**

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

## 7.3 Milford services

Milford's remote location poses operational challenges for Airways as staff currently face extensive travel to get to Milford and spend more than half of the year living in isolated conditions.

To maintain its cost-effectiveness, we adopt a prudent investment approach, prioritising safety while delivering fit-for-purpose services that meet operational needs. Airways has investigated the operational and cost-effectiveness of alternative service provision models and is now investigating RAAS for our Milford operations to reduce personnel risks while maintaining service delivery.

Recent investments in Milford include the installation of new accommodation and additional staff, both of which have contributed to an increase in costs.

Airways' operating costs at Milford are summarised in Table 13 and the proposed price changes are outlined in Table 14.

**Table 13. Milford operating costs**

| $m | FY25 | FY26 | FY27 | FY28 |
|---|---|---|---|---|
| Labour | 0.4 | 0.5 | 0.5 | 0.5 |
| Other operating costs | 0.2 | 0.2 | 0.2 | 0.3 |
| Depreciation and capital charge | 0.1 | 0.3 | 0.3 | 0.4 |
| **Total costs** | **0.7** | **1.0** | **1.0** | **1.2** |

1 Total % column includes the compounding effect of the changes

**Table 14. Proposed price changes at Milford**

| | Minimum Price | | | | Base Rate | | | |
|---|---|---|---|---|---|---|---|---|
| | FY25 | FY26 | FY27 | FY28 | FY25 | FY26 | FY27 | FY28 |
| Price | $58.40 | $59.51 | $60.38 | $73.64 | $160.47 | $163.52 | $165.91 | $202.35 |
| % Increase | - | 1.9% | 1.5% | 22.0% | - | 1.9% | 1.5% | 22.0% |

# 8 Pricing methodology

This section outlines the approach Airways has taken to establishing its proposed pricing for the FY26-28 price period and key assumptions made.

Airways' Pricing Framework details the pricing methodologies used to price our services. The Pricing Framework demonstrates Airways' commitment to transparent price-setting. You can download the document from the Airways' website **here**

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 B.4.

## 8.1 Building block components of overall revenue

The proposed revenue is calculated using the EVA Framework. EVA measures the extent to which a business is performing above or below expectations.

For this pricing plan, the target revenue has been set at a level that results in a break-even EVA. That is, the revenue is set at a level that recovers the cost to Airways of providing its services (the building blocks).

**Table 15. Economic value added**

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

The EVA will be updated to reflect the current forecast and market conditions at the time of setting the final prices.

- **Other revenue:** other revenue includes interest income. Other revenue is offset against operating expenses.
- **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:** income tax is 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 does not revalue its assets for pricing purposes.

## 8.2 Target Revenue

Airways' target revenue is comprised of three key components. The first is the current establishment revenue, which is based on existing activity. The second component is additional revenue generated from volume growth, assuming a 3% compounded annual growth rate (CAGR) in Domestic and International volumes over the FY26-28 period. The third component is the revenue contribution from price increases.

**Table 16. Target Revenue breakdown**

| | Revenue change $m | | | % change | | | |
|---|---|---|---|---|---|---|---|
| | FY26 | FY27 | FY28 | FY26 | FY27 | FY28 | Total[1] |
| Establishment Revenue | 249.4 | 293.5 | 316.8 | | | | |
| Volume growth | 7.0 | 6.8 | 10.5 | 2.8% | 2.3% | 3.3% | 8.7% |
| Average price increase | 37.0 | 16.5 | 5.5 | 14.4% | 5.5% | 1.7% | 22.8% |
| Target revenue | 293.5 | 316.8 | 332.7 | | | | |

Detail has been provided in Section 5 on the key drivers impacting the price increases.

## 8.3 Volume forecasts

Airways' target revenue reflects the total operating cost plus a fair return on its invested capital base. Target revenue is a function of price and volume. Airways volume growth forecasts predict changes in airline schedules that impact pricing and revenue collection, considering variations in flight frequency and aircraft size. To inform our forecasts, we leverage a range of data sources, including published customer schedules, historical scheduling trends, economic forecast information, and published airline plans.

Although we forecast schedules longer term for FY27 and FY28, Airways Pricing Framework's volume risk sharing mechanism allows for reforecasting volumes and resetting prices at the end of FY26 (for FY27) and FY27 (for FY28). A price reset is triggered if the forecasted revenue for FY27 or FY28 deviates from the target revenue set during the FY26-28 pricing period by more than +/- 2%.

Over the past few years, the COVID-19 pandemic had introduced significant uncertainty into flight schedules. Our domestic market is steady at approximately 90% of FY19 levels and the international market slowly building to near FY19 levels.

Airways is forecasting growth in both Domestic and International markets over the next three years. Table 17 summarises the volume growth assumptions on the previous financial year used to calculate the proposed prices in this document.

1 Total % column includes the compounding effect of the changes

**Table 17. Volume growth assumptions as a percentage of previous financial year**

| | Forecast[1] | | |
|---|---|---|---|
| | FY26 | FY27 | FY28 |
| Domestic Volume Growth | 2% | 2% | 3% |
| International Volume Growth | 5% | 3% | 4% |

### 8.3.1 Domestic volume growth:

Airways' largest domestic customer is Air New Zealand followed by Jetstar. In the first year of the pricing period, Airways forecasts a logical growth, driven by Air New Zealand's planned changes of its domestic fleet during FY25 and Jetstar's increased routes at some main trunk airports in FY26. We have also accounted for route changes at Invercargill Airport.

For the second and third years, Airways anticipates growth to moderately increase. This is due to the anticipated changes of the customer fleet during this period. Overall, the forecast suggests a more positive outlook for domestic air travel in New Zealand in the later years.

To ensure the final prices are fair and accurate, we will refine our domestic volume inputs near the price reset date. This refinement will incorporate all additional information gathered through the consultation process, carefully considered to inform our decision.

### 8.3.2 International volume growth:

The aviation industry has navigated a period of significant disruption during the FY23-25 pricing period. Notably, while a few airlines have ceased flying in part, or fully, to New Zealand, other markets have experienced growth. This mixed trend reflects the ongoing evolution of the international market as it adapts to changing global conditions.

International air travel has historically shown to be more seasonal and has unpredictable growth patterns compared with domestic air travel. Several influential factors contribute to this unpredictability including the health of the global economy, airlines fleet changes and alterations to route capacities and frequencies. Fuel price volatility is another crucial factor, affecting airlines' operational costs and influencing their decisions on chosen route viability.

To inform our international forecasts, we leverage a range of data sources including published customer schedules, historical scheduling trends, economic forecast information and published airline plans.

Table 18 summarises the volume growth assumptions by region used to calculate the proposed prices in this document.

[1] Forecasts as at November 2024

**Table 18. International volume growth assumptions by region**

| | Forecast | | |
|---|---|---|---|
| | FY26 | FY27 | FY28 |
| Australia | 5.7% | 3.0% | 4.0% |
| Pacific | 4.3% | 3.0% | 4.0% |
| Asia | 1.6% | 3.0% | 4.0% |
| Middle East | 2.0% | 3.0% | 4.0% |
| North America | 4.5% | 3.0% | 4.0% |
| South America | 2.0% | 3.0% | 4.0% |

The Australian market is expanding to enhance connectivity and travel options between New Zealand and Australia. New routes to popular destinations such as the Sunshine Coast, Cairns and Gold Coast have been incorporated into our forecasts.

Based on planned increases to fleet capacity over FY26-28, our forecast assumes growth to occur in the Australian, Pacific, Asian, and North American markets, supporting growing supply of capacity and demand for air travel in these regions. We have also assumed moderate growth in other long-haul markets such as the Middle east and South America.

To ensure the final prices are fair and accurate, we will refine our international volume inputs near the price reset date. This refinement will incorporate all additional information gathered through the consultation process, carefully considered to inform our decision.

