



# VIRGIN AUSTRALIA GROUP SUBMISSION

Consultation Document – AIRWAYS’  
Proposed Pricing for the 2019-2022  
Period

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**V1:** [Copy here]

## Introduction and Overview

The Virgin Australia Group (VA) welcomes the opportunity to respond to Airways on the Consultation Document titled "AIRWAYS' Proposed Pricing for the 2019-2022 Period" (Proposal) published on 29 January 2019. This document serves as that response.

Broadly speaking, VA are supportive of many of the initiatives outlined in the Proposal. There are several areas where VA would like to see further refinement of costs in order to lessen the impact on airlines. It is VA's belief that the Proposal is too heavily front loaded, and that this cost recovery should only occur once the customer is able to realise the associated benefits.

This document classifies each of these initiatives into one of the following categories:

- Not supportive
- Supportive with comments
- Fully supportive

Where an element of the Proposal is not included in the above categories it can be assumed that VA is either indifferent to the outcome or the initiative is wholly not applicable to VA's operation.

Any text **highlighted yellow** in this document is commercial in confidence to VA and should be omitted prior to VA's submission be made public on the Airways website.

Any questions or clarifications regarding this submission should be directed to:

Please also note that as a member airline of IATA, VA will be participating in the IATA Regional Coordination Group and ANS Charges meeting for the Asia-Pacific and North Asia region from 18-22 March, 2019. We note that this meeting occurs after the deadline for submissions, however VA would welcome the opportunity to make modifications to this submission should any be required after the above meeting concludes. It is our understanding that IATA will be making a similar request.



## Section 1 – Not Supportive

### Flexible Contingent Runway at Auckland

VA questions both the need for, and demonstrated financial benefit of, a Flexible Contingent Runway (FCR) at Auckland International Airport (AKL). An FCR is not a common element of airport infrastructure given the rarity of events that would necessitate its use. VA does not accept that an FCR is required to enable runway maintenance and overlay works on the primary runway. Programs such as these should be run in hours of low demand, typically overnight, under a well defined and properly planned method of works.

Further on this point, AKL has stated plans to construct a full new parallel runway in the coming years. Once this occurs the need for an FCR reduces even further, but the ongoing support costs would remain.

VA is not supportive of the FCR due to the large costs being offset by small and infrequent benefits.

### Physical Control Tower Assets

VA does not support any investment in physical control tower assets beyond spend for critical safety and maintenance.

### Replacement of Dunedin (DUD) and Wellington (WLG) Instrument Landing System (ILS)

VA have invested significant resources in recent years in order to ensure aircraft equipage and crew qualifications are such that we can take advantage of the most modern technologies.

Therefore, VA does not support the replacement of the DUD and WLG ILS systems and are instead in favour of more modern solutions (e.g. RNP).

### Replacement of Enroute DVOR/DME Physical Infrastructure

VA is not supportive of the replacement of physical navigation aids outside of the defined Minimum Operating Network (MON). VA encourages Airways to consult further with industry in order to review the MON prior to including the physical navaids defined in Appendix 2.2

### Sustained Government Shareholder Dividend

As noted in the “Fully Supportive” section of this submission, VA is pleased with the investment in technologies that will future proof Airways as a service provider. Given the sustained growth in the industry over years, the Airways dividend to government has been generous. It is VA’s belief that the dividend should be reduced in order to offset some of the increasing costs seen in this pricing proposal. VA encourages Airways to broach this subject with government.

## Wellington (WLG) Office Fit Out

After conversations with Airways management, it is VA's understanding that a corporate decision has been made to close the WLG office from April 2020.

Therefore, VA does not see the relevance or utility of allocating funds to complete an office fitout in WLG between the new pricing taking effect and the closure of the WLG office.

## Section 2 – Supportive with Comments

### Unmanned Aerial Systems (UAS) Compliance and Education

Put simply, VA is supportive of the Airways spend on detection and surveillance equipment for UAS, but all funding for compliance, education, and regulation should be transferred to the New Zealand Civil Aviation Authority (CAA). Allocating these costs to current airspace users, whilst convenient, is inappropriate.

### Future Programme

VA are supportive of the "one-centre-two-locations model" in this proposal, but the associated costs should only be recovered once the airspace users are able to realise the benefits. Therefore, the costs in Figure 14 should not be allocated in this pricing period.

### Capital Charge Calculation

VA are supportive of Airways need for a commercial return on assets and capital, but not the entirety of the proposed employed. VA have jointly reviewed the Board of Airline Representatives of New Zealand Inc. (BARNZ) submission and are in complete agreement with the response to Q9. VA is strongly opposed to funding an arbitrary leverage target.

### AKL Control Tower Refurbishment

VA is only supportive of the minimum spend in this area to extend the fit out of the AKL tower to end-of-life on the understanding that a full digital tower service will be implemented in lieu of a replacement physical tower.

### Vehicle Replacements

At the request of VA and IATA, Airways provided further detail on some of the line items listed in Appendix 2.2 of the Proposal. One such line item was \$1.1. million for the vehicle replacement programme. The



response we received was that, “The vehicle fleet is used by technical staff in the field that maintain Airways’ assets across 170 locations in New Zealand.”

Whilst this is understood, VA requests a further breakdown in this area to ensure that the vehicles being sourced are fit for purpose.

### Resource Planning System Upgrades vs. Rostering Solution

At the request of VA and IATA, Airways provided further detail on some of the line items listed in Appendix 2.2 of the Proposal. Two such line items were listed as “Resource Planning System Upgrades” and “Rostering Solution.” Please provide further detail on the difference between these two systems.

## Section 3 – Fully Supportive

### Business Transformation

VA are fully supportive of the Airways business transformation programme and all the component parts. The only exception is the front loading of the costs noted in the Not Supportive section.

### Digital Towers

VA welcomes Airways industry leadership in bringing digital tower solutions to the region and fully supports this initiative for fully fledged and contingency towers.

### Other Pricing Changes

The changes to Queenstown (ZQN) night operations and extended out-of-hours service listed in the Proposal are fully supported.

