

15 March 2019

Airways' Pricing Consultation
Airways Corporation of New Zealand
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Submission on Airways' Proposed Pricing for the 2019-2022 Period

1. Thank you for the opportunity to provide comment and feedback on the proposals contained in the Consultation Document published for consultation between 29 January and 15 March 2019. The opportunity to attend Airways' briefing roadshow was appreciated.
2. This submission is from NZ Airports and is made on behalf of the Association's members¹. It should be read in conjunction with any separate submissions that may be provided by individual airports.
3. NZ Airports will be pleased to provide any further information required in support of this submission. The contact person is:

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Drivers of the revenue and price increase

4. We note that prices are effectively proposed to increase by 18.9% over the 3-year pricing period – an average increase of 6.3% per year and well above the projections for inflationary adjustments.²
5. This is an extraordinarily large increase that warrants further attention. An increase of this scale becomes a further burden on the overall cost of aircraft turnaround at airports. Total turn-around costs - a combination of airport recoveries plus third-party costs including Airways prices – are a factor in the competitiveness and sustainability of destinations.
6. A recent study undertaken for NZ Airports shows that domestic airport turnaround costs for a Q300 typically include a third party (non-airport) component of 44% and for an A320 typically 37% of the turnaround cost. Airports therefore have a legitimate concern for the impact of this level of increase on their customers and regions.

¹ Ardmore Airport, Auckland International Airport, Chatham Islands Airport, Christchurch International Airport, Dunedin International Airport, Gisborne Airport, Hamilton Airport, Hawke's Bay Airport, Invercargill Airport, Kapiti Coast Airport, Kaitiaki Airport, Kerikeri Airport, Marlborough Airport, Masterton Airport, Matamata Airport, Motueka Airport, Nelson Airport, New Plymouth Airport, Palmerston North Airport, Queenstown Airport, Rangiora Airport, Rotorua Airport, Takaka Airport, Taupo Airport, Tauranga Airport, Timaru Airport, Wairoa Airport, Wanaka Airport, Wanganui Airport, Wellington International Airport, West Auckland Airport, Westport Airport, Whakatane Airport, Whangarei Airport

² NZIER inflation assumptions in Figure 21, p27 are generally less than 3%pa over the pricing period

7. Technology improvements, efficiency gains and volume growth should combine to contain price increases more than is shown in the Consultation Document. While increases in levels of service and resilience are explained, we are concerned that initiatives that should result in reductions in operating costs appear to be cited as the reason for increased costs, and consequently the need for additional revenue. For example:
 - the commentary on “volume-driven costs” (on p.26) focuses on the need for additional resource to safely manage increased activity but appears to ignore the additional revenue that will arise from this activity
 - “cloud-based software costs” (p. 26) which increase despite avoiding the need to replace \$2.7m in replacement servers, and
 - the introduction of digital towers, which should provide efficiency gains and overall reduction in capital investment requirements, once an initial dual-operation assessment period is completed.
8. NZ Airports supports the digital tower initiative and other proposals to keep abreast of technology advances that should result in multiple areas of benefits, but questions why future cost containment, at least in principle, cannot be signalled now, to provide some balance to the very significant short-term price increases.

Future aerodrome services

9. NZ Airports applauds Airways' moves to work with stakeholders to determine how 'fit-for-purpose' services will increase regional connectivity and/or reduce costs. However, the suggestion³ of planning for future aerodrome services at regional locations as part of pricing consultation in 2022 is not acceptable.
10. Opportunities to adopt 'fit-for-purpose' services (whether air traffic management services or navigation aid technologies) should be worked on with urgency and adopted as early as possible without being hobbled by pricing rounds. The established vehicle for aerodrome services definition is the national template agreement for aerodrome services negotiated with NZ Airports, which is then tailored to local requirements in the form of aerodrome operator service agreements. In most cases sensible fit-for-purpose solutions should result in cost savings which would then be factored into 3-year pricing decisions.
11. Planning for future aerodrome services should take place in a considered manner in advance of pricing consultations.