## 8.4 Weighted Average Cost of Capital (WACC) rate change

As a SOE, Airways is required to deliver a commercial return. That return is provided by the capital charge component of the cost building blocks. The capital charge is calculated by multiplying the capital employed (excluding WIP) and the capital charge rate. The capital charge rate has been calculated in line with the New Zealand Commerce Commission's (NZCC) input methodologies designed for sole providers of infrastructure services in New Zealand. This approach is consistent with the last pricing plan and with many other regulated businesses.

Airways proposes a current capital charge rate of 8.08% for the FY26-28 period. The rate is a slight increase from the 8.03% capital charge in the current pricing period and the increase is predominantly the result of higher interest rates offset by other changes such as a reduction to the percentile used. The capital charge rate was developed using the NZCC's Input Methodology for airports and parameter estimates that are reflective of the market.

Table 19 provides a summary of the inputs into the proposed capital charge rate and compares them to the inputs used for current prices. Appendix B.4 provides further explanation of the inputs chosen.

**Table 19. Capital charge inputs and components**

| Capital charge components | Inputs (FY23 -25) prices | Inputs (FY26-28) proposed prices | Current assumptions |
|---|---|---|---|
| Risk-free rate | 3.18% | 3.8% | 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.<br><br>This will be updated to reflect the current risk-free rate at the time of setting the final prices. |
| Asset beta | 0.6 | 0.6 | In Airways' view, increasing its asset beta would be justifiable based on the comparative data points we have gathered. However, to prevent further price increases, Airways considers it appropriate to be conservative and maintain an asset beta of 0.60 as an increase in asset beta has a significant impact on the overall WACC rate. |
| Tax adjusted market risk premium | 7.5% | 7.0% | Based on the NZCC's most recent input methodologies review in 2023. |
| Debt premium | 1.24% | 1.10% | 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 | 0.33% | 0.33% | Based on the NZCC's input methodologies estimate for a three-year term. |
| Leverage | 53% | 46% | Target leverage for Airways' statutory business, as calculated under the EVA methodology. This has decreased slightly due to a restructuring of funding arrangements between Airways and its subsidiaries. |
| WACC range | 67th percentile | 65th percentile | The 65th percentile adopted by Airways is the same percentile the NZCC applies to electricity businesses and is a slight decrease in the rate used by Airways previously. 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 65th percentile. |
| **Calculated capital charge rate** | **8.03%** | **8.08%** | |

# Appendices

# Appendix A: Pricing Tables and Examples

Overall 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 aircraft weight - 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 the following schedules along with example price calculations.

An online price calculator to calculate the price of a journey using several of Airways' services is available at: https://www.airways.co.nz/airspace-users/air-navigation-services-and-pricing/

# A.1 Target revenue by location

Table 20 below shows the change in revenue levels for specific services and locations, and the components that make up the proposed price change.

**Table 20. Proposed revenue change for service by location ($m)**

| Service | Target revenue | | | | Comments |
|---|---|---|---|---|---|
| | FY25 | FY26 | FY27 | FY28 | |
| **Aerodrome services** | | | | | |
| Auckland | 14.5 | 13.5 | 14.9 | 15.2 | Phasing of capital spend on AIAL lease and MLAT. |
| Christchurch | 9.7 | 10.1 | 10.7 | 10.8 | Increased capital spend. |
| Wellington | 10.4 | 10.7 | 10.9 | 11.1 | Impact of building resilience into cost base in all areas, plus inflationary impact. |
| Queenstown | 3.9 | 4.8 | 5.0 | 5.1 | |
| Nelson | 2.6 | 2.9 | 3.0 | 3.0 | |
| Hamilton | 1.6 | 2.0 | 2.0 | 2.0 | |
| Tauranga | 1.8 | 2.3 | 2.4 | 2.4 | |
| Palmerston North | 2.0 | 2.5 | 2.6 | 2.6 | |
| Napier | 1.2 | 1.7 | 1.8 | 1.8 | |
| Dunedin | 1.8 | 2.0 | 2.1 | 2.2 | |
| New Plymouth | 1.2 | 1.5 | 1.5 | 1.5 | |
| Woodbourne | 1.5 | 2.0 | 2.0 | 2.1 | Increased FTEs to build resilience plus inflationary impact. |
| Invercargill | 1.1 | 1.5 | 1.6 | 1.6 | Inflationary impact. |
| Gisborne | 0.9 | 1.3 | 1.3 | 1.3 | Increased FTEs to build resilience and inflationary impact. |
| Rotorua | 1.2 | 1.9 | 1.9 | 2.0 | |
| **Aerodrome services total** | **55.5** | **60.6** | **63.7** | **64.7** | |
| **Flight information services** | | | | | |
| Remote aerodrome advisory service RAAS (RAAS – Milford) | 0.7 | 1.0 | 1.0 | 1.3 | Providing services out of Milford Aerodrome proves challenging due to weather and access. RAAS will improve the level of safety, reliability and availability of the service from the remote location. |
| Kapiti | 0.6 | 0.8 | 0.8 | 0.8 | Increased FTEs to build resilience plus inflationary impact. |
| **Flight information total** | **1.4** | **1.8** | **1.9** | **2.1** | |

| Service | Target revenue | | | | Comments |
|---|---|---|---|---|---|
| | FY25 | FY26 | FY27 | FY28 | |
| **Approach services** | | | | | |
| Auckland | 44.2 | 50.4 | 60.1 | 64.6 | Delay in capital spend on Main Trunk and SkylineX projects, offset by increase in resilience costs and inflationary impact. |
| Christchurch | 19.8 | 20.5 | 22.3 | 23.2 | Delay in capital spend on Main Trunk project, offset by increase in resilience costs and inflationary impact. |
| Wellington | 15.3 | 19.1 | 22.4 | 23.3 | Increased capital spend on Main Trunk project and increase in resilience costs and inflationary impact. |
| Queenstown | 4.3 | 4.8 | 5.4 | 8.3 | Increase in resilience costs and impact of inflation. |
| Nelson | 2.2 | 2.5 | 2.7 | 2.7 | Increased FTEs to build resilience plus inflationary impact. |
| Hamilton | 1.5 | 1.6 | 1.8 | 1.8 | Inflationary impact. |
| Tauranga | 1.4 | 1.8 | 1.9 | 2.0 | Increase in resilience costs and impact of inflation. |
| Palmerston North | 1.5 | 1.7 | 1.8 | 1.9 | Increase in resilience costs and impact of inflation. |
| Napier | 1.5 | 1.9 | 2.0 | 2.1 | |
| Dunedin | 2.4 | 2.5 | 2.7 | 2.8 | Delays in capital spend on ILS replacement offset by increase in resilience costs and impact of inflation. |
| New Plymouth | 1.2 | 1.5 | 1.6 | 1.6 | Increase in resilience costs and impact of inflation. |
| Woodbourne | 0.8 | 0.9 | 1.0 | 1.0 | |
| Invercargill | 1.0 | 1.4 | 1.5 | 1.6 | Phasing of cost changes and inflation impact. |
| Gisborne | 0.9 | 1.2 | 1.3 | 1.4 | Increased FTEs to build resilience plus inflationary impact. |
| Rotorua | 1.3 | 1.5 | 1.5 | 1.6 | Inflationary impact. |
| **Approach services total** | **99.4** | **113.4** | **129.9** | **140.0** | |

