

Submission in response to Airways Corporation NZ – Review of Pricing Framework & Standard Terms and Conditions, Consultation Paper

1 December 2021

This document sets out the BARNZ response on behalf of our 26 airline members to the Airways consultation paper “Airways Corporation New Zealand – Review of Pricing Framework & Standard Terms and Conditions” issued 3 November 2021. We note that some of our members may also provide their own submissions directly to Airways.

Overall summary response

BARNZ thanks Airways for providing the opportunity to respond to the proposed changes to the pricing framework. Undertaking this review takes on even more significance than usual at a time when the global aviation sector has suffered the extreme downturn caused by the COVID-19 pandemic. Airways and airline customers will need to work more closely together than ever to understand the specific challenges faced and assist each other’s recovery.

We provide specific responses to the questions raised below, but overall BARNZ supports the approaches outlined in the consultation document. In particular we support the efforts outlined to incentivise cost reduction and improve risk sharing, which are constructive approaches which will aid recovery. We note that without understanding the specific impacts to the price book it is difficult to give a full endorsement, and with that caveat we support the proposed changes on the basis outlined below.

Question 1: What are your views on the proposed change to treatment of works-in-progress? Are there any concerns if Airways was to implement this change?

BARNZ supports the proposed changes to the treatment of works-in-progress (WIP). This is something that we have advocated for for some time, so we are pleased to see it proposed, and thank Airways for this positive change. Airlines want to pay when they receive services, not before, and this treatment of assets entering the price book when commissioned achieves that. It also brings the asset treatment approach into line with the Commerce Commission building block revenue methodology.

Inevitably there will be specific detail to be worked through with the specific calculation of the weighed average cost of capital (WACC). BARNZ is interested in ensuring that the inputs and WACC treatment are appropriate, and that any comparable basket of service providers are also appropriate. There is also the question of how assets commissioned part-way through a financial year are treated. We will seek confirmation of these more detailed questions during the pricing round.

Question 2: Airways invites your feedback on any aspects of this consultation paper, the Pricing Framework or the Standard Terms and Conditions.

BARNZ provides the following feedback on items raised in the consultation paper. These are listed in the order that they appear in the document.

3. Pricing Principles – Airways Objectives

BARNZ supports the outlined pricing principles. We would like to see an objective added – “to assist the recovery of the aviation sector”. This objective we hope would only be needed for a limited duration.

The consultation paper makes reference to exploring ways to better meet the objectives and principles of the Pricing Framework, summarised in paragraphs 2.2 and 2.4 (which incidentally appear to have been removed). One way to improve pricing for commercial airlines would be to remove the subsidisation to general aviation that occurs through pricing. Previously surplus revenue from airlines was used to fund general aviation. With airline balance sheets in tatters this subsidisation cannot continue as previously. We would welcome a discussion on this with Airways.

4.1 Within cycle review

BARNZ understands the desire for a mechanism to trigger a pricing framework review in the event of any material unforeseen events occurring. We think that there is a useful discussion to be had exploring what the guard-rails may be for both airline customers and Airways on any risk sharing arrangements, particularly in *force-majeure* situations. The current pandemic response presents a golden opportunity to jointly reflect on and take away learnings from.

4.2 Price Reset

BARNZ continues to support the price reset mechanism as outlined.

5.3.1 Incentives to Reduce Cost

BARNZ supports the outlined cost-reduction share model. The proposed approach encourages cost-reduction initiatives and provides incentive to Airways by rewarding cost-out efforts. It will also encourage the specific measuring of savings for cost-out initiatives. BARNZ would like to discuss if this approach applies to opex cost reduction exercises, or also to capex investments that will deliver cost savings. For the latter we would like to have more detailed discussion during the business casing of an initiative with Airways, given it will already be making a return on the asset.

5.3.2 – Incentives to Enhance Services

BARNZ supports the proposal to use score cards to track performance measures important to customers. In particular, benefits realisation of invested capital is sought. There have been some recent efficiency driving initiatives where the actual savings delivered have not been clear.