Responding to Unmanned Aircraft (UAV)

12. NZ Airports accepts that the aviation sector needs to respond to the new UAV technology, and supports the Government strategic goal of safely integrating UAV with traditional aviation activity.
13. Airways is logically a key player in responding to the advent of UAVs, together with the CAA addressing regulatory implications, however the cost of managing UAV traffic (monitoring compliance, servicing the UAV operations, and detection and servicing enforcement⁴) should not fall as a cost to be recovered from traditional aviation activity alone.
14. The cost of integrating UAVs in airspace (\$7.5m over the next 3 years) needs to be addressed in an equitable way that transparently identifies how the cost-exacerbators and beneficiaries

³ Page 9 of the Consultation Document.

⁴ Page 14 of the Consultation Document.

of Airways' investment have been identified, the allocation of financial responsibility, and efficient cost-recovery mechanisms.

15. Airports also have roles in managing UAVs around airports under the current rules, and we are equally concerned that a considered and transparent approach has yet to be developed for ensuring the burden of costs does not fall on traditional aviation activity by default.

Other initiatives

16. The CAA rules have introduced a requirement for providing real-time runway condition reporting at certificated airports. Airways will have a role in disseminating this information to aircraft through national aviation communications systems that are managed by Airways.
17. While real-time runway condition reporting has been described as a safety enhancement, the primary beneficiaries of the reporting will be the operators of jet (and potentially turbo-prop) aircraft providing scheduled passenger services.
18. NZ Airports will be raising this issue with Airways during the coming renewal round of aerodrome operator service agreements with Airways.
19. Figure 11 on page 15 of the Consultation Document does not seem to identify an Airways role. NZ Airports submits that Airways should anticipate a role that is then included in the current pricing round.

Business transformation

20. We welcome the proposals for increasing safety, controller productivity, enhanced resilience, and flexible labour⁵.
21. However, during this past year there have been unprecedented and unacceptable lapses in Airways' air traffic management (aerodrome and approach services) at Hawke's Bay Airport in particular. While there has been dialogue with both the aerodrome operator and NZ Airports to explain and plan resolution of the problems, it is alarming that this lack of resilience exists at an airport level.
22. The cost of disruption impacting on the traveling public, the airline operators, and the aerodrome operator during extended periods when "contingency" operations (significant limitations on flight activity at the airport) prevail cannot be over-estimated.
23. It has been alarming to NZ Airports that none of Airways' reported performance indicators have properly disclosed this failure in service⁶. Regrettably the proposed revised scorecard measures for "ATC availability" proposed in the Consultation Document⁷ continue to refer to a 12-month rolling average, calculated across all airports in New Zealand.
24. We have no objection to the use of a rolling/moving average as a means of highlighting overall trends, but this measure has not disclosed the true picture of failure to deliver services that has actually occurred. While in part this can (and will) be addressed through the key performance indicators incorporated in service agreements between individual airports and Airways as they are renewed, NZ Airports submits that national public reporting (and formal accountability reporting) of Airways service performance needs to be more meaningful and

⁵ Figure 12 on page 16 of the Consultation Document.

⁶ Refer historic service performance report in Figure 17 on page 20 of the Discussion Document. The 99.87% for regional air traffic management in "FY 19 YTD" gives no hint of the level of service failure that has occurred.

⁷ Figure 27 on page 36 of the Consultation Document.

timely in disclosing performance.

25. To that end the following are suggested as additional scorecard metrics –
 - (i) The maximum aggregate period of time at any controlled airport in a reporting period where normal ATC was not available and a contingency service or no service prevailed; and
 - (ii) The aggregated period of time across all controlled airports in a reporting period where normal ATC was not available and a contingency service or no service prevailed.
26. The proposed Scorecard performance measures in Figure 27 on page 36 also include 'Monthly inflight delay (minutes)' and 'Average delay per flight (seconds)' for Auckland, Wellington, Christchurch and Queenstown on a 12-month rolling average basis. NZ Airports requests that the same metrics be added for the regional airports (collectively) where Air Traffic Control services are provided.
27. NZ Airports supports the one-centre-two-locations model outlined for the main centres, and the move towards more broad-based skillset capabilities rather than geographic sector-specific air traffic control resourcing.
28. We also support Airways involvement in the project to provide for a contingent runway (using taxiway Alpha) at Auckland Airport, in advance of the planned new northern runway. We acknowledge the need for risk management given the role of the single runway in domestic and international air connectivity.