| Service | Target revenue | | | | Comments |
|---|---|---|---|---|---|
| | FY25 | FY26 | FY27 | FY28 | |
| Domestic en-route | 62.6 | 69.7 | 72.1 | 75.4 | Lower spend on capital projects offset by increased resilience costs and inflationary impact. |
| Oceanic en-route | 28.7 | 36.5 | 37.4 | 38.6 | Higher capital spend on SkylineX project and increased resilience costs and inflationary impact. |
| **Unattended approach services** | | | | | |
| Taupo | 0.2 | 0.2 | 0.2 | 0.2 | Higher capital cost on Hokitika PAPI, increased resilience costs and inflationary impact. |
| Timaru | 0.2 | 0.2 | 0.2 | 0.2 | |
| Whanganui | 0.2 | 0.2 | 0.2 | 0.2 | |
| Hokitika | 0.1 | 0.2 | 0.2 | 0.2 | |
| Whangarei | 0.2 | 0.2 | 0.2 | 0.2 | |
| Kerikeri | 0.1 | 0.1 | 0.1 | 0.1 | |
| Kapiti | 0.1 | 0.0 | 0.0 | 0.0 | |
| Whakatane | 0.1 | 0.1 | 0.1 | 0.1 | |
| Westport | 0.0 | 0.0 | 0.0 | 0.0 | |
| Kaitaia | 0.0 | 0.0 | 0.0 | 0.0 | |
| Great Barrier | 0.0 | 0.0 | 0.0 | 0.0 | |
| Oamaru | 0.0 | 0.0 | 0.0 | 0.0 | |
| Wanaka | 0.0 | 0.0 | 0.0 | 0.0 | |
| Wairoa | 0.0 | 0.0 | 0.0 | 0.0 | |
| **Unattended approach total** | **1.2** | **1.3** | **1.4** | **1.4** | |
| Other revenue[12] | 8.8 | 10.3 | 10.4 | 10.6 | Inflationary impact. |
| Reduced target revenue (FY25 only) | -4.0 | | | | |
| **Total revenue** | **253.6** | **293.5** | **316.8** | **332.7** | |

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

## A.2 Pricing tables

This Appendix provides the formula and pricing tables used to calculate Airways' proposed unit prices. Prices are calculated by applying the inputs from the pricing tables into the pricing formula. Appendix A.3 provides some examples of prices for different aircraft types.

The pricing formulas are presented below.

### 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 √(MCTOW -5)** | **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.

### 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 √ (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.

**Table 21. Aerodrome charges**

| | Minimum Price | | | Base Rate | | | Weight Rate >5 tonnes | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY26 | FY27 | FY28 | FY26 | FY27 | FY28 | FY26 | FY27 | FY28 |
| Auckland | $13.82 | $14.07 | $14.34 | $17.94 | $18.26 | $18.61 | $3.87 | $4.19 | $4.11 |
| Christchurch | $13.82 | $14.07 | $14.34 | $17.94 | $18.26 | $18.61 | $8.39 | $8.73 | $8.47 |
| Wellington | $13.82 | $14.07 | $14.34 | $17.94 | $18.26 | $18.61 | $11.80 | $11.68 | $11.57 |
| Queenstown | $9.65 | $9.82 | $10.01 | $17.94 | $18.26 | $18.61 | $11.30 | $11.51 | $11.28 |
| Regional airport (Group 1) | $9.65 | $9.82 | $10.01 | $17.94 | $18.26 | $18.61 | $20.21 | $20.40 | $20.05 |
| Regional airport (Group 2) | $9.65 | $9.82 | $10.01 | $17.94 | $18.26 | $18.61 | $22.36 | $22.96 | $22.64 |
| Milford | $59.51 | $60.38 | $73.64 | $163.52 | $165.91 | $202.35 | Not Applicable | | |
| Kapiti | $9.65 | $9.82 | $10.01 | $17.94 | $18.26 | $18.61 | $91.00 | $95.56 | $97.47 |

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.

**Table 22. Approach charges**

| | Minimum Price | | | Base Rate | | | Weight Rate >5 tonnes | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY26 | FY27 | FY28 | FY26 | FY27 | FY28 | FY26 | FY27 | FY28 |
| International towers | $6.91 | $7.03 | $7.16 | $27.68 | $28.18 | $28.72 | $16.63 | $19.05 | $19.58 |
| Regional towers | $6.91 | $7.03 | $7.16 | $27.68 | $28.18 | $28.72 | $14.59 | $15.62 | $17.79 |
| Additional Auckland CAT III weight rate (added to the international tower price for aircraft over 30 tonnes.) | Not Applicable | | | | | | $0.51 | $0.49 | $0.48 |
| Additional Queenstown Multilat weight rate (added to the regional tower price for aircraft over 5 tonnes.) | Not Applicable | | | | | | $1.60 | $1.56 | $1.50 |

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.

**Table 23. Unattended charges**

| | Minimum Price | | | Base Rate | | | Weight Rate >5 tonnes | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY26 | FY27 | FY28 | FY26 | FY27 | FY28 | FY26 | FY27 | FY28 |
| Taupo | $4.22 | $4.30 | $4.38 | $23.61 | $24.03 | $24.49 | $15.68 | $16.46 | $16.79 |
| Timaru | $4.22 | $4.30 | $4.38 | $23.61 | $24.03 | $24.49 | $24.08 | $25.28 | $25.79 |
| Whanganui | $4.22 | $4.30 | $4.38 | $23.61 | $24.03 | $24.49 | $14.58 | $15.31 | $15.62 |
| Hokitika | $4.22 | $4.30 | $4.38 | $23.61 | $24.03 | $24.49 | $15.53 | $16.31 | $16.64 |
| Whangarei | $4.22 | $4.30 | $4.38 | $23.61 | $24.03 | $24.49 | $7.15 | $7.51 | $7.66 |
| Kerikeri | $4.22 | $4.30 | $4.38 | $23.61 | $24.03 | $24.49 | $2.93 | $3.87 | $3.26 |
| Kapiti | $4.22 | $4.30 | $4.38 | $23.61 | $24.03 | $24.49 | $5.86 | $6.15 | $6.27 |
| Whakatane | $4.22 | $4.30 | $4.38 | $23.61 | $24.03 | $24.49 | $14.77 | $15.51 | $15.82 |
| Westport | $4.22 | $4.30 | $4.38 | $23.61 | $24.03 | $24.49 | $12.65 | $13.28 | $13.55 |
| Kaitaia | $4.22 | $4.30 | $4.38 | $23.61 | $24.03 | $24.49 | $19.27 | $20.23 | $20.63 |
| Great Barrier | $4.22 | $4.30 | $4.38 | $23.61 | $24.03 | $24.49 | $22.80 | $23.94 | $24.42 |
| Oamaru | $4.22 | $4.30 | $4.38 | $23.61 | $24.03 | $24.49 | $24.08 | $25.28 | $25.79 |
| Wanaka | $4.22 | $4.30 | $4.38 | $23.61 | $24.03 | $24.49 | $13.06 | $12.62 | $12.18 |
| Wairoa | $4.22 | $4.30 | $4.38 | $23.61 | $24.03 | $24.49 | $24.08 | $25.28 | $25.79 |
| Other unattended aerodromes | No charge | | | | | | | | |

**Table 24. En-route charges**

| | Minimum Price | | | Base Rate | | | Weight Rate >5 tonnes | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY26 | FY27 | FY28 | FY26 | FY27 | FY28 | FY26 | FY27 | FY28 |
| Domestic | $8.06 | $8.21 | $8.37 | $8.01 | $8.15 | $8.30 | $3.88 | $3.91 | $3.96 |
| Oceanic | $24.19 | $24.63 | $25.10 | $8.01 | $8.15 | $8.30 | $1.00 | $1.00 | $0.99 |

