



Airways NZ Proposed Pricing

VIRGIN AUSTRALIA SUBMISSION

VIRGIN AUSTRALIA SUBMISSION TO AIRWAYS NEW ZEALAND PROPOSED PRICING FOR THE 2022 – 2025 PERIOD

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Introduction and Overview

Virgin Australia (VA) welcomes the opportunity to respond to the Airways NZ consultation document, *“Proposed Pricing for the 2022 – 2025 Period”* (Proposal) published on 1 April 2022. This document serves as the VA response to this proposal.

Generally, VA is supportive of the initiatives described in the proposal. However, the price increases for the 2023-2025 Financial Years (FY) appears excessive. It is highlighted many times in the proposal that Airways NZ is cognisant of the impact COVID-19 has had and continues to have on the aviation industry, while supporting recovery. A 16.9% price increase for the next three FYs is not enabling airline operators to recover as well as they can. VA is emerging from the pandemic as a very different airline than it was previously. While we are cognisant of the financial position Airways NZ has been in resulting from the significant decrease in air traffic, VA requests that the price increases are reduced, with additional government funding, to allow operators more ability to recover financially.

This document responds to each of the feedback questions contained in the Airways NZ proposal.

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SECTION: OPERATING COSTS

Q1: Do you agree that Airways' forecast of base operating costs is appropriate in light of the objective of maintaining safe and efficient services?

VA welcomes all initiatives to maintain and improve safety and efficiency for our operations. To ensure that the aviation industry recovers in the most appropriate way, it is preferable that operating costs are spread and absorbed more evenly during the next three years rather than on-charging these immediate costs in FY23.

We acknowledge the operationalisation of IL4 buildings in Auckland and Christchurch in FY23, however with the financial support provided by the NZ Government of \$45.3m, these funds could dramatically reduce the 8% price increase for FY23.

Similar to the feedback provided by the International Air Transport Association (IATA), VA welcomes further clarification on:

- What is the ATC resourcing plan to support projects and are these resources paid the ATC salary level?
- Are project resources internally or externally sourced?
- Further detail on the breakdown of operational costs of staff allocated to project work.
- FTE counts once the new operational facilities are commissioned and plans once ghosting activities are completed.
- Will ATC salaries be reduced through replacement of the ageing workforce by recruits on lower pay bands?

Q2: Recognising that the inflation inputs will be updated with current information at the time of setting final prices, do you agree with Airways' inflationary inputs?

It is VA's preference that Airways NZ confirms an inflationary model before we provide feedback. Further clarification is also requested in relation to assumptions made about salary increases as part of the collective agreement negotiation process.

VA also agrees with Airways NZ that the NZIER's Primary producers Index (PPI) is appropriate for general cost increases.

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Q3: Recognising that the capital charge inputs will be updated with current information at the time of setting final prices, do you agree with Airways' capital charge calculation?

Before agreeing with Airways NZ capital charge calculations, VA makes the following feedback:

- Noting that the risk-free rate will be updated and confirmed before a pricing decision is made, how has Airways NZ determined the three-year risk-free rate of 1.96%? This percentage is a quarter of a percent higher than current and how will this affect the final capital charge rate?
- As Airways NZ is a monopoly organisation, it is VA's recommendation that Airways NZ adopt an efficient gearing set by looking at other comparators to mitigate against Airways NZ facing an unintended but consequential risk of being incentivised to increase gearing.
- The capital charge proposed rate is 7.01%, however the final rate should be based on decisions for current variables in the NZ market.

SECTION: PROPOSED CAPITAL PLAN

Q4: Do you agree that Airways' investment programme is appropriate to enhance safety and system resilience, while transitioning to digital services over time?

VA recognises that ongoing investment in systems and services is essential in delivering and improving air navigation services. While we welcome investment in infrastructure and technology, VA has the following feedback on Airways NZ proposed capital plan:

- We welcome the change in treating Works in Progress (WiP) and not charging customers until these assets are operationalised, however we would like to see how this change will impact the Airways NZ cost-base.
- Replacing Auckland Tower is a very costly and long project. Recognising the global shift to embracing digital technologies in aviation, VA would prefer that investment is made in either extending the life of the current tower and that Airways NZ explores the opportunity to introduce a digital tower service at Auckland, based on experiences from other Air Navigation Service Providers (ANSPs).
 - The investment in a digital tower solution at Auckland would significantly reduce the cost of building a new bricks and mortar tower and provide greater long-term and future-proofed benefits to the aviation industry.

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- In doing so, the reduced proposed costs for the replacement can result in reducing the price increase for customers.
- With such heavy investment in radar replacements, VA recommends to Airways NZ that investment in satellite surveillance technologies is preferred as radar is old technology. The ADS-B mandate in NZ demonstrates how progressive NZ aviation is and shifting towards satellite ADS-B surveillance is aligned with the global direction.
- Drone management technologies should be invested by the regulator and paid for by UAS users, rather than costs being passed on to RPT customers.

SECTION: ASSUMED INDUSTRY RECOVERY

Q5: Do you consider the position taken for domestic recovery is reasonable? Are there other material factors that should be taken into account that may influence the domestic volume forecast?

As an international customer, VA has no comment on Airways NZ forecast on domestic aviation forecast recovery.

Q6: Do you consider the position taken for Trans-Tasman recovery is reasonable? Are there other material factors that should be taken into account that may influence the Trans-Tasman volume forecast?

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Q7: Do you consider the position taken for international recovery is reasonable? Are there other material factors that should be taken into account that may influence the other international volume forecast?

Airways NZ assumptions and forecast for international recovery is in-line with similar global positions. However, given the ongoing uncertainty for international travel, VA requests a further review of international demand in late 2022.

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SECTION: PROPOSED PRICES FOR FY23-FY25

Q8: Do you agree the Airways' proposed increase is necessary and appropriate to maintain safe and efficient services at lower volume levels?

Recovery of aviation globally is expected to take a considerable amount of time and ongoing support and funding from government is essential to ensure this critical industry recovers as best as possible. By increasing prices for services to Airways NZ customers dampens recovery efforts, which can result in a slower positive outcome.

To support aviation growth, Airways NZ should consider reducing the price increase to allow for greater uptake in the NZ market from airlines. It is VA's strong recommendation that the price increase is reviewed to support airline customers to recover.

Q9: Recognising that the inflation inputs will be updated with current information at the time of setting final prices, do you agree with the inflationary inputs used to uplift GA prices?

VA has no feedback on the inputs used to uplift GA prices.

Q10: Do you agree with the proposed changes to Milford prices?

VA has no feedback on the proposed changes to Milford prices.

SECTION: SCORECARD

Q11: Would you find it useful to receive the Scorecard metrics in Appendix 3?

The information to be provided in the proposed scorecard is welcomed and VA is supportive.

GENERAL FEEDBACK

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