Rationalising of ground based navigation aids

29. Airways is making progress on a well-signalled programme of rationalising ground based navigation aids across New Zealand based on assumptions that resulted, some years ago, in the current work programme.
30. We understand a further number of NDBs are due to be removed under that programme in the coming year.
31. We also understand that the rules for aircraft operating using GNSS have yet to be finalised, and current CAA policy appears to be requiring IFR aircraft to operate with a technical alternate in the event of failure of the GNSS navigation. A number of smaller aircraft, and helicopter operators in particular, with limited range and servicing remote regions of New Zealand potentially face not being able to conduct operations under GNSS that they currently routinely undertake with the support of ground based navigation aids, and NDB in particular.
32. We are concerned that regional airports and communities in New Zealand not lose the levels of service that they currently enjoy – for not only economic reasons but also in the interests of New Zealand's security, well-being and resilience.
33. We believe the current evolving situation would not have been anticipated in Airways' assumptions leading up to the decisions to remove NDBs.
34. Without addressing the merits or otherwise of CAA's intentions, we believe there are persuasive arguments for delaying removal of any further NDB until such time as the regulatory environment is clarified and stakeholders are then in a position to participate meaningfully in consultation with Airways.

35. If there are cost implications with such a delay, then it is desirable that this be anticipated in the current pricing review.

ILS Replacements

36. We note the planned replacement of ILS at Wellington and Dunedin (Appendix 2.2 p53). While technology is changing with the adoption of GNSS and the possibility of SBAS enhanced navigation being advanced in coming years, we support Airways planning to maintain and replace these ILS. We see three reasons for retaining this technology despite the emergence of new technologies –
- To address resilience;
 - Newer technologies may not be adopted by all airlines – particularly those serving regional operations – or particular users (such as training);
 - Newer technologies have yet to demonstrate (through both the resolution of rules and performance) the same performance outcomes.
37. Planning for this infrastructure should be closely aligned with the business planning of the airports concerned.

Sustainable small airports

38. NZ Airports has been pressing the Government⁸ to consider what New Zealand needs as a policy and funding framework for small airports as part of the economic, resilience and security aspirations of the country as a whole.
39. Many of the assets at airports go back decades to the original Crown or joint local/central government investments. As many of these assets come up for renewal or major refurbishment, the smaller airports are simply unable to sustain the financial burden based on their traffic volumes. Airways will be familiar with this dilemma. Squeezed between commercial realities and increased pressures on community funding, there is a growing risk of undesirable outcomes for the overall air network.
40. NZ Airports believes that the government needs to actively be involved in supporting an air network in the overall interests of the country, and ensuring a sustainable funding framework for the non-commercial elements. The Ministry of Transport appears to be currently making progress in this area.
41. The purpose in raising this matter in Airways' pricing consultation is that, in respect of Instrument Flight Procedures and air navigation aids, Airways is the logical provider to be engaged in delivering a minimum level of service at these commercially challenging locations. The potential exists for Airways to be called upon by Ministers to consider Airways' returns to the Government as part of the Crown contribution to ensuring a minimum level of service at smaller centres⁹.

NZ Airports, March 2019

⁸ Refer "Linking the Long White Cloud" – why New Zealand's small and isolated communities need to secure the future of their airports and air links – July 2017. <https://www.nzairports.co.nz/assets/Files/public/Linking-the-Long-White-Cloud-NZ-Airports-Position-paper-July-2017-FINAL-small-file.1.1.pdf>

⁹ Locations with essentially non-commercial air infrastructure include Chatham Is., Hokitika, Kaitaia, Kerikeri, Masterton, Taupō, Westport, Whakatāne, Whanganui, and Whangarei (not an exhaustive list).