**Table 25. Other proposed charges**

| | FY26 | FY27 | FY28 |
|---|---|---|---|
| Circuit charge | $4.54 | $4.62 | $4.71 |
| Vicinity landing charge | $4.54 | $4.62 | $4.71 |
| Controlled VFR transit charge | $4.54 | $4.62 | $4.71 |
| VFR flight plans filed online | $6.14 | $6.25 | $6.37 |
| VFR flight plans filed by other means | $8.82 | $8.98 | $9.15 |
| Overdue SAR Time | $47.53 | $48.39 | $49.31 |
| Out-of-hours – ATC | $474.68 | $483.22 | $492.40 |
| Out-of-hours – FIS - AFIS | $284.81 | $289.93 | $295.44 |

**Table 26. Proposed parachute charges**

| | Airspace Complexity | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Low | | | Medium | | | High | | |
| | FY26 | FY27 | FY28 | FY26 | FY27 | FY28 | FY26 | FY27 | FY28 |
| Low (<1,700 kg) | $2.68 | $2.73 | $2.78 | $3.40 | $3.46 | $3.53 | $13.56 | $13.80 | $14.06 |
| Medium (1,700-2,500 kg) | $4.08 | $4.15 | $4.23 | $5.46 | $5.56 | $5.67 | $13.56 | $13.80 | $14.06 |
| Heavy (>2,500 kg) | $5.46 | $5.56 | $5.67 | $8.13 | $8.28 | $8.44 | $13.56 | $13.80 | $14.06 |

## A.3 Example prices for FY26

This appendix provides examples of Airways' price calculation for a range of different flights to show the effect of different services. The prices in these examples are for the 2025/26 Financial Year.

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

| From\To | Sydney | Los Angeles | Auckland | Christchurch |
|---|---|---|---|---|
| Sydney | | 1,364 | 2,923 | 3,188 |
| Los Angeles | 1,038 | | 4,621 | 4,943 |
| Auckland | 942 | 2,549 | | 3,630 |
| Christchurch | 838 | 2,592 | 3,260 | |

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

| From\To | Nadi | Sydney | Auckland | Chch | Dunedin | Queenstown | Wellington |
|---|---|---|---|---|---|---|---|
| Nadi | | 297 | 1,472 | 1,868 | 2,440 | 1,884 | 1,930 |
| Sydney | 297 | | 1,394 | 1,512 | 1,940 | 1,581 | 1,710 |
| Auckland | 535 | 457 | | 1,711 | 2,530 | 2,094 | 1,611 |
| Christchurch | 761 | 405 | 1,541 | | 1,848 | 1,464 | 1,447 |
| Dunedin | 827 | 337 | 1,854 | 1,342 | | 1,300 | 1,768 |
| Queenstown | 673 | 369 | 1,819 | 1,359 | 1,701 | | 1,777 |
| Wellington | 678 | 459 | 1,296 | 1,302 | 2,129 | 1,737 | |

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

| From\To | AA | CH | DN | GS | HN | NV | PP | NR | NS | NP | PM | QN | RO | TG | WN |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Auckland (AA) | | 633 | 923 | 671 | 561 | 961 | 669 | 695 | 635 | 654 | 773 | 618 | 577 | 592 | 734 |
| Christchurch (CH) | 568 | | 669 | 799 | 755 | 716 | 754 | 611 | 734 | 674 | 538 | 790 | 775 | 530 | 643 |
| Dunedin (DN) | 684 | 496 | | 918 | 874 | 615 | 873 | 728 | 851 | 794 | 477 | 909 | 895 | 650 | 763 |
| Gisborne (GS) | 433 | 626 | 918 | | 616 | 966 | 607 | 703 | 677 | 625 | 784 | 616 | 600 | 570 | 728 |
| Hamilton (HN) | 354 | 613 | 905 | 647 | | 946 | 639 | 677 | 618 | 625 | 759 | 593 | 561 | 566 | 712 |
| Invercargill (NV) | 723 | 543 | 615 | 966 | 915 | | 921 | 769 | 891 | 841 | 480 | 954 | 938 | 697 | 808 |
| Paraparaumu (PP) | 430 | 581 | 873 | 607 | 607 | 921 | | 659 | 644 | 580 | 739 | 617 | 606 | 525 | 683 |
| Napier (NR) | 488 | 469 | 759 | 734 | 677 | 801 | 690 | | 654 | 610 | 615 | 715 | 699 | 478 | 589 |
| Nelson (NS) | 396 | 561 | 851 | 677 | 587 | 891 | 644 | 623 | | 597 | 453 | 635 | 613 | 523 | 662 |
| New Plymouth (NP) | 446 | 532 | 826 | 657 | 625 | 872 | 611 | 610 | 628 | | 690 | 650 | 637 | 477 | 633 |
| Palmerston North (PM) | 671 | 502 | 614 | 921 | 865 | 617 | 876 | 721 | 590 | 796 | | 905 | 889 | 653 | 762 |
| Queenstown (QN) | 380 | 617 | 909 | 616 | 562 | 954 | 617 | 684 | 635 | 618 | 768 | | 558 | 563 | 714 |
| Rotorua (RO) | 370 | 633 | 926 | 631 | 561 | 969 | 637 | 699 | 644 | 637 | 783 | 589 | | 581 | 731 |
| Tauranga (TG) | 477 | 481 | 774 | 694 | 658 | 820 | 649 | 570 | 646 | 570 | 640 | 687 | 674 | | 589 |
| Wellington (WN) | 496 | 470 | 763 | 728 | 681 | 808 | 683 | 558 | 662 | 602 | 625 | 714 | 700 | 466 | |

**Aircraft: Cessna Grand Caravan 208B** **Weight: 3,969** **Seats: 12**

| From\To | AA | CH | DN | GS | HN | NV | PP | NR | NS | NP | PM | QN | RO | TG | WN | WB |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Auckland (AA) | | 64 | 78 | 47 | 44 | 83 | 48 | 46 | 54 | 44 | 48 | 77 | 44 | 44 | 52 | 55 |
| Christchurch (CH) | 64 | | 46 | 63 | 61 | 52 | 45 | 57 | 44 | 55 | 51 | 47 | 62 | 64 | 45 | 44 |
| Dunedin (DN) | 78 | 46 | | 77 | 76 | 44 | 60 | 72 | 58 | 69 | 66 | 44 | 76 | 79 | 60 | 58 |
| Gisborne (GS) | 47 | 63 | 77 | | 44 | 83 | 46 | 44 | 55 | 47 | 45 | 78 | 44 | 44 | 50 | 54 |
| Hamilton (HN) | 44 | 61 | 76 | 44 | | 81 | 45 | 44 | 51 | 44 | 45 | 75 | 44 | 44 | 49 | 52 |
| Invercargill (NV) | 83 | 52 | 44 | 83 | 81 | | 65 | 78 | 63 | 74 | 72 | 44 | 82 | 84 | 65 | 64 |
| Paraparaumu (PP) | 51 | 48 | 63 | 49 | 48 | 69 | | 44 | 44 | 44 | 44 | 63 | 48 | 50 | 44 | 44 |
| Napier (NR) | 46 | 57 | 72 | 44 | 44 | 78 | 40 | | 49 | 44 | 44 | 72 | 44 | 44 | 44 | 48 |
| Nelson (NS) | 54 | 44 | 58 | 55 | 51 | 63 | 40 | 49 | | 45 | 44 | 57 | 52 | 54 | 44 | 44 |
| New Plymouth (NP) | 44 | 55 | 69 | 47 | 44 | 74 | 40 | 44 | 45 | | 44 | 44 | 44 | 44 | 44 | 46 |
| Palmerston North (PM) | 48 | 51 | 66 | 45 | 45 | 72 | 40 | 44 | 44 | 44 | | 66 | 44 | 46 | 44 | 44 |
| Queenstown (QN) | 77 | 47 | 44 | 78 | 75 | 44 | 60 | 72 | 57 | 44 | 66 | | 76 | 78 | 60 | 58 |
| Rotorua (RO) | 44 | 62 | 76 | 44 | 44 | 82 | 45 | 44 | 52 | 44 | 44 | 76 | | 44 | 49 | 52 |
| Tauranga (TG) | 44 | 64 | 79 | 44 | 44 | 84 | 47 | 44 | 54 | 44 | 46 | 78 | 44 | | 51 | 54 |
| Wellington (WN) | 52 | 45 | 60 | 50 | 49 | 65 | 40 | 44 | 44 | 44 | 44 | 60 | 49 | 51 | | 44 |
| Woodbourne (WB) | 55 | 44 | 58 | 54 | 52 | 64 | 40 | 48 | 44 | 46 | 44 | 58 | 52 | 54 | 44 | |

