

Airways' Proposed Pricing Consultation

Submission Template

To assist with making submissions, this template lists the feedback questions set out in Airways' Proposed Pricing for the 2022 - 2025 Period Consultation Document, April 2022. You are welcome to comment on other topics relating to the proposed pricing should you wish to.

Once you've read the Consultation Document, you can download this template, open in Microsoft Word and type directly into the spaces provided. Primary submissions are to be emailed to submissions@airways.co.nz by 29 April 2022. The same template can be used for cross-submissions if it's helpful. Any cross-submissions are to be sent to the same email address by 13 May 2022.

Important note for submitters

Please note that we will publish all submissions on our website. This is an important step as it allows us to run a transparent consultation process and enables others to consider whether they wish to make cross-submissions. However, if you wish to provide Airways with confidential information in a submission, you must supply both confidential and public versions of your submissions. The public version will be the one published on our website. The responsibility for ensuring that confidential information is not included in a public version of a submission rests with the submitter.

Your details

Name	Britt Becroft
Organisation (if applicable)	Qantas Airways Ltd (on behalf of the Qantas Group)
Email	Brittwalters@qantas.com.au
Phone	0427654908
Address	10 Bourke Road Mascot NSW 2020

Consultation feedback questions

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?

Feedback:

Qantas supports maintaining a safe and efficient air navigation service. However, the operating cost information provided in the Airways consultation document is high level and insufficient to make a detailed response. Qantas is disappointed that Airways did not agree to our request to meet and discuss the proposal in more detail.

Examples of the types of information that are required in order to make a more informed response are:

- (a) Baseline FTEs numbers, allocation and expectation changes over the pricing period;
- (b) Salary levels and expected changes over the pricing period;
- (c) Breakdown of 'other costs' and expected changes over the pricing period.

Qantas supports a more robust consultation process where a granular 'building block' model is shared with a more appropriate period (3-6 months) allowed for analysis and discussion of the information presented.

It would also be appropriate to align the consultation timing to when key cost inputs such as the collective wage agreements are known.

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?

Feedback:

It is not possible for Qantas to comment on inputs that are still to be provided. It would be more appropriate to align the consultation timing to when all inputs are available, which would allow us to fully understand the proposed pricing impact.

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

Feedback:

Qantas' view is that the proposed capital charge is overstated due to the inconsistent application of the leverage value and asset beta.

We understand that Airways proposes to adopt a capital charge using the New Zealand Commerce Commission's input methodology for Airports. However, Airways is proposing to adopt the determined asset beta for Airports of 0.6 but not the determined leverage value for Airports of 19%. Qantas disagrees with this inconsistency and objects to the proposed leverage value of 57%.

Qantas considers the uplifting of Airways' WACC to the 67th percentile is overly generous given Airways status as a state-owned enterprise and the proposed risk sharing provisions. Qantas suggests the 50th percentile be applied.

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?

Feedback:

The Qantas Group appreciates Airways' focus on safety and system resilience and the focus on progressing aviation support structures to take advantage of technological advances. With that in mind, our comments are as follows:

Auckland Tower We request a delay to expenditure on the new Auckland Tower until more clarity and direction is provided regarding the future state of the tower. Given the aim to provide digital services over time, Qantas would like to understand if this tower will be digital or conventional. Given the significant cost of the tower replacement and the recent downturn in the aviation industry, a clear plan for the proposed tower is crucial.

Primary and Secondary radar replacement As the other significant cost in the capital plan, Qantas requests that Airways focus on modern surveillance technology such as ADS-B. Qantas acknowledges that system resilience is important, however we consider that Airways must rationalise and minimise costs to support Primary and Secondary radar wherever possible.

DVORS/DME's Qantas does not support installation of new ground based navigational aids. With industry moves to GNSS operations, Qantas recommends that Airways focus on improved GNSS services where possible.

National operations More information and detail is required on the Aeronautical Information System project required on aircraft flight decks and for air traffic control to provide meaningful feedback.

Airspace Optimisation We welcome efficiencies in sectorisation, specifically to support resource availability. However, more information and detail is required on the sectorisation changes to provide meaningful input.

Drone Management Qantas reiterates the BARNZ position regarding drone management and acknowledges that while there is a need to safely manage drones within airspace, these costs should not be borne by airlines. A user-pays approach should be taken, and the \$6.3m spend should be borne by UAV users, not commercial airlines.

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?

Feedback:

Qantas considers that Airways' current forecast for domestic recovery is appropriate and consistent with our assumptions on industry 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?

Feedback:

Qantas considers that Airways' current forecast for Trans-Tasman recovery is consistent with our assumptions on industry recovery.

Qantas recommends a reforecast of traffic volume in December 2022 to reassess pricing. This additional risk sharing mechanism should lower Airways WACC percentile.

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

Feedback:

Qantas considers that Airways' current forecast for International recovery is conservative. Our analysis of industry schedule data suggests that Airways recovery profile should be advanced by at least 6 months (i.e. Airways forecasted 50-60% of pre-COVID levels in June 2023 to advance to December 2022).

Qantas supports a reforecast of traffic volume in December 2022 to reassess pricing. This additional risk sharing mechanism should lower Airways WACC percentile.

Section: Proposed prices for FY23-FY25

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

Feedback:

The proposed pricing increases from Airways could not come at a more challenging time for the aviation industry, as the industry commences its recovery from the impacts of COVID-19. An 8% price increase in FY23 and 16.9% over the three-year period will significantly dampen the recovery of the industry in New Zealand. Airways' proposed pricing increases are one of many price increases in the NZ market, further adding to the recovery challenges faced by the aviation sector. Jetstar's domestic low-cost model will be particularly sensitive to these increases.

Qantas supports IATA's call for further Government support through a reduction in current charges to help stimulate flight volumes. Qantas recommends a smoother price path that reduces the first year impact if Airways raises its prices.

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?

Feedback:

N/A

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

Feedback:

N/A

Section: Scorecard

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

Feedback: Yes.

You are also welcome to provide feedback on other topics relating to the proposed pricing.

Feedback:

Qantas considers the current consultation process insufficient in terms of the period of consultation and the lack of detail available for review. A more robust engagement process should be undertaken once all cost inputs are known. This consultation process should include the provision of a detailed building block model and information sessions to discuss the proposal. This process could run over the next 6 months to allow a new agreement to commence from 1 January 2023 in line with when the recovery profile of traffic should be better understood.