# Appendix B: Supporting information

## B.1 Commissioning dates for major capital investments

| Major Capital Investments ($'m) | FY26 | FY27 | FY28 | Total (FY26-28) | Est. Commission Dates |
|---|---|---|---|---|---|
| Auckland Tower replacement | 3.7 | 14.1 | 18.7 | 36.5 | Sep 2028 |
| Regional Tower Services | 8.1 | 3.4 | 1.5 | 13.0 | Various |
| Primary and Secondary Radar replacement | 10.9 | 0.9 | - | 11.8 | CH – May 2025<br>WN – Jul 2025<br>AK – Aug 2025 |
| Airspace Architecture | 3.8 | 7.6 | 6.2 | 17.6 | Jun 2029 |
| Southern & Auckland surveillance upgrade (MLATs) | 0.8 | 12.4 | 9.7 | 23.0 | Dec 2027 |
| **Total** | **27.3** | **38.4** | **36.1** | **101.9** | |

## B.2 Capital investment FY 26 – 28 ($NZM)

| Project | Benefit | FY26 | FY27 | FY28 | Total | Est Comm. Date |
|---|---|---|---|---|---|---|
| **Projects with Commissioning dates within this Price Plan period (FY26-28)** | | | | | | |
| **Auckland** | | **10.2** | **1.2** | **0.2** | **11.6** | |
| Auckland Tower - Pier A1 Mitigations | Strategic | 1.5 | - | - | 1.5 | Apr-26 |
| Main Trunk Surveillance Systems (PSR/MSSR Lifecycle)_AKL | Lifecycle | 5.2 | - | - | 5.2 | Aug-26 |
| Auckland Tower - Building Maintenance | Maintenance | 1.0 | - | - | 1.0 | Various |
| Rua Building Replacement and Comms Tower | Lifecycle | 1.4 | - | - | 1.4 | Jul-25 |
| Minor capital works | Maintenance | 1.1 | 1.2 | 0.2 | 2.5 | Various |
| **Christchurch, Wellington, and Queenstown** | | **13.0** | **14.4** | **10.0** | **37.4** | |
| Main Trunk Surveillance Systems (PSR/MSSR Lifecycle)_WN Hawkins Hill | Lifecycle | 4.5 | - | - | 4.5 | Jul-25 |
| ILS Replacement WN | Lifecycle | 2.3 | - | - | 2.3 | Sep-26 |
| Wellington Contingency Tower replacement | Lifecycle | 0.4 | 1.2 | - | 1.6 | Oct-26 |
| Southern & Auckland surveillance upgrade (MLAT QN) | Lifecycle | 0.8 | 12.4 | 9.7 | 22.9 | Dec-27 |
| Main Trunk Surveillance Systems (PSR/MSSR Lifecycle)_CHC | Lifecycle | 1.2 | - | - | 1.2 | May-25 |
| Christchurch CCR replacement | Lifecycle | 1.0 | - | - | 1.0 | Jun-26 |
| Runway Edge lights Replacement (CH) | Lifecycle | 0.9 | - | - | 0.9 | Jun-26 |
| Minor capital works | Maintenance | 1.9 | 0.8 | 0.3 | 3.0 | Various |
| **Enroute** | | **5.0** | **5.2** | **1.7** | **11.9** | |
| DVOR / DME at Tauranga | Strategic | 2.7 | 0.2 | - | 2.9 | May-26 |
| DVOR / DME at Hokitika | Strategic | 1.6 | 1.2 | - | 2.8 | Nov-26 |
| DVOR / DME at Kaitaia | Strategic | 0.1 | 1.5 | 0.2 | 1.8 | Aug-27 |
| Enhanced Contingency, Hot Standby Stability | Maintenance | - | 1.0 | - | 1.0 | May-27 |
| Minor capital works | Maintenance | 0.6 | 1.3 | 1.5 | 3.4 | Various |
| **Network and supporting assets** | | **24.6** | **19.8** | **14.5** | **58.9** | |
| National ATM System Enhancements | Lifecycle | 1.6 | 1.7 | 1.7 | 4.9 | Various |
| Oceanic Hardware Refresh | Strategic | 2.5 | 0.7 | - | 3.2 | Nov-26 |

| Project | Benefit | FY26 | FY27 | FY28 | Total | Est Comm. Date |
|---|---|---|---|---|---|---|
| Constant Current Regulators (CCR) Rollout Phase 1 | Lifecycle | 0.7 | - | - | 0.7 | Jul-25 |
| AAOC, AAQ7, ADC and ADC ext Network Lifecycle | Maintenance | 1.0 | - | - | 1.0 | Jun-26 |
| IT & SM Desktop Refresh | Lifecycle | 1.4 | 0.8 | 0.8 | 3.0 | Various |
| IT & SM Infrastructure and System Lifecycle | Lifecycle | 0.4 | 4.5 | 0.4 | 5.3 | Various |
| WAN Network Equipment Lifecycle | Lifecycle | 6.1 | 0.4 | - | 6.5 | Jan-27 |
| Replace Seagrove Mains Transformer | Lifecycle | 0.6 | - | - | 0.6 | Jun-26 |
| Aeronautical Information Management (AIM) replacement | Lifecycle | 1.3 | - | - | 1.3 | Jul-25 |
| Enterprise Network lifecycle | Lifecycle | - | 1.2 | - | 1.2 | Jun-27 |
| National Maintenance (Ongoing) | Maintenance | 0.5 | 0.5 | 0.5 | 1.5 | Various |
| Modern Data platforms | Strategic | - | 0.8 | - | 0.8 | Jul-26 |
| IPVCS OS Upgrade | Lifecycle | 0.7 | - | - | 0.7 | Jun-26 |
| Flight Inspection equipment replacement | Lifecycle | 0.3 | 0.3 | 1.6 | 2.2 | Jun-28 |
| Distribution Board Upgrade for Communication and Navigation Sites (Sites 5-8) | Lifecycle | 0.1 | 0.5 | - | 0.6 | Jun-27 |
| Distribution Board Upgrade for Communication and Navigation Sites (Sites 9-12) | Lifecycle | - | 0.5 | 0.1 | 0.6 | Jun-28 |
| Lighting works - Medium/low priority works from FY26 | Lifecycle | 0.1 | 3.2 | 4.9 | 8.2 | Various |
| Enhanced Collaborative Arrival Manager (eCAM) | Strategic | - | - | 0.8 | 0.8 | Jun-28 |
| Demo Recorder upgrade for OCs and Airground | Maintenance | - | 0.3 | 0.6 | 0.9 | Jun-28 |
| Other capex works within this category | Maintenance | 7.3 | 4.4 | 3.1 | 14.8 | Various |
| **Regional aerodromes** | | **5.2** | **4.2** | **4.0** | **13.5** | |
| Remote Aerodrome Advisory Service (RAAS) - Milford | Strategic | 0.5 | 0.5 | 0.5 | 1.5 | Sep-27 |
| Electronics Flight Strips, including Digital Clearance (DCL) | Strategic | 0.4 | 0.6 | 0.4 | 1.4 | Jul-23 |
| Regional Tower Cab Refresh | Strategic | 0.8 | 1.0 | 1.2 | 3.0 | Jul-28 |
| REIL replacement at PM, GS | Lifecycle | 0.5 | 0.5 | - | 1.0 | Dec-26 |
| Invercargill Tower – window replacement | Maintenance | 0.5 | - | - | 0.5 | Jun-26 |

| Project | Benefit | FY26 | FY27 | FY28 | Total | Est Comm. Date |
|---|---|---|---|---|---|---|
| Dunedin ILS Building power cable upgrade | Lifecycle | 0.4 | - | - | 0.4 | Jun-26 |
| Minor capital works | Maintenance | 2.1 | 1.6 | 1.9 | 5.7 | Various |
| **Unattended** | | **0.2** | **0.1** | **-** | **0.3** | |
| Whanganui Airport Beacon Replacement | Lifecycle | 0.2 | 0.1 | - | 0.3 | Dec-26 |
| **Other Capital Investments** | | **2.6** | **3.0** | **3.2** | **8.8** | |
| CALNI Unmanned Sites Security Upgrade | Maintenance | 0.6 | - | - | 0.6 | Apr-26 |
| Intl Towers MET and NAV to ATM display | Strategic | 0.4 | 0.1 | - | 0.5 | Jul-26 |
| Miscellaneous Capex – Manned buildings | Maintenance | 0.1 | 0.1 | 0.1 | 0.3 | Various |
| Miscellaneous Capex – Property | Maintenance | 0.2 | 0.2 | 0.2 | 0.6 | Various |
| Miscellaneous Capex - Phones | Maintenance | 0.2 | 0.2 | 0.2 | 0.6 | Various |
| NR Alternate VHF | Strategic | 0.1 | 0.1 | - | 0.2 | Jun-27 |
| ADC Refit | Maintenance | 0.1 | 2 | 2.1 | 4.2 | Jul-27 |
| Minor capital works | Maintenance | 0.9 | 0.3 | 0.6 | 1.8 | Various |
| **Projects with Commissioning dates outside this Price Plan period (FY29 onwards)** | | | | | | |
| **Auckland** | | **3.7** | **14.1** | **18.7** | **36.5** | |
| Auckland Tower Replacement | Strategic | 3.7 | 14.1 | 18.7 | 36.5 | Sep-28 |
| **Enroute** | | **-** | **-** | **1.5** | **1.5** | |
| Replace HF Transmitters at Wairoa | Lifecycle | - | - | 1.5 | 1.5 | May-29 |
| **Network and supporting assets** | | **3.8** | **9.7** | **9.3** | **22.8** | |
| Airspace Architecture | Strategic | 3.8 | 7.6 | 6.2 | 17.6 | Jun-29 |
| System Wide Information Management (SWIM) Delivery | Strategic | - | 2.1 | 3.1 | 5.2 | Jun-34 |
| **Regional aerodromes** | | **6.9** | **1.8** | **-** | **8.7** | |
| Voice Switch rollout for Regional Aerodromes | Lifecycle | 6.9 | 1.8 | - | 8.7 | Jul-28 |
| **Total - Projects with Commissioning dates outside Price Plan period (FY29 onwards)** | | **14.4** | **25.6** | **29.5** | **69.5** | |
| **Total - Projects with Commissioning dates within Price Plan period (FY26-28)** | | **60.8** | **47.9** | **33.6** | **142.4** | |
| **Grand Total** | | **75.2** | **73.5** | **63.1** | **211.9** | |

## B.3 Weights used to allocate approach and aerodrome-related overhead

| Aerodrome | Actual 23/24 tonnes landed |
|---|---|
| Auckland | 7,349,661 |
| Christchurch | 2,032,113 |
| Wellington | 1,415,040 |
| Queenstown | 726,854 |
| Dunedin | 231,625 |
| Nelson | 218,144 |
| Palmerston North | 160,952 |
| Napier | 153,053 |
| Tauranga | 140,120 |
| Hamilton | 100,768 |
| New Plymouth | 104,566 |
| Woodbourne | 89,929 |
| Rotorua | 65,553 |
| Invercargill | 87,223 |
| Gisborne | 64,763 |
| Paraparaumu | 14,007 |

## B.4 Components of cost of capital

The method used to estimate Airways' cost of capital has wide support in the New Zealand financial community and is the method used by the NZCC in its Input Methodologies to estimate the cost of capital for regulated businesses. The method involves estimating the cost of equity using the capital asset pricing model (CAPM) and combining that result with estimates of the cost of debt to arrive at the weighted average cost of capital (WACC). The method requires establishing values for various parameters and there is a degree of judgement required in establishing these values. The parameter values used to calculate the WACC are listed in the table below.

| Capital charge components | Proposed |
|---|---|
| Risk-free rate | 3.83% |
| Asset beta | 0.60 |
| Tax adjusted market risk premium | 7.0% |
| Debt premium | 1.10% |
| Debt issuance cost | 0.33% |
| Leverage | 46% |
| WACC range | 65th percentile |
| Calculated capital charge rate | 8.08% |

For each parameter, Airways considers the approach used in the NZCC's Input Methodologies and other approaches used in the market to derive a range for WACC. Airways calculated the 65th percentile for its cost of capital at 8.08%, using the NZCC's Input Methodology framework and its parameter estimates where available. Where the NZCC has not provided parameter estimates that are appropriate to Airways (asset beta and leverage), or the estimate is able to be updated (e.g. risk-free rate), Airways has followed the NZCC's methodology for calculating those parameters as close as practicable.

It is also worth noting that the cost-based building block method is primarily designed for use by large infrastructure providers and has some limitations for service businesses like Airways. The building blocks methodology calculates the commercial return as the asset base multiplied by the cost of capital rate. While it makes sense to link the return to shareholder with the amount invested in an entity, it does not incentivise innovation and can create inefficient investment decisions.

### B.4.1. Risk Free Rate – 3.83%

The NZCC estimates the risk-free rate as the yield on New Zealand government bonds. To avoid the influence of unusual movements in the bond market, the NZCC estimates

the rate as the average of daily yields over the three-month period preceding the start of the disclosure year.

### Rationale

The NZCC is of the view that the term of the Government bonds used to estimate the risk-free rate should match the term of the pricing period.[13] In Airways' case, the risk-free rate would therefore be based on a three-year Government bond rate. This approach is reflected in the risk-free rate estimate of 3.83% which is calculated using the NZCC's methodology with a three-year term and an estimation date of November 2024. This rate will be updated again to reflect the current market rate, prior to prices being set.

## B.4.2. Debt Premium – 1.10%

The debt premium represents the margin over the risk-free rate required by debt holders. The NZCC uses a simple historical average of the five most recent annual debt premium values for bonds of the relevant credit rating. The NZCC has most recently adopted an average debt premium for Airports of 1.10% using a five-year term.[14]

### Rationale

For airports, the NZCC estimates the debt premium as the margin over the estimated risk-free rate, for New Zealand dollar denominated bonds issued by comparison companies, putting higher weight on bonds that:[15]

A. are issued by an airport,
B. are publicly traded,
C. have a qualifying rating of grade A-, and
D. have a remaining term to maturity of five years.

The NZCC's most recent application of this method, issued on 1 August 2024 for the disclosure year ending 30 June 2025 for Auckland and Christchurch airports, resulted in an estimate of 1.10% for the debt premium.

The NZCC uses a five-year debt premium for three-year pricing periods on the basis that three years is a relatively short term to issue debt for. The NZCC is of the view that using a three-year debt premium would increase debt issuance costs and refinancing risks, neither of which would be in the long-term interest of end-users.[16]

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[13] NZCC (2023), IM Review Final Decision - Cost of Capital Topic Paper, 13 December 2023, ("2023 NZCC IM Review - CoC Topic Paper") para. 4.6.
[14] NZCC (2024), Cost of capital determination for disclosure year 2025 for information disclosure regulation – For Transpower, gas pipeline businesses and suppliers of specified airport services (with a June year-end), 1 August 2024, ("2024 NZCC Determination for Airports, Transpower, and GPBs") Table 8, p.12.
[15] NZCC (2024), Guidelines for WACC determinations under the cost of capital input methodologies – (Post 2023 IM Review and 2024 Fibre TAMRP IM amendment), 27 June 2024, ("2024 NZCC WACC Guidelines") Tables 13 and 14, pp. 24-25.
[16] NZCC (2020), Fibre Input Methodologies: Main final decisions - reasons paper, 13 October 2020, para. 6.232

## B.4.3. Tax-adjusted market-risk premium (TAMRP) – 7.0%

The tax-adjusted market-risk premium represents the premium for exposure to market risk.

### Rationale

TAMRP 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 7.0% TAMRP estimated during the NZCC's 2023 IM review (a decrease from the previous estimate of 7.5%).[17]

The NZCC's estimate is based on a range of evidence including historical returns and expected future returns and is consistent with a range of estimates made by New Zealand market participants. The NZCC used the 7.0% TAMRP in its 2024 WACC guidelines[18] and in its August 2024 determination for Auckland and Christchurch airports (disclosure year 2025).[19]

## B.4.4. Asset beta – 0.60

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 systematic risk, i.e., the degree to which the entity's returns move with the market. Asset beta measures the systematic risk of a business independent of its capital structure (i.e., leverage), whereas the equity beta accounts for a business' capital structure. For listed companies, beta can be estimated from observed returns. For unlisted companies, it is common for beta to be estimated based on the average of the betas of comparable listed companies. As Airways is not a listed company, the estimation of asset beta is therefore estimated based on the (de-levered) betas of comparable companies.

### Rationale

Airways' approach to asset beta is to consider several sources of evidence, including the asset beta of comparator providers of ANS and the beta for New Zealand airports. The asset beta of comparator providers of ANS inform a potential range for asset beta, and New Zealand airports' asset beta is used as a cross-check, which informs the selection of a point from the comparator range. AirServices Australia, NATS (NERL), AirNav Ireland and ENAV are the providers of ANS in Australia, the United Kingdom, Ireland and Italy respectively. These entities are therefore expected to be exposed to a similar

[17] 2023 NZCC IM Review - CoC Topic Paper, para. 4.335.
[18] 2024 NZCC WACC Guidelines, Table 9, p. 17.
[19] 2024 NZCC Determination for Airports, Transpower, and GPBs, Table 4, p. 6.

level of systematic risk (which beta aims to reflect) to Airways. Airways considers that these businesses are comparable for estimating asset beta.[20]

Airways also considers New Zealand airports to be a suitable comparator because they operate in a similar economic environment to Airways in terms of fluctuations in demand from shifts in domestic and international economies. In addition, their costs tend to be fixed in the short to medium term (as are Airways') and they are thereby not able to shift costs up or down quickly in response to changes in demand (thus resulting in returns being very sensitive to volumes).

Airways selected an asset beta of 0.60 in its last pricing consultation. Since then, the asset betas of comparable providers of ANS and New Zealand airports have increased by 0.05 – 0.15 points, resulting in a ANS comparator range of 0.50 – 0.70 (up from 0.45 – 0.60 in the last pricing consultation).

| Estimate Type | Name | Estimated Range | Point Estimate | Previous Point Estimate | Change |
|---|---|---|---|---|---|
| Regulatory Decision | NZ Airports[21] | 0.65 – 0.71 | 0.67 | 0.60 | ↑ 0.07 |
| | NATS[22] | 0.52 – 0.70 | 0.61 | 0.55 | ↑ 0.06 |
| | AirNav[23] | 0.50 – 0.60 | 0.55 | 0.50 | ↑ 0.05 |
| Firm Decision | AirServices AUS[24] | 0.70 | 0.70 | 0.55 | ↑ 0.15 |
| Market Data | ENAV[25] | 0.64 – 0.66 | 0.65 | 0.50 | ↑ 0.15 |

The increase in airport and ANS asset betas is in large part due to COVID-19. Both the UK CAA who regulates NATS and the NZCC considered COVID-19 to be, at least in part, a systematic event that provided new information on the relative risk of investing in

[20] As AirServices, NATS (NERL) and AirNav Ireland are not listed, their asset betas used in pricing are set by regulators, generally using a reference group of comparable listed companies. ENAV is listed so asset beta can be calculated.
[21] The NZCC estimated an asset beta of 0.67 for New Zealand airports in 2023 and used 0.67 in its August 2024 determination for Auckland and Christchurch airports. 2023 NZCC IM Review - CoC Topic Paper, Table 4.4, p. 145; 2024 NZCC Determination for Airports, Transpower, and GPBs, Table 4, p. 6.
[22] CAA (2023), Economic Regulation of NATS (En Route) plc: Final Decision for the NR23 (2023 to 2027) price control review, October 2023, ("2023 CAA Economic Regulation of NATS") Table 5.8, p. 138. An asset beta range of 0.52-0.70 was estimated for NATS (NERL) with a point estimate of 0.61.
[23] IAA (2024), Final Decision on RP4 draft Performance Plan for Air Navigation Services Charging and Performance in Ireland, ("2024 IAA Decision for AirNav Ireland") 1 October 2024, pp. 44-48, 54.
[24] AirServices Australia's asset beta for its 2024 price notification was selected by AirServices rather than the ACCC. The ACCC did not object to Airservices proposal, though they noted WACC does not currently have a large impact on prices (hence did not perform a comprehensive review). The ACCC has stated it will pay close attention to WACC parameters at the next notification, when capex will be higher and WACC therefore more material. Air Services asset beta was previously set at 0.55 in 2011. ACCC (2024), ACCC decision on Airservices Australia's 2024 price notification, October 2024, p. 14; ACCC (2024), Preliminary View on Airservices Australia's Draft Price Notification, August 2024, Table 16, p. 59; ACCC (2011), Airservices Australia price notification: Final decision, September 2011, p.29.
[25] Since ENAV is listed, its beta can be estimated used market data. UK CAA's consultant Flint Global estimated an asset beta for ENAV during its beta estimation for NATS. Flint (2023), "Support to the Civil Aviation Authority: NR23 Updated Beta Assessment, April 2023, Table 4, p. 23.

airports.[26] Hence, both regulators applied a "COVID-19 uplift" of 0.02 – 0.08 on top of their baseline asset betas to reflect the extent to which COVID-19 had a systematic effect on asset beta, and the likelihood that a similar event could happen in the near future.[27] IAA who regulates AirNav Ireland also followed a similar approach by using AirNav's RP3 beta (previous beta) as a baseline, and then providing an uplift of 0.05 to reflect the general increase in its comparator group's asset betas since the pandemic.[28]

Airways agrees with the regulators that COVID-19 increased the systematic risk of New Zealand airports and ANS. Hence, in Airways view, increasing its asset beta would be justifiable. However, to limit further price increases, Airways considers it warranted to be conservative and maintain an asset beta of 0.60 for its upcoming pricing reset. 0.60 lies in the middle of the ANS comparator range of 0.50 – 0.70 and is close to the asset beta for New Zealand airports set by the NZCC.

### B.4.5. Debt issuance costs – 0.33%

The debt issuance costs are intended to reflect the cost of issuing publicly traded bonds. Airways uses the NZCC's most recent estimate of debt issuance costs for a three-year term as its input.

#### Rationale

The NZCC sets out the debt issuance costs for regulatory periods of three to five years of length in its 2024 WACC determination guidelines.[29] The NZCC estimated debt issuance costs of 0.33% for a three-year term. This compares to the five-year figure of 0.20%. The three-year debt issuance costs were estimated by pro rating the five-year figure for three years.[30] This reflects the fact that debt issuance costs would be relatively higher as a proportion of total annual debt costs over a shorter pricing period.

Airways has therefore adopted a 0.33% debt premium to reflect Airways' three-year pricing period.

### B.4.6. Leverage – 46%

The leverage input adjusts for the mix of a company's funding between debt and equity.

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[26] 2023 NZCC IM Review - CoC Topic Paper, paras. 4.87, 4.97
[27] The NZCC calculated its baseline asset beta as the "pre-Covid asset beta" for its comparator sample of airports. UK CAA's consultant Flint Global considered both pre- and post-Covid data when calculating NERL's baseline asset beta. The NZCC and the UK CAA calculated their Covid-19 uplifts based on the methodology Flint Global used to estimate asset beta for NATS and Heathrow airport. 2023 NZCC IM Review - CoC Topic Paper, pp. 144-145; 2023 CAA Economic Regulation of NATS, p. 129; 2023 Flint Updated Beta Assessment.
[28] 2024 IAA Decision for AirNav Ireland, para. 5.52
[29] 2024 NZCC WACC Guidelines, Table 9, p. 17.
[30] 2023 NZCC IM Review - CoC Topic Paper, Table 3.3, p. 72.

**Rationale**

The adoption of a leverage estimate of 46% is based on Airways' medium-term targeted leverage for its statutory business. The leverage ratio of 46% reflects the true cost of capital for Airways.

The NZCC's input methodologies specify an explicit leverage level for each of the industry sectors to which they apply. These leverage levels were derived from the same company dataset that was used to derive asset beta. The leverage level for New Zealand airports (for the purpose of calculating WACC) is set at 23%.[31] The NZCC has not calculated a leverage dataset for the ANSP sector.

The leverage levels for AirServices Australia and NATS (NERL), whom Airways considers to be its closest comparators, are 74.3%[32] and 41.9%[33] respectively, and ENAV has leverage of 51.4%.[34] Airways does not consider AirNav Ireland to be relevant for the purposes of determining leverage since it has none or minimal leverage.[35]

Airways considers its target leverage level is the appropriate value to use when estimating its WACC and has therefore used 46% in its WACC estimate. This target level is comparable with Airways' industry peers, NATS, AirServices Australia, and ENAV, and is consistent with the leverage Airways set in its previous pricing decision.

### 8.4.1 Percentile – 65th percentile

Since the cost of debt and equity are both subject to uncertainty and mis-estimation risk, there is a risk that the final calculated WACC may not equal the 'true' cost of capital. The NZCC recognises that in some industries the effects of this risk can be asymmetrical i.e., the potential cost of underinvestment from underestimating WACC can outweigh the harm to consumers from overestimating WACC. This is the case for electricity distribution businesses (EDBs) and Transpower since underinvestment could lead to more frequent and longer outages which bring significant harm to consumers and the economy. Hence, the NZCC sets allowed WACC at the 65th percentile for EDBs and Transpower when setting prices.[36]

In Airways view, ANS services also face this asymmetrical risk. Therefore, Airways sets WACC at the 65th percentile to allow a margin on its point estimate.

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[31] 2024 NZCC WACC Guidelines, Table 9, p. 17.
[32] AirServices leverage of 74.3% (is based on an average from its FY2024 forecast (66%) and FY25-29 planned). AirServices, Corporate Plan 2024-2025, Table 2, p. 29.
[33] NATS's actual leverage was 41.9% as of 31 March 2024, down from 52.3% in 2023. The CAA has set NATS a monitoring threshold for gearing of 60% and a gearing cap of 65%. NATS, Annual Report and Accounts 2024, 31 March 2024, p. 131.
[34] Calculated as total liabilities / total shareholder's equity and liabilities. ENAV Group (2024), Consolidated Interim Financial Report at 30 June 2024, p. 35.
[35] AirNav Ireland currently has no debt and does not expect this to change for the foreseeable future. However, the IAA applied a 50% gearing assumption for AirNav Ireland for RP4 based on its view that 50% is the optimal level. 2024 IAA Decision for AirNav Ireland, pp. 40-41.
[36] 2024 NZCC WACC Guidelines, p. 15. See section 6 of the 2023 NZCC IM Review - CoC Topic Paper for the NZCC's full reasoning for selecting the 65$^{th}$ percentile for EDBs and Transpower.

## Rationale

Unlike for electricity business, the NZCC only publishes a mid-point WACC estimate for airports.[37] This is largely because the NZCC considers the risk of underinvestment from underestimation of WACC for airports is lower than for energy businesses.[38]

Although the business of Airways is strongly linked to airports, it is considered 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 and the potential for 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 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.

There are also fewer factors that mitigate the risk of underinvestment in comparison to airports. Complementary commercial activities for airports potentially create an incentive for investment even if the WACC is set lower than the true cost of capital.

The 65th percentile adopted by Airways is the same percentile the NZCC applies to electricity businesses and is a decrease from the 67th percentile used by Airways in its previous pricing decision. The NZCC lowered the percentile for electricity businesses from the 67th to the 65th percentile during its 2023 IM review since the Commission considered that its regime had:

A. improved incentives to invest through a quality incentive scheme for EDBs;

a. decreased the likelihood that businesses will underinvest by taking action against regulated suppliers breaching quality standards; and

B. decreased the chance underinvestment will go undetected by being better informed.

Since the NZCC's justification for the drop does not apply to Airways, Airways considers that decreasing its WACC percentile to 65th is conservative.

[37] The NZCC used mid-point WACC as the reference point during its most recent reviews of Auckland and Christchurch airports' pricing decisions. 2024 NZCC Determination for Airports, Transpower, and GPBs; NZCC, Review of Auckland Airport's 2022-2027 Price Setting Event – Consultation Paper, 17 July 2024, pp. 20-21 ; NZCC Review of Christchurch Airport's 2022-2027 Price Setting Event - Final report, 25 January 2024, pp. 25-26

[38] NZCC (2016), Input Methodologies Review Decisions - Topic paper 6: WACC percentile for airports, 20 December 2016, pp. 35-36.

# Appendix C: Independent review of pricing

In response to previous customer concerns around potential cross-subsidisation between our domestic and international businesses, Airways has engaged PwC to conduct an independent review. This review aims to provide assurance that our pricing methodology does not involve cross-subsidisation, ensuring transparency and fairness in our pricing approach.

To determine the target revenue required to deliver services outlined in the Service Framework, Airways has developed a budget that forecasts operational costs for the upcoming three-year period. Airways engaged PwC to assess whether our controls were operating effectively during the calculation of prices to confirm that the:

a) Budgets used to calculate prices only include costs that relate to the provision of services set out in the Service Framework, costs relating to the international businesses are excluded.

b) Total revenue has been allocated by service and location in accordance with the Pricing Framework.

PwC's report found that Airways' controls throughout the price-setting process for the 2026-2028 pricing period were suitably designed to achieve the control objectives and were operating effectively throughout with no exceptions noted.

In completing the pricing process Airways has intentionally deviated from the Pricing Framework in the following instances:

- No business overheads have been applied to the Milford aerodrome because it operates as a satellite to the Queenstown aerodrome.
- No company-wide overheads have been allocated to the unattended approach service in recognition of the fact there are no direct labour costs involved in the provision of these services. Therefore, the allocation of overheads would not be a true reflection of the underlying cost of providing the unattended services.

Although PwC's report was prepared solely for Airways' directors, PwC has agreed that you can request a copy of the report. It will be provided on the understanding that you, in relying on the report, accept that PwC does not accept or assume a duty of care to you with respect to the report.